IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE LOCATED OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 AS AMENDED (THE "SECURITIES ACT").

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Preliminary Offering Memorandum following this page. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the Preliminary Offering Memorandum. In accessing the Preliminary Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF, THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED PRELIMINARY OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH PRELIMINARY OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED PRELIMINARY OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

CONFIRMATION OF YOUR REPRESENTATION: In order to be able to view this Preliminary Offering Memorandum or make an investment decision with respect to the securities, investors must be outside the United States in accordance with Regulation S under the Securities Act. This Preliminary Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Preliminary Offering Memorandum, (1) you shall be deemed to have represented to us that you and any customers you represent are located outside the United States in accordance with Regulation S under the Securities Act and that the e-mail address to which the Preliminary Offering Memorandum has been delivered is not located in the United States of America, its territories, its possessions and other areas subject to its jurisdiction; and its possessions including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and (2) you consent to delivery of the Preliminary Offering Memorandum and any amendments or supplements thereto by electronic transmission.

You are reminded that the Preliminary Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Preliminary Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Joint Bookrunners, the Issuer or the Guarantors that would or is intended to, permit a public offering of the securities, or possession or distribution of the Offering Memorandum (in preliminary, proof or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Bookrunners or any affiliate of the Joint Bookrunners is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Bookrunners or such affiliate on behalf of the Issuer and the Guarantors in such jurisdiction.

The attached Preliminary Offering Memorandum is for distribution only to persons who are: (i) investment professionals, as such term is defined in Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**"); (ii) persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotion Order; (iii) outside the United Kingdom; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). The attached Preliminary Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the attached Preliminary Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

The attached Preliminary Offering Memorandum has been sent to you in an electronic format. You are reminded that documents transmitted in an electronic format may be altered or changed during the process of transmission and consequently none of the Issuer, the Guarantors, the Joint Bookrunners and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Guarantors, the Joint Bookrunners or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard-copy version.

grainger plc *(registered in England and Wales with registered number 00125575)*

£75,000,000 5.00 per cent. Guaranteed Secured Notes due 2020

to be consolidated and form a single series with the £200,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 issued by Grainger plc on 28 November 2013 and unconditionally and irrevocably guaranteed by various subsidiaries of Grainger plc

Issue Price: 101.125 per cent.
(plus accrued interest in respect of the period from and including 16 June 2014 to but excluding the Closing Date (as defined below)) ("Accrued Interest")

Grainger plc (the "**Issuer**") is issuing an aggregate principal amount of £75,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 (the "**Further Notes**") to be consolidated and form a single series with the £200,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 (the "**Original Notes**" and together with the Further Notes, the "**Notes**") issued by the Issuer on 28 November 2013. The Original Notes are, and the Further Notes will be, fully, unconditionally and irrevocably guaranteed on a joint and several basis by certain subsidiaries of the Issuer set forth on page 88 (each, a "**Guarantor**", and together, the "**Guarantors**"). References herein to the "**Group**" or "**Grainger**" are to the Issuer and its subsidiaries.

The Original Notes are, and the Further Notes will be, guaranteed senior secured obligations of the Issuer. The Notes and the guarantee of each of the Guarantors are, or in the case of the Further Notes will be, secured by floating charges over all of the properties and other assets of the Issuer and the Guarantors.

Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has also been made to the Irish Stock Exchange for the Further Notes to be admitted to the Official List and admitted to trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. References in this Offering Memorandum to the Further Notes being "**listed**" (and all related references) shall mean that the Further Notes have been admitted to the Official List and have been admitted to trading on the Global Exchange Market.

The Further Notes will initially be represented by a temporary global note (the "**Further Temporary Global Note**"), without interest coupons, which will be deposited on or about 7 August 2014 (the "**Closing Date**") with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Interests in the Further Temporary Global Note will be exchangeable for interests in a permanent global note (the "**Further Permanent Global Note**" and, together with the Further Temporary Global Note, the "**Further Global Notes**" and, together with the permanent global note in relation to the Original Notes, the "**Permanent Global Notes**" and the Further Global Notes and the permanent global note in relation to the Original Notes together, the "**Global Notes**"), without interest coupons, on or after 16 September 2014 (the "**Exchange Date**"), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Notes will be exchangeable for definitive Notes only in certain limited circumstances — see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

The Further Notes will bear interest from and including 16 June 2014 to but excluding 16 December 2020 (the "**Maturity Date**") at the rate of 5.00 per cent. per annum, payable in arrear on 16 December 2014 and thereafter on 16 June and 16 December in each year until and including the Maturity Date, subject to adjustment as described in "*Terms and Conditions of the Notes — Interest*". The Issuer may, at its option, redeem the Notes in whole or in part at any time after the Closing Date at the relevant redemption amount described under "*Terms and Conditions of the Notes — Redemption and Purchase*". The Issuer may also at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes, as described under the "*Terms and Conditions of the Notes — Redemption and Purchase*". Upon the occurrence of certain change of control events relating to the Issuer, each Noteholder shall have the option to require the Issuer to redeem or purchase the Notes of such holder at a cash purchase price equal to 101 per cent. of the principal amount thereof plus accrued interest, as described under the heading "*Terms and Conditions of the Notes — Redemption and Purchase*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 December 2020.

An investment in the Further Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "*Risk Factors*" on page 26 of this Offering Memorandum.

Joint Bookrunners

HSBC	**Barclays**	**Lloyds**	**The Royal Bank of Scotland**	**Santander Global Banking & Markets**

Offering Memorandum dated 5 August 2014

The Issuer and the Guarantors accept responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of the Issuer and the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Offering Memorandum should be read and construed on the basis that such documents are incorporated in, and form part of, this Offering Memorandum.

Save for the Issuer and the Guarantors, no other party has verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Bookrunners (as described under "*Subscription and Sale*" below) or Deutsche Trustee Company Limited (the "**Trustee**") as to the accuracy or completeness of the information contained or incorporated in this Offering Memorandum or any other information provided by the Issuer or the Guarantors in connection with the offering of the Further Notes. No Joint Bookrunner or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer or the Guarantors in connection with the offering of the Further Notes or their distribution.

No person is or has been authorised by the Issuer, the Guarantors, the Joint Bookrunners or the Trustee to give any information or to make any representation not contained in or not consistent with this Offering Memorandum or any other information supplied in connection with the offering of the Further Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors, any of the Joint Bookrunners or the Trustee.

Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Further Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantors, any of the Joint Bookrunners or the Trustee that any recipient of this Offering Memorandum or any other information supplied in connection with the offering of the Further Notes should purchase any Further Notes. Each investor contemplating purchasing any Further Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantors. Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Further Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantors, any of the Joint Bookrunners or the Trustee to any person to subscribe for or to purchase any Further Notes.

Neither the delivery of this Offering Memorandum nor the offering, sale or delivery of the Further Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Further Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Bookrunners and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantors during the life of the Further Notes or to advise any investor in the Further Notes of any information coming to their attention. The Further Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**"), and are subject to US tax law requirements. Subject to certain exceptions, the Further Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons. The Further Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). For a further description of certain restrictions on the offering and sale of the Further Notes and on distribution of this Offering Memorandum, see "*Subscription and Sale*" below. This document should not be forwarded or transmitted into the United States or to U.S. persons as defined by Regulation S.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Further Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of Further Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantors, the Joint Bookrunners and the Trustee do not represent that this Offering Memorandum may be lawfully distributed, or that the Further Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantors, the Joint Bookrunners or the Trustee which is intended to permit a public offering of the Further Notes or the distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Further Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Further Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Further Notes. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Further Notes in the United States and the United Kingdom. See "*Subscription and Sale*" below.

This Offering Memorandum is for distribution only to persons who are: (i) investment professionals, as such term is defined in Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**"); (ii) persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotion Order; (iii) outside the United Kingdom; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) in connection with the issue or sale of any Further Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT FURTHER NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE FURTHER NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE FURTHER NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE FURTHER NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE FURTHER NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this Offering Memorandum to "**Sterling**" and "**£**" refer to the lawful currency of the United Kingdom and to "**Euro**" and "**€**" refer to the lawful currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Market and Industry Data

The industry publications and official data published by certain companies and international agencies, namely Nationwide, Halifax, Department for Communities and Local Government ("**DCLG**"), Welsh Assembly Government, Scottish Executive, Northern Ireland Statistics and Research Agency ("**NISRA**"), Investment Property Databank, BulweinGesa AG, Deutsche Bank, Destatis, Morgan Stanley Research, the Office of National Statistics and the Royal Institution of Chartered Surveyors ("**RICS**"), contained in "*Overview*", "*Risk Factors*", "*Market Overview*" and "*Information on the Group*" commencing on pages 7, 26, 49 and 62, respectively of the Offering Memorandum have been derived from publicly available information. The Issuer has relied on the accuracy of such information without carrying out an independent verification thereof. This information has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by each such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains or incorporates by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "project", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. In particular, certain statements under the headings "*Overview*", "*Risk Factors*" and "*Information on the Group*" and regarding the Group's strategy and other future events or prospects are forward-looking statements. Prospective investors should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Group's control. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Prospective investors are cautioned that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Memorandum. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that the Group, or persons acting on its behalf, may issue. Factors that may cause the Group's actual results to differ materially from those expressed or implied by the forward-looking statements in this Offering Memorandum include but are not limited to the risks described under the heading "*Risk Factors*".

These forward-looking statements speak only as of the date of this Offering Memorandum. The Issuer expressly undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

PRESENTATION OF FINANCIAL INFORMATION

The Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union ("**IFRS**") and, unless otherwise stated, all financial information relating to the Group contained or incorporated by reference in this Offering Memorandum has been prepared in accordance with IFRS.

Percentages and other data in tables have been rounded and accordingly may not total exactly. As a result of this rounding, the totals of data presented in this Offering Memorandum may vary slightly from the actual arithmetic totals of such data.

References in this Offering Memorandum to:

- "**Development Portfolio**" are to the Development business' portfolio of development properties and interests in or relative to development properties located predominantly in the UK;
- "**German Residential Portfolio**" are to the German Residential business' portfolio of primarily residential wholly-owned units located in Germany;
- "**Investment Properties**" are to properties where the intention on acquisition was to hold such properties for long-term rental yield and/or capital appreciation;
- "**Market Value**" in relation to a Trading Property and to an Investment Property are to the estimated amount for which a property would exchange on a date of valuation between a willing buyer and a willing seller for (i) a property with an existing tenancy agreement in place or (ii) a property which is subject to a home reversion plan;
- "**Residential Portfolio**" are to the combined UK Residential Portfolio and Retirement Solutions Portfolio;
- "**Retirement Solutions Portfolio**" are to the Retirement Solutions business' portfolio of properties, primarily subject to home reversion plans, located in the UK;
- "**Reversionary Surplus**" in relation to a property with an existing tenancy agreement in place or which is subject to a home reversion plan are to the unaudited difference between the Market Value of that property and its Vacant Possession Value. Reversionary Surpluses stated in this document are unaudited;
- "**Sales Velocity**" in relation to a property are to the time from which the property becomes vacant to the time at which the proceeds from the sale of the property are received;
- "**Trading Properties**" are to properties where the intention on acquisition was to trade such properties or to hold them for immediate sale upon receiving vacant possession in the ordinary course of business;
- "**UK Residential Portfolio**" are to the UK Residential business' portfolio of properties; and
- "**Vacant Possession Value**" are to the Market Value of each property free from any tenancy or home reversion plan. Vacant Possession Values stated in this document are unaudited.

For further definitions, see "*Annex: Definitions*".

Non-IFRS measures

This document contains certain non-IFRS measures, including:

- loan to value ratio ("**LTV**");
- cash flow interest coverage ratio ("**ICR**");
- earnings before interest, taxes, depreciation, and amortisation ("**EBITDA**"); and
- operating profit before movements in valuation and non-recurring items ("**OPBVM**"),

(together, the "**non-IFRS Performance Measures**").

These measures should not be considered in isolation from, or as a substitute or alternative for, the financial results in the Group's consolidated financial statements prepared in accordance with IFRS or any performance measures required to be presented under IFRS (as applicable). These measures are presented for illustrative purposes. Prospective investors should read the information relating to the non-IFRS Performance Measures in conjunction with the Group's unaudited and audited consolidated financial statements, including the related notes and the auditors' reports thereon (as applicable), incorporated by reference into this document.

The non-IFRS Performance Measures set out in this Offering Memorandum are derived from the audited financial statements of the Group as at and for the financial years ended 30 September 2011, 2012 and 2013 and from the unaudited consolidated financial statements for the Group for the six month period ended 31 March 2014.

Under the terms of certain of its financing arrangements, Grainger is required to comply with prescribed loan to value and interest coverage ratios. These ratios are calculated in the manner described below.

LTV

Loan to value ratio is the ratio of net debt to the value of certain defined assets (the value being calculated by reference to Market Value).

In this Offering Memorandum, "**Core LTV**" has the meaning given to "Loan to Value Ratio" in Condition 21 (*Definitions*) of the "*Terms and Conditions of the Notes*". Core LTV, which excludes certain values when calculated, is narrower than "**Consolidated LTV**", which means the ratio of total debt net of cash to the combined Market Value of properties and Market Value of investment assets owned by the Group as a whole.

ICR

Interest Cover Ratio is the ratio of consolidated cash flow to consolidated net interest payable and it is calculated in accordance with the core debt facilities, see "*Description of Indebtedness – Core Debt Facilities*".

Consolidated cash flow for any relevant period is calculated by reference to the Group's consolidated financial statements, and it is defined as (a) the revenue of the Group before taxation; (b) plus any cash receipts from Excluded Entities which are not consolidated in the profit and loss account of the Group; (c) plus any receipts from the sale of properties classed as fixed assets or Investment Assets (as defined in Condition 21 (*Definitions*)); (d) minus property operating expenses as set out in the profit and loss account of the Group; (e) minus administrative expenses as set out in the profit and loss account of the Group; (f) minus all dividends or any other distributions paid to any person outside the Group during that period which are referable to share capital of a member of the Group; and (g) minus any taxation paid.

Consolidated net interest payable is defined in the core debt facilities to mean all interest and other recurring financing charges incurred by the Group in relation to the Total Debt (as defined in Condition 21 (*Definitions*)) of the Group during a relevant period including all receipts and payments in respect of the Group's interest rate hedging arrangements less interest received on Applicable Cash and Cash Equivalents (each as so defined) (save for cash that collateralises a loan note or other fiscal obligation).

OPBVM

Operating profit before movement in valuation and non-recurring items represents the Group's profit before:

- finance cost and finance income;
- the change in fair value of derivatives;
- the Group's after tax share of profit or loss of associates and joint ventures; and
- tax.

Also excluded from this measure are any valuation movements taken through the income statement, including provisions against the carrying value of assets resulting from property revaluations and any items deemed to be one-off in nature and which are not expected to re-occur. This measure therefore includes net rental income, profit from sale of properties, fee income, other income and expenses, the profit or loss from the Group's financial interest in property assets and the Group's overhead costs.

Classification and Accounting Treatment of Trading Properties and Investment Properties

Where the Group's intention on the acquisition of a property was either to trade the property or to hold it for immediate sale upon obtaining vacant possession, the property is classified as a Trading Property and held within "*Inventories – trading property*" in the Group's statement of financial position prepared in accordance with IFRS (the "**statutory balance sheet**"). Where the Group's intention on the acquisition of a property was either to hold the property for long-term rental yields or for capital appreciation or both and the property is not occupied by the Group, the property is classified as an "Investment Property" and held within "*Investment property*" in the Group's statutory balance sheet.

Grainger's primary business model in the UK is to purchase regulated tenancy and home reversion plan properties with a view to realising their Reversionary Surplus. As a consequence, the majority of the properties held by the UK Residential and the Retirement Solutions businesses are held as Trading Properties. In addition, all of the properties held by the Development business are held as Trading Properties. The majority of the properties held by the Group's joint ventures and associates are held as Investment Properties and the properties held by the German Residential business are all held as Investment Properties.

Trading Properties

Trading Properties are required to be recorded in the Group's statutory balance sheet at the lower of cost and net realisable value. Where the Group's intention remains to sell a Trading Property on vacancy, the Group calculates net realisable value as the Vacant Possession Value. In applying this treatment, the Group ignores the number of years it expects to have to hold a Trading Property before it becomes vacant and any future house price inflation. It should also be noted that although this is how the Group calculates the net realisable value of its Trading Properties, the Market Value of Trading Properties is determined as their value subject to any existing tenancy. The Trading Properties held by the UK Residential and Retirement Solutions businesses are predominantly held at cost rather than net realisable value because they have been held for a number of years against rising property prices. Accordingly, when the estimated Market Value of these properties rises, their stated value in the statutory balance sheet does not rise nor is any gain recognised in the income statement. Similarly, when the Market Value of these properties falls, this will not change their stated value in the statutory balance sheet or give rise to a deficit in the income statement, unless the net realisable value of any property has fallen below its cost, which is unusual because such properties are generally purchased at a discount to their Vacant Possession Value. In summary, the Group's statutory balance sheet does not take into account the estimated Market Value of the properties held by the UK Residential and Retirement Solutions businesses, where the Market Value exceeds cost.

All properties in the Development business are Trading Properties and are therefore held at the lower of cost and net realisable value. The net realisable value of a development property depends on whether the Group intends to complete the development or to sell the property undeveloped. Where development is intended and a profit is expected, the net realisable value is the costs incurred to date plus the expected profit arising from the development and, in this case, the development property will be carried at cost. Where development is intended and a loss is expected, the net realisable value will be the costs incurred to date less the expected loss and, in this case, the development will be carried at this net realisable value. Where sale is intended, the net realisable value is the estimated Market Value of the property to be sold net of associated selling costs. The net realisable value of a development property is generally lower than cost where the Group intends to develop a property and expects to make a loss or where the Group expects to sell the property without development, and the expected proceeds less sales expenses are lower than the cost of the property. The Group's statutory balance sheet therefore does not take into account the estimated Market Value of the properties held by the Development business for any property where Market Value exceeds cost.

Investment Properties

Investment Properties are measured initially at cost, including related transaction costs.

After initial recognition, Investment Properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Subsequent expenditure is included in the carrying amount of the property when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

In the majority of instances, fair value will be equal to Market Value. On the basis that the Group generally disposes of Investment Properties on an individual basis rather than as blocks or portfolios, Market Value is subject to the assumption that dwellings are sold individually, in their existing condition and subject to any existing leases or tenancies.

Gains or losses arising from changes in the fair value of the Group's Investment Properties are included in the income statement for the period in which they arise.

Presentation of financial information for the six month period ended 31 March 2014

Financial disclosure on the Group throughout this Offering Memorandum has been restricted to full year numbers (audited where relevant) for the years ended 30 September 2011, 2012 and 2013 and to unaudited numbers for the six month period ended 31 March 2014. Numbers for the six month period are included as they are the most recent published financial numbers for the Group. In isolation, however, the unaudited six month numbers are not considered as meaningful for comparative purposes as the audited full year numbers and can be distorted by significant transactions. In particular the sale in January 2014 of 1,204 units from the Retirement Solutions Portfolio for £84.7 million has significantly distorted any meaningful comparison of the half year numbers to any prior year figures.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Memorandum should be read and construed in conjunction with:

(i) the announcement dated 16 May 2014 of the Company's Half Year Results for the six month period ended 31 March 2014, which contains the unaudited consolidated financial statements for the Group for the six month period ended 31 March 2014;

(ii) the audited consolidated financial statements for the Group for the financial year ended 30 September 2013 together with the audit report thereon, which appear on pages 83 to 176 of the Company's Annual Report and Accounts for the financial year ended 30 September 2013;

(iii) the audited consolidated financial statements for the Group for the financial year ended 30 September 2012 together with the audit report thereon, which appear on pages 75 to 164 of the Company's Annual Report and Accounts for the financial year ended 30 September 2012; and

(iv) the audited consolidated financial statements for the Group for the financial year ended 30 September 2011 together with the audit report thereon, which appear on pages 61 to 154 of the Company's Annual Report and Accounts for the financial year ended 30 September 2011,

which have all been previously or simultaneously published. The consolidated financial statements set out above, have been filed with the Irish Stock Exchange and include both Guarantor subsidiaries and non-Guarantor subsidiaries. Such documents shall be incorporated in, and form part of, this Offering Memorandum, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Memorandum.

Copies of documents incorporated by reference in this Offering Memorandum may be obtained (without charge) from the registered office of the Company and may also be obtained at www.graingerplc.co.uk being the Issuer's website. The contents of the Issuer's website or any website directly or indirectly linked to the Issuer's website do not form part of this Offering Memorandum and investors should not rely on them.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum.

The financial statements of the Issuer relating to the financial years ended 30 September 2011, 2012 and 2013 and incorporated by reference herein have been audited without qualification by PricewaterhouseCoopers LLP, 5th and 6th floors, Central Square South, Orchard Street, Newcastle upon Tyne, NE1 3AZ.

OVERVIEW

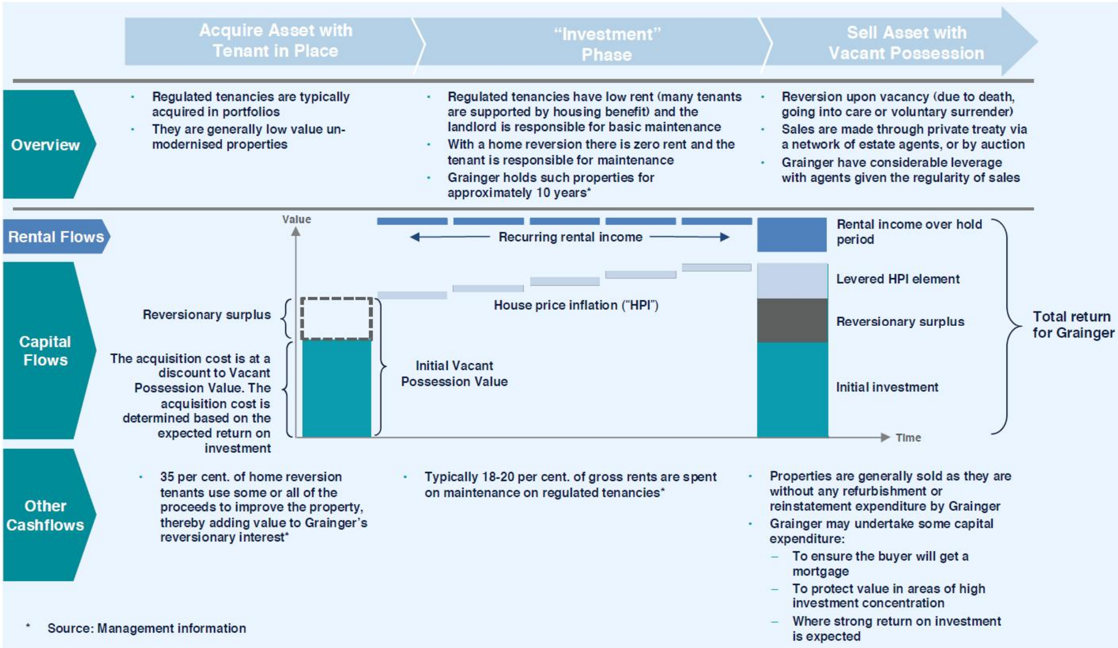
The following information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any investment decision relating to the Further Notes should be based on the consideration of this document as a whole and not solely on the information contained in this Overview.

1. The Group

Grainger is the UK's largest listed residential property owner and manager. The Company was founded in 1912. Its shares have traded on the London Stock Exchange since 1983 and it is part of the FTSE 250 index. Grainger owns, acquires and trades regulated, home reversion and market-let tenanted properties in the UK and, as at 31 March 2014, wholly-owned 8,662 properties in the UK. It also has a portfolio of market-let tenanted properties in Germany, invests in a range of property funds and joint ventures, and undertakes property and asset management. As at 31 March 2014, it had 2,881 wholly-owned properties in Germany. The Group generates revenue from a variety of sources, including rental income from tenanted properties, proceeds from the sale of properties, performance-based distributions, and property and asset management fees. The Group benefits from a business model that generates stable revenue and cash flow through the economic cycle. In the six month period ended 31 March 2014, the Group generated revenue of £190.0 million and OPBVM of £54.6 million and in the financial year ended 30 September 2013, the Group generated revenue of £283.2 million and OPBVM of £107.6 million. As at 31 March 2014, the Group had a wholly-owned portfolio of 11,543 properties comprising 7,727 UK wholly-owned reversionary properties (with a Vacant Possession Value of £1,688.3 million, a Reversionary Surplus of £382.8 million and annualised gross rent of £28.2 million) and 3,816 wholly-owned market-rented properties in the UK and Germany (with a Vacant Possession Value of £476.5 million, a Reversionary Surplus of £30.5 million and annualised gross rent of £27.8 million). The Group's assets generally have a low average value; in the UK the average pre-acquisition value is approximately £367,000 for London and the South East and £168,000 outside of London and the South East (calculated based on Vacant Possession Value). As at 31 March 2014, the Group had 8,956 additional properties under its management (which are owned by joint ventures, associates or third parties). The Market Value of all wholly-owned properties, properties owned by joint ventures and associates and third party properties under management was £2,933.0 million as at 31 March 2014.

Grainger's primary business model is based upon the acquisition of tenanted (mostly regulated) properties and interests in properties subject to a home reversion plan. In each case, the acquisition is made at a discount to Vacant Possession Value reflecting the impact of the existing tenancy, and the properties are sold once they fall vacant, thereby releasing the inherent Reversionary Surplus. Grainger typically buys tenanted properties where the tenant has a lifetime right to live in that property for a rent which is generally less than the market rent and subsequently sells at Vacant Possession Value once the tenant has ceased to occupy the property. Value is achieved for Grainger through a combination of: (i) the realisation of the Reversionary Surplus, (ii) rental income received over the years between the purchase and sale of properties, and (iii) house price inflation over the period between purchase and sale (typically around 10 years on average). As at 31 March 2014, the Reversionary Surplus in respect of wholly-owned properties in Grainger's portfolio totalled £413.3 million. This represents a profit pipeline without development risk. The chart on the next page illustrates this process.

Lifecycle of a regulated tenancy or home reversion



The Group's operations are organised into the following five business areas:

- UK Residential:

  55.1 per cent. of OPBVM[1] for the six month period ended 31 March 2014 and 77.2 per cent. of OPBVM for the financial year ended 30 September 2013

The UK Residential business owns, acquires and trades the properties within its portfolio, consisting largely of properties subject to a regulated tenancy. Grainger has the largest privately owned portfolio of regulated tenancies in the UK based on 3,401 wholly-owned properties with a market share of 3.8 per cent. as at 31 March 2014.[2] The Group's UK Residential Portfolio is geographically widespread, but with a strong concentration in London and the South East (72.3 per cent. by Market Value as at 31 March 2014), which are areas that have recently demonstrated the greatest growth in property prices. The Group has consciously increased the weighting of its property portfolio in these two geographical areas, which have performed strongly historically and in which the Group anticipates the greatest future capital appreciation. Cash generated from this portfolio is derived from a combination of rental income and proceeds from the sale of properties, generally when the properties fall vacant and are sold. The Group also has an in-house capability to provide property and asset management services to the Group's wholly-owned properties in the UK, and to those owned by certain associates, co-investment vehicles and joint ventures in which the Group holds an equity interest. This is provided to all five areas of the Group's business which are set out in this section and is not exclusive to the UK Residential business.

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1 Excluding the effect of the January sale in 2014 of a portfolio of 1,204 Retirement Solutions for £84.7 million, which generated a profit of £9.9 million, the respective divisional shares of OPBVM for the six month period ended 31 March 2014 would have been 65.6 per cent. for UK Residential, 26.2 per cent. for Retirement Solutions, 1.5 per cent. for Fund and Third Party Management, 1.1 per cent. for Development and 5.6 per cent. for German Residential

2 Source: Management information

- Retirement Solutions:

  37.9 per cent. of OPBVM[3] for the six month period ended 31 March 2014 and 15.6 per cent. of OPBVM for the financial year ended 30 September 2013

  The Retirement Solutions business offers home reversion plans, under which a property owner sells Grainger a percentage of the value of his or her property for a cash lump sum with the right to remain in the property, rent free, until death or a move into long-term care. Once the property becomes vacant, it is sold and a Reversionary Surplus is realised. Grainger is a market leader in the UK home reversion sector, with a market share estimated by management to be approximately 40 per cent. Cash generated from this portfolio is principally derived from the sale of properties, generally when properties fall vacant.

- Fund and Third Party Management

  1.3 per cent. of OPBVM[3] for the six month period ended 31 March 2014 and 2.4 per cent. of OPBVM for the financial year ended 30 September 2013

  The Fund and Third Party Management business comprises investments in funds and joint ventures and the management of the property portfolios of such funds and joint ventures, as well as third party portfolios. These activities generate income from management fees (including performance fees) as well as a share of the profit from these entities. The Fund and Third Party Management business currently provides asset management services to Walworth Investment Properties Limited ("**WIPL**") and both property and asset management services to GRIP and Lloyds Banking Group's Residential Asset Management Platform ("**RAMP**"). Grainger was selected as the preferred supplier to RAMP in 2010 and receives fees based on rent, disposals and shared success for providing property and asset management services for property portfolios following the commencement of insolvency processes. GRIP is a joint venture unit trust launched by Grainger and APG Strategic Real Estate Pool ("**APG**") in January 2013 to acquire the residential property portfolio owned by a former UK market-rented residential property fund established and managed by Grainger which is in the process of being wound-down. WIPL was formed as a joint venture between Grainger and Dorrington Investment plc ("**Dorrington**"). In May 2013 it acquired the Walworth estate which had formerly been wholly-owned by the Group. Overall, activities such as these demonstrate that the Group increasingly provides asset management services to enhance the diversification of the Group's income stream into areas that are less dependent upon house price inflation.

[3] Excluding the effect of the January sale in 2014 of a portfolio of 1,204 Retirement Solutions for £84.7 million, which generated a profit of £9.9 million, the respective divisional shares of OPBVM for the six month period ended 31 March 2014 would have been 65.6 per cent. for UK Residential, 26.2 per cent. for Retirement Solutions, 1.5 per cent. for Fund and Third Party Management, 1.1 per cent. for Development and 5.6 per cent. for German Residential

- Development:

  1.0 per cent. of OPBVM[4] for the six month period ended 31 March 2014 and 0.9 per cent. of OPBVM for the financial year ended 30 September 2013

The Development business focuses on residential-led development and mixed-use opportunities through acquiring and holding land with strategic development value, obtaining or amending planning permissions, installing infrastructure and then either selling or self-developing plots. The Group maintains a conservative approach to development, restricting the assets in the Development Portfolio to no more than 10 per cent. of the Group's total assets at any given time and frequently employing minimal capital due to adopting more of a development partner role. As at 31 March 2014, the Development Portfolio represented 5.9 per cent. of the Group's wholly owned assets by market value. The Group is currently developing 100 residential apartments purpose built for private rental at London Road, Barking. This is the Group's first Build to Rent scheme and Grainger will retain and let the residential units and provide asset and property management services. The Group is also the development partner for the Defence Infrastructure Organisation and the Homes and Communities Agency in respect of a 255 hectare former Aldershot Garrison site, known as Wellesley or the Aldershot Urban Extension. This development involves the construction of 3,850 new homes, of which 35 per cent. will be affordable homes, two new primary schools, around 110 hectares of new green space, sports and community facilities and the refurbishment of six listed buildings. As development partner, Grainger will receive a fee based on the value added to properties in the development, a management fee and interest earned on costs incurred by Grainger prior to reimbursement. Grainger has minimal capital employed or required in the scheme.

- German Residential:

  4.7 per cent. of OPBVM[4] for the six month period ended 31 March 2014 and 3.9 per cent. of OPBVM for the financial year ended 30 September 2013

The German Residential business owns, manages and, where appropriate, sells the market-let residential properties within its portfolio. The Group's wholly-owned German Residential Portfolio is concentrated in the economically and demographically stronger regions of Germany (Hesse, the Rhine-Main area and North Rhine Westphalia). Apart from Potsdam, the Group has not invested in Eastern Germany. Due to relatively low owner-occupier rates in Germany (45.7 per cent. in 2010) compared with England (66 per cent. in 2010-11)[5], Grainger typically re-lets the properties within the German Residential Portfolio at the end of their tenancies. Accordingly, income and cash generated from the portfolio is predominantly market based rental income. Consistent with the Group's strategy to expand its fee earning capabilities, the German Residential business also provides asset management services to MH Grainger JV S.à.r.l. ("**MH Grainger**"), a co-investment vehicle established in November 2012 by Grainger and the global real estate investment firm Heitman ("**Heitman**") which acquired a portfolio of approximately 3,000 German rented residential units from the Group in December 2012.

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4 Excluding the effect of the January sale in 2014 of a portfolio of 1,204 Retirement Solutions for £84.7 million, which generated a profit of £9.9 million, the respective divisional shares of OPBVM for the six month period ended 31 March 2014 would have been 65.6 per cent. for UK Residential, 26.2 per cent. for Retirement Solutions, 1.5 per cent. for Fund and Third Party Management, 1.1 per cent. for Development and 5.6 per cent. for German Residential

5 Source: Destatis, Morgan Stanley Research, Department for Communities and Local Government Housing Survey

A summary of Grainger's businesses across a variety of metrics is provided in the two tables below:

Table 1: As at 31 March 2014 and for the six month period ended 31 March 2014

	Six month period ended 31 March 2014				As at 31 March 2014				
Business Area	**Revenue**		**OPBVM**		**Market Value**		**Vacant Possession Value**		**Reversionary Surplus**
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**
UK Residential............	69.8	36.7	34.3	55.1	1237.4	61.1	1535.0	63.0	297.6
Retirement Solutions....	104.3	54.9	23.6	37.9	350.7	17.3	466.4	19.1	115.7
Fund and Third Party Management..............	3.7	2.0	0.8	1.3	163.6	8.1[(1)]	163.6	6.7	45.3
Development	3.3	1.7	0.6	1.0	109.5	5.4	109.5	4.5	-
German Residential......	8.9	4.7	2.9	4.7	163.4	8.1	163.4	6.7	-
Sub-Total.....................	190.0	100.0	62.2	100.0	2,024.6	100.0	2,437.9	100.0	458.6
Other[(2)]........................			**(7.6)**						
Total............................			**54.6**						

Notes:

(1) This figure relates to book value and not Market Value.

(2) This represents items not specifically allocated to a division (mainly central overheads of the Group and some other small costs).

Table 2: As at 30 September 2013 and for the yearly period ended 30 September 2013

	Year ended 30 September 2013				As at 30 September 2013				
Business Area	**Revenue**		**OPBVM**		**Market Value**		**Vacant Possession Value**		**Reversionary Surplus**
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**
UK Residential............	204.7	72.3	94.6	77.2	1,145.0	57.6	1,450.8	58.7	305.8
Retirement Solutions....	31.1	11.0	19.0	15.6	435.3	21.9	612.7	24.8	177.4
Fund and Third Party Management..............	9.6	3.4	2.9	2.4	145.9[(1)]	7.3	145.9	5.9	44.9
Development	15.7	5.6	1.2	0.9	84.3	4.2	84.3	3.4	-
German Residential......	22.1	7.8	4.7	3.9	178.3	9.0	178.3	7.2	-
Sub-Total.....................	283.2	100.0	122.4	100.0	1,988.8	100.0	2,472.0	100.0	528.1
Other[(2)]........................			**(14.8)**						
Total............................			**107.6**						

Notes:

(1) This figure relates to book value and not Market Value.

(2) This represents items not specifically allocated to a division (mainly central overheads of the Group and some other small costs).

A three-year comparison of each of these metrics (if applicable) is provided in the section entitled *"Information on the Group – Business Descriptions"*.

Allsop LLP

Allsop LLP ("**Allsop**") is the Group's independent property valuer for certain UK assets of the Group, as more particularly set out in "*Information on the Group–Business Descriptions*". Allsop is also discussed in more detail in "*Risk Factors–Risks relating to the property industry–Property valuation is inherently subjective and uncertain*". References in this Offering Memorandum to the properties or portfolios which Allsop values, are to be taken as the exhaustive list of properties or portfolios that are covered by Allsop's valuations. Allsop does not provide valuation services to any other properties or portfolios which form part of the Group's business.

2. Competitive Strengths

Grainger has significant expertise in the residential real estate sector. It focuses on complementary activities across the value chain allowing it to benefit from synergies between the divisions, thereby enhancing overall returns. Grainger's significant competitive strengths include:

Large and high quality asset portfolio, with significant reversionary value

Grainger is a market leader in the UK residential property sector and has one of the largest residential property portfolios in the UK, consisting of 8,662 properties, with an aggregate Market Value of £1,588.0 million at 31 March 2014. The Residential Portfolio is spread throughout the UK, but with a concentration in London and the South East, and is focused on areas where management believes there is the highest potential for returns. Reflecting the mainly regulated nature of the tenancies to which the properties are subject, the Residential Portfolio largely consists of low-priced, un-modernised properties, which, when they are sold with vacant possession, appeal to a wide range of buyers. The quality of the UK Residential Portfolio is evidenced by Grainger's ability to consistently sell assets materially in excess of their acquisition cost, achieving margins on sales of vacant properties averaging 46.0 per cent. over the period from 1 October 2010 to 31 March 2014. Grainger has also consistently out-performed the Nationwide and Halifax house price indices in the 9.5 year period to March 2014, see "*Market Overview—UK residential real estate market*". Equally notable is the fact that Grainger achieves a significant excess of sales prices over previous year end vacant possession values averaging 7.0 per cent. over the period from 1 October 2010 to 30 September 2013.

Grainger's business model of purchasing tenanted homes at a discount to their Vacant Possession Value gives rise to a significant Reversionary Surplus within the portfolio. Because of the size of Grainger's portfolio, the rate at which regulated properties become vacant is stable. In the three year period to 30 September 2013, approximately 6.5 per cent. of Grainger's regulated properties in the UK Residential Portfolio became vacant and were sold with vacant possession each year. As at 31 March 2014, the aggregate Vacant Possession Value of the Residential Portfolio was £2,001.4 million, including an aggregate Reversionary Surplus of £413.3 million. This Reversionary Surplus is not included in either the statutory or Market Value balance sheets described under "*Overview-Selected financial information on the Group-Gross Net Asset Value Market Value Balance Sheet*".

Diverse and stable revenue streams with defensive characteristics leading to stable cash flows

Grainger benefits from a variety of income streams in the residential real estate sector, including rental income from tenanted properties, proceeds from the sale of properties, performance-based distributions, and property and asset management fees. Income stability is supported by Grainger's ability to sell assets quickly and through economic cycles (see "*Demonstrated ability to monetise portfolio*" below). Income stability is also supported by the recurring nature of Grainger's rental income (which accounted for 25.2 per cent. of Grainger's revenue in the financial year ended 30 September 2013 and 14.9 per cent. of Grainger's revenue in the six month period ended 31 March 2014).

In addition, the majority of the UK Residential Portfolio comprises tenancies for which the tenant pays less than market rate rentals and enjoys security of tenure. Non-payment of rent gives Grainger the right to evict tenants (notwithstanding their security of tenure) and to re-let the properties at current market rates or to sell the properties with vacant possession and realise the Reversionary Surplus early. Accordingly, existing tenants in these properties (many of whom receive housing benefits supported by the UK government) are highly incentivised to avoid missing payments. As a result, rental income is stable and rent arrears (averaging 3.2 per cent. over the six month period to 31 March 2014) are low in Grainger's UK Residential Portfolio. There is also stability of reversion rates (approximately 7.0 per cent.) as a result of the size of Grainger's portfolio. Furthermore, because of the nature of the properties held in the UK Residential Portfolio and the Retirement Solutions Portfolio, management considers that over the coming years the embedded cash flow arising from rents and profits on sales will be relatively stable and predictable in respect of these properties.

The overall effect of the Group's varied income stream helps to hedge against the volatility of the property market and to offer the Group flexibility in adapting to varying economic circumstances.

Further, the Group has stable cash flows generated in part from sales proceeds of properties in its UK residential portfolio as well as recurring revenue from other areas of its business, including rental income. The Group's Consolidated LTV target is between 45 and 50 per cent. and, at 31 March 2014, its Consolidated LTV was 45.2 per cent. The acquisition of the Chelsea portfolio in April 2014 increased Consolidated LTV to 49.6 per cent.

The Group's stable cash flows and strong financial position, including a moderate Consolidated LTV of 45.2 per cent. on an investment value basis and 37.4 per cent. on a vacant possession basis (compared to 38.9 per cent and 31.0 per cent. on these respective bases for the Core LTV as per the bank and bond covenant definition (all numbers as at at 31 March 2014), mean that it is well positioned to deliver on its stated strategies (see "*Business Strategy*" below) by selectively exploiting opportunities to grow its business as and when they arise. The Group believes that its financial strength (coupled with its strong market reputation) enable it to attract opportunities for acquisitions and strategic alliances with high calibre investment partners that generate strong and diversified returns.

Demonstrated ability to monetise portfolio

Grainger has consistently demonstrated its ability to sell assets, even in challenging market conditions, selling an average of 6.7 per cent. of the regulated units with vacant possession in the UK Residential Portfolio per year since 1 October 2010. In the same period, the Group has been selling an average of 5.4 per cent. of units with vacant possession in the Retirement Solutions Portfolio per year. Grainger actively manages its portfolio and has strong relationships with a network of agents across the UK which, in conjunction with its own dedicated sales management team, facilitates efficient property sales. In the six months to 31 March 2014, Grainger achieved an average Sales Velocity of 101 days on its properties (compared to 107 days in the 12 months to 30 September 2013), such properties being those predominately comprised of regulated units with vacant possession. Grainger holds regulated and retirement solutions properties for approximately 10 years on average, generating capital appreciation from house price inflation in addition to the realisation of the Reversionary Surplus. During the six month period ended 31 March 2014, Grainger achieved a sales margin on vacant possession sales of 53.7 per cent. from the UK Residential Portfolio (compared to 50.6 per cent. for the financial year ended 30 September 2013) and 39.8 per cent. from the Retirement Solutions Portfolio (compared to 32.6 per cent. for the financial year ended 30 September 2013).

Grainger is also able to sell properties subject to an existing tenancy or home reversion arrangement ("**Investment Sales**") as a further means of cash generation and/or portfolio improvement.

The average annual gross cash inflow from all sales (taking into account deduction of any sales fees) in the three years to 30 September 2013 was £272 million per year and, over the eight years to 30 September 2013, was £220 million per year. When rents, fees and other income are included, the annual inflows average £365 million and £300 million over the three years and eight years to 30 September 2013, respectively.

A low risk business model underpinned by limited exposure to short-term house price movements and minimal exposure to new builds

Grainger has limited exposure to short-term house price movements and minimal exposure to new builds. Grainger has consistently outperformed both the Nationwide and Halifax house price indices since 2007 (see "*Market Overview–UK residential real estate market*"). Furthermore, Grainger's limited exposure to new builds is evidenced by its conservative approach to development, restricting the assets in the Development Portfolio to no more than 10 per cent. of the Group's total assets at any given time. As at 31 March 2014, the Development Portfolio represented only 5.9 per cent. of the Group's wholly owned assets by market value. Grainger's limited level of exposure to short-term house price movements and new builds, in combination with factors described in "*Diverse and stable revenue streams with defensive characteristics leading to stable cash flows*" above, significantly reduces the level of risk in its business model.

Experienced management team with significant sector expertise and a proven track record

The Group benefits from an experienced senior management team with extensive knowledge of the UK and German residential housing markets. Senior management has many years of collective industry experience and therefore significant previous experience at guiding the business through different operational and economic environments. The Group's market position is enhanced by its ability to utilise the scale, experience and specialist expertise of its complementary business activities to maximise value through each asset's ownership cycle. Management believes that this depth of experience provides the Group with a competitive advantage and ensures it is well placed to grow over the long term and to continue to both add value to its assets under management and to outperform the wider market, as measured by the Nationwide and Halifax house price indices, through a selective investment policy and active asset management.

3. Business Strategy

Grainger's overall objective is to continue to deliver sustainable value from diversified residential property income streams and the Group's main strategies are to:

Continue to acquire regulated properties to generate stable returns

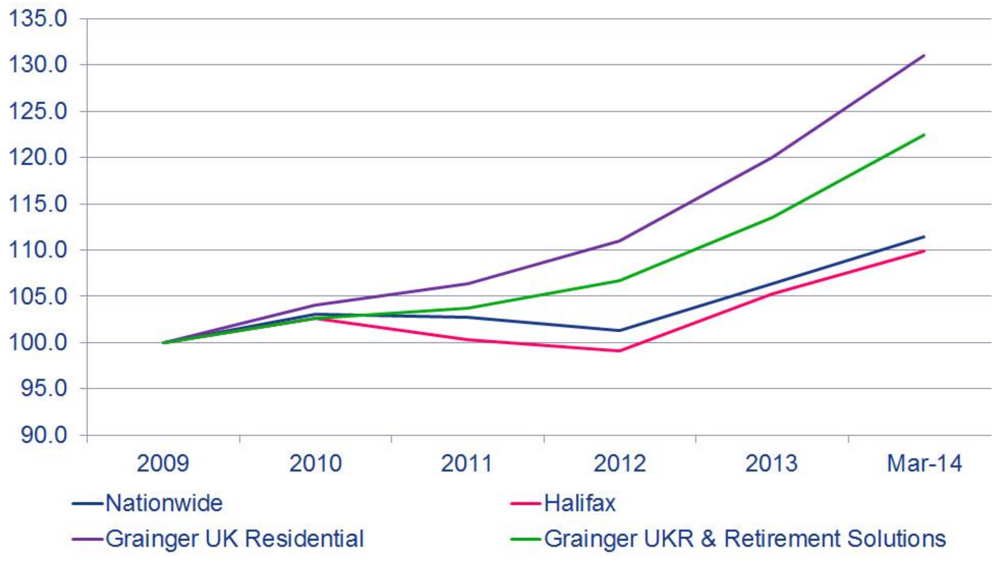
The Group intends to continue to generate stable rental income and sales proceeds from its regulated portfolio. Regulated tenancies are an attractive asset class offering a unique blend of capital appreciation and yield. It is also an area where the Group has a market leadership position and the ability to transact quickly and effectively (particularly on larger acquisition opportunities). Consequently, the Group expects to continue to acquire well priced assets and portfolios as they become available and the Group strategically positions itself to take advantage of those opportunities by (i) maintaining appropriate resources (financial, staff and systems) to be able to transact quickly, (ii) maintaining a market presence through individual and corporate relationships with agents, dealers and potential vendors and (iii) closely monitoring existing larger portfolios (such as those held by housing associations and other corporates). The recent acquisition of the Chelsea Houses Portfolio is a demonstration of this strategic positioning.

Grainger intends to hold and actively manage its regulated portfolio on a long-term basis in order to realise and enhance the embedded Reversionary Surplus upon vacancy.

Maximise returns by focusing on core areas of value and active asset management

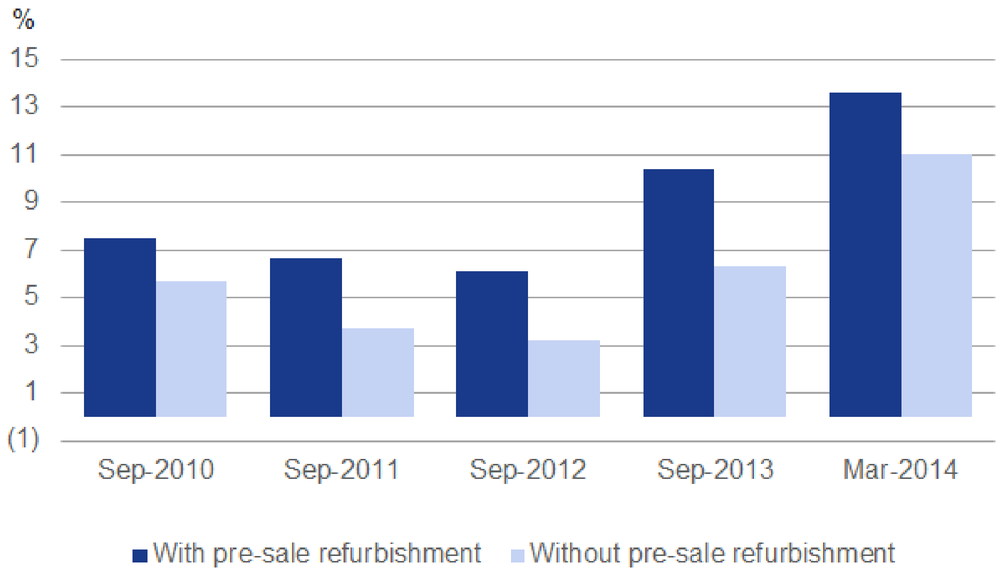
The Group has consciously increased the weighting of its property portfolio in London and the South East, as house prices in these areas have performed strongly historically and these are the geographical areas in which the Group anticipates the greatest future returns. 63.9 per cent. of the Group's UK wholly owned residential assets by market value are located in London and the South East where year on year growth in the 12 months to 30 September 2013 was 10.7 per cent. The Group intends to continue maximising returns by ensuring that its resources remain focused on these core areas of value. Through the active management of its portfolios, Grainger enhances the value of its properties. Grainger has achieved sales prices on sold properties which exceed the preceding September's Vacant Possession Value of such assets in each of the last four years, including by utilising its in-house development and refurbishment expertise to carry out refurbishment where this will yield an immediate enhanced return on sale. In the six month period ended 31 March 2014, properties were sold in the UK Residential portfolio, on average, at 11.0 per cent. above the preceding September's Vacant Possession Value in relation to the UK Residential portfolio when the benefit of pre-sale refurbishment is excluded. When including the benefit of pre-sale refurbishment properties were sold, on average, at 13.6 per cent. above the preceding September's Vacant Possession Value. Grainger's property portfolio also consistently outperforms the wider property market as measured against the Nationwide and Halifax house price indices. The following two charts demonstrate, respectively, Grainger's outperformance of the Halifax and Nationwide house price indices between 2009 and March 2014 and its strong performance in respect of sales price versus the preceding September's Vacant Possession Value for September 2010, 2011, 2012 and 2013 and for March 2014.

