

# grainger

Grainger plc Interim report for the half year ended 31 March 2010



**Grainger plc** is the UK's largest specialist residential property owner and manager traded on the London Stock Exchange. We have approximately £2.1 billion of property assets and £2.7 billion of assets under management. We are property managers for approximately 36,500 properties in the UK and Germany.

We intend to maintain this market leading position and to provide investors with exposure to a variety of risks and returns from the residential sector in the UK and Germany by leveraging our existing management, financial and sector experience and expertise.

# Contents

2	Chairman's statement
5	Operating and financial review
14	Consolidated income statement
15	Consolidated statement of comprehensive income
16	Consolidated statement of financial position
18	Consolidated statement of changes in equity
19	Consolidated cash flow statement
20	Notes to the unaudited interim financial statements
IBC	Corporate addresses

# Chairman's statement

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We have started to take advantage of well-priced buying opportunities

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Sales have been made at approximately 6% above September vacant possession values

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At 31 March 2010 we had acquired some £43m of property

Grainger has shown its resilience over the two financial years ended September 2009 and, in particular, its ability to generate income in adverse market conditions. Sales have continued to be strong in the first six months of this year and, following our successful Rights Issue in December, we have started to take advantage of well-priced buying opportunities.

## Overview of market and trading conditions

House prices have stabilised and improved over the last 12 months – the Nationwide Index of House Prices for April 2010 indicated a 10.5% annual rise. Against this, trading volumes are relatively low and the mortgage market remains subdued with levels of advances significantly down on pre-crisis levels. The challenges facing the broader UK economy are considerable and, whilst we are taking advantage of the improved conditions, we anticipate that the general outlook for the housing market, particularly in provincial areas, will be sluggish for the foreseeable future.

Nevertheless, our business model, knowledge of the residential market and unique portfolio enables us to perform well even in testing market conditions. For example, in the two years ended September 2009 the vacant possession value of our UK portfolio fell by circa. 12% outperforming both the Nationwide and Halifax Indices for that period which averaged a fall of 16%.

This relative outperformance has continued in the first six months of this financial year. We have completed on residential sales of £79m (2009: £55m) with margins on sales of vacant properties from this portfolio improving to 42% from the 2009 figure of 37%. Such sales have been made at values approximately 6% above September vacant possession values, a period in which the average of the Nationwide and Halifax Indices has moved by 3%.

Our total pipeline of residential sales (completed, with contracts exchanged or in solicitors hands) was £108m at 31 March 2010 (2009: £86m). Sales have continued in this vein since the period end and as at 14 May 2010 our total pipeline of residential sales stood at £121m.

The improved stability in the residential market and our strengthened financial position (at 31 March 2010 our cash and committed facilities amounted to circa. £300m) have encouraged us to recommence a selective programme of residential acquisitions at attractive prices. At 31 March 2010 we had acquired (completed, exchanged contracts on or put in solicitors hands) some £43m of property and this figure has increased to £52m at 14 May 2010. This includes the acquisition of a 162 unit portfolio in Devon for gross consideration of £17.2m. Furthermore, on 6 May we announced that the boards of Grainger and Sovereign Reversions plc (an AIM listed equity release provider) had reached in principle agreement on a recommended offer of 202p per Sovereign share representing an acquisition price of approximately £34.2m.

Our focus is on well priced, quality properties in areas where we anticipate long-term capital growth will be strongest and where values will be most protected against any future downturn.

Operating profit before valuation, provision and goodwill movements £48.0m, up by 16%

## Results

Our results for the period reflect both the increasing stability of the housing market and our ability to maximise revenue from our portfolio. We have recorded an operating profit (before valuation movements and non-recurring items) of £48.0m, an increase of 16% over the same period in 2009.

Profit before tax has improved to £3.5m compared to a loss of £143.0m in 2009, a result which was severely affected by valuation deficits and non-recurring items. Our cash generation remains strong:

	31 March 2010 £m	31 March 2009 £m
Profit/(loss) before taxation	4	(143)
Adjust for:		
Valuation movements	2	103
Mark to market adjustments and Non-recurring items	1	37
Cost of sales and other movements	43	58
Cash flow from operating activities	50	55

Gross NAV 191p  
Triple net asset value 137p

## Net assets

Our net asset values 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 for details). We present three measures of NAV with full definitions in the financial review.

	31 March 2010	30 September 2009 (adjusted for the Rights Issue)
Gross net asset value	191p	194p
Triple net asset value	137p	141p
Grainger net asset value	173p	177p

The board is declaring a dividend of 0.5p per share

## Dividend

The board is declaring an interim dividend of 0.5p per share (2009: nil) to be paid on 2 July 2010 to shareholders on the register of members at close of business on 4 June 2010.

The board feels that this level of payment balances its caution about the fragility of the housing market and the wider economy and its confidence in the group's ability to generate strong cash returns in the future. A decision on the group's final dividend for the year will be made in the light of its full year results to be released in November.

## Chairman's statement continued

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Three new executives appointed to board to strengthen an outstanding team

### Board changes

Andrew Cunningham was made Chief Executive in October 2009 and we have recently announced the appointment of three new executives to the Grainger board; Nick Jopling, currently Head of Residential at CBRE, will assume responsibility for property and real estate matters. Mark Greenwood, formerly Finance Director of Alfred McAlpine plc, takes up the same role with Grainger. Peter Couch, who has been with Grainger since 2005, becomes executive director responsible for the Retirement Solutions business and continues in his position as Chief Operating Officer.

These additions will significantly strengthen the executive and add to what is already an outstanding team.

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Prospects for the group are good

### Outlook

Prospects for the group are good. We have a resilient high quality portfolio of residential assets supported by an experienced team with a broad base of knowledge across the residential sector. Recently announced board appointments and our financial restructuring will serve to strengthen this position further.

Although we anticipate that general economic conditions will continue to be challenging for some time to come, our resilient, cash generative portfolio will stand us in good stead. Our immediate focus is to take advantage of buying opportunities in our core reversionary portfolios to leverage our residential skills and experience to explore value accretive and well-priced opportunities on behalf of our shareholders, investors and partners.

Historical results show the long-term strength of returns from the residential sector compared to commercial real estate: over the last 50 years real house prices have risen by 274% compared to a 55% fall in real commercial property values (source: IPD). Returns such as these together with, for example, the HCA's Private Rented Sector Initiative, have heightened interest in the residential sector as an asset class suitable for institutional investment.

We believe that we are well placed to take advantage of this momentum and look forward to the future with confidence.



**Robin S Broadhurst**

Chairman

20 May 2010

# Operating and financial review

## Operating review

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

Division	Market value £m	Percentage of total	Assets
UK residential	1,039	48.2	Primarily properties subject to regulated tenancies
Retirement solutions	474	22.0	Home reversions and retirement related assets
Fund management and residential investments	102	4.7	Investments in managed funds and in joint ventures
Development	81	3.8	Residential or residential led mixed use developments
European residential	459	21.3	Investment in German residential portfolio
	2,155	100	

In total, we own and/or manage some 36,500 properties, including those managed by Gebau Vermogen GmbH in Germany, in which we have a 50% stake.

