17 May 2018

Grainger plc

Interim results for the six months ended 31 March 2018

Strong financial performance and growth trajectory, leading the market in private rental homes

Helen Gordon, Chief Executive of Grainger, the UK's largest listed residential landlord, comments:

"I am pleased to report another period of strong performance. We delivered 9% growth in net rental income and 20% growth in adjusted earnings. We continue to lead the private rented sector (PRS), a sector undergoing structural growth, and we are well positioned for the future. Our secured PRS investment pipeline now stands at £756m and we have a further £258m at the planning or legals stage.

"We are a business on a strong growth trajectory and the opportunity in the UK PRS market is vast. We are uniquely placed given our market leading position and our in-house capability to originate, invest and operate homes for rent.

"Our recent development, Argo Apartments in Canning Town, London, has delivered an exceptionally high-quality rental product at affordable levels and we have seen excellent demand for these homes with 97% let in four months, above estimated rental levels, representing a 7.5% gross yield on cost. The customer service and experience we are delivering is at the forefront of the PRS market and we will continue to invest and innovate to further build on our position.

"Our sales have continued to perform well with profit up 11%. We continue to be disciplined in our asset recycling to support improved portfolio performance and enable future growth. In the few weeks since the period end, we sold our investment in our Walworth joint venture, further simplifying and focusing Grainger and providing additional capital for recycling into new PRS schemes. We also refinanced our corporate bond, with a new £350m, 10-year issuance, extending our debt maturity and reducing costs. We have recently acquired two attractive new PRS schemes, one in Southampton and another in Milton Keynes, which together will deliver 393 new high-quality homes for rent.

"We are improving customer operations and our customers are responding by staying with us longer. Our like-for-like rental growth was 4.1% over the six-month period. We are positioning Grainger for the next stage of growth, with investment in people, processes and technology to optimise our efficiency and scalability. We look to the future with confidence as we develop further good quality homes for rent, for the benefit of our customers, shareholders and employees."

Key headlines

- £756m secured PRS investment pipeline (FY17: £651m, HY17: £439m)
- Net rental income[1] up 9% to £21.8m (HY17: £20.0m)
- 4.1% like-for-like rental growth[2] across our entire portfolio (HY17: 3.5%)
- Adjusted earnings[3] up 20% to £40.9m (HY17: £34.1m)
- Profit before tax[2] increased 23% to £50.6m (HY17: £41.2m)

- Interim dividend per share up 9% to 1.74p per share[4] (HY17: 1.60pps)
- Net debt[5] of £912m reflecting our continuing investment into PRS assets (FY17: £848m, HY17: £791m)
- Loan to value[5] of 39.0% (FY17: 37.7%, HY17: 36.0%)
- EPRA NNNAV[6] up 1% since the year end to 306p per share after returning £13.6m (3.26pps) to shareholders in the period (FY17: 303pps, HY17: 295pps)

Strategic progress

Growing rents – securing investment and growing income returns

- 9% increase in net rental income to £21.8m (HY17: £20.0m), with acquisitions and rental growth more than offsetting the impact of disposals.
- 4.1% like-for-like rental growth across our entire portfolio (HY17: 3.5%). We delivered 3.2% growth on our PRS homes (HY17: 2.9%), outperforming the market and evidencing the benefits that a well-managed, professional and customer service focussed offering can deliver. 5.5% annualised growth was achieved on regulated tenancy rent reviews (HY17: 4.3%).
- Our market leading position and ability to originate, invest and operate underpins our investment success. We have secured £756m of private rented sector (PRS) investments (FY17: £651m, HY17: £439m), a further £258m is at the planning or legals stage and £519m is under consideration as we progress towards our initial £850m target and beyond.
- High rental income margins are underpinned by our focused cost discipline, together with our recently improved processes and supply chain management, all of which drive our efficiency. Our gross to net (property operating costs ratio) was 25.9% (HY17: 25.8%).
- 9% growth in our interim dividend to 1.74p per share (HY17: 1.60pps), reflecting the growth in net rental income.

Simplified and focused – well placed for significant growth

- Our strategy to simplify and focus our business and improve efficiency continues to serve us well.
- Overheads and other expenses remain well managed at £13.8m for the half year (HY17: £13.8m) and we are investing in technology, systems and processes to enhance the scalability of our platform and prepare Grainger for our ambitious growth plans.
- We remain focused on improving our debt maturity profile and reducing our cost of debt. The average cost of debt at 3.5% for the first half was in line with the average for FY17.
- Since the period end, we have issued a new £350m 10-year corporate bond, with a coupon of 3.375%. We were delighted by the positive response and investor demand for the issuance, reflecting our improved credit rating and the success of our strategy.
- After the period end on 2 May 2018 as part of our asset recycling, we announced the sale of our 50% interest in the Walworth joint venture for net proceeds after debt of £67m. Our share of the gross property assets was £103m. The transaction generated c.£7m of profit before tax and legal costs, and is expected to be marginally accretive to NNNAV. The disposal simplifies and focuses Grainger and provides capital for recycling into higher yielding PRS assets, which we believe will deliver greater returns for shareholders.

Strong financial performance

- 20% increase in adjusted earnings to £40.9m (HY17: £34.1m), driven by increased rental income, a strong sales performance and tightly controlled operational and finance costs.
- Sales profit is 11% ahead of the prior year at £38.9m (HY17: £35.0m), fuelled by growth from residential sales which was supported by asset management led capital recycling initiatives. This more than offset the lower sales on vacancy following the high volume of completions at the end of FY17 and a slight increase in the time taken for sales transactions in the first half.
- Our sales of vacant, ex-regulated tenancies continue to perform well. On average, we have been selling vacant residential properties at 1.7% above the September 2017 vacant possession value (HY17: 2.0%).
- Overall residential sales pipeline[7] as at 30 April 2018 of £127m (30 April 2017: £115m), providing good visibility for the second half.
- EPRA NNNAV increased by 1% since the year end to 306p per share (FY17: 303pps, HY17: 295pps), after a £13.6m (3.26pps) final dividend was returned to shareholders in the period.

Outlook

We expect to deliver a good performance in the second half of the year and a positive overall result. We remain selective and disciplined in our investment approach and the strength and quality of the PRS investment opportunities we are seeing provides us with increased confidence as we follow this growth trajectory.

The potential for the private rented sector is compelling and alongside securing new investments, we are focused on further developing Grainger's platform to support growth, scalability and the delivery of excellent and efficient services for our customers.

High-quality, customer focused rental homes are providing a new way of living. Grainger is the UK's largest listed residential landlord and we are at the forefront of this developing market. The strength of the market and our potential provides the opportunity for us to grow and invest significantly ahead of our initial target and we are confident in the future prospects for Grainger.

[1] *Refer to Note 5 for net rental income calculation.*

[2] *Rental growth is the average increase in rent charged across our portfolio on a like-for-like basis.*

[3] *Refer to Note 2 for adjusted earnings reconciliation and PBT.*

[4] *Dividend – The dividend of 1.74p per share (gross) amounting to £7.2m will be paid on 5 July 2018 to shareholders on the register at the close of business on 25 May 2018. Shareholders will again be offered the option to participate in a dividend re-investment plan and the last day for election is 11 June 2018 – refer also to Note 10.*

[5] *Refer to Note 18 for net debt and LTV calculations.*

[6] *Refer to Note 3 for reconciliation of EPRA measures.*

[7] *Completed sales, contracts exchanged, with solicitors and available for sale.*

FY18 reporting dates

- Trading update – September 2018
- Full year results – 30 November 2018

FY19 reporting dates

- Trading update – February 2019
- Half year results – 16 May 2019
- Trading update – September 2019
- Full year results – 28 November 2019

Full year results presentation

Grainger plc will be holding a presentation of the results at 8:00am (UK time) today, 17 May 2018 and will be broadcast live via webcast and a telephone dial-in facility (details below).

A copy of the presentation slides will be available to download on Grainger's website (www.graingerplc.co.uk) from 9:00am (UK time).

Webcast details:

To view the webcast, please go to the following URL link. Registration is required.

Grainger's Full Year Results Presentation Webcast
http://webcasting.brrmedia.co.uk/broadcast/5ad61cfa5a296618f17932b3

The webcast will be available for six months from the date of the presentation.

Conference call details:

Call: 0800 358 6377

Confirmation Code: 9105801

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Chief Executive's review

Overview

The first half of our 2018 financial year has seen a strong performance, both operationally and financially. We continue to lead the market in the UK private rented sector (PRS) and build to rent sector, and we have a strong growth trajectory.

We delivered growth in adjusted earnings of 20%, a net rental income increase of 9% supported by investment and like-for-like rental growth of 4.1%, and sales profit growth of 11%. We have also secured a number of attractive new investments in the private rented sector.

Our total portfolio consists of over 9,000 rental homes of which c.5,100 are in our PRS portfolio and our investment plans see this more than doubling in the next 2-3 years. Our regulated tenancy portfolio continues to perform well, providing good returns, with regular and resilient cashflows which support our PRS investment plans.

Our strategy remains to grow net rental income, simplify and focus the business which has enabled us to reduce costs and deliver improved efficiencies, and build on our 106 year old heritage and experience as a leading landlord in the UK.

Since setting out our strategy in January 2016, we have now secured £756m of new investment in the UK private rented sector and we have good visibility over a further £258m of investment opportunities in the advanced stages of the planning process or legal negotiations. In addition, we have £519m of opportunities under consideration.