Outperformance versus Nationwide & Halifax House Price Indices



To March 2014. Grainger performance vs. house price inflation, rebased, (2009=100). Sources: Grainger indices, Halifax house price index and Nationwide house price index.

Sales price versus previous September's Vacant Possession Value
(Percentage increase on previous September)



Further diversify income streams by expanding the fee earning capability of the business

Over the last few years, Grainger has sought to increase and diversify its fee earning business. The Group has increased its fee income from £6.9 million (year ended 30 September 2011) to £10.0 million (year ended 30 September 2012) and £12.5 million (year ended 30 September 2013), principally as a result of significant transactions such as:

- the selection of Grainger as the preferred supplier to RAMP in May 2011. Grainger receives fees based on rent, disposals and shared success for providing property and asset management services for property portfolios following the commencement of insolvency processes;
- the establishment of MH Grainger, a co-investment vehicle established in November 2012 by Grainger and Heitman, which acquired a portfolio of approximately 3,000 German residential units from the Group. The German Residential business provides fee-based asset management services to MH Grainger;
- the creation of GRIP in early 2013, a joint venture unit trust with APG which has been established to invest predominantly in stabilised, market-let blocks and portfolios in Greater London. Grainger provides fee-based asset and property management services to GRIP; and
- the creation of the Sovereign Reversions joint venture by Grainger and Moorfield Real Estate Fund II in October 2010 to which Grainger provides fee-based property management services.

Fee income was £5.1 million in the six month period ended 31 March 2014, but it is expected that fee income will be higher in the second half of the 2014 financial year. Fee income does not accrue evenly, and the Group has already recognised additional income in this area for the six month period ended 30 September 2014.

Grainger intends to expand its fee earning capability by seeking opportunities where it can align itself with parties who share common interests with the Group, whether in the form of joint ventures or service provision roles where Grainger may act as asset or property manager. This strategy is designed to allow Grainger to capture growing interest from investors (both in the UK and overseas) in investments in the UK Residential Property market whilst deploying its capital in an efficient manner.

Increase investment in the private rented sector to benefit from attractive market dynamics

In the medium-term, the Group intends to increase its investment in the private rented sector principally through participation in the growing Build to Rent sector. The UK private rented sector has emerged as the fastest growing tenure in the UK over the last decade, while owner occupation has been in decline since 2005.[6] As at 30 September

[6] Source: Office of National Statistics

2013, 50 per cent. of all London households are rented[7] and Grainger expects this proportion to increase. The Group is currently increasing its exposure to the private rental market in the UK through:

- the development of 100 residential apartments purpose built for private rental at London Road, Barking. The Group will retain and let the residential units and provide asset and property management services. The construction works on this development are underway and the main building contractor has been appointed by the developer, BY Development Limited (which is part of the Bouygues Construction Group); and

- the development of two sites owned by the Royal Borough of Kensington and Chelsea for mixed tenure housing. Some of the properties will be privately sold, some will be affordable housing, but a major component of the development will be purpose built private rental accommodation managed by Grainger under a 125-year agreement. As with the development at London Road, Barking, the role of the main building contractor will be contracted out under the development structure.

Over the medium term, the Group intends to use a greater proportion of the cash flows generated by property sales to invest selectively in new and existing developments in the private rented sector in the UK where returns are accretive to the Group. Government initiatives have been particularly supportive of this sector, an example being the extension of the "Build to Rent Fund" and Grainger has been shortlisted for up to £70 million of Government funding for the construction phase of "Built to Rent" projects involving 500 units across London and the South East.

The Group considers its strategy of increasing its investment in the private rented sector as a natural evolution of the business which will balance the expected long-term reduction in the size of its regulated portfolio in the longer term.

4. Recent Developments

The following recent developments have occurred since 31 March 2014.

- On 16 April 2014 the Company acquired a tenanted residential property portfolio in London comprising 61 freehold houses located in Knightsbridge and Chelsea for £160 million from Property Investments (Chelsea) Limited plus SDLT and expenses of £9 million.
- On 19 May 2014 the Company announced that it had redeemed the £24.9 million outstanding balance (£24.8 million as of 31 March 2014) from the £112 million 3.625 per cent. Convertible Bond at its expected maturity date.
- Associated with these transactions net cash was drawn on the Bank Facilities; £140 million in April 2014, £30 million in May 2014 and £15 million in June 2014.

The above together comprise the "**Transactions**".

5. Corporate and Financing Structure

Following the refinancing of its debt facilities (see "*Description of Indebtedness*") in recent years the Group has deleveraged significantly and the primary reason for issuing the Further Notes, as was the case with the Original Notes, is to diversify the Group's funding sources.

As at 31 March 2014, the Group's total debt was £1,032.9 million. The net proceeds of the issue of the Further Notes, which are expected to be £75.8 million, will be used to pay down existing revolving bank debt. Following the issue of the Further Notes, drawings under the Bank Facilities of £140 million in April 2014 to fund the Chelsea acquisition, £30 million in May 2014 and £15 million in June 2014 and the redemption of its outstanding £24.9 million Convertible Bond in May 2014, the Group's total debt is expected to be £1,193.7 million on the Closing Date.

Upon the issue of the Further Notes (and taking into account the Transactions), the Group's principal debt facilities will comprise: (i) £487.0 million drawn under committed banking facilities which are partially amortising in December 2014 and July 2016 and have a final maturity date in 2020 (the "**Bank Facilities**"); (ii) £276.4 million, being the principal amount outstanding from the issue of the Further Notes (and the issue of the Original Notes in November 2013), together with the issue premium and Accrued Interest; (iii) £100.0 million drawn under facilities provided by Prudential/M&G UK Companies Financing Fund LP with a final maturity date of 2021 (the "**M&G Facility**"); and (iv) £330.3 million non-recourse secured indebtedness incurred by certain subsidiaries of the Group, referred to as Excluded Entities (none of which are Guarantors of the Notes).

The simplified corporate and financing structure set out below shows the location of debt within the Group immediately following the issue of the Further Notes (and the chart takes into account the Transactions).

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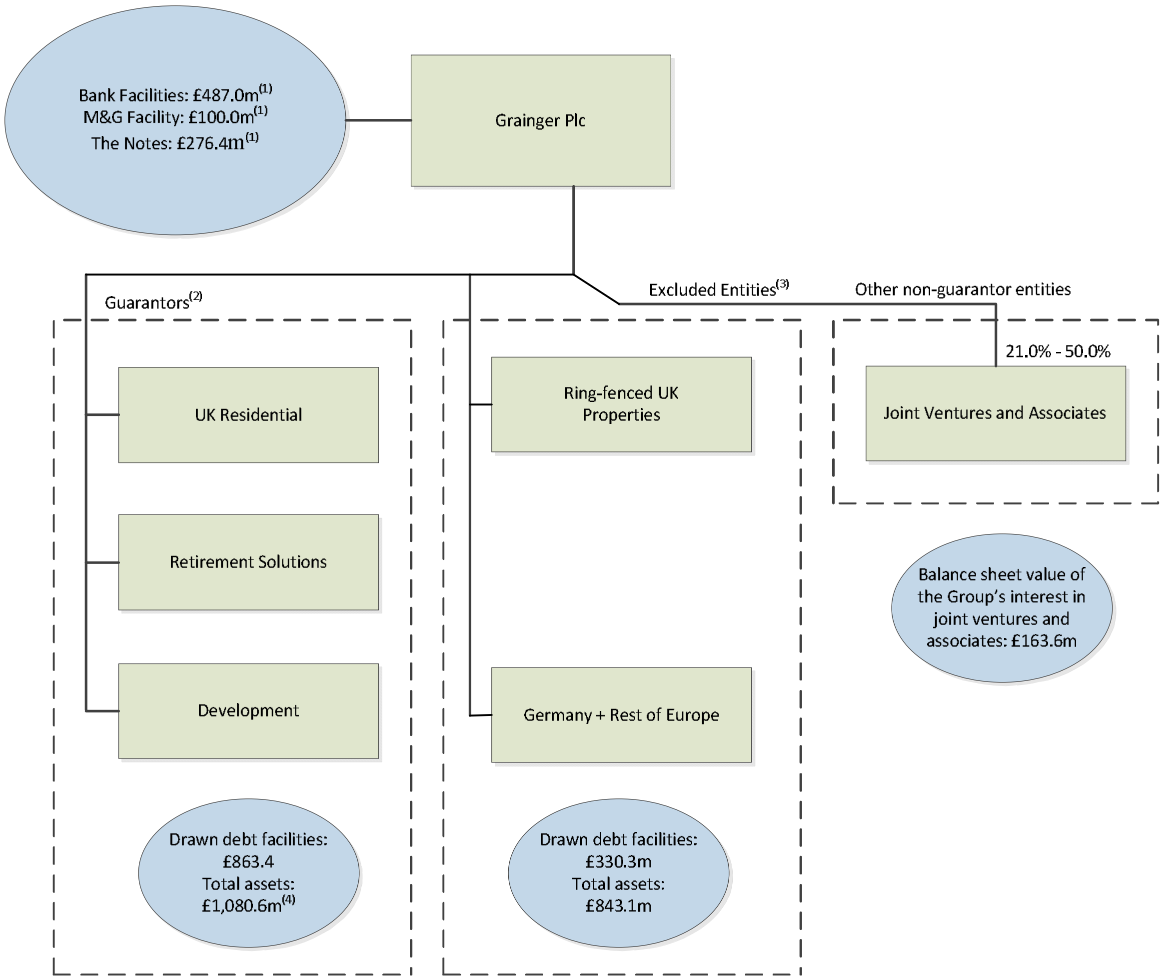
[7] Source: Office of National Statistics



Notes:

(1) The Bank Facilities, the M&G Facility and the Notes are all secured and rank *pari passu*. The £276.4 million figure representing the Notes includes the £200.0 million nominal amount of the Original Notes, in addition to £75.0 million (being the nominal amount of the issue of the Further Notes) plus premium and Accrued Interest.

(2) The Guarantors comprise 15 subsidiaries. The Market Value of property assets and the CHARM Financial asset, owned by the Guarantors totalled £923.1 million, representing 91.2 per cent. of the Group's property assets, excluding property assets held in Excluded Entities as at 31 March 2014. EBITDA for the financial year ended 30 September 2013 generated by the Guarantors was £103.5 million, representing 91.8 per cent. of the Group's total EBITDA. For further information please refer to footnote 1 of the two tables in "*Description of the Guarantors—Group EBITDA and Net Assets*."

(3) As at 31 March 2014, non-recourse drawn debt at the Excluded Entities totalled £330.4 million. As at the same date, the Market Value of the property assets owned by the Excluded Entities totalled £843.1 million. EBITDA for the financial year ended 30 September 2013 was £25.6 million, representing 22.7 per cent. of the Group's total EBITDA.

(4) Assets include the £160 million Chelsea portfolio acquisition completed in April 2014.

6. Selected financial information on the Group

*The unaudited interim data for the six month period ended 31 March 2014 and audited data for the financial years ended 30 September 2011, 2012 and 2013 set out below have been extracted without material adjustment from, and should be read together with, the Company's unaudited interim results for the six months to 31 March 2014 (the "**Half Year Results**") and from the Group's audited consolidated financial statements included in the Company's Annual Report and Accounts as at and for the financial years ended 30 September 2011, 2012 and 2013 (together, the "**Annual Report and Accounts**") . Such financial statements are incorporated by reference into this document.*

Key consolidated income statement data

	For the financial year ended 30 September (Audited)			For the six months ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
Group revenue	296.2	311.4	283.2	190.0
Operating profit before net valuation gains/(deficits) on Investment Property	129.5	124.0	100.7	51.6
Operating profit after net valuation gains/(deficits) on Investment Property	127.5	119.2	103.6	55.5
Profit/(loss) before tax	26.1	(1.7)	64.3	49.8
Profit/(loss) after tax	39.1	0.4	53.6	45.2

Reconciliation of income statement numbers to OPBVM

	For the financial year ended 30 September (Audited)			For the six months ended 31 March (unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
Operating profit before net valuation gains/(deficits) on Investment Property	129.5	124.0	100.7	51.6
Add back/(Deduct):				
Valuation movements	(7.9)	0.1	4.0	0.6
Non-recurring items	4.6	2.3	2.9	2.4
OPBVM	126.2	126.4	107.6	54.6

Further details of the valuation movements and non-recurring items which reconcile the operating profit before net valuation gains/(deficits) on Investment Property to the OPBVM, can be found in Note 3 of the Annual Report and Accounts and Note 2 of the Half Year Results.

Key consolidated balance sheet data	For the financial year ended 30 September (Audited)			For the six months ended 31 March (unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
ASSETS				
Investment property	819.9	525.9	354.1	346.3
Inventories—trading properties	1,105.1	1,023.4	949.6	863.1
Other assets	319.4	541.0	407.6	456.1
Total assets	2,244.4	2,090.3	1,711.3	1,665.5
LIABILITIES				
Total liabilities	1,857.0	1,699.4	1,245.8	1,158.2
Net assets	387.4	390.9	465.5	507.3

Gross Net Asset Balance Sheet showing Trading Properties at Market Value

Most of the Group's properties are held as trading stock and are therefore shown in the statutory balance sheet at the lower of cost and net realisable value. This does not reflect the Market Value of those properties. Therefore the balance sheet below shows a summary of net assets with the trading properties re-stated at Market Value.

In addition, the balance sheet below is stated after adding back the statutory balance sheet amounts for deferred tax on property revaluations and net of the fair value of derivative assets and liabilities, net of deferred tax. The resultant measure of net asset value is NAV. The European Public Real Estate Association ("**EPRA**") Best Practices Committee has recommended the use of an EPRA NAV. The definition of this measure is consistent with NAV used by Grainger.

The Core LTV covenant ratio for the purposes of the core debt facilities and the Notes is based on the Market Value of properties as reflected in the balance sheet shown below and not on the asset values included in the Group's statutory balance sheet.

	As at 30 September (Audited)			As at 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
ASSETS				
Investment property	819.9	525.9	354.1	346.3
Inventories—trading properties	1,449.1	1,387.4	1,382.6	1,413.7
Other assets	286.3	505.8	402.1	464.6
Total assets	2,555.3	2,419.1	2,138.8	2,224.6
LIABILITIES				
Total liabilities	1,655.3	1,490.3	1,130.8	1,088.9
Net assets	900.0	928.8	1,008.0	1,135.7

Key consolidated cash flow data	For the financial year ended 30 September (Audited)			For the six months ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
Net cash inflow from operating activities	101.8	85.6	84.3	59.9
Net cash inflow from investing activities	21.9	57.1	212.3	17.4
Net cash outflow from financing activities	(123.4)	(155.9)	(280.2)	(71.0)
Net increase/(decrease) in cash and cash equivalents	0.3	(13.2)	16.4	6.3
Cash and cash equivalents at beginning of year/period...	91.5	90.9	73.3	90.3
Net exchange movements on cash and cash equivalents	(0.9)	(1.8)	0.6	0.1
Total cash and cash equivalents at end of year/period.	90.9	75.9	90.3	96.7
Cash held in assets classified as held for sale..................	–	(2.6)	–	–
Cash and cash equivalents at end of year/period	90.9	73.3	90.3	96.7

Key performance measures	As at 30 September			As at 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
Net Debt (£m) (audited, except 2014)..	1,453.8	1,194.1	958.6	921.3
Consolidated LTV (%)**	60.6	55.0	48.0	45.2
Consolidated LTV (%) including the Reversionary Surplus**	49.1	43.9	38.7	37.6
Core LTV (%)[8]**..	52.5	48.0	40.1	38.9

	For the financial year ended 30 September			For the six months ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
OPBVM (£m) (audited, except 2014)	126.2	126.4	107.6	54.6
ICR (x)**..	3.1	3.0	5.0	5.7

** Consolidated LTV, Core LTV and ICR results are unaudited in all years. Prospective investors should refer to "*Presentation of Financial Information-Non-IFRS Measures*" to see how these ratios are calculated.

[8] The value to be used when calculating Core LTV for the purposes of capitalisation is £1,873.7 million.

The following table indicates what the figures for net debt, Consolidated LTV, Consolidated LTV including the Reversionary Surplus and Core LTV will be following the issue of the Further Notes and taking into account the Transactions. For further information please see the section entitled "*Capitalisation*".

Net Debt (£m)	1090.3
Consolidated LTV (%)**	49.6
Consolidated LTV (%) including the Reversionary Surplus**	41.8
Core LTV (%)**	44.6

** Consolidated LTV, Core LTV and ICR results are unaudited in all years. Prospective investors should refer to "*Presentation of Financial Information-Non-IFRS Measures*" to see how these ratios are calculated.

7. Risk factors

Prospective investors should carefully consider the risks described under the heading "*Risk Factors*", any of which could, if realised, have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

THE OFFERING

The following is an overview of the terms of the Further Notes and, where applicable, the Notes. This overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the "**Conditions**") and the trust deed constituting the Original Notes and the supplemental trust deed constituting the Further Notes (together, the "**Trust Deed**"), which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.

Issuer:	Grainger plc
Guarantors:	Each of the subsidiaries of the Issuer set forth on page 88
Description of Further Notes:	£75,000,000 5.00 per cent. Guaranteed Secured Notes due 2020, to be issued on the Closing Date and to be consolidated and form a single series with the £200,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 issued on 28 November 2013
Coupon:	5.00 per cent.
Issue Price:	101.125 per cent. of the principal amount of the Further Notes plus the Accrued Interest
Trustee:	Deutsche Trustee Company Limited
Maturity Date:	The Notes will mature on 16 December 2020
Interest:	The Notes will accrue interest at a rate equal to 5.00 per cent. per annum from and including 16 June 2014
Interest Payment Dates:	Interest on the Notes will be payable in arrear on 16 December 2014 and thereafter on 16 June and 16 December of each year until and including the Maturity Date.
Optional Redemption by Issuer:	At any time prior to the Maturity Date the Issuer may redeem the Notes in whole or in part (subject to the provisions relating to partial redemption) at a price which shall be the higher of the principal amount and an amount calculated by reference to the yield of the 3.75 per cent. U.K. Government Treasury Stock 2020, together with accrued and unpaid interest as described under the heading "*Terms and Conditions of Notes—Redemption and Purchase—Redemption at the Option of the Issuer*"
Optional redemption for tax reasons:	The Issuer may, at its option, redeem all (but not less than all) of the Notes then outstanding at their principal amount together with interest accrued to but excluding the date of redemption, if the Issuer becomes obliged to pay any additional amounts as a result of a change in law or each of the Guarantors would be obliged to pay additional amounts as a result of a change of law, where the Issuer does not have sufficient funds to satisfy its obligations and each of the Guarantors is unable for reasons outside its control to put the Issuer in funds. See "*Terms and Condition of Notes—Redemption and Purchase—Redemption for Tax Reasons*"
Noteholders' put option upon Put Event:	If a Put Event occurs, each Noteholder shall have the option to require the Issuer to redeem or purchase the Notes of such holder at a cash purchase price equal to 101 per cent. of the principal amount thereof together with interest accrued to but excluding the date of redemption or purchase, as the case may be. See "*Terms and Conditions of Notes—Redemption—Redemption upon a Change of Control*"
Events of Default:	The terms and conditions of the Notes contain events of default (including a cross acceleration provision) as described further under the heading "*Terms*

and Conditions of Notes—Events of Default"

Negative Pledge:	The terms and conditions of the Notes contain a negative pledge provision as described in "*Terms and Conditions of Notes— Covenants—Negative Pledge*"
Covenants:	The terms and conditions of the Notes contain certain covenants, including: • Maintenance of the Loan to Value Ratio; • Limitation on Purchase of Assets; and • Limitation on Mergers, Consolidation and Sale of Substantially all Assets. Each of these covenants is subject to certain exceptions and qualifications. See "*Terms and Conditions of Notes—Covenants*"
Notes Guarantee:	The payment of principal and interest in respect of the Notes and the other obligations of the Issuer under the Trust Deed and/or the Conditions has been fully, irrevocably and unconditionally jointly and severally guaranteed by the Guarantors
Additional Guarantors:	If any Subsidiary of the Issuer (other than a Guarantor) (i) provides a Guarantee or (ii) at the time it becomes a Subsidiary is providing a Guarantee, in either case in respect of all or any of the Pari Passu Liabilities, the Issuer shall procure that such Subsidiary shall, at or prior to the date of the giving of such Guarantee or within 30 days after the date of it becoming a Subsidiary, as applicable, become a Guarantor by executing a deed supplemental to the Trust Deed (in a form and with substance reasonably satisfactory to the Trustee, and accompanied by such legal opinion(s) as the Trustee shall reasonably require) pursuant to which such Subsidiary shall guarantee the obligations of the Issuer in respect of the outstanding Notes, the Coupons and the Trust Deed on the same terms *mutatis mutandis* as the Notes Guarantee. See "*Terms and Conditions of the Notes—Guarantee, Security and Intercreditor Deed—Additional Guarantors*" As at the date of this Offering Memorandum, under certain Pari Passu Liabilities (including, among others, the Core Credit Facilities), the Issuer must ensure that the Guarantors and the Issuer hold at least 85 per cent. of the Group's properties excluding those held by Excluded Entities. For so long as such Pari Passu Liabilities remain outstanding, the Guarantors will, pursuant to the provisions described in the preceding paragraph, be the same as the guarantors in respect of such Pari Passu Liabilities Without prejudice to the provisions described in the preceding paragraph, under the terms and conditions of the Notes the Issuer shall procure that the gross value of the properties owned by it and the Guarantors is not less than 75 per cent. of the gross value of the properties (other than those owned by Excluded Entities) at all times
Status of Notes' Ranking:	The Notes and the Coupons are direct, unconditional, unsubordinated and secured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves

Modification, Waiver, Authorisation and Determination:	The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Intercreditor Deed or the Security Agreement, subject to the terms thereof, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven.
Substitution:	The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer of any Relevant Subsidiary or a new group holding company of the Group in certain circumstances as principal debtor under the Trust Deed, the Notes and the Coupons. See "*Terms and Conditions of Notes—Substitution*"
Withholding Tax:	All payments of (i) principal, premium and interest in respect of the Notes and (ii) purchase monies due under Condition 7.3 (*Redemption upon Change of Control*) by or on behalf of the Issuer or any Guarantor shall be made without withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom, unless the withholding or deduction is required by law. In that event, subject to certain exceptions, the Issuer or the relevant Guarantor, as the case may be, will pay such additional amounts as will result in the Noteholders and the Couponholders receiving such amounts as would have been received by them had no such withholding or deduction been required as described in Condition 8—"*Terms and Conditions of Notes—Taxation*"
Listing and admission to trading:	Application has been made to the Irish Stock Exchange for the Further Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange
Governing Law:	The Trust Deed (including the Notes Guarantee), the Conditions, the Notes, the Coupons and any non-contractual obligations arising therefrom or in connection therewith, shall be governed by, and construed in accordance with, English law
Form and Denomination:	The Further Notes will be in bearer form and will be initially issued in the form of a Further Temporary Global Note exchangeable for a Further Permanent Global Note. Upon exchange of the Further Temporary Global Note for the Further Permanent Global Note as described herein, the Further Notes will be consolidated and form a single series with the Original Notes. The Notes in definitive form will be serially numbered and the Original Notes are, and the Further Notes will be, in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with coupons attached on issue. Definitive Notes will only be available in the limited circumstances specified in the relevant Global Notes
Security:	The obligations of the Issuer under the Notes and the obligations of the Guarantors under the Notes Guarantee will be secured by a floating charge over all of the properties and other assets of the Issuer and the Guarantors, respectively, pursuant to the terms of the Security

Intercreditor Arrangements:	The Intercreditor Deed includes terms that establish, *inter alia*, the ranking and priority of the Notes, any other Note Liabilities and the Pari Passu Liabilities, the basis on which the Security Trustee is appointed to hold the collateral created by the Transaction Security Documents, under what circumstances the Transaction Security Documents may be enforced and the application of proceeds from an enforcement in respect of the collateral. Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Further Note, will be deemed to have agreed to be bound by such provisions of the Intercreditor Deed and to have irrevocably appointed the Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Deed. See "*Terms and Conditions of the Notes— Guarantee, Security and Intercreditor Deed*"
Credit Ratings:	On issue of the Further Notes, the Notes' ratings are expected to be reaffirmed by S&P and Fitch. Each of S&P and Fitch is established in the European Community and is registered under Regulation (EC) No. 1060/2009, as amended
Selling restrictions:	The Further Notes have not been and will not be registered under the U.S. Securities Act or under any other national, state or local securities laws and, as such, are subject to restrictions on sale—see "*Subscription and Sale*"
Use of Proceeds:	The net proceeds from the issue of the Further Notes, and after deduction of underwriting fees and commissions as well as other expenses, are expected to be approximately £75.8 million and will be applied by the Issuer to pay down existing revolving bank debt
Further Issues:	The Issuer may from time to time without the consent of the Trustee, the Noteholders or the Couponholders, but subject always to the provisions of the Conditions and the Trust Deed, create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as the Issuer may determine at the time of their issue. See "*Terms and Conditions of Notes—Further Issues*"
ISIN and Common Code:	Until exchange of the Further Temporary Global Note for the Further Permanent Global Note as described herein, the Further Notes will have a temporary ISIN of XS1086881494 and a temporary Common Code of 108688149. Thereafter the ISIN for the Further Notes will be XS0996777834 and the Common Code will be 099677783, each being the same as for the Original Notes
Principal Paying Agents:	Deutsche Bank AG, London Branch

RISK FACTORS

An investment in the Further Notes involves a high degree of risk. Any of the following risks could adversely affect the Issuer's or any of the Guarantors' business, results of operations, financial condition and prospects, in which case the trading price of the Further Notes could decline, resulting in the loss of all or part of an investment in the Further Notes, and the Issuer's (or any of the Guarantor's (as applicable)) ability to pay all or part of the interest or principal on the Further Notes could be negatively affected.

Each of the Issuer and each Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Further Notes. All of these factors are contingencies which may or may not occur and neither the Issuer nor any Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantors believe may be material for the purpose of assessing the market risks associated with the Further Notes are also described below.

Each of the Issuer and each Guarantor believes that the factors described below represent the principal risks inherent in investing in the Further Notes, but the Issuer and each Guarantor may be unable to pay interest, principal or other amounts on or in connection with the Further Notes for other reasons, and neither the Issuer nor any Guarantor represents that the statements below regarding the risks of holding the Further Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision.

RISKS RELATING TO THE PROPERTY INDUSTRY

The value of the Group's portfolio and the Group's revenue, cash flow and profits from the sale of properties are dependent on economic conditions and the residential real estate market in the United Kingdom and Germany

As at 31 March 2014, 91.2 per cent. of the Group's wholly owned assets by Market Value were located in the United Kingdom and the remaining 8.8 per cent. were located in Germany. The Market Value of the Group's assets is dependent on general economic conditions and, in particular, on the condition of the residential property markets in the United Kingdom and Germany. Market values of properties in the United Kingdom and Germany are generally affected by overall conditions in the economy, political factors and one-off events, including the condition of financial markets, the cost and availability of finance to businesses and consumers, fiscal and monetary policies, changes in government legislation, political developments, including changes in regulatory or tax regimes, changes in unemployment, gilt yields, interest rates and credit spreads, levels of prevailing inflation, changes in consumer spending, the supply of, or a reduction in demand for, residential property, infrastructure quality, financial performance and the productivity of industries located in these countries, bankruptcy or redundancy of tenants, the returns from alternative assets as compared to residential property, environmental considerations, changes in planning laws and practices and the perceived threat from terrorism. Residential real estate values and rental revenues are also affected by factors specific to each local market in which the property is located, including the supply of available property and demand for residential real estate and the availability of mortgage finance to prospective purchasers. Moreover, the Group's borrowings or use of other leverage may increase the volatility of the Group's financial performance and results of operations.

The UK property market suffered as a result of the effects of the global financial crisis, with property values, including the value of residential property, falling substantially. The UK residential property market has shown a recovery since the financial crisis with the Nationwide and Halifax house price indices indicating increases of 11.4 per cent. and 9.8 per cent., respectively, in the value of the UK residential property market between September 2009 and 31 March 2014, reaching levels recorded immediately prior to the crisis. This improvement in the UK housing market is partially a result of the improving economy as well as a number of Government measures aimed to bolster the housing market, including the Funding for Lending Scheme and Help to Buy. Some concern has been expressed over the rapid increase in house prices over the last year. Large increases are generally restricted to a few areas of London and increases have been much more moderate in the rest of the country. The central London market has been and is expected to continue to be driven by economic strength, supply and demand imbalances and the attractiveness of London as a global city. The Group's properties in London are of relatively low average value and have been acquired over a number of years at an attractive entry price and at a discount to Vacant Possession Value. A significant proportion of the Group's assets present the opportunity for both refurbishment and development gains over and above those made from rental income, reversionary surplus and house price growth. Their size, location and condition make them the target of committed, local and often cash buyers. They are, therefore, less subject to the speculative, investment based demand that characterises homogenous, highly priced new build apartments. The German residential market has been less volatile with a blended index of German house prices and rental rates indicating an average increase of 0.52 per cent. per annum between 1995 and 2012 with, more recently, increases of between 0.9 per cent. and 5.5 per cent. in each of the years from 2007 to 2012[9]. The value of German or UK residential property could decline in future periods and those declines

[9] Source: BulwienGesa AG, Property Market Index Report

could be substantial. All of the Group's wholly-owned properties and substantially all of its jointly-owned properties are in the UK and Germany. As a result, the Group is particularly exposed to events that adversely affect the residential property market in the United Kingdom (in particular, London and the South East due to the concentration of value of the Group's UK portfolio in these areas) or Germany. In addition, because the Group's portfolio is not representative of the market as a whole, the value of the portfolio of the Group may be more adversely affected by any future downturn, than the market average. Future declines in the performance of the UK residential property market or in the German residential property market could have a material adverse effect on the value of the Group's portfolio and on the Group's business, results of operations, financial condition or prospects.

In addition, the value and cash flows arising from the Group's financial interest in property assets (being an interest in a portfolio of mortgages held by the Church of England Pensions Board as mortgagee in respect of properties owned by retired clergy) are related to the movement in value of the underlying property assets and expectations of future movements. Similarly, the amount of asset management fee income payable to the Group is affected in part by the value of the properties under management. Declines in the residential property markets could reduce the profits and cash flows from the Group's financial interest in property assets, interests in joint ventures and associates and property and asset management fee income, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Any increase or decrease in the valuation of the Group's Investment Properties is recorded as a revaluation gain or deficit in the Group's income statement for the period during which the revaluation occurs and impacts directly on the Group's statutory balance sheet. As the Group's Investment Properties are valued semi-annually either internally or by independent valuers or a combination of both, any declines in value will be reflected on a semi-annual basis in the Group's statutory balance sheet and income statement, thus contributing to the overall volatility in the value shown in the Group's financial statements and having a consequential impact on the Group's results of operations.

Reductions in the value of the Group's properties may occur in the future and, over the longer term, could result in non-compliance with the Core LTV covenant under the core debt facilities which is set at 75 per cent. If the Group's Core LTV exceeds 67.5 per cent., but is less than or equal to 75 per cent., the Group will be subject to certain obligations under the facilities, including restrictions on making investments or acquisitions, other than acquisitions of property not exceeding £2.0 million per month, which would severely restrict its ability to make any material acquisitions of property or any acquisitions of land with strategic development potential. See "*Risks Relating to Finance – If the Group's properties suffer significant falls in value, the Group may not be able, in the longer term, to maintain compliance with the Core LTV covenant in certain of its facilities*" below.

In the six month period ended 31 March 2014, 80.8 per cent. of the Group's gross revenue was derived from sales of trading properties. The Group typically seeks to sell properties in its UK Residential and Retirement Solutions Portfolios when they become vacant. Sale upon vacancy allows the Group to realise the maximum value of a property as compared to a sale with a tenant in place.

The Group's ability to generate revenue and cash flow from its real estate assets depends on the existence of buyers willing to pay attractive prices for those properties at the time the Group desires to sell them. The existence of these buyers in turn depends upon overall economic conditions, the residential real estate market and the other factors set out above including, in particular, the availability of mortgage finance. In difficult economic conditions, the Group may not be able to sell properties for an appropriate price or on acceptable terms in a timely manner or at all and the Group may therefore be unable to realise the Reversionary Surplus on its properties. Additionally, as a consequence of cyclicality and volatility in the prices of residential property, the Group may acquire properties in periods of higher prices and may be forced to sell them during periods of lower prices. There is no guarantee that the price the Group would be able to achieve on the sale of such properties would realise the margin anticipated by the Group or would exceed the acquisition cost of the property. In addition, the length of time needed to find purchasers and to complete such transfers or sales may increase in periods of market uncertainty. Downward pressure on sales prices may occur in the future and volumes of property sales and the revenue and profits from such sales may also be adversely affected.

If the Group is unable to dispose of properties at attractive prices on a timely basis or at all, the Group's revenue from property sales could decline substantially which in turn could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

If the Group is required to undertake Investment Sales, it will not be able to realise the full potential value of its properties, particularly in the case of its Residential Portfolio

If the Group were required to liquidate a significant portion of its portfolio in order to generate additional cash flow to support the Group's operations, comply with financial covenants or repay outstanding indebtedness, it may have to make accelerated sales. Due to the nature of the Group's properties, this would probably be achieved mainly by way of Investment Sales. Investment Sales do not crystallise the full extent of the Reversionary Surplus associated with such properties and result in less revenue than the Group would expect if the property were held until a vacant possession sale could be made. Furthermore, the Group's portfolio of properties in the Retirement Solutions Portfolio which are subject to home reversion plans (which had a Market Value of £204.4 million as at 31 March 2014) are relatively illiquid assets if they are to be sold with a tenant in place as they may only be sold to a limited number of regulated entities. This restricts the Group's ability to dispose of these properties on an accelerated basis which could limit the Group's ability to respond to adverse developments in economic conditions and real estate markets.

If the Group were required to liquidate a portion of its portfolio on an accelerated basis, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The rental income that the Group's property portfolio produces and its property management fee income may fluctuate as a result of factors which are outside its control

Rental income constituted 14.9 per cent. of the Group's revenue in the six month period ended 31 March 2014. Rental rates in the United Kingdom and Germany are generally affected by conditions in the economy and financial markets, including the factors discussed in "*Risks Relating to the Property Industry – The value of the Group's portfolio and the Group's revenue, cash flow and profits from the sale of properties are dependent on economic conditions and the residential real estate market in the United Kingdom and Germany*" above. The Group is most at risk with respect to rental levels on non-regulated properties in the UK Residential Portfolio and the properties in the German Residential Portfolio to the extent that adverse market conditions affect rent review negotiations and the ability to re-let property following the termination of a tenancy. In addition, in the context of regulated properties, the Group is at risk to the extent that adverse market conditions affect the rental levels which are set by a rent officer.

Rent of £9.9 million on the non-regulated properties in the UK Residential Portfolio (including properties which are subject to assured periodic, assured and assured shorthold tenancies, all of which are subject to market rental rates as well as rent from Hi Tricomm) constituted 35.0 per cent. of the Group's gross rental income in the six month period ended 31 March 2014. Rental rates on the German Residential Portfolio are also market-based and generated rental income representing 20.7 per cent. of the Group's gross rental income in the six month period ended 31 March 2014. Rental income in respect of the Group's UK non-regulated and German properties may be adversely affected in times of adverse economic conditions and a depressed residential market and this may have a material adverse effect on the Group's business, results of operations, financial condition or prospects. There can be no assurance that the Group's tenants in relation to its non-regulated and German properties will renew their leases at the end of their current tenancies nor can there be any assurance that new tenants of equivalent standing (or any new tenants) will be found to take up vacant properties at the same or similar rental levels. During periods for which properties are vacant, the Group will not receive rent and will incur additional expenses until the relevant properties are re-let. Even if tenant renewals or replacements are effected, there can be no assurance that such renewals or replacements will be on terms (including rental levels and rent review terms) that are as favourable to the Group as before or that new tenants will be as creditworthy as previous tenants. If the Group suffers significant vacant periods on its non-regulated or German properties or replacements are not on favourable terms, or levels of rent arrears increase, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Rents of £11.3 million on the Group's UK regulated tenancies (constituting 39.8 per cent. of the Group's gross rental income in the six month period ended 31 March 2014) are typically at below market rates and are set by an independent third party rent officer pursuant to the Rent Act. Such rents may only be reassessed every two years and are capped at the percentage change in the UK retail price index since the rent was last registered plus a percentage prescribed by law (currently 5 per cent.). This may lead to a reduction of the Group's rental income on an inflation-adjusted basis if the new rent awarded by the rent officer is beneath the statutory cap. Furthermore, where the levels of inflation are negative, regulated rental rates may not be increased from the rental levels previously in place. If rents payable on the Group's regulated properties are lower than expected, this could have a material adverse effect on the Group's business, results of operations, financial conditions or prospects.

The level of property management fees payable to the Group in relation to joint ventures and associates for which the Group provides property management services are affected in part by the value of the rental income generated by the properties owned by such arrangements. If the property management fee income generated in relation to such arrangements is lower than expected, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group is exposed to the credit risk and creditworthiness of its individual tenants. The Group's tenants may default in relation to their rental payments or may declare bankruptcy in the future. Where the Group does not intend to sell a property upon vacancy, which is the case principally in relation to the German Residential Portfolio, this may result in less rental income for the Group, delayed payments and/or costs or delay in taking enforcement action. Furthermore, there may be significant delays between the occurrence of tenant default and the eviction of the relevant tenant leading to protracted periods in which the Group is unable to collect rental income. These and other factors would result in higher vacancy rates, lower rental income, revaluation losses on the value of the Group's Investment Properties and reduced property management fee income payable by joint ventures and associates, all of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Property valuation is inherently subjective and uncertain

For the purposes of the Group's financial statements, the valuation of its properties is undertaken internally by the Group and externally by independent third party professional valuers. Valuations are inherently subjective due to the individual nature of each property. Moreover, property valuations are made on the basis of assumptions which may not prove to be accurate, particularly in periods characterised by asset value volatility or lower transaction volumes in the residential real estate markets, as was the case in the United Kingdom in the period following the financial crisis. As a result, valuations are subject to a degree of uncertainty.

In the United Kingdom, the Group's wholly-owned property portfolio and the properties held through associates or joint ventures in which the Group has an interest are valued for the purposes of the Group's financial statements on the basis set out under "*Classification and Accounting Treatment of Trading Properties and Investment Properties*" in "*Presentation of Financial Information*". In determining the Market Value of any property, the valuers are required to make certain assumptions. These assumptions include but are not limited to matters such as the existence of willing buyers and willing sellers in uncertain market conditions, future house price inflation, future rental levels, title, condition of structure and services, deleterious materials, goodwill, environmental matters, property locations, statutory requirements and planning, leasing and other information. In addition, the calculation of Market Value of certain of the properties, particularly those in the Retirement Solutions Portfolio, is based on estimates as to the expected longevity and morbidity of the tenants and other assumptions. Such assumptions may prove to be inaccurate or to be based upon flawed information or analyses of information.

Incorrect assumptions or flawed assessments underlying the valuation reports could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and could potentially inhibit the Group's ability to realise a sale price that reflects the stated valuation or to raise financing using the Group's properties as security. There is a risk that the valuations of the Group's properties will not be reflected in any actual transaction prices, even where any such transactions occur shortly after the relevant valuation date.

The valuation of the Group's portfolio of properties subject to home reversion policies is based on an actuarial model which is subject to a degree of uncertainty due to the individual nature of both the properties and the tenants inhabiting such properties. Valuations, which in turn impact on the pricing of the properties, are made on the basis of assumptions relating to the Market Value of the properties and an actuarial model which estimates the expected longevity and morbidity of the tenants, which may not prove to be accurate. Although the actuarial model and resulting valuations of the Group's home reversion properties are based on demographic trends and conservative estimates as to longevity and morbidity, inaccuracies in either the actuarial model or the assumptions underlying the actuarial model could have a widespread and material impact on the accuracy of the valuation of the Group's home reversion portfolio as a whole and the acquisition prices paid by the Group in acquiring such properties which in turn could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

As at 31 March 2014, the Group's total wholly-owned portfolio comprised 8,662 properties in the UK Residential and Retirement Solutions Portfolios and 2,881 properties in Germany. As the Group's business involves thousands of individual units and tenants, Allsop (referred to in "*Overview–The Group–Allsop LLP*") adopts a sampling approach to its inspections of the UK Residential Portfolio, the Retirement Solutions Portfolio and the portfolio of Sovereign Reversions (the latter comprises properties held by Sovereign Reversions Limited and Home and Capital Trust Limited) in preparing its valuation reports. As a result, more than 50 per cent. of the UK Residential Portfolio and approximately 50 per cent. of each of the Retirement Solutions Portfolio and the Sovereign Reversions portfolio were individually externally inspected by Allsop for the property valuation in the 12 months to 30 September 2013. The properties which are not included in any sample inspected by Allsop may have characteristics which could, in the aggregate, have a significant effect on the assumptions used by Allsop or the final conclusions reached in property valuation reports produced by Allsop. As a result, the property valuations performed by Allsop may not accurately reflect the actual composition of the Group's portfolio or the values of the Group's properties at any valuation date. There is a risk that the samples selected by Allsop may not be representative of the Residential Portfolio and the Retirement Solutions Portfolio, or that a sample may not include the characteristics which should form part of the sample pool.

The value of the Group's equity interest in joint ventures and associates is similarly impacted in relation to the valuations carried out by the external valuers to its joint ventures and associates.

Future property acquisitions may expose the Group to unforeseen risks and liabilities associated with properties the Group acquires

Property acquisitions involve a number of risks including, but not limited to, a failure to achieve expected results, unexpected problems and other risks inherent in the acquired property and associated with unanticipated events or liabilities. Before acquiring a property or a portfolio of properties the Group assesses the value and the potential value of such property or portfolio and the potential return on its investment. In making the assessment and otherwise conducting due diligence, the Group relies on the resources available to it and, in most cases, an investigation by third parties. There can be no assurance, however, that due diligence examinations carried out by the Group or by third parties in connection with any properties or portfolios of properties the Group acquires will reveal all of the risks and problems associated with such property or portfolio, or the full extent of such risks and problems. When the Group acquires or owns a property, the property may be subject to hidden material defects or deficiencies in the title to the property or otherwise which were not apparent at the time of acquisition, including structural damage, environmental hazards, legal restrictions or encumbrances and non-compliance with existing building standards or health and safety or other administrative regulations. There can be no assurance therefore that the Group will be able to identify, acquire or profitably manage additional properties without substantial costs, delays or other operational or financial problems, or at all, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Although the Group sometimes obtains warranties and/or representations from the seller of a real estate property with respect to certain legal or factual issues, these protections are not always in place and when in place they may not cover all of the problems that may arise following the purchase, and may not fully compensate the Group for any diminution in the value of such property or other loss it may suffer. In addition, it may be difficult or impossible to enforce indemnification rights arising from a breach of warranty and/or representation against a seller for various reasons, including the insolvency of the seller or the expiration of limitation periods or expiry of enforcement periods for such warranties and representations. High unforeseen costs or impairments to property values arising from material defects associated with properties acquired by the Group and insufficient warranty coverage in relation to such properties could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group may fail to identify and acquire additional regulated and home reversion properties

The market for regulated properties is limited and the Group already holds a significant proportion of the UK's properties subject to regulated tenancies. As no new regulated tenancies have been created since 15 January 1989, the market will become even more limited as existing regulated tenancies expire, the principal contributing factor being the death of the tenant. Based on its experience of annual vacancy rates in respect of regulated tenancies between 2008 and 2013 and source data[10] from 2009, Grainger estimates that approximately 90,000 regulated tenancies are remaining in England and Wales. The Group aims to identify and acquire regulated properties to replace properties which are traded from the UK Residential Portfolio upon vacancy or by way of Investment Sales in the ordinary course of business. An inability to identify and acquire sufficient regulated properties to replace the Group's maturing portfolio of regulated properties in its UK Residential Portfolio and an inability to diversify the Group's asset base and income streams could have a severe impact on the Group's ability to generate both stable rental income and revenue from sales proceeds, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

During periods of static or declining prices in the residential real estate markets, the demand for home reversion plans tends to decline because of the customer's perception of the value of home reversion plans when compared to other equity release alternatives, such as lifetime mortgages. The Group acquired £1.8 million in home reversion assets in the six month period ended 31 March 2014 (compared to £1.6 million in the financial year ended 30 September 2013 and £8.7 million in the financial year ended 30 September 2012) through its Bridgewater business. As the Group realises the Reversionary Surplus of its home reversion portfolio upon vacancy, the portfolio is a depleting asset.

The Group's provider of home reversion plans, Bridgewater, is a member of the Equity Release Council ("**ERC**"), a company dedicated to the protection of plan holders and the promotion of safe home income and equity release plans. To comply with the ERC Code of Practice, Bridgewater requires each potential customer to consult an FCA-regulated Financial Adviser (an "**FA**") before the customer may apply for a home reversion plan. FAs have to date demonstrated a level of reluctance to advise on equity release (and in particular home reversion plans). The Group believes this reflects both the relative complexity of the issues required to be considered when advising on such products and the perceived reputational risks. The continuing reluctance of FAs to actively market home reversion plans could constrain the future growth of the home reversion plan market and, accordingly, the Group's sales of new home reversion plans, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

If the prices in the residential real estate market in the UK decline or remain static and/or the Group encounters increasing reluctance from FA's to market home reversion plans, the Group may be unable to acquire sufficient home reversion properties to replace its existing portfolio which could have an impact on the Group's ability to continue to generate revenues from its maturing Retirement Solutions Portfolio which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

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[10] Source: Communities and Local Government "Housing in England" September 2009 Report

The Group's success may be affected by any unsuccessful business acquisitions and/or their integration into the Group

The Group has in the past made and continues to make business acquisitions that will have an impact on the performance and risk profile of the Group. Acquisitions involve a number of risks, such as the underlying business performing less well than expected after acquisition, the possibility of the integration diverting management's attention or the possible loss of key personnel within the acquired business and other risks inherent in the systems of the acquired business and associated with unanticipated events or liabilities. All of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's success may be affected by any unsuccessful supply of services arrangements to third parties

The Group has in the past entered into and continues to enter into contracts for the supply of property and/or asset management services to third parties that will have an impact on the performance and risk profile of the Group. Such contracts involve a number of risks, such as the failure to achieve anticipated fee income levels due to a range of factors, the possibility of the arrangements diverting management's attention or the possible loss of key personnel required to deliver the relevant services and other risks inherent in the supply of property and asset management services and associated with unanticipated events or liabilities. All of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The cost of the Group's renovation, maintenance and modernisation programmes may be higher than expected given the age of the Group's residential real estate portfolio and its dependence on third parties

Meeting budgets and deadlines for renovation, maintenance and modernisation projects often depends on accurate information regarding the Group's real estate properties and on the reliability of third party contractors. Accurate construction, historical and other related information for properties is not always available. If, for example, any of the Group's real estate violates building codes or was built using defective or other inappropriate materials, the Group could incur substantial unbudgeted costs to remediate the problem (for example to remove asbestos contamination). Routine or unforeseen renovation, maintenance or modernisation projects that are delayed by, for example, the bankruptcy of a general contractor, may also cause the Group to exceed a budget or deadline.

Although the Group only undertakes limited renovation and modernisation in relation to the regulated properties in its UK Residential Portfolio upon vacancy of such properties, there is a risk that a large number of the Group's UK regulated properties could become vacant during the same period of time and would require renovation and modernisation in order to facilitate sales. Given the mature and unmodernised nature of most of the Group's large UK portfolio of regulated properties, if the Group were faced with high unforeseen renovation and modernisation costs which had to be incurred in order to realise the Reversionary Surplus in such properties, the costs could be substantial. In addition, the Group does renovate and modernise tenanted properties but due to the regulated nature of rental rates payable on regulated properties, the Group may not be able to increase the rents on renovated properties sufficiently to recoup the increased value associated with such renovations. The above factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group is exposed to potential warranty claims and liability relating to the leasing, selling and developing of real estate

The Group may be subject to warranty and other claims due to defects in quality or title relating to the leasing and sale of its properties. This liability may apply to defects in properties that were unknown to the Group but could have, or should have, been discovered. In addition, the Group may be exposed to substantial undisclosed or unascertained liabilities embedded in properties that were incurred or that arose prior to the completion of the Group's acquisition of such properties. These liabilities could include, but are not limited to, liabilities for clean-up or remediation of undisclosed environmental conditions, liabilities to state entities, to tenants, to creditors or to other persons involved with the properties prior to the acquisition, tax liabilities or indemnification claims by parties claiming to be entitled to be indemnified by the former owners of the properties.

Although the Group may obtain contractual protection against such claims and liabilities from the seller of a property to it, there can be no assurance that such contractual protection has always been or will always be successfully obtained, or that it would be enforceable or effective if obtained under contract. Such potential liabilities, if realised, could have a material adverse effect on the returns realised on the property by the Group. Any claims for recourse the Group may have against parties from which the Group has purchased such a property may fail because of the expiration of an applicable limitation period, lack of proof that the previous seller knew or should have known of the defect, the insolvency of the previous seller or for other reasons. Any of these risks could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

RISKS RELATING TO FINANCE

The costs of finance could increase or, in the longer term, financing could cease to be available on appropriate terms or at all

The ability of the Group to operate its business depends in part on it being able to raise funds. Should a liquidity crisis such as that which occurred in late 2008 and early 2009 recur at a time when the Group needs to raise financing, the Group could be materially adversely affected.

