20 May 2009

grainger plc

Grainger plc ("Grainger"/"Group"/"Company")

INTERIM RESULTS FOR THE SIX MONTHS TO 31 MARCH 2009

Active sales programme and ongoing cash generation from diverse range of activity

Grainger plc, the UK's largest quoted residential property owner, announces its results for the six months ended 31 March 2009.

Key financial performance data

- Operating profit of £41.3m (31 March 2008: £48.2m) before valuation, provision and goodwill movements.
- Underlying loss before tax of £3.1m:
    - Loss before tax of £143.0m (31 March 2008: £0.2m) impacted by inclusion of one-off costs relating to the early conversion of the majority of convertible debt (£31m) and three non-cash related items, namely mark to market adjustments on financial instruments (£38m), property valuation deficits (£40m) and other impairment provisions (£25m)
- Successful early conversion of 78% of convertible bond to produce net asset value increase of £42m.
- Gross NAV per share of 472p (30 Sept 2008: 535p), and Grainger NAV of 416p (30 Sept 2008: 520p); full valuation not undertaken at half year.
- Completed sales from core and retirement portfolios totalled £55m, with total pipeline (including properties in solicitors' hands and contracts exchanged) of £86m at 31 March 2009. As of 15 May 2009, this figure had increased to £108m.
- Combined with sales made from the development division totalling £23m, and the development sales pipeline of £13m this brings the anticipated total sales revenue to £144m; the Company is confident that it will meet its 30 September 2009 interest cover covenant test well before the due date.
- Given the Group's continuing focus on cash conservation and ongoing unpredictability in the market, the board has decided to defer any decisions on dividends until after the year end.

Operational highlights

- Strong cash generation ongoing from a wide variety of sources, including rent, property and asset management fees and sales of vacant and investment assets.
- Good progress with the Group's strategy to conserve cash through asset sales, restricted purchase activity (£22m compared to £158m in the corresponding period in 2008) and overhead savings.
- Liquid and defensive nature of the Group's portfolios proven by the successful sales programme of assets at approximately 7% below 30 September 2008 values, despite challenging market conditions.
- Completion of 164 of the 212 unit development at Hornsey Road, London. To date, 35 reservations have been secured from the first release of 42 units at the end of March and a further 19 reservations from the second release of 50 units in May, with 62 affordable units handed over to Guinness Developments.
- Planning permission secured on appeal for residential site in Gateshead.

Robin Broadhurst, Chairman of Grainger plc, commented:

"With the benefit of our large, diversified portfolio, range of activities and ability to generate cash through rents sales and management fees, we have continued to perform against our short to medium term objective by managing the business in a prudent way through this current adverse cycle. In particular, we are focused on cash conservation through maximising sales revenue, curtailing property expenditure, reducing overheads and on ensuring that we remain covenant compliant.

"We also believe that there will be opportunities for large scale professional landlords to play a significant part in meeting the overall national housing requirements. This is underpinned by the announcement of the Homes and Communities Agency's Private Rented Sector Initiative which is designed to create opportunities for investors to enter the private rented sector on large scales. Our expertise across all areas of residential activities, underpinned by our unique and diverse portfolio and supported by our property management structure, will enable us to take advantage of these new opportunities, as well as continuing to run and manage our existing business productively."

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Chairman's Statement

With the benefit of its large, diversified portfolio, range of activities and ability to generate cash through sales, rental income and management fees, Grainger has continued to perform against its key objectives in the six months to 31 March 2009, despite market conditions which continue to be challenging.

In particular, during the period the Group has continued its strategy of concentrating on cash conservation through:-

- asset sales; total property sales from all divisions for the period amounted to £78m. In spite of the very difficult market conditions this is only 8% less than the total achieved in 2008.

- purchase restrictions; in the first six months we have spent a total of £22m on property acquisitions, of which £7m related to the completion of our developments at Barnsbury and Hornsey Road, London. In the equivalent period in 2008 we spent £158m.

- overhead savings; we are committed to reducing the run rate of our overheads by 10% during this financial year and are on track to do so, although actual costs will not yet reflect this because of one-off costs incurred as a result of this process.

Overview of Market and Trading Conditions

As stated above, the challenging market conditions have persisted throughout the period, characterised by falls in both the value and volume of residential transactions. The Nationwide and Halifax indices of house prices indicate falls of 6.5% and 8.5% between September 2008 and March 2009 and the number of mortgage approvals in March were some 34% lower than in March 2008.

Conditions were particularly severe in the early part of this reporting period but have shown some sign of easing over the last few months. The Halifax index for the quarter ended 31 March 2009 showed a fall of 2.7%, whereas each of the three previous quarters had falls of between 5% and 6%. Transaction volumes have also increased; the number of mortgage approvals in March 2009 was the highest since May 2008 and some 21% above the previous six month average.

However, the market is still volatile and fragile and it is too early to say that these indicators represent a permanent shift in momentum. This is illustrated by the house price indicators for April, which showed another – if slower – period of decline with the Nationwide index falling by 0.4% and the Halifax by 1.7%.

Our trading performance reflected these general market trends. In the first four months of this reporting period, we completed on sales amounting to £26m out of our core and retirement solutions portfolios. By the end of March, however, this figure had increased to £55m and our total pipeline (which includes properties under solicitors' instructions and with contracts exchanged as well as completed sales) was £86m, which is down some 12% on the equivalent position in 2008. The pipeline had increased to £108m as at 15 May 2009, the latest practical date of measurement before issue of this statement. Sales on vacancy to that date had been made at values on average 7.4% below September 2008 vacant possession values.

Completion of this pipeline, together with sales made from our development division of £23m to 31 March 2009 and sales in the development pipeline of £13m, will bring our total sales revenue to £144m for the year ending 30 September 2009. We are encouraged to note that, in the absence of unforeseen circumstances, this will be sufficient for us to meet our September interest cover covenant test well before the due date.

These results again illustrate the liquid nature and defensive qualities of our portfolios:-

- the properties are of relatively low average value and are generally un-modernised. Such properties tend to remain in higher demand than, for example, new build homes as evidenced by the level of sales achieved in the year to date.
- our cash income comes from a variety of sources: rents, property and asset management fees, normal sales on vacancy and, when circumstances dictate, investment sales with the properties remaining tenanted.
- we are not exposed to those sectors dominated by distressed or repossessed sales, particularly the overbuilt one/two bedroom city centre apartment market often sold to 'buy to let' investors.
- our relatively high margins on sale enable us to exercise flexibility on pricing and this, in turn, supports the portfolios' liquid nature.
- the majority of our properties are bought at a discount to vacant possession value and are held for a number of years before sale, both features that mitigate against price volatility.
- our unique residential portfolio assembled over a number of years provides benefits of scale. As at 31 March 2009, we either own or have an interest in 25,367 properties in the UK and Germany and are property managers for approximately 36,000 properties.