## Valuation

The majority of our property assets are classified as trading stock and are therefore shown in our accounts at the lower of 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. This presents a more realistic view of the portfolio's worth. In view of the number of properties involved, a full valuation of our portfolio is only conducted once a year, at 30 September. Consequently, at 31 March 2010 these assets are shown at September 2009 values, adjusted for sales and purchases in the period. These assets amount to £1,293m at 31 March, representing 63% of our wholly owned property portfolio of £2,041m.

Our German residential portfolio, and some assets in the UK residential portfolio are held as investment property. The 'CHARM' portfolio is classified as a financial interest in property assets. These assets are included in both the statutory and the market value balance sheets at directors' valuation at 31 March 2010 of £748m representing 37% of our wholly owned portfolio. Also subject to directors' valuation at 31 March are the assets held in our investments in joint ventures and co-investment vehicles with a Grainger investment value of £102m.

These directors' valuations indicate that the vacant possession value of those UK residential assets that have been valued (i.e. the investment assets) have increased by 2.5% in the six month period to 31 March 2010. The German portfolio is virtually unchanged.

## Operating and financial review continued

### Analysis of Grainger portfolio – wholly owned

As at 31 March 2010

	No of units	Market value £m	Vacant possession value £m	Reversionary surplus £m
Regulated	6,171	851	1,169	318
Retirement solutions	5,997	474	694	220
Assured shorthold	584	94	108	14
Vacant	246	47	47	–
Other*	50	47	63	16
UK – residential	13,048	1,513	2,081	568
– development	–	69	69	–
Total UK	13,048	1,582	2,150	568
German portfolio	7,189	459		
<b>Total 31 March 2010</b>	<b>20,237</b>	<b>2,041</b>		
Total 30 September 2009	20,439	2,083		

\*Other units relate to serviced accommodation with a value of circa. £8m. The market value figure also includes £16m sundry agricultural land and circa. £23m relating to 6,960 ground rents, 1,149 garages and other residential assets.

### UK residential

	31 March 2010	30 September 2009
Regulated units owned	<b>6,171</b>	6,327
Market value	<b>£851m</b>	£871m
Vacant possession value	<b>£1,169m</b>	£1,197m
Other assets (vacants, assured etc)	<b>880</b>	831
Market value	<b>£188m</b>	£188m
Vacant possession value	<b>£218m</b>	£214m

	Value £m	6 months to 31 March 2010 Profit £m	Value £m	6 months to 31 March 2009 Profit £m
Sales of vacant properties	<b>39</b>	<b>17</b>	33	13
Investment sales	<b>5</b>	<b>1</b>	11	2
Other one-off sales	<b>19</b>	<b>4</b>		
	<b>63</b>	<b>22</b>	44	15
Net rental and other income		<b>14</b>		16
Divisional overhead costs		<b>(4)</b>		(5)
		<b>32</b>		26

The results reflect the improvement in market conditions in the first six months of this financial year and our focus on maximising sales values. Increases in house prices have led to an improvement in the margins achieved on sales of vacant properties from this portfolio (up to 44% from 39%). The average price achieved on such sales was £171,000 (2009: £149,000) and our sales have been at prices on average some 6.3% above September's vacant possession values.

We have also made investment sales (sales with a tenant in place) of £5m (2009: £11m) and one-off sales mostly relating to agricultural property of £19m. As previously announced we have reduced our investment sales programme and it is unlikely that this level of sales activity will be repeated in the second half of the year.

Following our successful Rights Issue and the increasing stability of the residential market we have selectively recommenced our buying programme. At 31 March we had completed on £29m of residential property and had a further £9m in solicitors hands or with contracts exchanged.

### Retirement solutions

	31 March 2010	30 September 2009
Residential units (number)	<b>5,997</b>	6,101
Market value	<b>£474m</b>	£481m
Vacant possession value	<b>£694m</b>	£699m

	Value £m	6 months to 31 March 2010 Profit £m	Value £m	6 months to 31 March 2009 Profit £m
Sales and CHARM receipts	<b>16</b>	<b>6</b>	11	3
Net rental and other income		<b>3</b>		3
		<b>9</b>		6
Divisional overhead costs		<b>(1)</b>		(1)
		<b>8</b>		5

We have continued to trade well in this division. Acquisitions have been slow to restart because of reduced activity levels on the part of Independent Financial Advisers ('IFAs') who sell home reversion plans on our behalf. We have recently introduced measures to encourage new business, such as increasing the limit on release size, with positive results. In the period we bought 35 units for £2.3m (2009: 93 units for £7.1m).

Our Bridgewater brand was voted Best Home Reversion Provider of the Year for the fourth year in succession.

On 6 May we announced that the Boards of Grainger and Sovereign Reversions plc had reached an in principle agreement on a recommended offer for Sovereign. At 31 October 2009 Sovereign's interim results indicated that it owned equity release assets of circa. £63.7m (valuation as at 30 April 2009).

## Operating and financial review continued

### Fund management and residential investments

	Holding %	Number of units	Gross asset value £m	Net asset value £m	Grainger investment £m
Grainger GenInvest	50.0	1,507	292	59*	75
G:res 1	21.6	2,029	378	122	26
Schroders ResPUT	21.8	35	5	5	1
<b>Total 31 March 2010</b>		<b>3,571</b>	<b>675</b>	<b>186</b>	<b>102</b>
Total 30 September 2009		3,975	696	205	101

\*Net asset value for Grainger GenInvest is shown after adjusting for the mezzanine loan provided by Grainger.

Contribution from these investments comprises Grainger's share of profit/losses including revaluation movements, receipts of management income, profit on redemption of units in Schroders ResPUT and interest on loans provided and amount to a gain of £9m (2009: loss of £28m). Management income included in this amounted to £2.5m (2009: £2.6m). The external debt in these ventures is non-recourse to Grainger plc.

As we have previously disclosed, the investors in Schroders ResPUT agreed to a controlled liquidation of the fund. This has largely and successfully been completed and the remaining asset value at 31 March is only circa. £1m.

### Development

	31 March 2010	30 September 2009
Market value of development portfolio (including share of joint ventures)	<b>£81m</b>	£83m
Estimate of completed development value	<b>£578m</b>	£580m
Of this, with planning consent	<b>£442m</b>	£442m
Committed cash expenditure	<b>£10m</b>	£10m

The development activities of this division have been curtailed of late but we continue to sell very successfully at our Hornsey Road site in North London. We have sold 25 units from the second phase for proceeds of £7.3m and have only eight remaining to be sold. After allocation of overheads our development division has contributed £1.3m (2009: loss of £0.6m).

A recent White Paper on the proposed High Speed Rail Network from London to Birmingham indicates that the potential route will cover at least part of our development site (held in a joint venture with Development Securities plc) at Curzon Park in Birmingham. We are assessing the long-term impact with our advisers and aim to collaborate with other affected owners in the area.

### European residential

	31 March 2010	30 September 2009
Residential units owned	7,189*	7,180*
Market value	£459m	£473m
	31 March 2010	31 March 2009
Gross rents	£15.7m	£15.2m

\*This includes 377 commercial units (2009: 373 commercial units).

After allocation of overheads our German portfolio has contributed £9.0m (2009: £7.0m).

