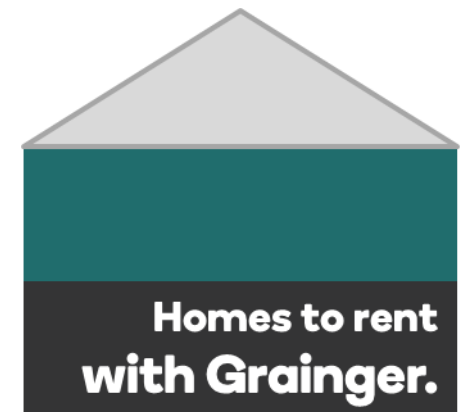

Half year financial results

Six months ended 31 March 2016



-
- | | | |
|----|------------|---------------------|
| 1. | Highlights | <i>Helen Gordon</i> |
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- | | | |
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| 2. | Financial review | <i>Vanessa Simms</i> |
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| 3. | Grainger delivering PRS | <i>Helen Gordon</i> |
|----|-------------------------|---------------------|
-
- | | | |
|----|----------------------------|---------------------|
| 4. | Market outlook and summary | <i>Helen Gordon</i> |
|----|----------------------------|---------------------|
-
- | | | |
|----|-----|--|
| 5. | Q&A | |
|----|-----|--|

Strong financial performance

- Net rental income up 13% to £18.0m
- Recurring profit up 13% to £25.4m, and strong FY expected
- EPRA NNAV growth of 8% to 283p

Significant progress

- Private rented sector (PRS) pipeline ahead of plan: £268m secured of £850m target
- Cost review: minimum of 24%, £8.6m savings identified, to achieve £27.5m FY17 overhead from £36.1m FY15
- New dividend policy linked to net rental income, expected FY dividend of around 4p, c.50% increase

Key achievements

- Disposals of German and equity release businesses
- £41m of tenanted PRS acquisitions

- Acquired build-to-rent PRS scheme, Clippers Quay, Salford for £99m
- £57m Kew Bridge Court acquisition by PRS Fund, GRIP

Focusing on growing rental income and maximising total returns

The leading listed UK PRS investment vehicle

Grow rents

- Inject pace and improve PRS sourcing
- Accelerate transition to a more balanced, lower risk business

Simplify and focus

- Exit non-core assets
- No more focus on fees/ third party
- Focus development team on PRS
- Reduce overheads

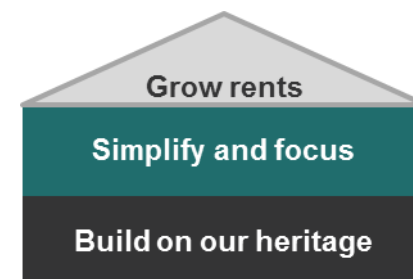
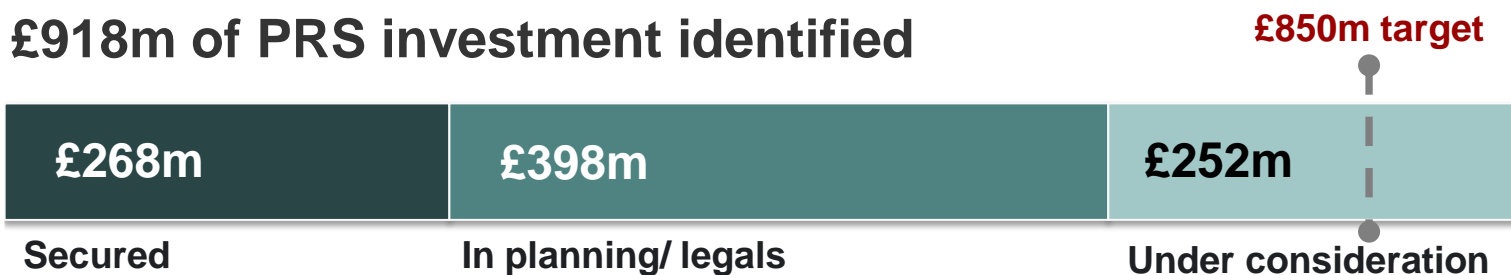
Build on our heritage

