

Grainger plc
Interim Management Statement

Grainger plc ("Grainger", the "Company" or the "Group"), the UK's largest quoted residential property owner, today announces its interim management statement covering its activities for the four months to 31 January 2011.

Highlights

- Total Group sales pipeline of £76.2m at 31 January 2011 (31 January 2010 - £94.8m)
- Acquisitions pipeline of £13.4m as part of our regular trading (31 January 2010 - £8.6m)
- Acquisition of the "Hi Tricomm" MOD residential portfolio from Invista for £18.5m on 4 February 2011 which will be accretive to both NAV and recurring profit in the current year
- From March 2011, portfolio valuation will be carried out twice annually at the half and full year (previously carried out annually at September)
- Completion of Sovereign joint venture with Moorfield, generating £17.5m of cash for the Group
- First steps taken in re-shaping Group debt through the agreement on 8 February 2011 of a £100m ten year facility with M&G Investments.

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

"We are actively managing our specialist portfolio which continues to demonstrate its defensive qualities and liquidity whilst maintaining future upside. Sales achieved during the first four months of the financial year are at prices above our September 2010 valuations. We continue to employ an extremely selective acquisitions policy, only seeking out opportunities that we believe will offer sustainable value. The acquisition of the MOD residential portfolio illustrates our ability to invest in the residential market in a variety of ways. The transaction also carries with it eighteen year debt with a lender from outside our existing lending group. This, together with the ten year £100m debt facility agreed with M&G Investments, gives evidence of progress in the diversification of debt. From March 2011 we will further enhance the quality and visibility of our financial reporting by increasing the frequency of portfolio valuation to twice annually."

Market Review

Confidence in the UK economy is fragile with inflationary pressures occurring simultaneously with flat or negative growth. Conditions in the UK residential market remain challenging, as evidenced by low levels of sales and mortgage approvals. Whilst not immune from these conditions, our portfolio is made more resilient by its high weighting to the South of England, low average price, largely un-refurbished nature and its minimal exposure to new build. We continue to actively manage our assets and are consistently achieving selling prices above our September 2010 valuation. We are monitoring carefully any fluctuations in sales velocity and vacancy rates against the economic backdrop referred to above.

These conditions continue to present interesting opportunities; however we remain selective in our approach to acquisitions, focussing only on those potential purchases where we believe we can create sustainable value.

In some areas of the housing market the lack of mortgage availability is putting upward pressure on rents. This is clearly demonstrated in our G:res fund where we are seeing rental uplifts on new lets of nearly 15%.

Residential Trading (UK residential portfolio and home reversions)

Sales activity

In the four months to 31 January 2011, we completed sales of 216 units for a gross consideration of £37.4m at an estimated trading margin on sales of vacant properties of 40.3% (31 January 2010 - 321 units sold for £54.5m with vacant sales at a margin of 42.4%). Last year's comparatives included significant sales of agricultural and related property of £15.0m which were not repeated during this reporting period. The volume of normal sales (those made with vacant possession) were down in December, we believe as a result of adverse weather conditions but we are still selling at 1.4% above September 2010 vacant possession values. This reflects the attractive nature of our properties for cash buyers and the effectiveness of our sales operations.

The sales pipeline (the completed sales referred to above plus contracts exchanged and in solicitors' hands) stood at £56.1m at 31 January 2011 (31 January 2010 - £83.9m including one-off agricultural and related property sales of £26.6m) reflecting the cash generative nature of our portfolio. We are also undertaking a portfolio review and have, at this stage, already identified circa £50m of non-core assets to be sold this year.

Acquisitions activity

We continue to be very selective in our approach to acquisitions. In the four months to the end of January 2011, we had completed, exchanged or placed in solicitors' hands some £13.4m of property acquisitions as part of our regular trading. This compares with £8.6m for the equivalent period in financial year 2010.

On 4 February 2011 we announced that we had acquired HI Tricomm Holdings Limited ("HI Tricomm") from Invista for a total cash consideration of £18.5m.

HI Tricomm indirectly owns a high quality portfolio of 317 largely detached and terraced freehold houses in five separate locations on residential estates in the Bristol and Portsmouth areas. The houses were built between 2001 and 2003 under the terms of a Private Finance Initiative ("PFI") project to provide dwellings for senior Ministry of Defence personnel. The portfolio is let under a long-term lease arrangement with the Secretary of State for Defence until 2028.