An increase in the cost, or lack of availability, of finance (whether for macroeconomic reasons, such as a lack of liquidity in debt markets or the inability of a financing counterparty to honour pre-existing lending arrangements, or reasons specific to the Group) could impact both the Group's ability to progress investment opportunities necessary to deliver rates of return that meet investor expectations and the day-to-day financing (or refinancing) requirements of the Group's business over the longer term. In addition, adverse interest rate movements could lead to an increase in the cost of borrowing. An increase in the Group's LTV ratios, for example as a result of reductions in property values, could also increase the cost of financing or restrict the Group's ability to arrange such financing or refinancing. Any increase in the cost of financing or any decrease in the availability of financing on reasonable terms could have a material adverse effect on the Group's business, operations, financial condition and prospects.

If the Group's properties suffer significant falls in value, the Group may not be able, in the longer term, to maintain compliance with the Core LTV covenant in certain of its facilities

The Group funds its strategy of long-term property ownership in part by way of long-term committed lending facilities. The Group's core debt facilities contain a financial covenant requiring the Group to maintain a Core LTV ratio of not more than 75 per cent. The Group's Core LTV ratio would be adversely affected by falls in the value of its properties.

The Group's properties are re-valued semi-annually and, in the case of its Investment Properties, the results of such valuations are reflected in the Group's financial statements as at the valuation dates. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, have affected, and could affect, the assumptions used to arrive at current valuations and, as a consequence, the Group's net asset value.

In the longer term, there is a risk that a significant reduction in the value of the Group's properties would adversely affect its Core LTV ratio, which could result in a breach of the related financial covenant under the Group's core debt facilities or the Notes, as the case may be. For further information on the consequences of a breach of the covenants under the Group's debt facilities, see "*The Group could trigger an event of default under its borrowing arrangements, in which event the obligations under its borrowing arrangements could be accelerated and become immediately due and payable*" below.

Further, there is a risk that the financial covenant in certain of the Group's core debt facilities based on the Group's cash flow interest cover ratio would be adversely affected by falls in income on disposals of properties as well as net rental income or rises in non-hedged interest costs. For information on the circumstances which could give rise to a reduction in net rental income, see "*Risks Relating to the Property Industry – The rental income that the Group's property portfolio produces and its property management fee income may fluctuate as a result of factors which are outside its control*" above.

The Group has significant borrowings, the amount and terms of which may restrict its ability to engage in certain business activities and limit its financial and operational flexibility

As at 31 March 2014, the Group had £1,032.9 million (excluding hedging arrangements) in aggregate of indebtedness outstanding under its borrowing arrangements. Upon completion of the issue of the Further Notes and following the planned paying down of existing revolving bank debt (see "*Description of Indebtedness*") the Group will have £1,193.7 million (excluding hedging arrangements) in aggregate of outstanding indebtedness under its borrowing arrangements, see "*Capitalisation*".

The Group, like any group of companies with significant borrowings, is subject to the risk that it will be unable to generate sufficient cash flows, or be unable to obtain sufficient funding, to satisfy its obligations to service and/or refinance its indebtedness. In addition, various covenants contained in the Group's borrowing arrangements, including the Notes, limit or may limit the flexibility of the Group in running its business. For example, if the Group's Core LTV exceeds 67.5 per cent. on the core debt facilities, the Group's ability to make significant acquisitions, inter-Group loans and dividends and to incur additional debt will be restricted, see "*Description of Indebtedness – Core Debt Facilities*".

The Group's borrowing arrangements impose restrictions on the Group which may affect, limit or prohibit the Group's operational and financial flexibility. If the Group were to seek to vary or waive any of these restrictions and the relevant lenders did not agree to such variation or amendment, these restrictions may limit the Group's ability to plan for, or react to, market conditions or otherwise restrict the Group's activities, investments or business plans. Any of the above could adversely affect the Group's ability to make strategic acquisitions and investments and could generally have a material adverse effect on its business, results of operations, financial condition or prospects.

The Group could trigger an event of default under its borrowing arrangements, in which event the obligations under its borrowing arrangements could be accelerated and become immediately due and payable

The Group's borrowing arrangements contain:

- representations and warranties, financial covenants and other covenants, which, if breached, would give rise to an event of default; and
- events of default which would be triggered if, amongst other things:
  - in the case of the Bank Facilities and the M&G Facility, an event or circumstance occurs or exists which has, or is reasonably likely to have, a material adverse effect on the Group's performance of the financial covenants or payment obligations under the Bank Facilities or the M&G Facility, as the case may be; or
  - (subject to certain financial thresholds) there is a non-payment under the Group's other borrowing arrangements (including financial derivatives).

In addition, the Group could trigger an event of default, which if not otherwise remedied or waived, would enable the facility agent under the Bank Facilities or the M&G Facility, as the case may be (on the instructions of a majority of the lenders being lenders whose participations collectively amounts to 66 2/3 per cent. of all participations under the Bank Facilities or the M&G Facility, as the case may be) to accelerate the Group's obligations to repay the Bank Facilities or the M&G Facility as the case may be, or other amounts owing to the relevant creditors, cancel the Bank Facilities or the M&G Facility, as the case may be, and/or terminate and settle the Group's financial derivatives. Similar provisions are included in a number of the Group's other borrowing facilities.

The Group has granted floating charge security over a number of its properties in connection with its borrowing arrangements, details of which are set out in "*Description of Indebtedness*". After the occurrence of an event of default the relevant lenders may also be able to enforce their security over the Group's assets and to make a demand on any guarantees given in respect of the relevant borrowings.

For the reasons set out above, if the Group triggered an event of default, this and any resulting enforcement action would have a material adverse effect on the Group's business, results of operations, financial condition and prospects. For further information on the Group's Bank Facilities, M&G Facility and other borrowing arrangements, see "*Description of Indebtedness*".

In addition, if the Group were close to reaching its financial covenant limits or applicable limits under other restrictive covenants, the Board may consider it imprudent to draw down any undrawn amounts under facilities which would otherwise still be available to it, as to do so would increase the risk of a covenant breach occurring. This could prevent the Group from taking advantage of acquisition opportunities to expand its existing holdings in furtherance of its investment strategy, which could have a material adverse effect on its business, results of operations, financial condition or prospects.

The Group is exposed to financial market risks including fluctuations in interest rates which impact the Group's payments on unhedged borrowings and lead to volatility in relation to its derivative contracts and losses from imperfect hedge correlations

The Group's interest rate risk arises from the risk of fluctuations in interest charges on floating rate borrowings. Although the Group seeks to mitigate this risk through the use of variable to fixed interest rate swaps, caps and collars this interest rate hedging strategy results in volatility in the Group's net assets caused by marking to market these derivative contracts at each balance sheet date, which has had and in the future could have an adverse effect on the Group's net asset value and income statement. As at 31 March 2014, 73 per cent.[11] of the Group's interest rate exposure was hedged or fixed to termination. The hedging level will increase following the issue of the Further Notes but is actively managed by Grainger and reviewed by the Board.

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[11] Drawings on variable rate debt facilities since 31 March 2013 and redemption of the Convertible Bond have led to a fall in this number.

The Group may also be exposed to market interest rate risk:

- when the interest rate swaps that it has entered into in connection with its existing indebtedness expire; or
- when the Group requires financing and, if hedging is considered appropriate, cannot hedge its interest rate exposure on commercially reasonable terms, or at all; or
- if hedge counterparties default on their obligations.

To the extent that the Group does not hedge its exposure to interest rate fluctuations or hedge counterparties default, the Group may incur higher than expected interest rate expenses, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Fluctuations in foreign exchange rates could subject the Group to currency translation or transaction losses

The Group's financial statements are prepared under IFRS and its reporting currency is Sterling. However, its business generates substantial revenues and expenses in Germany and the Group has assets and liabilities in Germany. As at 31 March 2014, 8.8 per cent. of the Market Value of the Group's portfolio was attributable to properties in Germany and 20.7 per cent. of the Group's gross rental income was earned on properties located in Germany. As a result, the Group's foreign exchange risk arises from the exposure due to translating overseas trading performance and overseas assets and liabilities from Euro into Sterling. Although the Group hedges foreign currency assets naturally by funding them through borrowings in the applicable foreign currency and aims to ensure that it has no material unhedged net assets, liabilities or equity investments denominated in a foreign currency, to the extent the Group has unhedged net assets, liabilities or equity investment denominated in a foreign currency, it is exposed to adverse movements in the foreign currency/Sterling exchange rates. Furthermore, the Group is exposed to additional foreign exchange risk due to the translation of the Group's assets, liabilities and revenue in Germany from Euro into Sterling for purposes of calculating the Group's compliance with the Core LTV covenants under the core debt facilities. Any material unhedged net assets, liabilities or equity investments denominated in a foreign currency combined with adverse movements in such exchange rates could have a material adverse effect on the Group's business, results of operations, financial conditions or prospects.

The Group operates a defined benefit pension scheme to which it may be required to increase its contributions to fund an increase in the cost of future benefits and/or funding shortfalls

The Group provides retirement benefits to certain of its former and current employees through a number of pension arrangements, including the operation of a defined benefit pension scheme, the BPT Limited Retirement Benefits Scheme (the "**BPT Scheme**"). Contributions to the BPT Scheme of £1,121,040 were made in the financial year ended 30 September 2013 by the Group. The Group intends to make a similar contribution in the financial year ended 30 September 2014, in accordance with the agreed funding plan and, in the six month period ending 31 March 2014, payments totalling £560,520 have been made.

If the market value of the BPT Scheme declines in relation to the assessed liabilities, which depends on, among other things, the real returns that can be obtained on the assets, the longevity of its members, the rate of increase of salaries, discount rate assumptions and inflation, or if the trustees determine that the Group's financial position requires a different approach to contributions and deficit reduction, the Group may be required to increase its contributions which could have an adverse impact on the Group's business, results of operations, financial condition or prospects.

RISKS RELATING TO THE GROUP'S OPERATIONS

The Group's success depends on its senior management team and other key personnel and its business may be harmed if their services are lost or it is unable to recruit new senior management and key personnel

The Group's success depends upon the continuing services of the members of its senior management team and other key employees and recruitment of new senior management and key personnel where necessary. If one or more senior executives or other key personnel are unable or unwilling to continue in their present positions, the Group may not be able to replace them easily or at all, its business may be disrupted and its financial condition and results of operations may be materially and adversely affected. Competition for senior management and key personnel is high, the pool of qualified candidates is limited and the Group may not be able to retain the services of its senior executives or key personnel, or attract and retain high-quality new senior executives or key personnel. If any key personnel leave and carry on any activities competing with the Group, it may lose tenants and staff members, and legal remedies against such individuals may be limited.

In addition, the loss of suitably qualified employees, or the inability to hire and retain suitably qualified replacements could impair the Group's ability to execute its business plan and achieve its objectives, lead to employee morale problems or the loss of key employees, any of which could have a material adverse impact on its business, results of operations, financial condition or prospects.

The Group may be subject to increases in operating and other expenses

The Group's operating and other expenses could increase without a corresponding increase in revenue from properties or tenant reimbursements of operating and other costs. Factors which could increase operating and other expenses include:

- increases in the rate of inflation;
- increases in property taxes and other statutory charges;
- changes in laws, regulations or government policies which increase the costs of compliance;
- increases in insurance premiums;
- increases in the costs of maintaining properties;
- renovation and modernisation costs which the Group must incur in order to facilitate sales of Group properties;
- defects affecting the properties which need to be rectified; and
- failure of sub-contractors leading to increased costs.

Such increases could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group is exposed to longevity risk for tenants subject to home reversion plans in its Retirement Solutions Portfolio and in relation to the regulated properties in its UK Residential Portfolio

The Group derives most of its cash flows and financial returns from its UK Residential Portfolio by buying properties subject to existing tenancies or, in the case of its Retirement Solutions Portfolio, acquiring an interest in properties by way of home reversion plans, and in each case selling those properties when they fall vacant. In the event of increases in tenant life expectancy above the Group's estimates, it is likely that the average holding period for the assets will increase correspondingly and thus delay the timing of the cash flows from sales. Holding the assets for a longer than expected period may decrease the ultimate return achieved, depending on the change in the value of the underlying property over the additional period and would restrict the Group's ability to realise assets to generate cash. If the ultimate return achieved decreases and/or the Group's ability to realise assets to generate cash is restricted, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group faces competition from other property companies and other commercial organisations active in the UK and German property markets

The Group operates in competitive environments. Entry barriers for competitors are generally low in the UK and German residential property markets. The Group competes with a large number of private buyers and real estate owners and developers some of which may have greater resources, may be willing to accept lower returns on their investments, may be less leveraged than the Group or may have more liquidity with which to take advantage of acquisition opportunities. Competitors include both regional investors, with in-depth knowledge of the local markets, and other property portfolio companies, including funds that invest nationally and internationally, institutional investors and foreign investors. The Group's competitors also include entities structured so as to benefit from significant tax advantages as well as other characteristics which may result in such competitors having greater available capital resources than the Group, less leverage and more liquidity with which to undertake acquisitions. Such competition may adversely affect the Group's ability to maintain or grow rental income or to obtain tenants for its development projects and achieve sales or to make suitable acquisitions of properties or businesses, each of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The risk of litigation is inherent in the Group's operations

In the ordinary course of the Group's business, legal actions, claims against and by the Group and arbitrations involving the Group arise. The Group may be subject to litigation from tenants, landlords, joint venture partners and co-investment partners, joint ventures or associates to which the Group provides asset or property management services, purchasers of properties previously or currently owned by the Group, current or former employees and third parties, including visitors to its properties. The publicity associated with, and the outcome of, such claims, arbitration and legal proceedings could adversely affect the business, results of operations and financial position of the Group.

The Group may suffer uninsured losses or suffer material losses in excess of insurance proceeds

The Group maintains insurance cover at the level which it believes is right for the needs of the business. This includes, but is not limited to, group accident insurance for all Directors and employees of the Group, Directors' and officers' liability insurance and professional indemnity insurance in relation to the asset and property management services provided by the Group to its third party clients and joint ventures and associates. In relation to its wholly-owned properties, the Group had basic property owner's material damage insurance in relation to approximately 51 per cent. of the properties as at 30 September 2013. A further 28 per cent. of the properties are obliged to be insured by the relevant properties' landlords or tenants (as applicable). The Group's policy is to only insure properties where it has a legal obligation to do so, where there is a cluster risk, where there is a specific known risk such as flooding or where the value of a property exceeds £500,000. The Group's past experience is that in other cases the insurance premium cost typically exceeds the repair costs relating to any damage caused under a potentially insurable risk. The Group's insurance may be insufficient to cover the physical damage to property and/or liabilities caused by the incidents that it covers, resulting in losses that may not be fully compensated by insurance. Furthermore, certain types of risks (such as war risk, terrorist acts, flood damage and subsidence damage) may be, or may become in the future, either uninsurable or not economically insurable, or may not be currently or in the future covered by the Group's insurance policies. Should an uninsured loss or a loss in excess of insured limits occur, the Group could sustain financial loss or lose capital invested in any affected property as well as anticipated future income either from that property or as a consequence of the loss that the property has on the Group's operations. The latter, for example, could occur with the disruptive impact arising from the loss of the Group's main office buildings. The Group would also remain liable for any debt or other financial obligation related to affected property. In addition, the Group is liable to repair damage or meet liabilities caused by uninsured risks. No assurance can be given that material losses or liabilities in excess of insurance proceeds will not occur in the future and, if they do occur, this could have a material adverse impact on the Group's business, financial condition and results of operation.

The Group may fail to fully realise its property acquisition strategy

The Group's strategy to continue to acquire regulated properties anticipates that the Group may, when appropriate opportunities arise, acquire property portfolios. These acquisitions may be limited by the Group's ability to identify and acquire suitable properties at satisfactory prices. In addition, the Group is likely to face competition from a variety of other potential purchasers, some of which may have greater financial resources than the Group. There can be no guarantee that this aspect of the Group's strategy will be realised or executed and, if it is not realised or executed (as applicable), this could cause a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group is subject to risks relating to potential default by its independent contractors and consultants

The Group engages independent contractors and consultants to provide various services in relation to the management and refurbishment of its properties and certain head office functions. In Germany, the Group relies on outside contractors in relation to information technology and property management services. If the performance of any such contractor or consultant is unsatisfactory, it may be necessary to replace the contractor or consultant concerned or to take other action to remedy the situation. Were this to occur, it could, especially where there are significant portfolio management contracts or building contracts in relation to construction that is currently under way, have adverse cost and timing implications for the Group.

Moreover, the Group's independent contractors or consultants may become bankrupt or insolvent which may lead to a significant operational risk for the Group. Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Fraud or misconduct by an employee of the Group or third party service providers could result in losses or reputational damage

Like any business, the Group runs the risk that employee fraud or other misconduct could occur and the precautions that the Group takes to prevent this may not be effective in all cases. Employee misconduct could cause significant financial harm or reputational damage to the Group and any liability or loss may not be covered in part or in full by insurance. Similar issues may arise in relation to misconduct by the employees of third parties when the Group employs third parties to provide services for customers. Although this risk has not had an historic impact on the Group, such fraud or misconduct, were it to occur, may have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's reliance on information technology systems exposes its business to disruptions or unexpected costs

The Group's ability to maintain financial controls and provide a high-quality service to its tenants, joint ventures and associates to which it provides asset and property management services depends, in part, on the efficient and uninterrupted operation of its information technology systems, including its computer systems and, in some cases, those of its property management agents. There can be no assurance that failures of the relevant information technology systems will not occur in the future.

In addition, such information technology systems are vulnerable to damage or temporary interruption from flood, fire, power loss, telecommunications failure and similar events. Such systems may also be subject to viruses, sabotage, vandalism and similar misconduct. Although the Group has disaster recovery procedures in place, any damage to, or failure of, any of the Group's management information systems could result in temporary interruptions to the Group's financial controls or asset or property management operations which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's business involves thousands of individual properties and, accordingly, there are certain consequences associated with the processes used to manage such a portfolio

The Group's business involves thousands of individual properties, each with a relatively small individual value. Accordingly the Group is party to numerous contractual relationships with tenants, contractors and service providers, none of which, individually, is material to the Group's business. To efficiently manage these legal relationships, the Group often uses standardised documents and processes to enter into agreements relating to the acquisition, sale and letting of properties. These documents and processes may contain ambiguities and errors. Any such ambiguity or error, if adverse to the Group, could affect a disproportionately large number of contracts or properties and have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Changes in Grainger's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations.

From time to time, the International Accounting Standards Board (the "**IASB**") and/or the European Union change the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union ("**IFRS**") that govern the preparation of Grainger's financial statements. These changes can be difficult to predict and could materially impact how Grainger records and reports its financial condition and results of operations. In some cases, Grainger could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

The IASB may also make other changes to financial accounting and reporting standards that govern the preparation of Grainger's financial statements, which Grainger may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Company, or which Grainger may be required to adopt. Any such change in Grainger's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

Grainger's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Company to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how Grainger records and reports its financial condition and results of operations. The Company must exercise judgment in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

The Group has identified certain accounting policies in the notes to its financial statements in respect of which significant judgment is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgments relate to the net realisable value of trading property, the valuation of financial interest in property assets, the determination of tax treatment for certain transactions, the distinction between investment and trading property and the making of an assessment of the Group's ability to continue to trade as a going concern for the foreseeable future (see note 2 to the financial statements of the Group for each of the years ended 30 September 2011, 30 September 2012 and 30 September 2013).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established detailed policies and control procedures that are intended to ensure that these judgments (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding Grainger's judgments and the estimates pertaining to these matters, Grainger cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

RISKS RELATING TO THE GROUP'S JOINT VENTURES AND ASSOCIATES

The Group is exposed to a number of risks which impact on the value of the properties owned by joint ventures and associates in which the Group holds equity interests

The Group holds interests in a substantial portfolio of assets by way of equity interests in joint ventures and associates. The balance sheet value of the Group's interest in joint ventures and associates was £163.6 million as at 31 March 2014. The Group provides asset and property management services and financial accounting services to certain joint ventures and associates for which it receives fee income. The Group is exposed to a number of risks associated with the performance of these joint ventures and associates, as declines in the values of the properties owned by the joint ventures or associates impact on the performance based distributions and management fee income generated by such arrangements. These risks include, but are not limited to:

- the use of leverage creating more rapid declines in the net asset value if the interest costs associated with the leverage are higher than the investment income and gains earned through the use of such leverage;
- the termination of the Group's management agreements; and
- the performance based fee arrangements encouraging riskier investment choices which could cause significant losses,

any of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. The value of the properties owned by joint ventures and associates are also subject to the factors set out in "*Risks Relating to the Property Industry – The value of the Group's portfolio and the Group's revenue, cash flow and profits from the sale of properties are dependent on economic conditions and the residential real estate market in the United Kingdom and Germany*" above.

The Group is party to a number of joint ventures and has invested in a number of associates which expose it to a number of risks not associated with the business conducted by the Group on its own

The Group conducts some of its business with joint venture partners and through associates. The success of joint ventures and associates is, in part, dependent upon the maintenance of a good working relationship between the relevant partners. Such arrangements are often governed by agreements containing detailed provisions regulating the relationship between the partners. There are certain risks, depending on the relevant provisions of the agreements, that may restrict the Group's ability to proceed with a disposal, acquisition, development or other action in relation to property owned by the arrangement that it considers to be advantageous. There are a number of further costs, risks and difficulties in managing joint venture or associate operations which can impact on the success of the arrangement. The Group does not control all decisions regarding the properties which are subject to its joint ventures or associates (including decisions to sell or retain assets) and, as a result, these arrangements may take actions that are not in the Group's best interests. In addition, in the event of a partner being unable to make financial commitments to the project, it may be difficult to proceed with the project or the Group may have increased financial exposure under the terms of the agreement with the partner. Accordingly, the Group may not be able to resolve any issues that arise with respect to such decisions, or it may have to make financial or other concessions to its partners to obtain a resolution in its favour. Conflict with partners or co-owners may lead to deadlock and result in the Group being unable to pursue its desired strategy or exit the arrangement other than on disadvantageous terms. If the Group were to experience difficulties with its partners, or its partners were to experience difficulties, it may have to dispose of properties during periods of low prices, sell its interest in the arrangement or even terminate the arrangement (if possible), which could have an adverse impact on the Group's business, reputation, results of operations, financial condition or prospects. The Group's understanding of the performance of such an arrangement is also in some cases dependent on the quality of the reporting procedures of its partners. Should any partner fail to report correctly then this could affect the Group's results of operations. Depending on the terms of such arrangements, the Group may be unable to sell its interest in the arrangement at a time or at a price that is most advantageous to it, or it may be required to acquire its partner's interest when it does not want to.

The bankruptcy, insolvency or severe financial distress of one of the Group's partners could materially and adversely affect the relevant property or properties owned by such arrangements. The insolvency of a partner may, in certain circumstances, result in the Group assuming a liability for a greater portion of those obligations than it would otherwise bear, or result in the winding-up or sale of the arrangement. Even if a joint venture or associate has incurred obligations which are legally non-recourse to the Group, the Group may nevertheless be required for financial or reputational reasons to assume a greater liability for those obligations or provide additional equity financing in order to allow the joint venture or associate to satisfy its debt obligations or to address funding shortfalls if the joint venture or associate is unable to secure other forms of financing and/or is in financial distress. Although the Group may have the right to acquire certain joint venture or associate assets upon the insolvency or other default of a partner, the Group may be unwilling or unable to do so, for example, due to an inability to secure the necessary funding. This could result in a significant decline in the value of the assets of the arrangement or in the insolvency of the arrangement, or both.

Alternatively, certain assets of the arrangement may be acquired by a party whose interests differ or are in conflict with the Group's, which may require the Group to exit the arrangement on disadvantageous terms. Any or all of these circumstances could result in a material adverse effect on the Group's business, results of operations, financial position or prospects.

RISKS RELATING TO THE GROUP'S DEVELOPMENT PORTFOLIO

Future developments may be limited by difficulties in obtaining planning permissions

Planning permission (including any decrees, permits, consents or approvals required from third parties) for developments may be delayed or refused or granted on onerous terms (including requirements to make contributory payments to local authorities or carry out infrastructure works as part of the authorised development). Refusal of planning permission will result in a development not proceeding as originally intended and significant abortive costs may be incurred by the Group and the value of the development property could be significantly impaired as a result. Delays in obtaining planning permission could result in developments not being progressed in a timely manner or at significant additional cost, which could impact the development rate of return. Failure to obtain planning permission as expected in a timely manner could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

There could be delays and cost overruns on development projects, including delays on development projects initiated by the Group due to prevailing market conditions

There can be no assurance that any developments or refurbishments undertaken by the Group will be completed on time or on budget. Any delays or cost overruns on developments or refurbishments could be caused by a range of factors including an inability to properly control the design and construction programme, contractor failure or an inability of contractors to deliver to expected levels of capacity and capability, issues relating to third party rights (such as requirements for consents), construction cost inflation and additional works required by law or regulation relating to archaeological remains and/or listed buildings. Not all of the Group's development projects are carried out on a design and build basis. In some circumstances, the Group appoints designers and contractors directly, rather than appointing a single main building contractor that then subcontracts out certain portions of the design and construction of the works. This may increase the risk for such development projects of interface issues and deficiencies in one part of the design or construction of the works delaying other elements of the design and construction.

The Group's development of land or property which is subject to compulsory purchase orders may be subject to significant costs and delays. In addition, there can be no assurance that developments or refurbishments will be free from defects once completed. Any such delays, cost overruns or defects may result in compensatory payments to be made by the Group and claims being made against the Group. While the Group may in some cases have onward claims against suppliers in these circumstances, it is not necessarily the case that full, or any, recovery would be possible or achieved in practice. In adverse market conditions, the cost of a development may be significantly more than its Market Value on completion. Furthermore, developments may not become income producing to the extent expected and may instead remain or become a net drain on the Group's resources. Any of these risks could result in a material adverse effect on the Group's business, results of operations, financial condition or prospects.

In addition, in relation to certain of the Group's development properties, the Group is obliged to pay deferred consideration for the properties if certain events occur (for example, the grant of planning permission upon letting or completion of the development). Although the Group has accounted for its obligations in relation to the payment of deferred consideration upon the occurrence of certain events, there can be no assurance that the amount of deferred consideration which is payable will not exceed the Group's expectations. The costs of such consideration, to the extent that it substantially exceeds the Group's expectations and the funds that the Group has allocated to cover such obligations, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

RISKS RELATING TO LAW AND REGULATION

Any property of the Group may at any time be compulsorily purchased by a governmental authority

Any property or part of any property of the Group may, at any time following due process, be compulsorily acquired by the relevant government department or local authority in connection with proposed redevelopment or infrastructure projects. In the event that a compulsory purchase order were implemented so as to compulsorily acquire a property or part of a property, compensation would be payable on the basis of the value of all owners' and tenants' proprietary interests in that property as at the date of valuation as determined by reference to a statutory compensation code. If compensation pursuant to the statutory compensation code cannot be agreed between the acquiring authority and a property owner each party has the right to refer the matter to the Upper Tribunal (Lands Chamber) for determination.

This compensation could be less than the Group's assessment of the property's current Market Value (or the relevant apportionment of such Market Value where only part of a property is subject to a compulsory purchase order). If a compulsory acquisition were carried out in relation to a significant number of properties owned by the Group or joint venture or associate in which the Group had invested, and the amount received from the proceeds of sale was inadequate, the Group's business, results of operations, financial condition or prospects could be materially adversely affected. Furthermore, if there were a delay between the compulsory purchase of a significant number of properties owned by the Group or joint venture or associates in which the Group had invested, and the payment of compensation in respect of such properties, and notwithstanding that under the statutory compensation code advance payments of compensation may be made, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Potential liability for environmental and health and safety problems may result in substantial costs to the Group

The Group, as owner or occupier of real estate property, is subject to a variety of laws and regulations concerning the protection of health, safety and the environment in each jurisdiction in which properties it owns or manages are located. Environmental laws and regulations can impose liability for cleaning up contaminated land and buildings, watercourses or groundwater. UK legislation and regulations extend such liability to any person who causes or knowingly permits such contamination and, in some cases, present owners or occupiers. Environmental laws and regulations can also impose strict liability (this is the case in Germany), which could render the Group liable without regard to negligence or fault and could expose the Group to liability for the conduct of, or conditions caused by, third parties, or for acts that were in compliance with all applicable laws at the time such acts were performed. Accordingly, in the ordinary course of business, and in connection with past and future acquisitions, the Group (as owner or occupier of existing or future real property) may be, or become, responsible for the costs of removal, investigation or remediation of any hazardous or toxic substances that are located on or in a property, or that are migrating to or have migrated from a property, owned or occupied by it. The Group may also be exposed to the risk of third party personal injury and property damage claims in connection with contamination. In addition, more stringent requirements for environmental protection may be imposed by relevant regulatory authorities, which may increase the Group's costs or delay planning permission for the Group's properties.

The costs of any such required removal, investigation or remediation of such substances may be substantial regardless of whether the Group originally caused the contamination. The presence of such substances, or the failure to remedy the situation properly, may also adversely affect the value of the real estate or the Group's ability to sell, let or develop the affected properties or to borrow using the real estate as security.

There can be no assurance that costs related to any or all of such liabilities will not arise in relation to a significant number of properties owned by the Group or by joint ventures or associates in which the Group has invested and will not exceed current or future financial and insurance provisions which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Changes in legislation or regulation may adversely affect the Group's business, results of operations, financial condition or prospects

The Group has to comply with a wide range of laws and regulations in the areas in which it operates including relating to tax. Changes in the laws or regulations governing residential property, or in their interpretation or enforcement, may adversely affect the Group's business, whether due to a significant decrease in the number of residential property transactions or otherwise. Increased tax or stamp duty, land tax, increased real estate transfer tax, changes to land tax policies, additional environmental or other obligations on homeowners, increased regulation of estate agencies, statutory caps on rent increases or similar developments could limit the Group's ability to increase rents or lead to a decrease in the volume and/or prices of transactions in the UK and German residential property markets or to a loss of strategic opportunities for the Group's business. Changes in laws or regulations including tax legislation could require the Group to incur additional costs in complying with these laws or regulations or require changes to its operations or accounting and reporting systems, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The regulatory framework within which the Group operates is also subject to change and reinterpretation by governmental authorities. Any such change or interpretation could result in significant compliance costs for the Group's business and divert management time from the Group's core operations.

Even if certain regulatory changes may have a beneficial effect on the Group's business in the medium to long-term by creating new strategic opportunities or discouraging competition by market participants with fewer financial and institutional resources, such changes could create uncertainty and decrease residential property transaction volumes and/or prices in the short term, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's home reversion business is highly regulated and is subject to significant compliance costs

The Group's home reversion business is highly regulated. The laws and regulations applying to the Group's home reversion business subject it to various operational and compliance costs. Any failure to comply with such laws or regulations may give rise to civil or criminal liability, may result in the imposition of disciplinary sanctions by governmental authorities or may give rise to the loss of a license or authorisation necessary to operate the business.

The Group's home reversion business is carried out by various wholly-owned subsidiaries which are required to be authorised and regulated by the FCA. In the event of a breach of applicable FCA rules, the FCA's powers include withdrawal of the authorisation of the relevant firm or of the approval of persons performing controlled functions within such firm. The FCA also has the power to impose financial penalties and issue public censures or statements in respect of breaches of any regulations promulgated by it. The consequences of a breach of applicable FCA rules could have a significant impact on the Group both in the form of potentially substantial financial penalties as well as the possible withdrawal of the Group's ability to acquire further properties subject to home reversion plans which could have a substantial adverse effect on the income generated by the Retirement Solutions Portfolio. Any significant adverse regulatory action, whether in the form of a regulatory sanction or market-wide restrictions on business practices, could have a detrimental impact on the Group's commercial reputation and its ability to conduct its business and could result in substantial expense, which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

RISKS RELATING TO THE FURTHER NOTES

Risks arising from the corporate structure

The Issuer is a holding company with no revenue-generating operations of its own and all of its operations are conducted through its subsidiaries. Accordingly, in order to service and repay the Notes, the Issuer must rely on dividends or other distributions or payments from its subsidiaries. The ability of the Issuer's subsidiaries to distribute funds to it by way of dividends, distributions, interest, return on investments or other payments (including loans) is subject to the profitability and cash flow of the subsidiaries. These distributions are subject to important restrictions, including restrictions under English company law on subsidiaries that are incorporated in England and Wales which prohibit English companies from paying dividends unless they are paid out of profits available for distribution-in general, the accumulated earnings of the relevant subsidiary.

Generally, the claims of subsidiaries of the Issuer will have priority over claims of the Issuer with respect to the assets and earnings of such subsidiaries. In the event of a bankruptcy, liquidation, winding-up, dissolution, receivership, insolvency, reorganisation, administration or similar proceeding relating to such subsidiaries, holders of such subsidiaries' indebtedness and their trade creditors will generally be entitled to payment of their claim from the assets of such subsidiaries before assets are made available for distribution to the Issuer.

Rights of creditors of Group subsidiaries not guaranteeing the Notes

Not all of the current and future subsidiaries of Grainger will guarantee the Notes. In the event that any of these non-guaranteeing subsidiaries become insolvent, liquidate, reorganise, dissolve or otherwise wind up, the assets of those non-guaranteeing subsidiaries will be used first to satisfy the claims of their creditors. Consequently, claims of Noteholders will be structurally subordinated to all of the claims of the creditors of such non-guaranteeing subsidiaries.

The Further Notes may not be a suitable investment for all investors

Each potential investor in the Further Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Further Notes, the merits and risks of investing in the Further Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Further Notes and the impact the Further Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Further Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Further Notes and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

There is no public market for the Further Notes

There is no existing market for the Further Notes, and there can be no assurance regarding the future development of a market for the Further Notes. Application has been made to the Irish Stock Exchange for the Further Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange and the Original Notes have been admitted to the Official List and trading on the Global Exchange Market. However, an active trading market in the Further Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes as well as other factors including the credit rating of the Issuer. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Group's operating results, financial condition or prospects or credit rating.

Optional redemption by the Issuer

In accordance with the Conditions of the Notes, the Notes are subject to optional redemption in whole or part by the Issuer at any time. This feature is likely to limit the market value of the Notes. The market value of the Notes generally will not rise substantially above the price at which they can be redeemed. The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time. See "*Terms and Condition of the Notes—Redemption and Purchase—Redemption at the option of the Issuer*".

Redemption prior to maturity for tax reasons

The Issuer may redeem all outstanding Notes, but not some, only in accordance with the Conditions of the Notes in the event that (i) the Issuer would be obliged to pay additional amounts in respect of the Notes due to certain changes in or amendments to the laws or regulations of the Relevant Jurisdiction which change or amendment becomes effective after 26 November 2013, or each of the Guarantors would be obliged to pay additional amounts as a result of such changes or amendments where the Issuer does not have sufficient funds to satisfy its obligations and each of the Guarantors is unable for reasons outside its control to put the Issuer in funds and (ii) such obligations cannot be avoided by the Issuer or, as the case may be, each of the Guarantors taking reasonable measures available to it.

On any such redemption for tax reasons, Noteholders would receive the principal amount of the Notes that they held, together with interest accrued on those Notes up to (but excluding) the date fixed for redemption. As with the optional redemption feature of the Notes referred to above, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate. See "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for Taxation Reasons*".

The Company may not be able to finance a change of control purchase or redemption required by the Conditions of the Notes

Upon the occurrence of a Put Event (as defined in "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption upon a Change of Control*"), if a Noteholder so requests, the Issuer will be required to purchase or redeem all outstanding Notes of such Noteholder at a purchase price in cash equal to 101 per cent. of the principal amount of such Notes together with interest accrued to but excluding the date of the purchase or redemption, as the case may be. If any such Put Event were to occur and if any such Noteholder so requests, there can be no assurance that the Issuer would have sufficient funds available at the time to pay the price of the outstanding Notes or that restrictions in agreements governing other indebtedness would not restrict or prohibit such repurchases. The change of control may cause the mandatory repayment and/or acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. See "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption upon a Change of Control*".

Risks relating to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions of the Notes, the Trust Deed, the Agency Agreement, the Intercreditor Deed or the Security Agreement, (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution in place of the Issuer of any Subsidiary of the Issuer as principal debtor under the Notes or the substitution in place of any Guarantor as guarantor in respect of the Notes, in each case in the circumstances and subject to the conditions described in Conditions 15 (*Substitution*) and 16.2 (*Modification, Waiver, Authorisation and Determination*).

The covenants contained in the Conditions of the Notes are limited

In addition to the Negative Pledge described herein, the Conditions of the Notes contain certain covenants pursuant to which the Issuer is required to maintain its Core LTV ratio at certain levels, as well as a covenant restricting purchases and transfers of assets in certain circumstances. In particular if the Issuer's Core LTV ratio goes above a certain level, the Issuer is restricted in making acquisitions (except in limited circumstances) until such time that the Core LTV ratio is reduced. Additionally the Conditions of the Notes contain a restriction on the Issuer's ability to consolidate, merge or amalgamate with, or transfer, lease or otherwise dispose of all or substantially all of its assets to, another person. However, prospective investors should note that the Conditions of the Notes do not restrict (among other things) the making of investments or the payment of dividends (other than as mentioned in this paragraph).

EU Savings Directive

Directive 2003/48/EC on the taxation of savings income provides for the tax authorities of a Member State to provide to the tax authorities of another Member State details of payments of interest and similar income made by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. The Directive permits Austria and Luxembourg instead to impose a withholding tax on the payments concerned for a "transitional period" (although it also provides that no such withholding tax should be levied where the beneficial owner of the payment authorises an exchange of information and/or where the beneficial owner presents a certificate establishing exemption from such withholding tax from the tax authority of the Member State in which the beneficial owner is resident). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date. The Directive does not preclude Member States from levying other types of withholding tax. A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also apply a "look through approach" to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Further Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

U.S. Foreign Account Tax Compliance Withholding Act

Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that Sections 1471 through 1474 of the U.S. Internal Revenue Code or regulations and other authoritative guidance thereunder ("**FATCA**") will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding and the Notes are materially modified after the later of (i) 1 July 2014 or (ii) the date that is six months after the filing of final regulations defining the term "foreign passthru payment" for the purposes of FATCA. Also, if additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price. FATCA may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free FATCA withholding, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Prospective investors should choose custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Prospective investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. Pursuant to the terms and conditions of the Notes, the Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing systems (as holder of the Notes) and neither the Issuer nor any Paying Agent will be required to pay additional amounts should FATCA withholding apply to any amount transmitted through the clearing systems and thereafter through custodians or other intermediaries.

Change of law

The Conditions of the Notes are based on English law in effect as at the date of this Offering Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Memorandum.

Denominations involve integral multiples: definitive Notes

The Original Notes are, and the Further Notes will be, issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. It is possible that the Notes may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than £100,000 in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least £100,000 in order to receive a definitive Note.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

The Further Temporary Global Note and the Further Permanent Global Note representing the Further Notes will be held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on the procedures of those clearing systems for transfer, payment and communication with the Issuer and/or a Guarantor

The Further Notes will be represented by one or more Further Global Note(s) which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**"). Definitive Notes will only be issued in limited circumstances, as described in "*Summary of Provisions Relating to the Further Notes while Represented by the Further Global Notes — Exchange*". Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the relevant Further Global Note. While the Further Notes are in global form, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Further Notes are in global form, the Issuer or a Guarantor, as the case may be, will discharge its payment obligations under the Further Notes by making payments to the Common Depositary. A holder of a beneficial interest in a Further Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Further Notes. Neither the Issuer nor any of the Guarantors has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Further Global Notes.

Insufficiency of security

If there is an event of default under the Notes, the holders of the Notes will be secured only by the assets of the Issuer and each of the Guarantors. The Transaction Security consists of floating charges over the properties and other assets of the Issuer and each of the Guarantors. To the extent that the claims of the holders of the Notes, the claims of lenders under the Bank Facilities, the M&G Facility, the claims of certain hedge counterparties and the claims of any other third party creditor that shares in the Transaction Security in accordance with the terms of the Intercreditor Deed exceed the value of the Transaction Security securing the Notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior secured indebtedness ranking *pari passu* with the Notes.

To the extent that other first-priority security interests, pre-existing liens, liens, liens permitted under the Conditions of the Notes and other rights encumbering the Transaction Security, those parties may have or may exercise rights and remedies with respect to the Transaction Security that could adversely affect the value of the security and the ability of the Security Trustee to release or foreclose on the security.

Priority of payments under the Intercreditor Deed

The Trustee under the Trust Deed has entered into the Intercreditor Deed with, among others, the agents and/or trustees (as the case may be) from time to time of the other indebtedness secured by the Transaction Security, including the Bank Facilities, the M&G Facility, counterparties to certain hedging obligations and the Security Trustee. Other creditors may become parties to the Intercreditor Deed in the future and share in the Transaction Security. Among other things, the Intercreditor Deed governs the enforcement of the security documents, the sharing in, any recoveries from such enforcement and the release of the Transaction Security by the Security Trustee.

Subject to certain circumstances specified in the Intercreditor Deed where two or more classes of creditors (excluding hedging creditors) are also required to vote in favour of the relevant action by specified majorities, including in relation to enforcement of the Transaction Security and approvals of distressed disposals, the Intercreditor Deed provides that the Security Trustee shall act upon the instructions of the secured creditors representing more than 66 2/3 per cent. of the aggregate principal amount outstanding under the Notes, any additional notes, the Bank Facilities, the M&G Facility, any new credit facilities and certain hedging creditors. The Intercreditor Deed further provides that, if the Trustee or Noteholders do not respond to a request listed in clause 22.5(a) of the Intercreditor Deed within 20 business days, the votes of Noteholders will not be counted for, amongst other things, the purposes of instructing the Security Trustee. These arrangements could be disadvantageous to Noteholders in a number of respects. For example, other creditors not subject to the Intercreditor Deed could commence enforcement action against the Issuer or its subsidiaries during such consultation period, the Issuer or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain collateral could otherwise be impaired or reduced.

The Intercreditor Deed provides that the Security Trustee may release certain collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the Trust Deed, the Bank Facilities and the M&G Facility. Therefore, such collateral available to secure the Notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Trust Deed.

The Trust Deed, the Bank Facilities and the M&G Facility permit the Issuer, in compliance with the covenants in those agreements, to incur additional indebtedness secured by liens on the Transaction Security. The Issuer's ability to incur additional debt in the future secured on the collateral may have the effect of diluting the ratio of the value of such Transaction Security to the aggregate amount of the obligations secured by the Transaction Security.

Risks relating to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantors will make any payments under the Notes Guarantee in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Further Notes involves the risk that subsequent changes in market interest rates may adversely affect their value. A drop in the level of interest rates will have a positive impact on the price of the Notes, as the Notes pay a fixed annual rate of interest. Conversely, an increase in the interest rate level will have an adverse impact on the price of the Notes. For investors holding the Notes until maturity, any changes in the interest rate level during the term will not affect the yield of the Notes, as the Notes will be redeemed at par.

Credit ratings may not reflect all risks

In connection with the issue of the Further Notes, S&P and Fitch are expected to reaffirm their credit ratings assigned to the Notes. Each of S&P and Fitch is established in the European Community and is registered under Regulation (EC) No. 1060/2009, as amended. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Further Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Further Notes are legal investments for it, (2) the Further Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Further Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Further Notes under any applicable risk-based capital or similar rules.

Risks relating to providing consolidated accounts only

The Issuer has requested the Irish Stock Exchange grant a derogation under Rule 3.3(3)(c) of the ISE Global Exchange Market Listing and Admission to Trading Rules from the requirement for guarantors to include their individual financial statements in these Listing Particulars. The Irish Stock Exchange has granted such derogation. The accounts of the Guarantors have been included in the consolidated accounts of the Company, which are incorporated by reference herein, and have not been presented separately herein. However, as the non-Guarantor subsidiaries represent more than 25 per cent. of the consolidated EBITDA of the Group and more than 25 per cent. of the net assets of the Group, the consolidated financial statements of the Company may be of limited use in assessing the financial position of the Guarantors.

USE OF PROCEEDS

The net proceeds of the issue of the Further Notes, after deduction of underwriting fees and commissions as well as other expenses, are expected to be approximately £75.8 million, which includes premium and Accrued Interest. The net proceeds from the issue of the Further Notes will be used to pay down existing revolving bank debt.

A summary of the Group's principal debt facilities following the issue of the Further Notes is provided in the section entitled "*Capitalisation*".

CAPITALISATION

The unaudited consolidated capitalisation statement set out below shows the capitalisation of the Group as of 31 March 2014 on an actuarial basis and as adjusted to illustrate the effects of the issue of the Further Notes and the Transactions.

The unaudited consolidated capitalisation statement has been prepared under IFRS and on the basis set out in the notes below. Prospective investors should read this table in conjunction with "*Selected financial information on the Group*", and the unaudited consolidated financial statements for the Group for the period ended 31 March 2014.

	Actual as of 31 March 2014[(1)] Unaudited	Adjustments for the Issue	Adjustments for the Transactions[(2)]	As Adjusted
	£m			£m
(Cash)	(96.7)	0.0	8.8	(87.9)
(Capitalised Costs)[(3)]	(14.9)	(0.6)	0.0	(15.5)
Bank Facilities[(4)]	377.8	(75.8)	185.0	487.0
M & G Facility[(4)]	100.0	0.0	0.0	100.0
The Original Notes[(4)]	200.0	0.0	0.0	200.0
The Further Notes offered Hereby[(5)]	0.0	76.4	0.0	76.4
Convertible Bonds	24.8	0.0	(24.8)	0.0
Excluded Entities' Indebtedness[(4)]	330.3		0.0	330.3
Total debt	1,032.9	0.6	160.2	1,193.7
Total shareholders' funds	507.3			507.3
Total capitalisation	1,540.2			1,701.0

Notes

(1) As at 31 March 2014. Information in this column has been extracted without material adjustment from the unaudited consolidated financial statements of the Group for the period ended 31 March 2014.

(2) Adjustments reflecting the Transactions (see "*Recent Developments*"), including the acquisition of 61 freehold houses in Knightsbridge and Chelsea, the redemption of the Issuer's 3.625 per cent. Convertible Bond due 2014 and drawings under the Revolving Facility due 2016, but excluding any other trading or transactions.

(3) "**Capitalised Costs"** means unamortised debt issue costs. In accordance with IAS 39, any transaction costs that are directly attributable to the issue of a financial liability are capitalised and subsequently amortised over the expected tenor of the liability.

(4) For further information on each of these please see "*Description of Indebtedness*".

(5) This includes £75.0 million, being the nominal amount of the issue of the Further Notes, plus premium and Accrued Interest.

MARKET OVERVIEW

Grainger broadly operates in the residential real estate market in the UK and Germany.

UK residential real estate market

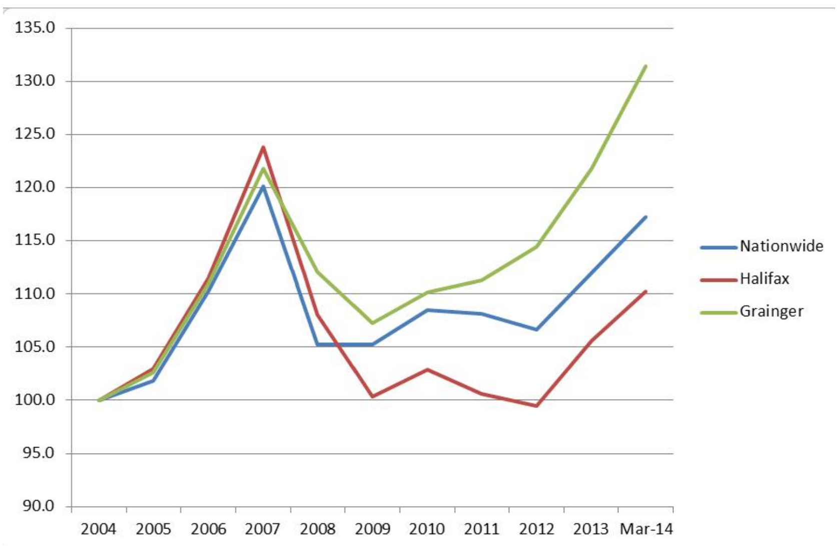
The UK residential real estate market has been characterised by strong capital growth over the last 50 years with occasional periods of price correction. House price growth is driven by a complex relationship between supply and demand. In the short term, factors such as the lack of available credit and low levels of consumer confidence can depress demand. In the longer term, however, the UK suffers from a significant imbalance between supply and demand which helps support price levels. The number of households in England alone is projected to grow to 24.3 million in 2021, an increase of 2.2 million over the number of households in 2011 or, on average, 221,000 new households per year.[12] New houses built (housing completions) in England in the 12 months to June 2013 totalled 106,820, down by 9 per cent. compared to the 12 months to June 2012.[13] This imbalance is driven by a combination of the increasing number of households and the difficulties in providing new housing, primarily because of planning restrictions and the lack of available land, and by the attraction to many individuals of investing in a long-term, tax friendly asset.

These imbalances are generally more pronounced at a local and property type level. For example, the central London residential market has out-performed the rest of the country because of economic strength, its cosmopolitan nature and the attractiveness of the London property market to overseas purchasers. In contrast, other parts of the UK residential market have suffered through the oversupply of new build one and two bedroom apartments and through lack of confidence in the general economic outlook.

Grainger operates in distinct sub-segments of the UK market. As at 31 March 2014, 63.9 per cent. of the Residential Portfolio by Market Value was located in London and the South East. Its UK properties have a low average Vacant Possession Value (of approximately £231,000[14]), which is driven by a number of factors including the fact that the properties are generally not modernised and therefore have development potential. This typically means that there is a broad range of potential buyers, including first time buyers, small scale developers and cash-led local investors.

The two most commonly quoted measures of average prices in the UK residential housing market are provided by Halifax and Nationwide. The severe fall in house prices in 2008 and 2009 was reflected in corresponding falls in these indices. However, Grainger has outperformed both these indices since 2007 as illustrated in the following chart.

