7 August 2013

Grainger plc

Interim Management Statement

GRAINGER REACHES DEBT REDUCTION TARGET AHEAD OF SCHEDULE AND DELIVERS STRONG OPERATIONAL PERFORMANCE

Grainger plc ("Grainger", the "Company" or the "Group"), the UK's largest quoted residential property owner and manager, today announces its interim management statement covering its activities for the ten months to 31 July 2013.

Highlights

- Net debt reduced to approximately £985m as at 6 August 2013, achieving our debt reduction target of below £1bn well ahead of schedule
- Loan-to-value, at a consolidated level, estimated to be c. 50% at 6 August 2013
- Sale of £58.4m Tilt portfolio on 6 August 2013 to GRIP, the Grainger-managed private rented residential fund, reducing our debt while retaining an equity interest in the asset and increasing future management fees

Sales

- Completed Group sales to 31 July 2013 approximately £258.7m (31 July 2012: £202.1m)
- In our UK residential portfolios vacant properties are being sold at 6.7% above September 2012 vacant possession values

Rents

- Rents are in line with expectations following asset transfers to key strategic partners and investment sales. For assets held throughout the period rental growth remains strong

Fees

- Fees increased to approximately £9.9m (31 July 2012: £7.8m)

Commenting, Andrew Cunningham, Chief Executive of Grainger, said:

"We have had an excellent four months since we reported our half year and achieved a number of significant strategic objectives, including reaching our target to reduce our debt to below £1bn. This has been supported by an increasingly positive sentiment towards the UK housing market and the wider economy.

"Sales remain strong, and, with increasing optimism in the housing market in the UK, we expect to see the benefit of this reflected in sales prices in the coming months. Underlying rental levels also remain robust, with continued strength in demand in the stronger economic regions, and we continue to increase our fee income.

"The actions we have taken over recent years – changing the geographical weighting of our assets, reducing financial gearing, and creating partnerships with high quality partners –

places Grainger in a strong position to capitalise upon the opportunities arising from a strengthening market."

Market review

The UK housing market is showing signs of strengthening with national house price indices reflecting some improvement in house prices. The Nationwide and Halifax house price indices in the 10 months to July 2013 indicated an average rise of 4.7%[1]. According to the Council of Mortgage Lenders (CML), the total gross mortgage lending in the period from April 2013 to June 2013 was up 24% compared to the previous three months. The commentary from the CML was positive, noting that improvements in the cost and availability of mortgage credit are underpinning a meaningful recovery in the housing market.

At the same time, the strength and expansion of the private rented sector continues and institutional interest grows.

Our portfolios continue to perform particularly well because of the location of our assets and their price characteristics and we continue to see strong demand for vacant units.

Sales

In the ten months to 31 July 2013, the Group completed sales of 2,091 units for a gross consideration of £258.7m[2] (31 July 2012: 1,246 units sold for £202.1m). This comprised sales from our UK residential portfolios of 1,860 units for £240.9m[2] (31 July 2012: 1,016 units for £176.6m), sales from our German portfolio of 231 units for £17.6m (31 July 2012: 230 units for £16.7m) and sales from our development division, where timing of sales is project specific, of £0.2m (31 July 2012: sales of £8.8m).

Vacant UK sales of 547 units generated £94.0m at an average margin of 42.7% (31 July 2012: 568 units generating £104.9m at a margin of 40.9%). Sales of tenanted and other properties from our UK portfolios, excluding Tilt, generated £146.9m (31 July 2012: £71.7m). In our UK residential portfolios we are selling vacant properties at 6.7% above September 2012 vacant possession values.

Sale of Tilt portfolio

Today we are also announcing the sale of the Tilt portfolio, comprising a portfolio of over 300 residential units, for £58.4m to GRIP Unit Trust ("GRIP"/the "Fund"). GRIP, one of the UK's largest private rented residential property funds, was created in early 2013 by Grainger and APG, Europe's largest pension fund asset manager. The portfolio currently generates a total rent roll of c. £2.4m per annum. The net cash inflow to Grainger from the transaction is £54.5m. Grainger's proportionate stake in GRIP is diluted down to 24.9% from 27.3% as APG is contributing a disproportionate share of the equity finance. The Fund's enlargement will increase the advisory and management fees that Grainger receives. The disposal is £1.4m in excess of the valuation as at 31 March 2013 and £3.8m above the September 2012 valuation. The Tilt portfolio was originally acquired via a corporate acquisition, and as a result of this disposal a non-recurring, non-cash impairment of goodwill of £4.7m will be