Results

As with all real estate companies, our results for the year have been significantly affected by mark to market adjustments. We have therefore analysed our income statement into trading activities, valuations including mark to market adjustments and non-recurring items in note 2 to the accounts. This enables us to present a more meaningful comparison of our core operating activities year on year.

This further analysis shows the following key figures:-

£m	Trading	Valuation	Non-recurring	Total
Operating profit/(loss) after net valuation deficits	41.3	(44.5)	(1.1)	(4.3)
Loss before tax	(3.1)	(102.6)	(37.3)	(143.0)

Operating profit on trading activities has fallen from £48.2m to £41.3m, largely as a result of decreased trading profits in the core and home reversion portfolios.

Profit before tax has fallen from £0.2m to a loss of £143.0m. Included in this are one-off costs relating to the early conversion of the majority of our convertible debt of £31.1m (although overall the transaction increased net assets by £42m), mark to market adjustments on our financial instruments of £37.7m, property valuation deficits (based on directors' valuations) at 31 March 2009 of £40.0m and other impairment provisions of £24.9m. These latter three items are non-cash related.

Indeed, the business remains extremely cash generative:-

	£
Loss before taxation for the period	(143)
Add back: mark to market adjustments and other valuation movements	103
: one off items	37
: cost of sales and other movements	58
Cash flow from operating activities	55

Net assets

Assessments of our net asset value are a key indicator of performance although their significance at the half year is diminished as we do not produce a full interim valuation of our portfolio (see section on Valuation below for details). We present three measures of net asset value and full definitions are provided in the operating review.

The headline figures at 31 March 2009 together with comparatives, are:-

	Pence per share	
	31 March 2009	30 September 2008
Gross net asset value	472p	535p
Triple net asset value	280p	385p
Grainger NAV	416p	520p

A significant movement in triple net asset value comes from marking our interest rate swaps on long term debt to market, amounting to £121m (or 87 pence per share), of which £38m has been taken to the income statement. It should be stressed that this adjustment is not a cash item and would only be crystallised in the event of our hedging instruments being cancelled. It therefore has no impact on the calculation of our loan to value ratio for covenant testing purposes.

Dividend

Given the unpredictable and fragile state of the economy and our focus on cash conservation, the board considers it prudent to defer any decisions on dividends for the year until after the receipt of our year end figures following 30 September 2009. Assuming positive signs of recovery by then, we would hope to be able to recommend a dividend at least equivalent to that paid in respect of 2008.

Outlook and strategy

Our short to medium term objective is to continue to manage the business in a prudent way through this current adverse cycle. In particular we will focus on cash conservation through maximising sales revenue, curtailing property expenditure and reducing overheads and on ensuring that we remain covenant compliant.

Looking forward we also believe that there will be opportunities for large scale professional landlords to play a significant part in meeting the overall national housing requirements. This is underpinned by the announcement of the Homes and Communities Agency's Private Rented Sector Initiative which is designed to create opportunities for investors to enter the private rented sector on a large scale. Our expertise across all areas of residential activities, underpinned by our unique and diverse portfolio and supported by our property management structure will enable us to take advantage of these new opportunities, as well as continuing to run and manage our existing business productively.

Robin Broadhurst
Chairman
20 May 2009

Operating and Financial Review

Our main operating divisions and the market value of the assets in each are as follows:-

	£m Market value	%	
Core portfolio	1,149	48.3	Primarily properties subject to regulated tenancies
Retirement solutions	510	21.4	Home reversion and retirement related assets
Fund management and investments in residential joint ventures/associates	98	4.1	Investment in managed funds and in Grainger GenInvest
Development	114	4.8	Large scale residential or residential led mixed use developments
Continental Europe	509	21.4	Principally German residential portfolios
	2,380	100	

Valuation

The majority of assets in our core, retirement solutions and development portfolios are classified as trading properties and are shown in our financial statements as current assets at the lower of original cost and net realisable value. For the purposes of our market value balance sheet shown in the Financial Review section, these assets are shown at market value as this presents a more realistic view of the worth of the portfolio. In view of the number of properties involved, a full valuation of the portfolio is only conducted once a year, as at 30 September. Consequently, at 31 March 2009, these assets are shown at 30 September 2008 values, but adjusted for sales and purchases in the period. At 31 March 2009, these amount to £1,478m, representing 65% of our wholly owned property portfolio (£2,270m).

All of our German residential portfolio, a relatively small number of assets in our core portfolio and assets classified as a financial interest in property assets (the "CHARM" portfolio) are shown as investment assets. These assets have been included in both the statutory and market value balance sheets at directors' valuation at 31 March 2009. These have a total value of £792m, representing 35% of our wholly owned portfolio.

Also subject to directors' valuation at 31 March are our investments in joint ventures and co-investment vehicles. These are Grainger GenInvest, Schroders ResPUT and G:res and have a combined value of £88m at that date, including loan balances.

These directors' valuations indicate that the vacant possession values of the properties in the UK portfolios have fallen by approximately 8.0% in the six month period to 31 March. The German portfolio has fallen by 0.4%.

Assuming that these valuation movements were reflected in our trading portfolios we estimate that our NAV at 31 March 2009 would have fallen by a further £107m (77p per share).

The reversionary surplus in our portfolios (the difference between vacant possession value and market value) stands at £633m at 31 March 2009, equivalent to £4.56 per share (30 September 2008: £658m, £5.11 per share).

Analysis of Grainger portfolio – wholly owned

As at 31 March 2009

£m

	No of units	Market value	Vacant Possession Value	Reversionary Surplus
Regulated	6,963	961	1,343	382
Retirement solutions	6,216	510	737	227
Assured	486	77	88	11
Vacant	309	53	53	-
Other	50	58	71	13
UK - residential	14,024	1,659	2,292	633
- development	-	116	116	-
Total UK	14,024	1,775	2,408	633
German portfolio	7,226	495		
Total 31 March 2009	21,250	2,270		
Total 30 September 2008	21,635	2,260		

Trading performance – core portfolio

£m

	6 months to 31 March 2009		6 months to 31 March 2008	
	Value	Profit	Value	Profit
Sale of vacant properties	33	13	55	27
Investment sales	11	2	8	5
	44	15	63	32
Net rental and other income		16		16
Divisional overhead costs		(5)		(5)
		26		43

Trading performance in this division has been affected by the poor market conditions. Overall contribution after overheads is down to £26m from £43m, primarily because of falls in house prices (and therefore margins), decreased sales volumes and also because of lower profits made on investment sales of £2.2m (2008: profits of £4.7m). Investment sales are sales of properties with a tenant in place rather than vacant and are generally made as a result of active portfolio management or to enhance liquidity.

The number of units sold on vacancy has decreased this year to 213 from 262, reflecting a slowdown in the sales process and a slight decrease in vacancy rates as a result of fewer 'discretionary vacancies' (i.e. when tenants choose to move). The elongation of the sales process (we estimate that the average time from vacancy to sale is running at approximately 110 days compared to 88 days last year) has led to a greater number of vacant units available for sale at the period end, namely 309 in 2009 compared to 217 in 2008.