- Maximise returns from our regulated tenancy portfolio
- Leverage our platform

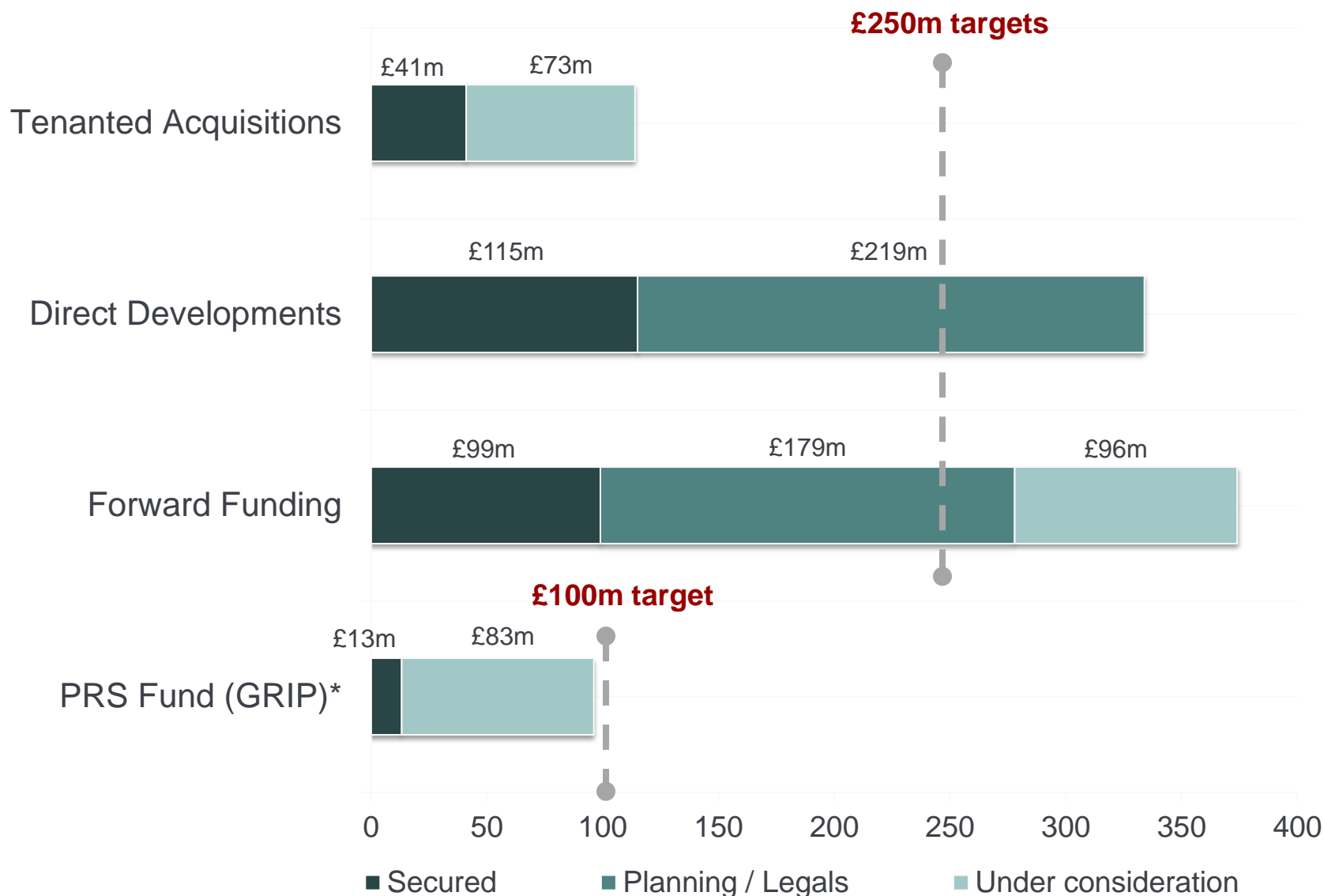
Grow rents

- Net rental income up +13% to £18m
- Rental growth on new lets: +5.4%
- £850m investment target by 2020
- £268m of investment secured to date, one third of target
- New dividend policy linked to net rental income

£918m of PRS investment identified



Good progress on PRS pipeline



* Grainger's 24.9% share. See appendix for secured pipeline detail.

Simplify and focus

- **Non-core disposals (Germany and equity release)**
 - Profitable disposals of non-core business units; 4p per share benefit to EPRA NNNAV
 - c.£500m reduction in net debt, enabling PRS investment
- **Reducing operating costs**
 - New property and operations structure
 - £8.6m (24%) overheads savings from FY15, reducing costs to £27.5m for FY17
- **Development refocus and rationalisation**
 - Land disposal – £8.0m revenue and £5.8m profit in H2

Grow rents

Simplify and focus

Build on our heritage

FY15 – 5,330 units, total AUM £336m; exit announced

Execution of Germany exit

- Nov 15: Heitman JV sold to Vonovia
- Feb 16: Largest wholly owned portfolio (FRM) and platform sold to Heitman
- Apr 16: Sale announced for the bulk of remaining assets to LEG

Outcome

- Successful exit largely concluded
- c.£170m gross consideration
- £4m profit on sale in HY16

Benefits

- Sale of subscale portfolio and operations
- Removes expensive operating platform
- Avoids costly unwinding (employment, office and IT)
- Capital to support UK PRS strategy

Build on our heritage

- Sales achieving prices 6.8% above Sept 15 values
- Residential sales revenue: £71.3m, generating £32.5m profit (+9%)
- Property valuations: +4.7% in 6 mths to 31 Mar 16
- Leveraging our portfolio and relationships
 1. Apex House PRS development resolution to grant
 2. Wellesley, Aldershot's PRS phase
 3. RBKC relationship expanded from 2 to 7 sites
 4. Chelsea Houses: consent to extend 10 ex-regulated tenancy properties by over 3,300 sqft

Grow rents

Simplify and focus

Build on our heritage

Our PRS business model

What we do

Buy / Build

Let

Manage

Core skills

- Sourcing
- Networks
- Negotiating
- Execution

- Local knowledge
- Marketing
- Lettings

- Customer mgt
- Asset mgt
- Portfolio mgt

Value drivers

- Location
- Asset type & quality
- Entry price
- Design

- Long term tenancies
- Market demand
- Customer quality
- Lettings velocity
- Pricing tension

- Operating platform
- Low churn, arrears
- Maintenance, refurb
- Redevelopment
- Building communities