### Financial review

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

	Statutory balance sheet £m	Adjustments to market value, deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,752	289	2,041	–	–	2,041
Investments/other assets	116	17	133	–	(8)	125
Goodwill	6	–	6	–	–	6
Cash	137	–	137	–	–	137
<b>Total assets</b>	<b>2,011</b>	<b>306</b>	<b>2,317</b>	<b>–</b>	<b>(8)</b>	<b>2,309</b>
Borrowings etc	(1,542)	109	(1,433)	–	(117)	(1,550)
Other net liabilities	(88)	–	(88)	–	–	(88)
Provisions/deferred tax	(23)	22	(1)	(136)	35	(102)
<b>Total liabilities</b>	<b>(1,653)</b>	<b>131</b>	<b>(1,522)</b>	<b>(136)</b>	<b>(82)</b>	<b>(1,740)</b>
<b>Net assets</b>	<b>358</b>	<b>437</b>	<b>795</b>	<b>(136)</b>	<b>(90)</b>	<b>569</b>
<b>31 March 2010 net assets per share (pence)</b>	<b>86</b>	<b>105</b>	<b>191</b>	<b>(33)</b>	<b>(21)</b>	<b>137</b>
<b>30 September 2009 net assets per share (pence) (adjusted for Rights Issue)</b>	<b>88</b>	<b>106</b>	<b>194</b>	<b>(33)</b>	<b>(20)</b>	<b>141</b>

## Operating and financial review continued

The European Public Real Estate Association ('EPRA') Best Practices Committee has recommended the calculation and use of a diluted EPRA NAV and a diluted EPRA Net Net 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 balances for deferred tax on property revaluations and 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 wholly owned property assets

	Shown as stock at cost £m	Market value adjustment £m	Market value £m	Investment property/ financial interest in property assets £m	Total £m
Residential	918	306	1,224	748	1,972
Development	86	(17)	69	–	69
<b>Total 31 March 2010</b>	<b>1,004</b>	<b>289</b>	<b>1,293</b>	<b>748</b>	<b>2,041</b>
Total 30 September 2009	1,016	304	1,320	763	2,083

### Net asset value

Movements in net asset value are key performance indicators for the group. We set out three measurements to better enable shareholders to compare our performance year on year and with our peers, whilst reflecting the unique nature of our business. Figures for 30 September 2009 are after adjusting for the effects of the Rights Issue.

	March 2010	September 2009
Gross net assets per share (NAV)	<b>191p</b>	194p
– market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives		
Triple net assets per share (NNNAV)	<b>137p</b>	141p
– gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for mark to market adjustments		
Grainger NAV	<b>173p</b>	177p
– NNNAV adjusted for the discounted and taxed reversionary surplus (the difference between vacant possession and current market value) in our long-term regulated and home reversion portfolios.		

As noted before there is no complete revaluation of the portfolio at 31 March 2010.

The major movements in NAV in the period have been:

	£m	Pence per share
Gross net assets 1 October 2009	570	411
Effect of Rights Issue	237	(217)
Restated net assets post Rights Issue 1 October 2009	807	194
Results after tax	3	1
Revaluation movements	6	1
Elimination of previously recognised surpluses	(21)	(5)
Dividends paid	(5)	(1)
Other	5	1
<b>Gross net assets 31 March 2010</b>	<b>795</b>	<b>191</b>

Net assets generally decrease between the year end and half year position. This is because we eliminate revaluation surpluses on the sale of assets in the period but do not undertake a full revaluation of the portfolio.

#### Reconciliation of NAV movements

	£m	Pence per share
Gross NAV	795	191
Deferred and contingent tax	(136)	(33)
Mark to market adjustments net of tax	(90)	(21)
NNNAV	569	137
Discounted reversionary surplus	208	50
Tax thereon	(58)	(14)
<b>Grainger NAV at 31 March 2010</b>	<b>719</b>	<b>173</b>

The major assumptions in calculating the base case Grainger NAV are set out below:

- House price inflation taken as zero over the entire reversionary period;
- Discount rate of 8.69% used to calculate the present value of the reversionary surplus (weighted average cost of capital +3%) (2009: discount rate 8.22%). An equity risk premium of 4% (2009: 4%) is used within the calculation of the cost of equity);
- No discounting of contingent tax on the revaluation surpluses; and
- Reversionary periods taken as 13 years for regulated properties and 10 years for home reversions.

Our website ([www.graingerplc.co.uk](http://www.graingerplc.co.uk)) sets out how these assumptions may be varied.

## Operating and financial review continued

### Financial performance

Operating profit before all revaluation movements, fair value, impairment, goodwill adjustments and non-recurring items has increased by £6.7m from £41.3m to £48.0m.

	£m
31 March 2009 result	41.3
Improvement in UK residential and retirement solutions trading profits	9.7
Net UK rental and CHARM income	0.2
German residential	1.9
Development trading profits	(4.5)
Other	(0.6)
<b>31 March 2010 result</b>	<b>48.0</b>

The most significant movement in operating profit is an increase in trading profit from the UK residential and retirement solutions businesses. This reflects both increased sales and increased margins compared to 2009. Development trading profits have fallen with sales in 2009 benefiting from the sales of properties at Barnsbury, Hornsey Road, Kensington Church Street and Elder Street. The increased German residential profit reflects both an improvement in net yield and a reduction in overhead costs.

Basic earnings per share have moved as follows:

	Pence per share	Gross £m
31 March 2009 result attributable to equity holders of the company	(77.2)	(104.1)
Adjusted for Rights Issue	46.6	–
Restated	(30.6)	(104.1)
Operating profit	2.0	6.7
Fair value and revaluation	21.8	74.1
Net interest payable	2.3	8.0
Joint ventures and associates	8.1	27.5
Taxation and other	(2.8)	(9.6)
<b>31 March 2010 result attributable to equity holders of the company</b>	<b>0.8</b>	<b>2.6</b>

The movement in fair value and revaluation includes the following movements: £21.3m improvement in revaluation of investment property, £31.0m improvement relating to the fair value of our derivatives not hedged through equity, a £21.0m difference in provisions made against the net realisable value of stock and against loan balances. The positive movement in joint ventures and associates relates primarily to our share of the change in value of investment property held within Grainger GenInvest and G:res.

**Financial resources**

At 31 March 2010, group net debt levels stood at £1,308m (30 September 2009: £1,561m) and committed undrawn facilities and cash amounted to £300m (30 September 2009: £171m).

Average debt maturity is 4.0 years and there are no committed debt repayments until June 2011. A total amount of £50m is due for repayment in the period up to 30 September 2011.

**Cost of debt and hedging**

Our all in cost of debt at 31 March 2010 was 5.4% (30 September 2009: 5.3%). The gross debt was 85% hedged (2009: 92%) of which £68m was subject to caps.

**Rights Issue and covenants**

In December 2009, the group completed a 2 for 1 Rights Issue at an issue price of 90p, representing a discount of 39.7% to the theoretical ex rights price. A net amount of £236.7m was raised, of which £104.5m was used for immediate debt repayment, and the loan to value on our core debt reduced to 53.7%. At 31 March this had moved to 54.0% and at this level a fall of approximately 32% in UK house prices would be required before we reached default levels on the core debt facility. Under this facility interest cover has to exceed 1.25 times and at 31 March it was 3.1 times.