Trading margins and average sales prices achieved also reflect the general fall in house prices; trading margins and average sales prices achieved in the six month to 31 March 2009 on normal sales were 39% and £149,000 compared to 49% and £209,000 in 2008.

In line with our policy of cash conservation, we have significantly curtailed purchasing activity in this division, with acquisitions during the period totalling just £1m (2008: £70m).

Retirement solutions

	£m			
	6 months to 31 March 2009		6 months to 31 March 2008	
	Value	Profit	Value	Profit
Sales and CHARM receipts	11	3	13	5
Net rental and other income		3		4
		6		9
Divisional overhead costs		(1)		(2)
		5		7

The number of units sold in this division are some 20% up on last year; 104 compared to 87. However sales values and profits reflect the adverse market conditions.

As with the core portfolio we have reduced acquisitions in this division and have bought 93 units for £7.1m in this period compared to 299 for £26.4m last year.

For the third year in succession our Bridgewater brand was voted Best Home Reversion Provider of the Year.

Fund management and residential investments

			£m		
	Holding	No of units	Gross Asset Value	Net asset value	Grainger Share
Grainger GenInvest*	50.0%	1,544	270	32	42
G:res1	21.6%	2,113	355	92	20
Schroders ResPUT	21.8%	460	60	60	13
Total 31 March 2009		4,117	685	184	75
Total 30 September 2008		4,234	772	294	117

*net asset value for Grainger GenInvest is shown after adjusting for the mezzanine loan provided by Grainger of £62m.

Income from these investments comprises share of profit/losses, receipts of asset and property management income, and interest on loans provided. Net losses amount to £28m, of which £30m relate to revaluation deficits and provisions against loans.

Total asset and property management fees on all of these activities amount to £2.8m (2008: £3.2m). All of the debt in these ventures is non-recourse to Grainger plc.

As noted in our trading update in April, the directors of G:res1 have revised the business plan and put in place a planned programme of asset sales to protect against future falls in value. Since 31 December, a total of £8.3m of sales have been agreed at values 3.4% above December 2008 values.

The unitholders in the Schroders ResPUT have agreed to a controlled liquidation of the portfolio. It is anticipated that the realisation of those assets at their estimated 31 March 2009 values will produce £13m of cash for Grainger over the next 14 months. This is not included in the pipeline of sales referred to earlier.

Grainger Developments

	31 March 2009 £m	30 September 2008 £m
Market value of development portfolio* (including share of joint ventures)	127	142
Estimate of completed development value assuming development is built out	724	850
Of this, with planning consent	526	484
Committed cash expenditure	15	30

*value at 30 September 2008 adjusted for sales and expenditure in the period

In this period, we completed 164 out of 212 units at our residential development at Hornsey Road in London (the final 48 private units will be completed at the end of May) and held a successful sales launch of the first 42 units shortly before the period end. To the date of this report we have secured 35 reservations from the first release of 42 units at the end of March and a further 19 reservations from the second release of 50 units in May, giving a total of 54 reservations out of the total 92 units available for sale. A further 62 affordable housing units have been handed over to Guinness Developments Limited and 58 units have been made available for rental, of which 13 units have been let to date.

As reported at the time of our year end results, we completed the disposal of our site in Barnsbury, North London for gross proceeds of £19m in early December 2008. As part of this sale we have entered into an option agreement in favour of the bank funding the transaction. Under this agreement, if the lending bank takes possession of any completed but unsold units, it may require Grainger to purchase those units at a price which it is anticipated would produce a rental yield of about 6%. A deposit of £5m has been paid in respect of this agreement. Profits of £3.8m have been taken to the income account on this site. In addition we have disposed of properties in Kensington Church Street and Elder Street in London for a total of £9.0m, of which £8.25m fell into the period under review.

We have now received a favourable determination from the Secretary of State in respect of our planning application for 252 residential units at the Gateshead site. A planning consent is expected within the coming weeks.

For the period to 31 March 2009, this division has generated cash of £24m, comprising sales of £23m and net rents of £1m, and produced an operating contribution (after overhead costs and share of profit/losses from joint ventures) of £4.5m (2008: loss of £2.7m). A further net realisable value provision of £5m has been made in the period against the value of trading stock, which produces an overall operating loss of £0.5m for the period.

Grainger Europe

	£m	
	6 months to 31 March 2009	6 months to 31 March 2008
Net rental and other income	10	5
Divisional overhead costs	(3)	(1)
	7	4

The focus in this period has been on integrating the Grainger portfolio with that of Francono Rhein-Main AG ("FRM") which we acquired last year, and on improving returns by reducing void levels, controlling property expenses and maximising rental returns. An important part of this was the acquisition of a 50% stake in Gebau, our managing agents, for a consideration of €2.9m.

We are considering strategic options for our German portfolio, including the possibility of introducing third party capital and the outright sale of certain assets.

Our German portfolio has contributed £7.0m (2008: £4.1m) after allocation of overheads.

Financial Review

We set out below a summary of our net assets both as represented in the statutory balance sheet and in the market value balance sheet:

			£m			
	Statutory Balance Sheet	Adjustments to market value, deferred tax, derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Properties	1,904	366	2,270	-	-	2,270
Investment/other assets	107	7	114	-	(10)	104
Goodwill	8	-	8	-	-	8
Cash	41	-	41	-	-	41
Total assets	2,060	373	2,433	-	(10)	2,423
Borrowings	(1,806)	113	(1,693)	-	(124)	(1,817)
Other net liabilities	(90)	-	(90)	-	-	(90)
Provisions/deferred tax	(29)	34	5	(169)	37	(127)
Total liabilities	(1,925)	147	(1,778)	(169)	(87)	(2,034)
Net assets	135	520	655	(169)	(97)	389
31 March 2009 Net assets per share (pence)	97	366	472	(113)	(70)	280
30 September 2008 Net assets per share (pence)	178	357	535	(144)	(6)	385

The European Public Real Estate Association ("EPRA") Best Practices Commission has recommended the calculation and use of a diluted EPRA NAV and a diluted EPRA net assets value ("NNNAV"). The definitions of these measures are consistent with Gross NAV and Triple NAV as described and shown in the table above.

This definition of Gross NAV requires us to remove any adjustments for deferred tax on property assets and any changes in the fair value of derivatives as calculated under IFRS. Triple NAV requires certain of these adjustments to be reinstated and, in addition, a deduction is made for contingent tax which is calculated by applying the expected rate of tax to the full inherent gains at the balance sheet date.