We are approaching our £850m initial investment target and have the funding capacity from strong operational cashflows and accelerated asset recycling opportunities to go well beyond this level. Our investment pipeline has continued to grow and we have good visibility on opportunities beyond our initial £850m target.

Our investment plans will see Grainger fundamentally transform from a business which relied heavily upon trading income and capital value growth, to one more balanced with a greater focus on recurring net rental income. Our investment pipeline (secured and planning/legals) has the potential to deliver a significant increase in net rental income once schemes are secured, developed and let-up, the majority of which should occur over the next three years.

We are investing in technology in order to increase our scalability, manage costs and improve our customer experience. This will underpin future returns and growth. We continue to focus on finding ways of improving customer service and efficiencies, all of which will enable us to maintain our market leading position and grow our market share.

Our strategy is to deliver enhanced and more sustainable, long-term shareholder returns, whilst delivering high-quality rental homes with excellent amenities and services for our customers.

Key highlights

We continue to make good further progress on our strategy.

PRS investment pipeline

Since the start of the financial year, we have added over 1,353 PRS homes (£236m) to our secured pipeline.

In addition to the build to rent development scheme at Gore Street (375 PRS homes) and the tenanted Tribe portfolio (192 PRS homes) in Manchester, and Gilder's Yard in Birmingham (156 PRS homes), which we discussed at our full year results in November, we have secured:

- Eccy Village, Sheffield – a forward funding acquisition of a build to rent development comprising 237 purpose-built PRS homes for £32m;
- East Street, Southampton – a forwarding funding acquisition via our co-investment vehicle, GRIP REIT, which will see 132 PRS homes delivered. The total value of the investment is c.£27m (Grainger share c.£7m) and is expected to generate c.6.5% gross yield;
- YMCA, Milton Keynes – our second investment in Milton Keynes, which will deliver 261 new PRS homes for c.£63m with a targeted gross yield of c.6.25%.

We have also been selected by Lewisham Borough Council as preferred partner on the Besson Street build to rent development opportunity to deliver around 232 PRS homes on local authority owned land.

Our PRS pipeline with our newest building designs and service offerings are now coming online and becoming operational, including:

- Argo Apartments – comprising 134 apartments in our GRIP REIT, Argo opened for leasing on 10 January this year and we saw an excellent lettings performance. Average leasing velocity at Argo was more than an apartment a day, and it was 97% let in four months, around two months ahead of plan. Rents achieved were ahead of estimates and the scheme is generating a gross yield on cost of 7.5%. Grainger's returns are supplemented by management fees.
- Berewood, Hampshire – our suburban style, family-friendly rental housing scheme (104 PRS homes) continued its phased leasing strategy, with strong take-up, also ahead of estimated rent levels.

Sales and valuations

We delivered a strong sales performance, with sales profit up 11% in the period to £38.9m (HY17: £35.0m), fuelled by growth from residential sales which was supported by asset management led capital recycling initiatives. We achieved sales prices 1.7% above previous valuations on our vacant sales (HY17: 2.0%). The market value of our wholly owned portfolio increased by 0.9% over the period (FY17: 3.4%, HY17: 2.1%).

Asset recycling

Alongside our 2017 full year results we set out our plan for further accelerating our growth. This included an asset hierarchy review, which identified opportunities for asset recycling to fund further investment in the PRS. We have taken action to deliver on this with:

- The sale of the Walworth joint venture after the period end, generating a profit before tax and legal costs of c.£7m;
- An increase in investment sales of tenanted regulated tenancies (alongside our sales on vacancy), where we generated £17m of revenue in the first half (up from £2m last year).

Building on the significant strides we have taken to increase operational efficiencies over the past two years, we have continued to invest in our platform, including significant investment in technology. This will support our ambitious growth plans by increasing our scalability while minimising cost and headcount growth. It will also enable us to enhance net rental income through improving our service to our customers and utilising tools such as dynamic revenue management. We expect to launch the first phase of these solutions later this year.

Similarly, we have remained focused on reducing other costs within our business and enhancing overall returns. Our latest key achievement was the refinancing of our corporate bond which had a 5% coupon. We issued a new, 10-year £350m corporate bond with a coupon of 3.375%, which will save us around £3m per annum. Investor demand for the new bond was exceptionally high, reflecting the strong support for our strategy. When I joined Grainger in late 2015, our cost of debt was 5.3% (FY15), following this bond refinancing our proforma cost of debt is 3.1%.

Market opportunity

The investment opportunity in the UK private rented sector is vast. While the UK housing market remains one characterised by a lack of housing supply, it is equally characterised by a shift away from home ownership toward renting. Whilst affordability is a factor, there is also a structural shift which has seen greater demands for the flexibility, cost benefits (e.g. no stamp duty, no maintenance), and increasingly the service and amenity benefits that high-quality rental homes and communities can deliver.

The PRS has doubled since 2002 and demand for renting is set to continue to grow. 4.7m households rent privately in the UK. PwC predicts that demand will grow to 7.2m households by 2025, increasing from 20% to 25% of all households.

The PRS is a fragmented market, dominated by individuals owning small portfolios of properties. These smaller ‘buy-to-let’ landlords represent 98% of all landlords in the UK, with each owning less than 10 rental properties.

The UK government has introduced a series of measures over the past few years to regulate and curtail buy-to-let investment and we have seen a slowdown in this part of the market.

In contrast, the UK government has been introducing positive measures to encourage further investment into the UK PRS from large scale investors. As market leader, we actively engage with the Government and across political parties. Most recently, the Government has proposed positive changes to the planning system through the National Planning Policy Framework (NPPF) in support of build to rent, which will support our investment plans.

The UK PRS has seen significant interest from institutional investors who account for a pipeline of 117,893 new PRS homes (completed, under construction, in planning, British Property Federation: April 2018).

Our fully integrated business model enables us to successfully secure opportunities ahead of new entrants to the market and generate strong rental growth. It brings together origination, investment and operations under one roof and allows us to design market-leading rental properties, informed by our experienced operational team. Similarly, each of our investment decisions are supported by colleagues in our development and design teams as well as our operations team, giving us real insight when acquiring sites and investments.

We have recently invested in our development team with senior hires, including a highly experienced Director of Land and Development, Mike Keaveney. In addition to potential development site acquisitions, we will look to build on our strong track record of partnerships, particularly with public sector bodies. We believe there is a significant opportunity to support our growth plans through partnerships as a channel to source new investments and our long-term investment approach is one that we believe is highly attractive to potential partners.

Outlook

The future for Grainger is exciting and we are in a growth sector. The actions we have taken consolidate our leadership position and enable us to grow our market share, enhance shareholder returns and deliver great homes to rent.

Demand for renting continues to grow, and will likely accelerate as the PRS market matures, professionalises and as customers begin to experience the benefits from this new way of renting. Political support continues to gather momentum, with positive policy and regulatory changes further underpinning our investment plans.

Later this year we will launch two new schemes. The first phase comprising 135 homes at Clippers Quay in Salford will launch in the Autumn. The remaining phases will launch in 2019 and in total, Clippers Quay will comprise 614 apartments for rent. The second scheme is Gunhill at our Wellesley development in Aldershot, Hampshire, which comprises 107 homes for rent. It is our second suburban style, family rental housing offer in Hampshire.

As we look ahead, we will continue to progress our asset sales and capital recycling plans, supporting returns and enabling us to accelerate our PRS investment strategy.

Helen Gordon
Chief Executive
17 May 2018

Financial review

The strong financial performance for the six-month period ended 31 March 2018 is a testament to the success of our strategy. We have delivered growth in net rental income and sales, alongside effective cost management.

We increased adjusted earnings by 20% to £40.9m (HY17: £34.1m) and profit before tax by 23% to £50.6m (HY17: £41.2m). EPRA NNNAV increased by 1% since the year end to 306p per share (FY17: 303pps, HY17: 295pps) after we returned £13.6m (3.26pps) for the FY17 final dividend.

Our increasing focus on rental income is enhancing the quality and resilience of our residential, total returns focused business model. We are evolving our capital structure to improve performance and we are recycling assets to accelerate our strategic transition.

Our capital structure has further improved and, subsequent to the period end, we refinanced our corporate bond. We saw significant investor demand for the bond, which reflects support for our strategy, and achieved a coupon of 3.375% (an improvement from 5% for the previous bond). This has built upon our recent actions to diversify our funding, improve our maturity profile, lock into lower rates for longer, and it will continue to enhance returns as we grow and capitalise on our market leading position.

We are committed to delivering income backed dividend growth, where a significant increase is expected in the coming years as new investments complete. In line with our policy to distribute 50% of annual net rental income, with a one third payment at the interim stage, our interim dividend has increased by 9% to 1.74p per share (HY17: 1.60pps).