Grainger performance versus Nationwide & Halifax House Price Indices



To March 2014. Grainger performance vs. house price inflation, rebased, (2004=100). Sources: Grainger indices, Halifax house price index and Nationwide price index. The Grainger indices are UK Residential (“UKR”) and UK Residential and Retirement Solutions (“UKR & RS”).

[12] Source: DCLG Housing Statistical Release 9 April 2013

[13] Source: DCLG Housing Statistical Release 15 August 2013

[14] This average assumes 100 per cent. ownership of properties subject to a home reversion plan

After the severe falls in house prices in 2008 and 2009 and their subsequent recovery, the market has latterly shown stability and recently steady growth in specific regions[15]. The average increase in the Halifax and Nationwide indices for the 12 months ended 31 March 2014 is 9.1 per cent. Transaction volumes have been rising since December 2009 and in the first quarter of 2014 (on a seasonally adjusted basis) were at their highest point since then[16]. Although mortgages remain affordable by historical comparison, the need for higher deposit levels continues to reduce demand and encourages buyers to purchase lower value properties. The UK Government has introduced new measures to support mortgage lending primarily through the Funding for Lending and Help to Buy schemes. Help to Buy, launched in April 2014, comes in two parts. Part one is the £6 billion worth of equity loans of up to 20 per cent. of a property's value for buyers of new homes with a 5 per cent. deposit. Part two is the £12 billion worth of mortgage guarantees which is enabling mortgages of up to 95 per cent. of LTV. In the first nine months, 14,823 equity loans were granted to buyers of new build homes. For the second part of the scheme, 2,572 mortgages were guaranteed up to the end of January 2014.[17] Furthermore, the general affordability of Grainger's properties and the high level of cash buyers attracted to Grainger's stock mitigate Grainger's exposure to changes in mortgage availability.

In part reflecting continuously rising house prices in the period from 2006 to 2008 and in part reflecting poor economic conditions and reduced mortgage availability since 2008, there has been increased demand for rental property which, in turn, has resulted in an increase in the proportion of properties in the private rented sector. This increased from 10 per cent. of occupied housing stock in 2000 to 17 per cent. in 2013 – the only housing tenure to increase in the last decade[18]. In London, the figure is higher and is currently estimated at 25 per cent. (it was estimated at 24.2 per cent. in 2012)[19]. There has been significant Government support for investment in the private rented sector, including the establishment of a dedicated task force responsible for growth in investment in the sector, a £1 billion Build to Rent fund and £10 billion of housing guarantees.

UK Tenancies

Most residential lettings by non resident private landlords which began before 15 January 1989 are regulated tenancies, see "*Regulation*". Since this date, no further regulated tenancies have been created and most lettings after that date are either assured or assured shorthold tenancies. The table on the next page sets out some of the key features of regulated tenancies based on market values as compared to other types of tenancies.

15 Source: Halifax and Nationwide House Price Indices

16 Source: HMRC UK Property Transaction Statistics June 2014 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321373/UK_Tables_Jun_2014__cir_.pdf

17 Source: Inside Housing – Impact of Help to Buy - 11 April 2014

18 Source: UK Government's English Housing Survey 2013

19 Source: Office of National Statistics

	Regulated	Assured/Assured Periodic	Assured Shorthold	Life/Home Reversion (including the CHARM Portfolio)
% of UK Residential Portfolio as at 31 March 2014 (1)	50.9%	6.2%	8.7%	20.9%
Regulated by	Rent Act 1977	Housing Act 1988	Housing Act 1988	FSMA 2000
Security of tenure	Yes – with succession rights Rent set by Rent Officer every 2 years. Increases capped at RPH+5% pa.	Yes Market rent	6 months Market rent	Yes Usually no rent
Other characteristics	No new Regulated Tenancies have been created since 1989, so declining stock	Tenant has the right to renew tenancy	Landlord may take possession, for any reason after the later of (i) six months after the beginning of tenancy or (ii) the end of the fixed term, upon two month's notice	Tenant transfers ownership in return for cash lump sum and rent-free occupation
Responsibility for maintenance	Landlord	Landlord	Landlord	Tenant

Notes:

(1) 13.3 per cent. of the UK Residential Portfolio as at 31 March 2014 was not subject to tenancy or life/home reversion products. These percentages are calculated by reference to Market Value.

(2) The information in the table is not relevant to properties in Scotland and Northern Ireland.

Based on its experience of average annual vacancy rates in respect of regulated tenancies between 2008 and 2013 and source data[20] from 2009, Grainger estimates that approximately 90,000 regulated tenancies are remaining in England and Wales. The ownership of these regulated tenancies is highly fragmented. Grainger believes it is the largest private owner with 3,401 units as of 31 March 2014.

Further detail on regulated tenancies is contained under "*Regulation*".

Equity release market

There are two main types of equity release products in the UK:

- Home Reversion plans, whereby home owners sell some or all of the equity value of their property for a cash lump sum while at the same time retaining a right to remain in the property, rent free, until death or move into long-term care. This is Grainger's core business model within the Retirement Solutions business and the Group is a market leader in the UK in this sector with a market share estimated by management to be around 50 per cent.; and

- Lifetime Mortgage, whereby home owners take a mortgage on their property, with the interest due being rolled up and only paid from the owner's estate upon death or move into long-term care. Grainger does not offer these products.

Equity release providers are regulated by the FCA under section 19 of the Financial Services and Markets Act 2000, and providers are required to demonstrate that they are appropriately resourced with staff that are fit, proper and

[20] Source: Communities and Local Government "Housing in England" September 2009 Report

competent to carry out their responsibilities, that customers get clear, concise and consistent information and that necessary consumer protections are in place. Grainger requires that all customers receive independent advice from qualified third parties, which will typically include an independent financial advisor, solicitor and valuer. Grainger's provider of home reversion plans, Bridgewater, is a member of ERC which is the trade body for the UK equity release market that was established to facilitate protection of the consumer and increase understanding of the market and understanding of the safeguards in place. All members of ERC are required to adhere to its code of conduct.

Grainger's Bridgewater division has been named "Best Home Reversion Provider" for each year since 2006.

In addition, Grainger offers retirement housing, which are purpose built retirement units owned by the Group but let on lifetime leases, whereby the tenant pays a lump sum for rent free lifetime occupation.

German residential real estate market

The German residential market is very different from the UK. It is characterised by significantly lower levels of home ownership, by higher rental yields and by price stability. Returns are therefore principally driven by rental income. As in the UK, however, there are regional variations with the more affluent South and South West of the country experiencing more rapid economic growth and greater levels of demand for housing. The large urban centres are also showing better rental price and capital value growth. This in turn has led to increased investor demand for properties in areas with strong demographic profiles, such as Frankfurt and Munich, in each of which Grainger has a significant presence either through its wholly-owned assets or its co-investment vehicle MH Grainger. Grainger's German business is separately financed on a non-recourse basis and, as a result, the German subsidiaries are not Guarantors of the Notes and are Excluded Entities.

REGULATION

1. Residential Tenancies in England and Wales

(a) Background

The legislation governing residential tenancies in England and in Wales includes the Rent Act 1977 (as amended) (the "**Rent Act**"), the Landlord and Tenant Act 1985 (the "**Landlord and Tenant Act**") and the Housing Act 1988 (as amended) (the "**Housing Act**"). The legislation provides differing levels of protection for each of regulated, statutory and assured shorthold tenancies on a number of matters, including in relation to the tenant's ability to remain in the property on expiry of the tenancy ("**security of tenure**"), the landlord's ability to terminate the tenancy, rent increases, succession rights and repair and maintenance obligations. The Group's portfolio of properties includes properties which are subject to regulated tenancies, statutory tenancies, assured tenancies, assured shorthold tenancies and lifetime leases.

Regulated and statutory tenancies

Subject to certain exceptions (including, for example, lettings with resident landlords), most residential tenancies entered into prior to 15 January 1989 are regulated tenancies governed by the Rent Act. No new regulated tenancies have been created since 15 January 1989. At the end of the contractual term of a regulated tenancy, it is automatically converted into a statutory tenancy on the same terms as those which applied pursuant to the regulated tenancy, provided that the tenant occupies the dwelling as his or her only or main residence.

Assured tenancies

Provided that certain criteria were satisfied, tenancies entered into between 15 January 1989 and 28 February 1997 were automatically assured tenancies unless a special procedure was followed to set up an assured shorthold tenancy. The criteria to be satisfied are set out in the Housing Act and include, amongst other things, that the tenant (or at least one of the joint tenants) must occupy the dwelling as his or her only or principal home. Tenancies which started on or after 28 February 1997 will only be assured tenancies if the landlord served a notice before the beginning of the tenancy or included a simple declaration in the tenancy agreement to this effect or the landlord subsequently serves notice to this effect. An assured tenancy may be granted for a fixed term or may be a contractual periodic tenancy (which runs indefinitely from one rent period to the next). At the end of the contractual term of a fixed term assured tenancy, the tenancy is automatically converted into a statutory periodic tenancy, which runs from one rent period to the next on the same terms as the preceding fixed term assured tenancy.

Assured shorthold tenancies

Subject to a few exceptions (for example, where the annual rent is more than £100,000), any assured tenancy entered into after 28 February 1997 is automatically deemed to be an assured shorthold tenancy unless the agreement specifies otherwise or there is a notice served by the landlord (at the outset of the tenancy or at any time subsequently) stating that the agreement is to be an assured non-shorthold tenancy. As with assured tenancies, an assured shorthold tenancy may be granted for a fixed term or may be a contractual periodic tenancy (which runs indefinitely from one rent period to the next). At the end of the contractual term of a fixed term assured shorthold tenancy, the tenancy is automatically converted into a statutory periodic tenancy, which runs from one rent period to the next on the same terms as the preceding fixed term assured shorthold tenancy.

Lifetime leases

Lifetime leases are usually offered for a one-time lump sum payment which is much lower than the actual cost of buying the property outright. A lifetime lease is deemed to be a lease for 90 years determinable on the death of the tenant (or last surviving tenant if more than one).

(b) Security of tenure and termination

Regulated and statutory tenancies

At the end of the contractual term of a regulated tenancy, the tenancy is automatically converted into a "statutory tenancy", so long as the tenant occupies the dwelling as his or her only or main residence.

To recover possession, the landlord must obtain a court order, which will only be granted if the landlord is able to establish one or more of the grounds for possession set out in the Rent Act. The grounds for possession include both mandatory and discretionary grounds. If the landlord can prove that a mandatory ground exists, the court must grant an order for possession subject to any defence available under the Human Rights Act. If the landlord can prove that a discretionary ground exists, the court will only make an order if it also considers it reasonable to do so. Mandatory grounds include, amongst others, where the landlord requires the property for his or her own occupation upon retirement, where the property is let for a term of eight months or less (it having previously been used for a holiday-let), where the property is required by a minister of religion, where the property is required by a person employed by the landlord in agriculture, and where the property is required as a residence for the landlord (who must have been a member of the armed forces when the property was acquired and on the date the regulated tenancy was granted). In most cases, the landlord must also show that it served notice on the tenant prior to the commencement of the tenancy, warning the tenant that the landlord may seek possession on one of the mandatory grounds.

Discretionary grounds include, amongst others, non-payment of rent or breach of covenant, nuisance or use of the property for illegal or immoral purposes, waste or neglect by the tenant leading to a deterioration in the condition of the property, damage to furniture due to ill-treatment by the tenant, an unauthorised assignment or sub-letting, a sub-letting by the tenant at a rent greater than the fair rent, where occupation is required for the landlord or a relevant family member, where the property is reasonably required by the landlord for occupation by a full-time employee, and where the landlord would suffer serious prejudice because he has sold or re-let the property on the strength of the tenant having served a notice to quit.

A tenant under a regulated tenancy is able to terminate the tenancy by giving notice to the landlord in accordance with the tenancy agreement. A tenant under a statutory tenancy must give the same amount of notice as would have been required under the preceding regulated tenancy. If no notice would have been required, the statutory tenant must give at least three months' notice.

Assured tenancies

The landlord of an assured tenancy is only able to regain possession of the property if it can prove that certain circumstances exist, otherwise the tenant has the right to remain in the property.

With regards to fixed term tenancies, the landlord has the right to regain possession during the fixed term if it can prove that certain grounds exist and the tenancy agreement makes provision for it to be terminated on one of these grounds. These grounds include both mandatory grounds (where a court must make an order for possession subject to any defence available under the Human Rights Act) and discretionary grounds (where the court may make an order for possession if it considers it reasonable to do so). Mandatory grounds include where a mortgage was granted before the commencement of the tenancy and the mortgagee requires possession in order to exercise a power of sale (although note that the landlord must have notified the tenant in writing before the tenancy started that it might seek possession on this ground), and where the rent remains unpaid for a certain period of time. Discretionary grounds include, for example, non-payment of rent, persistent late payment of rent, breach of the tenant covenants in the tenancy agreement, the deterioration in the condition of the property/ common parts due to the waste or neglect of the tenant, the tenant causing a nuisance or using the property for illegal or immoral purposes and deterioration in the condition of the furniture due to ill-treatment by the tenant.

In the case of a contractual periodic tenancy, or where a fixed term tenancy has lapsed into a statutory periodic tenancy, again the landlord may regain possession only if it can prove that certain grounds exist. These include the grounds described above, in addition to a number of other mandatory and discretionary grounds. Mandatory grounds include where the landlord requires the property as his or her principal home, where the property is required by a minister of religion, where the landlord intends to demolish/reconstruct/carry out substantial works to the property and where the tenancy has devolved under the will of a former tenant during the previous 12 months. Discretionary grounds include where suitable alternative accommodation is available for the tenant.

Assured shorthold tenancies

An assured shorthold tenant has the right to remain in the property for the longer of (i) the fixed term of the tenancy or (ii) for six months (if the fixed term is less than six months or it is a contractual periodic tenancy). At the end of this period the landlord has the automatic right to regain possession by serving two months' notice on the tenant. Following expiry of the notice, the tenant should leave voluntarily, but if it does not do so, the landlord can apply to the court and obtain an order for possession, which will be granted subject to any defence available under the Human Rights Act provided that the landlord has complied with the requirement to serve two months' notice. There are further defences available if a deposit was taken at the start of the tenancy and that deposit was not registered and requisite information provided to the tenant within a set timescale.

In the case of fixed term tenancies, if the landlord wishes to regain possession during the fixed term, it may only do so if it can prove that certain grounds exist and the tenancy agreement makes provision for it to be terminated on one of these grounds. These are the same grounds which apply to the termination of an assured tenancy during the fixed term, as described above.

In the case of a contractual periodic tenancy, if the landlord wishes to regain possession during the first six months, again it must be able to prove that certain grounds exist. These are the same grounds which apply to the termination of a contractual periodic assured tenancy, as described above.

Lifetime leases

Under a lifetime lease, the tenant has the right to remain in the property for the full term of the lease, i.e. until the death of the tenant. Following the death of the life tenant (or the last surviving tenant, if more than one) the lease can be determined by one months' notice which is to expire on the next quarter day applicable to the lease.

(c) Rent

Regulated and statutory tenancies

The Rent Act established a system for registering "fair rents" for dwelling-houses. Once a fair rent has been registered, it becomes the maximum amount chargeable under any regulated or statutory tenancy of that property. If the fair rent is registered after the tenancy was granted, the fair rent is the maximum amount that will be payable, even if the tenancy agreement provides for a higher rent.

The rent is assessed by a rent officer (an official with the Valuation Office Agency) in accordance with the criteria set out in the Rent Act, which state that the rent officer is to have regard to all the circumstances (other than personal circumstances), in particular to any premium paid, the age, character, locality and state of repair of the property, and the quantity, quality and condition of any furniture provided under the tenancy. The fair rent determined by the rent officer may be lower than the market rent, as he or she will assume that there is no shortage of properties available to rent in the area. The fair rent includes any sums payable by the tenant to the landlord in respect of council tax, for use of furniture, or for services.

Either the landlord or the tenant can apply to the rent officer for a rent to be registered, following which the fair rent applies until either party applies for a reassessment. Any rent increase is capped at the percentage change in the UK retail price index since the rent was last registered plus a percentage prescribed by law (currently 5 per cent.). The landlord can apply one year and nine months after the effective date of the last registration, but the new registered rent will not become effective until a two year period has passed since the previous assessment. An application can be made at any time if it is made jointly by the landlord and the tenant, or if there has been a change of circumstances which mean that the old rent is no longer fair. It is possible for the rent officer to determine a rent decrease as well as a rent increase.

Assured tenancies and assured shorthold tenancies

There is no statutory control over the amount of rent that a landlord can charge for properties subject to assured tenancies or assured shorthold tenancies, meaning a landlord can charge a full market rent. Where an assured tenancy or an assured shorthold tenancy has a substantive rent, the tenancy agreement is likely to set out any rent review provisions which will determine the position relating to rent increases. With regards to assured shorthold tenancies only, if the tenant considers that the rent being charged is significantly higher than that paid by comparable tenants, the tenant has the right to apply to the First-tier Tribunal Property Chamber (Residential Property) within the first six months of the term for a determination of the rent which the landlord might reasonably be expected to obtain under the assured shorthold tenancy. The First-tier Tribunal Property Chamber (Residential Property) can only make a determination if there are sufficient comparables in the area. If a rent is determined, that rent will be the maximum chargeable throughout the remainder of the fixed term.

With regards to fixed term tenancies, if the tenancy agreement is silent as to whether the rent will be reviewed during the fixed term, the landlord must wait until the end of the term before increasing the rent, unless the tenant agrees otherwise. Once the fixed term has expired, the landlord can increase the rent if the tenant agrees. Alternatively, the landlord can use the formal procedure set out in the Housing Act to propose a rent increase to be payable as soon as the fixed term tenancy lapses into a statutory periodic tenancy. In doing so, the landlord must serve a notice on the tenant as to the proposed rent in a prescribed form. The determination of a rent increase can be referred to the First-tier Tribunal Property Chamber (Residential Property) for arbitration if both parties cannot agree on the new rent. The First-tier Tribunal Property Chamber (Residential Property) is specifically directed to determine the rent at which the premises might reasonably be let in the open market. As a market rent may be charged, there is scope for both rent increases and rent decreases following the assessment.

With regards to contractual periodic tenancies, if the tenancy agreement is silent as to whether the rent will be reviewed then, unless the tenant otherwise agrees, the landlord must follow the formal procedure set out in the Housing Act to propose a rent increase to be payable from a year after the tenancy began.

Lifetime leases

There is no statutory control over the amount of rent that the landlord can charge on lifetime leases. Instead, the rent is left to be decided by the ordinary operation of market forces. Given the length of the lease term, it is common for a fixed nominal rental rate or peppercorn to be payable, with the tenant being responsible for any service charges, council tax and utility bills.

(d) Succession

Regulated and statutory tenancies

Upon the death of a regulated or statutory tenant, the tenant's spouse or civil partner (if, in respect of each, both are living in the property immediately before the death of the regulated or statutory tenant) or a person living with the tenant as his or her husband or wife or civil partner will become the statutory tenant of the property. If there is no such person, but a person who was a member of the tenant's family and was living with the tenant at the time of death and for two years immediately beforehand, then that person is entitled to an *assured tenancy* (not a statutory tenancy) of the property by succession.

Where the tenant's successor dies, and there is a person who (i) was a member of the original tenant's family immediately before the original tenant's death and (ii) was a member of the tenant's successor's family immediately before the tenant's successor's death and (iii) was living in the property with the tenant's successor at the time of, and for the period of two years immediately before, the tenant's successor's death, then that person is entitled to an *assured tenancy* of the property by succession.

Assured tenancies and assured shorthold tenancies

If a tenant dies and the tenancy is a joint tenancy, the remaining joint tenant or tenants have an automatic right to stay in the property.

If the tenant was a sole tenant, the right to succession depends on whether the tenant had a fixed term tenancy or a periodic tenancy. A tenancy agreement can grant additional rights of succession which go beyond those set out in statute.

In the case of a fixed term tenancy, if the fixed term has not expired, the tenancy is passed to whoever the tenant specified in his or her will and if the beneficiary takes up residence before the expiry of the term, that beneficiary will become an assured tenant, entitled to a statutory periodic tenancy. If it was a contractual periodic tenancy or a statutory periodic tenancy, the tenant's husband or wife (or a person living with the tenant as husband or wife) has an automatic right to succeed to a periodic tenancy if he or she was living with the tenant at the time of the tenant's death, unless the tenant who died was already a successor themselves. Only one succession is allowed.

Lifetime leases

There are no succession rights for lifetime leases. These leases determine on the death of the tenant (or if there is more than one tenant, on the death of the last survivor), following which the landlord is free to grant a further lease of the property or to sell it outright.

(e) Repair and maintenance obligations

For regulated, statutory/assured and assured shorthold tenancies granted on or after 24 October 1961 for terms of less than seven years, responsibility for repair and maintenance is governed by the provisions of the Landlord and Tenant Act 1985. Under section 11 of the Landlord and Tenant Act 1985, the landlord must keep in repair the structure and exterior (including drains, gutters and external pipes) of the dwelling house (and, if the property forms part of a larger building in which the landlord has an interest, the repairing obligation also extends to the structure and exterior of that part of the building). The landlord must also keep in repair and proper working order the installations in the dwelling house for the supply of water, gas and electricity and for sanitation (including basins, sinks, baths and sanitary conveniences but not other fixtures, fittings and appliances for making use of the supply of water, gas or electricity), space heating and heating water (and if the property forms part of a larger building, the landlord must also keep in repair and proper working order any installation which directly or indirectly serves the property and which is under the landlord's control or forms part of the larger building in which the landlord has an interest). Note, however, that the landlord is not liable to repair damage caused by the tenant failing to use the premises in a tenant-like manner.

Lifetime leases

As lifetime leases are generally granted for terms exceeding seven years, the relevant provisions of the Landlord and Tenant Act do not apply and the repairing obligations are as set out in the lease. In practice, the tenant is typically liable for all repairs and maintenance of the property demised by the lease.

(f) *Energy Performance Certificate and Recommendation Report*

An Energy Performance Certificate ("**EPC**") is a certificate which contains information about the energy efficiency of a building. It is prepared in conjunction with a recommendation report, which contains suggestions for improving the building's energy performance. An EPC is generally valid for 10 years from the date of issue, although a valid EPC will be revoked if a new one is issued for the building. According to the Energy Performance of Buildings (England and Wales) Regulations 2012 and the Building Regulations 2010 (both as amended by the Energy Performance of Buildings (England and Wales) etc. (Amendment) Regulations 2013) a seller or landlord must make an EPC and recommendation report available free of charge to prospective buyers and tenants whenever a building (commercial or residential) is constructed, sold or rented out. The requirements for EPCs are more complicated in relation to flats, multi-let and mixed use properties (for example, in relation to flats, every dwelling must have its own EPC). There is no obligation to provide an existing occupier with an EPC or a recommendation report. Where a tenant sells its leasehold interest to a third party, it is the tenant's responsibility to provide the EPC to the buyer. There are fines ranging from £200 to £5,000 per offence for failing to comply with the legislation relating to EPCs.

2. German Residential Tenancies

Residential tenancy law is governed by the German Civil Code (*Bürgerliches Gesetzbuch*), which covers matters such as statutory protections for tenants, termination of tenancies and rent increases. The possibilities to deviate from statutory concepts are widely restricted. And the law does generally not allow a contractual deviation to the disadvantage of the tenant. In such a case the contractual provision will be invalid and the statutory provision will apply.

(a) *General terms and conditions*

Provisions in lease agreements which are considered general terms and conditions (*Allgemeine Geschäftsbedingungen, **AGB***) have to observe the standard form provisions pursuant to sections 305 et seqq. German Civil Code. General terms and conditions are subject to a relatively strict judicial review, including a review of appropriateness of the terms. General terms and conditions are invalid unless they are worded clearly, transparently, are balanced and do not discriminate against one party.

It is common business practice that a landlord uses standard forms or – legally speaking – general terms and conditions for its lease agreements. In line with such practice, for certain parts of the German Residential Portfolio, certain standard templates are used for residential lease agreements. However, general terms and conditions may significantly deviate from the underlying statutory law concept of liability and the landlord's obligations are – by way of a partial deviation from the German legal concept of freedom of contract – subject to a fairness and appropriateness test.

General terms and conditions are defined as terms of contract that are devised for use in a variety of separate contracts and that are unilaterally ''imposed'' by the party using them. Even single provisions which are to be used for a range of contracts can be deemed to be general terms and conditions and, therefore, give rise to judicial review once they are contested by an affected party. In particular, where a contractual clause considerably deviates from the underlying principles of statutory law by lacking transparency or being unduly disadvantageous (*unangemessen benachteiligend*) to the other party, such clause may be rendered invalid by a competent court. As a consequence, the invalid provisions would be substituted by statutory lease law, which in general is less favourable for the landlord.

The interpretation of general terms and conditions to a large extent is subject to case law. German courts including the German Federal Court of Justice (*Bundesgerichtshof, **BGH***) have issued a number of decisions, in which scenarios giving rise to invalidity are outlined. Nevertheless, in each single case the determination of what exactly is or is not admissible is subject to the decision of German courts, which exercise content control of general terms and conditions. General terms and conditions that are held to be inappropriate by the competent courts are entirely void and not restricted to an appropriate extent. The Group regularly reviews and amends standard rental contracts, including general terms and conditions, to take account of rulings by the relevant courts.

(b) *Subsidised properties*

Some of the properties in the German Residential Portfolio are subject to public subsidies, particularly in the area of Recklinghausen. These are properties constructed using public funds, which are typically very long-term loans (up to 100 years) at very low interest rates (0.5 per cent.) in the case of the Group's subsidised properties. Owners of subsidised properties are bound by the provisions of the Residential Housing Commitment Act (*Wohnungsbindungsgesetz*) which *inter alia* imposes a ceiling on rental rates known as a "cost rent" (*Kostenmiete*) equal to the costs of the property excluding any profit or margin for the benefit of the property owner. As a general rule, a landlord can only select people as tenants who hold a certificate issued by the competent public authority showing their entitlement to live in a publicly subsidised apartment. Subsidised properties are also often subject to nomination rights, that is, they may only be let to tenants selected by the municipality. In the Group's case, this right has rarely been exercised.

(c) Rent increases

Contractual rent increases

Pursuant to section 557a of the German Civil Code lease agreements can provide for a scheduled increase of rent provided that the rent remains unchanged for at least one year between each increase. Section 557a of the German Civil Code defines certain other restrictions for this type of adjustment. The sum of each scheduled rent increase must be unequivocally determinable from the provision and any additional increase of rent is prohibited. Pursuant to section 557b of the German Civil Code lease agreements can provide for adjustment of rent according to the change of the cost of living index published by the Federal Statistics Office (*Statistisches Bundesamt*) provided that the rent remains unchanged for at least one year between each increase. During the application of this provision an increase of rent pursuant to section 558 is prohibited and an increase pursuant to section 559 is restricted.

Rent increases under statutory provisions

In the absence of an agreement, a landlord may only increase rent as provided by statute. Pursuant to section 558 of the German Civil Code, landlords may increase rents for existing tenants in un-subsidised properties up to local market rates (*ortsübliche Vergleichsmiete*) and only where the rent has not changed for the previous 15 months. Any increase is limited to 20 per cent. over any three year period. In areas in respect to which the relevant state government (*Landesregierung*) determines that housing is scarce an increase is limited to 15 per cent. over any three year period. Local market rates are determined on the basis of a rent index (*Mietspiegel*), which is an overview of local average rents prepared by the local authorities in consultation with local tenant and landlord organisations. Pursuant to section 559 of the German Civil Code, following the modernisation of a unit, landlords may increase the annual rent by 11 per cent. of expenditures incurred for such modernisation so long as it materially and permanently increases the utility value of the property. A reduction of the applicable rate to 10 per cent. is currently under consideration. Tenants may terminate a lease by the end of the second month following receipt of the notification of a rental increase pursuant to section 561 of the German Civil Code, with two months' notice.

Rental rates on both subsidised and un-subsidised properties are subject to price gouging (*Wucher*) restrictions which invalidate excessive rental rates and require the landlord to pay back any excess amount.

In exceptional cases the landlord may be subject to criminal prosecution pursuant to section 5(2) of the German Economic Offences Act (*Wirtschaftsstrafgesetz*) or section 291 of the German Criminal Code (*Strafgesetzbuch*).

Apart from the restrictions just described, in accordance with current legislation landlord and tenant can freely agree on the initial rent to be paid by the tenant. However, a draft for the introduction of a cap on rent in newly concluded lease agreements (*"Mietpreisbremse"*) is currently being prepared by the German federal administration. Under the proposed legislation, in areas defined to be scarce of housing by the relevant state government, the rent under a newly concluded lease agreement would be limited to a maximum rent of 10 per cent. above local market rates for comparable properties, with exceptions in case the previous rent did already exceed this cap and for newly erected or thoroughly modernised properties. The draft has not yet been formally introduced into the federal parliament (*Bundestag*).

(d) Statutory termination protection

For agreements that are unlimited in duration, which are the dominant form of residential leases in Germany, the landlord may terminate a lease by way of an ordinary or extraordinary notice.

The German Civil Code allows a landlord to offer a fixed rental term under special circumstances, for instance where the landlord intends to use the premises for itself or its relatives or in order to substantially modernise the building.

(e) Termination

Termination by an ordinary notice (ordentliche Kündigung)

Pursuant to section 573 of the German Civil Code, a landlord must have a legally acceptable reason (*berechtigtes Interesse*) to terminate a lease. Legally acceptable reasons include, but are not limited to: a substantial breach of the tenant's obligations under the lease, the landlord's need for the unit for personal use, or that the terms of the lease prevent the landlord from making an economically reasonable use of the premises. The notice period for ordinary termination is between three to nine months depending on the length of occupation by the tenant. The German courts will uphold a termination by ordinary notice under very limited circumstances. Even in circumstances where a landlord has a legally acceptable reason to terminate a lease, a tenant may object to the notice and demand continuation of the lease, if the proposed termination would cause undue hardship for the tenant or its family pursuant to section 574 of the German Civil Code (*Sozialklausel*).

Termination by an extraordinary notice (außerordentliche Kündigung)

Pursuant to section 543 and section 569 of the German Civil Code, landlords may terminate a lease immediately and without notice upon a substantial breach of the tenant's obligations, in particular, if the tenant neglects his or her duty of care in relation to the unit, allows a third party to use the unit without the landlord's permission, fails to pay the rent or continuously disturbs the peace in the building.

Termination by the tenant

The German Civil Code allows tenants to terminate residential leases without reason on three months notice. Tenants may also terminate a lease immediately under special circumstances, for instance if the premises significantly endanger the health of the tenant or if the landlord has not fulfilled its contractual obligations.

(f) Fees of a broker

In most cases, a tenant will bear a broker's fees incurred in connection with the re-letting of properties, even if the landlord had originally entrusted the broker with marketing the property. There are currently discussions amongst German legislators considering to prohibit such market practice and make it mandatory for the party instructing a broker to bear the broker's fees. However, this legislation will have little effect on Grainger in this regard because Grainger, as landlord, currently pays the broker's fees in any event.

(g) Statutory restrictions on the sale of residential housing

Pursuant to section 566 of the German Civil Code, the purchaser of a property with a sitting tenant is obliged to uphold the lease contract with the tenant. In the event of a proposed sale to a third party of a residential unit that has been converted into a condominium, the tenant must be offered a right of first refusal (*Vorkaufsrecht*) at the same price and terms as agreed with the third party.

(h) Operating costs

If not otherwise agreed, the rental rate for a residential property is deemed to include all operating, maintenance and repair costs (gross rent). However, it is usual for the terms of the lease to require the tenant to pay certain operating costs (*Betriebskosten*) associated with the property. The costs for which a tenant may be responsible are set out in the Ordinance on Operating Costs (*Betriebskostenverordnung*) and include insurance, plumbing, heating and other utilities, rubbish disposal, local rates and property taxes, the operation and maintenance of lifts, gardening services, snow clearance and lighting of the property.

(i) Modernisation and repairs/maintenance

Landlords are obliged to keep the rented premises in a state that complies with customary and contractual requirements for their intended use, including certain aspects of the improvement and modernisation of the property. If validly agreed pursuant to the terms of the lease, tenants may be obliged to carry out cosmetic repairs to their unit (*Schönheitsreparaturen*) at their own cost. The imposition of the costs of cosmetic repairs on tenants was a common term of German leases, including those entered into by the Group and previous owners of Group properties. In recent years, the German Federal Court of Justice has frequently held that such terms do not comply with the provisions on General Terms and Conditions pursuant to sections 305 et seqq. of the German Civil Code if the obligation to carry out repairs refers to fixed periods and does not take into account the actual condition of the premises prior to the tenant taking possession.

3. German Real Estate Law

(a) Public Law Requirements

A few of the properties within the Group's German portfolio are subject to legislation relating to building conservation (*Denkmalschutz*). This legislation prohibits the destruction of conservation (listed) properties and imposes restrictions on the modernisation of such properties. A limited number of the properties in the Group's portfolio are subject to special urban planning legislation (*besonderes Städtebaurecht*) pursuant to which particular areas are redeveloped. The legislation provides for the costs associated with such redevelopments to be levied on the owners of properties that were subject to redevelopment. Any sales or encumbrances of properties to which this legislation applies require the consent of the municipality.

(b) Energy efficiency and energy certificates

Germany has implemented the EU Directive on Energy Performance of Buildings with the Energy Savings Act (EnEV, enacted in 2007). The EnEV requires that an Energy (Performance) Certificate (*Energieausweis* or *Energiepass*) must be prepared by authorised specialists for all residential buildings when rented or sold. This initiative aims to increase the transparency of the energy requirements and efficiency of residential properties.

In recent years, legislation has substantially increased the requirements regarding the energy efficiency of buildings, e.g. by amending the EnEV to require energy efficiency measures for all new buildings or in cases where buildings are modernised. The EnEV was last revised in late 2013. Some of the obligations imposed under this regulation also apply to existing buildings. Section 3 of the EnEV (§§ 9-12) imposes an obligation on owners of existing buildings to undertake certain works. These include, inter alia, according to § 9 EnEV an obligation not to exceed certain maximum values of heat transfer in case certain external components of a building (e.g., exterior walls, exterior windows and doors or roof surfaces etc.) are replaced, renewed or installed for the first time. According to § 10 EnEV, certain types of older boilers fired by liquid or gaseous fuels may no longer be operated. Building owners are also required to provide for sufficient insulation of heat distribution and hot water pipes. Similar rules apply to the insulation of ceilings of heated rooms adjacent to unheated attics or roofs. Operators of building air conditioning systems above a certain power rating are required to conduct energy efficiency inspections under § 12 EnEV. Building owners may also be required, pursuant to §§ 14 and 15 EnEV, to retrofitting central heating or air conditioning systems if existing systems fail to meet certain standards.

(c) Waiver of mining damages

A few of the Group's German properties in the Recklinghausen/Herne area are subject to easements securing in rem waivers of mining damages (*Bergschadenverzicht*) vis-à-vis the operator of coal mines meaning that property owners are not entitled to claim for damages resulting from mining activities. The balance of the Group's properties in Recklinghausen/Herne are subject to contractual arrangements by which the Group cannot claim for compensation for damages arising from mining activities which were already in existence at the time of the acquisition of the property. Instead, the only valid ground for a compensation claim is in relation to new damages which arise following acquisition of the property.

(d) Limitation on changes of use of residential properties

A number of states or municipalities have enacted regulations banning the misappropriation of living space (*Zweckentfremdungsverbot*). Typically, such regulations will define living space (*Wohnraum*) as space which is factually and legally suitable for permanent residential use. Typical cases of misappropriation of living space under such regulations include the use as a holiday home, the use for business or professional purposes, an alteration rendering the property unsuitable for residential purposes, and leaving the property vacant for longer than a period of six months. A violation of relevant regulations may typically result in the imposition of administrative fines.

(e) Legionella testing

Pursuant to the German Federal Drinking Water Ordinance (*Trinkwasserverordnung,* ***TrinkwV***) the owners of specified centralised heated water supply facilities for use in multi-family buildings are required to analyse stored heated water for the concentration of legionella (a pathogenic bacterium) at least every three years. The authorities may order additional testing. The analysis must be carried out by laboratories specified by the respective federal state. The existence of appropriate sample extraction points (*Probeentnahmestellen*) must be ensured by the owner of the building. If specific limits are exceeded, the authorities will regularly adopt measures to improve the water quality.

(f) Smoke detectors

Under relatively recent legislation, most federal states in Germany have made the installation and maintenance of smoke detectors mandatory in residential buildings. Whereas in some federal states the obligation to install smoke detectors is restricted to new buildings, in other federal states the obligation also applies to existing buildings. Usually, a transition period of several years for the installation will apply. Under German law, a landlord may be able to pass on the costs incurred for the purchase of smoke detectors in a residential building to the tenant as modernisation costs by increasing the annual rent payable by the tenant of this residential unit by up to 11 per cent. of the costs incurred for the purchase. Costs for the rent and maintenance of smoke detectors that may be contractually allocated to the tenant of a residential unit as operating costs.

4. Financial Conduct Authority

As a listed company which is admitted to trading on a regulated market in the EU, Grainger is required to comply with the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules (all as contained in the FCA Handbook). Grainger is also subject to the disclosure requirements under the Transparency Directive and the corporate governance regime set out in the Combined Code annexed to the Listing Rules.

In addition, the Group's home reversion business is regulated by the FCA. In order to acquire properties by way of home reversion plans, the Group must be authorised under section 19 of FSMA. In order to remain authorised within the terms of FSMA, those of the Group entities which are authorised must demonstrate that they are appropriately resourced with staff that are fit, proper and competent to carry out their responsibilities and that customers get clear, concise and consistent information and that the necessary consumer protections are in place.

The FCA Handbook sets out ‘High Level Standards’ for each type of firm authorised under FSMA. The High Level Standards are the overarching requirements that apply to authorised firms and to approved persons. They set the standards by which authorised firms and approved persons are expected to conduct themselves and also the core regulatory obligations that apply to them.

In addition, there are specific aspects of the FCA Handbook which set out the rules relevant to each type of authorised firm. The Group is subject to: (i) the prudential requirements relating to capital resources and professional indemnity insurance, (ii) the conduct of business standards relating to home reversion business, (iii) the supervisory provisions including those relating to auditors, notifications and reporting, and (iv) the systems and controls relating to the prevention of money laundering.

Failure to comply with the FCA Handbook can lead to the application of penalties and censures, variation and cancellation of authorisation, prohibition orders and criminal prosecution.

INFORMATION ON THE GROUP

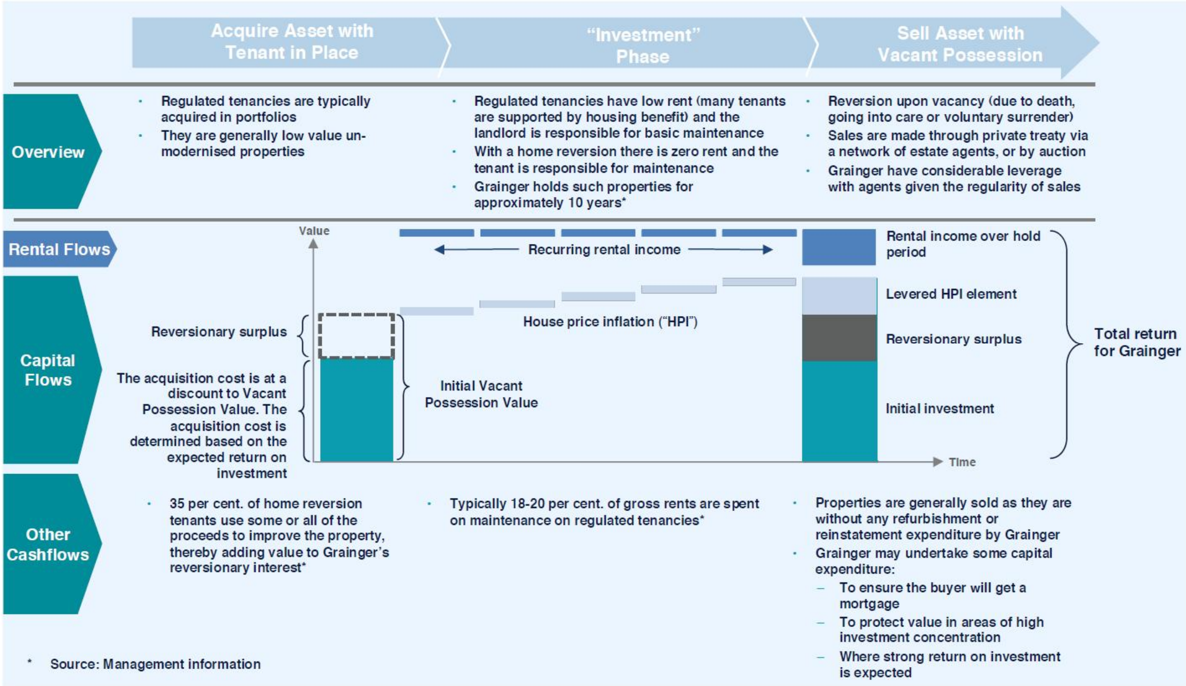
1. Introduction to the Group

1.1 *Overview of the Group*

Grainger is the UK's largest listed residential property owner and manager. The Company was founded in 1912. Its shares have traded on the London Stock Exchange since 1983 and it is part of the FTSE 250 index. Grainger owns, acquires and trades regulated, home reversion and market-let tenanted properties in the UK and, as at 31 March 2014, wholly-owned 8,662 properties in the UK. It also has a portfolio of market-let tenanted properties in Germany, invests in a range of property funds and joint ventures, and undertakes property and asset management. As at 31 March 2014, it had 2,881 wholly-owned properties in Germany. The Group generates revenue from a variety of sources, including rental income from tenanted properties, proceeds from the sale of properties, performance-based distributions, and property and asset management fees. The Group benefits from a business model that generates stable revenue and cash flow through the economic cycle. In the six month period ended 31 March 2014, the Group generated revenue of £190.0 million and OPBVM of £54.6 million and in the financial year ended 30 September 2013, the Group generated revenue of £283.2 million and OPBVM of £107.6 million. As at 31 March 2014, the Group had a wholly-owned portfolio of 11,543 properties comprising 7,727 UK wholly-owned reversionary properties (with a Vacant Possession Value of £1,688.3 million, a Reversionary Surplus of £382.8 million and annualised gross rent of £28.2 million) and 3,816 wholly-owned market-rented properties in the UK and Germany (with a Vacant Possession Value of £476.5 million, a Reversionary Surplus of £30.5 million and annualised gross rent of £27.8 million). The Group's assets generally have a low average value; in the UK the average pre-acquisition value is approximately £367,000 for London and the South East and £168,000 outside of London and the South East (calculated based on Vacant Possession Value). As at 31 March 2014, the Group had 8,956 additional properties under its management (which are owned by joint ventures, associates or third parties). The Market Value of all wholly-owned properties, properties owned by joint ventures and associates and third party properties under management was £2,933.0 million as at 31 March 2014.

Grainger's primary business model is based upon the acquisition of tenanted (mostly regulated) properties and interests in properties subject to a home reversion plan. In each case, the acquisition is made at a discount to Vacant Possession Value reflecting the impact of the existing tenancy, and the properties are sold once they fall vacant, thereby releasing the inherent Reversionary Surplus. Grainger typically buys tenanted properties where the tenant has a lifetime right to live in that property for a rent which is generally less than the market rent and subsequently sells at Vacant Possession Value once the tenant has ceased to occupy the property. Value is achieved for Grainger through a combination of: (i) the realisation of the Reversionary Surplus, (ii) rental income received over the years between the purchase and sale of properties, and (iii) house price inflation over the period between purchase and sale (typically around 10 years on average). As at 31 March 2014, the Reversionary Surplus in respect of wholly-owned properties in Grainger's portfolio totalled £413.3 million. This represents a profit pipeline without development risk. The chart on the next page illustrates this process.

Lifecycle of a regulated tenancy or home reversion



The Group's operations are organised into the following five business areas:

- UK Residential: The UK Residential business owns, acquires and trades the properties within its portfolio, consisting largely of properties subject to a regulated tenancy. Grainger has the largest privately owned portfolio of regulated tenancies in the UK based on 3,401 wholly-owned properties with a market share of 3.8 per cent. as at 31 March 2014.[21] The Group's UK Residential Portfolio is geographically widespread, but with a strong concentration in London and the South East (72.3 per cent. by Market Value as at 31 March 2014), which are areas that have recently demonstrated the greatest growth in property prices. The Group has consciously increased the weighting of its property portfolio in these two geographical areas, which have performed strongly historically and in which the Group anticipates the greatest future capital appreciation. Cash generated from this portfolio is derived from a combination of rental income and proceeds from the sale of properties, generally when the properties fall vacant and are sold. The Group also has an in-house capability to provide property and asset management services to the Group's wholly-owned properties in the UK, and to those owned by certain associates, co-investment vehicles and joint ventures in which the Group holds an equity interest. This is provided to all five areas of the Group's business which are set out in this section and is not exclusive to the UK Residential business.

[21] Source: Management information

- Retirement Solutions: The Retirement Solutions business offers home reversion plans, under which a property owner sells Grainger a percentage of the value of his or her property for a cash lump sum with the right to remain in the property, rent free, until death or a move into long-term care. Once the property becomes vacant, it is sold and a Reversionary Surplus is realised. Grainger is a market leader in the UK home reversion sector, with a market share estimated by management to be approximately 40 per cent. Cash generated from this portfolio is principally derived from the sale of properties, generally when properties fall vacant.

- Fund and Third Party Management The Fund and Third Party Management business comprises investments in funds and joint ventures and the management of the property portfolios of such funds and joint ventures, as well as third party portfolios. These activities generate income from management fees (including performance fees) as well as a share of the profit from these entities. The Fund and Third Party Management business currently provides asset management services to WIPL and both property and asset management services to GRIP and RAMP. Grainger was selected as the preferred supplier to RAMP in 2010 and receives fees based on rent, disposals and shared success for providing property and asset management services for property portfolios following the commencement of insolvency processes. GRIP is a joint venture unit trust launched by Grainger and APG in January 2013 to acquire the residential property portfolio owned by a former UK market-rented residential property fund established and managed by Grainger which is in the process of being wound-down. WIPL was formed as a joint venture between Grainger and Dorrington. In May 2013 it acquired the Walworth estate which had formerly been wholly-owned by the Group. Overall, activities such as these demonstrate that the Group increasingly provides asset management services to enhance the diversification of the Group's income stream into areas that are less dependent upon house price inflation.

- Development: The Development business focuses on residential-led development and mixed-use opportunities through acquiring and holding land with strategic development value, obtaining or amending planning permissions, installing infrastructure and then either selling or self-developing plots. The Group maintains a conservative approach to development, restricting the assets in the Development Portfolio to no more than 10 per cent. of the Group's total assets at any given time and frequently employing minimal capital due to adopting more of a development partner role. As at 31 March 2014, the Development Portfolio represented 5.9 per cent. of the Group's wholly owned assets by market value. The Group is currently developing 100 residential apartments purpose built for private rental at London Road, Barking. This is the Group's first Build to Rent scheme and Grainger will retain and let the residential units and provide asset and property management services. The Group is also the development partner for the Defence Infrastructure Organisation and the Homes and Communities Agency in respect of a 255 hectare former Aldershot Garrison site, known as Wellesley or the Aldershot Urban Extension. This development involves the construction of 3,850 new homes, of which 35 per cent. will be affordable homes, two new primary schools, around 110 hectares of new green space, sports and community facilities and the refurbishment of six listed buildings. As development partner, Grainger will receive a fee based on the value added to properties in the development, a management fee and interest earned on costs incurred by Grainger prior to reimbursement. Grainger has minimal capital employed or required in the scheme.

- German Residential: The German Residential business owns, manages and, where appropriate, sells the market-let residential properties within its portfolio. The Group's wholly-owned German Residential Portfolio is concentrated in the economically and demographically stronger regions of Germany (Hesse, the Rhine-Main area and North Rhine Westphalia). Apart from Potsdam, the Group has not invested in Eastern Germany. Due to relatively low owner-occupier rates in Germany (45.7 per cent. in 2010) compared with England (66 per cent. in 2010-11)[22], Grainger typically re-lets the properties within the German Residential Portfolio at the end of their tenancies. Accordingly, income and cash generated from the portfolio is predominantly market based rental income. Consistent with the Group's strategy to expand its fee earning capabilities, the German Residential business also provides asset management services to MH Grainger, a co-investment vehicle established in November 2012 by Grainger and the global real estate investment firm Heitman which acquired a portfolio of approximately 3,000 German rented residential units from the Group in December 2012.

A summary of Grainger's businesses across a variety of metrics is provided in the two tables below:

Table 1: As at 31 March 2014 and for the six month period ended 31 March 2014

	Six month period ended 31 March 2014				As at 31 March 2014				
Business Area	**Revenue**		**OPBVM**		**Market Value**		**Vacant Possession Value**		**Reversionary Surplus**
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**
UK Residential	69.8	36.7	34.3	55.1	1237.4	61.1	1535.0	63.0	297.6
Retirement Solutions	104.3	54.9	23.6	37.9	350.7	17.3	466.4	19.1	115.7
Fund and Third Party Management	3.7	2.0	0.8	1.3	163.6	8.1(1)	163.6	6.7	45.3
Development	3.3	1.7	0.6	1.0	109.5	5.4	109.5	4.5	-
German Residential	8.9	4.7	2.9	4.7	163.4	8.1	163.4	6.7	-
Sub-Total	190.0	100.0	62.2	100.0	2,024.6	100.0	2,437.9	100.0	458.6
Other(2)			**(7.6)**						
Total			**54.6**						

Notes:

(1) This figure relates to book value and not Market Value.