Market value analysis of property assets

	£m				
	Shown as stock at cost	Market value adjustment	Market value	Investment property/financial interests in property	Total
Residential	991	371	1,362	792	2,154
Development	121	(5)	116	-	116
Total March 2009	1,112	366	1,478	792	2,270
Total September 2008	1,142	377	1,519	741	2,260

Gross net assets

Movements in our gross net assets since 30 September 2008 have been:-

	£m	Pence per share	
Gross net assets 1 October 2008	688	535	
Conversion of convertible debt	42	31	
Results after tax net of adjustments (see note below)	(57)	(42)	
Revaluation movements	(12)	(8)	
Dividends paid	(5)	(4)	
Other	(1)	(40)	*
Gross assets 31 March 2009	655	472	

* The pence per share movement in "other" reflects the impact on the opening balance resulting from the increase in shares in issue

Results after tax net of adjustments of £57m shown above can be reconciled to the loss after tax in the income statement as follows:-

	£m
Loss after tax from income statement	(104)
Pre-tax inducement cost on convertible	31
Net of tax charge on mark to market adjustments	28
Deferred tax credit on property revaluations	(12)
Results after tax net of adjustments (see table above)	(57)

Grainger NAV

This represents triple net asset value adjusted for the discounted, taxed reversionary surplus on our core regulated and retirement solutions portfolios under a variety of assumptions relating to tax, future house price inflation and discount rate.

	£m	Pence per share
NNNAV at 31 March 2009	389	280
Discounted reversionary surplus	262	189
Tax thereon	(73)	(53)
Grainger NAV as at 31 March 2009	578	416

The major assumptions used in calculating the base case Grainger NAV are:-

- house price inflation taken as zero over the entire reversionary period
- discount rate of 7.39% used to calculate the present value of the reversionary surplus (weighted average cost of capital +3%) (September 2008: 8.43%)
- no discounting of contingent tax on the revaluation surpluses; and
- reversionary periods taken as 14 years for regulated properties and 10 years for home reversions.

Our website (www.graingerplc.co.uk) sets out how these assumptions may be varied and we show below some examples:-

House price inflation Per annum	No discount of deferred tax Discount rate WACC + 3%	WACC	Discounting deferred tax Discount rate WACC +3%	WACC
0%	416p	473p	488p	523p
4%	501p	594p	572p	644p
6%	560p	679p	631p	729p

Financial performance

Operating profit before all revaluation movements, fair value and goodwill adjustments has decreased from £48.2m to £41.3m as follows:-

	£m
31 March 2008 results	48.2
Trading profits for core and retirement solutions	(16.9)
Net UK rental and CHARM income	1.0
German residential business	2.9
Development trading profits	6.2
Other	(0.1)
31 March 2009 result (see note 2 to the accounts)	41.3

The major movement in operating profit has come from a reduction in trading profit for the core and retirement solutions businesses. This reflects the difficult market conditions existing in the period. Operating profit in the German residential business increased primarily as it includes six months contribution from FRM acquired in April 2008. Development trading profit increases arise from the sale of Barnsbury, Kensington Church Street and Elder Street.

Earnings per share

Basic earnings per share have fallen to a loss of 104.1p from earnings of 0.1p:-

	Pence per share	£m
31 March 2008 result attributable to equity holders of the Company	0.1	0.2
Decrease in operating profit	(5.1)	(6.9)
Fair value and revaluation	(58.6)	(78.9)
Net interest payable	(4.7)	(6.4)
Joint ventures and associates	(13.9)	(18.8)
Convertible debt	(23.1)	(31.1)
Taxation and other	28.1	37.8
31 March 2009 result attributable to equity holders of the Company	(77.2)	(104.1)

The fair value and revaluation movement includes £34.4m relating to the fair value of our derivatives not hedged through equity which, due to significant falls in mid to long term money market rates, are out of the money. It also includes a £19.7m movement in revaluation of investment properties and a movement in provisions of £24.0m against the net realisable value of stock and against loan balances. The movement in joint ventures and associates primarily relates to our share of the valuation deficit in Grainger GenInvest of £9.1m and in G:res of £9.8m.

Financial resources

At 31 March 2009, Group net debt levels stood at £1,661m (30 September 2008: £1,621m) and committed, undrawn facilities amounted to £272m. Deterioration in the sterling/euro rate increased overall Group debt by £76m, although there is an equivalent increase in the value of Euro denominated assets.

The average maturity of our debt is four years and the first major repayment of £400m is due in June 2010, although this could be reduced to £160m by drawing down alternative committed UK facilities. We are currently in discussions with our lending group as to the most appropriate way to refinance this facility and will comment further in our next interim management statement.

Cost of debt and hedging

Our all-in cost of debt at 31 March 2009 was 4.7% (30 September 2008: 5.2%) and some 89% is hedged against interest rate fluctuations (2008: 85%). During the period we sold £50m of financial caps at 6% and 'broke, blended and extended' £125m of swaps to produce a rate saving of 0.66%, or £0.8m per annum.

Convertible bond

In November 2008 holders of £87.1m of our £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early. The effects of the early conversion were to:-

- issue 10.08m ordinary shares and increase the Group's net assets by £42m.
- eliminate £87m nominal value of debt.
- reduce the loan to value ratio ("LTV") on the core Group banking facility by circa 2%
- inducement payment of £31m charged to income account.

Covenants

Our core facility has two covenants covering LTV ratio and interest cover. Under the first covenant, a LTV of 80% could lead to default of the agreement and at 70% LTV, purchasing restrictions apply. The LTV on the core facility at 31 March 2009 was 65% (30 September 2008: 66%). We are able to take additional action to help keep the LTV ratio down, the main one being asset sales.

Under the second covenant, our interest cost must be covered 1.25 times by net cash flow before interest. At 31 March 2009 the ratio stood at 2.1 times (30 September 2008: 2.2 times) and, given the volume of sales in our trading pipeline, we are confident of meeting this test at the end of September 2009, the next testing date.

Andrew Cunningham
Acting Chief Executive
20 May 2009

Consolidated income statement

for the half year ended 31 March 2009	Notes	Unaudited **31 March 2009 £m**	 31 March 2008 £m
Group revenue	2,3	**115.8**	115.7
Net rental income	4	**19.9**	17.3
Profit on disposal of trading properties	5	**19.5**	29.3
Administrative expenses	6	**(4.3)**	(4.7)
Other income		**3.8**	4.0
Goodwill impairment		**(0.9)**	-
(Loss)/profit on disposal of investment property	7	**(0.2)**	0.2
Interest income from financial interest in property assets		**1.5**	2.1
Write down of inventories to net realisable value		**(10.2)**	-
Provision for impairment on loans		**(13.8)**	-
Operating profit before net valuation (deficits)/gains on investment properties		**15.3**	48.2
Net valuation (deficits)/gains on investment properties	10	**(19.6)**	0.1
Operating (loss)/profit after net valuation (deficits)/gains on investment properties		**(4.3)**	48.3
Change in fair value of derivatives		**(37.7)**	(3.4)
Interest expense		**(50.4)**	(45.7)
Interest income		**3.0**	4.7
Inducement costs and expenses on conversion of bond		**(31.1)**	-
Share of (loss)/profit of associates after tax	11	**(11.4)**	0.5
Share of loss of joint ventures after tax	12	**(11.1)**	(4.2)
(Loss)/profit before tax		**(143.0)**	0.2
Taxation – current		**11.1**	(3.9)
Taxation – deferred		**27.8**	3.8
Tax credit/(charge) for the period	16	**38.9**	(0.1)
(Loss)/profit for the period	18,19	**(104.1)**	0.1
Attributable to:			
Equity holders of the Company		**(104.1)**	0.2
Minority interest		**-**	(0.1)
		(104.1)	0.1
Basic (loss)/earnings per share	8	**(77.2)p**	0.14p
Diluted (loss)/earnings per share	8	**(77.2)p**	0.14p
Dividend per share	9	**-**	2.27p