Highlights

Income returns	HY17	HY18	Change
Rental growth (like-for-like)	3.5%	4.1%	+60 bps
- PRS	2.9%	3.2%	+30 bps
- Regulated tenancies (annualised)	4.3%	5.5%	+120 bps
Net rental income *(Note 5)*	£20.0m	£21.8m	+9%
Adjusted earnings *(Note 2)*	£34.1m	£40.9m	+20%
Adjusted EPS (diluted, after tax) *(Note 2)*	6.6p	7.9p	+20%
Profit before tax *(Note 2)*	£41.2m	£50.6m	+23%
Dividend per share *(Note 10)*	1.60p	1.74p	+9%
Operating cashflow^	£63.5m	£77.5m	+22%
EPS (diluted, after tax) *(Note 9)*	8.0p	10.0p	+25%

^ *Operating cashflow comprises cash receipts from trading activities net of property operating expenses, overheads and other expenses, taxation and net finance costs.*

Capital returns	FY17	HY18	Change
EPRA NAV per share *(Note 3)*	343p	345p	+1%
EPRA NNNAV per share *(Note 3)*	303p	306p	+1%
Net debt *(Note 18)*	£848m	£912m	+8%
Group LTV *(Note 18)*	37.7%	39.0%	+130 bps
Cost of debt (average)	3.5%	3.5%	-
Reversionary surplus	£310m	£305m	(2)%

Income statement

We have delivered another strong period of growth in adjusted earnings, with increased net rental income, strong growth in profit from sales and tightly controlled operational and finance costs driving the performance.

Income statement (£m)	HY17	HY18	Change
Net rental income	20.0	21.8	+9%
Profit from sales – residential	28.7	32.3	+13%
Profit from sales – development	6.3	6.6	+5%
Mortgage income (CHARM)	3.1	2.9	(6)%
Management fees	2.3	2.8	+22%
Overheads & other expenses	(13.8)	(13.8)	0%
Joint ventures and associates	1.2	1.5	+25%
Net finance costs	(13.7)	(13.2)	(4)%
Adjusted earnings	**34.1**	**40.9**	**+20**%
Valuation movements	7.0	9.8	
Derivative movements	0.4	(0.1)	
Non-recurring items	(0.3)	-	
Profit before tax	**41.2**	**50.6**	**+23**%

Rental income

Gross rental income increased by 9% to £29.4m (HY17: £26.9m), supported by like-for-like rental growth across our entire portfolio and the acquisitions of tenanted PRS homes which deliver immediate income, and more than offset the impact of disposals.

Once again we outperformed the market with like-for-like rental growth across our portfolio of 4.1%, reflecting the quality of our portfolio, our strength as a professional landlord and our customer proposition. In the six-month period, like-for-like rental growth in our PRS portfolio of 3.2% was significantly ahead of the market which saw a decline of 0.9% (average based on ONS, Countrywide and HomeLet). At the same time, we secured 5.5% annualised growth on regulated tenancy rent reviews.

We have delivered growth in net rental income of 9% to £21.8m (HY17: £20.0m), with like-for-like rental growth and tenanted acquisitions driving the increase. High rental income margins are supported by our cost discipline and improved processes which have strengthened our operating platform and improved efficiency. Our gross to net (property operating costs ratio) was 25.9% (HY17: 25.8%).

Grainger's net rental income is broadly equally split between regulated tenancies and PRS.

	£m
HY17 Net rental income	**20.0**
Disposals	(0.7)
Acquisitions	1.7
Rental growth	0.8
HY18 Net rental income	**21.8**
YoY growth	+9%

Sales

We have delivered a strong performance from sales activities, with 11% growth in profit to £38.9m (HY17: £35.0m).

Residential sales

Tenanted and other sales were the key driver of the outperformance, fuelled by active asset management to drive value from our portfolio. This provides additional capital for recycling into PRS investments, helping us accelerate our strategic transition. We delivered £25.6m of revenue and £13.5m of profit from these sales, significantly ahead of the prior year (HY17: £7.3m and £4.0m).

The vacancy rate for our regulated tenancy portfolio has increased to 7.1% over the period (HY17: 6.5%) and the performance of completed vacant sales has been positive, where on average we have been selling vacant residential properties at 1.7% above the September 2017 vacant possession value (HY17: 2.0%). Volumes in HY18 were however impacted by the high volume of sales completions achieved at the end of FY17 and a slight reduction in pace of transaction completions this year, where our keys to cash metric increased to 107 days (HY17: 103).

We have a strong overall residential sales pipeline* which provides good visibility for the second half. As at 30 April 2018 it totalled £127m (30 April 2017: £115m).

Development activity

Development activity generated £6.6m of profit in the first half, 5% ahead of the prior year (HY17: £6.3m), with our partnership with the Royal Borough of Kensington and Chelsea (RBKC) and land sales from our Berewood site in Hampshire the main activities. The majority of our activity with RBKC will complete this financial year.

Sales

	HY17			**HY18**		
	Units sold	**Revenue**	**Profit**	**Units sold**	**Revenue**	**Profit**
		£m	**£m**		**£m**	**£m**
Residential sales on vacancy	148	49.5	24.7	99	38.3	18.8
Tenanted and other sales	55	7.3	4.0	104	25.6	13.5
Residential sales total	**203**	**56.8**	**28.7**	**203**	**63.9**	**32.3**
Development activity	-	34.6	6.3	-	41.5	6.6
Overall sales	**203**	**91.4**	**35.0**	**203**	**105.4**	**38.9**

The second half of the year has started well and we are confident in the outlook for the full year which will be underpinned by the progression of residential sales on vacancy. Development activities should also deliver further profits and we will continue to explore capital recycling opportunities to generate incremental cash and profits.

**Completed sales, contracts exchanged, with solicitors and available for sale.*

Financing and capital structure

Grainger's business model generates significant cash flows, which enables our strategy to transition to a PRS focused business. We have also improved our capital structure further through refinancing activities, extending debt maturities and reducing costs.

Cash flow and investment

We generated £119m of cash from revenue in the six months ended 31 March 2018 and invested £128m into our property portfolio in the period, comprising £107m into our secured PRS investment pipeline, £18m into development and refurbishment activities and £3m into regulated tenancy acquisitions.

Net debt increased to £912m (FY17: £848m, HY17: £791m) reflecting investment in our PRS schemes. Group loan to value was 39.0% (FY17: 37.7%, HY17: 36.0%).

With respect to our £756m secured pipeline, total spend up to 31 March 2018 was c.£325m.

Finance costs

Despite the increased level of debt, we benefitted from recent refinancing activities and a reduced cost of debt. Our overall finance cost was lower than the prior year at £13.2m (HY17: £13.7m). The average cost of debt at 3.5% for the first half is in line with the average for FY17. Our incremental cost of debt on our headroom is less than 2%.

Capital structure

We have made excellent progress on our strategy to transform our capital structure over the last two years. We have locked into lower rates for longer, enhanced our maturity profile, and diversified our sources of funding. The post period end completion of our corporate bond refinancing was the final key strand of our debt refinancing and structuring activities. These initiatives will deliver improved returns for Grainger as we grow and capitalise on our market leading position.

We issued a £350m 10-year corporate bond, with a coupon of 3.375% and were delighted by the positive response and investor demand for the issuance. We repaid our existing £275m corporate bond (5% coupon) which was due to mature in 2020. The annual interest cost saving will be c.£3m and Grainger's proforma cost of debt reduces to 3.1%.

The prepayment cost net of tax for the existing corporate bond was £21m, which will reduce EPRA NAV in the second half of the year by 5p per share. The impact on EPRA NNNAV is negligible.

Our key financial metrics are set out below for the half year and proforma to reflect the corporate bond refinancing which took place after the half year.

	FY17	**HY18**	**Proforma HY18**
Net debt	£848m	£912m	£935m
Loan to value	37.7%	39.0%	39.9%
Cost of debt (average)	3.5%	3.5%	3.1%
Incremental cost of debt	< 2%	< 2%	< 2%
Interest cover	3.8x	4.1x	4.1x
Headroom	£269m	£271m	£316m
Weighted average facility maturity^	5.2	4.7	6.6
Hedging	87%	81%	86%

^ Including extension options; excluding these options it is 4.4 years (FY17), 3.9 years (HY18) and 5.8 years (HY18 proforma).

Balance sheet

We continued to secure attractive PRS investment opportunities in the period and have seen positive growth in the overall net asset value of the Group.

Market value balance sheet (£m)	**FY17**	**HY18**
Residential – PRS	526	564
Residential – regulated tenancies	1,214	1,177
Residential – mortgages (CHARM)	86	86
Forward Funded – PRS under development	75	152
Development work in progress	63	60
Investment in JVs/associates	206	211
Total investments	**2,170**	**2,250**
Net debt	(848)	(912)
Other assets/liabilities	112	107
EPRA NAV	**1,434**	**1,445**
Deferred and contingent tax – regulated tenancies	(95)	(93)
Deferred and contingent tax – PRS & other	(49)	(47)
Fair value of fixed rate debt and derivatives	(22)	(24)
EPRA NNNAV	**1,268**	**1,281**
EPRA NAV (pence per share)	**343**	**345**
EPRA NNNAV (pence per share)	**303**	**306**
LTV	**37.7%**	**39.0%**

EPRA NNNAV increased by 1% over the six-month period to 306p per share (FY17: 303pps, HY17: 295pps), driven by a strong trading performance and modest valuation growth, offset by the final FY17 dividend payment (3.26pps).

EPRA NNNAV includes deferred and contingent tax liabilities associated with revaluations of our portfolio. Around 66% relates to our regulated tenancy portfolio, which will crystallise over time as we dispose of assets. We view EPRA NNNAV as a prudent measure for Grainger.