Driving returns

Capital




Value accretion

Income

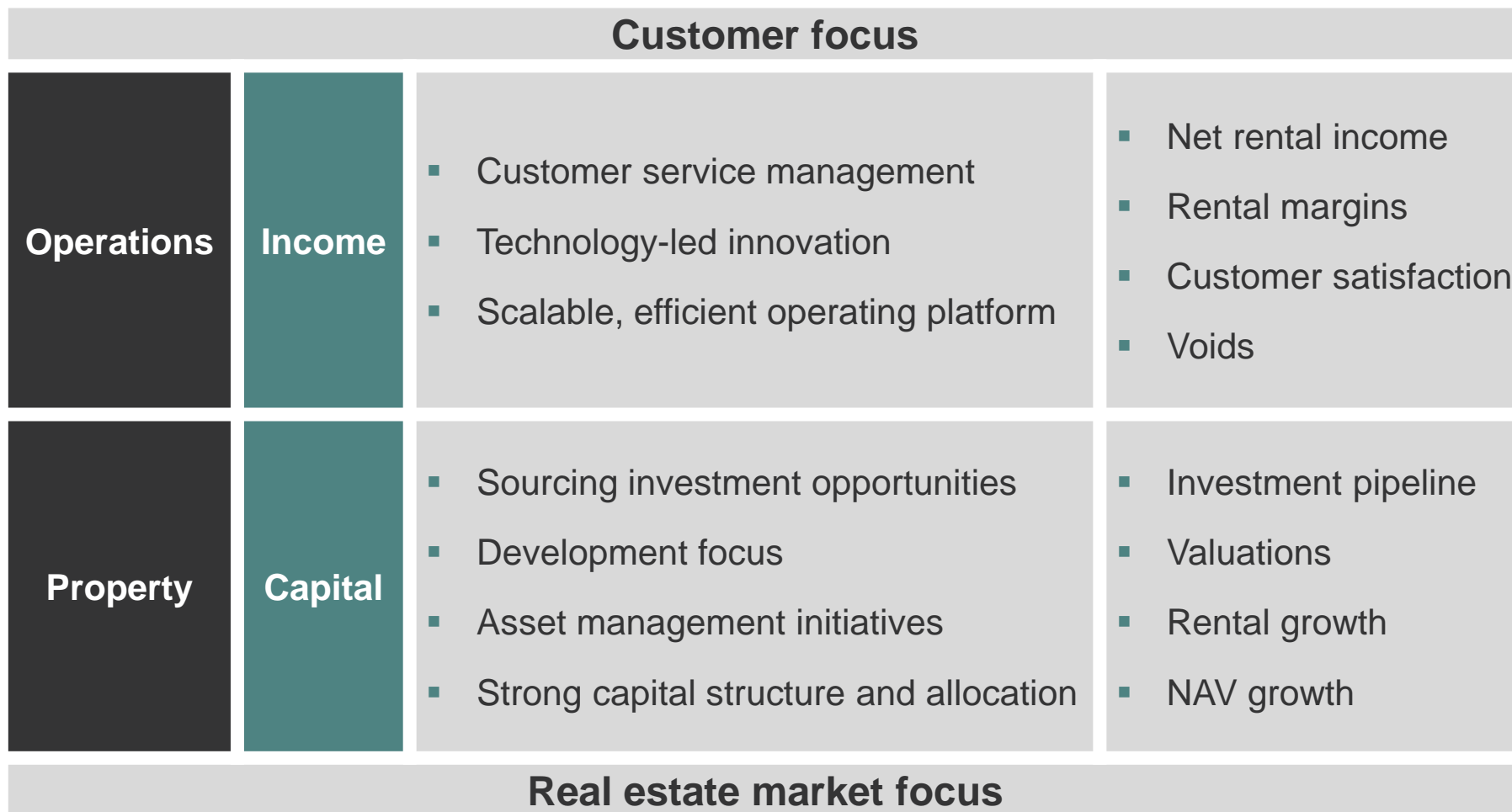
Gross yields

Capital & income

Net yields and capital growth

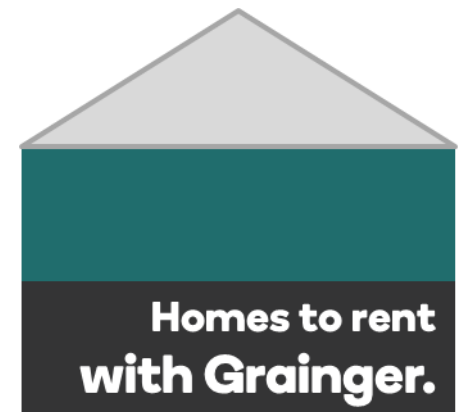
What we do	Core skills	Value drivers	Driving returns
 <p>Buy</p>	<ul style="list-style-type: none"> • Sourcing • Networks • Negotiating • Execution 	<ul style="list-style-type: none"> • Location • Asset type & quality • Entry price 	<p>Capital</p> <p>Value accretion</p>
 <p>Manage</p>	<ul style="list-style-type: none"> • Customer mgt • Asset mgt • Portfolio mgt 	<ul style="list-style-type: none"> • Operating platform • Arrears management • Maintenance, refurb • Redevelopment • Building communities 	<p>Capital & income</p> <p>Net yields and capital growth</p>
 <p>Sell</p>	<ul style="list-style-type: none"> • Networks • Negotiation • Execution 	<ul style="list-style-type: none"> • Optimising pricing • Keys to cash / velocity • Market knowledge • Pre sale investment 	<p>Capital & income</p> <p>Profit, net asset value, cash</p>

- A scalable operating platform for growth
- Delivering improved customer service and shareholder returns
- Leveraging our core skill set



Financial review

Vanessa Simms, Finance Director



	Value drivers	KPIs
Income return	<ul style="list-style-type: none"> ▪ Grow rental income > trading profits ▪ Operating efficiency for scalability ▪ Overhead and finance cost reductions ▪ Sales profit ▪ Enabling dividend growth 	<ul style="list-style-type: none"> ▪ Rental growth ▪ Recurring profit ▪ EPS ▪ Cost of debt ▪ Dividend
Capital return	<ul style="list-style-type: none"> ▪ Valuations: rental growth and HPI ▪ Increase PRS investment assets ▪ Added value through asset management initiatives ▪ Refocus development activity into PRS ▪ Portfolio reversionary value 	<ul style="list-style-type: none"> ▪ EPRA NNNAV ▪ EPRA NAV ▪ LTV ▪ Reversionary surplus
Total return	<ul style="list-style-type: none"> ▪ Return on shareholder equity 	<ul style="list-style-type: none"> ▪ ROSE

Financial highlights

Income	HY16	HY15	Change	
PRS rental growth (new lets / renewals)	5.4% / 3.1%	6.2% / 2.4%	(80)/70 bps	
Net rental income	£18.0m	£16.0m	↑	13%
Recurring profit	£25.4m	£22.5m	↑	13%
Recurring EPS (after tax)	4.9p	4.3p	↑	14%
Dividend per share	1.45p	0.64p	↑	127%
Capital	HY16	FY15	Change	
EPRA NAV per share	329p	319p	↑	3%
EPRA NNNNAV per share	283p	263p	↑	8%
Net debt	£1,059m	£1,138m	↓	(7)%
Group LTV	43.0%	45.5%	↓	(250)bps
Cost of debt	4.5%	4.6%	↓	(10)bps
Reversionary surplus	£332m	£329m	↑	2%
Return on shareholder equity	8.1% (6 mths)	10.0% (12 mths)		

Income financials and reversionary surplus on a continuing operations basis.

	HY16	HY15
Net rental income	£18.0m	£16.0m
Profit from sales	£36.5m	£38.3m
Mortgage income (Charm)	£4.4m	£4.6m
Management fees	£3.3m	£3.0m
Operating expenses	£(17.0)m	£(15.8)m
JVs	£0.8m	£1.1m
Finance cost	£(20.6)m	£(24.7)m
Recurring profit	£25.4m	£22.5m
Recurring EPS (after tax)	4.9p	4.3p
Profit before tax (continuing operations)	£36.6m	£21.1m
Earnings per share (diluted)	7.3p	5.0p

- Reduction of at least 24% in overheads from FY15
- Full benefit to be delivered in FY17
- Operational process review in progress:
 - Increase scalability of operating platform
 - Improve net rental margins
- Other expenses savings also being targeted (FY15^: £3.2m), above identified savings
- One-off implementation cost of c.£3m for restructuring and operational efficiency improvements

Cost review

FY15^ overhead costs	£36.1m
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Cost savings

Disposal savings	£(3.6)m
------------------	---------

Restructure savings	£(2.6)m
---------------------	---------

Corporate overhead savings	£(2.4)m
----------------------------	---------

Total savings	£(8.6)m
----------------------	----------------

Output FY17

Operating cost projection	£27.5m
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Identified cost savings	24%
--------------------------------	------------

[^] Continuing and discontinued operations.