**Andrew R Cunningham**

Chief Executive  
20 May 2010

## Consolidated income statement

For the half year ended 31 March 2010	Notes	Unaudited	
		31 March 2010 £m	31 March 2009 £m
<b>Group revenue</b>	<b>2,3</b>	<b>126.3</b>	<b>120.3</b>
Net rental income	4	20.6	19.9
Profit on disposal of trading properties	5	25.1	19.5
Administrative expenses	6	(6.4)	(4.3)
Other income and expenses		2.9	3.8
Goodwill impairment		–	(0.9)
Profit/(loss) on disposal of investment property	7	0.4	(0.2)
Profit on redemption of equity units in associate	11	0.7	–
Interest income from financial interest in property assets	13	2.7	1.5
Write back/(write down) of inventories to net realisable value		0.3	(10.2)
Provision for impairment of loans receivable net of write backs		(3.3)	(13.8)
<b>Operating profit before net valuation gains/(deficits) on investment properties</b>		<b>43.0</b>	<b>15.3</b>
Net valuation gains/(deficits) on investment properties	10	1.7	(19.6)
<b>Operating profit/(loss) after net valuation gains/(deficits) on investment properties</b>		<b>44.7</b>	<b>(4.3)</b>
Change in fair value of derivatives		(6.7)	(37.7)
Interest expense		(41.4)	(50.4)
Interest income		2.0	3.0
Inducement costs and expenses on convertible bond		–	(31.1)
Share of profit/(loss) of associates after tax	11	3.0	(11.4)
Share of profit/(loss) of joint ventures after tax	12	1.9	(11.1)
<b>Profit/(loss) before tax</b>		<b>3.5</b>	<b>(143.0)</b>
Taxation – current		(2.0)	11.1
Taxation – deferred		1.1	27.8
Tax (charge)/credit for the period	16	(0.9)	38.9
<b>Profit/(loss) for the period attributable to equity shareholders</b>		<b>2.6</b>	<b>(104.1)</b>
<b>Basic earnings/(loss) per share (2009 restated)</b>	<b>8</b>	<b>0.75p</b>	<b>(43.5)p</b>
<b>Diluted earnings/(loss) per share (2009 restated)</b>	<b>8</b>	<b>0.74p</b>	<b>(43.5)p</b>
<b>Dividend per share</b>	<b>9</b>	<b>0.5p</b>	<b>–</b>

## Consolidated statement of comprehensive income

For the half year ended 31 March 2010	Notes	Unaudited	
		31 March 2010 £m	31 March 2009 £m
Profit/(loss) for the period		2.6	(104.1)
Actuarial loss on BPT Limited defined benefit pension scheme net of tax		–	(1.5)
Fair value movement on available-for-sale financial asset net of tax	18	1.9	2.2
Net exchange adjustments offset in reserves net of tax	18	0.3	–
Changes in fair value of cash flow hedges net of tax	18	(3.2)	(59.3)
Other comprehensive income and expense for the period		(1.0)	(58.6)
Total comprehensive income and expense for the period attributable to equity shareholders		1.6	(162.7)

## Consolidated statement of financial position

		Unaudited	Audited
As at 31 March 2010	Notes	31 March 2010 £m	30 September 2009 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	10	639.1	654.3
Property, plant and equipment		1.5	1.9
Investment in associates	11	26.5	24.5
Investment in joint ventures	12	87.3	80.7
Financial interest in property assets	13	109.3	109.1
Goodwill		6.2	5.9
		869.9	876.4
<b>Current assets</b>			
Investment in associates	11	1.0	8.7
Inventories – trading properties		1,003.9	1,015.6
Trade and other receivables	14	12.1	20.0
Derivative financial instruments		–	0.2
Cash and cash equivalents		136.6	28.3
		1,153.6	1,072.8
<b>Total assets</b>		<b>2,023.5</b>	<b>1,949.2</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	15	1,425.2	1,557.0
Trade and other payables		4.0	4.0
Retirement benefits		5.5	5.8
Provisions for other liabilities and charges		0.8	0.9
Deferred tax liabilities	16	21.7	21.1
		1,457.2	1,588.8
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	15	8.4	19.9
Trade and other payables	17	60.1	88.1
Current tax liabilities	16	30.6	24.4
Derivative financial instruments		108.7	99.5
		207.8	231.9
<b>Total liabilities</b>		<b>1,665.0</b>	<b>1,820.7</b>
<b>Net assets</b>		<b>358.5</b>	<b>128.5</b>

		Unaudited	Audited
As at 31 March 2010	Notes	31 March 2010 £m	30 September 2009 £m
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Issued share capital		20.8	6.9
Share premium		109.7	109.7
Merger reserve		256.0	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve		(44.8)	(41.6)
Equity component of convertible bond		5.0	5.0
Available-for-sale reserve		3.8	1.9
Retained earnings		7.6	26.1
<b>Total shareholders' equity</b>		<b>358.4</b>	<b>128.4</b>
Minority interest		0.1	0.1
<b>Total equity</b>	18	<b>358.5</b>	<b>128.5</b>

## Consolidated statement of changes in equity

	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	Minority Interest £m	Total equity £m
<b>Balance as at 1 October 2008 (audited)</b>	6.4	23.1	20.1	0.3	5.4	22.4	–	152.0	0.1	229.8
Loss for the period	–	–	–	–	–	–	–	(104.1)	–	(104.1)
Other recognised income and expense for the period	–	–	–	–	(59.3)	–	2.2	(1.5)	–	(58.6)
Total recognised income and expense for the period	–	–	–	–	(59.3)	–	2.2	(105.6)	–	(162.7)
Issue of shares	0.5	86.6	–	–	–	–	–	–	–	87.1
Conversion of convertible bond	–	–	–	–	–	(17.4)	–	–	–	(17.4)
Transfer on early conversion of convertible bond	–	–	–	–	–	–	–	3.2	–	3.2
Purchase of own shares	–	–	–	–	–	–	–	(0.2)	–	(0.2)
Share-based payments charge	–	–	–	–	–	–	–	0.7	–	0.7
Dividends paid	–	–	–	–	–	–	–	(5.4)	–	(5.4)
<b>Balance as at 31 March 2009 (unaudited)</b>	6.9	109.7	20.1	0.3	(53.9)	5.0	2.2	44.7	0.1	135.1
Loss for the period	–	–	–	–	–	–	–	(17.9)	–	(17.9)
Other recognised income and expense for the period	–	–	–	–	12.3	–	(0.3)	(0.8)	–	11.2
Total recognised income and expense for the period	–	–	–	–	12.3	–	(0.3)	(18.7)	–	(6.7)
Purchase of own shares	–	–	–	–	–	–	–	(0.2)	–	(0.2)
Share-based payments charge	–	–	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	–	–	–	–	–	0.2	–	0.2
<b>Balance as at 1 October 2009 (audited)</b>	6.9	109.7	20.1	0.3	(41.6)	5.0	1.9	26.1	0.1	128.5
Profit for the period	–	–	–	–	–	–	–	2.6	–	2.6
Other recognised income and expense for the period	–	–	–	–	(3.2)	–	1.9	0.3	–	(1.0)
Total recognised income and expense for the period	–	–	–	–	(3.2)	–	1.9	2.9	–	1.6
Purchase of own shares	–	–	–	–	–	–	–	(3.7)	–	(3.7)
Rights Issue (see note 21)	13.9	–	235.9	–	–	–	–	(13.1)	–	236.7
Share-based payments charge	–	–	–	–	–	–	–	0.7	–	0.7
Dividends paid	–	–	–	–	–	–	–	(5.3)	–	(5.3)
<b>Balance as at 31 March 2010 (unaudited)</b>	20.8	109.7	256.0	0.3	(44.8)	5.0	3.8	7.6	0.1	358.5