Our EPRA NAV and NNNAV, however, excludes a reversionary surplus of £305m (73pps). This is the difference between the market value of our assets whilst they are tenanted and the value we could realise if they became vacant today and were sold. £219m (52pps) relates to our regulated tenancy portfolio and the remaining £86m (21pps) relates to joint ventures, CHARM and PRS assets.

The following table shows the movement in EPRA NNNAV in the period. Adjusted earnings and revaluations combined delivered growth of 15p per share, with disposals on trading assets and dividends reducing EPRA NNNAV by 7p per share and 3p per share respectively.

EPRA NNNAV movement

	£m	Pence per share
EPRA NNNAV at 30 September 2017	**1,268**	**303**
Adjusted earnings	41	10
Revaluations (trading & investment property)	22	5
Disposals (trading assets)	(28)	(7)
Tax (deferred & contingent)	(5)	(1)
Derivatives / other	(3)	(1)
Dividends	(14)	(3)
EPRA NNNAV at 31 March 2018	**1,281**	**306**

Property portfolio

Our portfolio has proved resilient, with the market value increasing by 0.9% over the six month period (FY17: 3.4%, HY17: 2.1%). This compares to 0.6% for the LSL Acadata House Price Index, 0.1% for the five month period to February 2018 (latest available data) according to ONS, and 1.5% for the combined average of the Halifax and Nationwide house price indices.

As illustrated in the table below, we have seen stable conditions in Central and Inner London, modest growth of 1% in outer London and the North West, and 2-3% growth in the South East, South West and East and Midlands.

Regional performance	Units	Market value HY18 £m	Change since FY17
Central and Inner London	1,506	876	0.0%
Outer London	453	165	+1.0%
South East	651	154	+3.1%
South West	595	169	+2.3%
East and Midlands	753	130	+3.0%
North West	1,640	186	+1.0%
Other regions	515	61	+0.1%
Total	**6,113**	**1,741**	**+0.9%**

The table above includes wholly-owned PRS and regulated tenancy assets only, it excludes 611 units and £86m of market value relating to mortgages (CHARM) and excludes co-investments.

Portfolio summary – property assets

31 March 2018	**No. units**	**Market value £m**	**Vacant possession value £m**	**Reversionary surplus £m**
Residential – PRS	2,775	564	618	54
Residential – regulated tenancies	3,338	1,177	1,396	219
Residential – mortgages (CHARM)	611	86	85	(1)
Forward Funded – PRS under development	-	152	152	-
Development work in progress	-	60	60	-
Wholly-owned assets	**6,724**	**2,039**	**2,311**	**272**
Co-investments (Grainger share)	718	269	302	33
HY18 total investments	**7,442**	**2,308**	**2,613**	**305**
Assets under management (third party share)	**1,598**	**604**	**684**	**80**
Total assets under management	**9,040**	**2,912**	**3,297**	**385**

Post balance sheet event

On 2 May 2018, we announced the disposal of Grainger's 50% investment in its Walworth Investment Property joint venture for net proceeds after debt of £67m. Our share of the gross property assets was £103m. The transaction generated a £7m profit before tax and legal costs with the proceeds above the market value of the investment at 31 March 2018. It is expected to be marginally accretive to Grainger's EPRA NNNAV, further simplifies and focuses Grainger and provides capital for recycling into higher yielding PRS assets.

Summary and outlook

The strength of our first half performance reflects the growth we achieved in rental income and the flexible sales channels and asset recycling opportunities that we have employed to enhance returns and provide capital for investing in PRS assets. It also reflects the benefits of the investment we are making into our operating platform.

We are preparing for further growth through investing in people, processes and technology to develop an operating platform with even greater scalability. We have also further improved our capital structure through refinancing activities, extending debt maturities and reducing costs. This will enable a step-change in future rental income and returns and ensure Grainger can capitalise on its market leading position and ambitious growth plans.

We remain confident in our ability to source compelling PRS investments, whilst remaining selective and disciplined in our approach as we move towards our initial £850m target and continue to prepare the business for investment significantly beyond this level.

We expect to deliver a good performance in the second half of the year and build on our market leading position.

Vanessa Simms
Chief Financial Officer
17 May 2018

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Helen Gordon
Chief Executive Officer
17 May 2018

Vanessa Simms
Chief Finance Officer
17 May 2018

Independent Review Report to Grainger plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2018 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Other Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1a, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Bill Holland
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

17 May 2018

Consolidated income statement

For the 6 months ended 31 March	Notes	Unaudited **2018** **£m**	 2017 £m
Group revenue	4	**135.3**	117.2
Net rental income	5	**21.8**	20.0
Profit on disposal of trading property	6	**38.7**	34.1
Profit on disposal of investment property	7	**0.6**	0.9
Income from financial interest in property assets	15	**3.9**	3.4
Fees and other income	8	**2.8**	2.3
Administrative expenses		**(13.5)**	(13.4)
Other expenses		**(0.3)**	(0.7)
Impairment of inventories to net realisable value		**(0.1)**	(1.8)
Reversal of impairment/(impairment) of joint venture	14	**2.4**	(2.2)
Operating profit before net valuation gains on investment property		**56.3**	42.6
Net valuation gains on investment property	11	**5.4**	9.6
Operating profit after net valuation gains on investment property		**61.7**	52.2
Change in fair value of derivatives		**(0.1)**	0.4
Finance costs		**(14.4)**	(14.8)
Finance income		**1.2**	1.1
Share of profit of associates after tax	13	**1.5**	2.3
Share of profit of joint ventures after tax	14	**0.7**	-
Profit before tax – continuing operations	2	**50.6**	41.2
Tax charge for the period – continuing operations	19	**(8.5)**	(7.5)
Profit after tax – continuing operations		**42.1**	33.7
Discontinued operations			
Loss after tax for the period for discontinued operations	2	**-**	(0.2)
Profit for the period attributable to the owners of the Company		**42.1**	33.5
Basic earnings per share	9	**10.1p**	8.1p
Diluted earnings per share	9	**10.0p**	8.0p
Basic earnings per share – continuing operations only	9	**10.1p**	8.1p
Diluted earnings per share – continuing operations only	9	**10.0p**	8.1p

Consolidated statement of comprehensive income

For the 6 months ended 31 March	Notes	Unaudited **2018** **£m**	 2017 £m
Profit for the period – continuing operations	2	**42.1**	33.7
Items that will not be transferred to the consolidated income statement:			
Actuarial (loss)/gain on BPT Limited defined benefit pension scheme	20	**(0.9)**	4.7
Items that may be or are reclassified to the consolidated income statement:			
Fair value movement on financial interest in property assets	15	**(0.1)**	(0.4)
Changes in fair value of cash flow hedges		**1.2**	7.2
Other comprehensive income and expense for the period before tax		**0.2**	11.5
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to the consolidated income statement	19	**0.2**	(0.7)
Tax relating to items that may be or are reclassified to the consolidated income statement	19	**(0.2)**	(1.3)
Total tax relating to components of other comprehensive income		**-**	(2.0)
Other comprehensive income and expense for the period after tax – continuing operations		**0.2**	9.5
Total comprehensive income and expense for the period after tax – continuing operations		**42.3**	43.2
Profit after tax – discontinued operations		**-**	(0.2)
Total comprehensive income and expense for the period attributable to the owners of the Company		**42.3**	43.0

Consolidated statement of financial position

As at	Notes	**Unaudited March 2018 £m**	Audited Sept 2017 £m
ASSETS			
Non-current assets			
Investment property	11	**505.2**	391.0
Property, plant and equipment		**0.5**	0.7
Investment in associates	13	**127.0**	123.2
Investment in joint ventures	14	**16.1**	74.4
Financial interest in property assets	15	**85.6**	86.1
Deferred tax assets	19	**7.7**	9.7
Intangible assets		**3.0**	2.4
		745.1	687.5
Current assets			
Inventories – trading property	12	**818.6**	841.3
Trade and other receivables	16	**150.2**	145.9
Derivative financial instruments	18	**3.9**	3.4
Cash and cash equivalents		**96.5**	88.9
Assets classified as held-for-sale	14	**60.0**	-
		1,129.2	1,079.5
Total assets		**1,874.3**	1,767.0
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	18	**992.4**	924.6
Retirement benefits	20	**0.8**	0.2
Provisions for other liabilities and charges		**1.3**	1.3
Deferred tax liabilities	19	**29.1**	32.6
		1,023.6	958.7
Current liabilities			
Interest-bearing loans and borrowings	18	**1.1**	1.1
Trade and other payables	17	**59.6**	48.8
Provisions for other liabilities and charges		**0.9**	0.8
Current tax liabilities		**9.5**	7.4
Derivative financial instruments	18	**4.8**	4.9
		75.9	63.0
Total liabilities		**1,099.5**	1,021.7
NET ASSETS		**774.8**	745.3
EQUITY			
Issued share capital		**20.9**	20.9
Share premium account		**111.3**	111.1
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**(1.1)**	(2.1)
Available-for-sale reserve		**6.4**	6.5
Retained earnings		**616.9**	588.5
TOTAL EQUITY		**774.8**	745.3