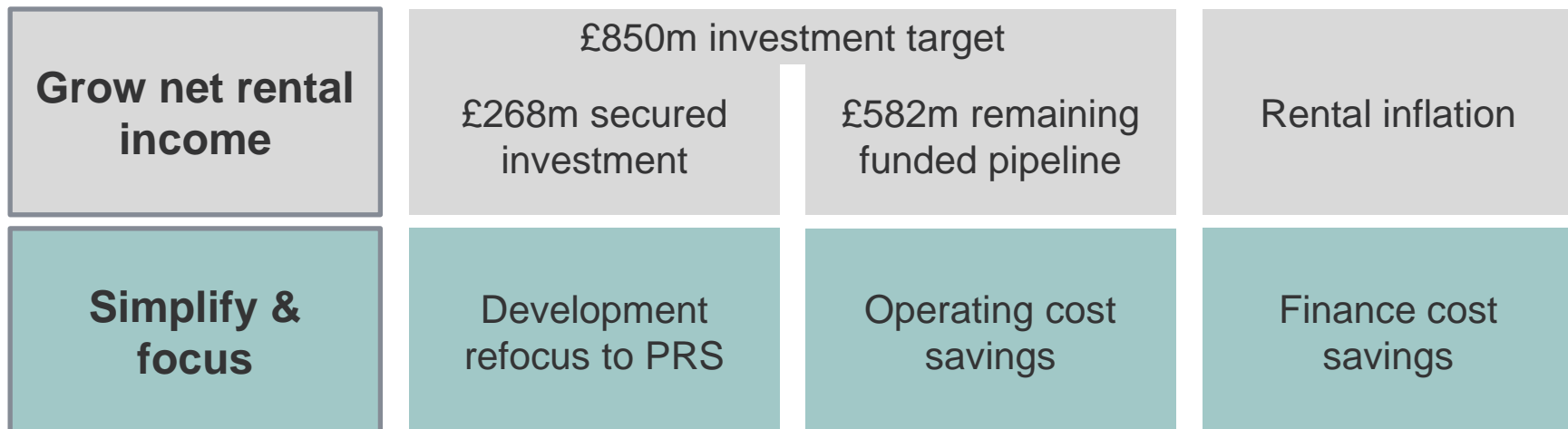
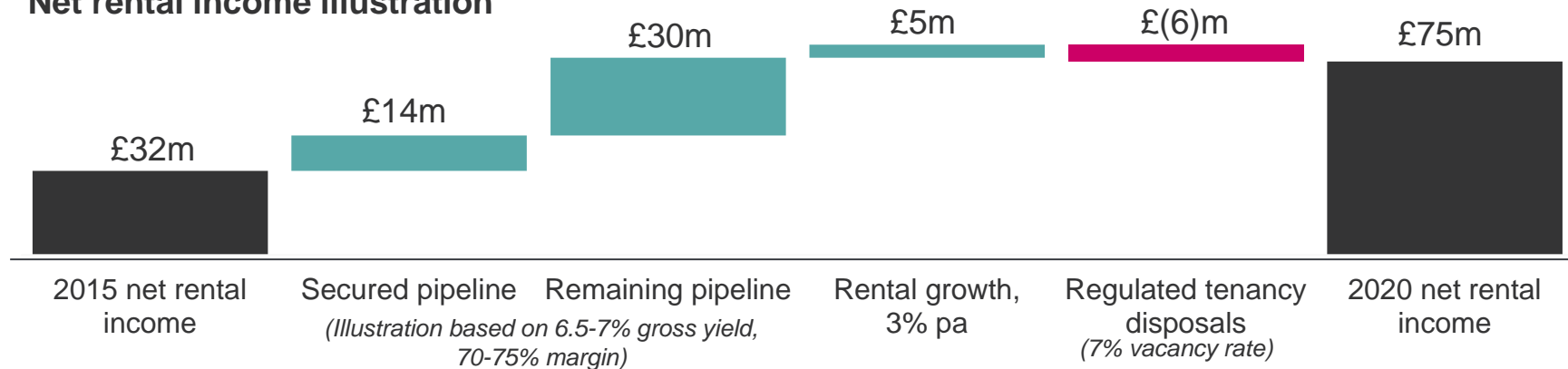
- New dividend policy to distribute the equivalent of 50% of net rental income during transition
- Aligned with our strategy to grow net rental income
- Dividend payment – one third interim, two thirds final
- 2016 Interim dividend of 1.45p per share (HY15: 0.64p)
- Estimated full year dividend of around 4p, c.50% growth
- Earnings covers dividend 5.0 times

Dividend Distribution

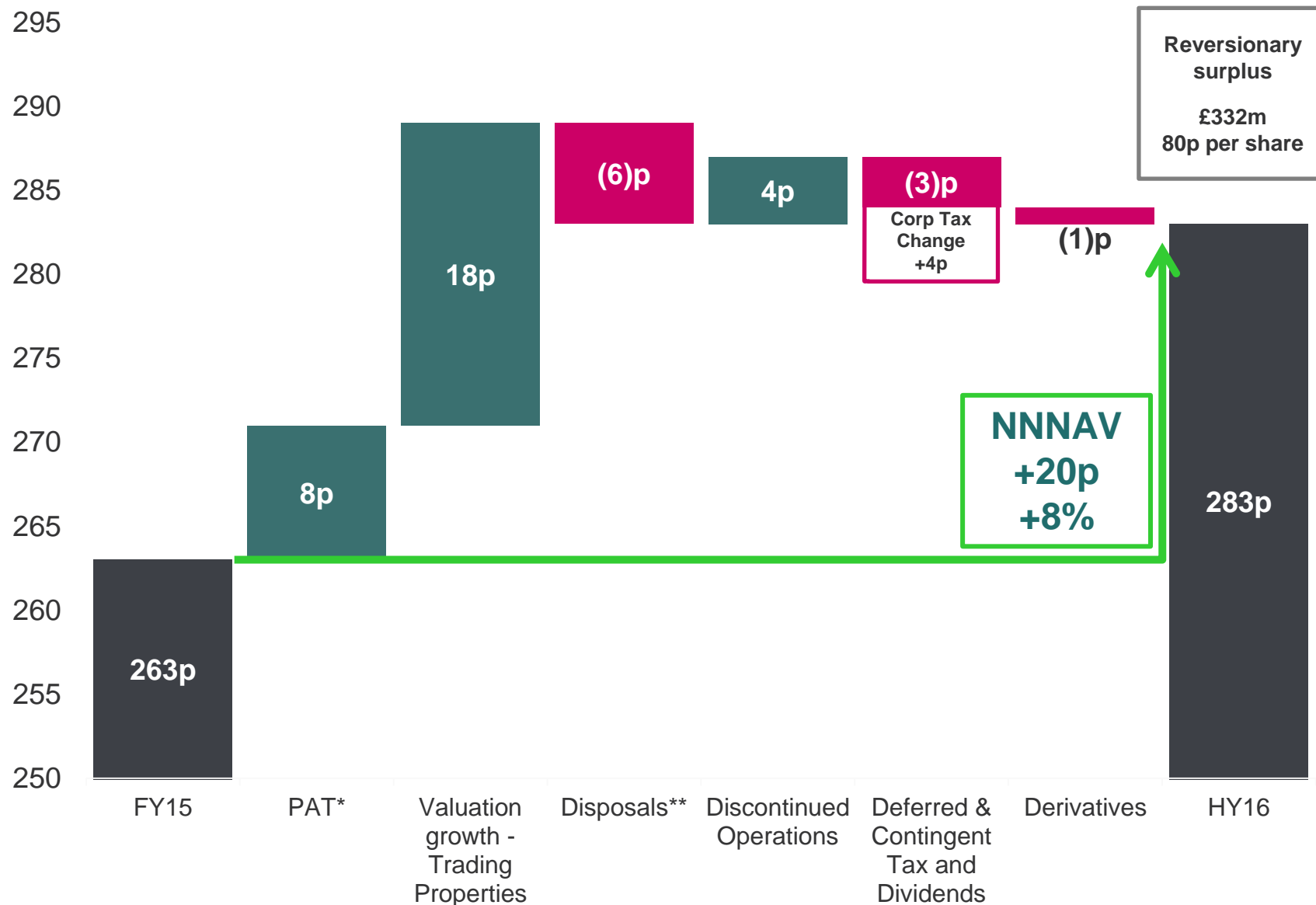
HY16 net rental income	£18.0m
Annualised	£36.0m
Pay-out ratio	50%
One third interim payment	£6.0m
Interim dividend per share	1.45p
2015 interim dividend per share	0.64p