## Consolidated cash flow statement

		Unaudited	
		31 March 2010 £m	31 March 2009 £m
For the half year ended 31 March 2010	Notes		
<b>Cash flow from operating activities</b>			
Profit/(loss) for the period		2.6	(104.1)
Depreciation		0.4	0.4
Impairment of goodwill		–	0.9
Net valuation (gains)/deficits on investment properties	10	(1.7)	19.6
Net finance costs		39.4	47.4
Share of (profit)/loss of associates and joint ventures	11,12	(4.9)	22.5
(Profit)/loss on disposal of investment properties	7	(0.4)	0.2
Provision for impairment of loans receivable net of write backs		3.3	13.8
Profit on redemption of equity units in associate	11	(0.7)	–
Inducement costs on convertible bond		–	31.1
Share-based payment charge		0.7	0.7
Change in fair value of derivatives		6.7	37.7
Interest income from financial assets	13	(2.7)	(1.5)
Taxation	16	0.9	(38.9)
<b>Operating profit before changes in working capital</b>		<b>43.6</b>	<b>29.8</b>
Decrease in trade and other receivables		3.1	1.9
Decrease in trade and other payables		(25.8)	(7.2)
Decrease in trading properties		28.9	30.4
<b>Cash generated from operations</b>		<b>49.8</b>	<b>54.9</b>
Interest paid		(40.9)	(52.0)
Taxation refund/(paid)	16	4.0	(8.9)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>12.9</b>	<b>(6.0)</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of investment property and property, plant and equipment	7	6.8	3.0
Proceeds from financial interest in property assets	13	5.1	4.1
Redemption of units in associate	11	8.7	2.3
Interest received		0.8	0.7
Dividends/distributions received		–	0.2
Acquisition of subsidiaries, net of cash acquired	22	(14.9)	(0.4)
Investment in associates and joint ventures		(0.5)	(5.3)
Acquisition of investment property and property, plant and equipment	10	(0.6)	(0.6)
<b>Net cash inflow from investing activities</b>		<b>5.4</b>	<b>4.0</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	21	236.7	–
Purchase of own shares		(3.7)	(0.2)
Inducement payment to convertible bondholders		–	(31.1)
Proceeds from new borrowings		–	35.1
Repayment of borrowings		(134.2)	(0.9)
Dividends paid	9	(5.3)	(5.4)
Payments to defined benefit pension scheme		(0.3)	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>93.2</b>	<b>(2.5)</b>
Net increase/(decrease) in cash and cash equivalents		111.5	(4.5)
Cash and cash equivalents at beginning of the period		28.3	43.2
Net exchange movements on cash and cash equivalents		(3.2)	2.5
<b>Cash and cash equivalents at end of the period</b>		<b>136.6</b>	<b>41.2</b>

## Notes to the unaudited interim financial statements

### 1 Accounting policies

#### a) Basis of preparation

These condensed interim financial statements are unaudited and do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. This condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and 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 2009 which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

These condensed interim financial statements have been prepared in accordance with the accounting policies set out on pages 48 to 55 of the 2009 annual report and accounts which is available on the group's website ([www.graingerplc.co.uk](http://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 of the year. Although current market conditions are still challenging we would still expect, in the absence of unforeseen circumstances, this trend to be repeated in respect of sales of vacant properties. As previously announced we have reduced our investment sales programme and it is unlikely that the level of investment sales in the first half of the year will be repeated in the second half. Net rental income is not impacted by seasonality. Trading in the development division is subject to cyclical 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 2010 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, endorsed by the European Union and are mandatory for the group for the first time for the financial year beginning 1 October 2009.

International Financial Reporting Standards ('IFRS')

- IFRS 3 (revised) 'Business combinations' (effective from 1 July 2009) and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). Some of the key changes are: i) the requirement to measure all consideration at fair value at acquisition date, with any subsequent changes (e.g. contingent consideration) re-measured at fair value through income ii) the expensing of all transaction costs iii) stepped acquisitions to be accounted for as a disposal of existing interests and an acquisition of an enlarged interest, giving rise to potential profits or losses on disposal of the existing interest. The expensing of transaction costs has been applied in these interim financial statements although the impact has not been material.
- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 amends the current segmental reporting requirements of IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131. It requires a 'management approach' to be adopted so that segment information is presented on the same basis as that used for internal reporting purposes. This standard has been applied in these interim financial statements and further information is provided in note 3.
- IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009). The amendment requires the introduction of a statement of comprehensive income along with voluntary changes to the titles of some of the primary financial statements and the requirement to aggregate information in the financial statements on the basis of shared characteristics.  
  
This standard has therefore resulted in changes to the statement of recognised income and expense which has been split into two statements, one showing changes in equity resulting from transactions not reflected in the income statement and the other showing changes in equity resulting from transactions with shareholders. The statement of changes in equity has now become a primary statement in the group's financial statements.
- IAS 23 (revised), 'Borrowing costs' (effective from 1 January 2009). This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition,

## 1 Accounting policies continued

construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. The option of immediately expensing these borrowing costs is removed. This amendment has been applied to the group from 1 October 2009 but has had no impact on the interim financial statements.

The interim financial statements have been adjusted to reflect presentational issues primarily as a result of implementing both IAS 1 and IFRS 8.

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

- IFRIC 13, 'Customer loyalty programmes relating to IAS 18, Revenue'.
- IFRIC 14, 'IAS 19 – The limit of a defined benefit asset, minimum funding requirements and their interaction'.
- IFRIC 17, 'Distributions of non-cash assets to owners'.

Other amendments to existing standards

- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'.
- Amendments to IAS 32 Financial instruments: Presentation on classification of Rights Issues and IAS 1, 'Presentation of financial statements on Puttable financial instruments and obligations arising on liquidation'.
- Amendment to IFRS 7, 'Financial instruments: Disclosures'. This amendment has changed the IFRS 7 disclosure requirements in the financial statements. The main impact will be the classification of fair value assets and liabilities against a fair value hierarchy.
- Amendment to IAS 39 'Financial instruments: Recognition and measurement: Eligible hedged items'.
- Annual improvements to IFRS (2008).

None of the above interpretations and amendments have had any material impact on the group's financial statements.

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 9, 'Financial instruments' – We are currently assessing the impact of IFRS 9 on the group financial statements.

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

- IFRIC 12, 'Service concession arrangements'.
- IFRIC 15, 'Agreements for construction of real estates'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IFRIC 18, 'Transfer of assets from customers'.
- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement'.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

Amendments to existing standards

- Annual improvements 2009.
- Amendment to IFRS 2, 'Share-based payments – group cash-settled share-based payment transactions'.
- Amendment to IFRS 1 for additional exemptions.
- Amendment to IAS 24, 'Related Party disclosures'.

All the above non-mandatory IFRS, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the European Union at the date of approval of these condensed interim financial statements with the exception of IFRIC 12, IFRIC 15, IFRIC 16 and IFRIC 18.