Consolidated statement of changes in equity

	Notes	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2016		20.9	110.8	20.1	0.3	(12.0)	7.3	527.7	0.1	675.2
Profit for the period	2	-	-	-	-	-	-	33.5	-	33.5
Other comprehensive income/(loss) for the period		-	-	-	-	5.9	(0.4)	4.0	-	9.5
Total comprehensive income		-	-	-	-	5.9	(0.4)	37.5	-	43.0
Award of SAYE shares		-	0.1	-	-	-	-	-	-	0.1
Share-based payments charge	21	-	-	-	-	-	-	0.9	-	0.9
Dividends paid		-	-	-	-	-	-	(12.7)	-	(12.7)
Total transactions with owners recorded directly in equity		-	0.1	-	-	-	-	(11.8)	-	(11.7)
Balance as at 31 March 2017		20.9	110.9	20.1	0.3	(6.1)	6.9	553.4	0.1	706.5
Profit for the period		-	-	-	-	-	-	41.2	-	41.2
Other comprehensive income/(loss) for the period		-	-	-	-	4.0	(0.4)	(0.4)	-	3.2
Total comprehensive income		-	-	-	-	4.0	(0.4)	40.8	-	44.4
Award of SAYE shares		-	0.2	-	-	-	-	-	-	0.2
Purchase of own shares		-	-	-	-	-	-	(0.3)	-	(0.3)
Share-based payments charge		-	-	-	-	-	-	1.2	-	1.2
Elimination of non-controlling interests		-	-	-	-	-	-	-	(0.1)	(0.1)
Dividends paid		-	-	-	-	-	-	(6.6)	-	(6.6)
Total transactions with owners recorded directly in equity		-	0.2	-	-	-	-	(5.7)	(0.1)	(5.6)
Balance as at 30 September 2017		**20.9**	**111.1**	**20.1**	**0.3**	**(2.1)**	**6.5**	**588.5**	**-**	**745.3**
Profit for the period	2	**-**	**-**	**-**	**-**	**-**	**-**	**42.1**	**-**	**42.1**
Other comprehensive income/(loss) for the period		**-**	**-**	**-**	**-**	**1.0**	**(0.1)**	**(0.7)**	**-**	**0.2**
Total comprehensive income		**-**	**-**	**-**	**-**	**1.0**	**(0.1)**	**41.4**	**-**	**42.3**
Award of SAYE shares		**-**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**
Purchase of own shares		**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**-**	**(0.2)**
Share-based payments charge	21	**-**	**-**	**-**	**-**	**-**	**-**	**0.8**	**-**	**0.8**
Dividends paid	10	**-**	**-**	**-**	**-**	**-**	**-**	**(13.6)**	**-**	**(13.6)**
Total transactions with owners recorded directly in equity		**-**	**0.2**	**-**	**-**	**-**	**-**	**(13.0)**	**-**	**(12.8)**
Balance as at 31 March 2018		**20.9**	**111.3**	**20.1**	**0.3**	**(1.1)**	**6.4**	**616.9**	**-**	**774.8**

Consolidated statement of cash flows

For the 6 months ended 31 March	Notes	**Unaudited** **2018** **£m**	 2017 £m
Cash flow from operating activities			
Profit for the period		**42.1**	33.5
Depreciation and amortisation		**0.4**	0.4
Net valuation gains on investment property	11	**(5.4)**	(9.6)
Net finance costs		**13.2**	13.7
Share of profit of associates and joint ventures	13,14	**(2.2)**	(2.3)
Profit on disposal of investment property	7	**(0.6)**	(0.9)
Share-based payment charge	21	**0.8**	0.9
Change in fair value of derivatives		**0.1**	(0.4)
(Reversal of impairment)/impairment of joint venture	14	**(2.4)**	2.2
Income from financial interest in property assets	15	**(3.9)**	(3.4)
Tax	19	**8.5**	7.6
Cash generated from operating activities before changes in working capital		**50.6**	41.7
Increase in trade and other receivables		**(3.5)**	(8.0)
Increase/(decrease) in trade and other payables		**13.6**	(1.8)
Increase/(decrease) in provisions for liabilities and charges		**0.1**	(0.2)
Decrease in inventories		**22.7**	2.9
Cash generated from operating activities		**83.5**	34.6
Interest paid		**(16.0)**	(15.0)
Tax paid		**(7.3)**	(4.6)
Payments to defined benefit pension scheme	20	**(0.3)**	(0.3)
Net cash inflow from operating activities		**59.9**	14.7
Cash flow from investing activities			
Proceeds from sale of investment property		**2.2**	3.4
Proceeds from financial interest in property assets	15	**4.3**	6.3
Interest received		**-**	0.1
Dividends received	13,14	**0.5**	2.5
Investment in associates and joint ventures	13,14	**(5.2)**	(3.9)
Loans advanced to associates and joint ventures	13,14	**(2.0)**	(2.7)
Loans repaid by associates and joint ventures	13,14	**6.2**	5.0
Acquisition of investment property	11	**(110.4)**	(40.4)
Acquisition of property, plant and equipment and intangible assets		**(0.9)**	(0.5)
Net cash outflow from investing activities		**(105.3)**	(30.2)
Cash flow from financing activities			
Awards of SAYE options		**0.2**	0.1
Purchase of own shares		**(0.2)**	-
Proceeds from new borrowings		**285.0**	220.0
Payment of loan costs		**(2.1)**	-
Repayment of borrowings		**(216.3)**	(201.4)
Dividends paid	10	**(13.6)**	(12.7)
Net cash inflow from financing activities		**53.0**	6.0
Net increase/(decrease) in cash and cash equivalents		**7.6**	(9.5)
Cash and cash equivalents at the beginning of the period		**88.9**	90.7
Cash and cash equivalents at the end of the period		**96.5**	81.2

The consolidated statement of cash flows above includes cash flows from both continuing and discontinued operations.

Notes to the unaudited interim financial results

1. Accounting policies

1a. Basis of preparation

These condensed interim financial statements are unaudited and do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. This condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Finance Conduct Authority and International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2017 which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

The accounting policies used are consistent with those contained in the Group's last annual report and accounts for the year ended 30 September 2017 which is available on the Group's website (www.graingerplc.co.uk). The Grainger business is not judged to be highly seasonal, therefore comparatives used for the six month period ended 31 March 2018 Consolidated Income Statement are the six month period ended 31 March 2017 Consolidated Income Statement. It is therefore not necessary to disclose the Consolidated Income Statement for the full year ended 30 September 2017 (available in the last annual report).

The comparative figures for the financial year ended 30 September 2017 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The financial information included in this preliminary announcement has been prepared in accordance with EU endorsed IFRS, IFRS IC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

All property assets are subject to a Directors' valuation at the half year end, supported by an independent external valuation on a sample basis. The Group's financial derivatives were valued as at 31 March 2018 in-house by a specialised treasury management system, using first a discounted cash flow model and market information. The fair value is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments.

Taxation is calculated based upon the best estimate of the weighted average corporation tax rate expected for the full year.

1b. Adoption of new and revised International Financial Reporting Standards

New standards and interpretations in the year

New standards, amendments and interpretations that have been published and are therefore mandatory for the Group's accounting periods beginning on or after 1 October 2016 and later periods are disclosed on page 95 of the Annual Report and Accounts for the year ended 30 September 2017.

Notes to the unaudited interim financial results continued

The amendment to IAS40, Investment Property, was endorsed by the EU on 14 March 2018, with the revised standard issued including transitional arrangements. The Group is currently assessing the impact and anticipate that on transition there may be reclassifications of property assets from inventories – trading property to investment property which may in turn lead to an upwards valuation and increase to equity.

There is no material impact from the adoption of the other IFRS's, IFRIC interpretations and amendments in this condensed consolidated interim financial information.

1c. Group risk factors

The principal risks and uncertainties facing the Group are set out in the Risk Management report on pages 38 – 40 of the 2017 Annual Report and Accounts.

A number of risks faced by the Group are not directly within our control such as the wider economic and political environment.

Risks are outlined on pages 36 – 37 of the 2017 Annual Report and Accounts. There have been no significant updates to risk, or failures of control, within the reporting period.

1d. Forward-looking statements

Certain statements in this interim announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct.

Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

1e. Significant judgements and estimates

Full details of critical accounting estimates are given on pages 95 – 99 of the Annual Report and Accounts for the year ended 30 September 2017. There has been no significant change made in the period ended 31 March 2018.

Notes to the unaudited interim financial results continued

2. Analysis of profit before tax

The table below provides adjusted earnings, which is one of Grainger's key performance indicators. The metric is utilised as a key measure to aid understanding of the performance of the continuing business and excludes valuation movements and non-recurring items that are one-off in nature, which do not form part of the normal ongoing revenue or costs of the business and, either individually or in aggregate, are material to the reported Group results.