Building blocks for rent & earnings growth

Net rental income illustration

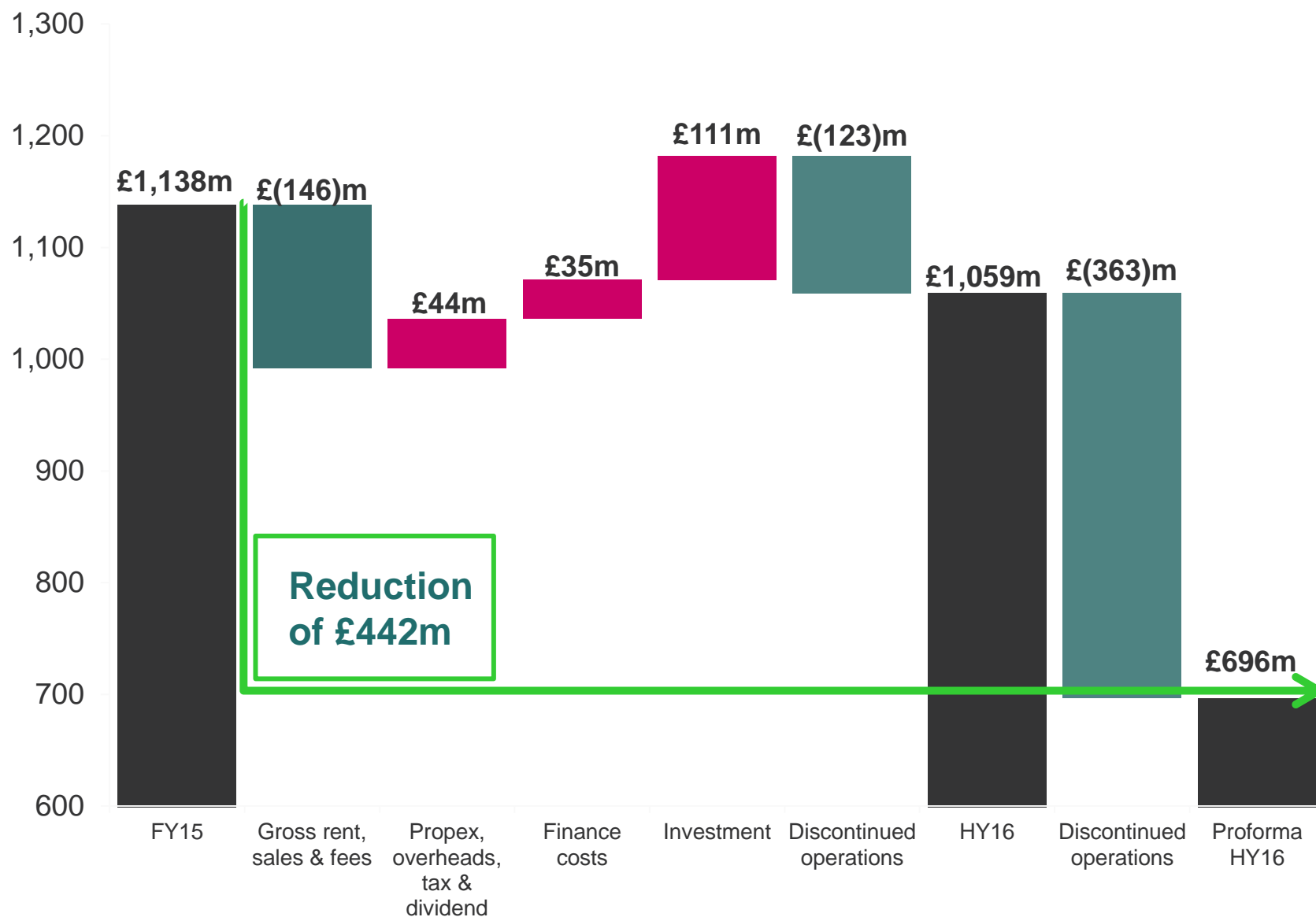


Growth in EPRA NNNAV



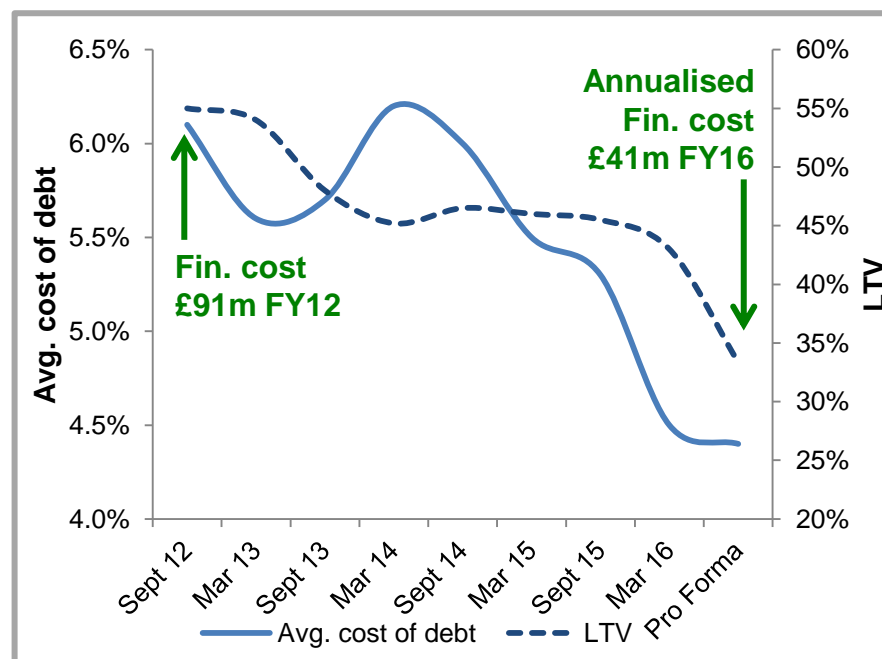
*Before discontinued operations & derivatives. ** Difference between the book value and market value sold.