### 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 downturn in house prices and stagnation in the market through lack of mortgage finance and/or finance to acquire properties; and
- 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 7 of the 2009 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.

## Notes to the unaudited interim financial statements continued

### 2 Analysis of profit/(loss) before tax

The results for the periods to 31 March 2009 and 2010 respectively have been significantly affected by valuation movements and non-recurring items, although the impact of these items in 2009 was much greater than it has been in 2010. The table below provides further analysis of the income statement showing the results of trading activities separately from these other items.

	31 March 2010 (Unaudited)				31 March 2009 (Unaudited)			
	Trading £m	Valuation £m	Non- recurring £m	Total £m	Trading £m	Valuation £m	Non- recurring £m	Total £m
Group revenue	126.3	–	–	126.3	120.3	–	–	120.3
Net rental income	20.6	–	–	20.6	20.1	–	(0.2)	19.9
Profit on disposal of trading properties	25.1	–	–	25.1	19.9	–	(0.4)	19.5
Administrative expenses	(4.4)	–	(2.0)	(6.4)	(3.8)	–	(0.5)	(4.3)
Other income and expenses	2.9	–	–	2.9	3.8	–	–	3.8
Goodwill impairment	–	–	–	–	–	(0.9)	–	(0.9)
Profit/(loss) on disposal of investment property	0.4	–	–	0.4	(0.2)	–	–	(0.2)
Profit on redemption of equity units in associate	0.7	–	–	0.7	–	–	–	–
Interest income from financial interest in property assets	2.7	–	–	2.7	1.5	–	–	1.5
Write back/(write down) of inventories to net realisable value	–	0.3	–	0.3	–	(10.2)	–	(10.2)
Provision for impairment of loans receivable net of write backs	–	(3.3)	–	(3.3)	–	(13.8)	–	(13.8)
<b>Operating profit before net valuation gains/(deficits) on investment properties</b>	<b>48.0</b>	<b>(3.0)</b>	<b>(2.0)</b>	<b>43.0</b>	<b>41.3</b>	<b>(24.9)</b>	<b>(1.1)</b>	<b>15.3</b>
Net valuation gains/(deficits) on investment properties	–	1.7	–	1.7	–	(19.6)	–	(19.6)
<b>Operating profit/(loss) after net valuation gains/(deficits) on investment properties</b>	<b>48.0</b>	<b>(1.3)</b>	<b>(2.0)</b>	<b>44.7</b>	<b>41.3</b>	<b>(44.5)</b>	<b>(1.1)</b>	<b>(4.3)</b>
Change in fair value of derivatives	–	(6.7)	–	(6.7)	–	(37.7)	–	(37.7)
Interest expense	(42.3)	–	0.9	(41.4)	(45.3)	–	(5.1)	(50.4)
Interest income	2.0	–	–	2.0	3.0	–	–	3.0
Inducement costs and expenses on conversion of bond	–	–	–	–	–	–	(31.1)	(31.1)
Share of profit/(loss) of associates after tax	–	3.0	–	3.0	(0.1)	(11.3)	–	(11.4)
Share of (loss)/profit of joint ventures after tax	(1.4)	3.3	–	1.9	(2.0)	(9.1)	–	(11.1)
<b>Profit/(loss) before tax</b>	<b>6.3</b>	<b>(1.7)</b>	<b>(1.1)</b>	<b>3.5</b>	<b>(3.1)</b>	<b>(102.6)</b>	<b>(37.3)</b>	<b>(143.0)</b>

### 3 Segmental information

The group has adopted IFRS 8, 'Operating segments' ('IFRS 8') for these condensed interim financial statements. IFRS 8 requires operating segments to be identified based upon the group's internal reporting to the chief operating decision maker ('CODM') so that the CODM can make decisions about resources to be allocated to segments and assess their performance. The group's CODM is the Chief Executive Officer.

The group has identified six segments and is treating all of these as reportable segments. The segments are: UK residential; Retirement solutions; Property services; Fund management and residential investments; Development and European residential. The group has a segment director responsible for the performance of each of these six segments and the group reports key financial information to the CODM on the basis of these six segments. Each of these six segments operate within a different part of the overall residential market.

The title 'All other segments' has been included in the tables below to reconcile the segments to the figures reviewed by the CODM.

The measure of profit or loss used by the CODM is the trading profit or loss before valuation gains or deficits on investment properties and excluding all revaluation and non-recurring items as set out in note 2. The CODM reviews by segment two key balance sheet measures of net asset value. These are gross net asset value and triple net asset value.

The adoption of IFRS 8 has resulted in several changes to the group's segmental information. Major changes are to add services as a reportable segment, combine UK and European development into a single segment, to change the basis of segment operating profit/(loss) and to show gross net asset value and triple net asset value by segment in addition to statutory net assets by segment. Information relating to the group's operating profit or loss by segments is set out below.

#### 31 March 2010

Segment revenue and result unaudited (£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	Development	European residential	All other segments	Total
Segment revenue – external	78.1	14.0	0.3	2.5	10.2	21.2	–	126.3
Segment revenue – internal	–	–	3.6	–	–	–	–	3.6
Segment result – operating profit/(loss)	32.2	8.5	0.3	1.2	1.3	9.0	(4.5)	48.0
Net interest payable								(40.3)
Share of trading loss of joint ventures and associates after tax								(1.4)
<b>Trading profit before tax</b>								6.3
Write back of inventories to net realisable value								0.3
Net valuation gains on investment properties								1.7
Change in fair value of derivatives								(6.7)
Provision for impairment of loans receivable net of write-backs								(3.3)
Share of valuation gains in joint ventures and associates after tax								6.3
Non-recurring items								(1.1)
<b>Profit before tax</b>								3.5

## Notes to the unaudited interim financial statements continued

### 3 Segmental information continued

31 March 2009

Segment revenue and result unaudited (£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	Development	European residential	All other segments	Total
Segment revenue – external	62.7	10.9	0.2	2.6	23.9	20.0	–	120.3
Segment revenue – internal	–	–	3.6	–	–	–	–	3.6
Segment result – operating profit/(loss)	26.8	5.4	0.3	0.6	4.9	7.0	(3.7)	41.3
Net interest payable								(42.3)
Share of trading loss of joint ventures and associates after tax								(2.1)
<b>Trading loss before tax</b>								(3.1)
Write down of inventories to net realisable value								(10.2)
Net valuation deficits on investment properties								(19.6)
Change in fair value of derivatives								(37.7)
Provision for impairment of loans receivable and goodwill impairment								(14.7)
Share of valuation losses in joint ventures and associates after tax								(20.4)
Non-recurring items								(37.3)
<b>Loss before tax</b>								(143.0)

Most of the Group's properties are held as trading stock and are therefore shown in the Statutory balance sheet at the lower cost and net realisable value. This does not reflect the market value of the assets and so our key balance sheet measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are gross net asset value ('NAV') and triple net asset value ('NNNAV'). NAV is defined as the market value of net assets before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives. NNNAV is defined as gross net asset value adjusted for deferred and contingent tax on revaluation gains and for mark to market adjustments.

These measures are set out on the following page by segment along with a reconciliation to the statutory balance sheet.