For the 6 months ended 31 March (Unaudited)	**2018**				2017			
£m	**Statutory**	**Valuation**	**Non-recurring**	**Adjusted earnings**	Statutory	Valuation	Non-recurring	Adjusted earnings
Group revenue	**135.3**	**-**	**-**	**135.3**	117.2	-	-	117.2
Net rental income	**21.8**	**-**	**-**	**21.8**	20.0	-	-	20.0
Profit on disposal of trading property	**38.7**	**(0.4)**	**-**	**38.3**	34.1	-	-	34.1
Profit on disposal of investment property	**0.6**	**-**	**-**	**0.6**	0.9	-	-	0.9
Income from financial interest in property assets	**3.9**	**(1.0)**	**-**	**2.9**	3.4	(0.3)	-	3.1
Fees and other income	**2.8**	**-**	**-**	**2.8**	2.3	-	-	2.3
Administrative expenses	**(13.5)**	**-**	**-**	**(13.5)**	(13.4)	-	-	(13.4)
Other expenses	**(0.3)**	**-**	**-**	**(0.3)**	(0.7)	-	0.3	(0.4)
Impairment of inventories to net realisable value	**(0.1)**	**0.1**	**-**	**-**	(1.8)	1.8	-	-
Reversal of impairment/ (impairment) of joint venture	**2.4**	**(2.4)**	**-**	**-**	(2.2)	2.2	-	-
Operating profit before net valuation gains on investment property	**56.3**	**(3.7)**	**-**	**52.6**	42.6	3.7	0.3	46.6
Net valuation gains on investment property	**5.4**	**(5.4)**	**-**	**-**	9.6	(9.6)	-	-
Operating profit after net valuation gains on investment property	**61.7**	**(9.1)**	**-**	**52.6**	52.2	(5.9)	0.3	46.6
Change in fair value of derivatives	**(0.1)**	**0.1**	**-**	**-**	0.4	(0.4)	-	-
Finance costs	**(14.4)**	**-**	**-**	**(14.4)**	(14.8)	-	-	(14.8)
Finance income	**1.2**	**-**	**-**	**1.2**	1.1	-	-	1.1
Share of profit of associates after tax	**1.5**	**(0.5)**	**-**	**1.0**	2.3	(1.1)	-	1.2
Share of profit of joint ventures after tax	**0.7**	**(0.2)**	**-**	**0.5**	-	-	-	-
Profit before tax – continuing operations	**50.6**	**(9.7)**	**-**	**40.9**	41.2	(7.4)	0.3	34.1
Tax charge for the period – continuing operations	**(8.5)**				(7.5)			
Profit after tax – continuing operations	**42.1**				33.7			
Discontinued operations – loss before tax	**-**				(0.1)			
Tax charge for the period – discontinued operations	**-**				(0.1)			
Profit for the period attributable to the owners of the Company	**42.1**				33.5			
Diluted earnings per share - adjusted				**7.9p**				6.6p

Notes to the unaudited interim financial results continued

Income from financial interest in property assets (‘CHARM’) comprises income from the asset calculated at the effective interest rate, shown as adjusted earnings, and any movements in future cash flow projections related to the asset, are shown within valuations. Further details are shown in Note 15.

Profit before tax in the adjusted columns above of £40.9m (2017: £34.1m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £7.8m (2017: £6.6m) in line with the current effective rate of 19.0% (2017: 19.5%), divided by the weighted average number of diluted shares as shown in Note 9.

3. Segmental Information

IFRS 8, Operating Segments requires operating segments to be identified based upon the Group’s internal reporting to the Chief Operating Decision Maker (‘CODM’) so that the CODM can make decisions about resources to be allocated to segments and assess their performance. The Group’s CODM is the Chief Executive Officer. The three significant segments for continuing operations are Residential, Development, and Funds.

The title ‘Other’ has been included in the tables below to reconcile the segments to the figures reviewed by the CODM and includes certain central costs that cannot be allocated to the operating segments. The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and non-recurring items.

Information relating to the Group’s operating segments is set out in the tables below. The tables distinguish between adjusted earnings, valuation and non-recurring items and should be read in conjunction with Note 2.

March 2018 Income statement (unaudited)

For the 6 months ended 31 March 2018 £m	**Residential**	**Development**	**Funds**	**Other**	**Total**
Group revenue					
Segment revenue – external	**90.4**	**41.9**	**2.2**	**0.8**	**135.3**
Net rental income	**21.7**	**0.1**	**-**	**-**	**21.8**
Profit on disposal of trading property	**31.7**	**6.6**	**-**	**-**	**38.3**
Profit on disposal of investment property	**0.6**	**-**	**-**	**-**	**0.6**
Income from financial interest in property assets	**-**	**-**	**-**	**2.9**	**2.9**
Fees and other income	**0.1**	**0.3**	**2.2**	**0.2**	**2.8**
Administrative expenses	**(3.4)**	**(0.7)**	**(0.3)**	**(9.1)**	**(13.5)**
Other expenses	**-**	**(0.2)**	**-**	**(0.1)**	**(0.3)**
Net finance costs	**(16.1)**	**4.0**	**(1.1)**	**-**	**(13.2)**
Share of trading profit of joint ventures and associates after tax	**-**	**-**	**1.5**	**-**	**1.5**
Adjusted earnings	**34.6**	**10.1**	**2.3**	**(6.1)**	**40.9**
Valuation movements					**9.7**
Net non-recurring items					**-**
Profit before tax – continuing operations					**50.6**

Notes to the unaudited interim financial results continued

March 2017 Income statement (unaudited)

For the 6 months ended 31 March 2017 £m	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	80.3	34.9	2.0	-	117.2
Net rental income	19.9	0.1	-	-	20.0
Profit on disposal of trading property	27.8	6.3	-	-	34.1
Profit on disposal of investment property	0.9	-	-	-	0.9
Income from financial interest in property assets	-	-	-	3.1	3.1
Fees and other income	0.1	0.2	2.0	-	2.3
Administrative expenses	(2.8)	(0.9)	(0.3)	(9.4)	(13.4)
Other expenses	(0.3)	-	-	(0.1)	(0.4)
Net finance costs	(14.1)	1.1	(0.7)	-	(13.7)
Share of trading profit of joint ventures and associates after tax	-	-	1.2	-	1.2
Adjusted earnings	31.5	6.8	2.2	(6.4)	34.1
Valuation movements					7.4
Net non-recurring items					(0.3)
Profit before tax – continuing operations					41.2

Segmental assets

The two principal net asset value measures reviewed by the CODM are EPRA Net Asset Value ('EPRA NAV') and EPRA Triple Net Asset Value ('EPRA NNNAV'). These measurements reflect the current market value of trading property owned by the Group rather than the lower of historical cost and net realisable value. These measures are considered to be a more relevant reflection of the value of the assets owned by the Group.

EPRA NAV is the statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. In addition, the statutory statement of financial position amounts for both deferred tax on property revaluations and derivative financial instruments net of deferred tax, including those in joint ventures and associates, are added back to statutory net assets. Finally, the market value of Grainger plc shares owned by the Group are added back to statutory net assets.

EPRA NNNAV reverses some of the adjustments made between statutory net assets and EPRA NAV. All of the adjustments for the value of derivative financial instruments net of deferred tax, including those in joint ventures and associates, are reversed. The adjustment for the deferred tax on property revaluations is also reversed. In addition, adjustments are made to net assets to reflect the fair value, net of deferred tax, of the Group's fixed rate debt and to deduct from net assets the contingent tax calculated by applying the expected rate of tax to the adjustment to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value.

These measures are set out below by segment along with a reconciliation to the summarised statutory statement of financial position:

March 2018 Segment net assets (unaudited)

	Continuing					
£m	**Residential**	**Development**	**Funds**	**Other**	**Total**	**Pence per share**
Total segment net assets (statutory)	**418.1**	**143.5**	**111.0**	**102.2**	**774.8**	**-**
Total segment net assets (EPRA NAV)	**1,076.9**	**141.4**	**118.8**	**107.9**	**1,445.0**	**345**
Total segment net assets (EPRA NNNAV)	**941.8**	**142.6**	**110.9**	**85.9**	**1,281.2**	**306**

'Other' includes CHARM assets.

Notes to the unaudited interim financial results continued

March 2018 Reconciliation of EPRA NAV measures (unaudited)

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	**505.2**	**-**	**505.2**	**-**	**-**	**505.2**
Investment in joint ventures and associates	**143.1**	**0.4**	**143.5**	**-**	**(0.4)**	**143.1**
Financial interest in property assets	**85.6**	**-**	**85.6**	**-**	**-**	**85.6**
Inventories – trading property	**818.6**	**630.1**	**1,448.7**	**-**	**-**	**1,448.7**
Cash and cash equivalents	**96.5**	**-**	**96.5**	**-**	**-**	**96.5**
Assets classified as held-for-sale	**60.0**	**7.4**	**67.4**	**(7.7)**	**0.3**	**60.0**
Other assets	**165.3**	**2.7**	**168.0**	**-**	**8.9**	**176.9**
Total assets	**1,874.3**	**640.6**	**2,514.9**	**(7.7)**	**8.8**	**2,516.0**
Interest-bearing loans and borrowings	**(993.5)**	**-**	**(993.5)**	**-**	**(28.2)**	**(1,021.7)**
Deferred and contingent tax liabilities	**(29.1)**	**24.8**	**(4.3)**	**(131.9)**	**-**	**(136.2)**
Other liabilities	**(76.9)**	**4.8**	**(72.1)**	**-**	**(4.8)**	**(76.9)**
Total liabilities	**(1,099.5)**	**29.6**	**(1,069.9)**	**(131.9)**	**(33.0)**	**(1,234.8)**
Net assets	**774.8**	**670.2**	**1,445.0**	**(139.6)**	**(24.2)**	**1,281.2**

September 2017 Segment net assets (audited)

	Continuing					
£m	Residential	Development	Funds	Other	Total	Pence per share
Total segment net assets (statutory)	394.5	135.9	113.5	101.4	745.3	-
Total segment net assets (EPRA NAV)	1,069.0	133.6	122.0	109.9	1,434.5	343
Total segment net assets (EPRA NNNAV)	932.3	134.7	112.7	88.5	1,268.2	303

'Other' includes CHARM assets.