Consolidated statement of recognised income and expense

for the half year ended 31 March 2009	Notes	Unaudited **31 March 2009 £m**	 31 March 2008 £m
(Loss)/profit for the period		**(104.1)**	0.1
Actuarial loss on BPT Limited defined benefit pension scheme net of tax	18,19	**(1.5)**	-
Fair value movement on available for sale financial asset net of tax	18, 19	**2.2**	-
Net exchange adjustments offset in reserves net of tax	18, 19	**-**	1.7
Changes in fair value of cash flow hedges net of tax	18, 19	**(59.3)**	(9.9)
Net expense recognised directly in equity		**(58.6)**	(8.2)
Total recognised income and expense for the period		**(162.7)**	(8.1)
The total recognised income and expense in the period is attributable to:			
Equity shareholders of the parent		**(162.7)**	(8.0)
Minority interest		**-**	(0.1)
		(162.7)	(8.1)

Consolidated balance sheet

as at 31 March 2009	Notes	Unaudited 31 March 2009 £m	Audited 30 September 2008 £m
ASSETS			
Non-current assets			
Investment property	10	**669.9**	619.3
Property, plant and equipment		**2.1**	2.3
Investment in associates	11	**19.8**	51.6
Investment in joint ventures	12	**72.2**	90.8
Financial interest in property assets	13	**121.7**	121.2
Goodwill		**7.6**	8.0
		893.3	893.2
Current assets			
Investment in associates	11	**13.1**	-
Inventories – trading properties		**1,112.3**	1,142.2
Trade and other receivables	14	**20.8**	23.0
Derivative financial instruments		**-**	11.9
Cash and cash equivalents		**41.2**	43.2
		1187.4	1,220.3
Total assets		**2080.7**	2,113.5
LIABILITIES			
Non-current liabilities			
Interest bearing loans and borrowings	15	**1,677.2**	1,635.4
Trade and other payables		**4.0**	4.0
Retirement benefits		**4.1**	2.1
Provisions for other liabilities and charges		**1.0**	1.0
Deferred tax liabilities	16	**27.9**	78.4
		1,714.2	1,720.9
Current liabilities			
Interest bearing loans and borrowings	15	**16.0**	17.9
Trade and other payables	17	**71.3**	80.1
Current tax liabilities	16	**31.4**	51.4
Derivative financial instruments		**112.7**	13.4
		231.4	162.8
Total liabilities		**1,945.6**	1,883.7
Net assets		**135.1**	229.8
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Issued share capital	18	**6.9**	6.4
Share premium	18	**109.7**	23.1
Merger reserve	18	**20.1**	20.1
Capital redemption reserve	18	**0.3**	0.3
Cash flow hedge reserve	18	**(53.9)**	5.4
Equity component of convertible bond	18	**5.0**	22.4
Available for sale reserve	18	**2.2**	-
Retained earnings	18	**44.7**	152.0
Total shareholders' equity		**135.0**	229.7
Minority interest		**0.1**	0.1
Total Equity	19	**135.1**	229.8

Statement of consolidated cash flows

		Unaudited	
		31 March 2009	31 March 2008
for the half year ended 31 March 2009	Notes	**£m**	£m
Cash flow from operating activities			
(Loss)/profit for the period		(104.1)	0.1
Depreciation		0.4	0.4
Impairment of goodwill		0.9	-
Net valuation deficits/(gains) on investment properties	10	19.6	(0.1)
Net finance costs		47.4	41.0
Share of loss of associates and joint ventures	11,12	22.5	3.7
Loss/(profit) on disposal of investment properties		0.2	(0.2)
Provision for impairment on loans		13.8	-
Inducement costs on convertible bond		31.1	-
Share based payment charge		0.7	0.6
Change in fair value of derivatives		37.7	3.4
Interest income from financial assets		(1.5)	(2.1)
Taxation		(38.9)	0.1
Operating profit before changes in working capital		29.8	46.9
Decrease/(increase) in trade and other receivables		1.9	(0.8)
Decrease in trade and other payables		(7.2)	(8.2)
Decrease/(increase) in trading properties		30.4	(74.8)
Cash generated from/(absorbed by) operations		54.9	(36.9)
Interest paid		(52.0)	(45.3)
Taxation paid	16	(8.9)	–
Net cash outflow from operating activities		(6.0)	(82.2)
Cash flow from investing activities			
Proceeds from sale of investment property and property, plant and equipment	7	3.0	2.4
Proceeds from financial interest in property assets		4.1	5.2
Redemption of units in associate		2.3	–
Interest received		0.7	2.2
Dividends/distributions received	11, 12	0.2	0.7
Acquisition of subsidiaries, net of cash acquired		(0.4)	0.3
Investment in associates and joint ventures		(5.3)	(4.6)
Acquisition of investment property and property, plant and equipment		(0.6)	(36.6)
Net cash inflow/(outflow) from investing activities		4.0	(30.4)
Cash flows from financing activities			
Proceeds from the issue of share capital	18, 19	-	0.1
Purchase of own shares	18, 19	(0.2)	(1.0)
Inducement payment to convertible bondholders		(31.1)	
Proceeds from new borrowings		35.1	197.3
Repayment of borrowings		(0.9)	(70.9)
Dividends paid	18, 19	(5.4)	(5.2)
Net cash (outflow)/inflow from financing activities		(2.5)	120.3
Net (decrease)/increase in cash and cash equivalents		(4.5)	7.7
Cash and cash equivalents at beginning of the period		43.2	80.1
Net exchange movements on cash and cash equivalents		2.5	0.7
Cash and cash equivalents at end of the period		41.2	88.5

Notes to the unaudited condensed interim financial statements

1. a) Basis of preparation

These condensed interim financial statements are unaudited and do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. This condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with 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 2008 which have been prepared in accordance with IFRS's as adopted by the European Union.