## 3 Segmental information continued

## 31 March 2010

Segment assets unaudited (£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	Development	European residential	All other segments	Total
Total segment assets (Statutory)	778.2	372.8	–	102.0	86.9	138.3	(1,119.7)	358.5
Total segment assets (NAV)	1,089.9	415.2	–	108.6	71.5	160.0	(1,050.2)	795.0
Total segment assets (NNNAV)	969.4	397.0	–	102.0	75.8	138.6	(1,113.7)	569.1

Segment assets unaudited (£m)	Statutory balance sheet £m	Adjustments to market value deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,752.3	289.0	2,041.3	–	–	2,041.3
Investments/other assets	116.3	17.0	133.3	–	(7.9)	125.4
Goodwill	6.2	–	6.2	–	–	6.2
Cash	136.6	–	136.6	–	–	136.6
<b>Total assets</b>	<b>2,011.4</b>	<b>306.0</b>	<b>2,317.4</b>	<b>–</b>	<b>(7.9)</b>	<b>2,309.5</b>
Borrowings etc.	(1,542.3)	108.7	(1,433.6)	–	(117.1)	(1,550.7)
Other net liabilities	(88.1)	–	(88.1)	–	–	(88.1)
Provisions/deferred Tax	(22.5)	21.8	(0.7)	(135.9)	35.0	(101.6)
<b>Total liabilities</b>	<b>(1,653.0)</b>	<b>130.5</b>	<b>(1,522.4)</b>	<b>(135.9)</b>	<b>(82.1)</b>	<b>(1,740.4)</b>
<b>Net assets</b>	<b>358.5</b>	<b>436.5</b>	<b>795.0</b>	<b>(135.9)</b>	<b>(90.0)</b>	<b>569.1</b>

## 31 March 2009

Segment assets unaudited (£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	Development	European residential	All other segments	Total
Total segment assets (Statutory)	842.8	388.3	–	88.4	128.1	143.7	(1,456.1)	135.2
Total segment assets (NAV)	1,215.7	448.2	–	96.4	118.8	162.7	(1,387.1)	654.7
Total segment assets (NNNAV)	1,068.0	424.0	–	88.4	121.4	143.7	(1,456.7)	388.8

Segment assets unaudited (£m)	Statutory balance sheet £m	Adjustments to market value deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,904.0	365.5	2,269.5	–	–	2,269.5
Investments/other assets	107.2	7.4	114.6	–	(9.9)	104.7
Goodwill	7.6	–	7.6	–	–	7.6
Cash	41.2	–	41.2	–	–	41.2
<b>Total assets</b>	<b>2,060.0</b>	<b>372.9</b>	<b>2,432.9</b>	<b>–</b>	<b>(9.9)</b>	<b>2,423.0</b>
Borrowings etc.	(1,805.9)	112.7	(1,693.2)	–	(124.0)	(1,817.2)
Other net liabilities	(90.0)	–	(90.0)	–	–	(90.0)
Provisions/deferred Tax	(28.9)	33.9	5.0	(169.4)	37.4	(127.0)
<b>Total liabilities</b>	<b>(1,924.8)</b>	<b>146.6</b>	<b>(1,778.2)</b>	<b>(169.4)</b>	<b>(86.6)</b>	<b>(2,034.2)</b>
<b>Net assets</b>	<b>135.2</b>	<b>519.5</b>	<b>654.7</b>	<b>(169.4)</b>	<b>(96.5)</b>	<b>388.8</b>

## Notes to the unaudited interim financial statements continued

### 4 Net rental income

	Unaudited	
	31 March 2010 £m	31 March 2009 £m
Gross rental income	38.1	38.8
Property repair and maintenance costs	(11.1)	(11.4)
Property operating expenses (see note 6)	(6.4)	(7.5)
	20.6	19.9

### 5 Profit on disposal of trading properties

	Unaudited	
	31 March 2010 £m	31 March 2009 £m
Proceeds from sale of trading properties	78.3	71.8
Carrying value of trading properties sold	(49.7)	(47.5)
Other sales costs (see note 6)	(3.5)	(4.8)
	25.1	19.5

### 6 Administrative expenses

	Unaudited	
	31 March 2010 £m	31 March 2009 £m
Total group expenses	16.3	16.6

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 2010 £m	31 March 2009 £m
Property operating expenses (see note 4)	6.4	7.5
Costs directly attributable to the disposal of trading properties (see note 5)	3.5	4.8
Administrative expenses	6.4	4.3
	16.3	16.6

### 7 Profit/(loss) on disposal of investment property

	Unaudited	
	31 March 2010 £m	31 March 2009 £m
Proceeds from sale of investment property	6.8	3.0
Carrying value of investment property sold	(6.4)	(3.2)
	0.4	(0.2)

## 8. Earnings/(loss) per share

### Basic

Basic earnings/(loss) 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'). The weighted average number of shares has been adjusted for the bonus element inherent in the Rights Issue completed in December 2009. The adjustment has been treated as occurring at the beginning of the earliest period reported. This has resulted in the loss per share figures for the six month period to 31 March 2009 being restated.

### Diluted

Diluted earnings/(loss) 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. The profit/(loss) 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, they are excluded from the calculation of diluted earnings/(loss) per share.

	31 March 2010			31 March 2009		
	Profit for the period £m	Weighted average number of shares (thousands)	Earnings per share pence	Loss for the period £m	Weighted average number of shares (thousands)	Loss per share pence
(Unaudited)						
<b>Basic earnings/(loss) per share</b>						
Earnings/(loss) attributable to equity holders (2009 as originally stated)	2.6	340,534	0.75	(104.1)	134,859	(77.2)
Basic loss attributable to equity holders in 2009 (as restated)	—	—	—	(104.1)	239,383	(43.5)
<b>Effect of potentially dilutive securities</b>						
Share options and contingent shares	—	2,805	(0.01)	—	—	—
<b>Diluted earnings/(loss) per share</b>						
Earnings/(loss) attributable to equity holders (2009 as originally stated)	2.6	343,339	0.74	(104.1)	134,859	(77.2)
Loss attributable to equity holders in 2009 (as restated)	—	—	—	(104.1)	239,383	(43.5)

## 9. Dividends

The directors propose the payment of an interim dividend of 0.5p per share amounting to £2.1m (31 March 2009: nil). In the six months to 31 March 2010, the final proposed dividend of £5.3m, for the year ended 30 September 2009, has been paid.

## Notes to the unaudited interim financial statements continued

### 10 Investment property

	Unaudited	Audited
	31 March 2010 £m	31 March 2009 £m
Opening balance	654.3	619.3
Additions:		
Acquisitions	–	1.1
Subsequent expenditure	0.6	3.7
Disposals	(6.4)	(9.9)
Revaluation gains/(deficits)	1.7	(25.6)
Exchange adjustments	(11.1)	65.7
Closing balance	639.1	654.3

### 11 Investment in associates

	Unaudited	Audited
	31 March 2010 £m	30 September 2009 £m
Opening balance	33.2	51.6
Share of profit/(loss)	3.0	(6.4)
Distributions received	–	(0.4)
Profit on redemption of equity units	0.7	–
Redemption of equity units	(8.7)	(7.6)
Share of change in fair value of cash flow hedges taken through equity	(0.7)	(4.0)
Closing balance	27.5	33.2
Disclosed as:		
Non-current assets	26.5	24.5
Current assets	1.0	8.7
	27.5	33.2

The investors in Schroders ResPUT have agreed to a controlled liquidation of the fund and the group has received a number of redemption payments as assets have been realised. The investment is therefore held as a current asset.