Reducing net debt



	HY 16	HY 16	FY 15
	<i>Pro Forma^</i>		
Net debt	£696m	£1,059m	£1,138m
Loan to value	33.4%	43.0%	45.5%
Headroom	£379m	£207m	£142m
Derivatives (6/12 mth)	£(4.1)m	£(4.1)m	£(5.8)m
Cost of debt (average)	4.4%	4.5%	5.3%

^ Adjusted for equity release & Germany disposals expected in H2



- Finance costs halved since 2012
- Gearing target: 40-45%
- 4.0% cost of debt strategy target
- Incremental cost of debt < 2%

■ **Recurring Profit**

- Strong underlying trading from regulated tenancy sales and development, H1 weighted
- £5.8m of profit from a development land sale completed in H2
- Benefits being seen from increasing rents and lower finance costs
- Strong FY expected

■ **Strategic disposals**

- NNNAV accretion delivered in H1; no further material impact in H2
- £53m of profit on sale of Germany and equity release is expected for the full year (discontinued operations)
- Significant de-leverage benefits, providing capacity for investment

Grainger delivering PRS

Helen Gordon, CEO



Securing attractive PRS opportunities through forward funding

Clippers Quay, Salford

- £99m
- Gross yield target c.8%
- Over 600 units
- Scale provides management efficiencies
- Leveraging existing scale of operations in Manchester
- Est. completion 2018-19



Secured



Berewood, Waterlooville
Our first family style PRS
104 new homes, on site
First completions Sept. 2017



Seven Sisters, London
196 new homes
Consented, CPO underway
Estimated completion 2020



Gun Hill, Wellesley, Aldershot
108 new homes, consented
Estimated completion 2019



RB Kensington & Chelsea
Public sector land partnership
2 sites under construction
5 further sites committed
Completion 2017-2018

In planning



Apex House, Seven Sisters, London
163 new homes
Resolution to grant, May '16



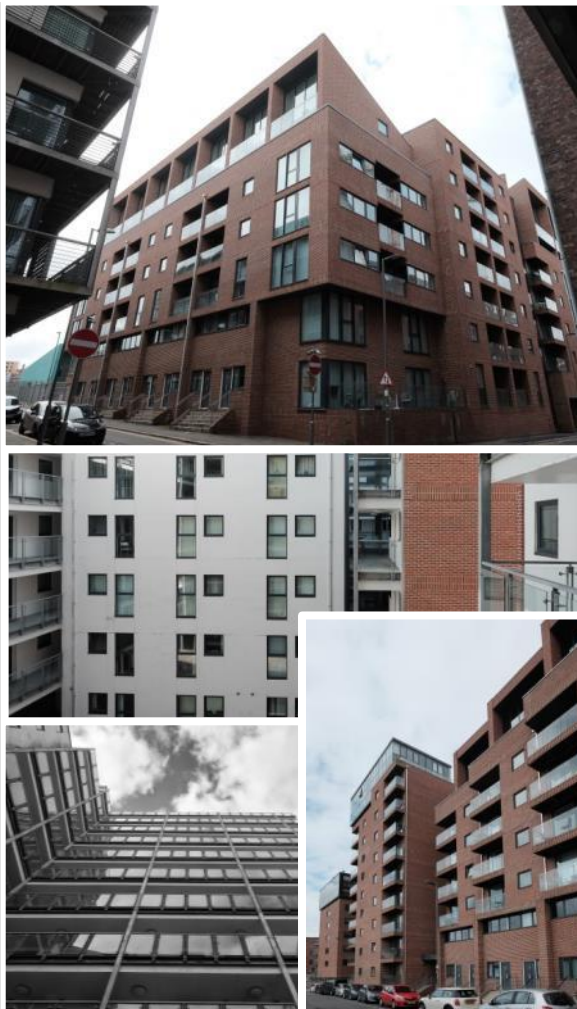
Newbury, W. Berkshire
232 new homes
Planning application submitted



Waterloo estate renewal, London
Up to 200 new homes
Pre-application consultation

£41m total tenanted PRS assets acquired in HY16

- 6.5-7% gross yields
- c.400 units
- Leveraging our presence in Northern regions



Kings Dock Mill, Liverpool

- £14.5m investment
- £1m of gross rents
- c.7% gross yield
- 120 units
- Leveraging existing scale of operations in Liverpool

Regional PRS portfolio

- £56m (June 2015)
- Initial gross yield: 7.3%
- c.600 units



Portfolio enhancement

- +8.8% valuation growth HY16
- +3.2% rental growth
- +4.8% rent increase on renewals and new lets
- Portfolio management: £1.9m sales at 19% profit margin

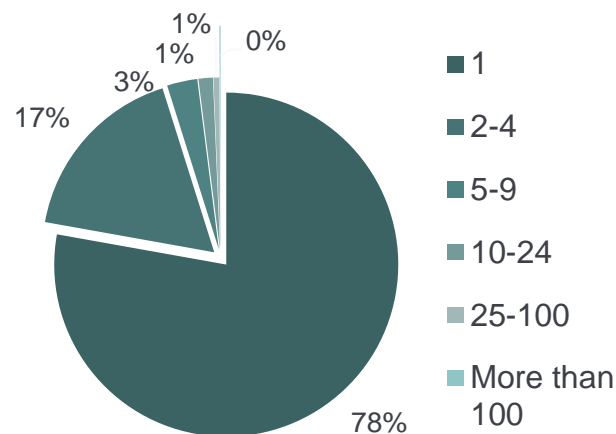
Market outlook and summary

Helen Gordon, CEO



- PRS is fastest growing tenure, and predicted to expand by c.25% by 2020
- Supply and demand imbalance will underpin rental growth
- 98% of PRS is buy-to-let, but being squeezed by Government and BoE
- Growing distinction between professional, institutional PRS and buy-to-let individuals
- Increasing local authority recognition and support
- Government commitment to deliver 1m new homes, PRS critical to achieving this

Number of properties per landlord



Source: ONS, Landlord Survey



Structural shift toward private renting and strong fundamentals

- Increasing friction costs of ownership
- Increasing job mobility
- Later family formation
- Changing spending patterns
- Affordability (house prices to earnings)
- Increasing demand for quality

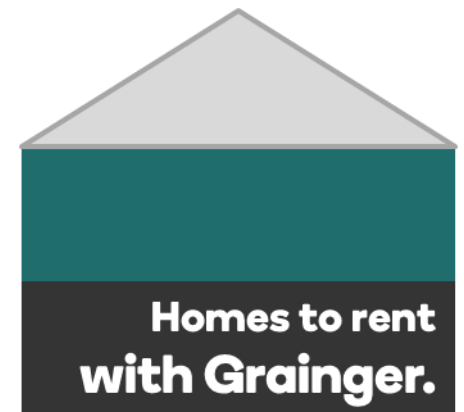
Grainger will benefit from the PRS market opportunity

- Market leading position
- Established networks
- Strong pipeline and good conversion rate
- Substantial firepower for investment
- Unrivalled national, scalable operating platform
- Improved customer focus