These condensed interim financial statements have been prepared in accordance with the accounting policies set out on pages 9 to 15 of the accounts section of the 2008 Annual Report and Accounts which is available on the Group's website (www.graingerplc.co.uk). Where necessary, comparative information has been reclassified or expanded from the previously reported interim results to take into account any presentational changes made in the Annual Report and Accounts or in these interim results.

Historically, the residential housing market is more active in the second half of our financial year. Therefore, we would normally expect that property sales and trading profit would be higher in the second half compared to the first half year. Although current market conditions are still difficult and uncertain we would still expect, in the absence of unforeseen circumstances, this trend to be repeated. Net rental income is not impacted by seasonality. Trading in the development division is subject to cyclicality with results dependent on the timing of development sales.

A full revaluation of our properties is not performed at the interim date because of the cost and time involved. Investment property and financial interest in property assets are subject to a Directors' valuation.

The Group's financial derivatives were valued as at 31 March 2009 by external consultants, using a discounted cash flow model and quoted market information.

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

b) Adoption of new and revised International Financial Reporting Standards

At the date of approval of these condensed interim financial statements, the following interpretations and amendments were issued and, if endorsed by the EU, would be mandatory for the Group for the first time for the financial year beginning 1 October 2008.

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"
- Amendment to IAS 39 and IFRS 7, "Reclassification of Financial Assets"
- Amendments to IFRIC 9 and IAS 39, "Embedded Derivatives"

These standards have no material impact on the interim information.

At the date of approval of these condensed interim financial statements, the following standards, interpretations and amendments were issued but not yet mandatory for the Group and early adoption has not been applied.

International Financial Reporting Standards ("IFRS")

- IFRS 3 (Revised), "Business Combinations"
- IFRS 8, "Operating Segments"

- IAS 1 (Revised), “Presentation of Financial Statements”
- IAS 23 (Revised), “Borrowing costs”
- IAS 27 (Revised), “Consolidated and Separate Financial Statements”

International Financial Reporting Interpretations Committee (“IFRIC”) interpretations

- IFRIC 14, “IAS19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

Amendments to existing standards

- Amendment to IFRS 1 and IAS 27, “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate”
- Amendment to IAS 39, “Eligible Hedged Items”
- Amendment to IFRS 2, “Vesting Conditions and Cancellations”
- Amendments to IFRS 7, “Improving Disclosures about Financial Instruments”
- Annual Improvements to IFRS’s

All the above IFRS’s, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the EU at the date of approval of these condensed interim financial statements with the exception of IAS 1, IAS 23, IFRS 8, IFRIC 14, the amendment to IFRS 2, the amendment to IFRS 1 and IAS 27, and the amendment to IAS 39 and IFRS 7.

The directors anticipate that the future adoption of those standards, interpretations and amendments listed above will not have a material impact on the Group’s accounts except for IFRS 3 (R) and IAS 23 (R) which will result in, amongst other things, acquisition costs on future acquisitions being expensed to the income statement as incurred instead of being included in the calculation of purchased goodwill and borrowing costs on Development assets being capitalised instead of expensed as incurred.

c) Group risk factors

As with all businesses, the Group is affected by certain risks, not wholly within our control, which could have a material impact on the Group and could cause actual results to differ materially from forecast and historical results. The most significant of these, both of which are macro-economic, are as follows:-

- a further or continued downturn in house prices and stagnation in the market through lack of mortgage finance and/or a willingness to acquire properties
- significant increases in borrowing costs and/or a lack of or reduction in finance available to Grainger.

The principal risks and uncertainties facing the Group have not changed from those as set out on page 11 of the front section of the 2008 Annual Report and Accounts.

d) Forward looking statements

Certain statements in these condensed interim financial statements 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.

2. Analysis of (loss)/profit before tax

The results for the period have been significantly affected by valuation movements and non-recurring items. The table below provides further analysis of the income statement showing the results of trading activities separately from these other items.

	31 March 2009 (Unaudited)				31 March 2008 (Unaudited)			
	Trading	Valuation	Non-recurring	Total	Trading	Valuation	Non-recurring	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Group revenue	**115.8**	**-**	**-**	**115.8**	115.7	-	-	115.7
Net rental income	**20.1**	**-**	**(0.2)**	**19.9**	17.3	-	-	17.3
Profit on disposal of trading properties	**19.9**	**-**	**(0.4)**	**19.5**	29.3	-	-	29.3
Administrative expenses	**(3.8)**	**-**	**(0.5)**	**(4.3)**	(4.7)	-	-	(4.7)
Other income	**3.8**	**-**	**-**	**3.8**	4.0	-	-	4.0
Goodwill impairment		**(0.9)**	**-**	**(0.9)**	-	-	-	-
(Loss)/profit on disposal of investment property	**(0.2)**	**-**	**-**	**(0.2)**	0.2	-	-	0.2
Interest income from financial interest in property assets	**1.5**	**-**	**-**	**1.5**	2.1	-	-	2.1
Write down of inventories to net realisable value	**-**	**(10.2)**	**-**	**(10.2)**	-	-	-	-
Provision for impairment on loans	**-**	**(13.8)**	**-**	**(13.8)**	-	-	-	-
Operating (loss)/profit before net valuation (deficits)/gains on investment properties	**41.3**	**(24.9)**	**(1.1)**	**15.3**	**48.2**	**-**	**-**	48.2
Net valuation (deficits)/gains on investment properties	**-**	**(19.6)**	**-**	**(19.6)**	-	0.1	**-**	0.1
Operating profit after net valuation (deficits)/gains on investment properties	**41.3**	**(44.5)**	**(1.1)**	**(4.3)**	48.2	0.1	-	48.3
Change in fair value of derivatives	**-**	**(37.7)**	**-**	**(37.7)**	-	(3.4)	**-**	(3.4)
Interest expense	**(45.3)**	**-**	**(5.1)**	**(50.4)**	(45.7)	-	**-**	(45.7)
Interest income	**3.0**	**-**	**-**	**3.0**	4.7	-	**-**	4.7
Inducement costs and expenses on conversion of bond	**-**	**-**	**(31.1)**	**(31.1)**	-	-	**-**	-
Share of (loss)/profit of associates after tax	**(0.1)**	**(11.3)**	**-**	**(11.4)**	0.5	-	**-**	0.5
Share of loss of joint ventures after tax	**(2.0)**	**(9.1)**	**-**	**(11.1)**	(4.2)	-	**-**	(4.2)
(Loss)/profit before tax	**(3.1)**	**(102.6)**	**(37.3)**	**(143.0)**	3.5	(3.3)	-	0.2

Notes to the unaudited condensed interim financial statements continued

3. Segmental information

31 March 2009

Segment revenue and result unaudited (£m)	UK core portfolio	Retirement Solutions	Fund management/ residential investments	UK develop-ment	European tenanted residential	European develop-ment	Group	Total
Segment revenue	**62.7**	**10.9**	**2.8**	**23.9**	**15.5**	**-**	**-**	**115.8**
Segment result – operating profit/(loss)	**3.9**	**(5.6)**	**0.6**	**(0.1)**	**5.0**	**-**	**(8.1)**	**(4.3)**
Change in fair value of derivatives								**(37.7)**
Interest expense								**(50.4)**
Interest income								**3.0**
Inducement costs and expenses on conversion of bond								**(31.1)**
Share of loss of associates after tax								**(11.4)**
Share of loss of joint ventures after tax								**(11.1)**
Loss before tax								**(143.0)**

The share of loss of associates after tax of £11.4m is all attributable to fund management and residential investments. Of the share of loss of joint ventures after tax of £11.1m, a loss of £10.6m is attributable to fund management and residential investments and a loss of £0.4m is attributable to UK development and a loss of £0.1m is attributable to European development.