[1] Calculated based on the movements in the Nationwide Seasonally Adjusted house price index and the Halifax (All houses, All Buyers, Seasonally Adjusted) house price index in the period October 2012 – July 2013

[2] This includes 602 units sold into the Walworth JV and 50% of the £111m sales proceeds

taken into account. The £54.5m of cash is being used by Grainger to repay debt. Following the transaction the Company's group net debt is c. £985m. Tilt was acquired in 2007 and since then Grainger's asset management initiatives have stabilised and enhanced the rent roll and improved overall asset performance. It is now opportune to realise the investment, while retaining a long term stake.

The Group sales pipeline at 31 July 2013 (the completed sales referred to above plus contracts exchanged and in solicitors' hands) stood at approximately £332.0m excluding Tilt (31 July 2012: £264.5m). Of this, £314.0m is within our UK businesses (31 July 2012: £240.4m) and £18.0m is in Germany (31 July 2012: £24.1m).

Rents

For assets held throughout the period rental growth remains strong. For example, in the three months to June 2013, rental increases on new lets across our market rented UK portfolio have increased on average by over 5%. In line with expectations, following asset transfers to key strategic partners and investment sales, gross rents have reduced to approximately £61.5m (31 July 2012: £75.1m). Of our total gross rent roll, £48.0m is from our UK portfolio (31 July 2012: £52.7m) and £13.5m derives from our German portfolio (31 July 2012: £22.4m).

Fees

Fee income for the ten months grew to approximately £9.9m (31 July 2012: £7.8m), strongly influenced by recurring fee income from our strategic alliances referred to above and continued performance from G:RAMP.

Acquisitions activity

In the ten months to the end of July 2013, we had completed, exchanged or placed in solicitors' hands some £8.7m of property acquisitions. This compares with the equivalent period in financial year 2012 where we had committed to £21.4m of acquisitions. While continuing to be mindful of leverage, Grainger is now in a position to consider acquisitions where they are accretive to returns.

Debt

In our full year financial results announcement on 22 November 2012, we set out a target of reaching a £1bn net debt level by the end of 2013. We have now met that target. As of 6 August 2013, following the sale of the Tilt portfolio, net debt is estimated at £985m with consolidated loan to value estimated to be c.50% (30 September 2012: £1.19bn and 55% respectively). We expect net debt to remain at a similar level for the rest of our financial year.

Available headroom at 6 August 2013 (committed facilities and cash) amounted to £249m (30 September 2012: £148m). Group net debt at 31 July 2013, prior to the Tilt disposal, stood at £1.04bn and available headroom was £194m. Our interest cover ratio on our core borrowing at 31 July 2013 is estimated at 3.8 times (30 September 2012: 3.0 times).

The average reported cost of debt in the period to 31 July 2013 is 5.7% (30 September 2012: 6.1%). The proportion of debt which is hedged is 71% as at 31 July 2013 (30 September 2012: 84%).

Outlook

There is increasing optimism in the housing market in the UK and we expect to see the benefit of this reflected in sales prices in the coming months. In addition, an increasing number of individuals in the UK are renting, which gives us confidence in the growth prospects for our rental business. Our ability to generate fees will continue to benefit from the growing value of assets under management and an increasing interest among potential partners, such as institutional investors, in the UK residential sector, particularly the private rented sector.

-ENDS-

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Grainger plc - company background information

Grainger plc is the UK’s largest listed residential property owner and manager, with c £3.0bn of residential assets under management across the UK and Germany. Grainger generates income through:

- **Sales** of properties when they achieve optimum valuations
- **Rent** from its portfolio of tenanted properties
- **Fees** for the management of residential properties and the provision of its expert services to select third party clients.

Additionally, Grainger is a leading provider of equity release products through its award-winning subsidiary brand, Bridgewater Equity Release.

Grainger was established in 1912 in Newcastle upon Tyne, where it remains headquartered. It has eight offices across the UK and Germany. Grainger is a constituent of the FTSE 250 on the London Stock Exchange and the FTSE4Good index. Grainger was awarded the UK’s Residential Asset Manager of the Year at the RESI Awards in 2012 and 2013 and Best Property Company – Residential at the latest Estates Gazette Awards.