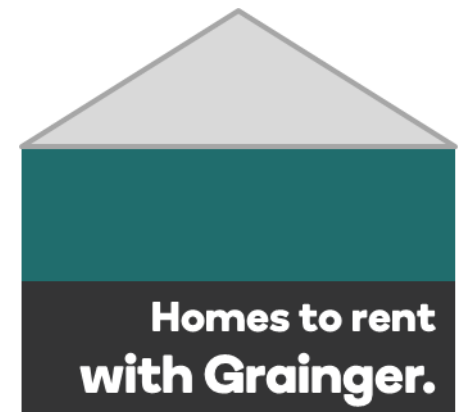
Delivering on strategy, good performance, potential to grow

- A strong first half and strong FY recurring profit expected
- Simplifying and focusing, supported by non-core disposals
- Substantial firepower for investment
- Growing rental income with a PRS pipeline over £850m; good conversion rate
- Committed to improving sustainable returns for our shareholders
- Reducing costs and increasing dividend linked to net rental income

Thank you



Appendices



- **Stamp duty land tax changes**
 - 3% additional rate, no exemptions for large corporates
 - No impact on development activity
 - Reflected in our acquisition appraisals and half year valuations
- **Corporation tax**
 - Lower rates enhance future income returns and support distributions
 - Corporation tax reduction from 20% to 18% reduces deferred and contingent tax liabilities by £15m, adding c.4pps to NNNAV.
- **BEPS (base erosion and profit shifting)**
 - New interest deductibility rules; no material impact expected (group ratio rule)
 - Grainger is actively involved in consultations, further guidance expected this year

PRS pipeline – secured

Name	Location	Status	Est. date of completion	GRI investment	Gross yield target
Direct development					
Berewood	Waterlooville, Hampshire	On site	Sept. 2017	£17m	7.5-8%
Seven Sisters	Haringey, London	Consent granted, CPO underway	2020	£76m	c.7%
Gun Hill, Wellesley	Aldershot, Hampshire	Consent granted	2019	£22m	6.5% + fees
Total secured (target £250m)				£115m	
Forward funding					
Clippers Quay	Salford Quays, Greater Manchester	Committed	First completions Aug 2018	£99m	c.8%
Total secured (target £250m)				£99m	
GRIP (Grainger's 24.9% share)					
Canning Town	East London	Committed	Oct 2017	£6m	7.5% + fees
Kew Bridge Court	Kew Bridge, West London	Acquired	Feb 2016	£7m	4.5-5% + fees
Total secured (target £100m)				£13m	
Tenanted acquisitions					
Kings Mill Dock	Liverpool	Acquired	April 2016	£14.5m	c.7%
Other	Northern regions of England	Acquired	H1 2016	£26.5m	6.5%-7%
Total secured (target £250m)				£41m	

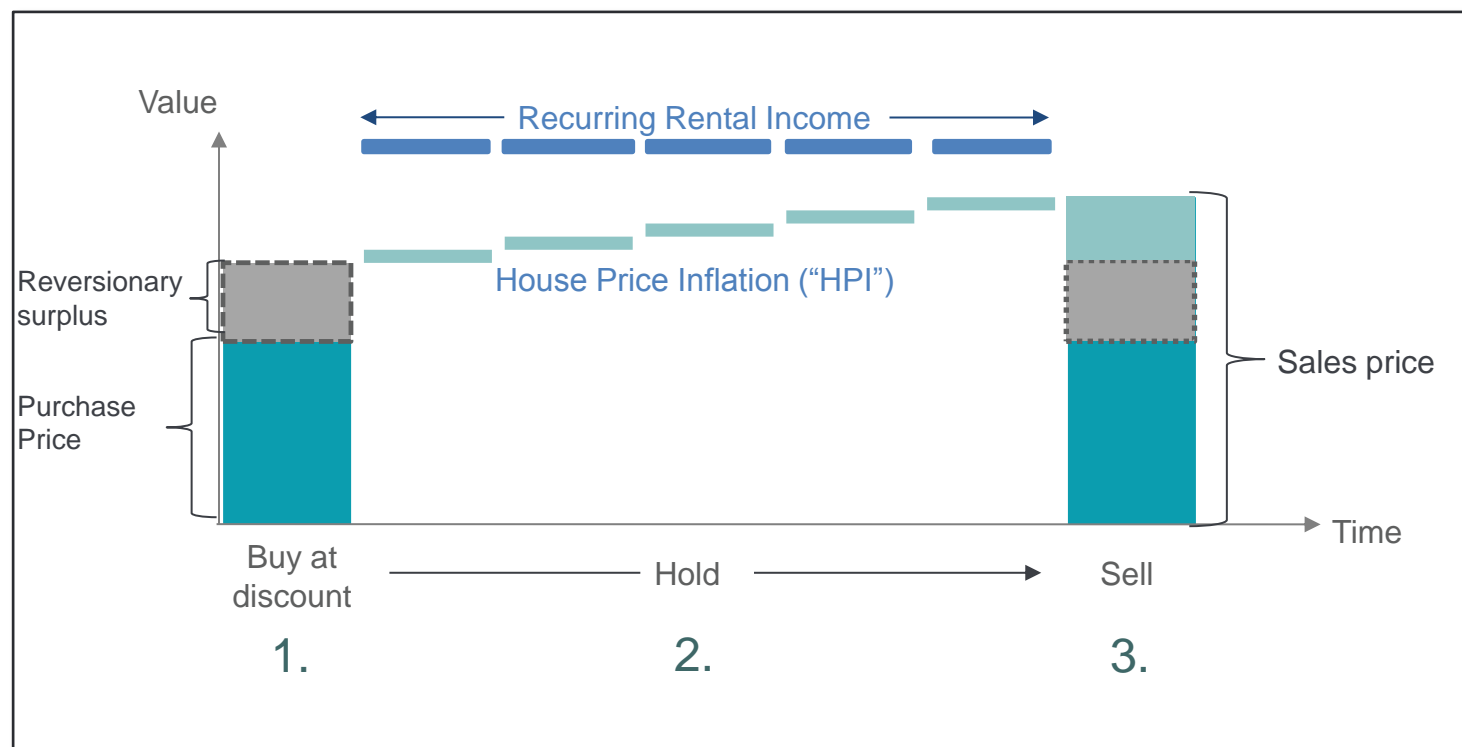
1. Buy at a discount

2. Hold and receive rental income

- Biennial rent reviews, achieving rental growth of up to 5% + RPI

3. Sell and capture house price inflation and reversionary surplus

- Reversionary surplus relating to regulated tenancies of £269m



Balance Sheet

	HY16 £m	FY15 £m
Residential - Market Rented	455	399
Residential - Reversionary	1,345	1,337
Development Work In Progress	101	95
Investment in JVs/Associates	180	179
Total Investments	2,081	2,010
Net Debt	(1,059)	(1,138)
Other Assets/Liabilities	11	59
Discontinued (excluding loans)	345	403
EPRA Net Asset Value (NAV)	1,378	1,334
Deferred & Contingent Tax	(153)	(156)
Derivatives	(40)	(28)
Discontinued	0	(49)
EPRA Triple Net Asset Value (NNNAV)	1,185	1,101
EPRA NAV (pence per share)	329	319
EPRA NNNAV (pence per share)	283	263
LTV	43.0%	45.5%
Total Return (6mth / 12mth)	8%	10%