31 March 2008

Segment revenue and result unaudited (£m)	UK core portfolio	Retirement Solutions	Fund Management/ residential investments	UK develop-ment	European tenanted residential	European develop-ment	Group	Total
Segment revenue	83.8	12.3	3.3	8.3	8.0	–	–	115.7
Segment result – operating profit/(loss)	43.2	7.4	0.5	(2.2)	4.1	–	(4.7)	48.3
Change in fair value of derivatives								(3.4)
Interest expense								(45.7)
Interest income								4.7
Share of profit of associates after tax								0.5
Share of loss of joint ventures after tax								(4.2)
Profit before tax								0.2

Of the share of profit of associates after tax of £0.5m, £0.3m is attributable to fund management and residential investments and £0.2m is attributable to European development. Of the share of loss of joint ventures after tax of £4.2m, a loss of £3.7m is attributable to fund management and residential investments and a loss of £0.5m is attributable to UK development.

4. Net rental income

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Gross rental income	**38.8**	32.0
Property repair and maintenance costs	**(11.4)**	(8.8)
Property operating expenses (see note 6)	**(7.5)**	(5.9)
	19.9	17.3

5. Profit on disposal of trading properties

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Proceeds from sale of trading properties	**71.8**	78.2
Carrying value of trading properties sold	**(47.5)**	(42.8)
Other sales costs (see note 6)	**(4.8)**	(6.1)
	19.5	29.3

6 Administrative expenses

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Total Group expenses	**16.6**	16.7

Many of the Group's expenses relate directly to either property management activities or to staff involved directly with the sale and acquisition of property. Accordingly, total Group expenses shown above have been allocated as follows:

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Property operating expenses (see note 4)	**7.5**	5.9
Costs directly attributable to the disposal of trading properties (see note 5)	**4.8**	6.1
Administrative expenses	**4.3**	4.7
	16.6	16.7

7. (Loss)/profit on disposal of investment property

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Proceeds from sale of investment property	**3.0**	2.4
Carrying value of investment property sold	**(3.2)**	(2.2)
	(0.2)	0.2

8. Earnings per share

	Unaudited	
	31 March 2009 No. of Shares ’000	31 March 2008 No. of Shares ’000
Weighted average number of shares for basic earnings per share	**134,859**	126,799
Weighted average number of shares for diluted earnings per share	**134,859**	129,799

Basic
Basic (loss)/earnings per share is calculated by dividing the profit or loss attributable to equity holders 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 Scheme (LTIS).

Diluted
Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of shares outstanding by the dilutive effect of ordinary shares that the Company may potentially issue relating to its convertible bond and its share option schemes and contingent share awards under the LTIS, based upon the number of shares that would be issued if 31 March 2009 was the end of the contingency period. The (loss)/profit for the period is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is anti-dilutive, as is the case for both periods being reported, they are excluded from the calculation of diluted (loss)/earnings per share.

9. Dividends

The directors do not propose the payment of an interim dividend (31 March 2008: 2.27p per share). In the six months to 31 March 2009, the final proposed dividend of £5.4m, for the year ended 30 September 2008, has been paid.

10. Investment Property

	Unaudited	Audited
	31 March 2009 £m	30 September 2008 £m
Opening balance	**619.3**	478.6
Additions	**0.5**	160.2
Disposals	**(3.2)**	(6.8)
Revaluation deficits	**(19.6)**	(43.1)
Exchange adjustments	**72.9**	30.3
Transfer from owner occupied property	**-**	0.1
Closing balance	**669.9**	619.3

11. Investment in associates

	Unaudited 31 March 2009 £m	Audited 30 September 2008 £m
Opening balance	**51.6**	68.5
Disposals	**(2.3)**	-
Share of loss	**(11.4)**	(14.0)
Distributions received	**(0.2)**	(2.1)
Share of change in fair value of cash flow hedges taken through equity	**(4.8)**	(0.8)
Closing balance	**32.9**	51.6
Disclosed as:-		
Non-current assets	**19.8**	51.6
Current assets	**13.1**	-
	32.9	51.6

As at 31 March 2009, the Group's interest in associates was as follows:

	% of share capital/ units held	Country of Incorporation
G:res1 Limited	**21.6%**	Jersey
Schroder Residential Property Unit Trust	**21.8%**	Jersey

12. Investment in joint ventures

	Unaudited	Audited
	31 March 2009	30 September 2008
	£m	£m
Opening balance	**90.8**	114.8
Additions	**0.3**	2.3
Loans advanced	**4.9**	13.8
Share of loss	**(11.1)**	(39.1)
Provision for impairment on loan	**(10.0)**	-
Goodwill on acquisition	**2.4**	-
Goodwill impairment charge taken to income statement	**-**	(0.2)
Share of change in fair value of cash flow hedges taken through equity	**(5.2)**	(1.0)
Net assets of subsidiaries transferred to investment in joint venture	**-**	0.6
Exchange gain	**0.1**	-
Distribution received	**-**	(0.4)
Closing balance	**72.2**	90.8

As at 31 March 2009, the Group's interest in joint ventures was as follows:

	% of share capital held	Country of Incorporation
Grainger GenInvest LLP	50.0%	United Kingdom
Grainger GenInvest No. 2 (2006) LLP	50.0%	United Kingdom
Curzon Park Limited	50.0%	United Kingdom
King Street Developments (Hammersmith) Limited	50.0%	United Kingdom
CCZ a.s.	50.0%	Czech Republic
CCY a.s.	50.0%	Czech Republic
Prazsky Project a.s.	50.0%	Czech Republic

Notes to the unaudited condensed interim financial statements continued

13. Financial interest in property assets

	Unaudited	Audited
	31 March 2009	30 September 2008
	£m	£m
Financial interest in property assets	**121.7**	121.2

Financial interest in property assets relates to the CHARM portfolio which is a financial interest in equity mortgages. The assets are accounted for under IAS 39 in accordance with the designation available-for-sale financial assets and are valued at fair value. For interests held at 31 March 2009 we have revised our assessment of future cash flows and of the effective interest rate to discount those cash flows. This has resulted in an increase to the fair value of £3.1m before tax which has been taken through equity reserves.

