

12 August 2009

Grainger plc Interim Management Statement

Grainger plc (“Grainger“, the “Company” or the “Group”), the UK’s largest quoted residential property owner, today presents its interim management statement covering its activities during the four months to 31 July 2009.

Highlights

- Total property sales completed in the ten months to 31 July amounted to £169m. In addition, contracts have been exchanged on further sales totalling £28m and other disposals with a value of £39m are in solicitors’ hands.
- Highly successful sales programme at our Hornsey Road development, with all 92 units from the April launch reserved of which the sales of 72 units have been completed or contracts exchanged.
- Good progress made with cash conservation programme through asset sales and reductions in purchases.
- Net debt reduced by £100m between 31 March 2009 and 31 July 2009.

Commenting on the results to the end of July, Andrew Cunningham, Acting Chief Executive of Grainger said:

“We have seen a modest improvement in the residential sales market over the last few months and this has helped us achieve these sales results to the end of July. We expect total sales proceeds to exceed those of last year, providing further evidence of our ability to generate sales income even in these difficult market conditions.

“Despite signs of increasing stability we anticipate that the market will remain fragile in the short term and our focus will, therefore, continue to be on cash conservation.”

Market Review

Although still difficult, trading conditions in the residential sales market have eased over the last few months. This has been evidenced by improving market indicators – the Nationwide index of house prices rose for a third consecutive month in July, in which the three month on three month rate of change rose by 2.6%, the highest since February 2007. The Halifax index has shown more modest increases but was still up by 1.1% in July. Mortgage approvals for new house purchases rose by 7.7% in June and have been rising steadily, if slowly, since January of this year.

The key factors behind the recent price stabilisation have been the shortage of supply, the release of pent-up purchaser demand and relatively low interest costs.

This improvement in market conditions is reflected in the volume of our recent sales and in the stable prices we have been able to achieve. In the four month period since our half year we have sold 587 residential units for £73m; compared to 442 units for £55m in the preceding six months prior to that.

However, given the ongoing uncertainty in the market, we remain cautious in our outlook for house prices in the short term.

This is balanced in the long term by the inbuilt and significant imbalance between supply and demand with the anticipated rate of future increases in household numbers far outstripping construction levels. This will in turn support the long term hold strategy of Grainger’s UK residential business.

Sales summary for the 10 months to 31 July 2009

	Core portfolio and home <u>reversions</u>	£m Development <u>Division</u>	<u>Total</u>
Completed sales			
- with vacant possession	86	40	126
- investment and other	43	-	43
	<u>129</u>	<u>40</u>	<u>169</u>
Contracts exchanged	25	3	28
Solicitors instructed	28	11	39
Total sales pipeline	<u>182</u>	<u>54</u>	<u>236</u>

Residential Trading (core portfolio and home reversions)

In the ten month period to 31 July 2009 we sold 625 vacant units for consideration of £86m at a margin of 35.5%. The equivalent figures to the end of July 2008 were 566 units for £101m at a margin of 45%. This reduction reflects the average fall in values over the last year and a change in sales mix towards lower value properties. These sales were made at values on average 8% below our September 2008 vacant possession values. This situation has seen an improving trend; properties currently under solicitors' instructions are 0.1% above September 2008 values.

In addition to normal sales, we have made £38m of investment sales (sales with a tenant in place) (31 July 2008: £18m) at a discount of 7% to last year's valuation, and other sales of £4.6m. These sales are generally made as part of our day-to-day portfolio management or to enhance liquidity and are often conducted through the auction market where we have seen increased levels of interest and activity since March.

We also have a healthy pipeline of sales; in addition to the total completed disposals of £129m noted above we have a further £53m with contracts exchanged or in solicitors' hands. Whilst not all of these will complete before our year end we do anticipate a final sales result in this division comparable to last year's £168m. This clearly demonstrates the liquidity of our portfolio and our ability to generate sales even in very challenging market conditions.

Additionally, we have obtained an independent valuation of our core and home reversion portfolios at 30 June 2009. Overall this report showed a fall in vacant possession values since September 2008 of 7.5%. However, the improving market conditions, in particular the residential investment market, have produced a slight narrowing of the discount applied to vacant possession values to obtain market value. The result of this is that the market value of these portfolios has fallen by only 4.9% since September 2008, a much better position than had been anticipated at the start of the year.

Purchasing activity in these divisions remains low and we have completed or exchanged on the purchase of only £10m of properties in the ten months to 31 July 2009. Although we continually identify and examine new opportunities, the pricing is as yet not sufficiently compelling for us to change our cautious approach to acquisitions.

Investment in G:res 1

The portfolio in G:res 1 was valued at 30 June 2009 and this showed an overall increase in value of 6.7% since December 2008. The vacant possession values improved by 0.5% and the balance relates to a similar narrowing of discounts as in the Grainger portfolio.

Development Division

As previously announced we have postponed significant development activity in this division but have concentrated on cash generation with very positive results. In particular our residential development at Hornsey Road in North London has sold extremely well. We have sales reservations on all 92 units released on launch in April and of those 72 properties worth £17m have completed or have exchanged contracts. In total the development division has generated £40m in sales revenue with a further £14m having exchanged contracts or in solicitors' hands. Sales revenue in the financial year ended 30 September 2008 for this division amounted to £10m.

In terms of future activity, we are pleased to report that a recent judicial review has held that the planning consent granted on our site at Wards Corner in North London in December 2008 is valid. Future development expenditure commitments are limited to £10m.

Europe

We have cleared all regulatory hurdles in order to fully consolidate FranconRheinMain AG ("FRM") which we acquired last year and the company has now been de-listed. We are focussing on portfolio management, in particular, ensuring that void rates are controlled. Transactional activity remains minimal.

Debt

At 31 July 2009, group net debt was £1,560m – a decrease of approximately £100m since March, of which £39m relates to exchange rate movements. The estimated loan to value ratio on our core lending syndicate (taking into account the valuation of our UK residential portfolios at 30 June 2009) amounted to 67% (30 September 2008: £1,621m, 66%). This compares to a default level under our banking arrangements of 80%.

Interest cover remains healthy and by 31 July we had generated enough income to meet the September 2009 covenant test.

One of our facilities, amounting to £400m, is due for repayment in June 2010 and we are currently in discussions with our lending banks as to rescheduling part of this. The June valuations have been helpful in this process. We will update the market accordingly once these discussions are concluded. Overall headroom across the Group amounts to £344m.

Outlook

Performance in this period reflects one of Grainger's great defensive strengths – the liquidity of its portfolio. In the last few months this has been assisted by improving sentiment in the general residential market but we should bear in mind that such improvements are relative to the extreme conditions we experienced in the latter part of 2008 and early 2009. Overall conditions remain challenging and we suspect that the market may show volatility for some time to come and are managing the business accordingly.

However, we believe that opportunities will begin to present themselves once more and that Grainger's long term approach, unique operating platform and existing high quality portfolio will enable us to take advantage of these as market conditions stabilise.

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