HY16 (£m)	GRIP	Walworth	Other	Total
Property assets	600	191	72	863
Other assets	33	9	3	45
Total assets	633	200	75	908
External debt	(195)	(60)	(7)	(262)
Loans to/(from) equity participants	(126)	(13)	(31)	(170)
Other liabilities	(9)	(16)	(44)	(69)
Total liabilities	(330)	(89)	(82)	(501)
Net assets	303	111	(7)	407
Grainger share	24.9%	50%	15-50%	
Grainger share £m	75	56	(4)	127
Loans net of provisions	31	7	15	53
Total Grainger investment	106	63	11	180
Vacant possession value	654	210	184	1,048
Reversionary surplus	74	20	-	94
Grainger share of reversionary surplus	19	10	-	29
Grainger share of property assets*	148	95	-	243

*The Grainger share of property assets shown as other is reported within Development within the portfolio summary.

Portfolio Summary

HY16	No. Units	Market Value £'m	Vacant Possession Value £'m	Reversionary Surplus £'m	IV/VP %	Gross Rent Annualised £'m	Gross Sales Proceeds £'m	Profit on Sale £'m
Residential - PRS (Market Rented)	2,133	455	489	34	93%	24	6	4
Residential - Regulated Tenancies	3,710	1,251	1,520	269	82%	27	62	29
Residential - Mortgages	731	94	94	-	100%	-	3	-
Development Work In Progress		101	101	-	100%	-	13	4
Investment in JVs/Associates - Grainger Share	675	243	272	29	90%			
Total Investments	7,249	2,144	2,476	332	87%	51	84	37
Discontinued Operations	4,700	365	542	177	67%	7	27	11
March 2016 Total	11,949	2,509	3,018	509	83%	58	111	48
<i>FY 2015 Continuing Total</i>	6,459	1831	2130	299	86%	47	157	70
<i>FY 2015 Discontinued Total</i>	6,327	460	639	178	72%	12	38	16
<i>FY 2015 Total</i>	12,786	2,291	2,769	477	83%	59	195	86
Assets Under Management								
Co-Investment vehicles (excluding Grainger share)	1,427	547	612					
Third Party Assets Under Management (Continuing operations)	82	7	9					
Third Party Assets Under Management (Discontinued operations)	1,838	155	246					
Total Assets Under Management	15,296	3,218	3,885					

	HY16			HY15*		
	Units sold	Sales £m	Profit £m	Units sold	Sales £m	Profit £m
UK residential	174	62.7	29.6	152	47.4	27.7
Charm sales	27	3.5	0.1	26	3.2	0.1
Sales on vacancy	201	66.2	29.7	178	50.6	27.8
Tenanted and other	38	5.1	2.8	5	3.9	1.9
Residential sales total	239	71.3	32.5	183	54.5	29.7
Development		13.0	4.0		27.0	8.6
Continuing Operations	239	84.3	36.5	183	81.5	38.3
<i>Reconciliation to statutory numbers</i>						
<i>Less Charm portfolio</i>	<i>(27)</i>	<i>(3.5)</i>	<i>(0.1)</i>	<i>(26)</i>	<i>(3.2)</i>	<i>(0.1)</i>
Statutory sales and profit	212	80.8	36.4	157	78.3	38.2

* Restated for continuing operations

Net asset reconciliation

HY16 (£m)

	Statutory Balance Sheet	Market Value Adjustments	Market value Balance Sheet	Add back Def Tax on property	Add back Fair value of derivative financial instruments	Gross NAV	Adj IAS 39 re fixed rate loan and derivative financial instruments	Deferred and Contingent Tax	NNNAV Balance Sheet
Investment Property	204.7		204.7			204.7			204.7
CHARM	94.1		94.1			94.1			94.1
Trading stock	936.4	665.2	1,601.6			1,601.6			1,601.6
JV/Associates	180.0		180.0	7.7	1.1	188.8	(1.1)	(7.7)	180.0
Cash	65.7		65.7			65.7			65.7
Deferred tax	11.9		11.9		(7.1)	4.8	8.8		13.6
Other assets	35.7	7.7	43.4			43.4			43.4
Assets classified as held-for-sale	324.7	61.3	386.0			386.0			386.0
Total assets	1,853.2	734.2	2,587.4	7.7	(6.0)	2,589.1	7.7	(7.7)	2,589.1
External debt	(946.8)		(946.8)			(946.8)	(9.7)		(956.5)
Derivatives	(38.3)		(38.3)		38.3	-	(38.3)		(38.3)
Deferred tax	(28.7)		(28.7)	25.2		(3.5)		(144.9)	(148.4)
Other liabilities	(45.0)		(45.0)			(45.0)			(45.0)
Liabilities associated with assets held for sale	(215.7)		(215.7)		0.1	(215.6)	(0.1)		(215.7)
Total liabilities	(1,274.5)		(1,274.5)	25.2	38.4	(1,210.9)	(48.1)	(144.9)	(1,403.9)
Net assets	578.7	734.2	1,312.9	32.9	32.4	1,378.2	(40.4)	(152.6)	1,185.2
Net assets per share pence	138.3	175.5	313.8	7.9	7.7	329.4	(9.7)	(36.5)	283.2

Shares 418,296,875

Treasury/ EBT Shares 3,387,902

Look through debt

Counterparty	Group (£m)	WIP 50%	GRIP 25%	Other 50%	Total JVs (£m)	Grainger Share JVs
Syndicate	407					
Corporate Bond	275					
M&G	100					
Core Total	782					
Bilateral	150					
HCA funding	25					
Assurance Company/Annuity Provider	160					
Joint Ventures and associates		60	196	7	263	82
Germany	23					
Total Group Gross Debt	1,140	60	196	7	263	82
Cash	(79)					
Finance Costs	(2)					
Total Group Net Debt	1,059	60	196	7	263	82
Group Property and investment assets (IV)	2,446	191	598	72	861	280
Group LTV *	43.0%	31.5%	32.8%	9.7%	30.5%	29.4%

Core Property and investment assets (IV)	2,120
Core facility LTV (at IV)	37.2%
Core Property and investment assets (VP)	2,593
Core facility LTV (at VP)	30.4%

* Excludes £8.0m Fair Value Adjustment on acquired debt for purposes of Group LTV