(2) This represents items not specifically allocated to a division (mainly central overheads of the Group and some other small costs).

22 Source: Destatis, Morgan Stanley Research, Department for Communities and Local Government Housing Survey

Table 2: As at 30 September 2013 and for the yearly period ended 30 September 2013

Business Area	Year ended 30 September 2013				As at 30 September 2013				
	Revenue		OPBVM		Market Value		Vacant Possession Value		Reversionary Surplus
	£m	%	£m	%	£m	%	£m	%	£m
UK Residential	204.7	72.3	94.6	77.2	1,145.0	57.6	1,450.8	58.7	305.8
Retirement Solutions	31.1	11.0	19.0	15.6	435.3	21.9	612.7	24.8	177.4
Fund and Third Party Management	9.6	3.4	2.9	2.4	145.9[1]	7.3	145.9	5.9	44.9
Development	15.7	5.6	1.2	0.9	84.3	4.2	84.3	3.4	-
German Residential	22.1	7.8	4.7	3.9	178.3	9.0	178.3	7.2	-
Sub-Total	283.2	100.0	122.4	100.0	1,988.8	100.0	2,472.0	100.0	528.1
Other[2]			**(14.8)**						
Total			**107.6**						

Notes:

(1) This figure relates to book value and not Market Value.

(2) This represents items not specifically allocated to a division (mainly central overheads of the Group and some other small costs).

A three-year comparison of each of these metrics (if applicable) is provided in the section entitled *"Information on the Group – Business Descriptions"*.

1.2 *History of the Group*

The Company was incorporated under the laws of England and Wales on 27 November 1912 as Grainger Trust Limited, and changed its name to Grainger plc in 2007. It was originally established in Newcastle to acquire and manage tenanted residential properties. In 2001, the Group entered into a joint venture with Deutsche Bank Real Estate Opportunities Group to create Bromley Joint Venture, the largest quoted residential property portfolio in the United Kingdom. In April 2008, the Group made a successful tender offer for Francono Rhein-Main AG, a listed German residential property company, for €41.4 million thereby creating critical mass for the Group in Germany. Since 2008, the Group has made some significant acquisitions, including the acquisition of Sovereign Reversions and PHA Limited in 2010, HI Tricomm and GenInvest in early 2011 and the Chelsea Houses Portfolio in April, 2014, and has entered into various joint venture and co-investment alliances such as MH Grainger (2012), WIPL (2013) and GRIP (2013).

A key milestone was reached in the history of Grainger in November 2012, when Grainger received government approval in the UK to set up its subsidiary "Grainger Trust Limited" as a For Profit Registered Provider of social housing. In February 2013, the Group acquired 100 units to be constructed at London Road, Barking as part of a Build to Rent regeneration scheme which is the first investment of this kind for the Group.

2. Competitive Strengths

Grainger has significant expertise in the residential real estate sector. It focuses on complementary activities across the value chain allowing it to benefit from synergies between the divisions, thereby enhancing overall returns. Grainger's significant competitive strengths include:

Large and high quality asset portfolio, with significant reversionary value

Grainger is a market leader in the UK residential property sector and has one of the largest residential property portfolios in the UK, consisting of 8,662 properties, with an aggregate Market Value of £1,588.0 million at 31 March 2014. The Residential Portfolio is spread throughout the UK, but with a concentration in London and the South East, and is focused on areas where management believes there is the highest potential for returns. Reflecting the mainly regulated nature of the tenancies to which the properties are subject, the Residential Portfolio largely consists of low-priced, un-modernised properties, which, when they are sold with vacant possession, appeal to a wide range of buyers. The quality of the UK Residential Portfolio is evidenced by Grainger's ability to consistently sell assets materially in excess of their acquisition cost, achieving margins on sales of vacant properties averaging 46.0 per cent. over the period from 1 October 2010 to 31 March 2014. Grainger has also consistently out-performed the Nationwide and Halifax house price indices in the 9.5 year period to March 2014, see "*Market Overview—UK residential real estate market*". Equally notable is the fact that Grainger achieves a significant excess of sales prices over previous year end vacant possession values averaging 7.0 per cent. over the period from 1 October 2010 to 30 September 2013.

Grainger's business model of purchasing tenanted homes at a discount to their Vacant Possession Value gives rise to a significant Reversionary Surplus within the portfolio. Because of the size of Grainger's portfolio, the rate at which regulated properties become vacant is stable. In the three year period to 30 September 2013, approximately 6.5 per cent. of Grainger's regulated properties in the UK Residential Portfolio became vacant and were sold with vacant possession each year. As at 31 March 2014, the aggregate Vacant Possession Value of the Residential Portfolio was £2,001.4 million, including an aggregate Reversionary Surplus of £413.3 million. This Reversionary Surplus is not included in either the statutory or Market Value balance sheets described under "*Overview-Selected financial information on the Group-Gross Net Asset Value Market Value Balance Sheet*".

Diverse and stable revenue streams with defensive characteristics leading to stable cash flows

Grainger benefits from a variety of income streams in the residential real estate sector, including rental income from tenanted properties, proceeds from the sale of properties, performance-based distributions, and property and asset management fees. Income stability is supported by Grainger's ability to sell assets quickly and through economic cycles (see "*Demonstrated ability to monetise portfolio*" below). Income stability is also supported by the recurring nature of Grainger's rental income (which accounted for 25.2 per cent. of Grainger's revenue in the financial year ended 30 September 2013 and 14.9 per cent. of Grainger's revenue in the six month period ended 31 March 2014).

In addition, the majority of the UK Residential Portfolio comprises tenancies for which the tenant pays less than market rate rentals and enjoys security of tenure. Non-payment of rent gives Grainger the right to evict tenants (notwithstanding their security of tenure) and to re-let the properties at current market rates or to sell the properties with vacant possession and realise the Reversionary Surplus early. Accordingly, existing tenants in these properties (many of whom receive housing benefits supported by the UK government) are highly incentivised to avoid missing payments. As a result, rental income is stable and rent arrears (averaging 3.2 per cent. over the six month period to 31 March 2014) are low in Grainger's UK Residential Portfolio. There is also stability of reversion rates (approximately 7.0 per cent.) as a result of the size of Grainger's portfolio. Furthermore, because of the nature of the properties held in the UK Residential Portfolio and the Retirement Solutions Portfolio, management considers that over the coming years the embedded cash flow arising from rents and profits on sales will be relatively stable and predictable in respect of these properties.

The overall effect of the Group's varied income stream helps to hedge against the volatility of the property market and to offer the Group flexibility in adapting to varying economic circumstances.

Further, the Group has stable cash flows generated in part from sales proceeds of properties in its UK residential portfolio as well as recurring revenue from other areas of its business, including rental income. The Group's Consolidated LTV target is between 45 and 50 per cent. and, at 31 March 2014, its Consolidated LTV was 45.2 per cent. The acquisition of the Chelsea portfolio in April 2014 increased Consolidated LTV to 49.6 per cent.

The Group's stable cash flows and strong financial position, including a moderate Consolidated LTV of 45.2 per cent. on an investment value basis and 37.4 per cent. on a vacant possession basis (compared to 38.9 per cent and 31.0 per cent. on these respective bases for the Core LTV as per the bank and bond covenant definition (all numbers as at at 31 March 2014), mean that it is well positioned to deliver on its stated strategies (see "*Business Strategy*" below) by selectively exploiting opportunities to grow its business as and when they arise. The Group believes that its financial strength (coupled with its strong market reputation) enable it to attract opportunities for acquisitions and strategic alliances with high calibre investment partners that generate strong and diversified returns.

Demonstrated ability to monetise portfolio

Grainger has consistently demonstrated its ability to sell assets, even in challenging market conditions, selling an average of 6.7 per cent. of the regulated units with vacant possession in the UK Residential Portfolio per year since 1 October 2010. In the same period, the Group has been selling an average of 5.4 per cent. of units with vacant possession in the Retirement Solutions Portfolio per year. Grainger actively manages its portfolio and has strong relationships with a network of agents across the UK which, in conjunction with its own dedicated sales management team, facilitates efficient property sales. In the six months to 31 March 2014, Grainger achieved an average Sales Velocity of 101 days on its properties (compared to 107 days in the 12 months to 30 September 2013), such properties being those predominately comprised of regulated units with vacant possession. Grainger holds regulated and retirement solutions properties for approximately 10 years on average, generating capital appreciation from house price inflation in addition to the realisation of the Reversionary Surplus. During the six month period ended 31 March 2014, Grainger achieved a sales margin on vacant possession sales of 53.7 per cent. from the UK Residential Portfolio (compared to 50.6 per cent. for the financial year ended 30 September 2013) and 39.8 per cent. from the Retirement Solutions Portfolio (compared to 32.6 per cent. for the financial year ended 30 September 2013).

Grainger is also able to sell properties subject to an existing tenancy or home reversion arrangement ("**Investment Sales**") as a further means of cash generation and/or portfolio improvement.

The average annual gross cash inflow from all sales (taking into account deduction of any sales fees) in the three years to 30 September 2013 was £272 million per year and, over the eight years to 30 September 2013, was £220 million per year. When rents, fees and other income are included, the annual inflows average £365 million and £300 million over the three years and eight years to 30 September 2013, respectively.

A low risk business model underpinned by limited exposure to short-term house price movements and minimal exposure to new builds

Grainger has limited exposure to short-term house price movements and minimal exposure to new builds. Grainger has consistently outperformed both the Nationwide and Halifax house price indices since 2007 (see "*Market Overview–UK residential real estate market*"). Furthermore, Grainger's limited exposure to new builds is evidenced by its conservative approach to development, restricting the assets in the Development Portfolio to no more than 10 per cent. of the Group's total assets at any given time. As at 31 March 2014, the Development Portfolio represented only 5.9 per cent. of the Group's wholly owned assets by market value. Grainger's limited level of exposure to short-term house price movements and new builds, in combination with factors described in "*Diverse and stable revenue streams with defensive characteristics leading to stable cash flows*" above, significantly reduces the level of risk in its business model.

Experienced management team with significant sector expertise and a proven track record

The Group benefits from an experienced senior management team with extensive knowledge of the UK and German residential housing markets. Senior management has many years of collective industry experience and therefore significant previous experience at guiding the business through different operational and economic environments. The Group's market position is enhanced by its ability to utilise the scale, experience and specialist expertise of its complementary business activities to maximise value through each asset's ownership cycle. Management believes that this depth of experience provides the Group with a competitive advantage and ensures it is well placed to grow over the long term and to continue to both add value to its assets under management and to outperform the wider market, as measured by the Nationwide and Halifax house price indices, through a selective investment policy and active asset management.

3. Business Strategy

Grainger's overall objective is to continue to deliver sustainable value from diversified residential property income streams and the Group's main strategies are to:

Continue to acquire regulated properties to generate stable returns

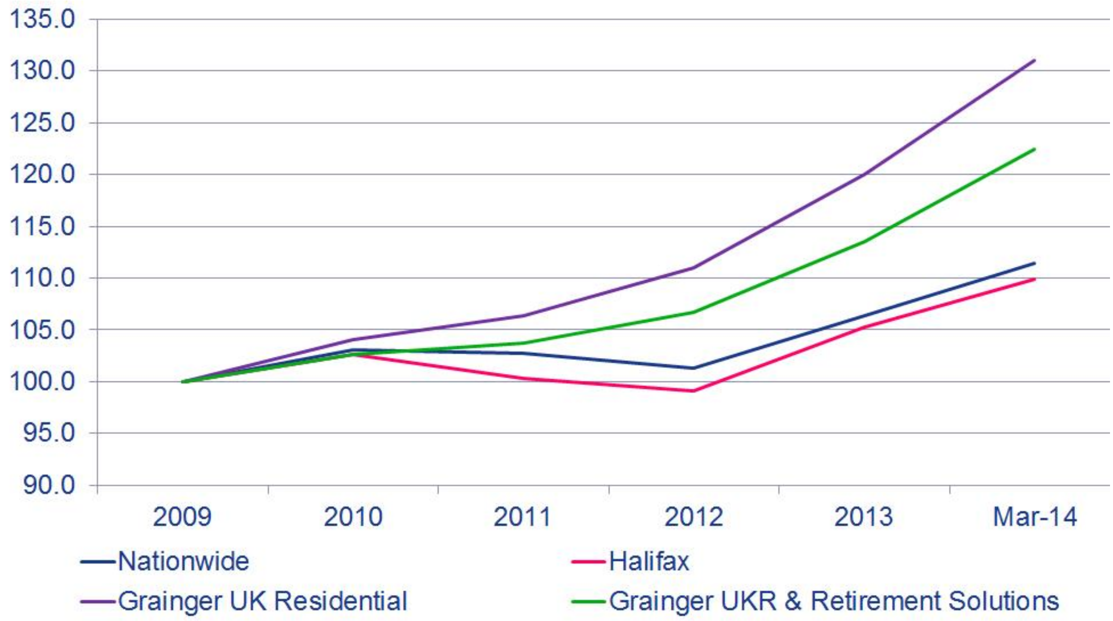
The Group intends to continue to generate stable rental income and sales proceeds from its regulated portfolio. Regulated tenancies are an attractive asset class offering a unique blend of capital appreciation and yield. It is also an area where the Group has a market leadership position and the ability to transact quickly and effectively (particularly on larger acquisition opportunities). Consequently, the Group expects to continue to acquire well priced assets and portfolios as they become available and the Group strategically positions itself to take advantage of those opportunities by (i) maintaining appropriate resources (financial, staff and systems) to be able to transact quickly, (ii) maintaining a market presence through individual and corporate relationships with agents, dealers and potential vendors and (iii) closely monitoring existing larger portfolios (such as those held by housing associations and other corporates). The recent acquisition of the Chelsea Houses Portfolio is a demonstration of this strategic positioning.

Grainger intends to hold and actively manage its regulated portfolio on a long-term basis in order to realise and enhance the embedded Reversionary Surplus upon vacancy.

Maximise returns by focusing on core areas of value and active asset management

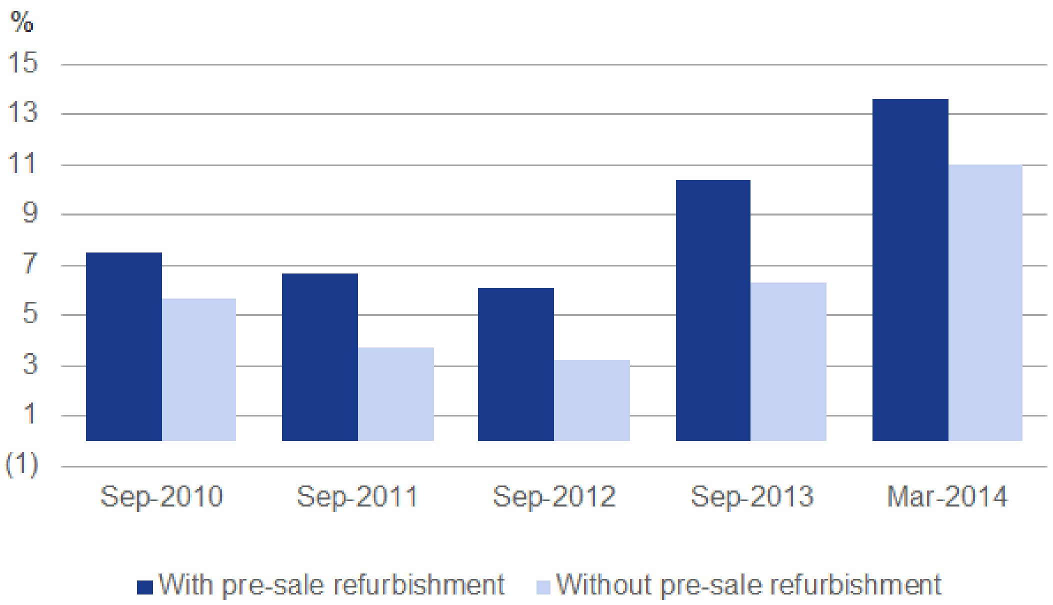
The Group has consciously increased the weighting of its property portfolio in London and the South East, as house prices in these areas have performed strongly historically and these are the geographical areas in which the Group anticipates the greatest future returns. 63.9 per cent. of the Group's UK wholly owned residential assets by market value are located in London and the South East where year on year growth in the 12 months to 30 September 2013 was 10.7 per cent. The Group intends to continue maximising returns by ensuring that its resources remain focused on these core areas of value. Through the active management of its portfolios, Grainger enhances the value of its properties. Grainger has achieved sales prices on sold properties which exceed the preceding September's Vacant Possession Value of such assets in each of the last four years, including by utilising its in-house development and refurbishment expertise to carry out refurbishment where this will yield an immediate enhanced return on sale. In the six month period ended 31 March 2014, properties were sold in the UK Residential portfolio, on average, at 11.0 per cent. above the preceding September's Vacant Possession Value in relation to the UK Residential portfolio when the benefit of pre-sale refurbishment is excluded. When including the benefit of pre-sale refurbishment properties were sold, on average, at 13.6 per cent. above the preceding September's Vacant Possession Value. Grainger's property portfolio also consistently outperforms the wider property market as measured against the Nationwide and Halifax house price indices. The following two charts demonstrate, respectively, Grainger's outperformance of the Halifax and Nationwide house price indices between 2009 and March 2014 and its strong performance in respect of sales price versus the preceding September's Vacant Possession Value for September 2010, 2011, 2012 and 2013 and for March 2014.

Outperformance versus Nationwide & Halifax House Price Indices



To March 2014. Grainger performance vs. house price inflation, rebased, (2009=100). Sources: Grainger indices, Halifax house price index and Nationwide house price index.

Sales price versus previous September's Vacant Possession Value (Percentage increase on previous September)



Further diversify income streams by expanding the fee earning capability of the business

Over the last few years, Grainger has sought to increase and diversify its fee earning business. The Group has increased its fee income from £6.9 million (year ended 30 September 2011) to £10.0 million (year ended 30 September 2012) and £12.5 million (year ended 30 September 2013), principally as a result of significant transactions such as:

- the selection of Grainger as the preferred supplier to RAMP in May 2011. Grainger receives fees based on rent, disposals and shared success for providing property and asset management services for property portfolios following the commencement of insolvency processes;
- the establishment of MH Grainger, a co-investment vehicle established in November 2012 by Grainger and Heitman, which acquired a portfolio of approximately 3,000 German residential units from the Group. The German Residential business provides fee-based asset management services to MH Grainger;
- the creation of GRIP in early 2013, a joint venture unit trust with APG which has been established to invest predominantly in stabilised, market-let blocks and portfolios in Greater London. Grainger provides fee-based asset and property management services to GRIP; and
- the creation of the Sovereign Reversions joint venture by Grainger and Moorfield Real Estate Fund II in October 2010 to which Grainger provides fee-based property management services.

Fee income was £5.1 million in the six month period ended 31 March 2014, but it is expected that fee income will be higher in the second half of the 2014 financial year. Fee income does not accrue evenly, and the Group has already recognised additional income in this area for the six month period ended 30 September 2014.

Grainger intends to expand its fee earning capability by seeking opportunities where it can align itself with parties who share common interests with the Group, whether in the form of joint ventures or service provision roles where Grainger may act as asset or property manager. This strategy is designed to allow Grainger to capture growing interest from investors (both in the UK and overseas) in investments in the UK Residential Property market whilst deploying its capital in an efficient manner.

Increase investment in the private rented sector to benefit from attractive market dynamics

In the medium-term, the Group intends to increase its investment in the private rented sector principally through participation in the growing Build to Rent sector. The UK private rented sector has emerged as the fastest growing tenure in the UK over the last decade, while owner occupation has been in decline since 2005.[23] As at 30 September 2013, 50 per cent. of all London households are rented[24] and Grainger expects this proportion to increase. The Group is currently increasing its exposure to the private rental market in the UK through:

- the development of 100 residential apartments purpose built for private rental at London Road, Barking. The Group will retain and let the residential units and provide asset and property management services. The construction works on this development are underway and the main building contractor has been appointed by the developer, BY Development Limited (which is part of the Bouygues Construction Group); and
- the development of two sites owned by the Royal Borough of Kensington and Chelsea for mixed tenure housing. Some of the properties will be privately sold, some will be affordable housing, but a major component of the development will be purpose built private rental accommodation managed by Grainger under a 125-year agreement. As with the development at London Road, Barking, the role of the main building contractor will be contracted out under the development structure.

Over the medium term, the Group intends to use a greater proportion of the cash flows generated by property sales to invest selectively in new and existing developments in the private rented sector in the UK where returns are accretive to the Group. Government initiatives have been particularly supportive of this sector, an example being the extension of the "Build to Rent Fund" and Grainger has been shortlisted for up to £70 million of Government funding for the construction phase of "Built to Rent" projects involving 500 units across London and the South East.

The Group considers its strategy of increasing its investment in the private rented sector as a natural evolution of the business which will balance the expected long-term reduction in the size of its regulated portfolio in the longer term.

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23 Source: Office of National Statistics

24 Source: Office of National Statistics

4. Business Descriptions

4.1 *UK Residential Business*

Trading summary

	Financial year ended 30 September (Audited)			Six months ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
Revenue (£m)	200.6	211.4	204.7	69.8
Net rental income (£m)	38.4	41.8	37.2	14.7
Property sales (£m)[25]	152.5	176.4	264.1	50.4
Profit on sale of properties (£m)	55.0	59.8	64.5	23.5
Margin on vacant possession sales (%)[26]	42.8	42.0	50.6	53.7
OPBVM (£m)	86.0	94.7	94.6	34.3

In the six month period ended 31 March 2014, the UK Residential business recorded revenue of £69.8 million (compared to £204.7 million in the financial year ended 30 September 2013, £211.4 million in the financial year ended 30 September 2012 and £200.6 million in the financial year ended 30 September 2011). The UK Residential business derives its revenue principally from a combination of rental income and proceeds on the sale of trading properties, generally when the properties fall vacant, and the trends in these two revenue sources are described below. The UK Residential business makes both Investment Sales and sales with vacant possession. Typically, the Group realises significantly higher profits on the vacant possession sales as these sales realise the Reversionary Surplus.

In the six month period ended 31 March 2014, the UK Residential business' net rental income was £14.7 million (compared to £37.2 million in the financial year ended 30 September 2013, £41.8 million in the financial year ended 30 September 2012 and £38.4 million in the financial year ended 30 September 2011). The £4.6 million, or 11.1 per cent., fall in net rental income in 2013 and the continued pro rata fall in 2014 (period to 31 March) reflected, in particular, net sales of tenanted properties and the transfer of tenanted properties into co-investment vehicles which had contributed to a lower number of rental generating properties. The £3.4 million, or 8.9 per cent., increase in net rental income in 2012 reflected the fact that there was a full year contribution from the 2011 acquisitions of the Hi Tricomm and Grainger Geninvest portfolios, although this was partly affected by the fact that more tenanted properties were sold than acquired.

In the six month period ended 31 March 2014, the UK Residential business sold 314 properties raising £50.4 million compared to 1,735 properties raising £264.1 million in the financial year ended 30 September 2013, 951 properties raising £176.4 million in the financial year ended 30 September 2012 and 1,030 properties raising £152.5 million in the financial year ended 30 September 2011.

In the six month period ended 31 March 2014, the UK Residential business' profit on the sale of properties was £23.5 million (compared to £64.5 million in the financial year ended 30 September 2013, £59.8 million in the financial year ended 30 September 2012 and £55.0 million in the financial year ended 30 September 2011). The £4.7 million or 7.8 per cent. increase in profit from the sale of properties in 2013 reflected higher selling prices and margins generated by the UK Residential business on sales as the market gradually improved through the second half of 2013. The £4.8 million, or 8.7 per cent., increase in profit from sales of properties in 2012 compared to 2011 principally reflected the effect of the sale of a high value penthouse near Hyde Park.

The average sales price achieved by the UK Residential business on vacant possession sales in the six month period ended 31 March 2014 was £239,923 (compared to £235,821 in the financial year ended 30 September 2013, £228,225 in the financial year ended 30 September 2012 and £209,267 in the financial year ended 30 September 2011). The margins on vacant possession sales by the UK Residential business were 53.7 per cent. in the six month period ended 31 March 2014 (compared to 50.6 per cent. in the financial year ended 30 September 2013, 42.0 per cent. in the financial year ended 30 September 2012 and 42.8 per cent. in the financial year ended 30 September 2011). As a result, the OPBVM for the UK Residential business in the six months ended 31 March 2014 was £34.3 million (compared to

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25 Please note that the numbers provided for the line item "Property sales" have not been audited

26 Please note that the numbers provided for the line item "Margin on vacant possession sales" have not been audited

£94.6 million in the financial year ended 30 September 2013, £94.7 million in the financial year ended 30 September 2012 and £86.0 million in the financial year ended 30 September 2011).

UK Residential Portfolio

The table below summarises the UK Residential Portfolio by units owned and shows both the Market Value and the Vacant Possession Value, as at 31 March 2014 and as at 30 September in each of 2011, 2012 and 2013.

	As at 30 September (Audited)			**As at 31 March (Unaudited)**
	2011	**2012**	**2013**	**2014**
Regulated and assured units owned (No.)........................	5,853	5,094	4,096	3,811[(1)]
Market Value (£m)..	954.3	903.0	836.1	906.6
Vacant Possession Value (£m)..	1,280.0	1,209.9	1,110.1	1,173.6
Other units owned (No.)..	1,809	1,778	1,104[(2)]	1,098
Market Value (£m)..	447.6	435.0	308.9	330.8
Vacant Possession Value (£m)..	489.9	478.8	340.7	361.3

Notes:

(1) Comprising 3,401 regulated and 410 ex-regulated assured and assured periodic tenancies.

(2) Principally comprising assured shorthold tenancies, vacant units and agricultural tenancies and Hi Tricomm units.

The properties in the UK Residential Portfolio are geographically diverse with 72.3 per cent. by Market Value as at 31 March 2014 located in London and the South East.

The following table (with accompanying map) indicates the distribution of the properties in the UK Residential Portfolio by Investment Property Databank's ("**IPD**") regional classification. IPD is a company which collects real estate data providing clients with comprehensive and comparable performance analysis. IPD have split the UK into a number of IPD regions for the purpose of data collection. Grainger has adopted these regions so that data is comparable with other market data collected by IPD.

Source: Management information

As at 31 March 2014

	IPD region	No of Units	Market Value (£m)	% of total Market Value	Vacant Possession Value (£m)	% of total Vacant Possession Value
1	London	2,217	814.2	65.8	1,018.0	66.3
2	South East	412	80.8	6.5	107.3	7.0
3	South West	696	155.4	12.6	167.6	10.9
4	East	270	38.5	3.1	51.0	3.3
5	East Midlands	56	7.1	0.6	9.0	0.6
6	West Midlands	428	65.1	5.3	84.1	5.5
7	Wales	9	1.0	0.1	1.3	0.1
8	Yorkshire	140	13.9	1.1	17.7	1.2
9	North West	500	43.7	3.5	57.3	3.7
10	North East	178	17.5	1.4	21.4	1.4
11	Scotland	3	0.2	0.0	0.3	0.0
	TOTAL	4909	1,237.4	100	1,535.0	100

Source: Management information

Regulated Tenancies

The UK Residential Portfolio at 31 March 2014 consisted of 4,909 properties, with a Market Value of £1.237 billion. The majority of the properties in the UK Residential Portfolio (3,401 units with an estimated Market Value of £808.0 million) are subject to regulated tenancies with rental rates set in accordance with the Rent Act. The remaining properties in the UK Residential Portfolio are not subject to regulated tenancies and include ex-regulated assured and periodic tenancies and assured shorthold tenancies, all of which are subject to market rents, vacant units, properties held under a private finance initiative arrangement with the UK Ministry of Defence, serviced apartments, agricultural tenancies and other property interests. The regulated properties in the UK Residential Portfolio are typically bought at a discount to their Vacant Possession Value and therefore have an inherent Reversionary Surplus. The Reversionary Surplus of the regulated properties in the UK Residential Portfolio was £244.5 million as at 31 March 2014.

Under the terms of a regulated tenancy, the tenant has a right to live at a property for the rest of his life. The Group typically receives a sub-market rent. This is reassessed by a local government rent officer every two years and is capped at the percentage change in the UK retail price index since the rent was last registered plus a percentage for the past two years prescribed by law (currently 5 per cent.). A description of the regulatory treatment of the regulated and non-regulated tenancies in the UK Residential Portfolio is set out in "*Regulation*."

The Directors believe that the typically sub-market rental rates combined with the threat of eviction for non−payment as well as the large proportion of rental payments being met, and in some cases paid directly, from UK housing benefit contributes to low rental default rates and reduces the Group's exposure to tenant default risk, even during adverse economic conditions. Over the six month period to 31 March 2014, the average level of tenant rent arrears in the UK Residential Portfolio was 3.2 per cent. Furthermore, where tenants do default on rental payments and are evicted, this generally permits the Group to sell the properties and realise their Reversionary Surplus.

No new regulated tenancies have been capable of being created since 1989, so the tenants in regulated properties are, on average, getting older. Vacancies sometimes occur on a voluntary basis, but the death or move into long-term care of the tenant is the principal contributing factor.

The gross rental income generated by the regulated properties in the UK Residential Portfolio was £11.3 million in the six month period ended 31 March 2014 (compared to £25.1 million in the financial year ended 30 September 2013, £28.7 million in the financial year ended 30 September 2012 and £29.7 million in the financial year ended 30 September 2011). The UK Residential business generally seeks to sell regulated properties on vacancy to realise the Reversionary Surplus. The average vacancy rates for the regulated properties in the UK Residential Portfolio have been 7.3 per cent., 6.8 per cent., 6.7 per cent. and 5.9 per cent., respectively, for the six month period ended 31 March 2014 and three financial years ended 30 September 2013, 2012 and 2011. Regulated properties are not generally re-let following vacancy, and remain vacant until completion of the sale, during which time no rent is payable on the property. The total sales proceeds from vacant regulated properties was £35.7 million in the six month period ended 31 March 2014 (compared to £79.5 million in the financial year ended 30 September 2013, £89.2 million in the financial year ended 30 September 2012 and £88.5 million in the financial year ended 30 September 2011).

In addition to sales upon vacancy, properties subject to regulated tenancies can be sold by way of Investment Sales (with tenants in place). As a result, regulated properties provide a portfolio from which to generate additional revenue as required, which contributes to the Group's flexibility in adapting to difficult market conditions. The UK Residential business undertakes a certain amount of Investment Sales in the normal course of business (to effect improvement in the overall quality of the portfolio) and increases such sales to generate increased revenue, when necessary. In the six month period ended 31 March 2014, the UK Residential business generated proceeds from Investment Sales from the UK Residential Portfolio of £10.3 million compared to £181.0 million in the year ended 30 September 2013, £58.2 million in the financial year ended 30 September 2012 and £56.6 million in the financial year ended 30 September 2011. Part of the reason for the increased amount of Investment Sales from the UK Residential Portfolio in the year ended 30 September 2013 was that this amount included sales made during that period to joint ventures and co-investment vehicles such as GRIP and WIPL.

The Group's long-term hold strategy is designed to allow the Group to capture the full extent of the Reversionary Surplus associated with its regulated properties and also to enable the Group to maximise value despite short-term fluctuations in the market. The normal trading cycle of the Group's regulated properties, measured as the time between acquisition of the property and sale (whether upon vacancy or by way of an Investment Sale), is estimated by the Group to be ten years on average. The Halifax house price index was started in 1983 and since that time has agreed with the Nationwide equivalent that residential housing prices in the UK have not declined over a period of that duration.

The UK Residential business achieved an average margin of 53.7 per cent on sales of its vacant properties in the six month period ending 31 March 2014, reflecting the recovery in the property market. This is compared to an average margin of 50.6 per cent. on sales of its vacant properties in the financial year ended 30 September 2013, a margin of 42.0 per cent. in the financial year ended 30 September 2012 and 42.8 per cent. in the financial year ended 30 September 2011. The un-modernised nature of the Group's mature portfolio of properties is attractive to first-time buyers and amateur developers who wish to maintain or increase value in the properties through refurbishment. However, while un-modernised properties are generally sold as they are, Grainger may undertake some capital expenditure on the property in order to ensure that the buyer will get a mortgage, to protect value in areas of high concentration or where Grainger is expecting a strong return on its investment. The same applies to properties that were subject to a home reversion plan and which are subsequently sold by Grainger (see *Retirement Solutions Business– Home Reversions Portfolio* below). Sales of the Group's regulated properties have maintained high demand from purchasers without significant pricing discounts, with average sales values upon vacancy being 10.4 per cent. above the prior year end Vacant Possession Value in the financial year ended 30 September 2013 compared to 8.9 per cent. above in the financial year ended 30 September 2012 and 8.6 per cent. above in the financial year ended 30 September 2011. For these reasons, the Group intends to take advantage of suitable acquisition opportunities in the regulated tenancy market with a view towards increasing its market share in this segment. It should be noted that typically between 18 and 20 per cent. of gross rental income is spent on the maintenance of properties subject to regulated tenancies.[27]

Properties not subject to regulated tenancies

As at 31 March 2014, the UK Residential Portfolio also included 410 ex-regulated assured and assured periodic tenancies and a further 1,098 units not subject to regulated tenancies, including assured shorthold tenancies, vacant units, assets held under a private finance initiative arrangement with the UK Ministry of Defence, agricultural tenancies, and, in addition, numerous other property interests such as garages and ground rents. As at 31 March 2014, the Group's 410 ex-regulated assured and assured periodic tenancies had a Market Value of £98.6 million (8.0 per cent. of the Market Value of the UK Residential Portfolio). The remaining 1,098 non-regulated properties in the UK Residential Portfolio had a Market Value of £330.8 million (26.7 per cent. of the Market Value of the UK Residential Portfolio). Assured and assured periodic tenancies are usually former regulated tenancies which have passed by way of statutory succession rights to a relative of the previous tenant, following the expiry of the regulated tenancy upon the vacancy of the property. Assured and assured periodic tenancies offer security of tenure but are subject to market rental rates. Assured shorthold tenancies do not offer security of tenure (the landlord may take possession for any reason after the later of (i) six months after the beginning of the tenancy or (ii) the end of the fixed term, upon two months' notice) and are also subject to market rental rates. As the rental rates on the Group's assured, assured periodic and assured shorthold tenancies are driven by market rates, the rental rates tend to be more volatile in nature, although due to increased demand for rented property, market rents have increased over the last two years and this has been advantageous to the Group. However, as the assured, assured periodic and assured shorthold properties constituted only 19.1 per cent. of the UK Residential Portfolio by Market Value as at 31 March 2014, the impact of this volatility on the UK Residential business' total rental income is limited. The non-regulated properties in the UK Residential Portfolio generated £9.9 million in gross rental income in the six month period ended 31 March 2014 (compared to £26.8 million in the financial year ended 30 September 2013, £28.8 million in the financial year ended 30 September 2012 and £20.9 million in the financial year ended 30 September 2011).

[27] Source: Management information

The table below compares the percentage movement in Vacant Possession Value of the properties in the UK Residential Portfolio to the percentage movement in the Nationwide and Halifax house price indices in the three financial years ended 30 September 2011, 2012 and 2013 and in the six month period ended 31 March 2014:

	2011	**2012**	**2013**	**2014**
	%	%	%	%
Halifax house price index	(2.2)	(1.2)	6.2	4.3
Nationwide house price index	(0.3)	(1.4)	5.0	4.7
Grainger (Vacant Possession Value)	2.2	4.4	8.2	7.9

Due to the relatively low value of most of its regulated properties and sales margins which historically have been high due to acquisition prices being at a discount to Vacant Possession Value and/or the UK Residential business having held the property for a number of years, the Group has considerable flexibility with respect to pricing upon the disposal of the regulated properties in its UK Residential Portfolio and thus has generally been less impacted in periods where adverse market conditions contribute to low property prices and reduced demand. Furthermore, the properties in the UK Residential Portfolio have not been as severely affected by declining prices and have out-performed the Nationwide and Halifax house price indices in the four year period ended 30 September 2013 when the Vacant Possession Value of the properties in the UK Residential Portfolio increased by 20.1 per cent. compared to increases of 6.4 per cent. and 5.3 per cent. in the Nationwide and Halifax house price indices, respectively, over the same period.

HI Tricomm

HI Tricomm was acquired by Grainger in February 2011 at a discount of £14.9 million to its net asset value. As at 31 March 2014, the property portfolio comprised 317 freehold houses in five locations in Bristol, Trowbridge and Fareham, built between 2001 and 2003 by Barratt Homes. The dwellings comprise mostly family accommodation, built for senior personnel from the UK Ministry of Defence, and are located on conventional, good quality estates amongst privately owned dwellings. The properties are occupied under an agreement between the Secretary of State for Defence and HI Tricomm. The agreement is under the Government’s private finance initiative and has approximately 14 years remaining until reversion in 2028, at which point the UK Ministry of Defence can choose to acquire the dwellings from Tricomm Housing Limited (the subsidiary company of HI Tricomm that actually owns the properties) at Market Value, re-tender the contract with a new contractor paying the Market Value of the properties to HI Tricomm or allow HI Tricomm to retain the properties.

The private finance initiative arrangement produces gross rental income of approximately £8.8 million per year and a net yield of 7.2 per cent.

As at 31 March 2014, Allsop valued the Group’s interest by way of a discounted cash flow model which places a net present value on HI Tricomm’s ultimate interest in the properties and the income streams generated by the private finance initiative arrangement. The valuation of £107.5 million was 8.7 per cent. of the Market Value of the UK Residential Portfolio at that date. The entities in the HI Tricomm structure, including Tricomm Housing Limited, are Excluded Entities.

London Road, Barking

In September 2012, the Group acquired a leasehold interest and entered into a development agreement in respect of a development site at London Road, Barking in relation to 100 residential apartments purpose built for private rental. Grainger will pay a total consideration of £13.7 million, with an initial deposit and the balance of the payment due on completion in 2015. The apartments will be constructed above a newly built supermarket. The design layout, location and pricing of these units are specifically for the rental market rather than the owner-occupied market and Grainger will retain and let the residential units and take responsibility for the asset and property management. This development scheme is part of the Group’s “Build to Rent” strategy. Construction works on the site are currently underway with practical completion anticipated in mid-2015.

The Chelsea Houses Portfolio

In April 2014, the Group acquired 61 freehold houses located across nine streets in Knightsbridge and Chelsea, all within the SW3 London postcode. Of the 61 houses, 45 were subject to regulated tenancies, 13 were subject to Assured Shorthold Tenancies and 3 were vacant. The acquisition price was £160 million. The portfolio was acquired using the Group’s existing financing facilities.

Social Housing – Grainger Trust Limited

In November 2012, Grainger received final government approval from the Homes and Communities Agency to set up a subsidiary For Profit Registered Provider ("**RP**") of social housing to support its long-term community building programme. The RP is named "Grainger Trust Limited" ("**GTL**"). GTL will help Grainger to retain greater control over the management of the affordable homes within its development pipeline over the coming years, which will provide Grainger with greater community building capabilities.

Valuation Methodology for the UK Residential Property Portfolio

As at 31 March 2014, Allsop valued the HI Tricomm portfolio on a discounted cash flow basis and valued other properties in the UK Residential Portfolio on a Vacant Possession Value basis. For all properties in the UK Residential Portfolio (other than properties held in the HI Tricomm portfolio), for the semi-annual valuation as at 31 March, Allsop carries out external inspections and provides Vacant Possession Values for not less than 10 per cent. of the properties. Grainger values the same properties and compares its results with those provided by Allsop. Where such results show a difference in value of 10 per cent. or more, Grainger and Allsop discuss the reasons for the difference and agree the appropriate valuation that should be adopted by the Directors. Other than in the case of properties held by Grainger Invest No 1 LLP and Grainger Invest No 2 LLP, the movement in value applied to the remaining 90 per cent. of the properties is derived, on an equally weighted basis, from the combination of (i) the movement in value determined by Allsop and Grainger for the 10 per cent. sample and (ii) the movement in value calculated by the application on an equal basis of the movement of the Nationwide, Halifax and LSL Acad HPI. In the case of properties held by Grainger Invest No 1 LLP and Grainger Invest No 2 LLP the valuation results of the 10 per cent. sample are applied to the remaining 90 per cent. of properties held by them based upon the percentage change from the 10 per cent. sample in each IPD geographical area.

At the end of each financial year, Grainger values its entire UK Residential Property portfolio on a Vacant Possession Value basis (other than the HI Tricomm portfolio, which is valued on a discounted cash flow basis). In addition, Allsop externally inspects not less than 20 per cent. of the properties in the UK Residential Portfolio. Efforts are made to view externally properties located in the same street as those included in the 20 per cent. sample inspected and this, in conjunction with the 10 per cent. inspected in March, has the effect of increasing the total number of assets externally inspected in the year by Allsop to approximately 50 per cent of the total UK Residential Portfolio. As mentioned above, where the results obtained by Grainger and Allsop differ significantly, the parties discuss the reasons for the differences and agree on the most appropriate valuation approach.

Accordingly, more than 50 per cent. of the UK Residential Portfolio is independently externally inspected and valued in each 12 month period.

The above valuations provide the Group with Vacant Possession Values. Market Values are derived by applying a discount recommended by Allsop for each tenancy to the respective Vacant Possession Value. The applicable discount is based on auction evidence and other relevant market transactions.

Property and Asset Management

The Group also has an in-house capability to provide property and asset management services to the Group's wholly-owned properties in the UK, and to those owned by certain associates, co-investment vehicles and joint ventures in which the Group holds an equity interest and to external third parties in relation to the properties held in RAMP.

The property and asset management services provided by the Group include:

- strategic asset management services focused on driving asset performance, including setting and delivering portfolio strategy;
- all elements of the day-to-day operational management of multi-tenure properties including lettings, reactive and routine cyclical repairs, proactive maintenance and budgeting of capital works and refurbishment. The Group focuses on increasing rental income and asset value for all its internal and external clients;
- regular interaction, communication and engagement with the Group's tenant base;
- block management of common parts, ground rent, service charge, caretaker, health and safety management; and
- managing large scale acquisition and disposal transactions.

In total, services are provided to 20,499 units with a Market Value of £2,933.0 million as at 31 March 2014. Grainger's in-house capability is a distinguishing feature of its residential business. The "owner manager" mentality enables the

Group to drive asset value and facilitate outperformance. The Group focuses particularly on reducing the number of empty properties and increasing rental income for its internal and external clients.

In May 2013, the Group entered into a 10-year strategic partnering agreement with Kier Services Limited. This agreement relates to Kier Services Limited rendering services to the Group to carry out repairs and maintenance work across the UK Residential Portfolio.

4.2 ***Retirement Solutions Business***

Trading summary

	Financial year ended 30 September (Audited)			**Six months ended 31 March (Unaudited)**
	2011	**2012**	**2013**	**2014**
Revenue (£m)	25.9	35.5	31.1	104.3
Property sales (with vacant possession) (£m)[28]	27.6	38.7	36.9	21.8
Property sales (investment sales) (£m)[29]	–	–	19.0	84.7
Profit on sale of properties (£m)	10.0	13.3	12.5	18.6
Margin on vacant possession sales (%)[30]	36.0	34.1	32.6	39.8
OPBVM (£m)	18.7	22.3	19.0	23.6

In the six month period ended 31 March 2014, the Retirement Solutions business recorded revenue of £104.3 million (compared to £31.1 million in the financial year ended 30 September 2013, £35.5 million in the financial year ended 30 September 2012 and £25.9 million in the financial year ended 30 September 2011). The Retirement Solutions business principally derives its revenue from proceeds on the sale of properties classified as trading stock. Sales from both the business' retirement units and its share of proceeds from the sale of a portfolio of equity mortgages held by the Church of England Pensions Board as mortgagee in respect of properties owned by retired clergy (known as the "**CHARM Portfolio**") are not included within the revenue amount disclosed above (as these properties are not considered to be trading stock). These figures are £2.8 million for the six month period ended 31 March 2014 and £5.8 million, £7.8 million and £6.4 million for the financial years ended 30 September 2013, 2012 and 2011 respectively. They are included within the amounts for vacant possession property sales shown in the above table and discussed below.

In January 2014 the Group sold its interest in a portfolio of 1,203 properties located across the UK to Clifden Holdings Limited for £84.7 million. The properties sold were all residential units owned through home reversion plans within the Retirement Solutions business. The total Group pre-tax profit from the sale after costs was £9.9 million. The Group has entered into a long term agreement with Clifden to carry out asset and property management of the portfolio for which the Group will receive a fee income in excess of £600,000 per annum.

During the six month period ended 31 March 2014, the Retirement Solutions business sold interests in 1,341 assets from the Retirement Solutions Portfolio, raising aggregate proceeds of £106.5 million (the property sales amount in respect of sales with vacant possession combined with the property sales amount in respect of sales of investment properties) and generating a gross profit of £18.6 million compared to sales of 614 assets for an aggregate of £55.9 million generating a gross profit of £12.5 million in the financial year ended 30 September 2013 and sales of 323 assets for an aggregate of £38.7 million and gross profit of £13.3 million in the financial year ended 30 September 2012 and sales of 217 assets for an aggregate of £27.6 million and a gross profit of £10.0 million in the financial year ended 30 September 2011. The figures (and therefore the trend) for gross profit on sales of properties would be expected to remain quite stable (in percentage terms) from year to year. There is some minor variability from year to year, reflecting that aggregate sales proceeds and profit are the sum of sales of several hundred properties each year, each of which has its own (variable) sales proceeds and associated profit.

The average sales proceeds achieved by the Retirement Solutions business on its equity share of vacant possession sales in the six month period ended 31 March 2014 was £116,825 compared to £110,931 in the financial year ended 30 September 2013, £119,827 in the financial year ended 30 September 2012 and £127,401 in the financial year ended 30 September 2011. The average sales proceeds in the 2014 half year were on average 2.1 per cent. above the Vacant

28 Please note that the numbers provided for the line item "Property sales (with vacant possession)" have not been audited

29 Please note that the numbers provided for the line item "Property sales (investment sales)" have not been audited

30 Please note that the numbers provided for the line item "Margin on vacant possession sales" have not been audited

Possession Value of the equity shares sold as at 30 September 2013, and in 2013 were, on average, 2.8 per cent. above the Vacant Possession Value of the equity shares sold as at 30 September 2012 and the average sales proceeds in 2012 were, on average, 0.6 per cent. above the Vacant Possession Value of the equity shares sold as at 30 September 2011. The average sales proceeds in 2011 were, on average, 0.9 per cent. above the Vacant Possession Value of the equity shares sold as at 30 September 2010. The margins on vacant possession sales by the Retirement Solutions business were 39.8 per cent. in the six month period ended 31 March 2014 compared to 32.6 per cent. in the financial year ended 30 September 2013, 34.1 per cent. in the financial year ended 30 September 2012 and 36.0 per cent. in the financial year ended 30 September 2011.

The Retirement Solutions business acquired 14 units for an aggregate consideration of £1.8 million in the six month period ended 31 March 2014, 23 units for an aggregate consideration of £1.6 million in the financial year ended 30 September 2013, 113 units for an aggregate consideration of £8.7 million in the financial year ended 30 September 2012 and 176 units for an aggregate consideration of £14.0 million in the financial year ended 30 September 2011.

The OPBVM for the Retirement Solutions business in the six month period ended 31 March 2014 was £23.6 million (compared to £19.0 million in the financial year ended 30 September 2013, £22.3 million in the financial year ended 30 September 2012 and £18.7 million in the financial year ended 30 September 2011). The decrease in OPBVM from 2012 to 2013 is due to the lower income from the CHARM Portfolio during the year ended 30 September 2013. This was due to lower house price index assumptions specific to that portfolio. In addition, vacant sales and margins were slightly lower and net rents were lower due to the sale of retirement units in January 2013. The increase in OPBVM from 2011 to 2012 is due to higher sales resulting in additional profit on sale.

Overview

The Retirement Solutions Portfolio consisted of 3,753 properties with an aggregate Market Value of £350.7 million as at 31 March 2014. The Reversionary Surplus of the Retirement Solutions Portfolio was £115.7 million as at 31 March 2014. The Reversionary Surplus of the Sovereign Reversions joint venture was £33.5 million as at 31 March 2014 of which Grainger has a 50 per cent share.

Retirement Solutions Portfolio

The table below shows the Group's interest in units of properties in the overall Retirement Solutions Portfolio (which comprises the Home Reversions Portfolio, retirement units and the CHARM Portfolio, which are all described below under the headings "*Home Reversions Portfolio*", "*Retirement units*" and "*CHARM Portfolio*" respectively) together with their Market Value and Vacant Possession Value, as at 31 March 2014 and 30 September in each of 2011, 2012 and 2013.

	As at 30 September (Audited)			**As at 31 March (Unaudited)**
	2011	**2012**	**2013**	**2014**
Interest in residential units (No.)[31]	5,902	5,692	5,101	3,753
Market Value (£m).......................................	474.5	459.3	435.3	350.7
Vacant Possession Value (£m)[32]	677.5	652.4	612.7	466.4

31 Please note that the numbers provided for the line item "Interest in residential units" have not been audited

32 Please note that the numbers provided for the line item "Vacant Possession Value" have not been audited

Home Reversions Portfolio

The table below shows the Group’s interest in units of properties subject to home reversion policies together with their Market Value and Vacant Possession Value, as at 31 March 2014 and 30 September in each of 2011, 2012 and 2013 (all excluding Sovereign Reversions).