As at 31 March 2010, the group's interest in associates was as follows:

	% of ordinary share capital/units held	Country of incorporation
G:res1 Limited	21.6	Jersey
Schroder Residential Property Unit Trust (ResPUT)	21.8	Jersey

## 12 Investment in joint ventures

	Unaudited	Audited
	31 March 2010 £m	30 September 2009 £m
Opening balance	80.7	90.8
Loans advanced	1.9	7.5
Provisions for impairment of loans receivable net of write backs	1.5	(14.8)
Share of profit/(loss)	1.9	(1.4)
Net assets acquired through purchase of joint venture	–	0.1
Goodwill arising on investment in Gebau Vermogen GmbH	–	2.7
Exchange adjustment	(0.1)	0.4
Share of change in fair value of cash flow hedges taken through equity	1.4	(4.6)
Closing balance	87.3	80.7

The write back of the provision for impairment of loans receivable in 2010 of £1.5m relates to the group's mezzanine loan to Grainger GenInvest No. 2 (2006) LLP. It is included within the provision for impairment of loans receivable net of write backs on the face of the consolidated income statement.

As at 31 March 2010, the group's interest in joint ventures was as follows:

	% of ordinary 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

## 13 Financial interest in property assets

	Unaudited	Audited
	31 March 2010 £m	30 September 2009 £m
Opening balance	109.1	121.2
Cash received from the instrument	(5.1)	(10.1)
Amounts taken to income statement	2.7	(4.7)
Amounts taken to equity before tax	2.6	2.7
Closing balance	109.3	109.1

Financial interest in property assets relates to the CHARM portfolio which is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee. It is accounted for under IAS 39 in accordance with the designation available-for-sale financial assets and is valued at fair value.

For interests held at 31 March 2010 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 £2.6m before tax which has been taken through equity reserves.

## Notes to the unaudited interim financial statements continued

### 14 Trade and other receivables

	Unaudited	Audited
	31 March 2010 £m	30 September 2009 £m
Trade receivables	8.4	10.1
Less: Provision for impairment of trade receivables	(2.5)	(2.2)
	5.9	7.9
Other receivables	4.1	9.9
Prepayments	2.1	2.2
	12.1	20.0

### 15 Interest-bearing loan and borrowing

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

	Unaudited	Audited
	31 March 2010 £m	30 September 2009 £m
Within one year	8.4	19.9
Between one and two years	74.8	109.6
Between two and five years	1,168.9	1,275.6
Over five years	181.5	171.8
	1,433.6	1,576.9

### 16 Tax

	Audited As at 30 September 2009 £m	Net receipts in the period £m	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in equity £m	Unaudited As at 31 March 2010 £m
<b>Current tax</b>	24.4	4.0	0.2	2.0	—	—	30.6
<b>Deferred tax</b>							
Trading property uplift to fair value on acquisition	42.0	—	2.4	(0.3)	—	—	44.1
Investment property revaluation	9.4	—	—	0.9	(0.1)	—	10.2
Accelerated capital allowances	0.4	—	—	—	—	—	0.4
Short-term timing differences	(14.8)	—	—	(1.7)	—	—	(16.5)
Actuarial deficit on BPT pension scheme	(0.4)	—	—	—	—	—	(0.4)
Equity component of available-for-sale financial asset	0.7	—	—	—	—	0.8	1.5
Fair value movement in cash flow hedges and exchange adjustments	(16.2)	—	—	—	—	(1.4)	(17.6)
	21.1	—	2.4	(1.1)	(0.1)	0.6	21.7
<b>Total tax</b>	45.5	4.0	2.6	0.9	(0.1)	0.6	52.3

## 16 Tax continued

The tax charge for the period of £0.9m comprises:

	Unaudited 31 March 2010 £m
UK taxation	1.1
Overseas taxation	(0.2)
	<b>0.9</b>

## 17 Trade and other payables

	Unaudited 31 March 2010 £m	Audited 30 September 2009 £m
Deposits received	3.9	3.6
Trade payables	6.9	7.3
Other taxation and social security	0.4	0.3
Accruals and deferred income	48.9	76.9
	<b>60.1</b>	<b>88.1</b>

Accruals and deferred income at 31 March 2010 includes £24.4m of rent received in advance on the granting of lifetime leases (30 September 2009: £26.1m).

## 18 Movement in equity shareholders' funds

	Unaudited 31 March 2010 £m	Unaudited 30 September 2009 £m
Opening equity shareholders' funds	128.5	229.8
Profit/(loss) for the period	2.6	(104.1)
Actuarial loss on BPT pension scheme net of tax	–	(1.5)
Changes in fair value of cash flow hedges net of tax	(3.2)	(59.3)
Net exchange adjustment offset in reserves net of tax	0.3	–
Purchase of own shares	(3.7)	(0.2)
Issue of shares	–	87.1
Rights Issue (see note 21)	236.7	–
Share-based payments charge	0.7	0.7
Dividends paid	(5.3)	(5.4)
Fair value movement on available-for-sale financial asset net of tax	1.9	2.2
Conversion of convertible bond	–	(17.4)
Transfer on early conversion of convertible bond	–	3.2
Closing equity shareholders' funds	<b>358.5</b>	<b>135.1</b>

## 19 Post balance sheet events

On 6 May Grainger announced a recommended offer for Sovereign Reversions plc of 202p per share representing an acquisition price of approximately £34.2m.

## Notes to the unaudited interim financial statements continued

### 20 Related party transactions

Detailed disclosure of all related party arrangements was provided in note 35 of the 2009 annual report and accounts. There has been no material change in the period to 31 March 2010. Material transactions in the period to 31 March 2010 and as at 31 March 2010 were as follows:

	Unaudited	
	31 March 2010 £m	31 March 2009 £m
Fee income from joint ventures and associates	2.5	2.8
Interest receivable from joint ventures and associates	1.2	1.9

	Unaudited	
	31 March 2010 £m	31 March 2009 £m
Loans to Grainger GenInvest LLP and Grainger GenInvest No 2 (2006) LLP (net of impairment provision)	83.1	75.7

### 21 Rights Issue

In December 2009 the group completed a 2 for 1 Rights Issue at an issue price of 90p raising a total gross amount of £249.8m. The Rights Issue increased the number of shares in issue by 277,553,406 shares, increasing share capital by £13.9m. The group took advantage of Section 612 of the Companies Act 2006 to take proceeds in excess of the nominal value of shares issued, amounting to £235.9m, to a merger reserve. Costs of issue, which totalled £13.1m, have been taken directly to reserves.

### 22 Acquisition in the period

On 31 March 2010 the group acquired PHA Limited, a company which owns 162 residential properties located in Devon. The total consideration for the purchase net of cash acquired was £14.9m subject to the agreement of completion accounts. The acquisition has been treated as a business combination and goodwill of £0.4m arose.

### 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; and
- 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 2009 and on the Grainger plc website: [www.graingerplc.co.uk](http://www.graingerplc.co.uk).

By order of the board

**Andrew R Cunningham**

Director

20 May 2010

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](http://www.graingerplc.co.uk).

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