The portfolio currently generates a net annual rental income after property expenses of £7.8m and will enhance Grainger's recurring profits. The net property yield is 8.4% and it is expected that the transaction will be NAV accretive for Grainger. The current vacant possession value of the underlying assets is approximately £93m. HI Tricomm is currently financed by a £69.1m senior debt facility provided by Bank of America which will be rolled over with the transaction and will expire in 2028. This significant acquisition is consistent with Grainger's strategy to acquire portfolios of residential assets delivering good long-term returns. Furthermore, stapling the existing debt to the transaction provides Grainger with a further opportunity to diversify its sources and type of Company financing.

Integration of the Sovereign Reversions business continues to progress on track and we are exploring other opportunities to work with our partner, Moorfield, with whom we completed the Sovereign joint venture early in the financial year. The sale of a 50% stake in Sovereign to Moorfield generated £17.5m of cash for the Company.

Our Bridgewater business was named Best Home Reversion Provider for the fifth year in succession at the Equity Release awards in December 2010.

Funds and Joint Ventures

The Gires1 portfolio was last valued at 31 December 2010. Vacant possession values have increased by 3.7% in the twelve month period to that date and investment values by 6.2%. The overall net asset value per share of the fund increased by 15% from 64p to 74p.

Demand is particularly strong for rentals within this fund, which provides high quality purpose built flats largely focussed on London and the South East that appeal to young professionals; in the quarter ended 31 December 2010 we have been able to achieve rental uplifts of 14.8% on new lets.

Development Division

This division has had a positive start to the year with the successful conclusion of sales at Kensington Park Road and Barnsbury and a further 15 units at Hornsey Road. As a result the division has produced cash receipts of £19.4m in the four months to 31 January 2011 (2010 - £9.0m). We have submitted planning applications in relation to our schemes at Macaulay Road, Clapham, London; King Street, Hammersmith, London; and Newlands, Hampshire. We have also resubmitted our planning application for Ward's Corner, Haringey, London.

Germany

Our German business continues to generate a steady gross yield of c.7%. We continue to deliver on the programme of activities to improve returns through:

- a high level of active asset management aimed at improving operational efficiency and maximising net rental returns by reducing voids and property expenses
- the evaluation of alternative ways of attracting third-party investors by placing parts of the existing portfolio into new structures which will be managed long-term by Grainger's German asset management platform
- a programme of capital recycling to improve the overall quality of the asset base and enhance cash flow. Assets to the value of around €25m have been identified for sale.

Debt

Net Group debt stood at £1,300m at 31 January 2011 (30 September 2010 - £1,360m). The estimated loan to value ratio on our core borrowing (based on September 2010 valuations) at 31 January 2011 stood at 53.2% (30 September 2010 – 54.1%). Our interest cover ratio stands at 2.5 times (September 2010 - 2.4 times).

Available headroom (committed facilities and cash) amounted to £292m (September 2010 - £ 260m).

In our Preliminary Results announcement on 25 November 2010, we stated that "going forward, our focus will be on early consideration and implementation of debt financing options" and as an important first stage in this process, we have signed a facility agreement with The M&G UK Companies Financing Fund for a £100 million long-dated term loan, repayable in instalments in 2019 (£10 million), 2020 (£30 million) and 2021 (£60 million). The loan is scheduled to be drawn down in March 2011 and we will use all the proceeds to repay drawings under our core syndicated bank facility and cancel the same amount of commitments. We also intend to use c£50m of available headroom to prepay facility reductions scheduled for June 2011 in further permanent reduction of the core syndicated bank facility. The LTV and interest cover covenants and security arrangements on the new facility are on the same basis as those already existing on the Company's core banking facilities and there will be minimal effect on the Company's overall average cost of funding. The average maturity on our group debt following the Hi Tricomm transaction and the M&G facility will increase from 3.5 years at 30 September 2010 to 4.3 years.

This loan is a significant first step towards achieving two of the Group's debt funding aims: to reduce dependency on the banking markets for funding the core portfolio, and to lengthen the overall maturity of our debt arrangements.

Outlook

Whilst wider economic conditions are challenging, our portfolio and strategy continues to demonstrate resilience. The Company's focus remains on managing our portfolios to maximise value for our shareholders, whilst using our specialist property management skills to derive further income and continuing to seek accretive acquisitions and business development opportunities that create sustainable value on a highly selective basis.

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