14. Trade and other receivables

	Unaudited **31 March 2009** **£m**	Audited 30 September 2008 £m
Trade receivables	**8.4**	11.1
Less: Provision for impairment of trade receivables	**(1.7)**	(1.2)
	6.7	9.9
Other receivables	**12.0**	11.2
Prepayments and accrued income	**2.1**	1.9
	20.8	23.0

Other receivables at 31 March 2009 include a loan of £7.8m net of an impairment provision of £3.8m (30 September 2008 £9.4m) made to the Mornington Capital Special Situations Co-Investment Fund 1 Limited Partnership. The loan has been used by the fund to invest in real estate joint venture partnerships. The loan bears interest at between 5% and 8% per annum above EURIBOR and is repayable on demand. The loan is secured by fixed and floating charges over the assets of the fund.

15. Interest bearing loan and borrowing

The maturity profile of the Group's debt, net of finance costs, is as follows:

	Unaudited **31 March 2009** **£m**	Audited 30 September 2008 £m
Within one year	**16.0**	17.9
Between one and two years	**406.8**	393.1
Between two and five years	**1,030.8**	787.5
Over five years	**239.6**	454.8
	1,693.2	1,653.3

16. Tax

	Audited As at 30 September 2008 £m	Net payments in the period £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in equity £m	**Unaudited As at 31 March 2009 £m**
Current tax	51.4	(8.9)	(11.1)	-	-	**31.4**
Deferred tax						
Trading property uplift to fair value on acquisition	60.3	-	(1.7)	-	-	**58.6**
Investment property revaluation	20.1	-	(11.5)	1.0	-	**9.6**
Accelerated capital allowances	2.2	-	-	-	-	**2.2**
Short term timing differences	(8.7)	-	(13.4)	-	-	**(22.1)**
Actuarial deficit on BPT pension scheme	0.7	-	(1.2)	-	(0.6)	**(1.1)**
Equity component of available for sale financial asset	-	-	-	-	0.9	**0.9**
Fair value movement in cash flow hedges and exchange adjustments	3.8	-	-	-	(24.0)	**(20.2)**
	78.4	-	(27.8)	1.0	(23.7)	**27.9**
Total tax	129.8	(8.9)	(38.9)	1.0	(23.7)	**59.3**

The tax credit for the period of £38.9m comprises:	**Unaudited 31 March 2009 £m**
UK taxation	**(42.6)**
Overseas taxation	**3.7**
	(38.9)

17. Trade and other payables

	Unaudited 31 March 2009 £m	Audited 30 September 2008 £m
Deposits received	**2.8**	0.7
Trade payables	**14.8**	15.8
Other taxation and social security	**0.7**	0.5
Accruals and deferred income	**53.0**	63.1
	71.3	80.1

Accruals and deferred income at 31 March 2009 includes £27.8m of rent received in advance on the granting of lifetime leases (30 September 2008: £29.1m).

Notes to the unaudited condensed interim financial statements continued

18. Capital and reserves attributable to the company's equity holders

	Issued share capital £m	Share premium £m	Merger reserve £m	Capital Redemption Reserve £m	Cash flow hedge reserve £m	Equity component of convertible bond £m	Available for sale reserve £m	Retained earnings £m
Balance as at 1 October 2008 (audited)	6.4	23.1	20.1	0.3	5.4	22.4	-	152.0
Loss for the period	-	-	-	-	-	-	-	(104.1)
Actuarial loss on BPT pension scheme net of tax	-	-	-	-	-	-	-	(1.5)
Issue of shares	0.5	86.6	-	-	-	-	-	-
Change in fair value of cash flow hedges net of tax	-	-	-	-	(59.3)	-	-	-
Fair value movement on available for sale financial asset net of tax	-	-	-	-	-	-	2.2	-
Conversion of convertible bond	-	-	-	-	-	(17.4)	-	-
Transfer on early conversion of convertible bond	-	-	-	-	-	-	-	3.2
Purchase of own shares	-	-	-	-	-	-	-	(0.2)
Share-based payments charge	-	-	-	-	-	-	-	0.7
Dividends paid	-	-	-	-	-	-	-	(5.4)
Balance as at 31 March 2009 (unaudited)	**6.9**	**109.7**	**20.1**	**0.3**	**(53.9)**	**5.0**	**2.2**	**44.7**

19. Consolidated statement of changes in equity

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Opening equity shareholders' funds	**229.8**	323.1
(Loss)/profit for the period	**(104.1)**	0.1
Actuarial loss on BPT pension scheme net of tax	**(1.5)**	-
Change in fair value of cash flow hedges net of tax	**(59.3)**	(9.9)
Net exchange adjustment offset in reserves net of tax	**-**	1.7
Purchase of own shares	**(0.2)**	(1.0)
Issue of shares	**87.1**	0.1
Share-based payments charge	**0.7**	0.6
Dividends paid	**(5.4)**	(5.2)
Fair value movement on available for sale financial asset net of tax	**2.2**	-
Conversion of convertible bond	**(17.4)**	-
Transfer on early conversion of convertible bond	**3.2**	-
Minority interest on business combination	**-**	0.2
Exchange gain on minority interest	**-**	0.1
Closing equity shareholders' funds	**135.1**	309.8

20. Post balance sheet events

There are no material events that have occurred subsequent to the period end that require disclosure.

21. Related party transactions

Detailed disclosure of all related party arrangements was provided in note 36 to the accounts section of the 2008 Annual Report and Accounts. There has been no material change in the period to 31 March 2009. Material transactions in the period to 31 March 2009 and as at 31 March 2009 were as follows:

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Fee income from joint ventures and associates	**2.8**	3.2
Interest receivable from joint ventures and associates	**1.9**	3.6

	Unaudited	
	31 March 2009 £m	31 March 2008 £m
Loans to Grainger Geninvest LLP and Grainger Geninvest No 2 (2006) LLP (2009: net of impairment provision)	75.7	74.2

22. Acquisition in the period

Effective from 1 January 2009 the Group acquired a 50% joint venture interest in Gebau Vermogen GmbH, a residential property management company based in Germany. The consideration for the acquisition was €2.9m.

23. Directors' responsibility statement

The directors confirm that this condensed set of interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the six months and the 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;
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The directors of Grainger plc are listed in the Grainger plc Annual report and Accounts for the year ended 30 September 2008 and on the Grainger plc website: www.graingerplc.co.uk. There has been one change in the period, namely the retirement of Stephen Dickinson at the Annual General Meeting on 10 February 2009.

By order of the Board

Rupert Dickinson
Director
20 May 2009

Andrew Cunningham
Director
20 May 2009

24.

Copies of this statement either are being sent to all shareholders or made available to them through the Group's website or by e-communication. Copies may be obtained from the Group's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE. Further details of this announcement can be found on the Group's website, www.graingerplc.co.uk.