	As at 30 September (Audited)			**As at 31 March (Unaudited)**
	2011	**2012**	**2013**	**2014**
Interest in residential units (No.)[33]	3,870	3,750	3,554	2,256
Market Value (£m).......................................	294.6	287.6	288.8	204.4
Vacant Possession Value (£m)[34]	490.8	477.3	466.5	320.1

The Group’s portfolio of UK home reversion assets had a Market Value of £204.4 million as at 31 March 2014 (58.3 per cent. of the Retirement Solutions Portfolio by Market Value). In addition to the interests shown above, the Retirement Solutions business’ interest in home reversion assets includes its interest in the home reversion assets owned by Sovereign Reversions, see “*Sovereign Joint Venture*” below. Home reversion assets have provided a stable source of income upon vacancy and sale with average vacancy levels for the Group’s home reversion properties of 5.4 per cent. per annum over the three and a half years ended 31 March 2014. Sales proceeds amounted to £17.8 million in the six month period ended 31 March 2014 (compared to £26.3 million in the financial year ended 30 September 2013, £28.9 million in the financial year ended 30 September 2012 and £19.9 million in the financial year ended 30 September 2011).

Under a home reversion plan (part of the wider “equity release” market that also includes lifetime mortgages), an owner sells to the Retirement Solutions business part or all of his home in return for a cash lump sum (or a series of payments) calculated on the basis of the Vacant Possession Value of the property, the ages of the owner and the proportion of the property being sold. A home reversion plan creates a Reversionary Surplus similar to a regulated tenancy, but typically with a deeper discount as there is no rent paid in the period up to vacant possession. The owner can remain in the property for the rest of his life, after which the property is sold by the Retirement Solutions business to realise the Reversionary Surplus. Management believe that some 35 per cent. of home reversion tenants have used some or all of the proceeds from their home reversion plan to improve the property which is now owned by Grainger.

The Group’s long established distribution network and wide product range are significant competitive advantages in the home reversion market. The Retirement Solutions business offers home reversion plans subject to a flexible range of features and price ranges through its Bridgewater business and its strategic joint venture with Aviva. The Bridgewater products are marketed by FAs.

In November 2013, the Bridgewater business was named “Best Home Reversion Provider” at the Mortgage Solutions Equity Release Awards for the eighth consecutive year.

The regulated nature of the home reversion market represents a significant barrier to entry for potential competitors who do not have the same size and scale of operations as the Group. The Retirement Solutions business’ home reversion products are FCA-regulated and the business insists that all of its customers receive independent advice from a qualified third party prior to taking out a home reversion plan.

The home reversion business depends on scale to produce consistent levels of vacancy and therefore sales income. Grainger is a market leader in the UK home reversion sector, with a market share estimated by management to be approximately 40 per cent. In the six month period ended 31 March 2014, the Retirement Solutions business acquired 14 properties at a cost of £1.8 million. In the financial year ended 30 September 2013, the Retirement Solutions business acquired 23 properties at a cost of £1.6 million. In the financial year ended 30 September 2012, the Retirement Solutions business acquired 113 properties at a cost of £8.7 million and in the financial year ended 30 September 2011, the Retirement Solutions business acquired 176 properties at a cost of £14.0 million.

33 Please note that the numbers provided for the line item “Interest in residential units” have not been audited

34 Please note that the numbers provided for the line item “Vacant Possession Value” have not been audited

Retirement units

The table below shows the Group's interest in purpose built retirement units together with their Market Value and Vacant Possession Value, as at 30 September in each of 2011, 2012 and 2013 and as at 31 March 2014.

	As at 30 September (Audited)			As at 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
Interest in residential units (No.)[35]	1,026	1,004	663	643
Market Value (£m)......................................	77.7	72.6	50.1	49.1
Vacant Possession Value (£m).....................	79.7	75.7	50.2	49.2

The Retirement Solutions Portfolio at 31 March 2014 included 643 purpose built retirement units which are wholly-owned by the Group and were primarily acquired as part of the Group's acquisition of two portfolios of properties.

These purpose built retirement units had a Market Value of £49.1 million as at 31 March 2014 and generated £1.3 million in sale proceeds and £0.9 million in gross rental income in the six month period ended 31 March 2014 compared to £23.8 million in sale proceeds and £3.0 million in gross rental income in the financial year ended 30 September 2013, £2.0 million in sale proceeds and £4.9 million in gross rental income in the financial year ended 30 September 2012 and £1.4 million in sale proceeds and £5.4 million in gross rental income in the financial year ended 30 September 2011.

As at 31 March 2014, 90.6 per cent. of the units in the portfolio of retirement units were subject to lifetime leases, 0.5 per cent. were subject to assured tenancies, 0.5 per cent. were subject to regulated tenancies and 8.4 per cent. were vacant.

A lifetime lease entitles the tenant to rent-free lifetime occupation of the property following the payment of a one-time lump sum payment. The Group maintains title to the property for the duration of the lifetime lease. When these properties become vacant, they are available for either lifetime lease or let on an assured tenancy or sold. The average vacancy levels for the Group's lifetime leased retirement properties have been 5.7 per cent. per year since acquisition.

A description of the valuation methodology that Allsop adopts in respect of the Retirement Solutions Portfolio can be found under the heading "*Valuation Methodology for the Retirement Solutions Portfolio and Sovereign Reversions Portfolio*" below.

CHARM Portfolio

The Group's financial interest in the CHARM Portfolio also sits within the Retirement Solutions Portfolio. The Group acquired an interest in the CHARM Portfolio from the Church Commissioners in early 2007 for £134.7 million. The Group's financial interest in the CHARM Portfolio entitles the Group to receive an amount payable by the Church Commissioners which is equal to the interest paid by the mortgagor to the Church of England Pensions Board in accordance with the terms of the relevant CHARM Portfolio mortgage. Additionally, the Group is entitled to receive from the Church Commissioners the agreed proportion of the gross sale proceeds of the property received by the Church of England Pensions Board in accordance with the terms of the relevant CHARM Portfolio mortgage, such proportion being based on the original loan and further advances.

During 1993, the terms and conditions of the CHARM Portfolio mortgages were changed. Mortgages issued on the old terms were subject to an initial interest rate of 3.0 per cent. and the Church of England Pensions Board could vary the interest payable at its discretion. Mortgages issued on the new terms and conditions were subject to an initial interest rate of 4.0 per cent., with the interest payable being increased in accordance with the Church pension index, which in part reflects the UK retail price index and the state pension.

The Group is entitled to payments of interest and the agreed proportion of sales proceeds from the Church Commissioners only to the extent that the Church of England Pensions Board has received the corresponding payments from the mortgagor. However, there are a number of mechanisms that can be triggered if the CHARM Portfolio mortgages or their administrators do not meet certain standards, resulting in a payment by the Church Commissioners to the Group of the amount (by agreement between the parties or upon determination by a third party) that would have been received had the relevant standard been met. In essence, the Group is broadly in the position that a mortgagee would be in, in that borrowers may not pay on time or at all and, in addition, the Group is reliant on the Church of England Pensions Board to administer and, if necessary, enforce the mortgages.

[35] Please note that the numbers provided for the line item "Interest in residential units" have not been audited

Allsop determines the current Vacant Possession Value of each property in the CHARM Portfolio. The Group's in-house actuary uses discounted cash flow techniques to calculate the present value of the expected future interest payments and the Group's share of the anticipated sale proceeds of the relevant property on ultimate vacancy. As at 31 March 2014, the evaluated present value of the Group's total entitlements in respect of its interest in the remaining CHARM Portfolio was £97.2 million.

Vacancies within the CHARM Portfolio occur at a rate of about 6.4 per cent. per year and the CHARM Portfolio generated £2.8 million in sales proceeds with a profit on sales of £0.1 million for the Group in the six month period ended 31 March 2014. The overall income reflected in the income statement for the six month period ended 31 March 2014 was £5.0 million. The yield of the Group's interest in the CHARM Portfolio, based on the cash receipts and revalued average Market Values over the six month period ended 31 March 2014, was 8.4 per cent.

Sovereign Joint Venture

Sovereign Reversions was acquired by the Group in August 2010. In October 2010, a joint venture agreement was signed with MREF II Equity Release Limited, a wholly-owned subsidiary of Moorfield Real Estate Fund II, to create a 50/50 joint venture. The Sovereign Reversions joint venture offers the Group a complementary reversionary portfolio to its existing pool of equity release assets. As at 31 March 2014, 822 properties with an aggregate Market Value of £59.0 million were owned by Sovereign Reversions. The average age of the occupants of the properties across the portfolio is 83.6, with an anticipated vacancy rate of 6.6 per cent. per annum.

In addition to equity release plans, the Sovereign Reversions joint venture has a number of shared equity assets and also performs administration services in relation to an additional 1,332 properties with home reversion plans held by third party and institutional investors.

As a result of the joint venture agreement, the Group also secured an income stream of approximately £1.1 million per year in relation to its management of the properties owned by the Sovereign Reversions joint venture.

Valuation Methodology for the Retirement Solutions Portfolio and Sovereign Reversions Portfolio

Allsop adopts a different valuation methodology in respect of the Retirement Solutions Portfolio and the Sovereign portfolio. Allsop values the property assets in the Retirement Solutions Portfolio and Sovereign portfolio subject to their tenancies (where relevant) on a Market Value basis in accordance with the RICS Valuation – Professional Standards. The 2013 valuation was based upon an assessment of the Vacant Possession Value of each property obtained through an external or internal inspection by Allsop of approximately 50 per cent. of the dwellings in each of the portfolios within the last twelve months and a 'desktop' re-valuation of the remainder. The Market Value subject to tenancy was obtained subsequently by taking into account a number of factors, primarily the estimated period until vacant possession may arise and the appropriate investment discount rate. In previous years, inspections by Allsop were done for approximately 33 per cent. of the dwellings in each of the portfolios with the remainder of these properties being valued by Grainger. The main reason for the increase in Allsop's involvement related to the Group's decision to outsource a greater proportion of this work to an independent valuer.

4.3 *Fund and Third Party Management Business*

Trading summary

	Financial year ended 30 September (Audited)			Period ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
External management fee income(£m).....................	4.9	8.3	9.6	3.7
OPBVM (£m)...	1.8	1.9	2.9	0.8
Share of profits/(losses) of joint ventures and associates (including share and revaluation gains) (£m)...	7.1	4.5	12.9	19.3

In the financial year ended 30 September 2013 the Fund and Third Party Management business recorded gross external management fee income of £9.6 million (compared to £8.3 million in the financial year ended 30 September 2012 and £4.9 million in the financial year ended 30 September 2011). The OPBVM for the Fund and Third Party Management business in the six month period ended 31 March 2014 was £0.8 million (compared to £2.9 million in the financial year ended 30 September 2013, £1.9 million in the financial year ended 30 September 2012 and £1.8 million in the financial year ended 30 September 2011).

The Fund and Third Party Management business currently owned a 24.9 per cent. share in GRIP as at 31 March 2014, a fund that invests in market-let residential properties in the UK, and a 50 per cent share in WIPL, a joint venture with Dorrington formed in May 2013 to acquire the Walworth estate from the Group.

The Group provides property and asset management services with respect to the 1,622 properties owned by GRIP (which were valued at £439.3 million as at 31 March 2014) and the 614 properties owned by WIPL (which were valued at £155.2 million as at 31 March 2014). The Group's Fund and Third Party Management business aims to capitalise on the Group's expertise in the area of property and asset management whilst reducing the Group's capital and risk exposure to the properties (which are held within co-investment vehicles, joint ventures or associates) and giving the Group the ability to generate revenue by way of management fees under such arrangements. The Group's property and asset management and performance fees are an important revenue stream and one which is not wholly reliant on UK house price inflation. The amount of asset management fee income payable in relation to the joint ventures and associates for which the Group offers asset management services is affected only in part by the value of the properties owned by such arrangements.

GRIP

The Market Value and Vacant Possession Value of, and the Fund and Third Party Management business' interest in, GRIP as at 31 March 2014 are summarised below:

	Number of Units	**Gross Market Value £m (Unaudited)**	**Gross Vacant Possession Value £m (Unaudited)**	**Gross Reversionary Surplus £m (Unaudited)**	**Grainger's equity stake %**	**Grainger's share of Reversionary Surplus £m**
GRIP…….	1,622	439.3	508.2	68.9	24.9	17.2

Source: Management information.

GRIP is a unit trust created by Grainger and APG in January 2013. GRIP acquired the residential property portfolio owned by G:Res, a Jersey-based closed-end fund for £348.9 million and G:Res is currently being wound-down. In August 2013, GRIP acquired Grainger's Tilt portfolio which comprised over 300 residential units and which was sold to GRIP for £58.1 million. As a result of the transaction, Grainger's proportionate stake in GRIP was slightly reduced to 24.9 per cent. (valued at £74.8 million as at 31 March 2014) due to APG's greater contribution of equity finance. However, Grainger now intends to maintain its current proportionate stake in GRIP alongside APG as and when GRIP makes appropriate acquisitions in the future. Grainger Asset Management Ltd and Grainger Residential Management Ltd earn asset and property management fees from GRIP.

GRIP's aim is to grow by investing in predominantly stabilised, market-let blocks and portfolios focused on Greater London. GRIP also has the scope to invest in Build to Rent development opportunities.

As at 31 March 2014, based upon the last external valuation of the GRIP portfolio as at 31 December 2013, as adjusted by reference to sales of units since that date, GRIP held 1,622 units with a total Market Value of £439.3 million and a total Vacant Possession Value of £508.2 million, giving rise to a Reversionary Surplus of £68.9 million. Approximately 98.3 per cent. of the properties in the portfolio are in London and the South East. The GRIP business plan is to hold the majority of units over the life of the fund and add value through improved management and a refurbishment programme. The plan also includes limited sales of under performing assets with proceeds being used for reinvestment and capital improvements. The Group earns fees as adviser and provides asset and property management services through its Fund and Third Party Management business. As a co-investor in the fund, the Group receives dividends paid from time to time by GRIP. GRIP has an infinite life with liquidity reviews every five years.

As at 31 March 2014, GRIP was funded in part by debt financing which is non-recourse to the Group.

RAMP

Grainger was selected as the preferred supplier to RAMP in May 2011. RAMP provides clients with integrated strategic and operational property and asset management solutions for their residential property portfolios. RAMP aims to secure maximum value from clients' residential property portfolios by handling them in the same way that Grainger handles its own, through a tried and tested process of inspection, migration onto Grainger's platform, stabilisation and then realisation. Grainger derived fee income of £2.0 million from RAMP for the six month period ended 31 March 2014. Since Grainger was selected as the preferred supplier to RAMP, it has dealt with 20 cases involving 3,316 units. As at 31 March 2014, 2,905 of these units had been sold and 411 remained under Grainger's management.

WIPL

On 13 May 2013, WIPL, a 50:50 joint venture between Grainger and Dorrington, was formed to acquire the Walworth estate, which had formerly been wholly-owned by the Group, for a total consideration of £112.0 million. The Walworth estate consists of 614 residential units and two commercial units in Walworth, South London. The day to day property management services are outsourced to a third party property manager. As at 31 March 2014, the portfolio held by WIPL had an aggregate Market Value of £155.2 million. The gross rental income for the portfolio is currently £5.7 million (reflecting a gross yield of approximately 3.7 per cent.). Allsop's valuation of the properties in the WIPL portfolio is done in accordance with the RICS Valuation – Professional Standards and based on a 100 per cent. external valuation inspection.

Clifden Management Agreement

The Group has entered into a long term agreement with Clifden to carry out asset and property management services for which the Group will receive a fee income in excess of £600,000 per annum. At completion of the deal, £52.6 million (being 60 per cent. of the total consideration) was paid in cash to Grainger, with the remaining 40 per cent. payable unconditionally over the subsequent 12 months. The outstanding consideration is subject to interest of 10 per cent. per annum.

4.4 ***Development Business***

Trading summary[36]

	Financial year ended 30 September (Audited)			Six months ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
Property sales (£m)	22.1	18.9	15.0	2.9
Profit on sale of properties (£m)	15.1	3.4	1.9	1.0
OPBVM (£m)	14.4	2.8	1.2	0.6

The Development business focuses on residential-led schemes in London and the South East where the business can work with local authorities and communities, joint venture partners and other stakeholders to add significant value to projects. The business model is to gain control of land at a low entry price, and create a step change in value prior to exit. Key drivers of this value creation include obtaining or enhancing planning consent, installing infrastructure and sale of serviced sites to house builders, and the building out of the scheme to create completed units for sale or rent. The division also generated revenue (£0.3 million in the six months to 31 March 2014) through the provision of development management services.

The Group's UK development assets fall into four main categories:

- Strategic Land – purchases of undeveloped land, primarily the South East, without planning status and with a long-term view towards promotion within the local planning process for future development consent. A current example is the 537-acre site at Berewood, Hampshire. The Group has been working on this site since 2005, and has achieved planning consent for 2,550 homes and community facilities. Two serviced land parcels have already been sold to house builders, who have in turn starting selling to new residents. Grainger maintains its role as developer of these land parcels;

- Design-led, London – development of urban sites from the point of acquisition, through planning and selective build out. Examples of such projects include Hornsey Road Baths in Islington and Macaulay Walk in Clapham, being a residential-led mixed use and recently completed development currently on sale to the public;

- Public/Private Partnership – residential-led mixed-use schemes developed jointly with a local authority and other joint venture partners. An example of such a scheme includes the King Street Regeneration Project in Hammersmith in partnership with the London Borough of Hammersmith & Fulham and private partner Helical Bar plc; and

- Fee generation – development partnering with public sector organisations to generate fee income and possible profit share. Examples include the partnership with the UK Ministry of Defence at Wellesley, Aldershot and the partnership with the London Borough of Kensington & Chelsea on two private rented sector sites.

36 Please note that the numbers provided in this table have not been audited

The division has led the Group's emergence in two new sectors, the establishment of Grainger Trust as a new For-Profit Registered Provider, and the development of a private rented sector portfolio.

Sales from the Development Portfolio were £2.9 million in the six month period ended 31 March 2014, £15.0 million in the financial year ended 30 September 2013, £18.9 million in the financial year ended 30 September 2012 and £22.1 million in the financial year ended 30 September 2011 and there were profits on these sales of £1.0 million, £1.9 million, £3.4 million and £15.1 million respectively.

The fluctuation in profit on sale of properties from the development business is due to the project based nature of this business. In 2011, the Group benefited from two schemes in central London which on their own contributed approximately £14 million of profit in aggregate. 2012 and 2013 had no significant profit flows of this nature.

The OPBVM for the Development business in the period ended 31 March 2014 was £0.6 million (compared to £1.2 million in the financial year ended 30 September 2013, £2.8 million in the financial year ended 30 September 2012 and £14.4 million in the financial year ended 30 September 2011). The decrease in OPBVM in 2013 and 2012 compared with 2011 is due to the two transactions in central London in 2011 discussed above.

During the 12 months ended 30 September 2013, the Development business benefitted from the sale of the second tranche of land at Berewood in Hampshire. Grainger anticipates increased levels of sales and profit in the next six months as a result of anticipated sales at its Macaulay Walk development in Clapham. As at 30 September 2013, the Development business has committed development expenditure of £19.6 million in the period to 30 September 2014.

The table below shows the Market Value of the Group's Development Portfolio, together with the portfolio's gross development value (including in respect of those properties with planning consent) and committed cash expenditure. None of the numbers set out in this table have been audited.

	As at 30 September (Audited)			As at 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
	£m	**£m**	**£m**	**£m**
Market value of Development Portfolio (including share of joint ventures)	76.8	73.8	91.2	116.1
Gross development value[(1)] of all projects	493.0	496.0	474.0	614.0
Gross development value of projects with planning consent	241.0	243.0	314.0	468.0
Committed cash expenditure	10.2	57.9	40.0	67.90

(1) Development Value means the price at which a completed development is estimated to be sold.

The Market Value of the Development Portfolio as at 31 March 2014 was £116.1 million, including shares of joint ventures in which the Group has an interest, and corresponded to approximately 5.7 per cent. of the Market Value of the Group's total property assets. The Group envisages that over the longterm the Market Value of the Development Portfolio will continue to represent less than 10 per cent. of the Group's asset base by value, although the Development business division will aim to generate a margin of at least 15 per cent.

4.5 ***German Residential Business***

In December 2012 the Group divested, by way of a corporate sale, a portfolio of 3,081 units for €233.8 million into MH Grainger, the co-investment vehicle established with global real estate investment firm Heitman. Grainger now has a 25 per cent. interest in that portfolio, through a 5.1 per cent. direct holding and through a holding of 21 per cent. of the 94.9 per cent. portion held by MH Grainger.

Trading summary

	Financial year ended 30 September (Audited)			Six months ended 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
Revenue (£m)	40.6	36.6	22.1	8.9
Gross rental income (£m)	30.0	26.5	15.6	5.9
Net rental income (£m)	20.2	17.1	8.7	3.9
Property sales (£m)	21.1	24.4	18.0	14.0
OPBVM (£m)	18.3	15.7	4.7	2.9

The German Residential business principally derives its revenue from market-based rental income. The German Residential business also acts as principal in its service charge arrangements. In the six month period ended 31 March 2014, the German Residential business recorded revenue of £8.9 million (compared to £22.1 million in the financial year ended 30 September 2013, £36.6 million in the financial year ended 30 September 2012 and £40.6 million in the financial year ended 30 September 2011). The falls in revenue in 2013 and in the first half of 2014 were due to the sale in December 2012 to MH Grainger of approximately 50 per cent. of Grainger's assets in Germany. The fall in revenue from 2011 to 2012 was due to sales of tenanted properties in 2011 and 2012.

In the six month period ended 31 March 2014, the German Residential business' net rental income was £3.9 million compared to £8.7 million in the financial year ended 30 September 2013, £17.1 million in the financial year ended 30 September 2012 and £20.2 million in the financial year ended 30 September 2011. The £8.4 million, or 48.9 per cent., decrease in net rental income in 2013 reflected, as with the decrease in revenue, the sale of part of the German Residential property portfolio to MH Grainger in December 2012. The decrease of 15.3 per cent. in 2012 compared to 2011 was due to sales of tenanted properties in both 2011 and 2012.

To date, sales of properties in the German Residential business (excluding sales to MH Grainger) have been relatively low and any profits or losses generated have been immaterial to the Group. In the six month period ended 31 March 2014, the German Residential business sold 171 properties raising £14.0 million compared to 246 properties raising £18.0 million in the financial year ended 30 September 2013 (excluding the sale to MH Grainger), 294 properties raising £24.4 million in the financial year ended 30 September 2012 and 438 properties raising £21.1 million in the financial year ended 30 September 2011. The OPBVM for the German Residential business in the six month period ended 31 March 2014 was £2.9 million (compared to £4.7 million in the financial year ended 30 September 2013, £15.7 million in the financial year ended 30 September 2012 and £18.3 million in the financial year ended 30 September 2011). The decrease in 2013 compared to 2012 was primarily due to the reduction in net rents after the sale of assets to MH Grainger on 10 December 2012. The decrease in 2012 compared to 2011 was due to a decrease in net rent arising from sales in 2011 and also in 2012 where the majority of sales occurred early in the year.

Overview

The table below shows the Group's interest in units of residential properties in the German Residential Portfolio (excluding from 2013 all units which were transferred into MH Grainger in December 2012) together with the Market Value of the portfolio and gross rental income achieved by the portfolio, in each case as at 30 September in each of 2011, 2012, 2013 and 31 March 2014.

	As at 30 September (Audited)			As at 31 March (Unaudited)
	2011	**2012**	**2013**	**2014**
Residential and commercial units owned (No.)	6,718	6,396	3,052	2,881
Market Values (£m)	422.3	362.9	178.3	163.4
Gross rental income(£m)	30.0	26.5	15.6	5.9

As at 31 March 2014, the German Residential Portfolio, with a total of 2,881 units, had a Market Value of £163.4 million. The majority of the portfolio is located in the more affluent West and South-Western areas of the country and comprises 2,712 residential, and 169 commercial units. The German Residential Portfolio has been built up through the acquisition of approximately 30 portfolios since the last quarter of the 2005 financial year with Baden-Württemberg, Hesse and Bavaria representing approximately 54.2 per cent. of the portfolio (by Market Value) as at 31 March 2014.

The German Residential business has also focused on major cities such as Frankfurt, Cologne, Düsseldorf and Munich. With the exception of a single property in Potsdam (which represents 2.9 per cent. of the portfolio by Market Value as at 31 March 2014), the Group has no properties in Eastern Germany. The distribution of the property units in the German Residential Portfolio, both residential and commercial, as at 31 March 2014 is set out below:

Germany	**No. of Units**	**Market Value**	**Grainger Investment**
		€m	**%**
Baden-Württemberg	210	16.4	10.0
Hesse	1,069	68.7	42.0
North Rhine Westphalia	1,170	50.2	30.7
Bavaria	73	3.6	2.2
Lower Saxony	66	3.2	2.0
Rhineland-Palatinate	229	14.8	9.1
Other	64	6.5	4.0
Total	2,881	163.4	100

The German Residential Portfolio generally comprises multi-family houses in medium or larger cities, with 71.0 per cent. of the assets located in cities of 100,000 or more inhabitants. Approximately 63.7 per cent. of the properties were developed in the 1950s or later. The German Residential business is subject to German regulations regarding rental levels and the termination of tenancies, as described in "*Regulation*". A portion of the German Residential Portfolio is subsidised social housing (19.3 per cent. by Market Value as at 31 March 2014), which is subject to tenant nomination rights entitling certain classes of tenants to tenancy rights upon the vacancy of the property and capped rents. This sub-portfolio has the advantage of subsidised long-term state finance at very low interest rates.

Due to relatively low owner-occupier rates in Germany (45.7 per cent. in 2010) compared with England (66 per cent. in 2010-11)[37], Grainger typically re-lets the properties within the German Residential Portfolio at the end of their tenancies. Accordingly, income and cash generated from the portfolio is predominantly market based rental income. The nature of the properties and the German Residential business' active approach with respect to property management and tenant selection are reflected in longer-term tenancies, low vacancy rates (approximately 5.3 per cent. as at 31 March 2014) and generally stable rental revenue flows. Default rates have also been low with rent arrears at approximately 2.9 per cent. of gross rent in the period ended 31 March 2014. The Group intends to use the property management experience and expertise of the German Residential business to further increase the rental income generated by the German Residential Portfolio and to reduce vacancy rates. To this end, the German Residential business undertakes proactive rental reviews and intends to further improve its tenant services and continue to reduce operating costs, with a view to improving net rental margins.

Asset Management Services provided to MH Grainger

The creation of MH Grainger is in line with Grainger's strategy to align itself with third party institutional capital to make more efficient use of its operational platform. Grainger is the asset manager of the assets owned by MH Grainger pursuant to an asset management agreement under which Grainger receives fee income. The day to day property management is outsourced to third party property managers. The Market Value of, and the Group's' interest in, MH Grainger as at 31 March 2014 are summarised below:

	Number of Units	**Gross Market Value £m (Unaudited)**	**Grainger's equity stake %**
MH Grainger	2,988	196.0	25

(1) Grainger's equity stake above is the percentage based on the weighting of its direct and indirect ownership of the portfolio.

Source: Management information.

As at 31 March 2014, the portfolio held by MH Grainger consisted of 2,894 residential units and 94 commercial units with an aggregate Market Value of £196.0 million. The gross annual rental income for the portfolio is currently £12.5 million (reflecting a gross yield of approximately 6.5 per cent.).

37 Source: Destatis, Morgan Stanley Research, Department for Communities and Local Government Housing Survey

MH Grainger's long-term strategy is to maximising returns through income growth and active asset management. The Group earns fees as adviser and provides asset management services. As a co-investor in the fund, the Group receives dividends paid from time to time by MH Grainger.

5. Corporate responsibility

The Group is proud of its continually evolving and strengthening approach to sustainability and views its leading position in this field as a significant source of opportunity and strength. The Group is a member of the FTSE4Good Index.

ETHOS Sustainability strategy

'ETHOS', being the Group's sustainability strategy and its realisation through an annual corporate responsibility programme is fully embedded into the Group's business activities. The purpose of ETHOS is to ensure business sustainability and resilience—managing risk, maintaining income streams and protecting value. The Executive Directors each take responsibility for delivery of parts of the corporate responsibility programme with progress being regularly monitored by the full Board.

Opportunities and Risks

The Group's approach to sustainability is based on a rigorous assessment of risks and opportunities for the business. The Group engages external corporate responsibility advisers to regularly identify risks, and the Group's internal sustainability committee, comprising representatives from each section of the business, is responsible for managing these risks and taking advantage of opportunities as they are identified. The active monitoring and managing of these risks has enabled the Group to future proof its assets and secure a long-term income stream in line with its long-term investment strategy.

Environmental matters

The Group's operations are subject to laws and regulations regarding the discharge of substances into the environment or otherwise relating to environmental protection, including hazardous waste disposal and public and worker health and safety. The Group works with its suppliers to monitor and reduce the environmental impact of its supply chain. The Group has adopted an environmental policy which includes management of energy use, waste management and bio-diversity. This is supported by an environmental management system which is audited by relevant advisers twice a year and opportunities for improvement identified.

6. Competition

The Group competes with other companies, funds and individuals who invest in property in the United Kingdom and Germany. The Directors are not aware of any UK listed property company with the same size and strategy as the Company and, although the Group may compete with a number of individuals and/or property companies or funds on the acquisition of any one property, the investors competing vary from one acquisition to another. In addition, the Group competes for tenants with other property owners in its local markets in the United Kingdom and Germany. See also "*Risk Factors Risks Relating to the Groups Operations – The Group faces competition from other property companies and other commercial organisations active in the UK and German property markets*".

7. Employees

As of 31 March 2014, the total number of individuals employed by the Group (including Executive Directors of the Group) is 267.

DESCRIPTION OF THE GUARANTORS

Each of the Guarantors is (directly or indirectly) a wholly-owned subsidiary of the Issuer. With the exception of Grainger Treasury Property (2006) LLP, all of the Guarantors were incorporated and registered as private limited companies in England and Wales and operate under the Companies Act 2006. The directors of each of the Guarantors are all employees of the Issuer and have no functions and activities outside the Group and none of the directors of the Guarantors have any potential conflict of interest between their duties to the Guarantors and their private interests or other duties. The registered office of each of the Guarantors and the business address of each of the directors of the Guarantors is Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JE, +44 (0) 191 261 1819 unless otherwise set out below. In addition, details as to each of the Guarantor's date of incorporation, registration number and principal activity are set out below.

Name of Original Guarantor	Registration number	Principal Activity
BPT (Bradford Property Trust) Limited	252992	Property Trading
Bridgewater Lifetime Mortgages Limited	5065508	Property Development and Trading
Bromley Property Investments Limited	04066391	Finance Company
Grainger Equity Release Investment Properties Limited	5348579	Property Investment
Grainger Equity Release Management Limited	5348582	Property Management
Grainger Finance Company Limited	3798495	Finance Company
Grainger Homes Limited	4125751	Property Development and Trading
Grainger Rural Limited	4736078	Property Development and Trading
Grainger Serviced Apartments Limited	5162999	Property Investment and Trading
Grainger Retirement Housing No.1 (2007) Limited	6352305	Property Investment
Grainger Treasury Property (2006) LLP	OC325497	Investment Partnership
Grainger Unitholder No 1 Limited	5597611	Property Investment
Home Properties Limited	3706047	Property Trading
Northumberland & Durham Property Trust Limited	182763	Property Trading Trust Limited
Warren Court Limited	3109104	Property Trading

BPT (Bradford Property Trust) Limited

Full legal and commercial name	BPT (Bradford Property Trust) Limited
Date of incorporation	23/12/1930
Registration number	252992
Directors	Andrew R. Cunningham, Nick On, Mark Robson, Nick Jopling, Mark Greenwood
Principal activity	Property Trading

Bridgewater Lifetime Mortgages Limited

Full legal and commercial name	Bridgewater Lifetime Mortgages Limited
Date of incorporation	05/03/2004
Registration number	5065508
Directors	Andrew R. Cunningham, Nick On, Mark Robson, Nick Jopling, Mark Greenwood, Paul Barber
Principal activity	Property Development and Trading

Bromley Property Investments Limited

Full legal and commercial name	Bromley Property Investments Limited

Date of incorporation	06/09/2000
Registration number	04066391
Directors	Andrew R. Cunningham, Nick On, Nick Jopling, Mark Greenwood
Principal activity	Finance Company

Grainger Equity Release Investment Properties Limited

Full legal and commercial name	Grainger Equity Release Investment Properties Limited
Date of incorporation	01/02/2005
Registration number	5348579
Directors	Andrew R. Cunningham, Nick On, Nick Jopling, Mark Greenwood, Paul Barber
Principal activity	Property Investment

Grainger Equity Release Management Limited

Full legal and commercial name	Grainger Equity Release Management Limited
Date of incorporation	01/02/2005
Registration number	5348582
Directors	Andrew R. Cunningham, Nick On, Nick Jopling, Mark Greenwood, Mark Robson
Principal activity	Property Management

Grainger Finance Company Limited

Full legal and commercial name	Grainger Finance Company Limited
Date of incorporation	30/06/1999
Registration number	3798495
Directors	Andrew R. Cunningham, Nick On, Nick Jopling, Mark Greenwood
Principal activity	Finance Company

Grainger Homes Limited

Full legal and commercial name	Grainger Homes Limited
Date of incorporation	14/12/2000
Registration number	4125751
Directors	Andrew R. Cunningham, Nick On, Nick Jopling, Mark Greenwood
Principal activity	Property Development and Trading

Grainger Rural Limited

Full legal and commercial name	Grainger Rural Limited
Date of incorporation	16/04/2003
Registration number	4736078
Directors	Andrew R. Cunningham, Mark Greenwood, Nick Jopling, Nick On, Mark Robson
Principal activity	Property Development and Trading

Grainger Serviced Apartments Limited

Full legal and commercial name	Grainger Serviced Apartments Limited
Date of incorporation	25/06/2004

Registration number	5162999
Directors	Andrew R. Cunningham, Nick On, Mark Robson, Nick Jopling, Mark Greenwood
Principal activity	Property Investment and Trading

Grainger Retirement Housing No.1 (2007) Limited

Full legal and commercial name	Grainger Retirement Housing No.1 (2007) Limited
Date of incorporation	24/08/2007
Registration number	6352305
Directors	Paul Barber, Andrew R. Cunningham, Nick On, Nick Jopling, Mark Greenwood
Principal activity	Property Investment

Grainger Treasury Property (2006) LLP

Full legal and commercial name	Grainger Treasury Property (2006) LLP
Date of incorporation	23/01/2007
Registration number	OC325497
Members	Grainger Residential Management Limited, Grainger Equity
Release Management Limited	Grainger Equity Release Limited (as the general partner)
Principal activity	Investment Partnership

Grainger Unitholder No 1 Limited

Full legal and commercial name	Grainger Unitholder No 1 Limited
Date of incorporation	19/10/2005
Registration number	5597611
Directors	Andrew R. Cunningham, Nick On, Mark Greenwood
Principal activity	Property Investment

Home Properties Limited

Full legal and commercial name	Home Properties Limited
Date of incorporation	02/02/1999
Registration number	3706047
Directors	Paul Barber, Andrew R. Cunningham, Nick On, Mark Robson, Nick Jopling, Mark Greenwood
Principal activity	Property Trading

Northumberland & Durham Property Trust Limited

Full legal and commercial name	Northumberland & Durham Property Trust Limited
Date of incorporation	28/06/1922
Registration number	182763
Directors	Mark Greenwood, Nick Jopling, Nick On, Andrew R. Cunningham,
Principal activity	Property Trading

Warren Court Limited

Full legal and commercial name	Warren Court Limited
Date of incorporation	02/10/1995

Registration number	3109104
Directors	Andrew R. Cunningham, Nick On, Mark Robson, Nick Jopling, Mark Greenwood
Principal activity	Property Trading

Group EBITDA and Net Assets

Information based on Group Consolidated Numbers

The figures in the table as set out below show, by relevant category, the unaudited individual entity figures adjusted for all Group consolidation items to arrive at the consolidated Group figures for EBITDA and Group net assets as reflected in the Group's 2013 audited financial statements.

The main adjustments made to adjust the entity figures for EBITDA to the Group EBITDA are (i) to add back any provisions made to reduce the valuation of investments in subsidiaries to their recoverable amount and (ii) entries to adjust the book value of trading properties disposed of, to Group book value.

The main adjustments made to adjust the entity figures for net assets to Group net assets are (i) to eliminate the value of investment in subsidiaries (ii) to eliminate all inter group balances and (iii) to adjust the book value of trading property to Group book value.

	Year ended and as at 30 September 2013							
	Issuer		**Guarantors**		**Non-Guarantors**		**Totals**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Revenue	–	–	179.2	63.3	104.0	36.7	283.2	100.0
EBITDA(1)	6.4	5.7	103.5	91.8	2.8	2.5	112.7	100.0
Net Assets	(470.2)	(101.0)	72.5	15.6	863.2	185.4	465.5	100.0

Note:

(1) In accordance with presentation under UK GAAP, Guarantor EBITDA includes income of £36.8 million relating to intra Group recharges of external finance costs. Of this amount, £16.1 million has been charged against non-Guarantor EBITDA and £20.7 million against Issuer EBITDA.

Information based on Entity Numbers

For the purposes of clarification, the figures in the table set out below show, by relevant category, the unaudited individual entity figures, without adjustment, except that the trading stock is shown at market value rather than at the lower of cost and net realisable value. These figures are presented to provide a more representative picture of the net assets and EBITDA at an entity level as opposed to a Group consolidated level:

	Year ended and as at 30 September 2013							
	Issuer		**Guarantors**		**Non-Guarantors**		**Totals**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Revenue	–	–	195.8	69.1	87.4	30.9	283.2	100.0
EBITDA(1)	(3.0)	(3.2)	88.2	91.6	11.1	11.6	96.3	100.0
Net Assets	441.1	9.7	1,629.5	35.9	2,467.6	54.4	4,538.1	100.0

Note:

(1) In accordance with presentation under UK GAAP, Guarantor EBITDA includes income of £36.8 million relating to intra Group recharges of external finance costs. Of this amount, £16.1 million has been charged against non-Guarantor EBITDA and £20.7 million against Issuer EBITDA.

Additional information on Guarantors

Northumberland & Durham Property Trust Limited

Northumberland & Durham Property Trust Limited ("**NDP**") was incorporated on 28 June 1922 under the laws of England and Wales and has its registered office at Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE. NDP's registered number is 0182763.

NDP's business activities principally involve investing and trading in UK properties subject to regulated tenancies.

Other than the risk factors described under the heading "*Risk Factors*" of this Offering Memorandum, there are no other risks that could materially affect NDP in its ability to meet its obligations under the Notes Guarantee. Any encumbrances which could materially affect NDP's ability to meet its obligations under the Notes Guarantee are described under the heading "*Description of Indebtedness*" of this Offering Memorandum. As at 30 September 2013, NDP represents (i) 49.4 per cent. of the Group's net assets which is equal to £229.9 million and (ii) 14.6 per cent. of the Group's EBITDA which is equal to £16.4 million.

BPT (Bradford Property Trust) Limited

BPT (Bradford Porperty Trust) Limited ("**BPT**") was incorporated on 23 December 1930 under the laws of England and Wales and has its registered office at Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE. BPT's registered number is 0252992.

BPT's business activities principally involve investing and trading in UK properties subject to regulated tenancies.

Other than the risk factors described under the heading "*Risk Factors*" of this Offering Memorandum, there are no other risks that could materially affect BPT in its ability to meet its obligations under the Notes Guarantee. Any encumbrances which could materially affect BPT's ability to meet its obligations under the Notes Guarantee are described under the heading "*Description of Indebtedness*" of this Offering Memorandum. As at 30 September 2013, BPT represents (i) 12.9 per cent. of the Group's net assets which is equal to £60.2 million and (ii) 19.1 per cent. of the Group's EBITDA which is equal to £21.5 million.

DESCRIPTION OF INDEBTEDNESS

Overview

Upon the completion of the issue of the Further Notes (and taking into account the Transactions), and the use of the proceeds in relation to the Further Notes to pay down existing revolving bank debt, the Group's indebtedness under its principal debt facilities will comprise the following:

(i) the Bank Facilities (£487.0 million drawn);

(ii) the Notes (£276.4 million[38]);

(iii) the M&G Facility (£100.0 million); and

(iv) indebtedness incurred by the Excluded Entities ("**Excluded Entities' Indebtedness**") which is non-recourse to Grainger and the Guarantors and which is secured over specific assets of the Excluded Entities. As at 31 March 2014, Excluded Entities' Indebtedness was £330.3 million.

Upon completion of the issue of the Further Notes, the Bank Facilities, the Notes, the M&G Facility and any secured hedging liabilities will rank *pari passu* and benefit from (i) upstream guarantees from the Guarantors and (ii) a floating charge over certain assets of each of the Issuer and the Guarantors.

Under the Bank Facilities and the M&G Facility, the Issuer must ensure that the Guarantors and the Issuer hold at least 85 per cent. of the Group's properties excluding those held by Excluded Entities. For so long as the Bank Facilities and/or the M&G Facility and/or any other core credit facilities remain outstanding, the Guarantors will be the same as the guarantors in respect of the Bank Facilities and/or the M&G Facility and/or any other core credit facility.

Core Debt Facilities

The Bank Facilities and the M&G Facility together, comprise the "core debt facilities".

The Bank Facilities

Following the issue of the Further Notes (and taking into account the Transactions) and the use of the proceeds in relation to the Further Notes to pay down existing revolving bank debt, the Bank Facilities of £704.9 million (of which £487.0 million will be drawn) comprise four separate tranches:

(i) a term loan of £297.4 million which is fully drawn and repayable in July 2016;

(ii) a revolving credit facility of £332.5 million, £152.1 million of which is drawn, repayable in July 2016;

(iii) a term loan of £37.5 million which is fully drawn and with final maturity in July 2020; and

(iv) a revolving credit facility of £37.5 million which is undrawn and with final maturity in July 2020.

The interest rate margin for each tranche varies from 200 to 380 basis points above LIBOR depending upon the tenor of the tranche and the Core LTV at the previous testing date (see "*Key covenants under the core debt facilities*" below).

M&G Facility

The M&G Facility comprises a Sterling term loan facility made available pursuant to a facilities agreement dated 8 February 2011. Under the M&G Facility, Grainger has committed debt financing of £100.0 million with an interest rate margin of 400 basis points above LIBOR (subject to margin adjustments) and a final maturity date of March 2021.

Key covenants under the core debt facilities

Under the Bank Facilities and the M&G Facility, the Group must ensure that its Core LTV does not exceed 75 per cent. and that its ICR is not less than 1.35:1. The Core LTV covenant and the ICR covenant under the core debt facilities are both tested quarterly. Breach of either of these financial covenants would constitute an event of default which could result, amongst other things, in an acceleration of the Group's obligations to repay the Bank Facilities and the M&G Facility.

[38] The £276.4 million figure representing the Notes includes the £200.0 million nominal amount of the Original Notes, in addition to £75.0 million (being the nominal amount of the issue of the Further Notes) plus premium and Accrued Interest

If the Core LTV is greater than or equal to 67.5 per cent. but less than 75 per cent., the Group is subject to certain obligations under the Bank Facilities and the M&G Facility:

- not to make investments or acquisitions, other than acquisitions of property not exceeding £2.0 million per month or such purchases or transfers are made in accordance with contracts entered into prior to the date that Core LTV is at 67.5 per cent. or above;
- not to make loans or guarantees or permit any movement of cash from within Group companies which are borrowers and/or Guarantors to any other entities which are not Guarantors or the Company; and
- not to incur additional indebtedness that is secured on the same assets and on a *pari passu* basis with the Bank Facilities.

The Bank Facilities and the M&G Facility also contain covenants, events of default, warranties and representations in similar terms and customary for facilities of their nature. See "*Risk Factors – Risks Relating to Finance – The Group could trigger an event of default under its borrowing arrangements, in which event the obligations under its borrowing arrangements could be accelerated and become immediately due and payable*".

Performance against the financial covenants

Under the Bank Facilities and the M&G Facility, the Core LTV and the ICR covenants (as applicable) are both tested quarterly. Under the Notes, the Core LTV covenant is tested semi-annually.

As at 31 March 2014, "V" (as defined in Condition 21 (*Definitions*)) was £1,713.7 million (compared to £1,688.7 million as at 30 September 2013) and "L" (as defined in Condition 21 (*Definitions*)) was £666.7 million (compared to £677.4 million as at 30 September 2013) in each case for purposes of the Core LTV covenant. Accordingly, Core LTV was 38.9 per cent. as at 31 March 2014 (compared to 40.1 per cent. as at 30 September 2013).

As at 31 March 2014, consolidated cash flow (calculated as described under *"Presentation of Financial Information-Non-IFRS Measures"*) was £368.1 million (compared to £359.1 million as of 30 September 2013) and consolidated net interest payable (calculated as described under *"Presentation of Financial Information-Non-IFRS Measures"*) was £64.0 million (compared to £71.8 million as at 30 September 2013) in each case for the purposes of the ICR covenant. Consequently, ICR was 5.7 times as at 31 March 2014 (compared to 5.0 times as at 30 September 2013).

Intercreditor Deed

General

In connection with the issuance of the Original Notes, the Issuer and the Guarantors entered into the Intercreditor Deed with, among others, the Security Trustee, the Trustee, various bank creditors and hedging creditors.

Under the Intercreditor Deed, the term "Secured Parties" is defined to mean the Security Trustee, any Receiver or Delegate and each of the Creditor Representatives, the Credit Facilities Arrangers, and the Senior Creditors from time to time but, in the case of each Creditor Representative or Credit Facilities Arranger or Credit Facilities/Hedging Creditor, only if it is a party to or has acceded to the Intercreditor Deed (each capitalised term as defined in the Intercreditor Deed).

The Intercreditor Deed is governed by English law.

The Intercreditor Deed includes terms that establish:

- the ranking and priority of the liabilities owed: to the lenders under the Bank Facilities, to the lenders under the M&G Facility, to the Trustee on behalf of the holders of the Notes and to the hedging creditors (the "**Pari Passu Liabilities**") and to certain intra group lenders (the "**Intra Group Liabilities**");
- the basis on which the Security Trustee is appointed to hold the collateral created by the Transaction Security Documents;
- under what circumstances the Transaction Security Documents may be enforced;
- the application of proceeds from an enforcement in respect of the collateral; and
- under which circumstances the collateral may be shared on a *pari passu* basis with additional third party creditors.

Priority of Secured Obligations

The Intercreditor Deed purports to rank (in right and priority of payment) the debt held by the Secured Parties under the documents relating to the Pari Passu Liabilities (the "**Secured Obligations**"), together with the collateral that secures such Secured Obligations *pani passu* without any preference between any such class of Secured Obligations. The Intercreditor Deed also purports to postpone and subordinate the Intra Group Liabilities to the Pari Passu Liabilities and certain other related liabilities.

Incremental and Refinancing Debt

The Intercreditor Deed permits certain additional secured debt, including any debt which is raised pursuant to additional credit facilities and additional bonds or notes issued by the Issuer and which are permitted under the terms of the Secured Obligations to share in the collateral and rank *pani passu* alongside the other Secured Obligations.

No Limit on Payments

The Intercreditor Deed does not limit the making of payments in respect of the Secured Obligations in accordance with terms of the documents governing the relevant class of Secured Obligations until the occurrence of certain acceleration and/or enforcement events.

Enforcement of Transaction Security Documents

The Intercreditor Deed provides that only the Security Trustee will have the right to enforce the Transaction Security Documents.

Under the Intercreditor Deed and subject to the security having become enforceable in accordance with its terms, the Security Trustee shall determine the nature, management, timing and control of any enforcement of the security documents on the instructions of the Secured Parties who, in the aggregate, hold more than 66 2/3 per cent. of the amounts under the Bank Facilities, the M&G Facility, any hedging arrangements and the Notes then outstanding (including certain additional notes, bonds and credit facilities) (the "**Majority Senior Creditors**") provided that if there are three or more Creditor Groups (as defined in the Intercreditor Deed to mean, at any time, each of the following groups of creditors to which liabilities may be owed: (i) the lenders under the Bank Facilities, (ii) the lenders under the M&G Facility, (iii) any permitted additional credit facilities lenders (other than lenders under the Bank Facilities who provide credit facilities with commitments of £50,000,000 or less) and (iv) any bondholders in respect of each separate issue of notes) existing at that time, the Majority Senior Creditors will only be able to give enforcement instructions to the Security Trustee if the Requisite Majority (as defined in the Intercreditor Deed) of two or more Creditor Groups have voted, in each case, in favour of the relevant enforcement (the "**Instructing Group**"). In the absence of such instructions, the Security Trustee shall act as it sees fit.

The Security Trustee will not be liable in any respect to any Secured Party or any other person for exercising (or failing to exercise) any of its rights, powers or discretions in relation to the Transaction Security Documents. The Security Trustee may disregard any instructions to enforce any security if those instructions are inconsistent with the Intercreditor Deed.

Snooze/Lose

The Intercreditor Deed provides that if in relation to a request for a consent, to participate in a vote or to approve any other action or provide any confirmation or notification under the Intercreditor Deed, the agent under the Bank Facilities, the agent under the M&G Facility, the Trustee or a hedge counterparty (each, for itself and on behalf of the creditors it represents) fails to respond to that request within 20 business days of the request being made, the consent or vote of such party (and the aggregate principal amount of indebtedness represented by such party) shall be disregarded for the purposes of ascertaining whether an agreement has been obtained, a vote carried or another action approved, and, in the case of any confirmation or notification, that confirmation or notification will be deemed to have been given.

Enforcement Proceeds

The Intercreditor Deed regulates the order in which amounts received by the Security Trustee (including upon enforcement of the collateral) are distributed to the Secured Parties.

Under the Intercreditor Deed, the parties agree that, following any enforcement of the Transaction Security Documents, the claims of the Security Trustee, any receiver or delegate appointed by the Security Trustee pursuant to any of the Transaction Security Documents will have first ranking claims (without any priority between themselves), followed by the costs and expenses of any Secured Party (including the Trustee and the agents) incurred in realisation or enforcement of the Transaction Security Documents, and then by claims in respect of the obligations under the Bank Facilities, the obligations under the M&G Facility, the obligations under the Trust Deed, the obligations of any hedging creditor and the obligations under any other additional bonds or additional credit facilities permitted under the Trust

Deed and the Intercreditor Deed ranking *pari passu* and *pro rata* according to the respective amounts among themselves, and finally followed by any claim which the Security Trustee is obliged to pay in priority to the Issuer or the Guarantors. The balance (if any) will be paid to the Issuer and the Guarantors. The Security Trustee will apply amounts received following enforcement, including recoveries from enforcement, in accordance with this priority.