September 2017 Reconciliation of EPRA NAV measures (audited)

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	391.0	-	391.0	-	-	391.0
Investment in joint ventures and associates	197.6	8.5	206.1	(7.7)	(0.8)	197.6
Financial interest in property assets	86.1	-	86.1	-	-	86.1
Inventories – trading property	841.3	645.8	1,487.1	-	-	1,487.1
Cash and cash equivalents	88.9	-	88.9	-	-	88.9
Other assets	162.1	3.6	165.7	-	8.0	173.7
Total assets	1,767.0	657.9	2,424.9	(7.7)	7.2	2,424.4
Interest-bearing loans and borrowings	(925.7)	-	(925.7)	-	(24.8)	(950.5)
Deferred and contingent tax liabilities	(32.6)	26.4	(6.2)	(136.1)	-	(142.3)
Other liabilities	(63.4)	4.9	(58.5)	-	(4.9)	(63.4)
Total liabilities	(1,021.7)	31.3	(990.4)	(136.1)	(29.7)	(1,156.2)
Net assets	745.3	689.2	1,434.5	(143.8)	(22.5)	1,268.2

Notes to the unaudited interim financial results continued

4. Group revenue

	Unaudited 2018 £m	2017 £m
Gross rental income (Note 5)	**29.4**	26.9
Gross proceeds from disposal of trading property (Note 6)	**103.1**	88.0
Fees and other income (Note 8)	**2.8**	2.3
	135.3	117.2

5. Net rental income

	Unaudited 2018 £m	2017 £m
Gross rental income	**29.4**	26.9
Property operating expenses	**(7.6)**	(6.9)
	21.8	20.0

6. Profit on disposal of trading property

	Unaudited 2018 £m	2017 £m
Proceeds from disposal of trading property	**77.8**	72.6
Revenue from construction contract	**25.3**	15.4
Gross proceeds from disposal of trading property	**103.1**	88.0
Selling costs	**(1.6)**	(1.5)
Net proceeds from disposal of trading property	**101.5**	86.5
Carrying value of trading property sold	**(43.1)**	(42.9)
Carrying value of construction contract expenses	**(19.7)**	(9.5)
	38.7	34.1

Amounts relating to the construction contract included in the above table relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea.

7. Profit on disposal of investment property

	Unaudited 2018 £m	2017 £m
Gross proceeds from disposal of investment property	**2.3**	3.4
Selling costs	**(0.1)**	(0.1)
Net proceeds from disposal of investment property	**2.2**	3.3
Carrying value of investment property sold (Note 11)	**(1.6)**	(2.4)
	0.6	0.9

8. Fees and other income

	Unaudited 2018 £m	2017 £m
Property and asset management fee income	**2.5**	2.3
Other sundry income	**0.3**	-
	2.8	2.3

Notes to the unaudited interim financial results continued

9. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held both in Trust and as treasury shares to meet its obligations under the Long-Term Incentive Plan ('LTIP'), Deferred Bonus Plan ('DBP') and Save As You Earn ('SAYE') schemes, on which the dividends are being waived.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its share option schemes and contingent share awards under the LTIP and DBP, based upon the number of shares that would be issued if 31 March 2018 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	Unaudited					
	31 March 2018			31 March 2017		
	Profit for the period £m	**Weighted average number of shares (millions)**	**Earnings per share (pence)**	Profit for the period £m	Weighted average number of shares (millions)	Earnings per share (pence)
Basic earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**42.1**	**416.1**	**10.1**	33.5	415.4	8.1
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.4**	**(0.1)**	-	2.2	(0.1)
Diluted earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**42.1**	**418.5**	**10.0**	33.5	417.6	8.0
Basic earnings per share – continuing operations only						
Profit attributable to equity holders	**42.1**	**416.1**	**10.1**	33.7	415.4	8.1
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.4**	**(0.1)**	-	2.2	-
Diluted earnings per share – continuing operations only						
Profit attributable to equity holders	**42.1**	**418.5**	**10.0**	33.7	417.6	8.1

10. Dividends

The Company has announced an interim dividend of 1.74p per share (March 2017: 1.60pps) which will return £7.2m (March 2017: £6.7m) of cash to shareholders. In the six months ended 31 March 2018, the final proposed dividend for the year ended 30 September 2017 which amounted to £13.6m has been paid.

Notes to the unaudited interim financial results continued

11. Investment property

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Opening balance	**391.0**	261.3
Additions	**110.4**	118.9
Disposals (Note 7)	**(1.6)**	(7.2)
Net valuation gains	**5.4**	18.0
Closing balance	**505.2**	391.0

12. Inventories

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Residential trading property	**783.6**	797.6
Development trading property	**35.0**	43.7
	818.6	841.3

13. Investment in associates

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Opening balance	**123.2**	105.1
Share of profit for the period	**1.5**	4.3
Dividends received	**(0.5)**	-
Further investment[1]	**5.2**	8.8
Loans advanced to associates	**2.0**	4.5
Loans repaid by associates	**(4.6)**	-
Share of change in fair value of cash flow hedges taken through other comprehensive income	**0.2**	0.5
Closing balance	**127.0**	123.2

1 Grainger invested a total additional £5.2m (September 2017: £8.8m) into GRIP in the period to enable further investment in PRS assets.

The closing balance comprises share of net assets of £105.1m (September 2017: £98.7m) and net loans due from associates of £21.9m (September 2017: £24.5m).

As at 31 March 2018, the Group's interest in associates was as follows:

	% of ordinary share capital held	**Country of incorporation**	**Accounting period end**
GRIP REIT PLC	24.9	United Kingdom	31 December
Vesta LP	20.0	United Kingdom	30 September

Notes to the unaudited interim financial results continued

14. Investment in joint ventures

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Opening balance	**74.4**	78.9
Share of profit for the period	**0.7**	4.2
Dividends received	**-**	(4.8)
Transfer to assets classified as held-for-sale	**(60.0)**	-
Reversal of impairment/(impairment)	**2.4**	(3.6)
Loan interest received	**-**	(0.4)
Loans advanced to joint ventures	**-**	5.0
Loans repaid by joint ventures	**(1.6)**	(5.0)
Exchange movements	**-**	(0.1)
Share of change in fair value of cash flow hedges taken through other comprehensive income	**0.2**	0.2
Closing balance	**16.1**	74.4

The transfer to assets classified as held-for-sale relates to the Group's holding in Walworth Investment Properties Limited. As at 31 March 2018, the intention is for the Group to sell its interest in the joint venture. Details surrounding the disposal are outlined in Note 23.

The closing balance comprises share of net liabilities of £4.5m (September 2017: net assets of £54.6m) and net loans due from joint ventures of £20.6m (September 2017: £19.8m).

At 31 March 2018, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	**Country of incorporation**	**Accounting period end**
Curzon Park Limited	50	United Kingdom	28 February
Helical Grainger (Holdings) Limited	50	United Kingdom	31 March
Walworth Investment Properties Limited	50	United Kingdom	30 September
CCZ a.s.	50	Czech Republic	30 September
CCY a.s.	50	Czech Republic	30 September
Prazsky Projekt a.s.	50	Czech Republic	30 September

15. Financial interest in property assets ('CHARM' portfolio)

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Opening balance	**86.1**	93.1
Cash received from the instrument	**(4.3)**	(11.3)
Amounts taken to income statement	**3.9**	5.3
Amounts taken to other comprehensive income before tax	**(0.1)**	(1.0)
Closing balance	**85.6**	86.1

The CHARM portfolio is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee. It is accounted for under IAS 39 in accordance with the designation available-for-sale financial assets and is valued at fair value.

It is considered to be a Level 3 financial asset as defined by IFRS 13. The financial asset is included in the fair value hierarchy within Note 18.

Notes to the unaudited interim financial results continued

16. Trade and other receivables

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Rent and other tenant receivables	**2.3**	2.1
Deduct: Provision for impairment	**(0.5)**	(0.6)
Rent and other tenant receivables – net	**1.8**	1.5
Amounts recoverable on contracts	**102.1**	86.8
Other receivables	**43.3**	49.4
Prepayments	**3.0**	8.2
	150.2	145.9

Amounts recoverable on contracts relate to the revenues recognised on the arrangement with the Royal Borough of Kensington and Chelsea (Note 6) as well as other development contracts.

Other receivables includes £21.1m (September 2017: £29.0m) due from land sales, which is receivable by no later than July 2019.

17. Trade and other payables

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Deposits received	**3.1**	3.2
Trade payables	**20.5**	14.6
Tax and social security costs	**0.4**	9.1
Accruals	**33.5**	19.9
Deferred income	**2.1**	2.0
	59.6	48.8

18. Interest-bearing loans and borrowings and financial risk management

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Current liabilities		
Non-bank financial institution	**1.1**	1.1
	1.1	1.1
Non-current liabilities		
Bank loans – Pounds sterling	**638.5**	637.7
Bank loans – Euro	**0.9**	6.2
Non-bank financial institution	**79.7**	7.6
Corporate bond	**273.3**	273.1
	992.4	924.6
Total interest-bearing loans and borrowings	**993.5**	925.7

The above loans and borrowings are net of unamortised costs. Unamortised costs in relation to bank loans of £6.5m (September 2017: £7.2m), non-bank financial institutions of £1.8m (September 2017: £nil) and the corporate bond of £1.7m (September 2017: £2.0m) will be amortised over the life of the borrowings to which they relate.

Notes to the unaudited interim financial results continued

Categories of financial instrument

The Group holds financial instruments such as financial interest in property assets, trade and other receivables (excluding prepayments), derivatives, cash and cash equivalents. For all assets and liabilities excluding interest-bearing loans the book value was the same as the fair value as at 31 March 2018 and as at 30 September 2017.

As at 31 March 2018, the fair value of interest-bearing loans is greater than the book value by £28.2m (September 2017: £24.8m), but there is no requirement under IAS39 to adjust the carrying value of loans, all of which are stated at unamortised cost in the consolidated statement of financial position.

Net debt

The table below sets out the calculation of net debt and LTV:

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Gross debt	**993.5**	925.7
Cash (excluding restricted cash)	**(81.9)**	(77.6)
Net debt	**911.6**	848.1
Market value of properties	**1,953.9**	1,878.1
Other property related assets	**386.6**	372.4
Total market value of properties and property related assets	**2,340.5**	2,250.5
LTV	**39.0%**	37.7%

Market risk

The Group is exposed to market risk through interest rates, foreign exchange fluctuations, the availability of credit and house price movements relating to the Tricomm Housing portfolio and the CHARM portfolio. The Group is not significantly exposed to equity price risk or to commodity price risk.

Fair values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable inputs for the asset or liability.

Notes to the unaudited interim financial results continued

The following table presents the Group's assets and liabilities that are measured at fair value:

	Unaudited 31 March 2018		Audited 30 September 2017	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Level 3				
CHARM	**85.6**	**-**	86.1	-
Investment property	**505.2**	**-**	391.0	-
	590.8	**-**	477.1	-
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	**3.6**	**4.8**	3.0	4.9
Interest rate caps – not in cash flow hedge accounting relationships	**0.3**	**-**	0.4	-
	3.9	**4.8**	3.4	4.9

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and the effective interest rate. A reconciliation of movements and amounts recognised in the income statement and other comprehensive income are detailed in Note 15.

The investment valuations provided by Allsop LLP and CBRE Limited are based on RIC's Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions.

The fair value of swaps and caps were valued in-house by a specialised treasury management system, using first a discounted cash flow model and market information. The fair value is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments. As all significant inputs required to value the swaps and caps are observable, they fall within Level 2.

The reconciliation between opening and closing balances for Level 3 is detailed in the table below:

Assets – Level 3	**Unaudited 30 March 2018 £m**	Audited 30 Sept 2017 £m
Opening balance	**477.1**	354.4
Amounts taken to income statement	**9.3**	23.3
Other movements	**104.4**	99.4
Closing balance	**590.8**	477.1

Notes to the unaudited interim financial results continued

19. Tax

The tax charge for the period of £8.5m (2017: £7.6m) recognised in the consolidated income statement comprises:

	Unaudited 2018 £m	2017 £m
Current tax		
Corporation tax on profit	**9.6**	7.0
Adjustments relating to prior periods	**0.4**	(0.6)
	10.0	6.4
Deferred tax		
(Reversal)/origination of temporary differences	**(1.5)**	1.2
	(1.5)	1.2
Total tax charge for the period	**8.5**	7.6
Tax charge for the period comprises:		
Tax charge in the income statement – continuing operations	**8.5**	7.5
Tax from discontinued operations (excluding gain on sale)	**-**	0.1
Total tax charge for the period	**8.5**	7.6

The Group works in an open and transparent manner and maintains a regular dialogue with HM Revenue & Customs. This approach is consistent with the 'low risk' rating we have been awarded by HM Revenue & Customs, and to which the Group is committed.

In addition to the above, a deferred tax charge of £nil (2017: deferred tax charge of £2.0m) was recognised within other comprehensive income comprising:

	Unaudited 2018 £m	2017 £m
Deferred tax		
Actuarial (loss)/gain on BPT Limited pension scheme	**(0.2)**	0.7
Fair value movement in cash flow hedges and exchange adjustments	**0.2**	1.3
Amounts recognised in other comprehensive income	**-**	2.0

Deferred tax balances comprise temporary differences attributable to:

	Unaudited 31 March 2018 £m	Audited 30 Sept 2017 £m
Deferred tax assets		
Accelerated capital allowances	**0.2**	0.3
Short-term temporary differences	**4.1**	4.2
Losses carried forward	**2.7**	4.5
Actuarial deficit on BPT Limited pension scheme	**0.4**	0.2
Fair value movement in cash flow hedges and exchange adjustments	**0.3**	0.5
	7.7	9.7
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	**(9.9)**	(10.3)
Investment property revaluation	**(17.6)**	(20.7)
Short-term temporary differences	**(0.4)**	(0.4)
Equity component of available-for-sale financial asset	**(1.2)**	(1.2)
	(29.1)	(32.6)
Total deferred tax	**(21.4)**	(22.9)

Deferred tax has been predominantly calculated at a rate of 17% (September 2017: 17%) in line with changes to the main rate of corporation tax from 1 April 2020 which have been substantively enacted.

In addition to the tax amounts shown above, contingent tax based on EPRA market value measures, being tax on the difference between the carrying value of trading properties in the statement of financial position and their market value has not been recognised by the Group. This contingent tax amounts to £107.1m (September 2017: £109.8m).

20. Retirement benefits

The Group retirement benefit liability increased by £0.6m to £0.8m in the six months ended 31 March 2018. The Group obtained an updated valuation of the assets and liabilities of the pension scheme for the purposes of the annual financial statements. The brought forward deficit of £0.2m was reduced by £0.3m of contributions and increased by £0.9m of actuarial losses. The principal actuarial assumptions used to reflect market conditions as at 31 March 2018 are as follows:

	Unaudited 31 March 2018 %	Audited 30 Sept 2017 %
Discount rate	**2.60**	2.65
Retail Price Index (RPI) inflation	**2.90**	2.90
Consumer Price Index (CPI) inflation	**1.90**	1.90
Salary increases	**3.40**	3.40
Rate of increase of pensions in payment	**5.00**	5.00
Rate of increase for deferred pensioners	**1.90**	1.90

21. Share-based payments

The Group operates a number of equity-settled, share-based compensation plan comprising awards under a Long-Term Incentive Plan (‘LTIP’), a Deferred Bonus Plan (‘DBP’), a Share Incentive Plan (‘SIP’) and a Save As You Earn Scheme (‘SAYE’). The share based payments charge recognised in the income statement for the period is £0.8m (2017: £0.9m).

Notes to the unaudited interim financial results continued

22. Related party transactions

During the period ended 31 March 2018, the Group transacted with its associates and joint ventures (details of which are set out in Notes 13 and 14). The Group provides a number of services to its associates and joint ventures. These include property and asset management services for which the Group receives fee income. The related party transactions recognised in the income statement and statement of financial position are as follows:

	Unaudited			
	31 March 2018		31 March 2017	
	Fees recognised £'000	**Period end balance £'000**	Fees recognised £'000	Period end balance £'000
GRIP REIT PLC	**1,959**	**1,190**	1,897	1,727
Walworth Investment Properties Limited	**20**	**20**	20	20
Vesta Limited Partnership	**264**	**-**	-	-
	2,243	**1,210**	1,917	1,747

	Unaudited				Audited	
	31 March 2018 Interest recognised £'000	**31 March 2018 Period end loan balance £m**	**31 March 2018 Interest rate %**	31 March 2017 Interest recognised £'000	30 Sept 2017 Period end loan balance £m	30 Sept 2017 Interest rate %
GRIP REIT PLC	**367**	**18.6**	**Nil and 4.75**	375	23.1	Nil and 4.75
Czech Republic combined	**(6)**	**(0.5)**	**4.00**	58	(0.5)	4.00
Curzon Park Limited*	**-**	**21.9**	**Nil**	-	21.9	Nil
Helical Grainger (Holdings) Limited*	**-**	**8.3**	**Nil**	-	9.9	Nil
Walworth Investment Properties Limited	**-**	**-**	**-**	156	-	7.00
Vesta LP	**-**	**3.3**	**Nil**	-	1.4	Nil
	361	**51.6**		589	55.8	

* The amount disclosed above is the gross loan amount. Some provisions have been made against the loans.

23. Post balance sheet events

A new £350.0m Corporate Bond with a coupon of 3.375% for 10 years was successfully issued on 24 April 2018. The existing £275.0m 5.0% bond that was due to mature in 2020 was subsequently redeemed on 3 May 2018 with a gross prepayment cost of £25.8m (£20.9m net of tax). The transaction resulted in lowering the Group cost of debt and extending the weighted average debt maturity.

On 2 May 2018, the Group announced the disposal of its 50% share in Walworth Investment Properties Limited to the joint venture partner, Dorrington Investment plc. This will generate proceeds of £67.0m, being the £60.0m current NAV, plus £7.0m, which will generate a profit of £7.0m before tax and associated selling costs.

On 15 May 2018, the Group conditionally agreed to forward fund and acquire a PRS, build-to-rent development in Milton Keynes, comprising 261 private rental homes for £63.0m. The transaction is conditional on the completion of a new adjacent YMCA as part of the first phase of the wider development which is expected in Q3 2019 prior to construction starting on site.