The Intercreditor Deed contains customary turnover provisions.

Appointment of Security Trustee

The Intercreditor Deed sets out the terms on which the Security Trustee holds the benefit of the Transaction Security Documents.

The Security Trustee shall not be obliged to take any action (including with respect to taking enforcement proceedings or enforcing the Transaction Security Documents) unless indemnified, secured or prepaid to its satisfaction. The Security Trustee shall be entitled to accept deposits from, lend money to and generally engage in any kind of banking or other business with either the Issuer or the Guarantors.

Unless acting on the instruction of the Majority Senior Creditors or the Instructing Group, or exercising certain specific discretions granted to it under the Intercreditor Deed, in exercising any discretion to exercise a right, power or authority under the Intercreditor Deed, the Security Trustee shall do so having regard to the interests of all the Secured Parties.

The Security Trustee is not obliged to insure any collateral, or require any other person to maintain such insurance, and will not be responsible for any loss, expense or liability which may be suffered as a result of the lack of, or inadequacy of, such insurance. Each Secured Party (other than the Security Trustee) is responsible for undertaking its own independent appraisal and investigation of all risks arising under or in connection with the Intercreditor Deed and related documents, including in respect of the financial condition, status and nature of each member of the Group and the title of any security provider to the collateral. Neither the Security Trustee nor any receiver or delegate shall be liable for (among other things) validity, effectiveness, adequacy or enforceability of the collateral.

Release of Transaction Security

The Intercreditor Deed provides that the Security Trustee may release the collateral (and the obligations of the obligors) under certain conditions, including in connection with the enforcement of the Transaction Security Documents or in connection with the sale or disposal of assets permitted by each relevant financing document.

Common Security

None of the lenders under the Bank Facilities, the lenders under the M&G Facility, the Trustee on behalf of the holders of the Notes or the hedging creditors may take the benefit of any security or guarantees in respect of their respective Secured Obligations other than under the relevant financing documents and the Transaction Security Documents.

Excluded Entities Indebtedness

All Excluded Entities Indebtedness is non-recourse to Grainger or any of the Guarantors. Excluded Entities Indebtedness includes the following:

Grainger Invest Facilities

In March 2011, HSBC Bank plc and Abbey National Treasury Services plc granted a £120.0 million term loan (the "**Grainger Invest Facilities**") to Grainger Invest No 1 LLP and Grainger Invest No 2 LLP, both now wholly-owned by the Group having previously been 50/50 owned through a joint venture with Genesis Housing Group. The balance on this loan as at 31 March 2014 was £113.8 million.

In May 2013, £112.0 million of assets secured under this facility were sold to WIPL. In their place, assets held by Grainger Bradley Ltd, Grainger Southwark Ltd and PHA Ltd were added as security.

The loan is secured by fixed charges on certain of the properties owned by Grainger Invest No 1 LLP, Grainger Invest No 2 LLP, Grainger Bradley Ltd, Grainger Southwark Ltd and PHA Ltd. The principal of the loan is repayable in March 2016 with annual instalments of £2.5 million in each of 2014 and 2015.

The Grainger Invest Facilities also contain financial and other covenants, events of default, warranties and representations customary for such facilities.

Tricomm Facilities

In February 2011, Grainger bought HI Tricomm, the indirect owner (direct ownership is held by a subsidiary vehicle, Tricomm Housing Limited) of a portfolio of 317 freehold houses in five separate locations around the Bristol and

Portsmouth areas that were built under a private finance initiative arrangement to provide dwellings for senior UK Ministry of Defence personnel.

The portfolio is financed through a loan of £66.3 million from Grainger Finance (Tricomm) Ltd (the "**Tricomm Facilities**") which finally matures in 2028. Grainger Finance (Tricomm) Ltd purchased this debt from Bank of America during 2013. It is secured through a floating charge over the properties that are indirectly owned by HI Tricomm.

The Tricomm Facilities also contain financial and other covenants, events of default, warranties and representation customary for such facilities.

Bantam Facilities

In July 2002, Lloyds Bank plc granted a £50.2 million bilateral term loan to Hamsard 2518 Limited (the "**Bantam Facilities**"), a wholly-owned subsidiary of Grainger, to refinance a facility used for the acquisition of a portfolio of equity release properties, of which £30.2 million remained outstanding as at 31 March 2014.

The loan is secured by fixed charges over specific assets of the borrower and is repayable in amortising annual instalments over the 30-year period. The final maturity date is 30 September 2032.

The Bantam Facilities also contain financial and other covenants, events of default, warranties and representations customary for such facilities.

Partnership Assurance Facilities

The Partnership Assurance Facilities amount to a total of £80.0 million and were fully drawn as at 31 March 2014. The interest relating to this loan rolls up and the loan principal plus capitalised interest are repayable on sale of individual properties.

Grainger Clapham

In July 2012, HSBC Bank plc granted a development loan to Grainger (Clapham) Limited with a total Development Facility Commitment of £24.0 million maturing 30 months after first drawdown which occurred in September 2012. Drawdowns are contingent upon certification by an independent Project Monitoring Surveyor. The drawn balance on this loan as at 31 March 2014 was £18.9 million.

The loan is secured by fixed charges over specific assets of the borrower. Repayment will be made from sale proceeds of charged properties with proceeds remitted to a Sales Proceeds Bank Account. A bullet repayment of the outstanding loan balance will be made at the end of the term.

The Grainger (Clapham) Limited loan contains financial and other covenants, events of default, warranties and representations customary for such development facilities.

German Facilities

The German sub-group has committed bank facilities totalling €105.8 million approximately equal to £87.4 million at 31 March 2014 (the "**German Facilities**"), which were fully drawn as at 31 March 2014. The loans are secured by floating and fixed charges over the Investment Property in the Group's German portfolio and are non-recourse to the Company. The German Facilities are summarised as follows:

Gesellschaft mit beschränkter Haftung & Compagnie Kommonditgesellschaft (GmbH & Co. KG)* (“KG”) *Loans

The KG loans comprise a €23.6 million principal amount of loans from Wohnungsbauförderungsanstalt Nordrhein Westfalen ("**WFA**") and Ruhrkohle ("**RAG**") in relation to Grainger Recklinghausen Portfolio No 2 S.a.r.l. & Co KG. The loan maturities range from 2013 to 2088.

Francono Rhein-Main AG ("FRM") Group Loans

The FRM Group loans incurred by FRM all relate to specific property investments and range in size as follows:

- €17.5 million loans from Hypothekenbank (formerly Euro Hypo). These loans mature in 2016;
- €15.1 million loans from Skandinaviska Enskilda Banken AB and Hypovereinsbank. These loans have a final maturity of 2018;
- €15.3 million loans from Deutsche Pfandbriefbank AG ("**Deutsche Pfandbriefbank**"). These loans are at a margin above EURIBOR and mature in 2017;

- €3.3 million loans from HSH Nordbank AG. These loans are at a margin above EURIBOR and mature in 2017; and

- €22.5 million loan from Hypo Vereinsbank. This loan is at a margin above EURIBOR.

Grainger Portfolio Three GmbH

In December 2013 a number of properties which were excluded from the joint venture between Heitmann and Grainger were refinanced with Coralcredit Bank AG. The loan totals €8.5 million and is repayable in 2018.

MANAGEMENT

Directors

The Directors of the Company are as follows:

Name	Age	Position
Robin S. Broadhurst	68	Chairman, Chairman of nomination committee and member of remuneration committee
Andrew R. Cunningham	57	Chief Executive*
Mark Greenwood	55	Finance Director* and member of risk committee
Nick Jopling	52	Property Director*
Baroness Margaret Ford	56	Senior independent director, Chairman of remuneration committee and member of audit and risk committees
Belinda Richards	56	Chairman of audit committee and member of risk committee
Tony Wray	52	Chairman of risk committee and member of audit committee
John C. Barnsley	66	Member of audit, risk and nomination committees
Simon Davies	54	Member of risk committee and member of remuneration committee

* Executive Directors

The business address of each of the Directors is Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE.

Robin S. Broadhurst CVO, CBE, FRICS, aged 68 (Chairman, Chairman of nomination committee and member of remuneration committee)

Mr Broadhurst was appointed to the Board in February 2004 and became Chairman in February 2007. He was previously European Chairman at Jones Lang LaSalle and served as trustee and non-executive director at Grosvenor for 11 years. He is a property consultant to Sir Robert McAlpine Limited and is a non-executive director of Chelsfield Partners. He will retire as a director and as Chairman at the AGM in February 2015 (see "*Appointment of Ian Coull*" below).

Andrew R. Cunningham FCA, FRICS, aged 57 (Chief Executive)

Mr Cunningham was appointed to the Board as Finance Director in 1996 and became Deputy Chief Executive in 2002 and Chief Executive in 2009. He is a chartered accountant and before joining Grainger was a partner in a predecessor firm of PricewaterhouseCoopers. He is a member of the British Property Federation Policy Committee and in 2012 was appointed a Fellow of the Royal Institute of Chartered Surveyors. He is a member of the advisory boards of the Cambridge Land Economy Department and the Durham University Business School.

Mark Greenwood FCMA, aged 55 (Finance Director and member of the risk committee)

Mr Greenwood was appointed to the Board as Finance Director in September 2010. Mr Greenwood has worked in finance since 1982 and held a number of senior positions within Alfred McAlpine plc from 1989 to 2008. He was Group Finance Director from 2007 until its takeover in 2008 by Carillion. From 2008 to 2010, Mr Greenwood was Finance Director of the Middle East and North Africa business of Carillion plc.

Nick Jopling FRICS, aged 52 (Property Director)

Mr Jopling was appointed to the Board in 2010 as Executive Director with responsibility for property. Mr Jopling was previously with CB Richard Ellis where he was executive director of residential. He is the Chairman of the UK Urban Land Institute UK residential council and was a member of Sir Adrian Montague's Committee which reviewed the Barriers to Institutional Investment in Private Rented Homes.

Baroness Margaret Ford, aged 56 (Senior independent director, Chairman of remuneration committee and member of nomination and audit committees)

Baroness Ford was appointed to the Board in 2008 and became Senior Independent Director in February 2014. Baroness Ford is Chairman of Barchester Healthcare and Scottish Television and is also a non-executive director of Segro plc and Taylor Wimpey plc. She was Chairman of the Olympic Park Legacy Company from 2009 to 2012, was a Managing Director in the Royal Bank of Canada's Global Infrastructure Group from 2007 to 2009, and between 2002 and 2007 was Chairman of English Partnerships.

Belinda Richards, aged 56 (Chairman of audit committee and member of risk committee)

Ms Richards was appointed as a Director in April 2011. Belinda was previously Global Head of Deloitte's Merger Integration and Separation Advisory Services and is also a non-executive director of Resolution and Balfour Beatty plc.

Tony Wray, aged 52 (Chairman of risk committee and member of audit committee)

Mr Wray was appointed to the Board in 2011. Mr Wray has been the Chief Executive of FTSE 100 water company Severn Trent plc since 2007, having joined its board in 2005. He is also a member of the Water UK Board and has held director roles within Transco and National Grid Transco.

John C. Barnsley, aged 66 (Member of audit, risk and nomination committees)

Mr Barnsley was appointed to the Board in 2003. Mr Barnsley is a non-executive director of Northern Investors Company plc, American Appraisal Associates LLP and The Hippodrome Casino Ltd. Until December 2001, he was a senior partner at PricewaterhouseCoopers.

Simon Davies, aged 54 (Member of risk and remuneration committees)

Mr Davies was appointed to the Board in 2012. Mr Davies retired from the role of Executive Chairman at Threadneedle Asset Management in 2012 after five years in the position, having previously been Chief Executive (1999-2007) and Chief Investment Officer (1995-1998). He is currently Chairman of JP Morgan Overseas Investment Trust plc and is also a director of Old Mutual Wealth Management Limited.

Appointment of Ian Coull

Ian Coull will join the Board as a non-executive director on 23 September 2014 and will be proposed as Chairman at the AGM in February 2015. Robin Broadhurst will retire as a director and as Chairman on that day. Ian (64) has been Chairman of Galliford Try plc since 2011. He was Chief Executive of SEGRO plc from 2003 to 2011 and prior to this, a main board director of J Sainsbury plc. He has also been a non-executive director of Pendragon plc, a role he held from December 2010 to January 2013. He is currently a non-executive director of London Scottish International Ltd and of The Duchy of Lancaster and is also a Member of the Government's Property Advisory Panel.

SHARE CAPITAL AND INTERESTS OF MAJOR SHAREHOLDERS

SUMMARY OF SHARE CAPITAL

As at the date of this Offering Memorandum, the Company's issued share capital amounts to £20.88 million, consisting of 417,665,135 ordinary shares with a nominal value of 5p per share. All of the Company's issued share capital is fully paid up. No preference shares are authorised or outstanding. As at the date of this Offering Memorandum, 1,506,300 ordinary shares are held in treasury. The Company has one class of ordinary shares and all shares rank equally and are fully paid.

MAJOR SHAREHOLDERS

Insofar as is known to the Company, the name of each person who, directly or indirectly, has an interest in 3 per cent. or more of the Company's issued share capital, and the amount of such person's interest, as at 30 June 2014 (being the latest practicable date prior to the publication of this document) are as follows:

	Ordinary Shares	
Name	**No.**	**%**
Schroder Investment Management Ltd*	86,711,709	20.76
BlackRock Investment Management Ltd	26,770,129	6.41
Henderson Global Investors	15,050,227	3.60
State Street Global Advisers Ltd	13,061,851	3.12
Aberforth Partners	12,675,414	3.03

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

None of the major shareholders referred to above has different voting rights from other shareholders, save as set out below.

* Part of the Schroder Investment Management Ltd holding is managed on behalf of third parties and Schroder Investment Management Ltd therefore does not have full voting rights. 12,655,676 of the shares held by Schroder Investment Management Ltd fall into this category.

TERMS AND CONDITIONS OF THE FURTHER NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):

The £75,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 issued on 7 August 2014 (the "**Further Notes**" and, together with the Original Notes (as defined below), the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, also include any further notes ("**Additional Notes**") issued pursuant to Condition 17 (*Further Issues*) and forming a single series with the Original Notes and the Further Notes) of Grainger plc (the "**Issuer**") are constituted by a supplemental trust deed entered into in connection with the issue of the Further Notes dated 7 August 2014 (the "**Supplemental Trust Deed**") and made between the Issuer, certain subsidiaries of the Issuer as Guarantors (the "**Guarantors**") and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include its successor(s) and any additional trustee) as trustee for the holders of the Notes (the "**Noteholders**") and the holders of the interest coupons appertaining to the Notes (the "**Couponholders**" and the "**Coupons**" respectively). The Supplemental Trust Deed is supplemental to the trust deed dated 28 November 2013 (the "**Original Trust Deed**" and, together with the Supplemental Trust Deed, the "**Trust Deed**") made between the same parties and constituting the £200,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 issued by the Issuer on 28 November 2013 (the "**Original Notes**"). The Further Notes are consolidated and form a single series with the Original Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the (i) Trust Deed, (ii) the Agency Agreement dated 28 November 2013 relating to the Original Notes as supplemented by a supplemental agency agreement entered into in connection with the issue of the Further Notes dated 7 August 2014 (the "**Agency Agreement**") made between the Issuer, the Guarantors, Deutsche Bank AG, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent), the other paying agent named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents) and the Trustee, (iii) the Intercreditor Deed (as defined below) and (iv) the Security Agreement (as defined below) are each available for inspection during normal business hours by the Noteholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Intercreditor Deed and the Security Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form, serially numbered, in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination. Title to the Notes and to the Coupons will pass by delivery.

The Issuer, each Guarantor, any Paying Agent and the Trustee will (except as required by law) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS OF THE NOTES

The Notes and the Coupons are direct, unconditional, unsubordinated and secured obligations of the Issuer and rank and will rank *pari passu* without any preference among themselves.

3. GUARANTEE, SECURITY AND INTERCREDITOR DEED

3.1 Notes Guarantee

The payment of principal and interest in respect of the Notes and of all other moneys payable by the Issuer under or pursuant to the Trust Deed has been fully irrevocably and unconditionally jointly and severally guaranteed by the Guarantors in the Trust Deed (the "**Notes Guarantee**"). The obligations of the Guarantors under the Notes Guarantee are direct, unconditional, unsubordinated and secured obligations of the Guarantors and rank and will rank *pari passu* and without any preference among themselves.

3.2 Additional Guarantors

If any Subsidiary of the Issuer (other than a Guarantor) (i) provides a Guarantee or (ii) at the time it becomes a Subsidiary is providing a Guarantee, in either case in respect of all or any of the Pari Passu Liabilities, the Issuer shall procure that such Subsidiary shall, at or prior to the date of the giving of such Guarantee or within 30 days after the date of it becoming a Subsidiary, as applicable, become a Guarantor by executing a deed supplemental to the Trust Deed (in a form and with substance reasonably satisfactory to the Trustee, and accompanied by such legal opinion(s) as the Trustee shall reasonably require) pursuant to which such Subsidiary (an "**Additional Guarantor**") shall guarantee the obligations of the Issuer in respect of the outstanding Notes, the Coupons and the Trust Deed on the same terms *mutatis mutandis* as the Notes Guarantee.

Without prejudice to the first paragraph of this Condition 3.2, a Subsidiary of the Issuer may also become an Additional Guarantor at any time at the option of the Issuer. The documentation formalities in the first paragraph of this Condition 3.2 shall apply *mutatis mutandis* to the accession of any such Subsidiary as an Additional Guarantor.

Each Original Guarantor has in the Trust Deed confirmed, and each Additional Guarantor shall confirm in the relevant supplemental trust deed, that it consents to any such entity becoming a Guarantor as aforesaid without any need for any other Guarantor to execute any such supplemental trust deed.

3.3 **Release of a Guarantor**

The Issuer may by written notice to the Trustee signed by two directors or one director and the company secretary of the Issuer request that a Guarantor cease to be a Guarantor in respect of the Notes if such Guarantor is no longer providing a Guarantee in respect of all or any of the Pari Passu Liabilities (or a similar request is being made in accordance with the terms of the documents governing such Liabilities, that such Guarantor will cease to provide a Guarantee in respect of those Liabilities). Upon the Trustee's receipt of such notice (to be confirmed to the Issuer by the Trustee as soon as practicable) and without any consent being required from any Noteholder or Couponholder, such Guarantor shall automatically and irrevocably be released and relieved of all its future obligations under the Notes Guarantee and all of its future obligations as a Guarantor under the Trust Deed but without prejudice to any obligations which may have accrued prior to such release. Such notice must also contain the following certifications:

(a) no Event of Default is continuing or will result from the release of that Guarantor;

(b) no sum in respect of the Pari Passu Liabilities in respect of which that Guarantor is or was providing a Guarantee is at that time due and payable but unpaid;

(c) such Guarantor is not providing a Guarantee in respect of all or any of the Pari Passu Liabilities, or such Guarantor will cease to provide a Guarantee in respect thereof simultaneously (or as close to simultaneously as practicable and as approved by the Trustee) with the release made pursuant to this Condition; and

(d) the Issuer would remain in compliance with Condition 3.4 (*Minimum Guarantor Coverage*) immediately following the release of that Guarantor.

3.4 **Minimum Guarantor Coverage**

The Issuer shall (without prejudice to Condition 3.2 (*Additional Guarantors*)) procure that the gross value of the Properties owned by the Issuer and the Guarantors is not less than 75 per cent. of the gross value of the Properties (other than those owned by Excluded Entities) determined by reference to the most recently delivered consolidated financial statements of the Group delivered pursuant to Condition 18.1(a)(i) as adjusted with reference to sub-paragraphs (A) to (E) inclusive of the definition of "V" in paragraph (b) of the definition of Loan to Value Ratio with reference to those financial statements.

3.5 **Notice of Change of Guarantors**

Notice of any release of a Guarantor or addition of a Guarantor pursuant to this Condition will be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

3.6 **Excluded Entities**

The Issuer may at any time by written notice to the Trustee signed by two directors or one director and the company secretary of the Issuer request that a Non-Excluded Entity be designated an Excluded Entity. Upon the Trustee's receipt of such notice without any consent being required from any Noteholder or Couponholder (receipt of such notice to be confirmed to the Issuer by the Trustee as soon as practicable), such Non-Excluded Entity shall automatically be designated an Excluded Entity. Such notice must also contain the following certifications:

(a) no Event of Default is continuing at the date of the notice or would result from the designation of the relevant Non-Excluded Entity as an Excluded Entity;

(b) the relevant Non-Excluded Entity is Limited Recourse to those members of the Group which are not Non-Excluded Entities; and

(c) the relevant Non-Excluded Entity is or simultaneously with the designation made pursuant to this Condition (or as close to simultaneously as practicable as may be approved by the Trustee) will become an Excluded Entity for the purposes of the Core Credit Facilities.

The Issuer may at any time by written notice to the Trustee signed by two directors or one director and the company secretary of the Issuer request that an Excluded Entity cease to be an Excluded Entity. Upon the Trustee's receipt of such notice without any consent being required from any Noteholder or Couponholder (receipt of such notice to be confirmed to the Issuer by the Trustee as soon as practicable), such Excluded Entity shall automatically cease to be an Excluded Entity and shall become a Non-Excluded Entity.

Notice of any designation or cessation of an Excluded Entity pursuant to this Condition will be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

Transaction Security and Intercreditor Deed

The Trustee is a party to the Intercreditor Deed with, amongst others, the Secured Hedging Counterparties, the Security Trustee and the agents and/or trustees (as the case maybe) from time to time under the Core Credit Facilities and the Convertible Bond Liabilities. Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, will be deemed to have agreed to be bound by such provisions of the Intercreditor Deed (whether entered into as at the date of the Trust Deed or thereafter) and to have irrevocably appointed the Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Deed.

Under the Transaction Security Documents, the Transaction Security has been granted by the Issuer and the Guarantors to secure the payment when due of the Issuer's and each Guarantor's payment obligations under the Notes and the Trust Deed.

On the date of the Trust Deed, the Transaction Security consists of floating charges over the properties and other assets of the Issuer and each of the Guarantors.

Subject to the terms of the Intercreditor Deed and compliance with the Conditions, including compliance with Condition 4.1 (Negative Pledge), the paragraph entitled "Further Assurances" below and the provisions of the Trust Deed, the Issuer and the Guarantors are permitted to extend the benefit of the Transaction Security to holders of certain future Financial Indebtedness that may be incurred, including any Additional Notes permitted under the Conditions and the Trust Deed.

The Intercreditor Deed also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security will be shared equally and rateably in satisfaction of the Pari Passu Liabilities and the Note Liabilities.

Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, shall be deemed (i) to have authorised the Security Trustee to enter into the Transaction Security Documents and the Intercreditor Deed and (ii) to be bound thereby.

Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Transaction Security Documents. The Noteholders may only act through the Trustee or the Security Trustee, as applicable. Subject to Conditions 11 (Enforcement of Security) and 12 (Noteholder Action) and the terms of the Intercreditor Deed, the Security Trustee will agree to any release of the security interests created by the Transaction Security Documents that is in accordance with the Conditions and the Trust Deed without requiring any consent of the Noteholders. The Trustee has the ability to direct the Security Trustee to commence enforcement action under the Transaction Security Documents, subject to the terms of the Intercreditor Deed. The enforcement of the Transaction Security provided for under the Transaction Security Documents is subject to the Intercreditor Deed.

Subject to the terms of the Transaction Security Documents and the Intercreditor Deed, each of the Issuer and the Guarantors is entitled (without consent of the Trustee or the Noteholders) to exercise any and all voting rights and to receive and retain any and all cash dividends, share dividends, liquidating dividends, non-cash dividends, shares resulting from share splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of any shares held by it that are part of the Transaction Security.

The rights under the Transaction Security Documents with respect to the Notes and the Trust Deed must be exercised by the Security Trustee in respect of all of the Notes outstanding and in accordance with the terms of the Intercreditor Deed.

All Security granted to the Security Trustee on behalf of the Noteholders and the Trustee under the Transaction Security Documents will be automatically and unconditionally released if all obligations under the Conditions, the Notes and the Trust Deed are discharged, in each case in accordance with the terms and conditions in the Trust Deed and the Intercreditor Deed.

Further Assurances

The Issuer has agreed under the Trust Deed to take all such action as is available to it (including making all filings and registrations) as may be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on the Security Trustee by or pursuant to the Transaction Security Documents.

4. **COVENANTS**

4.1 **Negative Pledge**

(a) Except as permitted under paragraph (b) below, so long as any of the Notes remains outstanding (as defined in the Trust Deed):

(i) the Issuer shall not and shall procure that no Guarantor shall, create, assume or permit to subsist, as security for any Financial Indebtedness, any Security upon the whole or any part of its present or future revenues or assets; and

(ii) the Issuer shall not and shall procure that no Guarantor shall:

(A) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by it;

(B) sell, transfer or otherwise dispose of any of its receivables on recourse terms;

(C) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(D) enter into any other preferential arrangement having a similar effect,

(sub-paragraphs (A) through (D) (inclusive) being "**Quasi Security**") in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

(b) Paragraph (a) above does not apply to any Security or Quasi Security that:

(i) is a Permitted Security; or

(ii) equally and rateably secures the Issuer's or, as the case may be, the relevant Guarantor's obligations in respect of the Notes and all other amounts due under the Trust Deed to the satisfaction of the Trustee.

4.2 **Financial Covenants**

(A) Loan to Value Ratio

The Issuer will ensure that the Loan to Value Ratio does not exceed 75 per cent. on any Half-Year End Date as certified by a Compliance Certificate delivered pursuant to Condition 18.1 (*Reports and Compliance Certificates*).

(B) Limitation on Purchase of Assets

If the Loan to Value Ratio as certified in a Compliance Certificate delivered to the Trustee in accordance with sub-paragraphs (a)(iv) or (a)(v) of Condition 18.1 (*Reports and Compliance Certificates*) is greater than 67.5 per cent., then from the date of that Compliance Certificate (the "**LTV Trigger Date**") until the next date on which a Compliance Certificate is delivered to the Trustee in accordance with sub-paragraphs (a)(iv) or (a)(v) of Condition 18.1 (*Reports and Compliance Certificates*) pursuant to which the Loan to Value Ratio is certified as being equal to or below 67.5 per cent., neither the Issuer nor any Guarantor will, and the Issuer will procure that no Non-Excluded Entity will, purchase or transfer to an Excluded Entity any property or properties unless:

(a) the aggregate value of such purchases or transfers is less than £2,000,000 during each calendar month after the LTV Trigger Date and until such next date; or

(b) such purchases or transfers are made in accordance with contracts entered into prior to the LTV Trigger Date.

4.3 **Merger, Consolidation and Sale of Substantially All Assets**

The Issuer shall not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries) to another Person, unless:

(a) the resulting, surviving or transferee Person, if other than the Issuer (the "**Successor**"), shall be a Person organised and existing under the laws of England and Wales, any member state of the European Union as at 1 January 2004, or any State of the United States and shall expressly assume, by a supplement to the Trust Deed, executed and delivered to the Trustee, in a form satisfactory to the Trustee, all the obligations of the Issuer in respect of the Notes and under the Trust Deed and these Conditions;

(b) immediately after giving effect to such transaction (and treating any Financial Indebtedness which becomes an obligation of the Issuer or the Successor, as applicable, or any Relevant Subsidiary of the Issuer or the Successor, as the case may be, as a result of such transaction as having been incurred by the Issuer or the Successor or such Relevant Subsidiary at the time of such transaction) no Event of Default or Potential Event of Default shall have occurred and be continuing; and

(c) the Issuer shall have delivered to the Trustee (i) a certificate signed by two directors of the Issuer stating that such consolidation, merger, amalgamation or sale, assignment, conveyance, transfer, lease

or other disposition and such supplement to the Trust Deed (if any) comply with the provisions of this covenant (in particular, as to the matters referred to in paragraph (b) above) and (ii) an opinion(s) of independent legal advisers of recognised standing as to all relevant laws in a form(s) satisfactory to the Trustee and opining as to the matters referred to in paragraph (a) above.

The Successor shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Trust Deed. The Issuer shall be relieved of all obligations and covenants under the Trust Deed and the Notes.

Nothing contained in the foregoing restrictions on merger, consolidation, amalgamation and asset transfers shall prohibit any Subsidiary of the Issuer from consolidating or amalgamating with, merging with or into, or transferring all or part of its properties and assets to a Relevant Subsidiary provided that, after giving effect to any such merger, consolidation, amalgamation or asset transfer, no Event of Default or Potential Event of Default shall have occurred and be continuing or would result therefrom.

4.4 Trustee not obliged to monitor

The Trustee shall be under no obligation to monitor compliance by the Issuer or any Guarantor, as the case may be, with any of the covenants, restrictions or provisions set out in this Condition and shall have no liability to any Person as a result of any failure to monitor such compliance.

5. INTEREST

The Further Notes bear interest from and including 16 June 2014 at the rate of 5.00 per cent. per annum, payable in arrear on 16 June and 16 December in each year (each an "**Interest Payment Date**"). The first interest period of the Further Notes shall be from and including 16 June 2014 to but excluding 16 December 2014 (the "**First Interest Period**"). The amount of interest in respect of each semi-annual interest period will amount to £25 per £1,000 in principal amount of the Notes.

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal amount is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in this Condition 5 (*Interest*) and the Trust Deed until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, and (b) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

When interest is required to be calculated in respect of a period of less than a full half-year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (b) twice the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

6. PAYMENTS

Payments of principal, premium and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office of any of the Paying Agents.

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with or, at the option of the payee, by a cheque in pounds Sterling drawn on, a bank in London.

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in this Condition 6 (*Payments*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;

(c) there will at all times be a Paying Agent with a specified office in a city within Europe approved by the Trustee outside the United Kingdom; and

(d) the Issuer undertakes that it will ensure that it maintains a Paying Agent which is outside the United Kingdom and in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to such Directive.

Notice of any termination or appointment and of any changes in, specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Guarantors and, in certain limited circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, the Noteholders or the Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 16 December 2020.

7.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 26 November 2013, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*); and

(ii) the requirement cannot be avoided by the Issuer taking reasonable measures available to it; or

(b) (i) the Issuer will not have sufficient funds available to it to satisfy in full its obligations under the Notes and Coupons on the next Interest Payment Date;

(ii) (A) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 26 November 2013, on such Interest Payment Date each of the Guarantors in making payment itself would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) and (B) the requirement cannot be avoided by the Guarantors taking reasonable measures available to each of them; and

(iii) each of the Guarantors would not be able for reasons outside its control to put the Issuer in funds to enable it to satisfy in full its obligations under the Notes and Coupons on such Interest Payment Date,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, any such Guarantor would be required to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that:

(i) in the case of subparagraph (a) above, the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment; or

(ii) in the case of subparagraph (b) above, each of the Guarantors has or will become obliged to pay such additional amounts as a result of such change or amendment and that each of the Guarantors would not be able for reasons outside its control to put the Issuer in funds to enable it to satisfy in full its obligations under the Notes and Coupons on the relevant Interest Payment Date.

In any case, the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the relevant conditions precedent set out above in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

7.3 Redemption upon a Change of Control

If a Put Event occurs, unless notice of redemption of all of the Notes has previously been given pursuant to Condition 7.2 (*Redemption for Taxation Reasons*) or Condition 7.4 (*Redemption at the option of the Issuer*), each Noteholder shall have the option to require the Issuer to redeem or purchase the Notes of such holder at a cash purchase price equal to 101 per cent. of the principal amount thereof together with interest accrued to but excluding the date of redemption or purchase, as the case may be. Such option shall operate as set out below.

As soon as practicable after the occurrence of a Put Event and in any case not later than 30 days thereafter, the Issuer shall, and at any time upon the Trustee becoming aware that a Put Event has occurred the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction and subject to the Trustee having received all the information referred to in sub-paragraphs (b) and (c) below) give a notice (the "**Change of Control Notice**") to the Trustee (in the case of a notice from the Issuer) and the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable) stating:

(a) that a Put Event has occurred and that each Noteholder is entitled to require the Issuer to redeem or purchase the Notes of such holder pursuant to this Condition;

(b) the circumstances and relevant facts regarding such Put Event;

(c) the redemption or purchase price and the redemption or purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is given (or such later date as is necessary to comply with requirements under any applicable securities laws or regulations)); and

(d) the procedures for exercising the option in this Condition.

To exercise the option to require the redemption or purchase of a Note under this Condition, the holder of the Note must deliver such Note at the specified office of a Paying Agent at any time during normal business hours of such Paying

Agent falling within the period (the "**Put Period**") of 45 days after the Change of Control Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of each Paying Agent (a "**Change of Control Put Notice**"). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is 7 days after the expiration of the Put Period (the "**Put Date**"), failing which the relevant Paying Agent will require payment of an amount equal to the face value of any missing such Coupon. Any amount so paid will be reimbursed in the manner provided in Condition 6 (*Payments*) against presentation and surrender of the relevant missing Coupon (or any replacement therefore issued pursuant to Condition 13 (*Replacement of Notes and Coupons*)) at any time after such payment, but before the expiry of the period of five years from the Relevant Date in respect of that Coupon. The relevant Paying Agent will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of a Paying Agent. A Change of Control Put Notice once given shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition shall be treated as if they were Notes. The Issuer shall redeem or purchase the relevant Notes on the Put Date unless previously redeemed and cancelled or purchased.

The Trustee is under no obligation to ascertain whether a Put Event or any event which could lead to the occurrence of or could constitute a Put Event has occurred and, until it shall have actual knowledge or written notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Put Event or other such event has occurred.

A "**Put Event**" will occur if, while any of the Notes remains outstanding:

(a) a Change of Control occurs; and

(b) either (i) the Notes do not have an Investment Grade rating from at least two Rating Agencies at the time the Change of Control occurs or (ii) the Notes do have an Investment Grade rating from at least two Rating Agencies (and if there are more than two such ratings, the Issuer shall be entitled to determine which two Rating Agencies shall be relevant for the purposes of this provision) at the time the Change of Control occurs but at any time during the Change of Control Period either such Rating Agency rates the Notes as non-Investment Grade and such rating is not within the Change of Control Period restored to an Investment Grade rating by such Rating Agency or replaced by an Investment Grade rating of another Rating Agency, or any such Rating Agency withdraws its rating of the Notes

and the rating of such Rating Agency is not within the Change of Control Period replaced by an Investment Grade rating of another Rating Agency; and in each case such Rating Agency publicly announces or publicly confirms or informs the Trustee in writing that such non-Investment Grade rating or withdrawal of rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the Change of Control shall have occurred at the time such rating is given or rating is withdrawn).

7.4 Redemption at the option of the Issuer

(a) Subject as provided below, upon giving not less than 7 nor more than 14 days' notice to the Noteholders, in accordance with Condition 14 (Notices), the Issuer may redeem any Notes in whole or in part (subject as provided in Condition 7.5 (Provisions relating to Partial Redemption) below) at the higher of (a) their principal amount; and (b) the price (as reported in writing to the Issuer and the Trustee by a financial adviser of international and reputable standing appointed by the Issuer and approved in writing by the Trustee) expressed as a percentage (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)) at which the gross redemption yield on the Notes, calculated on the date falling two Business Days before the day set for redemption, is the same as the gross redemption yield at 3:00 p.m. (London time) on such date of the 3.75 per cent. Treasury Stock due 2020 while that stock is in issue (and thereafter such UK government stock as such financial adviser may specify) plus 0.50 per cent., plus accrued interest.

(b) Any notice of redemption delivered in accordance with paragraph (a) may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent to which either (i) an acquisition of shares in the Issuer which would, if completed, cause a Change of Control or (ii) a direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole which would, if completed, cause a Change of Control is subject, any notice so conditioned being, a "Conditional Optional Redemption Notice". Any such conditions precedent shall be specified in the relevant Conditional Optional Redemption Notice.

7.5 Provisions relating to Partial Redemption

In the case of a partial redemption of the Notes, Notes to be redeemed will be selected, in such place as the Trustee may approve and in such manner as the Trustee may deem appropriate and fair, not more than 17 days before the date of redemption. Notice of any such selection will be given not less than 7 days before the date fixed for redemption. Each notice will specify the date fixed for redemption and the aggregate principal amount of the Notes to be redeemed, the serial numbers of the Notes called for redemption, the serial numbers of the Notes previously called for redemption and not presented for payment and the aggregate principal amount of the Notes which will be outstanding after the partial redemption.

7.6 Purchases

The Issuer or any of the Issuer's Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation, provided that for so long as the Issuer or any of the Issuer's Subsidiaries holds Notes, (a) in ascertaining whether any given percentage (including, for the avoidance of doubt, unanimity) of the principal amount of the Notes for the time being outstanding has been obtained to approve any request for a consent, waiver, amendment or other vote or direction under the Trust Deed or these Conditions, such principal amount shall be deemed to be zero, and (b) the Issuer or the relevant Issuer's Subsidiary shall be deemed not to count in the quorum for the purposes of determining whether the requisite quorum is present at any meeting of the Noteholders.

7.7 Cancellations

All Notes which are purchased pursuant to Condition 7.3 (Redemption upon a Change of Control) or redeemed will forthwith be cancelled (together with all unmatured Coupons attached to the Notes or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.6 (*Purchases*) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent for cancellation and cannot be reissued or resold.

7.8 Notices Final

Upon the expiry of any notice as is referred to in Condition 7.2 (*Redemption for Taxation Reasons*), 7.3 (*Redemption upon a Change of Control*) or 7.4 (*Redemption at the option of the Issuer*) above, the Issuer shall be bound to redeem or purchase, as the case may be, the Notes to which the notice refers in accordance with the terms of such Condition (provided that such obligation shall not apply in the case of a Conditional Optional Redemption Notice unless each of the conditions precedent to that Conditional Optional Redemption Notice has been satisfied).

8. TAXATION

8.1 Payment without Withholding

All payments of (i) principal, premium and interest in respect of the Notes and (ii) purchase monies due under Condition 7.3 (*Redemption upon Change of Control*) by or on behalf of the Issuer or any Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the relevant Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable by them in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

(a) presented for payment by, or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or

(b) presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date; or

(c) presented for payment in the United Kingdom; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(f) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

For the avoidance of doubt, payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto, as provided in Condition 6 (*Payments*). No additional amounts will be paid on the Notes with respect to any such withholding or deduction.

8.2 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal or premium) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 7 (*Redemption and Purchase*).

10. EVENTS OF DEFAULT

(a) Subject to paragraph (b) below, each of the following will be an "**Event of Default**":

(i) default is made in the payment of any amount of principal or premium or any amount of purchase moneys due under Condition 7.3 (*Redemption upon a Change of Control*) in respect of any of the Notes for a period of 7 days or more or any amount of interest in respect of any of the Notes for a period of 21 days or more;

(ii) an order is made or an effective resolution is passed for winding up, or an administration order is made in relation to, the Issuer or any Guarantor (except for (a) the purpose of a reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (b) in connection with any consolidation, merger, amalgamation, sale, assignment, conveyance, transfer, lease or other disposal effected in compliance with Condition 4.3 (*Merger, Consolidation and Sale of Substantially All Assets*) or, (c) in the case of a Guarantor, a voluntary solvent winding up in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or any other Guarantor);

(iii) (a) the Issuer or any Guarantor stops or, without the prior written approval of the Trustee, announces its intention unconditionally to stop payment of its debts generally (or any then current conditional intention to stop payment of its debts generally which has been announced becomes unconditional), or (b) the Issuer and the Guarantors, taken as a whole, suspend or cease to carry on (or threaten to suspend or cease to carry on) all or a material part of their business where such suspension or cessation (A) would need the approval of the Issuer's shareholders in a general meeting (including, without limitation, any suspension or cessation which would qualify as a Class 1 Transaction) and (B) would have a Material Adverse Effect provided that this sub-paragraph (b) excludes any acquisition or disposal effected by way of a reconstruction, merger consolidation, amalgamation or other similar arrangement that is permitted by Condition 4.3 (*Merger, Consolidation and Sale of Substantially All Assets*);

(iv) a distress, execution or any similar proceeding is levied or enforced upon or sued out against a substantial part of the chattels or property of any member of the Group (other than the Excluded Entities) and is not discharged within 21 Business Days;

(v) any trustee in bankruptcy, liquidator, provisional liquidator, receiver, administrative receiver, administrator or other similar official is appointed in relation to the Issuer or any Guarantor or in respect of the whole or a substantial part of their respective properties or assets or an encumbrancer, takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or any Guarantor and in any of the foregoing cases is not discharged within 21 days or the directors of the Issuer or any

Guarantor request any person to make any such appointment or to take possession as aforesaid (except for (a) the purpose of a reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or (b) in connection with any consolidation, merger, amalgamation, sale, assignment, conveyance, transfer, lease or other disposal effected in compliance with Condition 4.3 (*Merger, Consolidation and Sale of Substantially All Assets*) or, (c) in the case of a Guarantor, a voluntary solvent winding up in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or any other Guarantor);

(vi) the Issuer or any Guarantor becomes or is declared or determined by any competent court to be unable, or admits in writing its inability, to pay its debts as they fall due (except that for the purposes of Section 123 of the Insolvency Act 1986, the amount of the statutory demand shall be deemed to be £20,000,000 or such higher figure as may be agreed by an Extraordinary Resolution of the Noteholders or is adjudicated or found bankrupt or insolvent by any competent court);

(vii) any kind of composition, scheme of arrangement, compromise or other similar arrangement involving the Issuer or any Guarantor and all its creditors or substantially all (determined by reference to the amount or value of their claims) its creditors is entered into or made (with the exception of a scheme of arrangement as approved by a UK court which is carried out on a solvent basis);

(viii) any Financial Indebtedness of any member of the Group (other than the Excluded Entities) shall be or be declared due and payable prior to the date on which the same would otherwise become due and payable by reason of the occurrence of an event of default (howsoever described) in relation thereto or any member of the Group (other than the Excluded Entities) defaults in the repayment of any Financial Indebtedness and such default is not remedied within 21 days of the maturity thereof or, if longer, any applicable grace period as originally provided or any guarantee of or indemnity in respect of any Financial Indebtedness given by any member of the Group (other than the Excluded Entities) shall not be paid within 21 days of the date when such guarantee or indemnity is due and called upon or, if longer, any applicable grace period as originally provided; provided that no event described in this subparagraph (viii) shall constitute an Event of Default unless the relevant amount of Financial Indebtedness or other relative Liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Financial Indebtedness and/or other Liabilities due and unpaid relative to all (if any) other events specified in this subparagraph (viii) which have occurred and are continuing amounts to at least £20,000,000 (or the equivalent in any other currency or currencies as at the date the relative Financial Indebtedness or other relative Liability becomes due);

(ix) default is made by the Issuer or any Guarantor in the performance or observance of any obligation, condition or provision binding on it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes as referred to in subparagraph (i) above and other than as referred to in subparagraph (x) below) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case no such continuation or notice as hereinafter provided shall be required), such default continues for 30 days after written notice thereof is given by the Trustee to the Issuer requiring the same to be remedied;

(x) default is made by the Issuer or any Guarantor in the performance or observance of any provision of Condition 4 (Covenants) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case no such continuation or notice as hereinafter provided shall be required), such default continues for 30 days after written notice thereof is given by the Trustee to the Issuer requiring the same to be remedied;

(xi) the Notes Guarantee ceases to be in full force and effect;

(xii) the Transaction Security ceases to be legal, valid, binding, enforceable or effective for any reason other than as permitted by these Conditions or is alleged by the Issuer or any Guarantor to be invalid or unenforceable; or

(xiii) any Guarantor (other than the Issuer) is not or ceases to be a Subsidiary of the Issuer.

(b) Any event that occurs under paragraph (a) above shall constitute an Event of Default only if the Trustee has certified in writing to the Issuer that, in its opinion, the occurrence of that event is materially prejudicial to the interests of the Noteholders, provided that no such certification shall be required in respect of the following events, each of which shall automatically constitute an Event of Default:

(i) an event that occurs under sub-paragraph (a)(i), (a)(iii)(b), (a)(viii) or (a)(x) (with respect to Condition 4.2(A) (*Loan to Value Ratio*) and Condition 4.2(B) (*Limitation on Purchase of Assets*) only) above; and

(ii) an event that occurs under sub-paragraph (a)(ii), (a)(iii)(a), (a)(v), (a)(vi) or (a)(vii), in each case only to the extent such event occurs in relation to the Issuer, or any Material Guarantor or group of Guarantors that, when taken together with reference to the latest audited consolidated financial statements of the Group for the period covered by those audited consolidated financial statements, would constitute a Material Guarantor.

(c) In determining whether or not an event in relation to a non-Material Guarantor is materially prejudicial under paragraph (b) above, the Trustee shall, without limitation, be able to take into account whether any other Guarantor has been subject to an event described in paragraph (a) above.

(d) If an Event of Default occurs and is continuing, the Trustee:

(i) may in its absolute discretion; and

(ii) shall if it has been directed to do so:

(A) in writing by the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding; or

(B) by an Extraordinary Resolution of the Noteholders,

subject, in each case, to it being indemnified and/or pre-funded and/or secured to its satisfaction, give a notice (a "**Note Acceleration Notice**") to the Issuer and the Security Trustee declaring the principal of, premium, if any, and accrued interest on all the outstanding Notes immediately due and payable.

The ability of the Trustee and the Noteholders to declare, and of the Noteholders to direct the Trustee to declare, the Notes due and payable is subject to the terms of the Intercreditor Deed (as described in the paragraph entitled "Intercreditor Deed" in Condition 3 (Guarantee, Security and Intercreditor Deed)).

11 ENFORCEMENT OF SECURITY

At any time after a Note Acceleration Notice has been given to the Issuer and the Security Trustee, the Trustee may in its absolute discretion and shall if it has been directed to do so in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Notes outstanding, or by an Extraordinary Resolution of Noteholders, subject, in each case, to it being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, instruct the Security Trustee to make a request for voting in relation to enforcing the Transaction Security pursuant to the terms of the Intercreditor Deed (each, a "**Request Instruction**").

The Trustee shall, subject to it being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, promptly after receiving any Request Instruction, give a notice to Noteholders in accordance with Condition 14 (*Notices*) soliciting the direction from holders of the Notes then outstanding (each, a "**Noteholder Direction**") to the Trustee as to whether to instruct the Security

Trustee to take enforcement action in relation to the Transaction Security pursuant to the Intercreditor Deed (such instruction, an "**Enforcement Instruction**"). Upon the conclusion of the solicitation of Noteholder Directions, the Trustee shall inform the Issuer and the Security Trustee promptly in writing of the aggregate principal amount of Notes represented by the holders of Notes voting in favour or against of the Enforcement Instruction, if any.

Any enforcement of the Transaction Security will be undertaken by the Security Trustee, subject to, and in accordance with, the provisions of the Intercreditor Deed.

12. NOTEHOLDER ACTION

(a) Subject to Condition 11 (*Enforcement of Security*) and paragraphs (b), (c) and (d) below, no Noteholder or Couponholder shall be entitled to take any proceedings or other action directly against the Issuer or any Guarantor or to enforce the Transaction Security, including:

(i) itself giving Request Instructions or Enforcement Instructions;

(ii) taking or joining any person in taking steps against the Issuer or any Guarantor or to enforce the Transaction Security for the purpose of obtaining payment of any amount due from the Issuer or any Guarantor to it; and

(iii) initiating or joining any person in initiating any Insolvency Proceedings in relation to the Issuer or any Guarantor or the appointment of an Insolvency Official in relation to the Issuer or any Guarantor or in relation to the whole or any part of the undertakings or assets of the Issuer or any Guarantor.

(b) If the Trustee having become bound to give a Note Acceleration Notice to the Issuer fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may sign and give a Note Acceleration Notice to the Issuer in accordance with Condition 10 (*Events of Default*).

(c) If the Trustee having become bound to give a Request Instruction to the Security Trustee fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may give a Request Instruction in writing direct to the Security Trustee.

(d) If the Trustee having become bound to inform the Issuer and the Security Trustee of the aggregate principal amount of Notes represented by the holders of Notes voting in favour of the Enforcement Instruction fails to do so and that failure is continuing, Noteholders may provide their Noteholder Direction in writing in relation to the taking of enforcement action in relation to the Transaction Security pursuant to the Intercreditor Deed direct to the Security Trustee.

13. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

14. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

15. SUBSTITUTION

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer of any Relevant Subsidiary as principal debtor under the Trust Deed, the Notes and the Coupons providing such substitution is not in the Trustee's opinion materially prejudicial to the interests of the Noteholders. The Trustee may also agree, without such consent as aforesaid, to the substitution of a new group holding company of the Group in place of the Issuer if the Issuer has or will be replaced as the ultimate holding company of the Group by such new group holding company on terms which shall have been previously approved in writing by the Trustee and which are not in its opinion materially prejudicial to the interests of the Noteholders. Any such substitution shall be subject to such conditions as the Trustee may require.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

16.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed or these Conditions. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer at the request of Noteholders holding not less than 10.0 per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Coupons, these Conditions or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, or the Coupons, all as more particularly described in the Trust Deed), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-quarters of the votes cast on such a resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in principal amount of the Notes for the time being outstanding or (iii) consents given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of not less than three-quarters in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution of the Noteholders shall be binding on all the Noteholders, whether or not they vote on such resolution, and on all Couponholders.

16.2 **Modification, Waiver, Authorisation and Determination**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Intercreditor Deed or the Security Agreement or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven.

16.3 **Trustee to have Regard to Interests of Noteholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, any Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

16.4 **Notification to the Noteholders**

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTORS

Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

Trustee Contracting with the members of the Group

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any Guarantor and/or any of the Issuer's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any Guarantor and/or any of the Issuer's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. **FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Trustee, the Noteholders or the Couponholders, but subject always to the provisions of these Conditions and the Trust Deed, to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

18. REPORTS, COMPLIANCE CERTIFICATES AND LISTING

18.1 Reports and Compliance Certificates

(a) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(i) as soon as the same are posted to the shareholders of the Issuer, but in any event within 120 days after the end of each of the Issuer's financial years, the audited consolidated financial statements of the Group for such financial year;

(ii) as soon as the same are posted to the shareholders of the Issuer, but in any event within 60 days after the end of the first financial half-year of each of the Issuer's financial years, the interim unaudited financial statements of the Group for such financial half-year;

(iii) within 15 Business Days after issuance, all information that is required to be provided to the holders of the ordinary shares of the Issuer under the Listing Rules or company law in the United Kingdom; and

(iv) within 10 Business Days after the delivery of each of the financial statements delivered pursuant to sub-paragraphs (i) and (ii) above, a Compliance Certificate signed by two directors or a director and the secretary of the Issuer certifying the Loan to Value Ratio and compliance with Condition 3.4 (*Minimum Guarantor Coverage*) as at such Half-Year End Date.

(b) At the same time as providing any of the documents set forth in subparagraphs (a)(i), (a)(ii) and (a)(iii) above of this Condition to the Trustee, the Issuer will also make the relevant documents available via the Regulatory News Service of the Irish Stock Exchange subject to any distribution and offering restrictions and subject to compliance with applicable laws and regulations.

(c) The Issuer shall notify the Trustee within 15 Business Days of it becoming aware of the occurrence of any Event of Default or Potential Event of Default stating what action, if any, the Issuer is taking with respect to that Event of Default or Potential Event of Default.

18.2 Trustee not obliged to review

The Trustee shall not be required to review or check any accounts or other information provided to it by the Issuer or any Guarantor pursuant to Condition 18.1 (*Reports and Compliance Certificates*) and/or the Trust Deed and shall have no liability to any person as a result of any failure to do so.

18.3 Listing

So long as any of the Notes remains outstanding, the Issuer has covenanted in the Trust Deed that it shall use all reasonable endeavours to maintain a listing of the Notes on any market for notes operated by the London or Irish Stock Exchange or, if it is unable to do so having used such endeavours, or if the maintenance of such listing is reasonably considered by the Issuer to be unduly onerous, it shall use all reasonable endeavours to obtain and maintain a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets as the Issuer may (unless the Trustee reasonably objects) decide and shall also, upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets, enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

19. GOVERNING LAW

The Trust Deed (including the Notes Guarantee), these Conditions, the Notes and the Coupons and any non-contractual obligations arising therefrom or in connection therewith shall be governed by, and construed in accordance with, English law.

20. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. DEFINITIONS

For the purposes of these Conditions:

"**Additional Guarantor**" has the meaning given to such term in Condition 3.2 (*Additional Guarantors*);

"**Applicable Cash**" means cash in hand or on deposit with any bank or financial institution to the extent beneficially owned by a member of the Group free of restrictions on withdrawal or transfer and not subject to any Security;

"**Bantam Sub-group**" means Hamsard 2518 Limited and its Subsidiaries which as at the Issue Date are Hamsard 2517 Limited, Hamsard 2517 (New Business) Limited, BPT Bridgewater (Home Reversions) Limited and BPT (Full Reversions) Limited;

"**Business Day**" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place;

"**Cash Equivalents**" means:

(a) securities issued or unconditionally guaranteed by the government of the United States of America or the United Kingdom or by any agency of such a government having an equivalent credit rating;

(b) commercial paper in Euro, Sterling or US Dollars not issued or guaranteed by a member of the Group, for which a recognised trading market exists and maturing within one year of being acquired and having a rating of at least A-1 from Standard and Poor's Corporation or at least P-1 from Moody's Investor Services Inc. or, if unrated, whose issuer has an equivalent rating in respect of its long-term debt obligations; and

(c) certificates of deposit or bankers' acceptances maturing within one year of being acquired issued by any bank or financial institution having a long-term unsecured debt rating of at least A-1 from Standard and Poor's Corporation or at least P-1 from Moody's Investor Services Inc;

"**Change of Control**" means:

(a) any Person or Persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in the Companies Act 2006, as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Issuer or any holding company of the Issuer, shall become interested (within the meaning of Part 22 of the Companies Act 2006, as amended) in (i) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (ii) shares in capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer; or

(b) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole to any Person;

"**Change of Control Period**" means the period:

(a) commencing on the date that is one Business Day in London before the date of the relevant Change of Control; and

(b) ending 90 days after the date of the relevant Change of Control or such longer period for which the Notes are under consideration by a Rating Agency for rating or rating review (such consideration having been announced publicly within the period ending 90 days after the date of the relevant Change of Control and such period not to exceed 60 days after the public announcement of such consideration);

"**Class 1 Transaction**" means a transaction as defined as a class 1 transaction under L.R.10 of the Listing Rules;

"**Compliance Certificate**" means a certificate substantially in the form set out in Schedule 6 of the Trust Deed or in any other form requested by the Issuer and agreed by the Trustee;

"**Conditional Optional Redemption Notice**" has the meaning given to such term in Condition 7.4(b) (*Redemption at the option of the Issuer*).

"**Convertible Bond Liabilities**" means the Liabilities owed by the Issuer and/or any Guarantor to the Convertible Bond Trustee on behalf of the Convertible Bondholders or to the Convertible Bondholders under the Intercreditor Deed, the Convertible Bond Trust Deed, the Convertible Bonds and the Security Agreement;

"**Convertible Bond Trust Deed**" means the trust deed dated 17 May 2007 between the Issuer and the Convertible Bond Trustee, as amended by a supplemental trust deed dated 28 November 2013 between the Issuer, the Guarantors and the Convertible Bond Trustee;

"**Convertible Bond Trustee**" means Deutsche Trustee Company Limited (or its successor(s) and/or any additional trustee appointed pursuant to the Convertible Bond Trust Deed) in its capacity as such;

"**Convertible Bondholders**" means the holders from time to time of Convertible Bonds;

"**Convertible Bonds**" means the £112,000,000 3.625 per cent. Convertible Bonds due 2014 of the Issuer constituted by the Convertible Bond Trust Deed;

"**Core Credit Facilities**" means the £840,000,000 facilities agreement dated 10 July 2011 as amended and restated on 30 September 2011 and the £100,000,000 facility agreement dated 8 February 2011 as amended and restated on 19 October 2011 (including, without limitation, any guarantee agreements and security documents), in each case as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreements extending the maturity of, refinancing, replacing (whether or not contemporaneously) or otherwise restructuring (including increasing the amount of available borrowings thereunder or adding Additional Guarantors as additional borrowers or guarantors thereunder) all or any portion of the Financial Indebtedness under such agreement or any successor or replacement agreements and whether by the same or any other agent, lender or group of lenders or investors and whether such refinancing or replacement is under one or more debt facilities or commercial paper facilities, indentures or other agreements or deeds, in each case with banks or other institutional lenders or trustees or investors providing for revolving credit loans, term loans, notes or letters of credit.

A certificate addressed to the Trustee by two directors or one director and the company secretary of the Issuer (addressed to the Trustee) certifying that a facility is or is not a Core Credit Facility shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Core Credit Facilities Liabilities**" means the Liabilities of any member of the Group under the Core Credit Facilities;

"**Event of Default**" has the meaning given to such term in Condition 10 (*Events of Default*);

"**Excluded Entities**" means:

(a) the Bantam Sub-group;

(b) the NITRO Sub-group;

(c) the German Sub-group Excluded Entities; and

(d) The Capital Appreciation Trust (Isle of Man) Limited, Retirement Housing Management (Guernsey) Limited, Retirement Housing Management (Isle of Man) Limited, The Tilt Estate Company Limited, HI Tricomm Holdings Limited, Tricomm Housing (Holdings) Limited, Tricomm Housing Limited, Infrastructure Investors Defence Housing (Bristol) Limited, Grainger Invest No 1 Limited, Grainger Invest No 2 Limited, BPT (Assured Homes) Limited, Grainger Invest (No 1 Holdco) Limited, Grainger (Octavia Hill) Limited, BPT (Residential Investments) Limited, Bridgewater (Home Reversions Number 1) Limited, Bridgewater (Home Reversions Number 2) Limited, Reversions Financing Limited, Reversions Financing (No.1) 2011 Limited, Hamsard 2492 Limited, Bridgewater Equity Release Nominees (No.2) Limited, Bridgewater Equity Release Nominees (No.1) Limited, Hamsard 2342 Limited, Bridgewater Equity Release Limited. Nitro 2 Limited, Bridgewater Tenancies Limited, Grainger EL Investments Limited, Bridgewater Tenancies Nominees Limited, Grainger (Clapham) Limited, GIP Limited, Grainger Bradley Limited, PHA Limited, Grainger Southwark Limited and any further Subsidiaries which are designated excluded by the Issuer from time to time;

"**Financial Indebtedness**" means any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Group which is cash collateralised);

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;

(e) receivables sold or discounted (otherwise than on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with GAAP;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

The amount of any Financial Indebtedness outstanding as at any date will be:

(a) the accreted value of the Financial Indebtedness, in the case of any Financial Indebtedness issued with original issue discount;

(b) in respect of Financial Indebtedness of another Person secured by Security on the assets of the specified Person, the lesser of:

(i) the fair market value of such assets at the date of determination;

(ii) the amount of the Financial Indebtedness of the other Person; and

(c) the principal amount of the Financial Indebtedness, in the case of any other Financial Indebtedness;

"**GAAP**" means generally accepted accounting principles in the UK including IFRS and in effect on the date of any calculation or determination required hereunder, provided that at any date after the Issue Date, the Issuer may make an irrevocable election to establish that "GAAP" shall mean GAAP as in effect on a date that is on or prior to the date of such election;

"**German Sub-group**" means the Subsidiaries of the Issuer incorporated in Germany;

"**German Sub-group Excluded Entities**" means those members of the German Sub-group which, as at the Issue Date are Grainger Berlin Portfolio No 1 S.a.r.l. & Co KG, Grainger Recklinghausen Portfolio No 1 S.a.r.l. & Co KG, Grainger Recklinghausen Portfolio No 2 S.a.r.l. & Co KG, Grainger Stuttgart Portfolio No 1 S.a.r.l. & Co KG , Grainger Stuttgart Portfolio No 2 S.a.r.l. & Co KG, Grainger European Healthcare No 1 S.a.r.l. & Co KG and Francono Rhein-Main AG;

"**Group**" means the Issuer and its Subsidiaries;

"**Guarantee**" means any obligation of any Person directly or indirectly guaranteeing any Financial Indebtedness or other obligation of any other Person and any obligation, direct or indirect, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Financial Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(b) entered into for purposes of assuring in any other manner the obligations of such Financial Indebtedness or other obligation of the payment thereof or to protect such obligation against loss in respect thereof (in whole or in part).

The term "**Guarantee**" used as a verb has a corresponding meaning;

"**Half-Year End Date**" means each period of six months ending on the last day of the financial half-year or financial year of the Issuer;

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in interest rates or any foreign exchange contract, currency swap agreement, currency option or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates or other similar agreement or arrangement involving interest rates, currencies, commodities or otherwise;

“**IFRS**” means International Financial Reporting Standards issued and/or adopted by the International Accounting Standards Board from time to time to the extent applicable to the relevant financial statements;

“**Insolvency Official**” means, in respect of any company, a liquidator, provisional liquidator, administrator (whether appointed by the court or otherwise), administrative receiver, receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian or other similar official in respect of such company or in respect of the whole or any part of the company’s assets or in respect of any arrangement or composition with creditors;

“**Insolvency Proceedings**” means the winding-up, dissolution, company voluntary arrangement or administration of a company or corporation and shall be construed so as to include any equivalent or

analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief from creditors or the appointment of an Insolvency Official;

“**Intercreditor Deed**” means the security trust deed (as acceded to from time to time) dated 1 July 2004 between amongst others, the Issuer (previously known as Grainger Trust PLC) and the Security Trustee, as amended and restated by a supplemental deed dated 28 November 2013 between, amongst others, the Issuer, the Guarantors, the Trustee, the Convertible Bond Trustee, the Security Trustee, the parties to the Core Credit Facilities and the Secured Hedge Counterparties (as further amended, waived, restated, novated, replaced and/or supplemented from time to time);

“**Investment Assets**” means all of the investments as shown in the non-current assets section of the balance sheet contained in the Relevant Financial Statements (other than Applicable Cash and Cash Equivalents) owned by members of the Group including any investments in Excluded Entities which are not consolidated in the financial statements of the Group;

“**Investment Grade**” means, with respect to a rating given by a Rating Agency, an investment grade credit rating (Baa3 or BBB-, as the case may be, or equivalent, or better) from such Rating Agency;

“**Issue Date**” means 7 August 2014, the date of issue of the Further Notes;

“**Liabilities**” means all present and future moneys, debts, liabilities and obligations due at any time to any Person both actual and contingent and whether incurred solely or jointly with any other person or in any other capacity;

“**Limited Recourse**” means in respect of a Person:

(a) its liabilities for Financial Indebtedness are not directly or indirectly the subject of a guarantee, indemnity or any other form of assurance, undertaking or support from any Relevant Subsidiary; and

(b) any Person from outside the Group making available to such Person any Financial Indebtedness has no recourse whatsoever to any Relevant Subsidiary for the repayment of or payment of such Financial Indebtedness other than recourse directly or indirectly to a member of the Group under any form of completion guarantee, assurance or undertaking, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specific way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the Person against whom such recourse is available;

“**Loan to Value Ratio**” means the ratio of L to V where:

(a) **L** is equal to Total Debt minus:

  (i) Applicable Cash and Cash Equivalents other than Applicable Cash and Cash Equivalents belonging to Excluded Entities; and

  (ii) minus the share of the amount of Total Debt owed by the Excluded Entities.

(b) **V** is equal to:

  (i) the aggregate of the market value of the Properties and the market value of the Investment Assets which are consolidated in the financial statements of the Group provided that, if the value of commercial premises and/or office premises would (but for the operation of this proviso) comprise in excess of 10 per cent. of such aggregate, then the amount of such excess shall be excluded in this calculation; minus

  (ii) the aggregate of the market value of the Properties and the market value of the Investment Assets held by the Excluded Entities which are consolidated in the financial statements of the Group; plus

(iii) the net asset value of the Excluded Entities which are consolidated in the financial statements of the Group less, in respect of a minority interest held in an Excluded Entity by a person which is not a member of the Group, the proportion of the net asset value of an Excluded Entity equivalent to the proportion of that minority interest.

The valuation of the Properties and the Investment Assets shall each be adjusted as required (except as otherwise provided) from the values given in the Relevant Financial Statements adjusted to Original GAAP for, in each case after the date of such financial statements:

(A) purchases (at cost);

(B) sales (at book value);

(C) in the case of the Properties, movements in valuation arising from the change of tenanted status;

(D) disposals to and transfers between Excluded Entities and members of the Group which are not Excluded Entities; and

(E) the value of the Properties and Investment Assets held by:

(1) each member of the Group which has been designated an Excluded Entity in accordance with Condition 3.6 (*Excluded Entities*); and

(2) each member of the Group which has ceased to be an Excluded Entity. "**Material Adverse Effect**" means an effect which is materially adverse to:

(a) the business or financial condition of the Issuer and the Guarantors taken as a whole;

(b) the ability of the Issuer to perform its obligations under Condition 4.2 (A) (Loan to Value Ratio); or

(c) the ability of the Issuer or any Guarantor to perform its payment obligations under the Notes or the Trust Deed (taking into account resources available to it without breaking the terms of any agreement made with other members of the Group which are binding upon it);

"**Material Guarantor**" means a Guarantor that meets either of the following conditions:

(a) it (on a consolidated basis with its Subsidiaries) has gross assets representing at least 5.0 per cent. of the gross assets of the Group calculated on a consolidated basis; or

(b) it (on a consolidated basis with its Subsidiaries) has operating profit representing at least 5.0 per cent. of the operating profit of the Group,

in each case as determined by reference to the then most recent audited consolidated financial statements of the Group.

"**NITRO Sub-group**" means Reversions Financing Limited, Reversions Financing (No.1) 2011 Limited, Hamsard 2492 Limited, Hamsard 2342 Limited, Bridgewater Equity Release Limited, Bridgewater Equity Release Nominees No. 1 Limited, Bridgewater Equity Release Nominees No. 2 Limited, Bridgewater (Home Reversions Number 1) Limited, Bridgewater (Home Reversions Number 2) Limited, Bridgewater Tenancies Limited and Nitro 2 Limited;

"**Non-Excluded Entity**" means any member of the Group that is not a Guarantor and is not an Excluded Entity;

"**Note Liabilities**" means the Liabilities owed by the Issuer and/or any Guarantor to the Trustee on behalf of the Noteholders or to the Noteholders under the Intercreditor Deed, the Trust Deed, the Notes and the Security Agreement;

"**Original Financial Statements**" means the audited consolidated financial statements of the Group for the financial year ending 30 September 2012;

"**Original GAAP**" means the accounting principles and practices applied in the preparation of the Original Financial Statements;

"**Original Guarantor**" means a Guarantor that is an original party to the Trust Deed as a Guarantor;

"**Pari Passu Liabilities**" means the Core Credit Facilities Liabilities, the Secured Hedging Liabilities, the Convertible Bond Liabilities and any Additional Notes;

"**Permitted Security**" means:

(a) any Security or Quasi Security existing at the date of issue of the Original Notes;

(b) any Security or Quasi Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangement having similar effect in respect of goods supplied to a Guarantor in the ordinary course of trading;

(c) any Security or Quasi Security over debit and credit balances arising under or in connection with any netting or set off arrangements or other cash pooling arrangements entered into by any member of the Group in the ordinary course of its banking arrangements;

(d) any lien, security or customary rights of set off upon deposits of cash in favour of banks and other depository institutions under its general terms and conditions or under customary account agreements with whom any member of the Group maintains a banking relationship in the ordinary course of business;

(e) any payment or close out netting arrangement pursuant to any Hedging Obligations entered into in the ordinary course of business;

(f) any Security or Quasi Security arising by operation of law and in the ordinary course of trading;

(g) any Security or Quasi Security permitted under the Core Credit Facilities or permitted under the Intercreditor Deed;

(h) any Security or Quasi Security on assets acquired by a member of the Group after the date of issue of the Original Notes provided that (i) any such Security or Quasi Security is in existence prior to, and has not been created at the instigation of the Issuer and/or a Guarantor, as the case may be, in contemplation of, such acquisition, (ii) the amount secured by such Security or Quasi Security does not exceed, at any time, the amount secured thereby as at the date of acquisition (the "**Maximum Amount**") and (iii) such Security or Quasi Security is removed or discharged within 6 months of the date of acquisition of such assets;

(i) any Security or Quasi Security on assets of a company which becomes a member of the Group after the date of issue of the Original Notes provided that (i) any such Security or Quasi Security is in existence prior to, and has not been created at the instigation of the Issuer and/or a Guarantor, as the case may be, in contemplation of, such company becoming a member of the Group, (ii) the amount secured by such Security or Quasi Security does not exceed, at any time, the amount secured thereby as at the date such company becomes a member of the Group (the "**Maximum Amount**") and (iii) such Security or Quasi Security is removed or discharged within 12 months of the date of that company becoming a member of the Group;

(j) any Security or Quasi Security created after the date of issue of the Original Notes as additional security for the amount secured by any Security falling within paragraphs (a), (h) or (i) above the agreement for which contains an obligation to create such additional security;

(k) any Security or Quasi Security created for the purpose of securing a counter-indemnity or any other obligations provided by any member of the Group in connection with the issuance of any performance bonds, advance payment bonds or documentary letters of credit arising in the ordinary course of its business;

(l) any Security or Quasi Security created as security for any Financial Indebtedness incurred solely for the purpose of any extension of maturity, renewal or refinancing of any indebtedness secured by Security or Quasi Security permitted by paragraphs (a) to (k) above; and

(m) any Security or Quasi Security permitted under paragraphs (h) and (i) above to the extent that the Financial Indebtedness secured thereby exceeds the relevant Maximum Amount and any other Security or Quasi Security created over any asset of any member of the Group (other than any Security permitted under paragraphs (a) to (l) above) provided that the maximum aggregate principal amount of the Financial Indebtedness secured by such Security or Quasi Security (being, in the case of those permitted under paragraphs (h) and (i) above, the excess over the relevant Maximum Amount) does not, on the date of creation of the latest such Security or Quasi Security or, as the case may be, the assumption of any such additional Financial Indebtedness, exceed £75,000,000 (or its equivalent in Sterling if such Financial Indebtedness is denominated in any other currency);

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

"**Potential Event of Default**" has the meaning given to that term in the Trust Deed; "**Presentation Date**" means a day which (subject to Condition 9 (*Prescription*)):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a Sterling account in London as referred to above, is a Business Day in London;

"**Properties**" means all of the properties owned by members of the Group;

"**Quasi Security**" has the meaning given to such term in Condition 4.1 (*Negative Pledge*);

"**Rating Agency**" means (a) Standard & Poor's Credit Market Services Europe Limited, a division of The McGraw-Hill Companies, Inc., or (b) Fitch Ratings Ltd or their respective successors or any internationally recognised securities rating agency or agencies substituted for either of them by the Issuer from time to time with the prior written approval of the Trustee (which approval may be given by the Trustee if to do so would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders) (and the Trustee may and shall if so required by the Issuer, subject, in each case, to its being indemnified and/or secured and/or prefunded to its satisfaction consult and may rely absolutely on advice from a reputable financial adviser in this regard and shall not be liable to the Noteholders, Couponholders or any other person for such reliance) and, in each case, their successors but excluding any rating agency providing a rating of the Notes on an unsolicited basis;

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders in accordance with Condition 14 (*Notices*);

"**Relevant Financial Statements**" means, in respect of any calculation of the ratio set out in the Loan to Value Ratio for the purposes of a Compliance Certificate, the financial statements of the Group to which that Compliance Certificate relates being as at each Half-Year End Date, the relevant financial statements delivered pursuant to Condition 18.1 (*Reports and Compliance Certificates*);

"**Relevant Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax;

"**Relevant Subsidiary**" means any Subsidiary of the Issuer which is not an Excluded Entity;

"**Secured Hedge Counterparty**" any hedge counterparty which is party to the Intercreditor Deed in that capacity;

"**Secured Hedging Liabilities**" means the Liabilities owed by any member of the Group to any Secured Hedge Counterparty;

"**Security**" means a mortgage, charge, pledge, lien, hypothecation, assignment by way of security, title retention arrangement or other security interest securing any obligation of any person or any other agreement or arrangement having a substantially similar effect;

"**Security Agreement**" means

(a) the security agreement dated 1 July 2004;

(b) the second security agreement dated 30 September 2011; and

(c) the third security agreement dated 28 November 2013,

in each case between the Security Trustee and the chargors named therein (the "**Chargors**") under which the Chargors grant a floating charge over their respective properties and all other assets in favour of the Security Trustee and, in either case, any deed of accession thereto;

"**Security Trustee**" means Barclays Bank PLC;

"**Subsidiary**" means a subsidiary as defined in Section 1159 of the Companies Act 2006;

"**Total Debt**" means, at any time, the aggregate outstanding borrowings of the Group (being, as at each Half-Year End Date, the aggregate outstanding borrowings of the Group as set out in the "creditors" section of the Relevant Financial Statements and adjusted to Original GAAP less the value of any loan note or other fiscal obligation to the extent that these are cash collateralised in the currency of such loan note or other fiscal obligation;

"**Transaction Security**" means the Security created or expressed to be created in favour of the Security Trustee pursuant to the Transaction Security Documents; and

“**Transaction Security Documents**” means the Security Agreement and any other document evidencing or creating any Security over any asset of the Issuer or any Guarantor in favour of the Security Trustee.

SUMMARY OF PROVISIONS RELATING TO THE FURTHER NOTES WHILE REPRESENTED BY THE FURTHER GLOBAL NOTES

The following is a summary of the provisions to be contained in the Supplemental Trust Deed to constitute the Further Notes and in the Further Global Notes which will apply to, and in some cases modify, the Conditions of the Notes while the Further Notes are represented by the Further Global Notes.

1. EXCHANGE

The Further Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

(A) upon the happening and continuance of any of the events defined in Condition 10 as "Events of Default";

(B) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(C) if the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8.2 which would not be required were the Notes represented by the Further Permanent Global Note in definitive form and a certificate to that effect signed by two Directors of the Issuer is delivered to the Trustee.

Thereupon (in the case of (A) and (B) above) the holder of the Further Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (C) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Further Permanent Global Note for definitive Notes on or after the Note Exchange Date (as defined below).

On or after the Note Exchange Date, the holder of the Further Permanent Global Note may or, in the case of (C) above, shall surrender the Further Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Further Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Further Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Further Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Further Notes.

"**Note Exchange Date**" means a day specified in the notice requiring exchange falling not less than 45 days and not more than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (B) above, in the place in which the relevant clearing system is located.

2. PAYMENTS

In the case of the Further Notes, on and after 16 September 2014, no payment will be made on the Further Temporary Global Note unless exchange for an interest in the Further Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Further Global Note will, subject as set out below, be made to the bearer of such Further Global Note against presentation for endorsement and, if no further payment falls to be made in respect of the Further Notes, against surrender of such Further Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. Payments of interest on the Further Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. NOTICES

For so long as all of the Notes are represented by one or more of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 14. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder to the Principal Paying Agent (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

4. ACCOUNTHOLDERS

For so long as all of the Notes are represented by one or more of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 7.3 or Condition 10) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. PRESCRIPTION

Claims against the Issuer and the Guarantors in respect of principal, premium and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal or premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 21).

6. CANCELLATION

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. PUT OPTION

For so long as all of the Notes are represented by one or more of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 7.3 may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

8. REDEMPTION AT THE OPTION OF THE ISSUER

For so long as all of the Notes are represented by one or more of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, in the event that the Issuer exercises its call option pursuant to Condition 7.4 in respect of less than the aggregate principal amount of the Notes outstanding at such time, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Note(s) are to be subject to such option.

9. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee in which the Notes are held from time to time.

10. FUNGIBILITY

The Further Notes shall be consolidated and form a single series with the Original Notes on and from the date on which, and to the extent that, interests in the Further Temporary Global Note are exchanged for interests in the Further Permanent Global Notes, as described above. The Conditions shall be construed accordingly.

UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on United Kingdom tax law and HM Revenue & Customs' published practice as at the date of this Offering Memorandum and are subject to any change in such law or practice that may take effect after such date (possibly with retrospective effect). They relate to certain aspects of United Kingdom taxation. They do not purport to be a complete analysis of all tax considerations relating to the Further Notes. They relate only to persons who are the absolute beneficial owners of the Further Notes and hold the Further Notes as an investment, and do not deal with certain classes of persons (such as dealers in securities, persons connected or associated with the Issuer or certain professional investors) to whom special rules may apply. The summary set out below is a general guide and should be treated with appropriate caution.

Prospective purchasers of the Further Notes who may be subject to tax in any jurisdiction other than the United Kingdom, or who have any doubt whatsoever as to their tax position, should consult an appropriate professional adviser without delay.

United Kingdom Withholding Tax

Payments of interest on the Further Notes may be made without withholding or deduction for or on account of United Kingdom income tax so long as the Further Notes are and remain listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the Irish Stock Exchange if they are included in the Official List and are admitted to trading on the Global Exchange Market of the Irish Stock Exchange. Provided therefore, that the Further Notes are and remain so listed, interest on the Further Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Further Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where interest on the Further Notes is paid by a company and, at the time the payment is made, the Issuer (and any person by or through whom interest on the Further Notes is paid) reasonably believes that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest or falls within various categories enjoying special tax status (including specified pension funds) or is a partnership consisting of such persons, provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In all other cases, interest will generally be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty and subject to any other exemption that may be available to particular Noteholders.

Any premium payable on redemption may be treated as a payment of interest for United Kingdom tax purposes and may accordingly be subject to the withholding tax treatment described above.

Interest on the Further Notes constitutes United Kingdom source income for tax purposes and as such may be subject to UK income tax by direct assessment even where paid without withholding. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that Noteholder (i) carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency or for a Noteholder which is a company unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment, in connection with which the interest is received or to which the Further Notes are attributable, or (ii) is a trustee of a trust in certain circumstances. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions relating to additional payments referred to in Condition 8 of the Notes do not apply to income tax chargeable on the relevant interest by direct assessment. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

Depending on the correct legal analysis of payments made by the Guarantor as a matter of UK tax law, it is possible that payments by the Guarantor would be subject to withholding on account of United Kingdom tax, subject to any claim which could be made under applicable double tax treaties and except that any withholding would be disapplied in respect of payments to recipients who the Guarantor reasonably believes are either a UK resident company or a non-resident company carrying on a trade through a permanent establishment which is within the charge to corporation tax, or fall within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless HM Revenue and Customs direct otherwise).

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

Provision of Information

HM Revenue & Customs have powers to obtain information and documents relating to the Further Notes, including in relation to issues of and other transactions in the Further Notes, interest, payments treated as interest and other payments derived from the Further Notes. This may include details of the beneficial owners of the Further Notes, of the persons for whom the Further Notes are held and of the persons to whom payments derived from the Further Notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, persons who make, receive or are entitled to receive payments derived from the Further Notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

HMRC has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of Further Notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 which are paid before 6 April 2015.

EU Savings Directive

Directive 2003/48/EC on the taxation of savings income provides for the tax authorities of a Member State to provide to the tax authorities of another Member State details of payments of interest and similar income made by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. The Directive permits Austria and Luxembourg instead to impose a withholding tax on the payments concerned for a "transitional period" (although it also provides that no such withholding tax should be levied where the beneficial owner of the payment authorises an exchange of information and/or where the beneficial owner presents a certificate establishing exemption from such withholding tax from the tax authority of the Member State in which the beneficial owner is resident). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date. The Directive does not preclude Member States from levying other types of withholding tax. A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also apply a "look through approach" to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

Transfer of the Further Notes

United Kingdom corporation taxpayers

In general Noteholders which are within the charge to United Kingdom corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open-ended investment companies) will be treated for tax purposes as realising profits, gains or losses in respect of the Further Notes on a basis which is broadly in accordance with their statutory accounting treatment as that term is defined for tax purposes. Such profits, gains and losses will be taken into account in computing taxable income for corporation tax purposes. Noteholders that are investment trusts, venture capital trusts, authorised unit trusts or open ended investment

companies should generally be subject to the same taxation treatment in respect of the Further Notes as other Noteholders that are within the charge to United Kingdom corporation tax, other than with respect to capital profits, gains or losses as defined.

Other United Kingdom taxpayers Taxation of Chargeable Gains

The Further Notes should constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992 provided that the interest payable on the Further Notes does not exceed a reasonable commercial return on the principal of the Further Notes. If the Further Notes are qualifying corporate bonds, a disposal by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains. Otherwise, a disposal may give rise to a chargeable gain or an allowable loss, and prospective holders of the Further Notes are advised to seek their own professional advice.

Accrued Income Scheme

The provisions of the accrued income scheme (the *Scheme*) may apply to certain Noteholders who are not subject to corporation tax, in relation to a transfer of the Further Notes. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount. Generally, persons who are not resident in the United Kingdom and who do not carry on a trade in the United Kingdom through a branch or agency to which the Further Notes are attributable will not be subject to the provisions of these rules.

Stamp Duty and SDRT

No stamp duty or stamp duty reserve tax is payable on issue of the Further Notes or on a transfer of the Further Notes by delivery.

The proposed financial transaction tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in certain participating Member States.

The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions).

The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State.

The proposed Directive has been and remains subject to negotiation between the participating Member States and may be the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear.

Prospective holders of the Further Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

HSBC Bank plc, Banco Santander, S.A., Barclays Bank PLC, Lloyds Bank plc and The Royal Bank of Scotland plc (together, the "**Joint Bookrunners**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 5 August 2014 between the Issuer, the Guarantors and the Joint Bookrunners, jointly and severally agreed to subscribe for the Further Notes at the issue price of 101.125 per cent. of the principal amount of Further Notes plus Accrued Interest, less a combined management, and underwriting commission. The Issuer will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities, incurred in connection with the issue of the Further Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment being made to the Issuer.

United States

The Further Notes have not been and will not be registered under the U.S. Securities Act of 1993, as amended (the "**Securities Act**") and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act ("**Regulation S**") except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act.

The Further Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Further Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Further Notes during the distribution compliance period (as defined in Regulation S) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Further Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Bookrunner has represented and agreed that:

(A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of any Further Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Further Notes in, from or otherwise involving the United Kingdom.

General

No action has been taken by the Issuer, the Guarantors or any of the Joint Bookrunners that would, or is intended to, permit a public offer of the Further Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Bookrunner has undertaken that it will not, directly or indirectly, offer or sell any Further Notes or distribute or publish any offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Further Notes by it will be made on the same terms.

GENERAL INFORMATION

1. LISTING AND ADMISSION TO TRADING

Application has been made to the Irish Stock Exchange for the Further Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange.

The Issuer has appointed Arthur Cox Listing Services Limited as Irish listing agent with its address at Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland, and Deutsche Bank AG, London Branch as principal paying agent with its address at Winchester House, 1 Great Winchester Street, London EC2N 2DB. The Trustee is Deutsche Trustee Company Limited and its address is Winchester House, 1 Great Winchester Street, London EC2N 2DB. The Trustee will be acting in its capacity of trustee for the holders of the Notes and will provide such services to the holders of the Notes as described in the Trust Deed. The Issuer reserves the right to change these appointments.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the notes and is not itself seeking admission of the notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

So long as the Notes are listed on the Irish Stock Exchange, the Notes will be freely transferable and negotiable in accordance with the rules of the Irish Stock Exchange.

The estimated expenses related to admission to trading will be approximately €2,700.

2. AUTHORISATION

Each of the Issuer and the Guarantors has obtained all necessary consents, approvals and authorisations in connection with, as applicable, the issue and performance of the Further Notes and the giving of the Notes Guarantee in respect of the Further Notes. Approval in principle for the creation and issue of the Further Notes was granted by a resolution of the Board of Directors of the Issuer passed on 23 June 2014 and by a resolution of the Board of Directors passed on 26 July 2014. It was further authorised by a resolution of the Board of Directors of the Issuer passed on 5 August 2014. The giving of the Notes Guarantee in respect of the Further Notes by each Guarantor has been authorised by a resolution of the Board of Directors of each Guarantor passed on 5 August 2014.

3. INCORPORATION OF THE ISSUER

The Issuer, a public limited liability company incorporated under the laws of England and Wales, has its registered office at Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE. The Issuer was incorporated on 27 November 1912. The Issuer's registered number is 00125575 and its telephone number is +44 (0) 191 261 1819.

4. CLEARING SYSTEMS

The Further Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. Until exchange of the Further Temporary Global Note for the Further Permanent Global Note, the Further Notes will have a temporary ISIN of XS1086881494 and a temporary Common Code of 108688149. Thereafter the ISIN for the Further Notes will be XS0996777834 and the Common Code will be 099677783, each being the same as for the Original Notes.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

5. PERSONS RESPONSIBLE

The Issuer and the Guarantors accept responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of the Issuer and the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

However, the information set forth under the headings "*Overview*", "*Risk Factors*", "*Market Overview*" and "*Information on the Group*" includes extracts from information and data, including industry and market data, released by publicly available sources in the United Kingdom and elsewhere. The Issuer has relied on the accuracy of such information without carrying out an independent verification thereof. This information has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by each such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

6. NO CONFLICTS OF INTEREST

There are no potential conflicts of interest between any duties of the directors of the Issuer, and their private interests and/or other duties.

7. NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Issuer, any Guarantor or the Group since 31 March 2014, the date of the Group's last interim unaudited financial statements. There has been no material adverse change in the prospects of the Issuer, any Guarantor or the Group since 30 September 2013, the date of the Group's most recent audited financial statements.

8. MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, none of the Issuer, the Guarantors nor any other member of the Group is a party to any contract which contains a provision that could result in any member of the Group being under an obligation or entitlement which is material to the Issuer's ability to meet its obligations to the Noteholders in respect of the Notes or any Guarantor's ability to meet their obligations under the Notes Guarantee.

9. LEGAL PROCEEDINGS

None of the Issuer, any Guarantor nor any other member of the Group is or has been engaged in nor, so far as the Issuer, any Guarantor or any other member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Memorandum, significant effects on the Issuer's, the Guarantor's or the Group's financial position or profitability.

10. AUDITORS

The auditor of the Issuer and each of the Guarantors for each of the financial years ended 30 September 2013 and 2012 was PricewaterhouseCoopers, of 5th and 6th floors, Central Square South, Orchard Street, Newcastle upon Tyne, NE1 3AZ, United Kingdom, which is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales.

11. CONSENT

Details of the valuation of the Group's properties by Allsop as contained in the valuation reports listed at paragraph 13 (E) and (F) of this section (the "**Valuation Reports**") have been included in this Offering Memorandum, in the form and context in which it is included, with the consent of Allsop. Allsop is a limited liability partnership with registered number OC315531 whose registered office is at 33 Wigmore Street, London W1U 1BZ. Allsop is an independent property valuer who is the Group's independent valuer in the UK and has no material interest in the Issuer or the Group. The Valuation Reports have been prepared in accordance with the professional rules of the Royal Institution of Chartered Surveyors.

12. US TAX

The Further Notes and Coupons will contain the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

13. DOCUMENTS AVAILABLE FOR INSPECTION

For so long as the Original Notes and the Further Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, physical copies of the following documents may be inspected and obtained at the office of the Issuer, Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JE during normal business hours on any weekday:

(A) the Articles of Association of the Issuer;

(B) the Memorandum of Association and Articles of Association or the Articles of Association of each of the Guarantors (as applicable);

(C) a copy of this Offering Memorandum, together with any supplement to this Offering Memorandum or further offering memoranda;

(D) the documents incorporated by reference into this document, as described in "*Documents Incorporated by Reference*" and including the audited consolidated financial statements for the Group for the financial year ended 30 September 2013 and 2012;

(E) the valuation reports from Allsop as at 30 September 2013;

(F) the valuation reports from Allsop as at 31 March 2014; and

(G) the Agency Agreement, the Trust Deed, the Intercreditor Deed and the Security Agreement.

14. JOINT BOOKRUNNERS TRANSACTING WITH THE ISSUER AND THE GUARANTORS

Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantors and its/their affiliates in the ordinary course of business.

Prospective investors should note that certain of the Joint Bookrunners are lenders under the Group's senior bank borrowings and hence. in such capacity, will receive repayment out of the proceeds of the issue of the Further Notes.

ANNEX: DEFINITIONS

"Accountholder"	a person shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes
"admission"	admission of the Further Notes to (a) the Official List, and (b) trading on the Global Exchange Market
"Allsop"	Allsop LLP, a limited liability partnership with registered number OC315531 whose registered office is at 33 Wigmore Street, London W1U 1BZ, as independent property valuer
"Annual Report and Accounts"	the annual report and accounts prepared by the Company
"assured periodic tenancy"	market-rented tenancy arising from succession from regulated tenancy where the tenant has security of tenure
"assured tenancy"	market-rented tenancy as defined in Section 1 of the Housing Act 1988
"audit committee"	of the Board of Directors, responsible for financial accounting and disclosure
"Bank Facilities"	£810.4 million bank facility
"Bantam Facilities"	the £37.5 million facility provided by Lloyds Bank plc and secured by floating charges over specific assets of the Bantam Sub-group held directly or indirectly by BPT Limited
"Board"	the Board of Directors, from time to time, of the Company
"Bridgewater"	Bridgewater Equity Release Limited, a wholly-owned subsidiary of the Group which provides home reversion plans
"Chairman"	the Chairman for the time being of the Company
"CHARM Portfolio"	a portfolio of equity mortgages held by the Church of England Pensions Board as mortgagee in respect of properties owned by retired clergy
"Clearstream, Luxembourg"	Clearstream Banking, *Société anonyme*
"Closing Date"	7 August 2014
"Combined Code"	the principles of good governance and code of best practice appended to the Listing Rules
"Company"	Grainger plc, a public limited company incorporated under the laws of England and Wales
"Convertible Bonds"	£112.0 million in aggregate principal amount of 3.625 per cent. convertible bonds issued by the Company due 2014 which were redeemed in May 2014
"Directors"	the Directors of the Company as at the date of this document
"Disclosure and Transparency Rules"	the Disclosure Rules and Transparency Rules of the Financial Conduct Authority
"EPC"	Energy Performance Certificate
"EPRA"	European Public Real Estate Association
"EU"	European Union
"EURIBOR"	European Interbank Offered Rate

"Euroclear"	Euroclear Bank S.A./N.V.
"Exchange Date"	16 September 2014
"Executive Directors"	the Executive Directors of the Company as at the date of this document
"Excluded Entities"	means: (a) the Bantam Sub group (as defined in "*Terms and Conditions of the Notes*"); (b) the German Sub group Excluded Entities (as defined in "*Terms and Conditions of the Notes*"); (c) The Capital Appreciation Trust (Isle of Man) Limited, Retirement Housing Management (Guernsey) Limited, Retirement Housing Management (Isle of Man) Limited, Hi Tricomm Holdings Limited, Tricomm Housing (Holdings) Limited, Tricomm Housing Limited, Infrastructure Investors Defence Housing (Bristol) Limited, Grainger Invest No 1 LLP, Grainger Invest No 2 LLP, BPT (Assured Homes) Limited, Grainger Invest (No 1 Holdco) Limited, Grainger (Octavia Hill) Limited, BPT (Residential Investments) Limited, Bridgewater (Home Reversions Number 1) Limited, Bridgewater (Home Reversions Number 2) Limited, Reversions Financing Limited, Reversions Financing (No.1) 2011 Limited, Hamsard 2492 Limited, Bridgewater Equity Release Nominees (No. 2) Limited, Bridgewater Equity Release Nominees (No. 1) Limited, Hamsard 2342 Limited, Bridgewater Equity Release Limited, Nitro 2 Limited, Bridgewater Tenancies Limited, Grainger EL Investments Limited, Bridgewater Tenancies Nominees Limited, Grainger (Clapham) Limited, GIP Limited, Grainger Bradley Limited, PHA Limited and Grainger Southwark Limited and any further Subsidiaries which are designated excluded by the Issuer from time to time
"Excluded Entities' Indebtedness"	indebtedness incurred by the Excluded Entities
"**FA**"	an FCA-regulated Financial Adviser
"FCA"	the Financial Conduct Authority
"Fitch"	Fitch Ratings Ltd
"FRM"	Francono Rhein-Main AG
"FSMA"	the Financial Services and Markets Act 2000, as amended
"Further Global Notes"	the Further Temporary Global Note together with the Further Permanent Global Note
"Further Notes"	£75,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 to be consolidated and form a single series with the Original Notes
"Global Exchange Market"	the Global Exchange Market of the Irish Stock Exchange
"Global Notes"	The Further Global Notes and the permanent global note in relation to the Original Notes
"GRIP"	a joint venture unit trust with APG Strategic Real Estate Pool (2013) which acquired Grainger's G:Res 1 portfolio of

	residential units
“Group”	the Company and its subsidiary undertakings and, where the context requires, its associated undertakings
“Gross Net Asset Value”	shareholders’ funds adjusted for the Market Value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives
“Guarantors”	each of the subsidiaries of the Issuer set forth on page 88
“HI Tricomm”	HI Tricomm Holdings Limited
“Housing Act”	the Housing Act 1988 (as amended)
“home reversion plan”	an arrangement under which Grainger buys all or part of a residential property from a homeowner on the basis that the individual is entitled, under the arrangement, to continue to use the property as his or her home until he or she dies or enters a care home
“IFRS”	International Financial Reporting Standards as adopted by the EU
“Intercreditor Deed”	the security trust deed (as acceded to from time to time) dated 1 July 2004 between amongst others, the Issuer (previously known as Grainger Trust PLC) and the Security Trustee, as amended and restated by a supplemental deed dated 28 November 2013 between, amongst others, the Issuer, the Guarantors, the Trustee, the Security Trustee, the parties to the Core Credit Facilities and the Secured Hedge Counterparties (as further amended, waived, restated, novated, replaced and/or supplemented from time to time)
“Investment Sales”	sales of properties subject to an existing tenancy or home reversion arrangement
“IPD”	Investment Property Databank, a source of performance analysis for the owners, investors, managers and occupiers of real estate
“Irish Stock Exchange”	The Irish Stock Exchange plc or any other body to which its functions have been transferred
“Issue Date”	7 August 2014
“Issuer”	Grainger plc
“Joint Bookrunners”	HSBC Bank plc, Banco Santander, S.A., Barclays Bank PLC, Lloyds Bank plc and The Royal Bank of Scotland plc who have together jointly and severally agreed to subscribe for the Further Notes at the issue price of 101.125 per cent. of the principal amount of Further Notes plus Accrued Interest, less a combined management and underwriting commission
“Landlord and Tenant Act”	the Landlord and Tenant Act 1985
“LIBOR”	London Interbank Offered Rate
“lifetime lease”	an arrangement under which Grainger sells a lease on a residential property owned by Grainger, to an individual, on the basis that the individual is entitled, under the lease, to use the property as his or her home until he or she dies or enters a care home. Both home reversion plans and lifetime leases may be entered into with several individuals (usually husband and wife) on the basis that they are entitled to use the property as

	their home until the last of them dies or enters a care home
"Listing Rules"	the listing rules of the Financial Conduct Authority
"M&G Facility"	a Sterling term loan facility, whereby the Group has committed debt financing of £100.0 million with an interest rate margin of 400 basis points above LIBOR and a final maturity date of 7 March 2021 pursuant to a facilities agreement dated 8 February 2011
"Maturity Date"	the maturity date of the Notes, being 16 December 2020
"NAV"	Gross Net Asset Value
"Notes"	the Original Notes together with the Further Notes
"Offering Memorandum" or **"this document"**	the Offering Memorandum issued by the Company in respect of the issue of the Further Notes, together with any supplements or amendments thereto
"OPBVM"	operating profit before valuation movements and non-recurring items as explained in more detail on page 3
"Official List"	the Official List of the Irish Stock Exchange
"ordinary shares"	ordinary shares of 5 pence each in the capital of the Company having the rights set out in the Articles of Association of the Company
"Original Notes"	£200,000,000 5.00 per cent. Guaranteed Secured Notes due 2020 issued on 28 November 2013
"Permanent Global Notes"	the permanent global notes in relation to the Original Notes and the Further Notes
"RAMP"	Lloyds Banking Group's Residential Asset Management Platform
"regulated tenancy"	tenancy regulated under the Rent Act. Rent is usually sub-market and is set by a local government rent officer and the tenant has security of tenure
"Regulation S"	Regulation S under the U.S. Securities Act
"remuneration committee"	the remuneration committee of the Board
"Rent Act"	the Rent Act 1977 (as amended by the Housing Act)
"Residential Portfolio"	the UK Residential Portfolio and the Retirement Solutions Portfolio
"Rights Issue"	the rights issue of 277.6 million ordinary shares undertaken by the Company in December 2009
"S&P"	Standard & Poor's Credit Market Services Europe Limited, a division of The McGraw-Hill Companies Inc.
"Securities Act"	the U.S. Securities Act of 1993, as amended
"Security Agreement"	the security agreement dated 1 July 2004, the second security agreement dated 30 September 2011 and the third security agreement dated 28 November 2013, in each case between the Security Trustee (as defined in "*Terms and Conditions of the Notes*") and the chargors named therein (the "**Chargors**") under which the Chargors grant a floating charge over their respective properties and all other assets in favour of the Security Trustee and, in either case, any deed of accession

	thereto
“security of tenure”	a tenant’s right to remain on a property following expiry of the tenancy
“shareholders”	holders of ordinary shares
“Sovereign Reversions”	Sovereign Reversions plc
“Stabilising Manager”	HSBC Bank plc who in connection with the Further Notes issue may over-allot Further Notes or effect transactions with a view to supporting the market price of the Further Notes
“Subscription Agreement”	the agreement dated 5 August 2014 between the Issuer, the Guarantors and the Joint Bookrunners, who have jointly and severally agreed to subscribe for the Notes at the issue price of 101.125 per cent. of the principal amount of Notes plus Accrued Interest, less a combined management and underwriting commission
“Tricomm Facilities”	£66.3 million facility provided by Grainger Finance (Tricomm) Limited
“Trustee”	Deutsche Trustee Company Limited
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia

REGISTERED OFFICE OF THE ISSUER

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Tel: +44 (0) 191 261 1819

REGISTERED OFFICE OF EACH OF THE GUARANTORS

BPT (Bradford Property Trust) Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Bridgewater Lifetime Mortgages Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Bromley Property Investments Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Equity Release Investment Properties Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Equity Release Management Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Finance Company Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Homes Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Rural Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
Tyne & Wear
NE1 4JE

Grainger Serviced Apartments Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Retirement Housing No.1 (2007) Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Treasury Property (2006) LLP

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Grainger Unitholder No 1 Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Home Properties Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Northumberland & Durham Property Trust Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Warren Court Limited

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

TRUSTEE

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London
EC2N 2DB

PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London
EC2N 2DB

THE OTHER PAYING AGENT

Deutsche International Corporate Services (Ireland) Ltd
5 Harbourmaster Place
IFSC
Dublin 1
Ireland

LEGAL ADVISERS

To the Issuer and the Guarantors as to English law

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS

To the Joint Bookrunners and the Trustee as to English law

Allen & Overy LLP
One Bishops Square
London
E1 6AD

AUDITORS

PricewaterhouseCoopers LLP
5th and 6th floors Central Square South
Orchard Street
Newcastle upon Tyne, NE1 3AZ

LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland