



(registered in England and Wales with registered number 00125575)

**£350,000,000 3.375 per cent. Guaranteed Secured Notes due 2028**

**unconditionally and irrevocably guaranteed by  
various subsidiaries of Grainger plc**

**Issue Price: 99.588 per cent.**

The £350,000,000 3.375 per cent. Guaranteed Secured Notes due 2028 (the “**Notes**”) will be issued by Grainger plc (the “**Issuer**” or “**Company**”) and will be fully, unconditionally and irrevocably guaranteed on a joint and several basis by certain subsidiaries of the Issuer set forth on page 102 (each, a “**Guarantor**”, and together, the “**Guarantors**”). References herein to the “**Group**” or “**Grainger**” are to the Issuer and its subsidiaries.

The Notes will be guaranteed senior secured obligations of the Issuer. The Notes and the guarantee of each of the Guarantors will be secured by floating charges over all of the properties and other assets of the Issuer and the Guarantors.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) for the approval of this document as Listing Particulars. Application has also been made to Euronext Dublin for the Notes to be admitted to the Official List and admitted to trading on the Global Exchange Market which is the exchange regulated market of Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU (as amended, “**MiFID II**”). References in this Offering Memorandum to the Notes being “**listed**” (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Global Exchange Market.

The Notes will initially be represented by a temporary global note (the “**Temporary Global Note**”), without interest coupons, which will be deposited on or about 24 April 2018 (the “**Closing Date**”) with a common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the “**Permanent Global Note**” and, together with the Temporary Global Note, the “**Global Notes**”), without interest coupons, on or after 3 June 2018 (the “**Exchange Date**”), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances — see “*Summary of Provisions relating to the Notes while represented by the Global Notes*”.

The Notes will bear interest from and including 24 April 2018 (the “**Issue Date**”) to but excluding 24 April 2028 (the “**Maturity Date**”) at the rate of 3.375 per cent. per annum, payable in arrear on 24 October 2018 and thereafter on 24 April and 24 October in each year until and including the Maturity Date, subject to adjustment as described in “*Terms and Conditions of the Notes — Interest*”. The Issuer may, at its option, redeem the Notes in whole or in part at any time after the Issue Date at the relevant redemption amount described under “*Terms and Conditions of the Notes — Redemption and Purchase*”. The Issuer may also at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes, as described under the “*Terms and Conditions of the Notes — Redemption and Purchase*”. Upon the occurrence of certain change of control events relating to the Issuer, each Noteholder shall have the option to require the Issuer to redeem or purchase the Notes of such holder at a cash purchase price equal to 100 per cent. of the principal amount thereof plus accrued interest, as described under the heading “*Terms and Conditions of the Notes — Redemption and Purchase*”. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 24 April 2028.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the heading “*Risk Factors*” on page 39 of this Offering Memorandum.

The Notes are expected to be rated BBB- by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”). S&P is established in the European Union and registered under Regulation (EU) No 1060/2009, as amended. S&P appears on the latest update of the list of registered credit rating agencies (as of 11 April 2018) on the European Securities and Markets Authority website <http://www.esma.europa.eu>. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

*Joint Active Bookrunners*

**Barclays**

**HSBC**

**NatWest Markets**

Offering Memorandum dated 23 April 2018

The Issuer and the Guarantors accept responsibility for the information contained or incorporated by reference in this Offering Memorandum. To the best of the knowledge of the Issuer and the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained or incorporated by reference in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Offering Memorandum should be read and construed on the basis that such documents are incorporated in, and form part of, this Offering Memorandum.

Save for the Issuer and the Guarantors, no other party has verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers (as described under “*Subscription and Sale*” below) or HSBC Corporate Trustee Company (UK) Limited (the “**Trustee**”) as to the accuracy or completeness of the information contained or incorporated in this Offering Memorandum or any other information provided by the Issuer or the Guarantors in connection with the offering of the Notes. To the fullest extent permitted by law, the Managers and the Trustee do not accept any liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer or the Guarantors in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer, the Guarantors, the Managers or the Trustee to give any information or to make any representation not contained in or not consistent with this Offering Memorandum or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors, any of the Managers or the Trustee.

Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantors, any of the Managers or the Trustee that any recipient of this Offering Memorandum or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantors. Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantors, any of the Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Memorandum nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained or incorporated by reference herein concerning the Issuer and/or the Guarantors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantors during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the “**Securities Act**”), and are subject to US tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Memorandum, see “*Subscription and Sale*” below. This document should not be forwarded or transmitted into the United States or to U.S. persons as defined by Regulation S.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.

The distribution of this Offering Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantors, the Managers and the Trustee do not represent that this Offering Memorandum may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantors, the Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Notes in the United States and the United Kingdom. See “*Subscription and Sale*” below.

**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturers’ product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

**PRIIPs Regulation / Prospectus Directive / Prohibition of sales to EEA retail investors** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC AS STABILISING MANAGER (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

All references in this Offering Memorandum to “**Sterling**” and “**£**” refer to the lawful currency of the United Kingdom and to “**Euro**” and “**€**” refer to the lawful currency introduced at the start of the third

stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

### ***Market and Industry Data***

The industry publications and official data published by certain companies and international agencies, namely Nationwide, Halifax, Knight Frank, Lambert Smith Hampton, Countrywide, Homelet, the Council of Mortgage Lenders, UK Finance, the National Landlord Association, the Land Registry, PricewaterhouseCoopers (“**PwC**”), the Ministry of Housing, Communities and Local Government (“**MHCLG**”), the Greater London Authority (“**GLA**”), the House of Commons Library, the Office for National Statistics (“**ONS**”), the Royal Institution of Chartered Surveyors (“**RICS**”), the British Property Federation (“**BPF**”), the European Public Real Estate Association (“**EPRA**”) and the European Commission, contained in “*Overview*”, “*Risk Factors*”, “*Market Overview*” and “*Information on the Group*” commencing on pages 12, 39, 63 and 75 respectively of the Offering Memorandum have been derived from publicly available information. The Issuer has relied on the accuracy of such information without carrying out an independent verification thereof. This information has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by each such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

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## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains or incorporates by reference forward-looking statements. The words “believe”, “anticipate”, “expect”, “intend”, “plan”, “predict”, “project”, “continue”, “assume”, “positioned”, “may”, “will”, “should”, “shall”, “risk” and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. In particular, certain statements under the headings “*Overview*”, “*Risk Factors*” and “*Information on the Group*” and regarding the Group’s strategy and other future events or prospects are forward-looking statements. Prospective investors should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Group’s control. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Prospective investors are cautioned that forward-looking statements are not guarantees of future performance and that the Group’s actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Memorandum. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that the Group, or persons acting on its behalf, may issue. Factors that may cause the Group’s actual results to differ materially from those expressed or implied by the forward-looking statements in this Offering Memorandum include but are not limited to the risks described under the heading “*Risk Factors*”.

These forward-looking statements speak only as of the date of this Offering Memorandum. The Issuer expressly undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

## PRESENTATION OF FINANCIAL INFORMATION

The Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union (“IFRS”) and, unless otherwise stated, all financial information relating to the Group contained or incorporated by reference in this Offering Memorandum has been prepared in accordance with IFRS.

Percentages and other data in tables have been rounded and accordingly may not total exactly. As a result of this rounding, the totals of data presented in this Offering Memorandum may vary slightly from the actual arithmetic totals of such data.

References in this Offering Memorandum to:

- “**Build to Rent**” are to development schemes of purpose-built PRS assets which are intended to be held and let, as opposed to traditional house-building schemes, the purpose of which is for the assets to be sold;
- “**CHARM Portfolio**” are to the Residential – Mortgages business’ portfolio of equity mortgages held by the Church of England Pensions Board as mortgagee in respect of properties owned by retired clergy in the UK, as more particularly described in “*Information on the Group – Business Descriptions – Residential Business*”;
- “**Development Portfolio**” are to the Development business’ portfolio of development properties and interests in or relative to development properties located in the UK, as more particularly described in “*Information on the Group – Business Descriptions – Development Business*”;
- “**Investment Properties**” are to properties where the intention on acquisition was to hold such properties for long-term rental yield and/or capital appreciation;
- “**JV Portfolio**” are to the portfolio of properties held through joint venture structures or through associates, as more particularly described in “*Information on the Group – Business Descriptions – Joint Ventures and Associates*”;
- “**Market Value**” in relation to a Trading Property and to an Investment Property are to the estimated amount for which a property would exchange on a date of valuation between a willing buyer and a willing seller for a property with an existing tenancy agreement in place or when vacant;
- “**Property Portfolio**” are to the Residential Portfolio, together with the Development Portfolio;
- “**PRS**” are to the private rental sector (and in the context of Grainger’s business and this Offering Memorandum excludes regulated tenancies);
- “**PRS Portfolio**” are to the Residential – PRS business’ portfolio of PRS properties and interests in or relative to PRS properties located in the UK, as more particularly described in “*Information on the Group – Business Descriptions – Residential Business*”;
- “**Regulated Tenancies Portfolio**” are to the Residential – Regulated Tenancies business’ portfolio of properties subject to a regulated tenancy and interests in or relative to properties subject to a regulated tenancy located in the UK, as more particularly described in “*Information on the Group – Business Descriptions – Residential Business*”;
- “**Residential Portfolio**” are to the PRS Portfolio, together with the Regulated Tenancies Portfolio and the CHARM Portfolio;
- “**Reversionary Surplus**” in relation to a property with an existing tenancy agreement in place are to the unaudited difference between the Market Value of that property and its Vacant Possession Value. Reversionary Surpluses stated in this document are determined during the valuation process

undertaken in conjunction with Allsop and CBRE (each as defined in “*Overview – Valuations*” below), as described in this Offering Memorandum;

- “**Sales Velocity**” in relation to a property are to the time from which the property becomes vacant to the time at which the proceeds from the sale of the property are received;
- “**Total Assets Under Management**” are to the Property Portfolio, together with the JV Portfolio;
- “**Trading Properties**” are to properties where the original intention on acquisition was to trade such properties or to hold them for immediate sale upon receiving vacant possession in the ordinary course of business. This may also include properties where the Group’s original intention on acquisition has changed and the properties are consequently held for long-term rental yield and/or capital appreciation; and
- “**Vacant Possession Value**” are to the Market Value of each property free from any tenancy. Vacant Possession Values stated in this document are determined during the valuation process undertaken in conjunction with Allsop and CBRE, as described in this Offering Memorandum.

For further definitions, see “*Annex: Definitions*”.

### ***Non-IFRS measures***

This document contains certain non-IFRS measures, including:

- loan to value ratio (“**LTV**”);
- cash flow interest coverage ratio (“**ICR**”);
- earnings before interest, taxes, depreciation, and amortisation (“**EBITDA**”);
- Shareholders’ funds adjusted for the market value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives (“**EPRA NAV**”);
- EPRA NAV adjusted for deferred tax and those contingent tax liabilities which would accrue if assets were sold at market value and for the fair value of long-term debt and derivatives (“**EPRA NNAV**”); and
- adjusted earnings (being profit before tax before valuation movements and non-recurring items),

(together, the “**non-IFRS Performance Measures**”).

These measures should not be considered in isolation from, or as a substitute or alternative for, the financial results in the Group’s consolidated financial statements prepared in accordance with IFRS or any performance measures required to be presented under IFRS (as applicable). These measures are presented for illustrative purposes. Prospective investors should read the information relating to the non-IFRS Performance Measures in conjunction with the Group’s unaudited and audited consolidated financial statements, including the related notes and the auditors’ reports thereon (as applicable), incorporated by reference into this document.

The non-IFRS Performance Measures set out in this Offering Memorandum are derived from the audited financial statements of the Group as at and for the financial years ended 30 September 2015, 2016 and 2017.

Under the terms of certain of its financing arrangements, Grainger is required to comply with prescribed loan to value and interest coverage ratios. These ratios are calculated in the manner described below.

## *LTV*

Loan to value ratio is the ratio of net debt to the value of certain defined assets (the value being calculated by reference to Market Value).

In this Offering Memorandum, “**Core LTV**” has the meaning given to “Loan to Value Ratio” in Condition 21 (*Definitions*) of the “*Terms and Conditions of the Notes*”. Core LTV, which excludes certain values when calculated, is narrower than “**Consolidated LTV**”, which means the ratio of total debt net of cash to the combined Market Value of properties and Market Value of investment assets owned by the Group as a whole.

## *ICR*

Interest Cover Ratio is the ratio of consolidated cash flow to consolidated net interest payable and it is calculated in accordance with the core debt facilities, see “*Description of Indebtedness – Core Debt Facilities*”.

Consolidated cash flow for any relevant period is calculated by reference to the Group’s consolidated financial statements, and it is defined as (a) the revenue of the Group before taxation; (b) plus any cash receipts from Excluded Entities which are not consolidated in the profit and loss account of the Group; (c) plus any receipts from the sale of properties classed as fixed assets or Investment Assets (as defined in Condition 21 (*Definitions*)); (d) minus property operating expenses as set out in the profit and loss account of the Group; (e) minus administrative expenses as set out in the profit and loss account of the Group; (f) minus all dividends or any other distributions paid to any person outside the Group during that period which are referable to share capital of a member of the Group; and (g) minus any taxation paid.

Consolidated net interest payable is defined in the core debt facilities to mean all interest and other recurring financing charges incurred by the Group in relation to the Total Debt (as defined in Condition 21 (*Definitions*)) of the Group during a relevant period including all receipts and payments in respect of the Group’s interest rate hedging arrangements less interest received on Applicable Cash and Cash Equivalents (each as so defined) (save for cash that collateralises a loan note or other fiscal obligation).

Also excluded from this measure are any valuation movements taken through the income statement, including provisions against the carrying value of assets resulting from property revaluations and any items deemed to be one-off in nature and which are not expected to re-occur. This measure therefore includes net rental income, profit from sale of properties, fee income, other income and expenses, the profit or loss from the Group’s financial interest in property assets and the Group’s overhead costs.

## ***Classification and Accounting Treatment of Trading Properties and Investment Properties***

Where the Group’s initial intention on the acquisition of a property was either to trade the property or to hold it for immediate sale upon obtaining vacant possession, the property is classified as a Trading Property and held within “*Inventories – trading property*” in the Group’s audited statement of financial position prepared in accordance with IFRS (the “**statutory balance sheet**”). Where the Group’s initial intention on the acquisition of a property was either to hold the property for long-term rental yields or for capital appreciation or both and the property is not occupied by the Group, the property is classified as an “Investment Property” and held within “*Investment property*” in the Group’s statutory balance sheet.

A significant part of Grainger’s business model in the UK was to purchase regulated tenancy properties with a view to realising their Reversionary Surplus. As a consequence, the majority of the properties held by the regulated tenancies and mortgages parts of the Residential business are held as Trading Properties. In addition, all of the properties held by the Development business are held as Trading Properties. The majority of the properties held by the Group’s joint ventures and associates are held as Investment Properties.

If the Group’s initial intention changes and the Group decides to retain properties originally intended for trading, under IFRS policy, the Group is unable to reclassify properties between Trading Properties and

Investment Properties. As a result, Trading Properties now includes certain properties where the Group's intention is to hold for long-term rental yield and/or capital appreciation.

#### *Trading Properties*

Trading Properties are required to be recorded in the Group's statutory balance sheet at the lower of cost and net realisable value. Where the Group's intention remains to sell a Trading Property on vacancy, the Group calculates net realisable value as the Vacant Possession Value. In applying this treatment, the Group ignores the number of years it expects to have to hold a Trading Property before it becomes vacant and any future house price inflation. It should also be noted that although this is how the Group calculates the net realisable value of its Trading Properties, the Market Value of Trading Properties is determined as their value subject to any existing tenancy. The Trading Properties held by the Residential businesses are predominantly held at cost rather than net realisable value because they have been held for a number of years against rising property prices. Accordingly, when the estimated Market Value of these properties rises, their stated value in the statutory balance sheet does not rise nor is any gain recognised in the income statement. Similarly, when the Market Value of these properties falls, this will not change their stated value in the statutory balance sheet or give rise to a deficit in the income statement, unless the net realisable value of any property has fallen below its cost, which is unusual because such properties are generally purchased at a discount to their Vacant Possession Value. In summary, the Group's statutory balance sheet does not take into account the estimated Market Value of the properties held by the Residential businesses, where the Market Value exceeds cost.

All properties in the Development business are Trading Properties and are therefore held at the lower of cost and net realisable value. The net realisable value of a development property depends on whether the Group intends to complete the development or to sell the property undeveloped. Where development is intended and a profit is expected, the net realisable value is the costs incurred to date plus the expected profit arising from the development and, in this case, the development property will be carried at cost. Where development is intended and a loss is expected, the net realisable value will be the costs incurred to date less the expected loss and, in this case, the development will be carried at this net realisable value. Where sale is intended, the net realisable value is the estimated Market Value of the property to be sold net of associated selling costs. The net realisable value of a development property is generally lower than cost where the Group intends to develop a property and expects to make a loss or where the Group expects to sell the property without development, and the expected proceeds less sales expenses are lower than the cost of the property. The Group's statutory balance sheet therefore does not take into account the estimated Market Value of the properties held by the Development business for any property where Market Value exceeds cost.

#### *Investment Properties*

Investment Properties are measured initially at cost, including related transaction costs.

After initial recognition, Investment Properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Subsequent expenditure is included in the carrying amount of the property when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

In the majority of instances, fair value will be equal to Market Value. On the basis that the Group generally disposes of Investment Properties on an individual basis rather than as blocks or portfolios, Market Value is subject to the assumption that dwellings are sold individually, in their existing condition and subject to any existing leases or tenancies.

Gains or losses arising from changes in the fair value of the Group's Investment Properties are included in the income statement for the period in which they arise.

## DOCUMENTS INCORPORATED BY REFERENCE

This Offering Memorandum should be read and construed in conjunction with:

- (i) the audited consolidated financial statements for the Group for the financial year ended 30 September 2017 together with the audit report thereon, which appear on pages 82 to 148 of the Company's Annual Report and Accounts for the financial year ended 30 September 2017;
- (ii) the audited consolidated financial statements for the Group for the financial year ended 30 September 2016 together with the audit report thereon, which appear on pages 90 to 171 of the Company's Annual Report and Accounts for the financial year ended 30 September 2016; and
- (iii) the audited consolidated financial statements for the Group for the financial year ended 30 September 2015 together with the audit report thereon, which appear on pages 77 to 169 of the Company's Annual Report and Accounts for the financial year ended 30 September 2015,

which have all been previously or simultaneously published. The consolidated financial statements set out above, have been filed with Euronext Dublin and include both Guarantor subsidiaries and non-Guarantor subsidiaries. Such documents shall be incorporated in, and form part of, this Offering Memorandum, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Memorandum.

In 2016, Grainger announced a new strategy, which involved disposing of its Retirement Solutions (Equity Release) to Turbo Group Holdings Limited, backed by Patron Capital Partners and Electra Private Equity plc, as well as its Germany business segments to Heitman and LEG Immobilien AG, respectively. The strategy specified the desire to concentrate on regulated tenancies and PRS in the UK going forward in order to simplify and focus Grainger's business. Investors should therefore note that the audited consolidated financial statements for the Group for the financial year ended 30 September 2016 incorporated by reference in this Offering Memorandum restate the Group's comparative financial information for the year ended 30 September 2015 throughout to show the results from continuing and discontinued operations separately. See Note 3 of those financial statements for analysis of discontinued operations which includes the sale of subsidiaries and interest in associates. This has been done to create a more meaningful comparison.

Copies of documents incorporated by reference in this Offering Memorandum may be obtained (without charge) from the registered office of the Company and may also be obtained at [www.graingerplc.co.uk](http://www.graingerplc.co.uk) being the Issuer's website. The contents of the Issuer's website or any website directly or indirectly linked to the Issuer's website do not form part of this Offering Memorandum and investors should not rely on them.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum.

The financial statements of the Issuer relating to the financial years ended 30 September 2015, 2016 and 2017 and incorporated by reference herein have been audited without qualification by KPMG LLP, 15 Canada Square, Canary Wharf, London, E14 5GL.

## OVERVIEW

*The following information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any investment decision relating to the Notes should be based on the consideration of this document as a whole and not solely on the information contained in this Overview.*

### 1. THE GROUP

#### 1.1 Overview

Grainger plc is a FTSE 250 property business, the UK's largest listed residential landlord based on number of properties and, in the belief of the Issuer, the UK's leading private rental housing business. Grainger invests in, develops, operates and trades residential homes for rent across the UK and, as at 30 September 2017, had total assets under management of approximately 9,000 units worth approximately £2.8 billion (approximately £2 billion worth of wholly-owned assets (6,655 units), £270 million worth of co-investments (709 units) and £607 million worth of third party share assets under management (1,567 units)).

#### History

Grainger was established in 1912 in Newcastle in the North-East of England. The Company listed on the London Stock Exchange in 1983 and in 2016 set out a new strategy to transform the business to focus on growth in the UK private rented sector. Grainger's market capitalisation as at 9 April 2018 was £1.2 billion.

#### Strategy

Grainger's strategy, set out in January 2016, comprised three main strands: to grow recurring net rental income; to simplify and focus the business by improving efficiencies and reducing costs; and to build on the Company's extensive experience managing rental homes through its operational platform.

The strategy led to: (i) the disposal of Grainger's German residential business to Heitman and LEG Immobilien AG and the Equity Release Division (Retirement Solutions) to Patron Capital Partners and Electra Private Equity plc; and (ii) the refocus of the development team from building homes for sale to homes for rent (otherwise known as Build to Rent). In addition, Grainger significantly reduced the cost base of the business, direct property operating costs, overheads and financing costs.

This simplification provided capacity to focus on the growth opportunity in PRS within the UK.

#### Business model

Grainger's business model has three elements, designed to grow recurring net rental income: (i) investing in well-located and attractive properties; (ii) originating, planning and developing high-quality assets; and (iii) providing a direct and reliable service to customers by operating and managing the properties sustainably.

Grainger's property portfolio (including co-investments) consists of approximately 9,000 homes with a Gross Asset Value of £2.8 billion, which comprise two main types of privately rented assets located across the UK: regulated tenancies and PRS homes.

#### Regulated Tenancies Portfolio

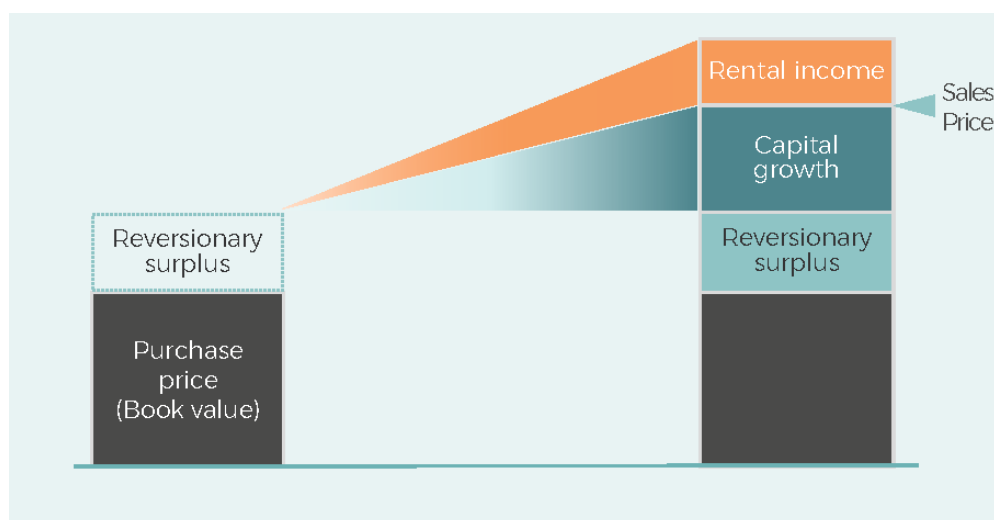
Regulated tenancy assets are privately rented and subject to historic lease arrangements whereby the tenant has the right to remain in the property for as long as they wish (within the terms of the lease). Rents are set by a third party, government-employed rent officer at below market rents, with bi-annual rental reviews of the UK Retail Price Index ("RPI") + 5 per cent. Legislative changes ended the creation of new regulated tenancies from 1989, meaning that as these properties are vacated, the total number in the market is in decline.

The Regulated Tenancies Portfolio generates both recurring rental income (average gross yields of between 2-4 per cent. per year) and sales proceeds. Overall, this portfolio has been historically resilient through economic cycles, generating more than £100 million of gross cash per year, including during the global financial crisis.

Regulated tenancy assets generate three sources of returns: (i) rental income; (ii) capital growth; and (iii) the realisation of Reversionary Surplus (a 21-25 per cent. valuation uplift on vacancy).

As at 30 September 2017, the Regulated Tenancies Portfolio had a market value of £1,214 million and a Vacant Possession Value of £1,444 million. In the year ended 30 September 2017, the Regulated Tenancies Portfolio generated revenue of more than £131 million. The Group acquired these properties at a discount to Vacant Possession Value, reflecting the value of the regulated tenancy. The properties are typically sold once they fall vacant, releasing the embedded Reversionary Surplus. As at 30 September 2017, the Reversionary Surplus in respect of wholly-owned properties in the Property Portfolio totalled £277 million.<sup>1</sup>

The proceeds from the natural reduction of the Regulated Tenancies Portfolio (6.5-7 per cent. of the portfolio per year, generating over £100 million gross cash per year) are reinvested into PRS assets and provide capital for Grainger's transition and growth into the PRS market, as demonstrated by the diagram below.



For further information on the Regulated Tenancies Portfolio, please see *“Information on the Group – Business Descriptions”*.

<sup>1</sup> Investors should note that the Reversionary Surplus is not the market value of the asset and therefore not included in net asset value metrics for the Group.

## PRS business

The PRS business of the Group constitutes a successful and expanding source of revenue and growth.

It is estimated that 1.8 million new PRS homes will be needed by 2025<sup>2</sup> (see “*Information on the Group – Competitive Strengths and Strategy*” and “*Market Overview*” for more information on the PRS market). The Group is well-positioned to benefit from this significant growth in demand:

- The Group’s current strategy is to invest in approximately 5,000 new PRS homes by 2020, representing 5 per cent. of the new rental homes market (based on the objective of investing £850 million in PRS assets by 2020 and data from the BPF).
- The Group has a national operational platform, being recognised in 2017 as Property Company of the Year at the Property Awards, Landlord of the Year and Asset Manager of the Year at the RESI Awards and PRS developer of the Year at the Rent Awards.

As at 30 September 2017, Grainger was the largest FTSE-listed provider of PRS accommodation in the UK, with a total of 4,789 PRS homes (including co-investments). Pursuing the objective of investing £850 million in PRS assets by 2020, as of 7 February 2018, Grainger has already secured £688 million worth of investment since January 2016.<sup>3</sup> A further £206 million is undergoing planning and legal preparations and an additional £373 million worth of investment is under consideration.<sup>4</sup> These figures are investment amounts and do not reflect the future market value of the assets upon completion. As an indicator, Grainger has secured these investments at gross yields on cost of between 6-8 per cent. and upon completion and stabilisation, these assets are subject to yield compression on revaluations.

The PRS pipeline included in the planning and legal category is classified by the Group as those investments which, in the case of an acquisition opportunity, have reached heads of terms being signed and where parties are progressing with full legal preparation and due diligence, and in the case of a direct development opportunity, are advanced in the process of seeking planning consent from the relevant planning authority. There is still some risk that these opportunities may not materialise, although once a project has reached this phase, that risk has significantly decreased. There is a higher risk at the under consideration phase that a project will not materialise as these projects have not had heads of terms signed and are in an early stage of appraisal and research. Accordingly, there can be no guarantee that the Group will be able to invest amounts in PRS at the levels indicated.

The successful execution of this investment pipeline will see the Group’s recurring net rental income grow significantly over the next two to three years.<sup>5</sup> This is demonstrated by the following chart.

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<sup>2</sup> Source: PwC

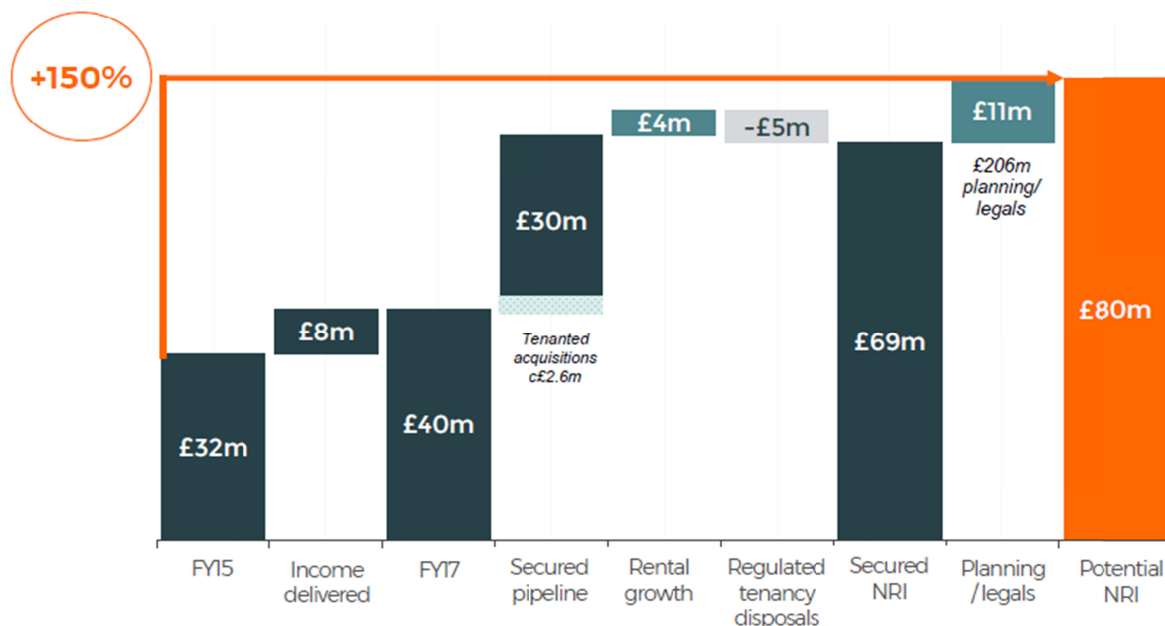
<sup>3</sup> A breakdown by acquisition type is provided as follows: forward funding (£349 million), direct development (£179 million), tenanted acquisitions (£111 million) and co-investment (Grainger’s share) (£49 million).

<sup>4</sup> The planning and legal costs are split as follows: direct development (£173 million) and co-investment (Grainger’s share) (£33 million). The under consideration figures are split as follows: forward funding (£167 million), direct development (£149 million), tenanted acquisitions (£15 million) and co-investment (Grainger’s share) (£42 million).

<sup>5</sup> Based on the £69 million secured pipeline figure in the below chart, net rental income will have increased by 116 per cent. since 30 September 2015.

# Net rental income progression

Originate Invest Operate



Estimates for net rental income demonstrated in the above chart are based on projections for secured, wholly-owned acquisitions (excluding co-investments). They are also based on a rental growth estimation of approximately 3 per cent. and a regulated tenancy vacancy rate of 6.5-7 per cent. The element of projected net rental income which relates to the part of PRS pipeline which is in legal/planning phase is based on assumptions of 6.5-7.5 per cent. gross yield per year and net rental income margin of 72.5-75 per cent. per annum. Given the matters discussed in relation to PRS pipeline above, while the Group believes that projected net rental income is a helpful indicator for investors, there can be no guarantee that the Group will achieve these projections at the levels indicated.

## 1.2 Business Areas

The Group's operations are organised into the following business areas:

- **Residential:** The Residential business owns, acquires, operates and trades the properties within its PRS, regulated tenancy and CHARM portfolios.

The Residential Portfolio is geographically widespread, but with a concentration in London and the South East (76 per cent. by Market Value of the Total Assets Under Management (excluding the Development Portfolio) as at 30 September 2017, with this figure being lower if taken as the Group's share rather than Total Assets Under Management). The pipeline of acquisitions for the PRS Portfolio is well distributed across the UK, although targeted at locations where the Group believes there are prospects for future growth. Cash generated from the UK Residential Portfolio is derived from rental income and also from proceeds from the sale of properties, generally when the properties subject to regulated tenancy fall vacant and are sold.

(i) PRS portfolio: As of 30 September 2017, Grainger has the largest portfolio of operational PRS units in the UK out of all FTSE-listed companies. Grainger's strategy is to invest in approximately 5,000 new PRS

homes by 2020, representing 5 per cent. of the new rental homes market (based on the objective of investing £850 million in PRS assets by 2020 and data from the BPF)<sup>6</sup>. Areas of high demand and rental growth potential are targeted for new investment in either (i) stabilised PRS assets; (ii) forward funded acquisitions; or (iii) direct development by the Group.

The business focuses on developing rental homes specifically with the customer in mind. The development team works alongside the investment and operational teams to secure PRS acquisitions and to manage the development process through to completion. As at 30 September 2017, the PRS under development represented 3 per cent. of the Total Assets Under Management by market value.

(ii) Regulated Tenancies Portfolio: Grainger has one of the largest privately-owned portfolios of regulated tenancies in the UK based on 3,508 wholly-owned properties as at 30 September 2017.

(iii) CHARM Portfolio: The CHARM Portfolio is a financial interest (i.e. the Group is not involved in the day-to-day management of this portfolio) in equity mortgages held by the Church of England pensions board as mortgagee.

- Joint ventures and associates: The joint ventures and associates business comprises investments in joint ventures and the management of the property portfolios held within the joint ventures. These activities generate income from management fees (including performance fees) as well as a share of the profit from the entities. The joint ventures and associates business currently provides property and asset management services to GRIP and asset management services to Walworth Investment Properties Limited (“WIP”). GRIP is a joint venture real estate investment trust (i.e. a private REIT) launched by Grainger and APG Strategic Real Estate Pool (“APG”). WIP was formed as a joint venture between Grainger and Dorrington Investment plc (“Dorrington”).
- Development activity: As well as management of PRS developments, the business derives profits from sales of strategic land sites, development sites to housebuilders and from a construction contract in partnership with the Royal Borough of Kensington and Chelsea. As at 30 September 2017, this activity represented 5 per cent. of the Total Assets Under Management by market value.<sup>7</sup>

For further information on each business area, please see “*Information on the Group – Business Descriptions*”.

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<sup>6</sup> BPF

<sup>7</sup> As at 30 September 2017, development activity represented 3.1 per cent. of Gross Asset Value. This is in line with the Group’s financial policy to maintain development activity below 15 per cent. of Gross Asset Value. While development commitments will increase in accordance with the Group’s PRS strategy, they are expected to remain within 5-10 per cent. of total assets.

As well as being an owner and investor, Grainger has a national in-house property and asset management platform (the operational platform), from which it services its customers and assets, as well as key joint ventures and associates.

The table below sets out key financial highlights for the Group and a detailed Income Statement, with further analysis presented on the following pages.

<b>Highlights</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
Net rental income.....	£37.4m	£40.4m	8% <sup>8</sup>
Net rental income margin .....	72%	74%	200bps <sup>9</sup>
Adjusted earnings .....	£53.1m	£74.4m	40% <sup>10</sup>
Operational cashflow .....	£113.1m	£133.9m	18% <sup>11</sup>
Gross Asset Value <sup>12</sup> .....	£1,908m	£1,964m	3% <sup>13</sup>
Loan to value .....	35.9%	37.7% <sup>14</sup>	180bps <sup>15</sup>
Interest cover <sup>16</sup> .....	2.4x	3.8x <sup>17</sup>	1.4x <sup>18</sup>
Cost of debt (average).....	4.2%	3.5%	(90)bps

<sup>8</sup> 10 per cent. compound annual growth rate (“CAGR”) since 30 September 2014 figure of £30.4 million.

<sup>9</sup> 460bps increase since 30 September 2015.

<sup>10</sup> 40 per cent. CAGR since 30 September 2014 figure of £27.4 million.

<sup>11</sup> 42 per cent. increase since 30 September 2015. 19 per cent. CAGR since 30 September 2014 figure of £79.2 million.

<sup>12</sup> Year ended 30 September 2015: £1,811 million.

<sup>13</sup> 6 per cent. CAGR since 30 September 2014 figure of £1,649 million.

<sup>14</sup> LTV (vacant possession): 33.5 per cent.

<sup>15</sup> 880bps decrease since 30 September 2014 figure of 46.5 per cent.

<sup>16</sup> Year ended 30 September 2015: 1.6x.

<sup>17</sup> The Group’s financial policy is to keep ICR above 2x.

<sup>18</sup> 2.3x increase since 30 September 2014 figures of 1.5x.

<b>Income Statement</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Net rental income.....	37.4	40.4	8%
Profit on sale of assets – residential.....	59.7	60.4	1%
Profit on sale of assets – development.....	11.8	14.7	25%
Mortgage income (CHARM).....	6.5	6.2	(5)%
Management fees.....	6.2	5.1	(18)%
Overheads.....	(31.8)	(27.2)	(14)%
Other expenses.....	(1.1)	(1.1)	0%
Joint ventures and associates .....	1.5	2.9	93%
Net finance costs.....	(37.1)	(27.0)	(27)%
<b>Adjusted earnings .....</b>	<b>53.1</b>	<b>74.4</b>	<b>40%</b>

<b>Revenue by business area</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Residential .....	165.3	179.2	8
Development .....	49.7	81.3	64
Funds.....	4.8	4.1	(15)
Other .....	0.1	0.1	0
<b>Total revenue .....</b>	<b>219.9</b>	<b>264.7</b>	<b>20</b>

<b>Market value balance sheet</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Residential – PRS .....	461	526 <sup>19</sup>	14
Residential – regulated tenancies.....	1,249	1,214	(3)
Residential – mortgages (CHARM) .....	93	86	(8)
Development work in progress – PRS.....	105	138	31
Investment in JVs/associates .....	193	206	7
<b>Total Investments .....</b>	<b>2,101</b>	<b>2,170</b>	<b>3</b>
Net debt .....	(764)	(848)	11
Other assets/liabilities.....	32	112	2
Discontinued (excluding loans) .....	11	-	(100)
<b>EPRA NAV.....</b>	<b>1,380</b>	<b>1,434</b>	<b>4</b>
Deferred and contingent tax – regulated tenancies .....	(96)	(95)	(1)
Deferred and contingent tax – PRS/Other .....	(50)	(49)	(2)
Fair value of fixed rate debt and derivatives....	(34)	(22)	(35)
<b>EPRA NNAV .....</b>	<b>1,200</b>	<b>1,268</b>	<b>6</b>

<sup>19</sup> The Group's target is for the market value of Residential PRS to represent more than 50 per cent. of the value of its wholly owned assets by 2020.

The table below provides a further breakdown of the property assets owned by the Group.

As at 30 September 2017				
Business Area	No. of units.	Market value	Vacant possession value	Reversionary Surplus
		£m	£m	£m
Residential – PRS .....	2,513	526	573	47
Residential – regulated tenancies.....	3,508	1,214	1,444	230
Residential – mortgages (CHARM).....	634	86	86	-
Development work in progress .....	-	138	138	-
<b>Wholly-owned assets</b> .....	<b>6,655</b>	<b>1,964</b>	<b>2,241</b>	<b>277</b>
Co-investments (Grainger share) .....	709	270	303	33
<b>Total investments</b> .....	<b>7,364</b>	<b>2,234</b>	<b>2,544</b>	<b>310</b>
Assets held for sale .....	-	-	-	-
Assets under management (third party share).....	1,567	607	683	76
<b>Total Assets Under Management</b> .....	<b>8,931<sup>20</sup></b>	<b>2,841<sup>21</sup></b>	<b>3,227</b>	<b>386</b>

The Reversionary Surplus is not included in either the statutory or the Market Value balance sheets.

A year-on-year comparison of each of these metrics (if applicable) is provided in the section entitled “*Information on the Group – Business Descriptions*”.

### 1.3 Valuations

Allsop LLP (“**Allsop**”) and CBRE Limited (“**CBRE**” and, together with Allsop, the “**Valuers**”) are the Group’s independent property valuers for certain UK assets of the Group.

At the end of each financial year, a valuation process is undertaken for the Group’s entire Residential Property portfolio on a Vacant Possession Value basis. The Valuers externally inspect property and provide a valuation for approximately 70 per cent. of the properties in the portfolio. Grainger also values approximately 70 per cent. of properties held within the portfolio. Where both Grainger and the Valuers value the same properties, the results are compared. Where such results show a difference in value of 10 per cent. or more, Grainger and the Valuers discuss the reasons for the difference and agree the appropriate valuation that should be adopted by the Directors. The Directors consider this to be a robust valuation process, which is regularly tested and proven by the Company’s track record of selling properties at values above their Vacant Possession Values.<sup>22</sup>

<sup>20</sup> Total no. of reversionary assets under management: 4,142. Total no. of PRS (wholly-owned & co-investment units) units under management: 4,789.

<sup>21</sup> Total market value of reversionary assets under management: £1,300 million. Total market value of PRS (wholly-owned & co-investment units) units under management: £1,403 million (excluding development work in progress).

<sup>22</sup> Between 2007 and 2017, the Group sold an average of 6.3 per cent. of properties in its Regulated Tenancies Portfolio ahead of appraised vacant value.

The Valuers are also discussed in more detail in “*Risk Factors – Risks relating to the property industry – Property valuation is inherently subjective and uncertain*”. References in this Offering Memorandum to the properties or portfolios which the Valuers value are to be taken as the exhaustive list of properties or portfolios that are covered by the Valuers’ valuations, and the Valuers do not provide valuation services to any other properties or portfolios which form part of the Group’s business.

## **2. COMPETITIVE STRENGTHS AND STRATEGY**

Grainger has significant expertise in the residential real estate sector with over 100 years of experience. It focuses on complementary activities, including origination, investment and operation, allowing it to benefit from synergies between the divisions, thereby enhancing overall returns. Grainger’s significant competitive strengths include:

### ***Supportive market fundamentals of the Group’s PRS strategy***

The UK has a well-documented under-supply of housing, including an under-supply of homes for rent with an estimated 1.8 million new PRS households required by 2025 and only 105,000 PRS homes expected to be delivered over the next two to three years.

At present, the PRS market is fragmented and dominated by small, private and amateur landlords. 98 per cent. of all UK landlords have portfolios of less than 10 properties. See “*Market Overview*” for more detail on the market.

These two circumstances provide Grainger the opportunity to lead the professionalisation of the sector and to disrupt the current market dynamics.

### ***Investment expertise and deep operational capability***

Grainger has extensive expertise in both investment and operations.

With an in-house acquisitions and investment team, supported by strong in-house research and long-term relationships and experience in the sector, Grainger has, as of 7 February 2018, secured £688 million of new investment in two years at attractive gross yields of between 6.5 per cent. and 8 per cent. per year, demonstrating the Group’s ability to source and transact high quality opportunities.

For over 106 years, Grainger has managed residential homes for rent, which includes managing everything from rent collection to repairs. Currently, Grainger directly manages approximately 9,000 properties across the UK. In the past two years, the Company has invested further in its scalable operational platform to underpin its growth plans, including its people, processes and technology. Its award-winning national operational platform provides the Group with a significant competitive advantage. As most of Grainger’s competitors outsource property management to third parties, this is a significant barrier to entry generally to the market.

### ***Long-term approach to investing***

Grainger takes a long-term view on its investments, providing it with an advantage over shorter term investors and funds in the sector. This approach allows the Group to secure opportunities and long-term partnerships with landowners and public bodies, including central and local government.

### ***Large and high quality asset portfolio***

Grainger has a market-leading residential property portfolio in the UK consisting of 8,931 properties under management, with an aggregate Market Value of £2,841 million as at 30 September 2017. The Property Portfolio is spread throughout the UK, and is focused on areas where management believes there is the highest potential for returns.

### ***PRS investment generates sustainable returns through growing rents***

As at 30 September 2017, Grainger was the largest FTSE-listed provider of PRS property in the UK, with a total of 4,789 PRS homes (including co-investments) with a market value of £1,403 million. 2,513 of these units were wholly-owned (compared with 2,092 units as at 30 September 2016, a 20.1 per cent. increase). The units had a market value of £526 million as at 30 September 2017, as compared to £461 million as at 30 September 2016.

The PRS business has delivered strong, sustainable and recurring results, demonstrating Grainger's investment in high quality assets and consistent customer service. As of 7 February 2018, the Group has secured a total of £688 million of PRS investment, with gross yields typically of between 6.5 per cent. and 8 per cent. Grainger's strategy is to invest a total of £850 million in PRS units by 2020; in addition to the £688 million already secured, a further £206 million is undergoing planning and legal assessment and an additional £373 million worth of investment is under consideration.

In 2017, the Group saw an 8 per cent. increase in net rental income, and a 3.3 per cent. increase in like-for-like rental growth on PRS homes, which outperformed the 1.6 per cent. market average.<sup>23</sup> The Group has been successful in reducing voids and increasing customer retention. Last year, the Company increased the average length of customer stay by nine months to over two years, supporting the Group's recurring net rental income stream. In addition, the Group has increased its net rental income margin from 69.3 per cent. in 2015 to 74 per cent. (as at 30 September 2017). Recently, the Group has been offering three-year tenancies and has seen high levels of take-up, particularly in its new assets. These factors have reduced tenant turnover, void rates, re-letting and maintenance costs. The Group is committed to improving continually customer satisfaction levels by investing in customer service through investments in technology, which will further optimise the Group's recurring net rental income.

The Group therefore has a strong operational position from which to expand its PRS Portfolio and benefit from significant demand for PRS accommodation. The PRS business has emerged as the fastest growing tenure in the UK over the last decade, while owner occupation has been in decline since 2005.<sup>24</sup> As at January 2018, 52 per cent. of all London households are rented<sup>25</sup>, and Grainger expects this proportion to increase. Consequently, the Group expects to invest £850 million into PRS investments by 2020. The Group strategically positions itself to take advantage of such opportunities by: (i) maintaining appropriate resources (financial, staff, systems) to be able to transact quickly; (ii) maintaining a market presence through individual and corporate relationships with agents, dealers and potential vendors; and (iii) closely monitoring existing larger portfolios (such as those held by housing associations and other corporates).

The Group is currently increasing its exposure to the private rental market in the UK through investing in high-quality assets,<sup>26</sup> including (in each case based on March 2018 management figures and calculations):

- the forward funding agreement to acquire the development of Clippers Quay, Salford. Acquired in February 2016, the Group has partnered with a local developer to design and complete 614 PRS units. The first completions are expected in late 2018, and the building will generate an estimated £5.75 million in net rental income per year;
- the development of Berewood, Waterlooville, Hampshire. The Group is directly developing this project and has full design and delivery oversight in the development of 104 PRS homes, which will generate an estimated £1 million in net rental income per year;

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<sup>23</sup> Source: Average from ONS, Countrywide and HomeLet

<sup>24</sup> Source: ONS

<sup>25</sup> Source: MHCLG, English Housing Survey, Headline Report, 2016-17 (published January 2018)

<sup>26</sup> The Group is targeting assets of 120 units and more, and regional clusters of approximately more than 300 units.

- the £28 million forward funding acquisition of 156 PRS units in Gilder's Yard, Birmingham, agreed in November 2017;
- the £22 million acquisition of an existing and tenanted PRS block, The Rock in Bury, Manchester, comprising 233 PRS units;
- the £46 million acquisition through a forward funding arrangement with a local developer to deliver 194 PRS units at Finzels Reach in Bristol city centre;
- Apex House, a £60 million and 163 PRS unit development, which Grainger is directly developing with full control over design and delivery in Tottenham, North London;
- the acquisition of the RESI portfolio in Manchester, a tenanted portfolio acquired in 2015 comprising 277 PRS units; and
- the £80 million forward funding agreement to acquire a 375 PRS unit development (Gore Street) in Manchester city centre, bringing Grainger's Manchester cluster to approximately 1,700 units when completed.

For more information, please see *"Information on the Group – Business Descriptions – Residential Business"*.

The Group's strategy is for net rental income to exceed profit from sales to improve further its sustainable returns.

#### ***Positive political support for the growth and professionalisation of the PRS***

The UK Government explicitly recognises the benefits of the professionalisation of the PRS and Build to Rent and how they can help address the housing shortage in the UK. As a result, it has made changes to the planning system in favour of Build to Rent and allocated Government funding to the sector. The November 2017 Budget allocated £8 billion to support the growth of the Build to Rent sector. The UK Government also recently updated its national planning policy in support of the sector, including guidance which explicitly recognises that Build to Rent schemes differ from build for sale schemes and so require alternative viability assessments, as well as a requirement for local councils to identify their local need for rental homes. The GLA has also recently updated its planning policy along similar lines.

#### ***Regulated Tenancies Portfolio providing strong cash flow to support the growth strategy of the Group***

Regulated tenancies remain an attractive asset class, because they offer a unique blend of capital appreciation and yield. It is also an area where the Group has a market leading position and the ability to transact quickly and effectively (particularly on larger acquisition opportunities). Grainger intends to hold and actively manage its Regulated Tenancies Portfolio on a long-term basis in order to realise and enhance the embedded Reversionary Surplus upon vacancy (although the Group conducts regular reviews on a unit-by-unit basis and actively manages the portfolio accordingly, sometimes selling before vacancy).

The Regulated Tenancies Portfolio complements the PRS rental profile, with cash flows being reinvested to support the growth of the PRS Portfolio.

#### ***Proactively manage assets by simplifying and focusing the business model***

The Group has been focused on growing its PRS portfolio since 2015. The sale of the non-core businesses and the restructure of the Group has enabled a significant reduction in costs. In 2017, overhead costs amounted to £27.2 million; a decrease of 14 per cent. compared to 2016, and a decrease of 25 per cent. compared to 2015, when the new strategy commenced. The Group's streamlined approach allows close monitoring of all assets, while the increased emphasis on cost control and efficiency will lead to growth and enhanced rental margins.

Cost control and maximising efficiency in the Group's operating platform has helped to reduce property operating costs, increasing net rental margins from 69 per cent. to a sustainable level of 74 per cent. since 2015.

Finance costs were also reduced by £35 million through a combination of the reduction in the quantum of net debt and also through the overall cost of debt reduction from 5.3 per cent. to 3.5 per cent. since 2015.

At the same time, the Group's refined focus allows room for increased contact with the customer. By improving customer service, the Group intends to attract and retain customers, which will support both asset valuations and net income. The Group has the expertise and operational infrastructure to provide reliable service directly to the customer.

### ***Support and build the PRS model with support from a reliable portfolio of regulated properties***

The Regulated Tenancies Portfolio largely consists of affordable, un-modernised properties (i.e. not new build properties but very often attractive period properties which are less volatile and low risk in terms of value fluctuation). When sold with vacant possession, they appeal to a wide range of buyers, with the market value of over 80 per cent. of properties in the portfolio being less than £500,000. The quality of the Regulated Tenancies Portfolio is evidenced by Grainger's ability consistently to sell assets materially in excess of their acquisition cost, achieving margins on sales of vacant properties averaging 51 per cent. over the period from 1 October 2014 to 30 September 2017. Grainger has also regularly out-performed the Nationwide and Halifax house price indices in the 9-year period to September 2017 – see “*Market Overview — UK residential real estate market*”.

Properties within Grainger's Regulated Tenancies Portfolio were purchased as tenanted homes at a discount to their Vacant Possession Value, which gives rise to a significant Reversionary Surplus. Because of the size of Grainger's Regulated Tenancies Portfolio, the rate at which regulated properties become vacant is stable. In the three-year period to 30 September 2017, approximately 6.5 per cent. of Grainger's regulated properties in the Regulated Tenancies Portfolio became vacant and were sold with vacant possession each year. As at 30 September 2017, the aggregate Vacant Possession Value of the Residential Portfolio was £2,103 million, including an aggregate Reversionary Surplus of £277 million. This Reversionary Surplus is not included in either the statutory or the Market Value balance sheets described under “*Overview-Selected financial information on the Group-Gross Net Asset Value Market Value Balance Sheet*”.

### ***Diverse and stable revenue streams with defensive characteristics leading to stable cash flows***

Grainger benefits from a variety of income streams in the residential real estate sector, including rental income from tenanted properties, proceeds from the sale of properties, performance-based distributions, and property and asset management fees. Income stability is supported by Grainger's ability to sell assets quickly and through economic cycles (see “*Demonstrated ability to monetise portfolio*” below).

Income stability is also supported by the recurring nature of Grainger's rental income – net rental income of £40.4 million constituted 54 per cent. of the Group's adjusted earnings of £74.4 million in the year ended 30 September 2017. Rent from the PRS Portfolio contributed approximately 50 per cent. of net rental income. In the year ended 30 September 2017, 1,089 new PRS lets were opened, contributing to a like-for-like rental growth of 3.8 per cent. for the combined portfolio. Because Grainger occupies a strong market position as described above, the Group's strategy is to grow significantly the income generated by the PRS Portfolio.

In addition, the existing Regulated Tenancies Portfolio supports the expanding PRS business. The majority of the Regulated Tenancies Portfolio comprises tenancies for which the tenant pays less than market rate rentals and enjoys security of tenure. Accordingly, existing tenants in these properties are highly incentivised to avoid missing payments. Non-payment of rent gives Grainger the right to evict tenants (notwithstanding their security of tenure) and to re-let the properties at current market rates or to sell the properties with vacant possession and realise the Reversionary Surplus early.

As a result, rental income is stable and rent arrears (at 2.1 per cent. as at 30 September 2017) are low in Grainger's Residential Portfolio. There is also stability of reversion rates (approximately 6.5 per cent.) as a result of the size of Grainger's Residential Portfolio.

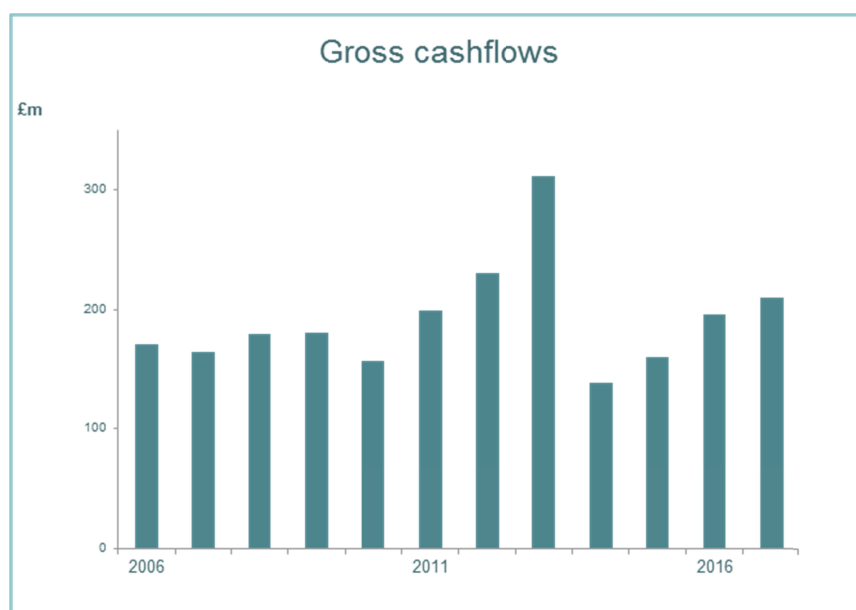
The overall effect of the Group's varied income stream helps to hedge against the volatility of the property market and to offer the Group flexibility in adapting to varying economic circumstances. This flexibility would include the option to maximise value for the Group by selling properties in their unmodernised condition; refurbishing and then offering the property for sale; or re-letting the property to generate net rental income, depending on market conditions at any specific time.

Further, the Group has stable cashflows generated in part from sales proceeds of properties in its Residential Portfolio as well as recurring revenue from other areas of its business, including rental income. The Group's LTV target is between 40 and 45 per cent. and, at 30 September 2017, its Consolidated LTV was 37.7 per cent. In the two year period ended 30 September 2017, the Group also achieved a reduction in the cost of debt by 120bps, a reduction in finance cost by 48 per cent. and a reduction in overhead costs of 25 per cent. (as compared to the year ended 30 September 2015).

The Group's stable cash flows and strong financial position, including a moderate Consolidated LTV of 37.7 per cent., mean that it is well positioned to deliver on its stated strategies by selectively exploiting opportunities to grow its business as and when they arise. The Group believes that its financial strength (coupled with its strong market reputation) enables it to attract opportunities for acquisitions and strategic alliances with high calibre investment partners that generate strong and diversified returns.

### ***Demonstrated ability to monetise portfolio***

Grainger has consistently demonstrated its ability to monetise both its PRS and its regulated tenancies portfolios, even in challenging market conditions. The Company consistently achieved over £100 million gross cash flow<sup>27</sup> between 2006 and 2016, as shown in the following diagram:



In the PRS sector, having secured a total of £688 million in investments as of 7 February 2018, Grainger has delivered strong results. In the year ended 30 September 2017, PRS contributed approximately 50 per cent. of the Group's net rental income of £40.4 million. Net rental income margin was increased by 200bps and rent grew by 3.3 per cent. on a like-for-like basis (significantly outperforming the market rental growth

<sup>27</sup> Between 2007 and 2017, the Group generated average gross cashflow of £193 million.

of 1.6 per cent.<sup>28</sup>). By investing in reliable customer service, the average length of customer stay was increased from 18 to 27 months.

The regulated tenancy business remains a stable and growing source of income. Grainger sold an average of 6.5 per cent. of the regulated units with vacant possession in the Residential Portfolio per year since 1 October 2014. Grainger expects to hold regulated properties, generating capital appreciation from house price inflation in addition to the realisation of the Reversionary Surplus. During the financial year ended 30 September 2017, Grainger achieved a sales margin on vacant possession sales of 46 per cent. from the Regulated Tenancies Portfolio (compared to 50 per cent. for the financial year ended 30 September 2016) and 10 per cent. from the CHARM Portfolio (compared to 13 per cent. for the financial year ended 30 September 2016).

Grainger is also able to sell properties subject to an existing tenancy ("**Investment Sales**") as a further means of cash generation and/or portfolio improvement.

The average annual gross cash inflow from all sales of residential property (taking into account deduction of any sales fees) in the three years to 30 September 2017 was £149 million per year and, over the eight years to 30 September 2017, has been £168 million per year. When rents, fees and other income are included, the annual inflows average £207 million and £227 million over the three years and eight years to 30 September 2017, respectively.

#### ***A low risk business model underpinned by limited exposure to short-term house price movements***

Grainger has limited exposure to short-term house price movements (given it has a long hold period on its properties). Grainger has regularly outperformed both the Nationwide and Halifax house price indices since 2007 as well as outperforming certain other property indices (see "*Market Overview – UK residential real estate market*"). Grainger's limited level of exposure to short-term house price movements, in combination with factors described in "*Diverse and stable revenue streams with defensive characteristics leading to stable cash flows*" above, significantly reduces the level of risk in its business model.

#### ***Market leading operational platform***

The Group has a leading operational platform with substantial experience in managing residential properties and meeting the needs of residential tenants. The business model and operating platform has been designed to ensure scalability and cost efficiency as the portfolio grows.

In 2017, the Company was awarded Property Company of the Year at the national Property Awards, Landlord of the Year and Asset Manager of the Year at the RESI Awards, and PRS developer of the Year at the Rent Awards.

#### ***Experienced management team with significant sector expertise and a proven track record***

The Group benefits from an experienced senior management team with extensive knowledge of the UK residential housing market. Senior management has many years of collective industry experience and therefore significant previous experience at guiding the business through different operational and economic environments. The Group's market position is enhanced by its ability to utilise the scale, experience and specialist expertise of its complementary business activities to maximise value through each asset's ownership cycle. Management believes that this depth of experience provides the Group with a competitive advantage and ensures it is well placed to grow over the long term and to continue to both add value to its assets under management and to outperform regularly the wider market, through a selective investment policy and active asset management. In the year ended 30 September 2017, the Group saw like-

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<sup>28</sup> Source: Average from ONS, Countrywide and HomeLet

for-like rental growth<sup>29</sup> across the entire portfolio of 3.8 per cent. with 3.3 per cent. across PRS assets, ahead of market rental growth of 1.6 per cent.<sup>30</sup> Efficiencies in the Group's operating platform have led to a sustainable increase in net rental margins from 69 per cent. to 74 per cent. since 2015.

Grainger's overall objective is to continue to deliver sustainable value from its residential property portfolio which includes growing net rental income through: (i) rental growth on its underlying rent portfolio; (ii) acquisitions; and (iii) improving the efficiency of its operating platform. Other measures include an improvement in operating margin, simplifying the business and focusing on core sales, cost reduction in property operating costs and financing costs, as well as building on its experience (see below).

### ***Build on experience and use the Group's established position to achieve growth***

Over the past 106 years, the Group has established itself as a leading, responsible and professional landlord. The Group's resulting position and expertise (which comes from scale and depth of operating experience) will be used to gain market share in the PRS growth market, by improving customer service and reinvesting cash flows from the Regulated Tenancies Portfolio.

## **3. CORPORATE AND FINANCING STRUCTURE**

The Group's funding strategy is to match as closely as possible the long-term nature of its assets with appropriate long-term funding, whilst extending and staggering its debt maturity profile to mitigate re-financing risk and to lock into the current low interest rate environment.

Following the refinancing of its debt facilities (see "*Description of Indebtedness*") in recent years the Group has deleveraged significantly and the primary reason for issuing the Notes is to re-finance the Existing Corporate Bonds, maturing 16 December 2020 and to extend the weighted average maturity of the Group's debt.

As at 30 September 2017, the Group's gross total debt was £935 million; net debt was £848 million.<sup>31</sup> Since September 2017, a new £75 million, 10 year facility with Rothesay Life has been agreed. As at February 2018, the Group's gross total debt was £995 million. Following the issue of the Notes, £275 million will be used to redeem the Existing Corporate Bonds and of the remaining proceeds, it is anticipated that approximately £30 million will be used to pay costs incurred in connection with the issue. Following the issue of the Notes, and the redemption of the Existing Corporate Bonds, the Group's drawn debt will increase by £30 million to £1,025 million.

Upon the issue of the Notes, and the redemption of the Existing Corporate Bonds, the Group's principal debt facilities will comprise: (i) £720 million of committed banking facilities which have maturity dates ranging from 2020 to 2022 (the "**Bank Facilities**"), £90 million of the facilities have extension options to 2023 and £450 million of the facilities have extension options to 2024; (ii) £350 million, being the principal amount of the Notes; and (iii) £234 million non-recourse secured indebtedness incurred by certain subsidiaries of the Group, referred to as Excluded Entities (none of which are Guarantors of the Notes).

As at February 2018, the Group's principal debt facilities had a weighted average maturity of 4 years (4.8 years with extensions). Upon the issue of the Notes, the maturity will be extended to approximately 5.8 years (6.5 years with extensions).

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<sup>29</sup> Measured as the average increase in rent charged across the Group's portfolio, excluding any uplift resulting from refurbishment activity.

<sup>30</sup> Average from ONS, Countrywide and Homelet

<sup>31</sup> The total gross debt figures for WIP and GRIP were £80 million and £214 million, respectively.

As at February 2018, the Group's hedging stood at 81 per cent.<sup>32</sup> This compares to 87 per cent. for the financial year ended 30 September 2017.

The following table summarises the Group's existing debt facilities:

	<b>Lender</b>	<b>Facility Size (£m)</b>	<b>Maturity</b>
<b><i>Core Facilities</i></b>			
Term Debt	Nationwide, HSBC, NatWest, Barclays, AIB	250	Aug 2022*
Revolving Credit Facility	HSBC, NatWest, Barclays	330	Aug 2022*
Bi-Lateral Term	HSBC	50	Nov 2022**
Bi-Lateral Term	RBS	50	Nov 2022
Bi-Lateral Term	Handelsbanken	40	June 2022**
Corporate Bond	Listed	275	Dec 2020
<b>Total Core Facilities</b>		<b>995</b>	
<b><i>Excluded Entities</i></b>			
GInvest Term Debt	HSBC, Santander	150	Oct 2020
Institutional Term Debt	Rothsay Life	75	Oct 2027
Homes England (formerly Homes and Communities Agency)	HCA	9	Feb 2025
<b>Total Group Facilities</b>		<b>1,229</b>	

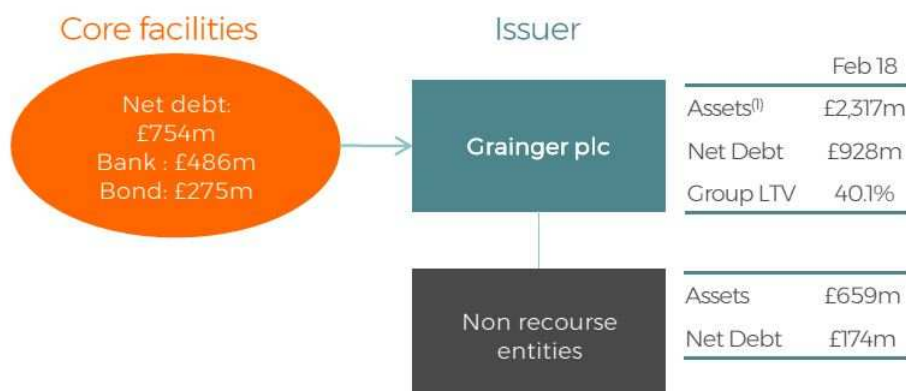
\* £450m extended to August 2022 with 2 year extension options.

\*\* Further 1 year extension options available.

<sup>32</sup> The Group's hedging policy is to hedge a minimum of 70 per cent. of fixed debt or higher.

The following is a simplified corporate and financing structure which shows the current location of debt within the Group, based on February 2018 management figures:

## Outline Structure



Note: "Assets" excludes 3<sup>rd</sup> party share of assets under management (£607 million as at 30 September 2017). Group property and investment assets (market value) as at 30 September 2017: £2,251 million.

## 4. SELECTED FINANCIAL INFORMATION ON THE GROUP

*The audited data for the financial years ended 30 September 2016 and 2017 set out below have been extracted without material adjustment from, and should be read together with, the Group's audited consolidated financial statements included in the Company's Annual Report and Accounts as at and for the financial years ended 30 September 2016 and 2017 respectively (together, the "Annual Report and Accounts"). The audited data for the financial year ended 30 September 2015 set out below has been extracted without material adjustment, and should be read together with the re-stated comparatives included in the Company's Annual Report and Accounts as at and for the financial year ended 30 September 2016. The comparative financial information for the year ended 30 September 2015 was restated to show the results from continuing operations only. Such financial statements are incorporated by reference into this document.*

**Key consolidated income statement data**

	<b>Audited year ending 30 September</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Group revenue .....	193.1	219.9	264.7
Adjusted earnings .....	31.5	53.1	74.4
Profit before tax - continuing operations .....	51.4	84.2	86.3
Profit after tax - continuing operations .....	44.0	74.5	73.5
Profit / (loss) after tax for discontinued operations.....	(1.3)	60.8 <sup>33</sup>	1.2
Profit attributable to owners of the Company .....	42.7	135.3	74.7

**Reconciliation of income statement numbers**

	<b>Audited year ending 30 September</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adjusted earnings .....	31.5	53.1	74.4
<b>Add back / (deduct)</b>			
Valuation movements .....	23.4	23.7	14.7
Non-recurring items .....	(3.5)	7.4	(2.8)
<b>Profit before tax - continuing operations.....</b>	<b>51.4</b>	<b>84.2</b>	<b>86.3</b>

<sup>33</sup> Discontinued activities represent the activities of, and the profits on disposal of the Retirement Solutions business and the German operation completed in the year ended 30 September 2015.

**Key consolidated balance sheet data**

	Audited year ending 30 September		
	2015	2016	2017
	£m	£m	£m
<b>ASSETS</b>			
Investment property .....	357.8	261.3	391.0
Inventories—trading properties .....	1,152.2	904.3	841.3
Other assets .....	411.6	447.3	534.7
Total assets .....	1,921.6	1,612.9	1,767.0
<b>LIABILITIES</b>			
Total liabilities .....	1,356.7	937.7	1,021.7
<b>Net assets</b> .....	<b>564.9</b>	<b>675.2</b>	<b>745.3</b>

**Gross Net Asset Balance Sheet showing Trading Properties at Market Value**

The Regulated Tenancies Portfolio is held as trading stock and is therefore shown in the statutory balance sheet at the lower of cost and net realisable value. This does not reflect the Market Value of those properties. Therefore the balance sheet below shows a summary of net assets with the trading properties re-stated at Market Value.

In addition, the balance sheet below is stated after adding back the statutory balance sheet amounts for deferred tax on property revaluations and net of the fair value of derivative assets and liabilities, net of deferred tax. The resultant measure of net asset value is NAV. The EPRA Best Practices Committee has recommended the use of an EPRA NAV. The definition of this measure is consistent with NAV used by Grainger.

The Core LTV covenant ratio for the purposes of the core debt facilities, the Existing Corporate Bonds, and the Notes is based on the Market Value of properties as reflected in the balance sheet shown below and not on the asset values included in the Group's statutory balance sheet.

**NAV Balance Sheet\***

	Audited year ending 30 September		
	2015	2016	2017
	£m	£m	£m
<b>ASSETS</b>			
Investment property .....	357.8	261.3	391.0
Inventories—trading properties .....	1,839.9	1,553.7	1,487.1
Other assets .....	427.6	460.6	546.8
Total assets .....	2,625.3	2,275.6	2,424.9
<b>LIABILITIES</b>			
Total liabilities .....	(1,291.2)	(896.1)	(990.4)
<b>Net assets</b> .....	<b>1,334.1</b>	<b>1,379.5</b>	<b>1,434.5</b>

\* The Reversionary Surplus of £310 million as at 30 September 2017 is not included in the NAV Balance Sheet. This surplus will be realised as properties become vacant over time.

**Key consolidated cash flow data**

	For the financial year ended 30 September (Audited)		
	2015	2016	2017
	£m	£m	£m
<b>Net cash inflow/(outflow) from operating activities</b> .....	(2.0)	54.0	45.5
<b>Net cash inflow/(outflow) from investing activities</b> .....	15.8	172.9	(107.5)
<b>Net cash inflow/(outflow) from financing activities</b> .....	1.2	(226.8)	60.0
Net increase/(decrease) in cash and cash equivalents .....	15.0	0.1	(2.0)
Cash and cash equivalents at beginning of year .....	74.4	88.8	90.7
Net exchange movements on cash and cash equivalents .....	(0.6)	1.8	0.2
<b>Total cash and cash equivalents at end of year</b> .....	<b>88.8</b>	<b>90.7</b>	<b>88.9</b>

The cashflows of the business operations are set out in the table below.

<b>Operational cashflows</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross rental income.....	47.0	50.8	54.6
Cash from sales (net of fees).....	146.0	144.4	155.5
Management fees & other income.....	8.0	6.3	8.2
<b>Total continuing inflows.....</b>	<b>201.0</b>	<b>201.4</b>	<b>218.2</b>
<b>Outflows</b>			
Property operating costs.....	(14.3)	(14.5)	(14.2)
Overheads.....	(32.4)	(31.8)	(27.2)
Other expenses.....	(3.2)	(0.6)	(1.1)
Net interest cost (excl. break fees etc.) .....	(51.7)	(39.9)	(30.1)
Corporation Tax.....	(4.9)	(1.6)	(11.7)
<b>Operational cashflow.....</b>	<b>94.4</b>	<b>113.1</b>	<b>133.9</b>

### **Key performance measures**

<b>Income Returns</b>	<b>As at 30 September</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Net rental income (£m) .....	32.4	37.4	40.4
Property operating cost (gross to net) (%) .....	30.7	28.0	26.0
PRS rental growth (%).....	3.4	3.6	3.3
Adjusted earnings (£m).....	31.5	53.1	74.4
Profit before tax (£m) .....	51.4	84.2	86.3
<b>Capital Returns</b>	<b>As at 30 September</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
EPRA NAV (£m).....	1,334.1	1,379.5	1,434.5
EPRA NNNNAV (£m).....	1,101.5	1,199.5	1,268.2
Loan to value (%) .....	45.5	35.9	37.7 <sup>34</sup>
Cost of debt (at period end) (%) .....	4.6	3.9	3.4

## **5. RISK FACTORS**

Prospective investors should carefully consider the risks described under the heading “*Risk Factors*”, any of which could, if realised, have a material adverse effect on the Group’s business, results of operations, financial condition or prospects.

<sup>34</sup> LTV (vacant possession): 33.5 per cent.

## THE OFFERING

The following is an overview of the terms of the Notes. This overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the “**Conditions**”) and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.

<b>Issuer:</b>	Grainger plc
<b>Guarantors:</b>	Each of the subsidiaries of the Issuer set forth on page 102
<b>Description of Notes:</b>	£350,000,000 3.375 per cent. Guaranteed Secured Notes due 2028, to be issued on 24 April 2018
<b>Coupon:</b>	3.375 per cent.
<b>Issue Price:</b>	99.588 per cent.
<b>Trustee:</b>	HSBC Corporate Trustee Company (UK) Limited
<b>Maturity Date:</b>	The Notes will mature on 24 April 2028.
<b>Interest:</b>	The Notes will accrue interest at a rate equal to 3.375 per cent. per annum from and including the Issue Date to but excluding the Maturity Date.
<b>Interest Payment Dates:</b>	Interest on the Notes will be payable in arrear on 24 October 2018 and thereafter on 24 April and 24 October of each year until and including the Maturity Date. The first Interest Payment Date will be 24 October 2018.
<b>Interest rate adjustment</b>	In the event that S&P downgrades the rating of the Notes to lower than BBB- the interest payable on the Notes will increase by 1.25 per cent. with effect from the Interest Payment Date following such downgrade and in the event that S&P then subsequently reinstates a BBB- rating or higher for the Notes the interest payable on the Notes will decrease by 1.25 per cent. with effect from the Interest Payment Date following such reinstatement (with any such step down and step up of interest payable only being able to occur once during the term of the Notes), all as more particularly described in Condition 5.2 ( <i>Interest rate adjustment</i> ).
<b>Optional Redemption by Issuer:</b>	At any time which is more than 90 days prior to the Maturity Date the Issuer may redeem any Notes in whole or in part at a redemption or purchase price per Note equal to the higher of the principal amount of the Note and an amount calculated by reference to the then yield of the 6.00 per cent. United Kingdom Treasury Stock due 2028 plus a margin of 0.30 per cent., together with accrued interest, as described under Condition 7.4 ( <i>Redemption at the Option of the Issuer</i> ).  The Issuer may, at any time during the period commencing on (and including) the day that is 90 days prior to 24 April 2028 to (and excluding) the 24 April 2028 redeem the Notes in whole or in part at their principal amount, together with accrued interest, as described under Condition 7.5 ( <i>Maturity Par Call</i> ).
<b>Optional redemption for tax</b>	The Issuer may, at its option, redeem all (but not less than all) of the

<b>reasons:</b>	Notes then outstanding at their principal amount together with interest accrued to but excluding the date of redemption, if the Issuer becomes obliged to pay any additional amounts as a result of a change in law or each of the Guarantors would be obliged to pay additional amounts as a result of a change of law, where the Issuer does not have sufficient funds to satisfy its obligations and each of the Guarantors is unable for reasons outside its control to put the Issuer in funds. See “ <i>Terms and Condition of Notes—Redemption and Purchase—Redemption for Taxation Reasons</i> ”
<b>Noteholders’ put option upon Put Event:</b>	If a Put Event occurs, each Noteholder shall have the option to require the Issuer to redeem or purchase the Notes of such holder at a cash redemption or purchase price equal to the principal amount thereof together with interest accrued to but excluding the date of redemption or purchase, as the case may be. See “ <i>Terms and Conditions of Notes—Redemption—Redemption upon a Change of Control</i> ”
<b>Events of Default:</b>	The terms and conditions of the Notes contain events of default (including a cross acceleration provision) as described further under the heading “ <i>Terms and Conditions of Notes—Events of Default</i> ”
<b>Negative Pledge:</b>	The terms and conditions of the Notes contain a negative pledge provision as described in “ <i>Terms and Conditions of Notes—Covenants—Negative Pledge</i> ”
<b>Covenants:</b>	<p>The terms and conditions of the Notes contain certain covenants, including:</p> <ul style="list-style-type: none"> <li>• Maintenance of the Loan to Value Ratio;</li> <li>• Limitation on Purchase of Assets; and</li> <li>• Limitation on Mergers, Consolidation and Sale of Substantially all Assets.</li> </ul> <p>Each of these covenants is subject to certain exceptions and qualifications. See “<i>Terms and Conditions of Notes—Covenants</i>”</p>
<b>Notes Guarantee:</b>	The payment of principal and interest in respect of the Notes and the other obligations of the Issuer under the Trust Deed and/or the Conditions has been fully, irrevocably and unconditionally jointly and severally guaranteed by the Guarantors
<b>Additional Guarantors:</b>	If any Subsidiary of the Issuer (other than (i) a Guarantor; or (ii) Grainger Unitholder 1 Limited, provided it ceases to be a guarantor in respect of all Pari Passu Liabilities within 30 days following the Issue Date) (i) provides a Guarantee or (ii) at the time it becomes a Subsidiary is providing a Guarantee, in either case in respect of all or any of the Pari Passu Liabilities, the Issuer shall procure that such Subsidiary shall, at or prior to the date of the giving of such Guarantee or within 30 days after the date of it becoming a Subsidiary, as applicable, become a Guarantor by executing a deed supplemental to the Trust Deed (in a form and with substance reasonably satisfactory to the Trustee, and accompanied by such legal opinion(s) as the Trustee shall reasonably require) pursuant to which such Subsidiary shall guarantee the obligations of the Issuer in respect of the outstanding Notes, the Coupons and the Trust Deed on the

same terms *mutatis mutandis* as the Notes Guarantee. See “*Terms and Conditions of the Notes—Guarantee, Security and Intercreditor Deed—Additional Guarantors*”.

As at the date of this Offering Memorandum, under certain *Pari Passu* Liabilities (including, among others, the Core Credit Facilities), the Issuer must ensure that the Guarantors and the Issuer hold at least 85 per cent. of the Group’s properties excluding those held by Excluded Entities. For so long as such *Pari Passu* Liabilities remain outstanding, the Guarantors will, pursuant to the provisions described in the preceding paragraph, be the same as the guarantors in respect of such *Pari Passu* Liabilities.

Without prejudice to the provisions described in the preceding paragraph, under the terms and conditions of the Notes the Issuer shall procure that the gross value of the properties owned by it and the Guarantors is not less than 75 per cent. of the gross value of the properties (other than those owned by Excluded Entities) at all times

**Status of Notes’ Ranking:**

The Notes and the Coupons are direct, unconditional, unsubordinated and secured obligations of the Issuer and rank, and will rank, *pari passu* without preference among themselves

**Modification, Waiver,**

**Authorisation and  
Determination:**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Intercreditor Deed or the Security Agreement, subject to the terms thereof, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error

**Substitution:**

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer of any Relevant Subsidiary or a new group holding company of the Group in certain circumstances as principal debtor under the Trust Deed, the Notes and the Coupons. See “*Terms and Conditions of Notes—Substitution*”

**Withholding Tax:**

All payments in respect of the Notes and Coupons by or on behalf of the Issuer or any Guarantor shall be made without withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom, unless the withholding or deduction is required by law. In that event, subject to certain exceptions, the Issuer or the relevant Guarantor, as the case may be, will pay such additional amounts as will result in the Noteholders and the Couponholders receiving such amounts as would have been received by them had no such withholding or deduction been required as described in Condition 8 (*Taxation*) —“*Terms and Conditions of Notes—Taxation*”

<b>Listing and admission to trading:</b>	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of Euronext Dublin
<b>Governing Law:</b>	The Trust Deed (including the Notes Guarantee), the Conditions, the Notes, the Coupons and any non-contractual obligations arising therefrom or in connection therewith, shall be governed by, and construed in accordance with, English law
<b>Form and Denomination:</b>	The Notes will be in bearer form and will be initially issued in the form of a Temporary Global Note exchangeable for a Permanent Global Note. The Notes will be serially numbered, in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with coupons attached on issue. Definitive Notes will only be available in the limited circumstances specified in the relevant Global Notes
<b>Security:</b>	The obligations of the Issuer under the Notes and the obligations of the Guarantors under the Notes Guarantee will be secured by a floating charge over all of the properties and other assets of the Issuer and the Guarantors, respectively, pursuant to the terms of the Security
<b>Intercreditor Arrangements:</b>	The Intercreditor Deed includes terms that establish, <i>inter alia</i> , the ranking and priority of the Notes, any other Note Liabilities and the Pari Passu Liabilities, the basis on which the Security Trustee is appointed to hold the collateral created by the Transaction Security Documents, under what circumstances the Transaction Security Documents may be enforced and the application of proceeds from an enforcement in respect of the collateral. Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, will be deemed to have agreed to be bound by such provisions of the Intercreditor Deed and to have irrevocably appointed the Trustee to act on its behalf to accede to, and comply with, the provisions of the Intercreditor Deed. See “ <i>Terms and Conditions of the Notes—Guarantee, Security and Intercreditor Deed</i> ”
<b>Credit Ratings:</b>	The Notes are expected to be assigned an issue rating of BBB- by S&P. S&P is established in the European Community and is registered under Regulation (EC) No. 1060/2009, as amended
<b>Selling Restrictions:</b>	The Notes have not been and will not be registered under the U.S. Securities Act or under any other national, state or local securities laws and, as such, are subject to restrictions on sale—see “ <i>Subscription and Sale</i> ”
<b>Use of Proceeds:</b>	The net proceeds of the issue of the Notes, after deduction of underwriting fees and commissions, are expected to be approximately £347 million. The net proceeds from the issue of the Notes will be used to redeem the Existing Corporate Bonds, the payment of related fees and for general corporate purposes
<b>Further Issues:</b>	The Issuer may from time to time without the consent of the Trustee, the Noteholders or the Couponholders, but subject always to the provisions of the Conditions and the Trust Deed, create and issue further notes or bonds (whether in bearer or registered form) either (a)

ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as the Issuer may determine at the time of their issue. See “*Terms and Conditions of Notes—Further Issues*”

<b>ISIN:</b>	XS1790055229
<b>Common Code:</b>	179005522
<b>Principal Paying Agent:</b>	HSBC Bank plc

## RISK FACTORS

*An investment in the Notes involves a high degree of risk. Any of the following risks could adversely affect the Issuer's or any of the Guarantors' business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline, resulting in the loss of all or part of an investment in the Notes, and the Issuer's (or any of the Guarantor's (as applicable)) ability to pay all or part of the interest or principal on the Notes could be negatively affected.*

*Each of the Issuer and each Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and neither the Issuer nor any Guarantor is in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer and the Guarantors believe may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

*Each of the Issuer and each Guarantor believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer and each Guarantor may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and neither the Issuer nor any Guarantor represents that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision.*

### RISKS RELATING TO THE PROPERTY INDUSTRY

#### ***The Group may be affected by economic conditions generally***

The operating and financial performance of the Group is influenced by global and macro-economic conditions.

In the twelve months to 30 September 2017, the UK's economic recovery continued with gross domestic product growth, falling unemployment and continued low interest rates. There can be no assurance that economic growth will continue or that unemployment will continue to fall. Furthermore, external factors such as geo-political conflicts and a slowdown of economic growth in emerging markets may affect the economic recovery in the UK. Any lack of or reduced economic growth in the UK, higher unemployment or reduced consumer expenditure may reduce the revenue of the Group's occupiers, may affect levels of home ownership generally, demand for the disposal of real estate assets, the ability of the Group's occupiers to service their leases and may cause prices of residential or commercial real estate to fall, thereby reducing the value of the Property Portfolio. There may, for instance, be a short-term negative impact on economic conditions as a result of the UK's decision to leave the European Union, including on the property and finance markets and construction costs. It should, however, be noted that the Group's business is based in the UK and as such it is the belief of the Issuer that the risk of "Brexit" on the Group's operations is mitigated by the overall imbalance between the demand and supply of homes in the UK, which is likely to continue following the exit from European Union.

Prospective investors should ensure that they are aware of current global and UK macro-economic and financial conditions and should take these factors into account when evaluating the risks and merits of an investment in the Notes.

#### ***The value of the Group's portfolio and the Group's revenue, cash flow and profits from the sale of properties are dependent on economic conditions and the residential real estate market in the UK***

The Market Value of the Group's assets is dependent on general economic conditions and, in particular, on the condition of the residential property market in the United Kingdom. Market values of properties in the United Kingdom are generally affected by overall conditions in the economy, political factors and one-off events, including the condition of financial markets, the cost and availability of finance to businesses and consumers, fiscal and monetary policies, changes in government legislation, political developments,

including changes in regulatory or tax regimes, changes in unemployment, gilt yields, interest rates and credit spreads, levels of prevailing inflation, the supply of, or a reduction in demand for, residential property, the returns from alternative assets as compared to residential property, environmental considerations, and changes in planning laws and practices. Residential real estate values and rental revenues are also affected by factors specific to each local market in which the property is located, including the supply of available property and demand for residential real estate and the availability of mortgage finance to prospective purchasers. Moreover, the Group's borrowings or use of other leverage may increase the volatility of the Group's financial performance and results of operations.

The UK property market suffered as a result of the effects of the global financial crisis, with property values, including the value of residential property, falling substantially. The UK residential property market has shown a recovery since the financial crisis. The combined average of the Nationwide and Halifax house price indices indicated an increase of 3.2 per cent. in the value of the UK residential property market in the twelve months to 30 September 2017. This improvement in the UK housing market is partially a result of the improving economy as well as a number of Government measures aimed to bolster the housing market, including the Funding for Lending Scheme and Help to Buy. Future declines in the performance of the UK residential property market could have a material adverse effect on the value of the Group's portfolio and on the Group's business, results of operations, financial condition or prospects.

Declines in the residential property markets could reduce the profits and cash flows from the Group's financial interest in property assets, interests in joint ventures and associates and property and asset management fee income, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. To mitigate the exposure to the risk of property sales and impact on financial performance, the Group has the flexibility to rent vacant properties rather than sell them if the economic circumstances are more favourable in that regard.

Any increase or decrease in the valuation of the Group's Investment Properties is recorded as a revaluation gain or deficit in the Group's income statement for the period during which the revaluation occurs and impacts directly on the Group's statutory balance sheet. As the Group's Investment Properties are valued semi-annually either internally or by independent valuers or a combination of both, any declines in value will be reflected on a semi-annual basis in the Group's statutory balance sheet and income statement, thus contributing to the overall volatility in the value shown in the Group's financial statements and having a consequential impact on the Group's results of operations.

Reductions in the value of the Group's properties may occur in the future and, over the longer term, could result in non-compliance with the Core LTV covenant under the core debt facilities which is set at 70 per cent. If the Group's Core LTV exceeds 62.5 per cent., but is less than or equal to 70 per cent., it will be subject to certain obligations under the facilities, including restricting the Group from making investments or acquisitions, other than acquisitions of property not exceeding £2.0 million per month, which would severely restrict its ability to make any material acquisitions of property or any acquisitions of land with strategic development potential. See *"Risks Relating to Finance – If the Group's properties suffer significant falls in value, the Group may not be able, in the longer term, to maintain compliance with the Core LTV covenant in certain of its facilities"* below.

In the financial year ended 30 September 2017, 77.4 per cent. of the Group's gross revenue was derived from sales of trading properties. The Group typically seeks to sell properties in its Regulated Tenancies Portfolio when they become vacant. Sale upon vacancy allows the Group to realise the maximum value of a property as compared to a sale with a tenant in place.

The Group's ability to generate revenue and cash flow from its real estate assets depends on the existence of buyers willing to pay attractive prices for those properties at the time the Group desires to sell them. The existence of these buyers in turn depends upon overall economic conditions, the residential real estate market and the other factors set out above including, in particular, the availability of mortgage finance. In difficult economic conditions, the Group may not be able to sell properties for an appropriate price or on acceptable terms in a timely manner or at all and the Group may therefore be unable to realise the Reversionary Surplus

on its properties. Additionally, as a consequence of cyclical and volatility in the prices of residential property, the Group may acquire properties in periods of higher prices and may be forced to sell them during periods of lower prices. There is no guarantee that the price the Group would be able to achieve on the sale of such properties would realise the margin anticipated by the Group or would exceed the acquisition cost of the property. In addition, the length of time needed to find purchasers and to complete such transfers or sales may increase in periods of market uncertainty. Downward pressure on sales prices may occur in the future and volumes of property sales and the revenue and profits from such sales may also be adversely affected. It can be noted that notwithstanding this risk, during the 2008 financial crisis, the Group was consistently able to sell vacant properties and maintain cashflows. However, there can be no guarantee that similar events would not have an impact on the Group's business, results of operations, financial condition or prospects.

If the Group is unable to dispose of properties at attractive prices on a timely basis or at all, the Group's revenue from property sales could decline substantially which in turn could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***External events beyond the control of the Group***

External events such as civil emergencies, cybercrime, terrorist attacks, environmental disasters or extreme weather occurrences could result in damage to the Group's properties, inhibit or prevent access to the Group's properties and adversely impact the operations of the Group, the Group's occupiers or members of the Group's supply chain. Such events could give rise to reduced occupier and investor demand for the Group's properties resulting in reduced property values and rental income. This would have a negative impact on the Group and/or the value of its assets and accordingly, the financial condition of the Issuer and the value of any Notes issued by it.

In respect of cybercrime, to mitigate this growing risk to businesses, the Group employs staff with qualifications in cyber-security and conducts annual penetration testing to assess the robustness of its IT systems.

***If the Group is required to undertake Investment Sales, it will not be able to realise the full potential value of its properties, particularly in the case of the Regulated Tenancies Portfolio***

If the Group were required to liquidate a significant portion of its portfolio in order to generate additional cash flow to support the Group's operations, comply with financial covenants or repay outstanding indebtedness, it may have to make accelerated sales. Due to the nature of the Group's properties, this would probably be achieved mainly by way of Investment Sales. Investment Sales do not crystallise the full extent of the Reversionary Surplus associated with such properties and result in less revenue than the Group would expect if the property were held until a vacant possession sale could be made.

If the Group were required to liquidate a portion of its portfolio on an accelerated basis, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The rental income that the Group's property portfolio produces and its property management fee income may fluctuate as a result of factors which are outside its control***

Gross rental income constituted 20.6 per cent. of the Group's gross revenue in the financial year ended 30 September 2017. Rental rates in the United Kingdom are generally affected by conditions in the economy and financial markets, including the factors discussed in "*Risks Relating to the Property Industry – The value of the Group's portfolio and the Group's revenue, cash flow and profits from the sale of properties are dependent on economic conditions and the residential real estate market in the United Kingdom*" above. The Group is most at risk with respect to rental levels on non-regulated properties in the Residential Portfolio to the extent that adverse market conditions affect rent review negotiations and the ability to re-let property following the termination of a tenancy. In addition, in the context of regulated properties, the Group is at risk to the extent that adverse market conditions affect the rental levels which are set by a rent

officer. It should, however, be noted that reductions in rent levels set by a rent officer have been very uncommon given the calculation used of RPI + 5 per cent. over a two year cycle.

Gross rents of £25.5 million on the private rental sector properties in the Residential Portfolio (including properties which are subject to assured periodic, assured and assured shorthold tenancies, all of which are subject to market rental rates – please refer to “*Regulation – Residential tenancies in England and Wales*” for further details on these tenancies) constituted 47 per cent. of the Group’s gross rental income in the financial year ended 30 September 2017. Rental income in respect of the Group’s PRS properties may be adversely affected in times of adverse economic conditions and a depressed residential market and this may have a material adverse effect on the Group’s business, results of operations, financial condition or prospects. There can be no assurance that the Group’s tenants in relation to its PRS properties will renew their leases at the end of their current tenancies nor can there be any assurance that new tenants of equivalent standing (or any new tenants) will be found to take up vacant properties at the same or similar rental levels. During periods for which properties are vacant, the Group will not receive rent and will incur additional expenses until the relevant properties are re-let. Even if tenant renewals or replacements are effected, there can be no assurance that such renewals or replacements will be on terms (including rental levels and rent review terms) that are as favourable to the Group as before or that new tenants will be as creditworthy as previous tenants. If the Group suffers significant vacant periods on its PRS properties or replacements are not on favourable terms, or levels of rent arrears increase, this could have a material adverse effect on the Group’s business, results of operations, financial condition or prospects.

Gross rents of £29.0 million on the Group’s regulated tenancies (constituting 53 per cent. of the Group’s gross rental income in the financial year ended 30 September 2017) are typically at below market rates and are set by an independent third party rent officer pursuant to the Rent Act. Such rents may only be reassessed every two years and are capped at the percentage change in RPI since the rent was last registered plus a percentage prescribed by law (currently 5 per cent.). This may lead to a reduction of the Group’s rental income on an inflation-adjusted basis if the new rent awarded by the rent officer is beneath the statutory cap. Furthermore, where the levels of inflation are negative, regulated rental rates may not be increased from the rental levels previously in place. If rents payable on the Group’s regulated properties are lower than expected, this could have a material adverse effect on the Group’s business, results of operations, financial conditions or prospects.

### ***Property valuation is inherently subjective and uncertain***

For the purposes of the Group’s financial statements, the valuation of its properties is undertaken internally by the Group and externally by independent third party professional valuers. Further details of the valuation process and the results for the year ended 30 September 2017 are shown in the notes to the Group’s financial statements for the year ending 30 September 2017, which are incorporated by reference in this Offering Memorandum. Valuations are inherently subjective due to the individual nature of each property. Moreover, property valuations are made on the basis of assumptions which may not prove to be accurate, particularly in periods characterised by asset value volatility or lower transaction volumes in the residential real estate markets, as has recently been the case in the United Kingdom. As a result, valuations are subject to a degree of uncertainty and accordingly are an area of significant judgment in respect of the Group’s financial statements.

The Group’s wholly-owned property portfolio and the properties held through associates or joint ventures in which the Group has an interest are valued for the purposes of the Group’s financial statements on the basis set out under “*Classification and Accounting Treatment of Trading Properties and Investment Properties*” in “*Presentation of Financial Information*”. In determining the Market Value of any property, the valuers are required to make certain assumptions. These assumptions include but are not limited to matters such as the existence of willing buyers and willing sellers in uncertain market conditions, future house price inflation, future rental levels, title, condition of structure and services, deleterious materials, goodwill, environmental matters, property locations, statutory requirements and planning, leasing and other information. In undertaking the valuation, the Valuers adopt a default position that a property is in an unimproved position and will require full modernisation.

Incorrect assumptions or flawed assessments underlying the valuation reports could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and could potentially inhibit the Group's ability to realise a sale price that reflects the stated valuation or to raise financing using the Group's properties as security. There is a risk that the valuations of the Group's properties will not be reflected in any actual transaction prices, even where any such transactions occur shortly after the relevant valuation date. The Group's historical performance in this regard has shown that it has typically been able to sell properties above the applicable valuation level.

As at 30 September 2017, the Group's total wholly-owned portfolio comprised 6,655 properties in the Residential Portfolio. As the Group's business involves thousands of individual units and tenants, Allsop and CBRE (referred to in "*Overview–The Group–Valuations*") adopt a sampling approach to their inspections of the Residential Portfolio and JV Portfolio in preparing their valuation reports. As a result, more than 75 per cent. of the Residential Portfolio and the JV Portfolio were individually externally inspected by an independent valuer for the property valuation in the 12 months to 30 September 2017. The properties which are not included in any sample inspected by the Valuers may have characteristics which could, in the aggregate, have a significant effect on the assumptions used by the Valuers or the final conclusions reached in property valuation reports produced by the Valuers. As a result, the property valuations performed by the Valuers may not accurately reflect the actual composition of the Group's portfolio or the values of the Group's properties at any valuation date. There is a risk that the samples selected by the Valuers may not be representative of the Residential Portfolio or the JV Portfolio, or that a sample may not include the characteristics which should form part of the sample pool.

The value of the Group's equity interest in joint ventures and associates is similarly impacted in relation to the valuations carried out by the external valuers to its joint ventures and associates.

***Future property acquisitions may expose the Group to unforeseen risks and liabilities associated with properties the Group acquires***

Property acquisitions involve a number of risks including, but not limited to, a failure to achieve expected results, unexpected problems and other risks inherent in the acquired property and associated with unanticipated events or liabilities. Before acquiring a property or a portfolio of properties, the Group assesses the value and the potential value of such property or portfolio and the potential return on its investment. In making the assessment and otherwise conducting due diligence, the Group relies on the resources available to it. There can be no assurance, however, that due diligence examinations carried out by the Group or by third parties in connection with any properties or portfolios of properties the Group acquires will reveal all of the risks and problems associated with such property or portfolio, or the full extent of such risks and problems. When the Group acquires or owns a property, the property may be subject to hidden material defects or deficiencies in the title to the property or otherwise which were not apparent at the time of acquisition, including structural damage, environmental hazards, legal restrictions or encumbrances and non-compliance with existing building standards or health and safety or other administrative regulations. There can be no assurance therefore that the Group will be able to identify, acquire or profitably manage additional properties without substantial costs, delays or other operational or financial problems, or at all, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The cost of the Group's renovation, maintenance and modernisation programmes may be higher than expected given the age of the Residential Portfolio and the Group's dependence on third parties***

Meeting budgets and deadlines for renovation, maintenance and modernisation projects often depends on accurate information regarding the Group's real estate properties and on the reliability of third party contractors. Accurate construction, historical and other related information for properties is not always available. If, for example, any of the Group's real estate violates building codes or was built using defective or other inappropriate materials, the Group could incur substantial unbudgeted costs to remediate the problem (for example to remove asbestos contamination). Routine or unforeseen renovation,

maintenance or modernisation projects that are delayed by, for example, the bankruptcy of a general contractor, may also cause the Group to exceed a budget or deadline.

***The Group is exposed to potential liability relating to the leasing, selling and developing of real estate***

The Group may be subject to claims due to defects in quality or title relating to the leasing and sale of its properties. This liability may apply to defects in properties that were unknown to the Group but could have, or should have, been discovered. In addition, the Group may be exposed to substantial undisclosed or unascertained liabilities embedded in properties that were incurred or that arose prior to the completion of the Group's acquisition of such properties. These liabilities could include, but are not limited to, liabilities for clean-up or remediation of undisclosed environmental conditions, liabilities to state entities, to tenants, to creditors or to other persons involved with the properties prior to the acquisition, tax liabilities or indemnification claims by parties claiming to be entitled to be indemnified by the former owners of the properties.

Although the Group may obtain contractual protection against such claims and liabilities from the seller of a property to it, there can be no assurance that such contractual protection has always been or will always be successfully obtained, or that it would be enforceable or effective if obtained under contract. Such potential liabilities, if realised, could have a material adverse effect on the returns realised on the property by the Group. Any claims for recourse the Group may have against parties from which the Group has purchased such a property may fail because of the expiration of an applicable limitation period, lack of proof that the previous seller knew or should have known of the defect, the insolvency of the previous seller or for other reasons. Any of these risks could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

## **RISKS RELATING TO FINANCE**

***The costs of finance could increase or, in the longer term, financing could cease to be available on appropriate terms or at all***

The ability of the Group to operate its business depends in part on it being able to raise funds. A significant part of the Group's funding is generated organically through stable and regular cashflow derived from its Regulated Tenancies Portfolio. Should a liquidity crisis such as that which occurred in late 2008 and early 2009 recur at a time when the Group needs to raise financing, the Group could be materially adversely affected. This is mitigated to a certain degree by the maintenance of significant funding headroom in line with internal policy.

An increase in the cost, or lack of availability, of finance (whether for macroeconomic reasons, such as a lack of liquidity in debt markets or the inability of a financing counterparty to honour pre-existing lending arrangements, or reasons specific to the Group) could impact both the Group's ability to progress investment opportunities necessary to deliver rates of return that meet investor expectations and the day-to-day financing (or refinancing) requirements of the Group's business over the longer term. In addition, adverse interest rate movements could lead to an increase in the cost of borrowing, although the Group does maintain a hedge percentage of at least 70 per cent. (87 per cent. as at 30 September 2017).<sup>35</sup> An increase in the Group's LTV ratios, for example as a result of reductions in property values, could also increase the cost of financing or restrict the Group's ability to arrange such financing or refinancing. Any increase in the cost of financing or any decrease in the availability of financing on reasonable terms could have a material adverse effect on the Group's business, operations, financial condition and prospects.

***If the Group's properties suffer significant falls in value, the Group may not be able, in the longer term, to maintain compliance with the Core LTV covenant in certain of its facilities***

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<sup>35</sup> As at February 2018, the Group's hedging stood at 81 per cent.

The Group funds its strategy of long-term property ownership in part by way of long-term committed lending facilities. The Group's core debt facilities contain a financial covenant requiring the Group to maintain a Core LTV ratio of not more than 70 per cent. While the Group's Core LTV ratio would be adversely affected by falls in value of properties, property values would need to decline by 49.6 per cent. (as at February 2018) to cause a breach of such financial covenant (as at 30 September 2017 the Group's Core LTV was 34.6 per cent).

The Group's properties are re-valued semi-annually and, in the case of its Investment Properties, the results of such valuations are reflected in the Group's financial statements as at the valuation dates. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, have affected, and could affect, the assumptions used to arrive at current valuations and, as a consequence, the Group's net asset value.

In the longer term, there is a risk that a significant reduction in the value of the Group's properties would adversely affect its Core LTV ratio, which could result in a breach of the related financial covenant under the Group's core debt facilities or the Notes, as the case may be. For further information on the consequences of a breach of the covenants under the Group's debt facilities, see *"The Group could trigger an event of default under its borrowing arrangements, in which event the obligations under its borrowing arrangements could be accelerated and become immediately due and payable"* below.

Further, there is a risk that the financial covenant in certain of the Group's core debt facilities based on the Group's cash flow interest cover ratio would be adversely affected by falls in income on disposals of properties as well as net rental income or rises in non-hedged interest costs. For information on the circumstances which could give rise to a reduction in net rental income, see *"Risks Relating to the Property Industry – The rental income that the Group's property portfolio produces and its property management fee income may fluctuate as a result of factors which are outside its control"* above.

The impact and likelihood of such risks occurring are mitigated by management controls closely monitoring covenant compliance to maintain sufficient capacity and operate within the Board's approved capital operating guidelines. In addition, the strategic transition of the Group to place less reliance on trading income from sales to service its borrowings, to that of rental income, rebalances this risk and accordingly provides a level of mitigation in this regard.

***The Group has significant borrowings, the amount and terms of which may restrict its ability to engage in certain business activities and limit its financial and operational flexibility***

As at 30 September 2017, the Group had £935 million in aggregate of indebtedness outstanding under its borrowing arrangements. Upon completion of the issue of the Notes (see *"Description of Indebtedness"*) the Group will have approximately £1,025 million in aggregate of outstanding indebtedness under its borrowing arrangements.

The Group, like any group of companies with significant borrowings, is subject to the risk that it will be unable to generate sufficient cash flows, or be unable to obtain sufficient funding, to satisfy its obligations to service and/or refinance its indebtedness. In addition, various covenants contained in the Group's borrowing arrangements, including the Notes, limit or may limit the flexibility of the Group in running its business. For example, if the Group's Core LTV exceeds 62.5 per cent. on the core debt facilities, the Group's ability to make significant acquisitions and to incur additional debt will be restricted, see *"Description of Indebtedness – Core Debt Facilities"*. To mitigate this risk, the Group closely monitors the transactional pipeline in order to give a level of control to the timing and number of new acquisitions, allowing the Group to control cashflows.

The Group's borrowing arrangements impose restrictions on the Group which may affect, limit or prohibit the Group's operational and financial flexibility. If the Group were to seek to vary or waive any of these restrictions and the relevant lenders did not agree to such variation or amendment, these restrictions may limit the Group's ability to plan for, or react to, market conditions or otherwise restrict the Group's

activities, investments or business plans. Any of the above could adversely affect the Group's ability to make strategic acquisitions and investments and could generally have a material adverse effect on its business, results of operations, financial condition or prospects.

***The Group could trigger an event of default under its borrowing arrangements, in which event the obligations under its borrowing arrangements could be accelerated and become immediately due and payable***

The Group's borrowing arrangements contain:

- representations and warranties, financial covenants and other covenants, which, if breached, would give rise to an event of default; and
- events of default which would be triggered if, amongst other things:
  - in the case of the Bank Facilities, an event or circumstance occurs or exists which has, or is reasonably likely to have, a material adverse effect on the Group's performance of the financial covenants or payment obligations under the Bank Facilities; or
  - (subject to certain financial thresholds) there is a non-payment under the Group's other borrowing arrangements (including financial derivatives).

In addition, the Group could trigger an event of default, which if not otherwise remedied or waived, would enable the facility agent under the Bank Facilities (on the instructions of a majority of the lenders being lenders whose participations collectively amounts to 66 2/3 per cent. of all participations under the Bank Facilities) to accelerate the Group's obligations to repay the Bank Facilities or other amounts owing to the relevant creditors, cancel the Bank Facilities and/or terminate and settle the Group's financial derivatives. Similar provisions are included in a number of the Group's other borrowing facilities.

The Group has granted floating charge security over a number of its properties in connection with its borrowing arrangements, details of which are set out in "*Description of Indebtedness*". After the occurrence of an event of default the relevant lenders may also be able to enforce their security over the Group's assets and to make a demand on any guarantees given in respect of the relevant borrowings.

For the reasons set out above, if the Group triggered an event of default, this and any resulting enforcement action would have a material adverse effect on the Group's business, results of operations, financial condition and prospects. For further information on the Group's Bank Facilities and other borrowing arrangements, see "*Description of Indebtedness*".

In addition, if the Group were close to reaching its financial covenant limits or applicable limits under other restrictive covenants, the Board may consider it imprudent to draw down any undrawn amounts under facilities which would otherwise still be available to it, as to do so would increase the risk of a covenant breach occurring. This could prevent the Group from taking advantage of acquisition opportunities to expand its existing holdings in furtherance of its investment strategy, which could have a material adverse effect on its business, results of operations, financial condition or prospects.

***The Group is exposed to financial market risks including fluctuations in interest rates which impact the Group's payments on unhedged borrowings and creates volatility in relation to its derivative contracts and losses from imperfect hedge correlations***

The Group's interest rate risk arises from the risk of fluctuations in interest charges on floating rate borrowings. Although the Group seeks to mitigate this risk through the use of variable to fixed interest rate swaps and caps and collars this interest rate hedging strategy results in volatility in the Group's net assets caused by marking to market these derivative contracts at each balance sheet date, which has had and in the future could have an adverse effect on the Group's net asset value and income statement. As at 30

September 2017, 87 per cent. of the Group's interest rate exposure was hedged or fixed to termination.<sup>36</sup> This will increase following the issue of the Notes but is actively managed by Grainger and reviewed by the Board.

The Group may also be exposed to market interest rate risk on expiry of interest rate swaps, an inability to hedge or hedge on reasonable terms, or if hedge counterparties default.

To the extent that the Group does not hedge its exposure to interest rate fluctuations or hedge counterparties default, the Group may incur higher than expected interest rate expenses, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The Group operates a defined benefit pension scheme to which it may be required to increase its contributions to fund an increase in the cost of future benefits and/or funding shortfalls***

The Group provides retirement benefits to certain of its former and current employees through a number of pension arrangements, including the operation of a defined benefit pension scheme, the BPT Limited Retirement Benefits Scheme (the "**BPT Scheme**"). There were 128 members in the scheme as at 30 September 2017 and the scheme is closed to new members. As at 30 September 2017, the liabilities of the BPT Scheme were £31 million, with assets of £30.8 million. Contributions to the BPT Scheme of £540,165 were made in the financial year ended 30 September 2017 by the Group. The Group intends to make a similar contribution in the financial year ended 30 September 2018, in accordance with the agreed funding plan.

If the market value of the BPT Scheme substantially declines from its current funding level in relation to the assessed liabilities, which depends on, among other things, the real returns that can be obtained on the assets, the longevity of its members, the rate of increase of salaries, discount rate assumptions and inflation, or if the trustees determine that the Group's financial position requires a different approach to contributions and deficit reduction, the Group may be required to increase its contributions which could have an adverse impact on the Group's business, results of operations, financial condition or prospects.

## **RISKS RELATING TO THE GROUP'S OPERATIONS**

***The Group's success depends on its senior management team and other key personnel and its business may be harmed if their services are lost or it is unable to recruit new senior management and key personnel***

The Group's success depends upon the continuing services of the members of its senior management team and other key employees and recruitment of new senior management and key personnel where necessary. If one or more senior executives or other key personnel are unable or unwilling to continue in their present positions, the Group may not be able to replace them easily or at all, its business may be disrupted and its financial condition and results of operations may be materially and adversely affected. Competition for senior management and key personnel is high, the pool of qualified candidates is limited and the Group may not be able to retain the services of its senior executives or key personnel, or attract and retain high-quality new senior executives or key personnel. If any key personnel leave and carry on any activities competing with the Group, it may lose tenants and staff members, and legal remedies against such individuals may be limited.

In addition, the loss of suitably qualified employees, in particular with expertise in the acquisition, development and operation of PRS assets, or the inability to hire and retain suitably qualified replacements could impair the Group's ability to execute its business plan and achieve its objectives, lead to employee morale problems or the loss of key employees, any of which could have a material adverse impact on its business, results of operations, financial condition or prospects.

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<sup>36</sup> As at February 2018, the Group's hedging stood at 81 per cent.

***The Group may be subject to increases in operating and other expenses***

The Group's operating and other expenses could increase without a corresponding increase in revenue from properties or tenant reimbursements of operating and other costs. Factors which could increase operating and other expenses include:

- increases in the rate of inflation;
- increases in property taxes and other statutory charges;
- changes in laws, regulations or government policies which increase the costs of compliance;
- increases in insurance premiums;
- increases in the costs of maintaining properties;
- renovation and modernisation costs which the Group must incur in order to facilitate sales of Group properties;
- defects affecting the properties which need to be rectified; and
- failure of sub-contractors leading to increased costs.

Such increases could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The Group is exposed to longevity risk for tenants in relation to the regulated properties in its Residential Portfolio***

The Group derives most of its cash flows and financial returns attributable to its regulated tenancies business by buying properties subject to existing tenancies and selling those properties when they fall vacant. In the event of increases in tenant life expectancy above the Group's estimates, it is likely that the average holding period for the assets will increase correspondingly and thus delay the timing of the cash flows from sales. Holding the assets for a longer than expected period may decrease the ultimate return achieved, depending on the change in the value of the underlying property over the additional period and would restrict the Group's ability to realise assets to generate cash. If the ultimate return achieved decreases and/or the Group's ability to realise assets to generate cash is restricted, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. A mitigant in respect of this risk is that targeted Investment Sales could be carried out.

***The Group faces competition from other property companies and other commercial organisations active in the UK property market***

The Group operates in competitive environments. Entry barriers for individuals or companies acquiring residential properties in the UK to let are generally low, however barriers to entry in respect of a PRS business at scale and Build to Rent are in contrast significantly higher, principally due to capital requirements and development, as well as investment and operational capabilities required to develop, acquire and manage a large scale PRS portfolio. The Group competes with a large number of private buyers and real estate owners and developers some of which may have greater resources, may be willing to accept lower returns on their investments, may be less leveraged than the Group or may have more liquidity with which to take advantage of acquisition opportunities. Competitors include both regional investors, with in-depth knowledge of the local markets, and other property portfolio companies, including funds that invest nationally and internationally, institutional investors and foreign investors. Such competition may adversely affect the Group's ability to maintain or grow rental income or to obtain tenants for its development projects and achieve sales or to make suitable acquisitions of properties or businesses, each of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

### ***The risk of litigation is inherent in the Group's operations***

In the ordinary course of the Group's business, legal actions, claims against and by the Group and arbitrations involving the Group arise. The Group may be subject to litigation from tenants, landlords, joint venture partners and co-investment partners, joint ventures or associates to which the Group provides asset or property management services, purchasers of properties previously or currently owned by the Group, current or former employees and third parties, including visitors to its properties. The publicity associated with, and the outcome of, such claims, arbitration and legal proceedings could adversely affect the business, results of operations and financial position of the Group.

### ***The Group may suffer uninsured losses or suffer material losses in excess of insurance proceeds***

The Group maintains insurance cover at the level which it believes is right for the needs of the business. This includes, but is not limited to, group accident insurance for all Directors and employees of the Group, Directors' and officers' liability insurance and professional indemnity insurance in relation to the asset and property management services provided by the Group to its third party clients and joint ventures and associates. In relation to its wholly-owned properties, the Group has basic property owner's material damage insurance in relation to approximately 67.9 per cent. of the properties as at 26 February 2018. A further 12.0 per cent. of the properties are obliged to be insured by the relevant properties' landlords or tenants (as applicable), as at 31 January 2018. The Group's policy is to only insure properties where it has a legal obligation to do so, where there is a cluster risk, where there is a specific known risk such as flooding or where the value of a property exceeds £500,000. The Group's past experience is that in other cases the insurance premium cost typically exceeds the repair costs relating to any damage caused under a potentially insurable risk. The Group's insurance may be insufficient to cover the physical damage to property and/or liabilities caused by the incidents that it covers, resulting in losses that may not be fully compensated by insurance. Furthermore, certain types of risks (such as war risk, terrorist acts, flood damage and subsidence damage) may be, or may become in the future, either uninsurable or not economically insurable, or may not be currently or in the future covered by the Group's insurance policies. Should an uninsured loss or a loss in excess of insured limits occur, the Group could sustain financial loss or lose capital invested in any affected property as well as anticipated future income either from that property or as a consequence of the loss that the property has on the Group's operations. The latter, for example, could occur with the disruptive impact arising from the loss of the Group's main office buildings. The Group would also remain liable for any debt or other financial obligation related to affected property. In addition, the Group is liable to repair damage or meet liabilities caused by uninsured risks. No assurance can be given that material losses or liabilities in excess of insurance proceeds will not occur in the future and, if they do occur, this could have a material adverse impact on the Group's business, financial condition and results of operation.

### ***The Group may fail to realise fully its PRS property acquisition, development or customer service strategies***

The Group's strategy to continue to acquire and develop PRS properties anticipates that the Group may, when appropriate opportunities arise, acquire or develop property portfolios. These acquisitions may be limited by the Group's ability to identify and acquire suitable properties and development sites at satisfactory prices. In addition, the Group is likely to face competition from a variety of other potential purchasers and developers, some of which may have greater financial resources than the Group. This strategy involves the risk that the Group fails to convert acquisition and development investment into rental income, or fails to manage change whilst maintaining its position as the UK's largest listed residential property owner and manager. There can be no guarantee that this aspect of the Group's strategy will be realised or executed and, if it is not realised or executed (as applicable), this could cause a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group aims to provide consistently high service standards directly to its diversified customer base. A failure to integrate any new acquisitions or developments into the Group's management platform in order to provide this service may have an adverse effect on customer experience, the level of customer complaints, the Group's reputation, results of operations, financial condition or prospects.

***The Group is subject to risks relating to potential default by its independent contractors and consultants***

The Group engages independent contractors and consultants to provide various services in relation to the development, construction, repairs and maintenance in respect of its properties and development projects. If the performance of any such contractor or consultant is unsatisfactory, it may be necessary to replace the contractor or consultant concerned or to take other action to remedy the situation. Were this to occur, it could, especially where there are significant services contracts or building contracts in relation to construction that is currently under way, have adverse cost and timing implications for the Group.

Moreover, the Group's independent contractors or consultants may become bankrupt or insolvent which may lead to a significant operational risk for the Group. Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***Fraud or misconduct by an employee of the Group or third party service providers could result in losses or reputational damage***

Like any business, the Group runs the risk that employee fraud or other misconduct could occur and the precautions that the Group takes to prevent this may not be effective in all cases. Employee misconduct could cause significant financial harm or reputational damage to the Group and any liability or loss may not be covered in part or in full by insurance. Similar issues may arise in relation to misconduct by the employees of third parties when the Group employs third parties to provide services for customers. Although this risk has not had an historic impact on the Group, such fraud or misconduct, were it to occur, may have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The Group's reliance on information technology systems exposes its business to disruptions or unexpected costs***

The Group's ability to maintain financial controls and provide a high-quality service to its tenants, joint ventures and associates to which it provides asset and property management services depends, in part, on the efficient and uninterrupted operation of its information technology systems, including its computer systems. There can be no assurance that failures of the relevant information technology systems will not occur in the future.

In addition, such information technology systems are vulnerable to damage or temporary interruption from flood, fire, power loss, telecommunications failure and similar events. Such systems may also be subject to viruses, sabotage, vandalism and similar misconduct. Although the Group has disaster recovery procedures in place, any damage to, or failure of, any of the Group's management information systems could result in temporary interruptions to the Group's financial controls or asset or property management operations or breach of confidential information which could have a material adverse effect on the Group's business, reputation, results of operations, financial condition or prospects.

***The Group's business involves a diverse portfolio of properties and, accordingly, there are certain consequences associated with the processes used to manage such a portfolio***

The Group's business involves thousands of individual properties, each with a relatively small individual value. Accordingly the Group is party to numerous contractual relationships with tenants, contractors and service providers, none of which, individually, is material to the Group's business. To efficiently manage these legal relationships, the Group often uses standardised documents and processes to enter into agreements relating to the acquisition, sale and letting of properties. These documents and processes may contain ambiguities and errors. Any such ambiguity or error, if adverse to the Group, could affect a disproportionately large number of contracts or properties and have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***Changes in Grainger’s accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations.***

From time to time, the International Accounting Standards Board (the “IASB”) and/or the European Union change the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union (“IFRS”) that govern the preparation of Grainger’s financial statements. These changes can be difficult to predict and could materially impact how Grainger records and reports its financial condition and results of operations. In some cases, Grainger could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

The IASB may also make other changes to financial accounting and reporting standards that govern the preparation of Grainger’s financial statements, which Grainger may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Company, or which Grainger may be required to adopt. Any such change in Grainger’s accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

***Grainger’s accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Company to make estimates about matters that are uncertain***

Accounting policies and methods are fundamental to how Grainger records and reports its financial condition and results of operations. The Company must exercise judgment in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

The Group has identified certain accounting policies in the notes to its financial statements in respect of which significant judgment is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgments relate to the net realisable value of trading property, the valuation of financial interest in property assets, the determination of tax treatment for certain transactions, the distinction between investment and trading property and the making of an assessment of the Group’s ability to continue to trade as a going concern for the foreseeable future (see note 2 to the financial statements of the Group for each of the years ended 30 September 2015, 30 September 2016 and 30 September 2017).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established detailed policies and control procedures that are intended to ensure that these judgments (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding Grainger’s judgments and the estimates pertaining to these matters, Grainger cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

***The Group is exposed to a number of risks which impact on the value of the properties owned by joint ventures and associates in which the Group holds equity interests***

The Group holds interests in a portfolio of assets by way of equity interests in joint ventures and associates. The balance sheet value of the Group’s interest in joint ventures and associates was £206 million as at 30 September 2017. The Group provides asset and property management services and financial accounting services to certain joint ventures and associates for which it receives fee income. The Group is exposed to a number of risks associated with the performance of these joint ventures and associates, as declines in the values of the properties owned by the joint ventures or associates impact on the performance based distributions and management fee income generated by such arrangements. These risks include, but are not limited to:

- the use of leverage creating more rapid declines in the net asset value if the interest costs associated with the leverage are higher than the investment income and gains earned through the use of such leverage;
- the termination of the Group's management agreements; and
- the performance based fee arrangements encouraging riskier investment choices which could cause significant losses,

any of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. The value of the properties owned by joint ventures and associates are also subject to the factors set out in "*Risks Relating to the Property Industry – The value of the Group's portfolio and the Group's revenue, cash flow and profits from the sale of properties are dependent on economic conditions and the residential real estate market in the United Kingdom*" above. Risks may also arise from such arrangements in the case of actions being taken in relation to such portfolios that are not in the Group's interest, conflict and disputes with co-owners or bankruptcy, insolvency or severe financial distress of one of the Group's partners.

Overall, the Group considers the risk of these arrangements to be low, as they only contribute a small proportion towards the Group's overall income.

## **RISKS RELATING TO THE GROUP'S DEVELOPMENT PORTFOLIO**

### ***Future developments may be limited by difficulties in obtaining planning permissions***

Planning permission (including any decrees, permits, consents or approvals required from third parties) for developments may be delayed or refused or granted on onerous terms (including requirements to make contributory payments to local authorities or carry out infrastructure works as part of the authorised development). Refusal of planning permission will, subject to rights of appeal, result in a development not proceeding as originally intended, and a degree of abortive costs may be incurred by the Group and the value of the development property could be significantly impaired as a result. Delays in obtaining planning permission could result in developments not being progressed in a timely manner or at significant additional cost, which could impact the development rate of return. Failure to obtain planning permission as expected in a timely manner could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. A mitigant to a refusal of a planning permission is that subsequent applications can normally be submitted proposing a revised scheme.

### ***Development cost inflation may adversely affect investment***

Cost inflation presents a risk to the profitability of the Group's developments and has the potential to adversely affect the Group's cash position and overall return on investment. Construction cost inflation is principally influenced by supply and demand dynamics within the industry and is beyond the control of the Group. Significant increases in construction costs inflation may adversely affect the profitability of the Group's investment in development.

### ***There could be delays and cost overruns on development projects, including delays on development projects initiated by the Group due to prevailing market conditions***

There can be no assurance that any developments or refurbishments undertaken by the Group will be completed on time or on budget. Any delays or cost overruns on developments or refurbishments could be caused by a range of factors including an inability to properly control the design and construction programme, contractor failure or an inability of contractors to deliver to expected levels of capacity and capability, issues relating to third party rights (such as requirements for consents), construction cost inflation and additional works required by law or regulation relating to archaeological remains and/or listed buildings. Not all of the Group's development projects are carried out on a design and build basis. In some circumstances, the Group appoints designers and contractors directly, rather than appointing a single main building contractor that then subcontracts out certain portions of the design and construction of the works.

This may increase the risk for such development projects of interface issues and deficiencies in one part of the design or construction of the works delaying other elements of the design and construction.

The Group's development of land or property which is subject to compulsory purchase orders may be subject to significant costs and delays. In the event of a compulsory purchase order, compensation would be payable on the basis of the value of all owners' and tenants' proprietary interests in that property as at the date of valuation, as determined by reference to a statutory compensation code. In addition, there can be no assurance that developments or refurbishments will be free from defects once completed. Any such delays, cost overruns or defects may result in compensatory payments to be made by the Group and claims being made against the Group. While the Group may in some cases have onward claims against suppliers in these circumstances, it is not necessarily the case that full, or any, recovery would be possible or achieved in practice. In adverse market conditions, the cost of a development may be significantly more than its Market Value on completion. Furthermore, developments may not become income producing to the extent expected and may instead remain or become a net drain on the Group's resources. Any of these risks could result in a material adverse effect on the Group's business, results of operations, financial condition or prospects.

In addition, in relation to certain of the Group's development properties, the Group is obliged to pay deferred consideration for the properties if certain events occur (for example, the grant of planning permission upon letting or completion of the development). Although the Group has accounted for its obligations in relation to the payment of deferred consideration upon the occurrence of certain events, there can be no assurance that the amount of deferred consideration which is payable will not exceed the Group's expectations. The costs of such consideration, to the extent that it substantially exceeds the Group's expectations and the funds that the Group has allocated to cover such obligations, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects. To provide a level of mitigation against the above development risks, close monitoring of the deployment of capital in respect of development takes place and within set capital operating guidelines. Further, internal governance controls are in place to monitor the progress of development projects against applicable budgets and appraisals.

## **RISKS RELATING TO LAW AND REGULATION**

### ***Potential liability for environmental and health and safety problems may result in substantial costs to the Group***

The Group, as owner or occupier of real estate property, is subject to a variety of laws and regulations concerning the protection of health, safety and the environment in each jurisdiction in which properties it owns or manages are located. In particular, a significant health and safety incident as a result of inadequate or inappropriately implemented procedures could result in legal action and/or subsequent reputational damage.

Environmental laws and regulations can impose liability for cleaning up contaminated land and buildings, watercourses or groundwater. UK legislation and regulations extend such liability to any person who causes or knowingly permits such contamination and, in some cases, present owners or occupiers. Environmental laws and regulations can also impose strict liability, which could render the Group liable without regard to negligence or fault and could expose the Group to liability for the conduct of, or conditions caused by, third parties, or for acts that were in compliance with all applicable laws at the time such acts were performed. Accordingly, in the ordinary course of business, and in connection with past and future acquisitions, the Group (as owner or occupier of existing or future real property) may be, or become, responsible for the costs of removal, investigation or remediation of any hazardous or toxic substances that are located on or in a property, or that are migrating to or have migrated from a property, owned or occupied by it. The Group may also be exposed to the risk of third party personal injury and property damage claims in connection with contamination. In addition, more stringent requirements for environmental protection may be imposed by relevant regulatory authorities, which may increase the Group's costs or delay planning permission for the Group's properties.

The costs of any such required removal, investigation or remediation of such substances may be substantial regardless of whether the Group originally caused the contamination. The presence of such substances, or the failure to remedy the situation properly, may also adversely affect the value of the real estate or the Group's ability to sell, let or develop the affected properties or to borrow using the real estate as security.

There can be no assurance that costs related to any or all of such liabilities will not arise in relation to a significant number of properties owned by the Group or by joint ventures or associates in which the Group has invested and will not exceed current or future financial and insurance provisions which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

To mitigate against environmental and contamination risks, environmental due diligence, searches and investigations are typically carried out to identify any such issues prior to the contractual commitment to acquire or develop properties.

Following the 2017 Grenfell Tower tragedy, the Interim Report of Dame Judith Hackitt stated that the "*current regulatory system for ensuring fire safety in high-rise and complex buildings is not fit for purpose*".<sup>37</sup> As a result, it is anticipated that a new regime of fire safety regulation will be issued once the relevant investigation and inquiries are concluded, giving particular focus to high-rise and complex buildings. It can be noted that this type of building is not a material constituent of the Group's property portfolio nor in the Group's development pipeline. Consequently, the Issuer does not anticipate that such new regulations will have a material impact on the Group's properties, as any new development schemes will have to be constructed in accordance with the future regulations.

***Changes in legislation or regulation may adversely affect the Group's business, results of operations, financial condition or prospects***

The Group has to comply with a wide range of laws and regulations in the areas in which it operates including relating to tax and controls on rent. Changes in the laws or regulations governing residential property, or in their interpretation or enforcement, may adversely affect the Group's business, whether due to a significant decrease in the number of residential property transactions or otherwise. Increased tax or stamp duty land tax, changes to land tax policies, additional environmental or other obligations on homeowners, increased regulation of estate agencies, statutory caps on rent increases or similar developments could limit the Group's ability to increase rents or lead to a decrease in the volume and/or prices of transactions in the UK residential property market or to a loss of strategic opportunities for the Group's business. Changes in laws or regulations including tax legislation could require the Group to incur additional costs in complying with these laws or regulations or require changes to its operations or accounting and reporting systems, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The regulatory framework within which the Group operates is also subject to change and reinterpretation by governmental authorities. Any such change or interpretation could result in significant compliance costs for the Group's business and divert management time from the Group's core operations.

Even if certain regulatory changes may have a beneficial effect on the Group's business in the medium to long-term by creating new strategic opportunities or discouraging competition by market participants with fewer financial and institutional resources, such changes could create uncertainty and decrease residential property transaction volumes and/or prices in the short term, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

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<sup>37</sup> Source: Independent Review of Building Regulations and Fire Safety: interim report, 18 December 2017

## **RISKS RELATING TO THE NOTES**

### **Risks arising from the corporate structure**

The Issuer is a holding company with no revenue-generating operations of its own and all of its operations are conducted through its subsidiaries. Accordingly, in order to service and repay the Notes, the Issuer must rely on dividends or other distributions or payments from its subsidiaries. The ability of the Issuer's subsidiaries to distribute funds to it by way of dividends, distributions, interest, return on investments or other payments (including loans) is subject to the profitability and cash flow of the subsidiaries. These distributions are subject to important restrictions, including restrictions under English company law on subsidiaries that are incorporated in England and Wales which prohibit English companies from paying dividends unless they are paid out of profits available for distribution-in general, the accumulated earnings of the relevant subsidiary.

Generally, the claims of subsidiaries of the Issuer will have priority over claims of the Issuer with respect to the assets and earnings of such subsidiaries. In the event of a bankruptcy, liquidation, winding-up, dissolution, receivership, insolvency, reorganisation, administration or similar proceeding relating to such subsidiaries, holders of such subsidiaries' indebtedness and their trade creditors will generally be entitled to payment of their claim from the assets of such subsidiaries before assets are made available for distribution to the Issuer.

### **Rights of creditors of Group subsidiaries not guaranteeing the Notes**

Not all of the current and future subsidiaries of Grainger will guarantee the Notes. In the event that any of these non-guaranteeing subsidiaries become insolvent, liquidate, reorganise, dissolve or otherwise wind up, the assets of those non-guaranteeing subsidiaries will be used first to satisfy the claims of their creditors. Consequently, claims of Noteholders will be structurally subordinated to all of the claims of the creditors of such non-guaranteeing subsidiaries.

### **The Notes may not be a suitable investment for all investors**

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### **There is no public market for the Notes**

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of Euronext Dublin. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

### **The market price of the Notes may be volatile**

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes as well as other factors including the credit rating of the Issuer. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Group's operating results, financial condition or prospects or credit rating.

### **Optional redemption by the Issuer**

In accordance with the Conditions of the Notes, the Notes are subject to optional redemption in whole or part by the Issuer at any time. This feature is likely to limit the market value of the Notes. The market value of the Notes generally will not rise substantially above the price at which they can be redeemed. The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time. See "*Terms and Condition of the Notes—Redemption and Purchase—Redemption at the option of the Issuer*".

### **Redemption prior to maturity for tax reasons**

The Issuer may redeem all outstanding Notes, but not some, only in accordance with the Conditions of the Notes in the event that (i) the Issuer would be obliged to pay additional amounts in respect of the Notes due to certain changes in or amendments to the laws or regulations of the Relevant Jurisdiction which change or amendment becomes effective after 23 April 2018, or each of the Guarantors would be obliged to pay additional amounts as a result of such changes or amendments where the Issuer does not have sufficient funds to satisfy its obligations and each of the Guarantors is unable for reasons outside its control to put the Issuer in funds and (ii) such obligations cannot be avoided by the Issuer or, as the case may be, each of the Guarantors taking reasonable measures available to it.

On any such redemption for tax reasons, Noteholders would receive the principal amount of the Notes that they held, together with interest accrued on those Notes up to (but excluding) the date fixed for redemption. As with the optional redemption feature of the Notes referred to above, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate. See "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for Taxation Reasons*".

## **The Company may not be able to finance a change of control purchase or redemption required by the Conditions of the Notes**

Upon the occurrence of a Put Event (as defined in “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption upon a Change of Control*”), if a Noteholder so requests, the Issuer will be required to purchase or redeem all outstanding Notes of such Noteholder at a purchase or redemption price in cash equal to the principal amount of such Notes together with interest accrued to but excluding the date of the purchase or redemption, as the case may be. If any such Put Event were to occur and if any such Noteholder so requests, there can be no assurance that the Issuer would have sufficient funds available at the time to pay the price of the outstanding Notes or that restrictions in agreements governing other indebtedness would not restrict or prohibit such repurchases. The change of control may cause the mandatory repayment and/or acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. See “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption upon a Change of Control*”.

## **Risks relating to the Notes generally**

Set out below is a brief description of certain risks relating to the Notes generally:

### *Modification, waivers and substitution*

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions of the Notes, the Trust Deed, the Agency Agreement, the Intercreditor Deed or the Security Agreement, (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution in place of the Issuer of any Subsidiary of the Issuer as principal debtor under the Notes or the substitution in place of any Guarantor as guarantor in respect of the Notes, in each case in the circumstances and subject to the conditions described in Conditions 15 (*Substitution*) and 16.2 (*Modification, Waiver, Authorisation and Determination*).

### *The covenants contained in the Conditions of the Notes are limited*

In addition to the Negative Pledge described herein, the Conditions of the Notes contain certain covenants pursuant to which the Issuer is required to maintain its Core LTV ratio at certain levels, as well as a covenant restricting purchases and transfers of assets in certain circumstances. In particular if the Issuer's Core LTV ratio goes above a certain level, the Issuer is restricted in making acquisitions (except in limited circumstances) until such time that the Core LTV ratio is reduced. Additionally the Conditions of the Notes contain a restriction on the Issuer's ability to consolidate, merge or amalgamate with, or transfer, lease or otherwise dispose of all or substantially all of its assets to, another person. However, prospective investors should note that the Conditions of the Notes do not restrict (among other things) the making of investments or the payment of dividends (other than as mentioned in this paragraph).

### *Change of law*

The Conditions of the Notes are based on English law in effect as at the date of this Offering Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Memorandum.

### *Denominations involve integral multiples: definitive Notes*

The Notes will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. It is possible that the Notes may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such

amounts, holds a principal amount of less than £100,000 in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least £100,000 in order to receive a definitive Note.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

*The Temporary Global Note and the Permanent Global Note representing the Notes will be held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on the procedures of those clearing systems for transfer, payment and communication with the Issuer and/or a Guarantor*

The Notes will be represented by one or more Global Note(s) which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”). Definitive Notes will only be issued in limited circumstances, as described in “*Summary of Provisions Relating to the Notes while Represented by the Global Notes — Exchange*”. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the relevant Global Note. While the Notes are in global form, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are in global form, the Issuer or a Guarantor, as the case may be, will discharge its payment obligations under the Notes by making payments to the Common Depositary. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. Neither the Issuer nor any of the Guarantors has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

#### *Insufficiency of security*

If there is an event of default under the Notes, the holders of the Notes will be secured only by the assets of the Issuer and each of the Guarantors. The Transaction Security consists of floating charges over the properties and other assets of the Issuer and each of the Guarantors. To the extent that the claims of the holders of the Notes, the claims of lenders under the Bank Facilities, the claims of certain hedge counterparties and the claims of any other third party creditor that shares in the Transaction Security in accordance with the terms of the Intercreditor Deed exceed the value of the Transaction Security securing the Notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior secured indebtedness ranking *pari passu* with the Notes.

To the extent that other first-priority security interests, pre-existing liens, liens, liens permitted under the Conditions of the Notes and other rights encumbering the Transaction Security, those parties may have or may exercise rights and remedies with respect to the Transaction Security that could adversely affect the value of the security and the ability of the Security Trustee to release or foreclose on the security.

#### *Priority of payments under the Intercreditor Deed*

The Trustee under the Trust Deed will, in connection with the issue of the Notes, accede to the Intercreditor Deed, the other parties to the Intercreditor Deed being, among others, the agents and/or trustees (as the case may be) from time to time of the other indebtedness secured by the Transaction Security, including the Bank Facilities, the Existing Corporate Bonds, counterparties to certain hedging obligations and the Security Trustee. Other creditors may become parties to the Intercreditor Deed in the future and share in the Transaction Security. Among other things, the Intercreditor Deed governs the enforcement of the security documents, the sharing in, any recoveries from such enforcement and the release of the Transaction Security by the Security Trustee.

Subject to certain circumstances specified in the Intercreditor Deed where two or more classes of creditors (excluding hedging creditors) are also required to vote in favour of the relevant action by specified majorities, including in relation to enforcement of the Transaction Security and approvals of distressed disposals, the Intercreditor Deed provides that the Security Trustee shall act upon the

instructions of the secured creditors representing more than 66 2/3 per cent. of the aggregate principal amount outstanding under the Notes, the Existing Corporate Bonds, any additional notes, the Bank Facilities, any new credit facilities and certain hedging creditors. The Intercreditor Deed further provides that, if the Trustee or Noteholders do not respond to a request listed in clause 22.5(a) of the Intercreditor Deed within 20 business days, the votes of Noteholders will not be counted for, amongst other things, the purposes of instructing the Security Trustee. These arrangements could be disadvantageous to Noteholders in a number of respects. For example, other creditors not subject to the Intercreditor Deed could commence enforcement action against the Issuer or its subsidiaries during such consultation period, the Issuer or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain collateral could otherwise be impaired or reduced.

The Intercreditor Deed provides that the Security Trustee may release certain collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the Trust Deed, the Bank Facilities and the Existing Corporate Bonds Trust Deed. Therefore, such collateral available to secure the Notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Trust Deed.

The Trust Deed, the Bank Facilities and the Existing Corporate Bonds Trust Deed permit the Issuer, in compliance with the covenants in those agreements, to incur additional indebtedness secured by liens on the Transaction Security. The Issuer's ability to incur additional debt in the future secured on the collateral may have the effect of diluting the ratio of the value of such Transaction Security to the aggregate amount of the obligations secured by the Transaction Security.

### ***Risks relating to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *Global credit market conditions*

Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Offering Memorandum), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the assets of the Issuer. The Issuer cannot predict which of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

#### *The secondary market generally*

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes and the Guarantors will make any payments under the Notes Guarantee in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the

value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect their value. A drop in the level of interest rates will have a positive impact on the price of the Notes, as the Notes pay a fixed annual rate of interest. Conversely, an increase in the interest rate level will have an adverse impact on the price of the Notes. For investors holding the Notes until maturity, any changes in the interest rate level during the term will not affect the yield of the Notes, as the Notes will be redeemed at par.

#### *Credit ratings may not reflect all risks*

S&P has assigned a credit rating to the Notes. S&P is established in the European Community and is registered under Regulation (EC) No. 1060/2009, as amended. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

#### **Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

#### **Risks relating to providing consolidated accounts only**

The Issuer has requested Euronext Dublin grant a derogation under Rule 3.3(3)(c) of the ISE Global Exchange Market Listing and Admission to Trading Rules from the requirement for guarantors to include their individual financial statements in these Listing Particulars. Euronext Dublin has granted such derogation. The accounts of the Guarantors have been included in the consolidated accounts of the Company, which are incorporated by reference herein, and have not been presented separately herein. However, as the non-Guarantor subsidiaries represent more than 25 per cent. of the consolidated EBITDA of the Group and more than 25 per cent. of the net assets of the Group, the consolidated financial statements of the Company may be of limited use in assessing the financial position of the Guarantors.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes, after deduction of underwriting fees and commissions, are expected to be approximately £347 million. The net proceeds from the issue of the Notes will be used to redeem the Existing Corporate Bonds, the payment of related fees and for general corporate purposes.

A summary of the Group's principal debt facilities following the issue of the Notes is provided in the section entitled "*Capitalisation*".

## CAPITALISATION

The unaudited consolidated capitalisation statement set out below shows the capitalisation of the Group as of 30 September 2017 as adjusted to illustrate the effects of the issue of the Notes and the redemption of the Existing Corporate Bonds and part repayment of the Group's principal debt facilities using the proceeds of the issue of the Notes.

The unaudited consolidated capitalisation statement has been prepared under IFRS and on the basis set out in the notes below. Prospective investors should read this table in conjunction with "*Selected financial information on the Group*", and the audited consolidated financial statements for the Group for the financial year ended 30 September 2017.

	Actual <sup>(1)</sup>	Adjustments to February 2018	February 2018	Adjustmen ts for the issue of the Notes <sup>(2)</sup>	As adjusted <sup>(2)</sup>
	£m	£m	£m	£m	£m
Cash.....	(77.9)	21.5	(56.4)		(56.4)
Capitalised Costs <sup>(3)</sup> .....	(9.2)	(1.0)	(10.2)	(1.3)	(11.5)
Bank Facilities <sup>(4)</sup> .....	501.2	(15.1)	486.1	(45.0)	441.1 <sup>(4)</sup>
The Notes <sup>(4)</sup> .....	0.0		0.0	350.0 <sup>(5)</sup>	350.0
Existing Corporate Bonds <sup>(4)</sup> .....	275.0		275.0	(275.0) <sup>(6)</sup>	0.0
Excluded Entities' Indebtedness <sup>(4)</sup> ...	158.7		233.7		233.7
<b>Net debt</b> .....	<b>847.8</b>		<b>928.2</b>		<b>956.9</b>
Total shareholders' funds.....	745.3	4.1	749.4		749.4
<b>Total capitalisation</b> .....	<b>1,593.1</b>		<b>1,677.6</b>		<b>1,706.3</b>

### Notes

- (1) As at 30 September 2017. Information in this column has been extracted without material adjustment from the audited consolidated financial statements of the Group for the financial year ended 30 September 2017.
- (2) This column has been included to show the effect of the issue of the Notes and repayment of the Existing Corporate Bonds.
- (3) **Capitalised Costs** means unamortised debt issue costs. In accordance with IAS 39, any transaction costs that are directly attributable to the issue of a financial liability are capitalised and subsequently amortised over the expected tenor of the liability.
- (4) For further information on each of these please see "*Description of Indebtedness*".
- (5) £350 million represents the principal amount of the Notes.
- (6) This figure represents the redemption of the Existing Corporate Bonds.
- (7) The adjustments in above table also reflect the estimation of approximately £30 million of costs relating to the issue of the Notes and the redemption of the Existing Corporate Bonds.

## MARKET OVERVIEW

Grainger operates in the residential real estate market in the UK.

### Overview

Grainger's focus on the PRS is supported by strong growth in demand for renting. Since 2008, the PRS has been the fastest growing housing tenure in the UK. It is now the second most common housing tenure at 20 per cent. of the English housing market (4.7 million households), a doubling since 2002.<sup>38</sup> Home ownership in the UK has been in decline since 2003 and now stands at 63 per cent. from its peak of 71 per cent. in 2003.

Forecasts by PwC suggest continued growth in the PRS with a further 1.8 million households in the PRS predicted by 2025, a 40 per cent. increase.<sup>39</sup>

Growth in the PRS market has been seen across all age groups, with the fastest growth seen in the 35-44 age group. 56 per cent. of all PRS households are made up of individuals over the age of 35, while 36 per cent. of all PRS households are young families with children.<sup>40</sup>

This growth in demand for renting is coupled with constrained supply. Estimates by the BPF suggest that the 2-3 year supply of purpose-built PRS homes is only 105,000.

The current PRS market is dominated by small, private landlords (also referred to as buy-to-let landlords), with 98 per cent. of all landlords holding portfolios of less than 10 properties.<sup>41</sup>

Recent changes to the tax system and by the Bank of England on buy-to-let lending requirements have resulted in a reduction of PRS homes being provided by the buy-to-let market, with 20 per cent. of buy-to-let landlords intending to reduce their portfolios in the next year.<sup>42</sup>

At the same time that the small, buy-to-let landlord sector is being discouraged, policy changes have been made to encourage investment in the PRS (and Build to Rent) market by large-scale investors and operators. £8 billion of government support has been allocated to the Build to Rent sector and changes have been made in the planning system to enable greater number of Build to Rent developments to take place.<sup>43</sup>

### UK residential real estate market

The UK residential real estate market has been characterised by strong capital growth over the last 50 years and reliable recovery following occasional periods of price correction. Since the 2008 financial crisis, UK house price has grown, on average, by 4 per cent. each year. This growth is very location specific and has ranged from annualised growth of 1 per cent. in Northern regions to annualised growth of 7 per cent. in London during this period<sup>44</sup>.

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<sup>38</sup> MHCLJ, English Housing Survey, Headline Report, 2016-17 (published January 2018)

<sup>39</sup> PwC, UK Economic Outlook (July 2015)

<sup>40</sup> MHCLG, English Housing Survey, Headline Report, 2016-17 (published January 2018)

<sup>41</sup> House of Commons Library (Alex Bate), Building the new private rented sector: issues and prospects (England), 19 June 2017

<sup>42</sup> National Landlord Association, "20% of landlords plan on selling up", 11 January 2018

<sup>43</sup> Housing White Paper, National Planning Policy Framework, London Supplementary Planning Guidance

<sup>44</sup> ONS and Land Registry House Price Index – February 2018 release

The strong growth in prices has been driven by an imbalance between demand and supply in the UK. The UK population has been growing steadily for several years and is forecast to continue to grow; over the next 10 years, the population is forecast to reach 69.8 million, a 3.5 million increase<sup>45</sup>. The average household size has also been reducing, in line with wider global trends, increasing demand for housing. Housebuilding in the UK has failed to keep up with the increased demand. The consensus is that around 225,000 to 275,000 homes are required to keep up with the population growth and compensate for the years of under-supply<sup>46</sup>. In contrast, over the last 5 years England alone has built, on average, 168,000 homes each year<sup>47</sup>.

The low interest rates environment following the 2008 financial crisis, and the availability of historically cheap mortgages has also supported price growth. Lower credit costs have meant that buyers, who meet the lending requirements, have been able to transact at higher prices.

House price growth, at a median of 7 per cent. per annum since 1997 has been significantly ahead of household income growth, where earnings growth have averaged 3 per cent. each year<sup>48</sup>. This has contributed to the decline seen in homeownership.

Homeownership has been steadily reducing in England; since its peak in 2004, where 70 per cent. of households owned their homes, it is now estimated that just 61 per cent. of households are homeowners; the lowest proportion recorded since 1985. In contrast, the PRS has seen rapid growth during the same period, rising from 11 per cent. of households in 2004 to 20 per cent. in 2017, the highest proportion recorded since comparable records began. The largest growth in the PRS has been recorded amongst those aged under 35, with around half now living in the sector, up from 34 per cent. in 2008. However, growth has also been recorded across all other age groups, with 56 per cent. of the PRS market comprised of individuals over the age of 35.<sup>49</sup>

Affordability issues have been the key driver of the growth in the sector. High house prices and stricter mortgage underwriting requirements from banks (deposit and income affordability requirements) have left potential buyers facing large barriers to access home ownership. Nationwide estimates that it would take around 8 years for a typical buyer to save a deposit on the average house<sup>50</sup>.

Additionally, there is evidence that the growth in the sector is not just affordability driven, with changing attitudes to home ownership also a factor. Knight Frank estimates that 37 per cent. of renters are in the sector through choice rather than affordability issues; with many wanting the flexibility and lower responsibility requirements renting brings<sup>51</sup>.

With affordability pressures likely to remain in the housing market and people spending longer renting, the private rented sector is set to grow further. PwC estimates that by 2025, 25 per cent. of UK households (7.2 million households) will live within the PRS<sup>52</sup>.

Not only is the PRS growing, but it is also changing. Currently, the supply of rental homes in the UK is dominated by small individual buy-to-let landlords; it is estimated that only 7 per cent. of existing

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<sup>45</sup> ONS, 2016-based National Population Projections, October 2017

<sup>46</sup> MHCLG, Fixing Our Broken Housing Market February 2017

<sup>47</sup> MHCLG, Net Additional Dwellings, November 2017 release

<sup>48</sup> ONS, Housing Affordability in England and Wales 1997-2016, March 2017

<sup>49</sup> MHCLG, English Housing Survey 2016/17

<sup>50</sup> Nationwide House Price Index, December 2017

<sup>51</sup> Knight Frank, Multihousing 2017

<sup>52</sup> PwC, The Continuing Rise of Generation Rent, 2015

landlords have portfolios of 5 or more rental homes<sup>53</sup>. However, with the growing importance of the rental sector in housing the nation, the Government has become increasingly supportive of encouraging institutional Build to Rent investors into the sector to help professionalise it.

Build to Rent developments are characterised as purpose-built schemes designed specifically for renting. Unlike other rental homes, particularly blocks of flats, the entire scheme is operated under unified ownership and management. Build to Rent aims to provide renters with a better service offering than existing rental homes currently do. This includes developing better quality homes, offering longer tenancy agreements, providing on-site amenities (gyms, concierges & guest rooms for example) and placemaking to encourage a sense of community.

Since the Government's review of "Barriers to Institutional Investment in the Private Rented Sector" in 2012, it has proposed and implemented new policies to increase Build to Rent activity in the UK. This includes the creation of a £1 billion Build to Rent Fund, a £3.5 billion PRS Housing Guarantee Scheme and changes to the National Planning Policy Framework to make it easier for Build to Rent investors to develop new homes<sup>54</sup>.

The Government has also made several policy changes to curb the growth of buy-to-let landlords in the PRS. Punitive tax changes such as additional stamp duty costs on buy-to-let investments and the removal of mortgage interest tax relief, have made new buy-to-let investments for many unviable. These changes have had a significant impact on the sector, as evidenced by the number of new buy-to-let mortgages taken out in 2017 being 27 per cent. lower than the previous year<sup>55</sup>.

The underlying fundamentals of the PRS and Government support for Build to Rent has made the sector attractive to many institutional investors. It is estimated that £25 billion has been committed to the sector and that by 2020, this will grow to £50 billion<sup>56</sup>.

## **UK Tenancies**

Most residential lettings by non-resident private landlords which began before 15 January 1989 are regulated tenancies. Since this date, no further regulated tenancies have been created and most lettings after that date are either assured or assured shorthold tenancies. The table below sets out some of the key features of Grainger's residential tenancies:

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<sup>53</sup> CML/UK Finance, The Profile of UK Landlords, December 2016

<sup>54</sup> DCLG, Fixing Our Broken Housing Market, February 2017

<sup>55</sup> UK Finance, Mortgage Trends Update, February 2018

<sup>56</sup> LSH, Build to Rent – Reaching Out To The Regions, 2017

	<b>Assured Shorthold</b>	<b>Assured/Assured Periodic</b>	<b>Regulated</b>	<b>Life (including the CHARM Portfolio)</b>
% of Residential Portfolio as at 30 September 2017 (1)	30.6%	6.1%	42.0%	9.5%
UK Primary Legislation Regulation	Housing Act 1988	Housing Act 1988	Rent Act 1977	FSMA 2000
Security of Tenure (Tenancy Length)	Fixed term tenancy: typically 6-12 months but Grainger's new BtR schemes also offer 3 year tenancies.	Periodic tenancy: Week-to-Week or Month-to-Month basis. Fixed-term tenancy: 12-18 months	Lifetime tenancy	
Rent Setting	Market Rent	Market Rent	'Fair Rent' set by Valuation Office Agency Rent Officer	No Rent
Rent Increases	At specified rent review periods set out in contract or at renewals	Rent review clause	'Fair Rent' increase every two years and set by Rent Officer	-
Responsibility for maintenance	Landlord	Landlord	Landlord	Tenant
Eviction Rights	Landlord may take possession, for any reason after the later of (i) six months after the beginning of tenancy or (ii) the end of the fixed term, upon two months' notice.	Court order required to evict. Landlord must provide legal reason to evict.	Court order required to evict. Landlord must provide legal reason to evict.	
Other characteristics	Most new tenancies are automatically ASTs, and this is now the most common form of tenancy.	Tenant has the right to renew tenancy.	Family members or cohabitee have succession rights in event of regulated tenant death. No new Regulated Tenancies have been created since 1989.	Tenant transfers ownership in return for cash lump sum and rent-free occupation.

## REGULATION

### 1. RESIDENTIAL TENANCIES IN ENGLAND AND WALES

#### (a) Background

The legislation governing residential tenancies in England and in Wales includes the Rent Act 1977 (as amended) (the “**Rent Act**”), the Landlord and Tenant Act 1985 (the “**Landlord and Tenant Act**”) and the Housing Act 1988 (as amended) (the “**Housing Act**”). The legislation provides differing levels of protection for each of regulated, statutory and assured shorthold tenancies on a number of matters, including in relation to the tenant’s ability to remain in the property on expiry of the tenancy (“**security of tenure**”), the landlord’s ability to terminate the tenancy, rent increases, succession rights and repair and maintenance obligations. The Group’s portfolio of properties includes properties which are subject to regulated tenancies, statutory tenancies, assured tenancies, assured shorthold tenancies and lifetime leases.

#### *Regulated and statutory tenancies*

Subject to certain exceptions (including, for example, lettings with resident landlords), most residential tenancies entered into prior to 15 January 1989 are regulated tenancies governed by the Rent Act. No new regulated tenancies have been created since 15 January 1989. At the end of the contractual term of a regulated tenancy, it is automatically converted into a statutory tenancy on the same terms as those which applied pursuant to the regulated tenancy, provided that the tenant occupies the dwelling as his or her only or main residence.

#### *Assured tenancies*

Provided that certain criteria were satisfied, tenancies entered into between 15 January 1989 and 28 February 1997 were automatically assured tenancies unless a special procedure was followed to set up an assured shorthold tenancy. The criteria to be satisfied are set out in the Housing Act and include, amongst other things, that the tenant (or at least one of the joint tenants) must occupy the dwelling as his or her only or principal home. Tenancies which started on or after 28 February 1997 will only be assured tenancies if the landlord served a notice before the beginning of the tenancy or included a simple declaration in the tenancy agreement to this effect or the landlord subsequently serves notice to this effect. An assured tenancy may be granted for a fixed term or may be a contractual periodic tenancy (which runs indefinitely from one rent period to the next). At the end of the contractual term of a fixed term assured tenancy, the tenancy is automatically converted into a statutory periodic tenancy, which runs from one rent period to the next on the same terms as the preceding fixed term assured tenancy.

#### *Assured shorthold tenancies*

Subject to a few exceptions (for example, where the annual rent is more than £100,000), any assured tenancy entered into after 28 February 1997 is automatically deemed to be an assured shorthold tenancy unless the agreement specifies otherwise or there is a notice served by the landlord (at the outset of the tenancy or at any time subsequently) stating that the agreement is to be an assured non-shorthold tenancy. As with assured tenancies, an assured shorthold tenancy may be granted for a fixed term or may be a contractual periodic tenancy (which runs indefinitely from one rent period to the next). At the end of the contractual term of a fixed term assured shorthold tenancy, the tenancy is automatically converted into a statutory periodic tenancy, which runs from one rent period to the next on the same terms as the preceding fixed term assured shorthold tenancy.

#### (b) Security of tenure and termination

#### *Regulated and statutory tenancies*

At the end of the contractual term of a regulated tenancy, the tenancy is automatically converted into a “statutory tenancy”, so long as the tenant occupies the dwelling as his or her only or main residence.

To recover possession, the landlord must obtain a court order, which will only be granted if the landlord is able to establish one or more of the grounds for possession set out in the Rent Act. The grounds for possession

include both mandatory and discretionary grounds. If the landlord can prove that a mandatory ground exists, the court must grant an order for possession subject to any defence available under the Human Rights Act. If the landlord can prove that a discretionary ground exists, the court will only make an order if it also considers it reasonable to do so. Mandatory grounds include, amongst others, where the landlord requires the property for his or her own occupation upon retirement, where the property is let for a term of eight months or less (it having previously been used for a holiday-let), where the property is required by a minister of religion, where the property is required by a person employed by the landlord in agriculture, and where the property is required as a residence for the landlord (who must have been a member of the armed forces when the property was acquired and on the date the regulated tenancy was granted). In most cases, the landlord must also show that it served notice on the tenant prior to the commencement of the tenancy, warning the tenant that the landlord may seek possession on one of the mandatory grounds.

Discretionary grounds include, amongst others, non-payment of rent or breach of covenant, nuisance or use of the property for illegal or immoral purposes, waste or neglect by the tenant leading to a deterioration in the condition of the property, damage to furniture due to ill-treatment by the tenant, an unauthorised assignment or sub-letting, a sub-letting by the tenant at a rent greater than the fair rent, where occupation is required for the landlord or a relevant family member, where the property is reasonably required by the landlord for occupation by a full-time employee, and where the landlord would suffer serious prejudice because he has sold or re-let the property on the strength of the tenant having served a notice to quit.

A tenant under a regulated tenancy is able to terminate the tenancy by giving notice to the landlord in accordance with the tenancy agreement. A tenant under a statutory tenancy must give the same amount of notice as would have been required under the preceding regulated tenancy. If no notice would have been required, the statutory tenant must give at least three months' notice.

#### *Assured tenancies*

The landlord of an assured tenancy is only able to regain possession of the property if it can prove that certain circumstances exist, otherwise the tenant has the right to remain in the property.

With regards to fixed term tenancies, the landlord has the right to regain possession during the fixed term if it can prove that certain grounds exist and the tenancy agreement makes provision for it to be terminated on one of these grounds. These grounds include both mandatory grounds (where a court must make an order for possession subject to any defence available under the Human Rights Act) and discretionary grounds (where the court may make an order for possession if it considers it reasonable to do so). Mandatory grounds include where a mortgage was granted before the commencement of the tenancy and the mortgagee requires possession in order to exercise a power of sale (although note that the landlord must have notified the tenant in writing before the tenancy started that it might seek possession on this ground), and where the rent remains unpaid for a certain period of time. Discretionary grounds include, for example, non-payment of rent, persistent late payment of rent, breach of the tenant covenants in the tenancy agreement, the deterioration in the condition of the property/common parts due to the waste or neglect of the tenant, the tenant causing a nuisance or using the property for illegal or immoral purposes and deterioration in the condition of the furniture due to ill-treatment by the tenant.

In the case of a contractual periodic tenancy, or where a fixed term tenancy has lapsed into a statutory periodic tenancy, again the landlord may regain possession only if it can prove that certain grounds exist. These include the grounds described above, in addition to a number of other mandatory and discretionary grounds. Mandatory grounds include where the landlord requires the property as his or her principal home, where the property is required by a minister of religion, where the landlord intends to demolish/reconstruct/carry out substantial works to the property and where the tenancy has devolved under the will of a former tenant during the previous 12 months. Discretionary grounds include where suitable alternative accommodation is available for the tenant.

#### *Assured shorthold tenancies*

An assured shorthold tenant has the right to remain in the property for the longer of (i) the fixed term of the tenancy or (ii) for six months (if the fixed term is less than six months or it is a contractual periodic tenancy). At the end of this period the landlord has the automatic right to regain possession by serving two months' notice on

the tenant. Following expiry of the notice, the tenant should leave voluntarily, but if it does not do so, the landlord can apply to the court and obtain an order for possession, which will be granted subject to any defence available under the Human Rights Act provided that the landlord has complied with the requirement to serve two months' notice. There are further defences available if a deposit was taken at the start of the tenancy and that deposit was not registered and requisite information provided to the tenant within a set timescale.

In the case of fixed term tenancies, if the landlord wishes to regain possession during the fixed term, it may only do so if it can prove that certain grounds exist and the tenancy agreement makes provision for it to be terminated on one of these grounds. These are the same grounds which apply to the termination of an assured tenancy during the fixed term, as described above.

In the case of a contractual periodic tenancy, if the landlord wishes to regain possession during the first six months, again it must be able to prove that certain grounds exist. These are the same grounds which apply to the termination of a contractual periodic assured tenancy, as described above.

### *(c) Rent*

#### *Regulated and statutory tenancies*

The Rent Act established a system for registering "fair rents" for dwelling-houses. Once a fair rent has been registered, it becomes the maximum amount chargeable under any regulated or statutory tenancy of that property. If the fair rent is registered after the tenancy was granted, the fair rent is the maximum amount that will be payable, even if the tenancy agreement provides for a higher rent.

The rent is assessed by a rent officer (an official with the Valuation Office Agency) in accordance with the criteria set out in the Rent Act, which state that the rent officer is to have regard to all the circumstances (other than personal circumstances), in particular to any premium paid, the age, character, locality and state of repair of the property, and the quantity, quality and condition of any furniture provided under the tenancy. The fair rent determined by the rent officer may be lower than the market rent, as he or she will assume that there is no shortage of properties available to rent in the area. The fair rent includes any sums payable by the tenant to the landlord in respect of council tax, for use of furniture, or for services.

Either the landlord or the tenant can apply to the rent officer for a rent to be registered, following which the fair rent applies until either party applies for a reassessment. Any rent increase is capped at the percentage change in RPI since the rent was last registered plus a percentage prescribed by law (currently 5 per cent.). The landlord can apply one year and nine months after the effective date of the last registration, but the new registered rent will not become effective until a two year period has passed since the previous assessment. An application can be made at any time if it is made jointly by the landlord and the tenant, or if there has been a change of circumstances which mean that the old rent is no longer fair. It is possible for the rent officer to determine a rent decrease as well as a rent increase.

#### *Assured tenancies and assured shorthold tenancies*

There is no statutory control over the amount of rent that a landlord can charge for properties subject to assured tenancies or assured shorthold tenancies, meaning a landlord can charge a full market rent. Where an assured tenancy or an assured shorthold tenancy has a substantive rent, the tenancy agreement is likely to set out any rent review provisions which will determine the position relating to rent increases. With regards to assured shorthold tenancies only, if the tenant considers that the rent being charged is significantly higher than that paid by comparable tenants, the tenant has the right to apply to the First-tier Tribunal Property Chamber (Residential Property) within the first six months of the term for a determination of the rent which the landlord might reasonably be expected to obtain under the assured shorthold tenancy. The First-tier Tribunal Property Chamber (Residential Property) can only make a determination if there are sufficient comparables in the area. If a rent is determined, that rent will be the maximum chargeable throughout the remainder of the fixed term.

With regards to fixed term tenancies, if the tenancy agreement is silent as to whether the rent will be reviewed during the fixed term, the landlord must wait until the end of the term before increasing the rent, unless the

tenant agrees otherwise. Once the fixed term has expired, the landlord can increase the rent if the tenant agrees. Alternatively, the landlord can use the formal procedure set out in the Housing Act to propose a rent increase to be payable as soon as the fixed term tenancy lapses into a statutory periodic tenancy. In doing so, the landlord must serve a notice on the tenant as to the proposed rent in a prescribed form. The determination of a rent increase can be referred to the First-tier Tribunal Property Chamber (Residential Property) for arbitration if both parties cannot agree on the new rent. The First-tier Tribunal Property Chamber (Residential Property) is specifically directed to determine the rent at which the premises might reasonably be let in the open market. As a market rent may be charged, there is scope for both rent increases and rent decreases following the assessment.

With regards to contractual periodic tenancies, if the tenancy agreement is silent as to whether the rent will be reviewed then, unless the tenant otherwise agrees, the landlord must follow the formal procedure set out in the Housing Act to propose a rent increase to be payable from a year after the tenancy began.

(d) *Succession*

*Regulated and statutory tenancies*

Upon the death of a regulated or statutory tenant, the tenant's spouse or civil partner (if, in respect of each, both are living in the property immediately before the death of the regulated or statutory tenant) or a person living with the tenant as his or her husband or wife or civil partner will become the statutory tenant of the property. If there is no such person, but a person who was a member of the tenant's family and was living with the tenant at the time of death and for two years immediately beforehand, then that person is entitled to an *assured tenancy* (not a statutory tenancy) of the property by succession.

Where the tenant's successor dies, and there is a person who (i) was a member of the original tenant's family immediately before the original tenant's death and (ii) was a member of the tenant's successor's family immediately before the tenant's successor's death and (iii) was living in the property with the tenant's successor at the time of, and for the period of two years immediately before, the tenant's successor's death, then that person is entitled to an *assured tenancy* of the property by succession.

*Assured tenancies and assured shorthold tenancies*

If a tenant dies and the tenancy is a joint tenancy, the remaining joint tenant or tenants have an automatic right to stay in the property.

If the tenant was a sole tenant, the right to succession depends on whether the tenant had a fixed term tenancy or a periodic tenancy. A tenancy agreement can grant additional rights of succession which go beyond those set out in statute.

In the case of a fixed term tenancy, if the fixed term has not expired, the tenancy is passed to whoever the tenant specified in his or her will and if the beneficiary takes up residence before the expiry of the term, that beneficiary will become an assured tenant, entitled to a statutory periodic tenancy. If it was a contractual periodic tenancy or a statutory periodic tenancy, the tenant's husband or wife (or a person living with the tenant as husband or wife) has an automatic right to succeed to a periodic tenancy if he or she was living with the tenant at the time of the tenant's death, unless the tenant who died was already a successor themselves. Only one succession is allowed.

(e) *Repair and maintenance obligations*

For regulated, statutory/assured and assured shorthold tenancies granted on or after 24 October 1961 for terms of less than seven years, responsibility for repair and maintenance is governed by the provisions of the Landlord and Tenant Act 1985. Under section 11 of the Landlord and Tenant Act 1985, the landlord must keep in repair the structure and exterior (including drains, gutters and external pipes) of the dwelling house (and, if the property forms part of a larger building in which the landlord has an interest, the repairing obligation also extends to the structure and exterior of that part of the building). The landlord must also keep in repair and proper working order the installations in the dwelling house for the supply of water, gas and electricity and for sanitation (including basins, sinks, baths and sanitary conveniences but not other fixtures, fittings and appliances

for making use of the supply of water, gas or electricity), space heating and heating water (and if the property forms part of a larger building, the landlord must also keep in repair and proper working order any installation which directly or indirectly serves the property and which is under the landlord's control or forms part of the larger building in which the landlord has an interest). Note, however, that the landlord is not liable to repair damage caused by the tenant failing to use the premises in a tenant-like manner.

*(f) Energy Performance Certificate and Recommendation Report*

An Energy Performance Certificate ("EPC") is a certificate which contains information about the energy efficiency of a building. It is prepared in conjunction with a recommendation report, which contains suggestions for improving the building's energy performance. An EPC is generally valid for 10 years from the date of issue, although a valid EPC will be revoked if a new one is issued for the building. According to the Energy Performance of Buildings (England and Wales) Regulations 2012 and the Building Regulations 2010 (both as amended by the Energy Performance of Buildings (England and Wales) etc. (Amendment) Regulations 2013) a seller or landlord must make an EPC and recommendation report available free of charge to prospective buyers and tenants whenever a building (commercial or residential) is constructed, sold or rented out. The requirements for EPCs are more complicated in relation to flats, multi-let and mixed use properties (for example, in relation to flats, every dwelling must have its own EPC). There is no obligation to provide an existing occupier with an EPC or a recommendation report. Where a tenant sells its leasehold interest to a third party, it is the tenant's responsibility to provide the EPC to the buyer. There are fines ranging from £200 to £5,000 per offence for failing to comply with the legislation relating to EPCs.

*(g) The Minimum Energy Efficiency Standards (MEES)*

The Minimum Energy Efficiency Standards ("MEES"), is aimed at reducing the carbon footprint of commercial and privately rented buildings across the UK by improving their energy efficiency.

MEES will require that all applicable properties must have an energy efficiency band rating of "E" or above.

From 1 April 2018 the grant of new tenancies (including renewals or extensions) of existing tenancies of properties which have an energy efficiency rating below E will be prohibited. A statutory periodic tenancy which arises after the end of a fixed term AST is classed as a new tenancy.

Furthermore, from 1 April 2020, where a domestic property's rating falls below this minimum rating the continued letting of domestic properties will be prohibited.

Penalties will be enforced by local authorities and determined by reference to the duration of the breach. Penalties for domestic property will be up to £4,000 and for commercial property could be up to £150,000.

*MEES and Assured Tenancies and Assured Shorthold Tenancies*

Where an assured tenancy (whether shorthold or not) is granted on or after 1 April 2018, or such a tenancy continues at any time after 1st April 2020, then the minimum E rating is required. If this is not achieved landlords will be prohibited from letting substandard properties (unless an exemption applies).

As from 1 April 2020 MEES will apply to ongoing assured tenancies in existence on or after that date, as well, of course, as any new assured tenancies granted after that date.

*Regulated Tenancies*

It has not been possible to grant new regulated tenancies since 15 January 1989, well before EPCs were first introduced. The only exception is where there is the grant of a new tenancy to an existing Rent Act protected tenant, whether of the same or a different property owned by the same landlord. In practice, it is only likely that these properties will be subject to the Regulations where an EPC has been obtained when the property was sold (or modified). As they are often unimproved it is quite possible that Rent Act tenancies will have an F or G rating.

After 1 April 2018 if an existing statutory tenant dies then a new tenancy, an assured tenancy by succession, will be automatically granted to a family member living with the deceased (so long as they have lived with him or her at least two years before his or her death). This could potentially trigger the regulations but only if there was an existing EPC which was legally required and remains valid, normally because the property has previously been sold (subject to the sitting tenancy). The landlord can then register a temporary exemption for six months but within this time must carry out the necessary improvement works to meet the minimum E rating, unless another exemption is applicable and is registered. On the other hand, if the existing statutory tenant dies leaving a spouse or partner then there is a transmission of the existing statutory tenancy to that spouse or partner. This is not the grant of a new tenancy, so no question of compliance arises at that point.

From 1 April 2020 onwards if the property has been required to have an EPC, e.g. due to a sale, then the Regulations will apply if the property has an F or G rating. Energy efficiency improvements must then be carried out to bring the property up to a minimum E unless an exemption applies and is registered by the landlord.

## **2. FINANCIAL CONDUCT AUTHORITY**

As a listed company which is admitted to trading on a regulated market in the European Union, Grainger is required to comply with the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules (all as contained in the FCA Handbook). Grainger is also subject to the disclosure requirements under the Transparency Directive and the corporate governance regime set out in the UK Corporate Governance Code.

## INFORMATION ON THE GROUP

### 1. THE GROUP

#### 1.1 Overview

Grainger is a FTSE 250 property business, the UK's largest listed residential landlord based on number of properties and, in the belief of the Issuer, the UK's leading private rental housing business. Grainger invests in, develops, operates and trades residential homes for rent across the UK and, as at 30 September 2017, had total assets under management of approximately 9,000 units worth approximately £2.8 billion (approximately £2 billion worth of wholly-owned assets (6,655 units), £270 million worth of co-investments (709 units) and £607 million worth of third party share assets under management (1,567 units)).

#### History

Grainger was established in 1912 in Newcastle in the North-East of England. The Company listed on the London Stock Exchange in 1983 and in 2016 set out a new strategy to transform the business to focus on growth in the UK private rented sector. Grainger's market capitalisation as at 9 April 2018 was £1.2 billion.

#### Strategy

Grainger's strategy, set out in January 2016, comprised three main strands: to grow recurring net rental income; to simplify and focus the business by improving efficiencies and reducing costs; and to build on the Company's extensive experience managing rental homes through its operational platform.

The strategy led to: (i) the disposal of Grainger's German residential business to Heitman and LEG Immobilien AG and the Equity Release Division (Retirement Solutions) to Patron Capital Partners and Electra Private Equity plc; and (ii) the refocus of the development team from building homes for sale to homes for rent (otherwise known as Build to Rent). In addition, Grainger significantly reduced the cost base of the business, direct property operating costs, overheads and financing costs.

This simplification provided capacity to focus on the growth opportunity in PRS within the UK.

#### Business model

Grainger's business model has three elements, designed to grow recurring net rental income: (i) investing in well-located and attractive properties; (ii) originating, planning and developing high-quality assets; and (iii) providing a direct and reliable service to customers by operating and managing the properties sustainably.

Grainger's property portfolio (including co-investments) consists of approximately 9,000 homes with a Gross Asset Value of £2.8 billion, which comprise two main types of privately rented assets located across the UK: regulated tenancies and PRS homes.

#### Regulated Tenancies Portfolio

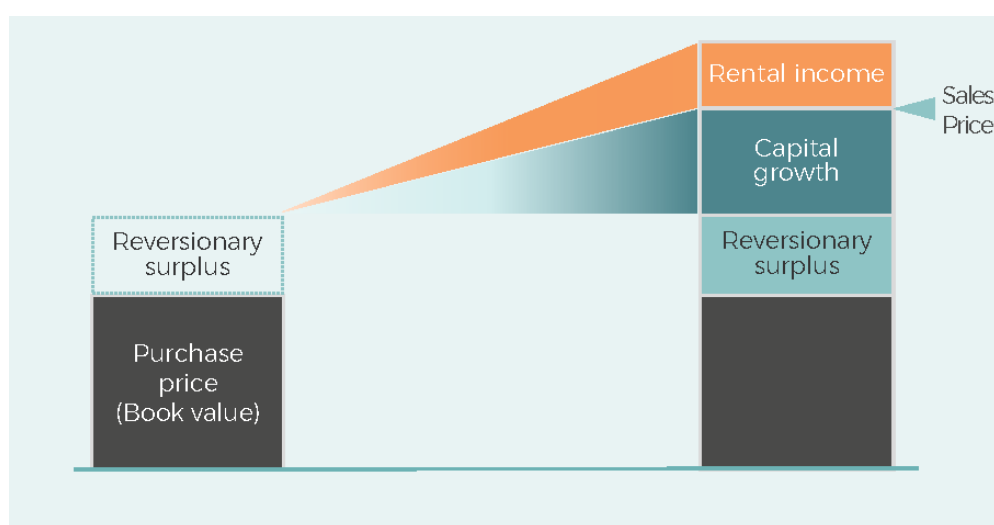
Regulated tenancy assets are privately rented and subject to historic lease arrangements whereby the tenant has the right to remain in the property for as long as they wish (within the terms of the lease). Rents are set by a third party, government-employed rent officer at below market rents, with bi-annual rental reviews of RPI + 5 per cent. Legislative changes ended the creation of new regulated tenancies from 1989, meaning that as these properties are vacated, the total number in the market is in decline.

The Regulated Tenancies Portfolio generates both recurring rental income (average gross yields of between 2-4 per cent. per year) and sales proceeds. Overall, this portfolio has been historically resilient through economic cycles, generating more than £100 million of gross cash per year, including during the global financial crisis.

Regulated tenancy assets generate three sources of returns: (i) rental income; (ii) capital growth; and (iii) the realisation of Reversionary Surplus (a 21-25 per cent. valuation uplift on vacancy).

As at 30 September 2017, the Regulated Tenancies Portfolio had a market value of £1,214 million and a Vacant Possession Value of £1,444 million. In the year ended 30 September 2017, the Regulated Tenancies Portfolio generated revenue of more than £131 million. The Group acquired these properties at a discount to Vacant Possession Value, reflecting the value of the regulated tenancy. The properties are typically sold once they fall vacant, releasing the embedded Reversionary Surplus. As at 30 September 2017, the Reversionary Surplus in respect of wholly-owned properties in the Property Portfolio totalled £277 million.<sup>57</sup>

The proceeds from the natural reduction of the Regulated Tenancies Portfolio (6.5-7 per cent. of the portfolio per year, generating over £100 million gross cash per year) are reinvested into PRS assets and provide capital for Grainger's transition and growth into the PRS market, as demonstrated by the diagram below.



For further information on the Regulated Tenancies Portfolio, please see *“Information on the Group – Business Descriptions”*.

<sup>57</sup> Investors should note that the Reversionary Surplus is not the market value of the asset and therefore not included in net asset value metrics for the Group.

## PRS business

The PRS business of the Group constitutes a successful and expanding source of revenue and growth.

It is estimated that 1.8 million new PRS homes will be needed by 2025<sup>58</sup> (see “*Information on the Group – Competitive Strengths and Strategy*” and “*Market Overview*” for more information on the PRS market). The Group is well-positioned to benefit from this significant growth in demand:

- The Group’s current strategy is to invest in approximately 5,000 new PRS homes by 2020, representing 5 per cent. of the new rental homes market (based on the objective of investing £850 million in PRS assets by 2020 and data from the BPF).
- The Group has a national operational platform, being recognised in 2017 as Property Company of the Year at the Property Awards, Landlord of the Year and Asset Manager of the Year at the RESI Awards and PRS developer of the Year at the Rent Awards.

As at 30 September 2017, Grainger was the largest FTSE-listed provider of PRS accommodation in the UK, with a total of 4,789 PRS homes (including co-investments). Pursuing the objective of investing £850 million in PRS assets by 2020, as of 7 February 2018, Grainger has already secured £688 million worth of investment since January 2016. A further £206 million in undergoing planning and legal preparations and an additional £373 million worth of investment is under consideration. These figures are investment amounts and do not reflect the future market value of the assets upon completion. As an indicator, Grainger has secured these investments at gross yields on cost of between 6-8 per cent. and upon completion and stabilisation, these assets are subject to yield compression on revaluations.

The PRS pipeline included in the planning and legal category is classified by the Group as those investments which, in the case of an acquisition opportunity, have reached heads of terms being signed and where parties are progressing with full legal preparation and due diligence, and in the case of a direct development opportunity, are advanced in the process of seeking planning consent from the relevant planning authority. There is still some risk that these opportunities may not materialise, although once a project has reached this phase, that risk has significantly decreased. There is a higher risk at the under consideration phase that a project will not materialise as these projects have not had heads of terms signed and are in an early stage of appraisal and research. Accordingly, there can be no guarantee that the Group will be able to invest amounts in PRS at the levels indicated.

The successful execution of this investment pipeline will see the Group’s recurring net rental income grow significantly over the next two to three years.<sup>59</sup> This is demonstrated by the following chart.

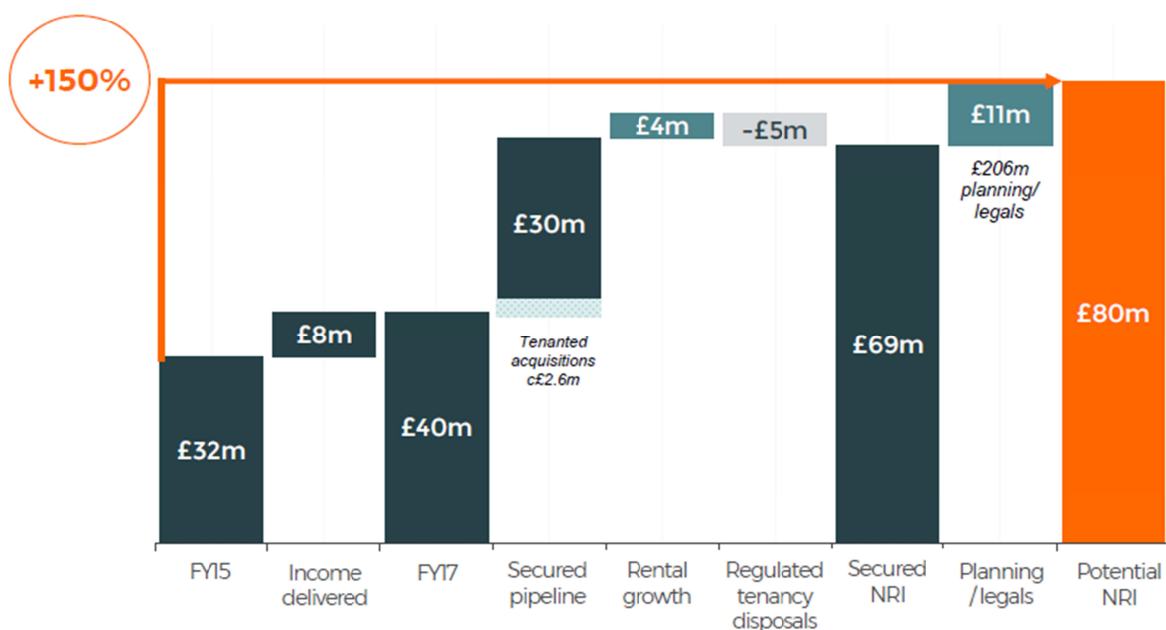
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<sup>58</sup> Source: PwC

<sup>59</sup> Based on the £69 million secured pipeline figure in the below chart, net rental income will have increased by 116 per cent. since 30 September 2015.

# Net rental income progression

Originate Invest Operate



Estimates for net rental income demonstrated in the above chart are based on projections for secured, wholly-owned acquisitions (excluding co-investments). They are also based on a rental growth estimation of approximately 3 per cent. and a regulated tenancy vacancy rate of 6.5-7 per cent. The element of projected net rental income which relates to the part of PRS pipeline which is in legal/planning phase is based on assumptions of 6.5-7.5 per cent. gross yield per year and net rental income margin of 72.5-75 per cent. per annum. Given the matters discussed in relation to PRS pipeline above, while the Group believes that projected net rental income is a helpful indicator for investors, there can be no guarantee that the Group will achieve these projections at the levels indicated.

## 1.2 Business Areas

The Group's operations are organised into the following business areas:

- **Residential:** The Residential business owns, acquires, operates and trades the properties within its PRS, regulated tenancy and CHARM portfolios.

The Residential Portfolio is geographically widespread, but with a concentration in London and the South East (76 per cent. by Market Value of the Total Assets Under Management (excluding the Development Portfolio) as at 30 September 2017, with this figure being lower if taken as the Group's share rather than Total Assets Under Management). The pipeline of acquisitions for the PRS Portfolio is well distributed across the UK, although targeted at locations where the Group believes there are prospects for future growth. Cash generated from the UK Residential Portfolio is derived from rental income and also from proceeds from the sale of properties, generally when the properties subject to regulated tenancy fall vacant and are sold.

(i) PRS portfolio: As of 30 September 2017, Grainger has the largest portfolio of operational PRS units in the UK out of all FTSE-listed companies. Grainger's strategy is to invest in approximately 5,000 new PRS homes by 2020, representing 5 per cent. of the new rental homes market (based on the objective of investing £850 million in PRS assets by 2020 and data from the BPF)<sup>60</sup>. Areas of high demand and rental growth potential are targeted for new investment in either (i) stabilised PRS assets; (ii) forward funded acquisitions; or (iii) direct development by the Group.

The business focuses on developing rental homes specifically with the customer in mind. The development team works alongside the investment and operational teams to secure PRS acquisitions and to manage the development process through to completion. As at 30 September 2017, the PRS under development represented 3 per cent. of the Total Assets Under Management by market value.

(ii) Regulated Tenancies Portfolio: Grainger has one of the largest privately-owned portfolios of regulated tenancies in the UK based on 3,508 wholly-owned properties as at 30 September 2017.

(iii) CHARM Portfolio: The CHARM Portfolio is a financial interest (i.e. the Group is not involved in the day-to-day management of this portfolio) in equity mortgages held by the Church of England pensions board as mortgagee.

- Joint ventures and associates: The joint ventures and associates business comprises investments in joint ventures and the management of the property portfolios held within the joint ventures. These activities generate income from management fees (including performance fees) as well as a share of the profit from the entities. The joint ventures and associates business currently provides property and asset management services to GRIP and asset management services to WIP. GRIP is a joint venture real estate investment trust (i.e. a private REIT) launched by Grainger and APG. WIP was formed as a joint venture between Grainger and Dorrington.
- Development activity: As well as management of PRS developments, the business derives profits from sales of strategic land sites, development sites to housebuilders and from a construction contract in partnership with the Royal Borough of Kensington and Chelsea. As at 30 September 2017, this activity represented 5 per cent. of the Total Assets Under Management by market value.<sup>61</sup>

For further information on each business area, please see *"Information on the Group – Business Descriptions"*.

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<sup>60</sup> BPF

<sup>61</sup> As at 30 September 2017, development activity represented 3.1 per cent. of Gross Asset Value. This is in line with the Group's financial policy to maintain development activity below 15 per cent. of Gross Asset Value. While development commitments will increase in accordance with the Group's PRS strategy, they are expected to remain within 5-10 per cent. of total assets.

As well as being an owner and investor, Grainger has a national in-house property and asset management platform (the operational platform), from which it services its customers and assets, as well as key joint ventures and associates.

The table below sets out key financial highlights for the Group and a detailed Income Statement, with further analysis presented on the following pages.

<b>Highlights</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
Net rental income.....	£37.4m	£40.4m	8%
Net rental income margin .....	72%	74%	200bps <sup>62</sup>
Adjusted earnings .....	£53.1m	£74.4m	40%
Operational cashflow .....	£113.1m	£133.9m	18%
Gross Asset Value <sup>63</sup> .....	£1,908m	£1,964m	3%
Loan to value .....	35.9%	37.7% <sup>64</sup>	180bps
Interest cover <sup>65</sup> .....	2.4x	3.8x	1.4x
Cost of debt (average).....	4.4%	3.5%	(90)bps

<b>Income Statement</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Net rental income.....	37.4	40.4	8%
Profit on sale of assets – residential.....	59.7	60.4	1%
Profit on sale of assets – development.....	11.8	14.7	25%
Mortgage income (CHARM).....	6.5	6.2	(5)%
Management fees.....	6.2	5.1	(18)%
Overheads .....	(31.8)	(27.2)	(14)%
Other expenses.....	(1.1)	(1.1)	0%
Joint ventures and associates .....	1.5	2.9	93%
Net finance costs.....	(37.1)	(27.0)	(27)%
<b>Adjusted earnings .....</b>	<b>53.1</b>	<b>74.4</b>	<b>40%</b>

<sup>62</sup> 460bps increase since 30 September 2015.

<sup>63</sup> Year ended 30 September 2015: £1,811 million.

<sup>64</sup> LTV (vacant possession): 33.5 per cent.

<sup>65</sup> Year ended 30 September 2015: 1.6x.

<b>Revenue by business area</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Residential .....	165.3	179.2	8
Development .....	49.7	81.3	64
Funds.....	4.8	4.1	(15)
Other .....	0.1	0.1	0
<b>Total revenue .....</b>	<b>219.9</b>	<b>264.7</b>	<b>20</b>

<b>Market value balance sheet</b>	<b>Year ended 30 September 2016</b>	<b>Year ended 30 September 2017</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Residential – PRS .....	461	526	14
Residential – regulated tenancies.....	1,249	1,214	(3)
Residential – mortgages (CHARM) .....	93	86	(8)
Development work in progress – PRS.....	105	138	31
Investment in JVs/associates .....	193	206	7
<b>Total Investments .....</b>	<b>2,101</b>	<b>2,170</b>	<b>3</b>
Net debt .....	(764)	(848)	11
Other assets/liabilities.....	32	112	2
Discontinued (excluding loans) .....	11	-	(100)
<b>EPRA NAV.....</b>	<b>1,380</b>	<b>1,434</b>	<b>4</b>
Deferred and contingent tax – regulated tenancies .....	(96)	(95)	(1)
Deferred and contingent tax – PRS/Other.....	(50)	(49)	(2)
Fair value of fixed rate debt and derivatives.....	(34)	(22)	(35)
<b>EPRA NNAV .....</b>	<b>1,200</b>	<b>1,268</b>	<b>6</b>

The table below provides a further breakdown of the property assets owned by the Group.

Business Area	As at 30 September 2017			
	No. of units.	Market value	Vacant possession value	Reversionary Surplus
		£m	£m	£m
Residential – PRS .....	2,513	526	573	47
Residential – regulated tenancies.....	3,508	1,214	1,444	230
Residential – mortgages (CHARM).....	634	86	86	-
Development work in progress .....	-	138	138	-
<b>Wholly-owned assets</b> .....	<b>6,655</b>	<b>1,964</b>	<b>2,241</b>	<b>277</b>
Co-investments (Grainger share) .....	709	270	303	33
<b>Total investments</b> .....	<b>7,364</b>	<b>2,234</b>	<b>2,544</b>	<b>310</b>
Assets held for sale .....	-	-	-	-
Assets under management (third party share) .....	1,567	607	683	76
<b>Total Assets Under Management</b> .....	<b>8,931<sup>66</sup></b>	<b>2,841<sup>67</sup></b>	<b>3,227</b>	<b>386</b>

The Reversionary Surplus is not included in either the statutory or the Market Value balance sheets.

A year-on-year comparison of each of these metrics (if applicable) is provided in the section entitled “*Information on the Group – Business Descriptions*”.

### 1.3 Valuations

Allsop and CBRE are the Group’s independent property valuers for certain UK assets of the Group.

At the end of each financial year, a valuation process is undertaken for the Group’s entire Residential Property portfolio on a Vacant Possession Value basis. The Valuers externally inspect property and provide a valuation for approximately 70 per cent. of the properties in the portfolio. Grainger also values approximately 70 per cent. of properties held within the portfolio. Where both Grainger and the Valuers value the same properties, the results are compared. Where such results show a difference in value of 10 per cent. or more, Grainger and the Valuers discuss the reasons for the difference and agree the appropriate valuation that should be adopted by the Directors. The Directors consider this to be a robust valuation process, which is regularly tested and proven by the Company’s track record of selling properties at values above their Vacant Possession Values.<sup>68</sup>

<sup>66</sup> Total no. of reversionary assets under management: 4,142. Total no. of PRS (wholly-owned & co-investment units) units under management: 4,789.

<sup>67</sup> Total market value of reversionary assets under management: £1,300 million. Total market value of PRS (wholly-owned & co-investment units) units under management: £1,403 million (excluding development work in progress).

<sup>68</sup> Between 2007 and 2017, the Group sold an average of 6.3 per cent. properties in its Regulated Tenancies Portfolio ahead of appraised vacant value.

The Valuers are also discussed in more detail in “*Risk Factors – Risks relating to the property industry – Property valuation is inherently subjective and uncertain*”.

#### **1.4 History of the Group**

The Company was incorporated under the laws of England and Wales on 27 November 1912 as Grainger Trust Limited, and changed its name to Grainger plc in 2007. It was originally established in Newcastle to acquire and manage tenanted residential properties. In 2001, the Group entered into a joint venture with Deutsche Bank Real Estate Opportunities Group to create Bromley Joint Venture, the largest quoted residential property portfolio in the United Kingdom. The Group entered into various joint venture and co-investment alliances such as WIP and GRIP (both 2013) and Vesta LP (2015).

A key milestone was reached in the history of Grainger in 2016. At this stage, the Directors decided to pursue a simplified and more focused strategy. Whilst the Regulated Tenancies Portfolio continued to provide considerable and stable revenues, the Company would focus on the expansion of its PRS business. This change in emphasis seeks to benefit from the significant demand for PRS accommodation. To streamline and realign the business, the Group disposed of its German and retirement solutions business and has subsequently made important investments in the PRS market.

In 2016, Grainger announced a new strategy, which involved disposing of its Retirement Solutions (Equity Release) to Turbo Group Holdings Limited, backed by Patron Capital Partners and Electra Private Equity plc, as well as its Germany business segments to Heitman and LEG Immobilien AG, respectively. The strategy specified the desire to concentrate on regulated tenancies and PRS in the UK going forward in order to simplify and focus Grainger’s business (the audited consolidated financial statements for the Group for the financial year ended 30 September 2016 incorporated by reference in this Offering Memorandum restate the 2015 comparatives throughout to show the results from continuing and discontinued operations separately. See Note 3 of those financial statements for analysis of discontinued operations which includes the sale of subsidiaries and interest in associates). Accordingly, since early 2016, Grainger has focused on the acquisition of high-quality PRS assets. This has included the acquisition of 600 units in Salford Quays, Manchester in February 2016, 120 in Liverpool in April 2016 and 192 units in Bury, Manchester in November 2017. For further information on these investments, please see “*Information on the Group – Business Descriptions – UK Residential Business*”.

On 7 February 2018, Grainger released an interim trading update for the four months ending 31 January 2018. In the PRS investment pipeline since the beginning of the financial year Grainger secured four sizeable deals totalling £166 million bringing the secured pipeline to £688 million. In rents, Grainger recorded overall like-for-like rental growth of 4.1 per cent., like-for-like rental growth specifically on PRS homes of 3.3 per cent. and annualised rental growth of 5.4 per cent. on regulated tenancy rental reviews (4.3 per cent. like-for-like rental growth). On sales performance for the four months, completed residential sales were in line with the prior year at £29 million, overall completed sales totalled £39 million (£10 million lower than the prior year due to timing of development land sales) with overall sales profit consistent with the prior year at £15 million and (also consistent with the prior year) the residential sales pipeline totalled £55 million based on transactions completed, exchanged and with solicitors. Grainger also announced new schemes since the 2017 year end results were released, Sheffield (Eccy Village) and the selection as preferred bidder by Lewisham Borough Council in London in a proposed development.

## **2. COMPETITIVE STRENGTHS AND STRATEGY**

Grainger has significant expertise in the residential real estate sector with over 100 years of experience. It focuses on complementary activities, including origination, investment and operation, allowing it to benefit from synergies between the divisions, thereby enhancing overall returns. Grainger’s significant competitive strengths include:

### ***Supportive market fundamentals of the Group’s PRS strategy***

The UK has a well-documented under-supply of housing, including an under-supply of homes for rent with an estimated 1.8 million new PRS households required by 2025 and only 105,000 PRS homes expected to be delivered over the next two to three years.

At present, the PRS market is fragmented and dominated by small, private and amateur landlords. 98 per cent. of all UK landlords have portfolios of less than 10 properties. See “*Market Overview*” for more detail on the market.

These two circumstances provide Grainger the opportunity to lead the professionalisation of the sector and to disrupt the current market dynamics.

### ***Investment expertise and deep operational capability***

Grainger has extensive expertise in both investment and operations.

With an in-house acquisitions and investment team, supported by strong in-house research and long-term relationships and experience in the sector, Grainger has, as of 7 February 2018, secured £688 million of new investment in two years at attractive gross yields of between 6.5 per cent. and 8 per cent. per year, demonstrating the Group’s ability to source and transact high quality opportunities.

For over 106 years, Grainger has managed residential homes for rent, which includes managing everything from rent collection to repairs. Currently, Grainger directly manages approximately 9,000 properties across the UK. In the past two years, the Company has invested further in its scalable operational platform to underpin its growth plans, including its people, processes and technology. Its award-winning national operational platform provides the Group with a significant competitive advantage. As most of Grainger’s competitors outsource property management to third parties, this is a significant barrier to entry generally to the market.

### ***Long-term approach to investing***

Grainger takes a long-term view on its investments, providing it with an advantage over shorter term investors and funds in the sector. This approach allows the Group to secure opportunities and long-term partnerships with landowners and public bodies, including central and local government.

### ***Large and high quality asset portfolio***

Grainger has a market-leading residential property portfolio in the UK consisting of 8,931 properties under management, with an aggregate Market Value of £2,841 million as at 30 September 2017. The Property Portfolio is spread throughout the UK, and is focused on areas where management believes there is the highest potential for returns.

### ***PRS investment generates sustainable returns through growing rents***

As at 30 September 2017, Grainger was the largest FTSE-listed provider of PRS property in the UK, with a total of 4,789 PRS homes (including co-investments) with a market value of £1,403 million. 2,513 of these units were wholly-owned (compared with 2,092 units as at 30 September 2016, a 20.1 per cent. increase). The units had a market value of £526 million as at 30 September 2017, as compared to £461 million as at 30 September 2016.

The PRS business has delivered strong, sustainable and recurring results, demonstrating Grainger’s investment in high quality assets and consistent customer service. As of 7 February 2018, the Group has secured a total of £688 million of PRS investment, with gross yields typically of between 6.5 per cent. and 8 per cent. Grainger’s strategy is to invest a total of £850 million in PRS units by 2020; in addition to the £688 million already secured, a further £206 million is undergoing planning and legal assessment and an additional £373 million worth of investment is under consideration.

In 2017, the Group saw an 8 per cent. increase in net rental income, and a 3.3 per cent. increase in like-for-like rental growth on PRS homes, which outperformed the 1.6 per cent. market average.<sup>69</sup> The Group has been successful in reducing voids and increasing customer retention. Last year, the Company increased the average length of customer stay by nine months to over two years, supporting the Group's recurring net rental income stream. In addition, the Group has increased its net rental income margin from 69.3 per cent. in 2015 to 74 per cent. (as at 30 September 2017). Recently, the Group has been offering three-year tenancies and has seen high levels of take-up, particularly in its new assets. These factors have reduced tenant turnover, void rates, re-letting and maintenance costs. The Group is committed to improving continually customer satisfaction levels by investing in customer service through investments in technology, which will further optimise the Group's recurring net rental income.

The Group therefore has a strong operational position from which to expand its PRS Portfolio and benefit from significant demand for PRS accommodation. The PRS business has emerged as the fastest growing tenure in the UK over the last decade, while owner occupation has been in decline since 2005.<sup>70</sup> As at January 2018, 52 per cent. of all London households are rented<sup>71</sup>, and Grainger expects this proportion to increase. Consequently, the Group expects to invest £850 million into PRS investments by 2020. The Group strategically positions itself to take advantage of such opportunities by: (i) maintaining appropriate resources (financial, staff, systems) to be able to transact quickly; (ii) maintaining a market presence through individual and corporate relationships with agents, dealers and potential vendors; and (iii) closely monitoring existing larger portfolios (such as those held by housing associations and other corporates).

The Group is currently increasing its exposure to the private rental market in the UK through investing in high-quality assets,<sup>72</sup> including (in each case based on March 2018 management figures and calculations):

- the forward funding agreement to acquire the development of Clippers Quay, Salford. Acquired in February 2016, the Group has partnered with a local developer to design and complete 614 PRS units. The first completions are expected in late 2018, and the building will generate an estimated £5.75 million in net rental income per year;
- the development of Berewood, Waterlooville, Hampshire. The Group is directly developing this project and has full design and delivery oversight in the development of 104 PRS homes, which will generate an estimated £1 million in net rental income per year;
- the £28 million forward funding acquisition of 156 PRS units in Gilder's Yard, Birmingham, agreed in November 2017;
- the £22 million acquisition of an existing and tenanted PRS block, The Rock in Bury, Manchester, comprising 233 PRS units;
- the £46 million acquisition through a forward funding arrangement with a local developer to deliver 194 PRS units at Finzels Reach in Bristol city centre;
- Apex House, a £60 million and 163 PRS unit development, which Grainger is directly developing with full control over design and delivery in Tottenham, North London;
- the acquisition of the RESI portfolio in Manchester, a tenanted portfolio acquired in 2015 comprising 277 PRS units; and
- the £80 million forward funding agreement to acquire a 375 PRS unit development (Gore Street) in Manchester city centre, bringing Grainger's Manchester cluster to approximately 1,700 units when completed.

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<sup>69</sup> Source: Average from ONS, Countrywide and HomeLet

<sup>70</sup> Source: ONS

<sup>71</sup> Source: MHCLG, English Housing Survey, Headline Report, 2016-17 (published January 2018)

<sup>72</sup> The Group is targeting assets of 120 units and more, and regional clusters of approximately more than 300 units.

For more information, please see “*Information on the Group – Business Descriptions – Residential Business*”.

The Group’s strategy is for net rental income to exceed profit from sales to improve further its sustainable returns.

### ***Positive political support for the growth and professionalisation of the PRS***

The UK Government explicitly recognises the benefits of the professionalisation of the PRS and Build to Rent and how they can help address the housing shortage in the UK. As a result, it has made changes to the planning system in favour of Build to Rent and allocated Government funding to the sector. The November 2017 Budget allocated £8 billion to support the growth of the Build to Rent sector. The UK Government also recently updated its national planning policy in support of the sector, including guidance which explicitly recognises that Build to Rent schemes differ from build for sale schemes and so require alternative viability assessments, as well as a requirement for local councils to identify their local need for rental homes. The GLA has also recently updated its planning policy along similar lines.

### ***Regulated Tenancies Portfolio providing strong cash flow to support the growth strategy of the Group***

Regulated tenancies remain an attractive asset class, because they offer a unique blend of capital appreciation and yield. It is also an area where the Group has a market leading position and the ability to transact quickly and effectively (particularly on larger acquisition opportunities). Grainger intends to hold and actively manage its Regulated Tenancies Portfolio on a long-term basis in order to realise and enhance the embedded Reversionary Surplus upon vacancy (although the Group conducts regular reviews on a unit-by-unit basis and actively manages the portfolio accordingly, sometimes selling before vacancy).

The Regulated Tenancies Portfolio complements the PRS rental profile, with cash flows being reinvested to support the growth of the PRS Portfolio.

### ***Proactively manage assets by simplifying and focusing the business model***

The Group has been focused on growing its PRS portfolio since 2015. The sale of the non-core businesses and the restructure of the Group has enabled a significant reduction in costs. In 2017, overhead costs amounted to £27.2 million; a decrease of 14 per cent. compared to 2016, and a decrease of 25 per cent. compared to 2015, when the new strategy commenced. The Group’s streamlined approach allows close monitoring of all assets, while the increased emphasis on cost control and efficiency will lead to growth and enhanced rental margins.

Cost control and maximising efficiency in the Group’s operating platform has helped to reduce property operating costs, increasing net rental margins from 69 per cent. to a sustainable level of 74 per cent. since 2015.

Finance costs were also reduced by £35 million through a combination of the reduction in the quantum of net debt and also through the overall cost of debt reduction from 5.3 per cent. to 3.5 per cent. since 2015.

At the same time, the Group’s refined focus allows room for increased contact with the customer. By improving customer service, the Group intends to attract and retain customers, which will support both asset valuations and net income. The Group has the expertise and operational infrastructure to provide reliable service directly to the customer.

### ***Support and build the PRS model with support from a reliable portfolio of regulated properties***

The Regulated Tenancies Portfolio largely consists of affordable, un-modernised properties (i.e. not new build properties but very often attractive period properties which are less volatile and low risk in terms of value fluctuation). When sold with vacant possession, they appeal to a wide range of buyers, with the market value of over 80 per cent. of properties in the portfolio being less than £500,000. The quality of the Regulated Tenancies Portfolio is evidenced by Grainger’s ability consistently to sell assets materially in excess of their acquisition cost, achieving margins on sales of vacant properties averaging 51 per cent. over

the period from 1 October 2014 to 30 September 2017. Grainger has also regularly out-performed the Nationwide and Halifax house price indices in the 9-year period to September 2017 – see “*Market Overview — UK residential real estate market*”.

Properties within Grainger’s Regulated Tenancies Portfolio were purchased as tenanted homes at a discount to their Vacant Possession Value, which gives rise to a significant Reversionary Surplus. Because of the size of Grainger’s Regulated Tenancies Portfolio, the rate at which regulated properties become vacant is stable. In the three-year period to 30 September 2017, approximately 6.5 per cent. of Grainger’s regulated properties in the Regulated Tenancies Portfolio became vacant and were sold with vacant possession each year. As at 30 September 2017, the aggregate Vacant Possession Value of the Residential Portfolio was £2,103 million, including an aggregate Reversionary Surplus of £277 million. This Reversionary Surplus is not included in either the statutory or the Market Value balance sheets described under “*Overview-Selected financial information on the Group-Gross Net Asset Value Market Value Balance Sheet*”.

### ***Diverse and stable revenue streams with defensive characteristics leading to stable cash flows***

Grainger benefits from a variety of income streams in the residential real estate sector, including rental income from tenanted properties, proceeds from the sale of properties, performance-based distributions, and property and asset management fees. Income stability is supported by Grainger’s ability to sell assets quickly and through economic cycles (see “*Demonstrated ability to monetise portfolio*” below).

Income stability is also supported by the recurring nature of Grainger’s rental income – net rental income of £40.4 million constituted 54 per cent. of the Group’s adjusted earnings of £74.4 million in the year ended 30 September 2017. Rent from the PRS Portfolio contributed approximately 50 per cent. of net rental income. In the year ended 30 September 2017, 1,089 new PRS lets were opened, contributing to a like-for-like rental growth of 3.8 per cent. for the combined portfolio. Because Grainger occupies a strong market position as described above, the Group’s strategy is to grow significantly the income generated by the PRS Portfolio.

In addition, the existing Regulated Tenancies Portfolio supports the expanding PRS business. The majority of the Regulated Tenancies Portfolio comprises tenancies for which the tenant pays less than market rate rentals and enjoys security of tenure. Accordingly, existing tenants in these properties are highly incentivised to avoid missing payments. Non-payment of rent gives Grainger the right to evict tenants (notwithstanding their security of tenure) and to re-let the properties at current market rates or to sell the properties with vacant possession and realise the Reversionary Surplus early.

As a result, rental income is stable and rent arrears (at 2.1 per cent. as at 30 September 2017) are low in Grainger’s Residential Portfolio. There is also stability of reversion rates (approximately 6.5 per cent.) as a result of the size of Grainger’s Residential Portfolio.

The overall effect of the Group’s varied income stream helps to hedge against the volatility of the property market and to offer the Group flexibility in adapting to varying economic circumstances. This flexibility would include the option to maximise value for the Group by selling properties in their unmodernised condition; refurbishing and then offering the property for sale; or re-letting the property to generate net rental income, depending on market conditions at any specific time.

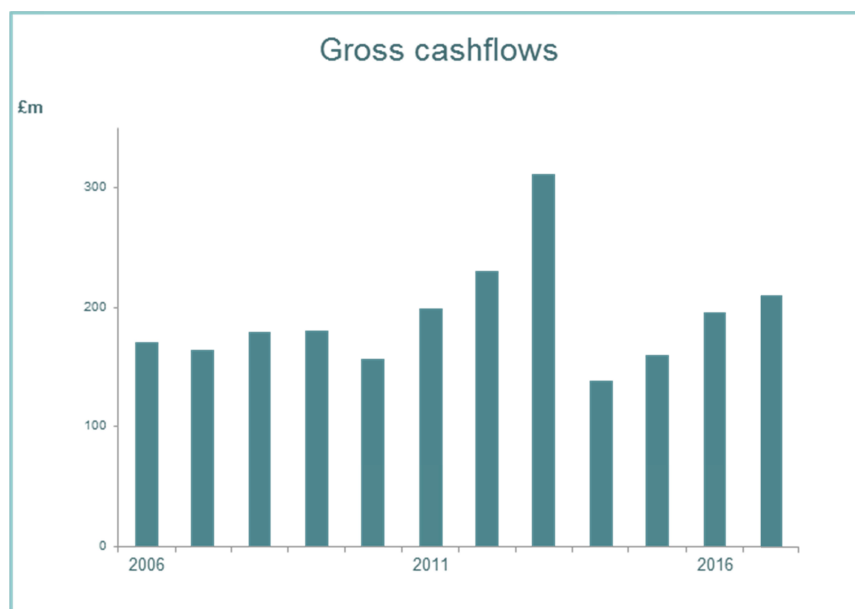
Further, the Group has stable cashflows generated in part from sales proceeds of properties in its Residential Portfolio as well as recurring revenue from other areas of its business, including rental income. The Group’s LTV target is between 40 and 45 per cent. and, at 30 September 2017, its Consolidated LTV was 37.7 per cent. In the two year period ended 30 September 2017, the Group also achieved a reduction in the cost of debt by 120bps, a reduction in finance cost by 48 per cent. and a reduction in overhead costs of 25 per cent. (as compared to the year ended 30 September 2015).

The Group’s stable cash flows and strong financial position, including a moderate Consolidated LTV of 37.7 per cent., mean that it is well positioned to deliver on its stated strategies by selectively exploiting

opportunities to grow its business as and when they arise. The Group believes that its financial strength (coupled with its strong market reputation) enables it to attract opportunities for acquisitions and strategic alliances with high calibre investment partners that generate strong and diversified returns.

### ***Demonstrated ability to monetise portfolio***

Grainger has consistently demonstrated its ability to monetise both its PRS and its regulated tenancies portfolios, even in challenging market conditions. The Company consistently achieved over £100 million gross cash flow<sup>73</sup> between 2006 and 2016, as shown in the following diagram:



In the PRS sector, having secured a total of £688 million in investments as of 7 February 2018, Grainger has delivered strong results. In the year ended 30 September 2017, PRS contributed approximately 50 per cent. of the Group's net rental income of £40.4 million. Net rental income margin was increased by 200bps and rent grew by 3.3 per cent. on a like-for-like basis (significantly outperforming the market rental growth of 1.6 per cent.<sup>74</sup>). By investing in reliable customer service, the average length of customer stay was increased from 18 to 27 months.

The regulated tenancy business remains a stable and growing source of income. Grainger sold an average of 6.5 per cent. of the regulated units with vacant possession in the Residential Portfolio per year since 1 October 2014. Grainger expects to hold regulated properties, generating capital appreciation from house price inflation in addition to the realisation of the Reversionary Surplus. During the financial year ended 30 September 2017, Grainger achieved a sales margin on vacant possession sales of 46 per cent. from the Regulated Tenancies Portfolio (compared to 50 per cent. for the financial year ended 30 September 2016) and 10 per cent. from the CHARM Portfolio (compared to 13 per cent. for the financial year ended 30 September 2016).

Grainger is also able to sell properties subject to an existing tenancy ("**Investment Sales**") as a further means of cash generation and/or portfolio improvement.

The average annual gross cash inflow from all sales of residential property (taking into account deduction of any sales fees) in the three years to 30 September 2017 was £149 million per year and, over the eight years to 30 September 2017, has been £168 million per year. When rents, fees and other income are

<sup>73</sup> Between 2007 and 2017, the Group generated average gross cashflow of £193 million.

<sup>74</sup> Source: Average from ONS, Countrywide and HomeLet

included, the annual inflows average £207 million and £227 million over the three years and eight years to 30 September 2017, respectively.

#### ***A low risk business model underpinned by limited exposure to short-term house price movements***

Grainger has limited exposure to short-term house price movements (given it has a long hold period on its properties). Grainger has regularly outperformed both the Nationwide and Halifax house price indices since 2007 as well as outperforming certain other property indices (see “*Market Overview – UK residential real estate market*”). Grainger’s limited level of exposure to short-term house price movements, in combination with factors described in “*Diverse and stable revenue streams with defensive characteristics leading to stable cash flows*” above, significantly reduces the level of risk in its business model.

#### ***Market leading operational platform***

The Group has a leading operational platform with substantial experience in managing residential properties and meeting the needs of residential tenants. The business model and operating platform has been designed to ensure scalability and cost efficiency as the portfolio grows.

In 2017, the Company was awarded Property Company of the Year at the national Property Awards, Landlord of the Year and Asset Manager of the Year at the RESI Awards, and PRS developer of the Year at the Rent Awards.

#### ***Experienced management team with significant sector expertise and a proven track record***

The Group benefits from an experienced senior management team with extensive knowledge of the UK residential housing market. Senior management has many years of collective industry experience and therefore significant previous experience at guiding the business through different operational and economic environments. The Group’s market position is enhanced by its ability to utilise the scale, experience and specialist expertise of its complementary business activities to maximise value through each asset’s ownership cycle. Management believes that this depth of experience provides the Group with a competitive advantage and ensures it is well placed to grow over the long term and to continue to both add value to its assets under management and to outperform regularly the wider market, through a selective investment policy and active asset management. In the year ended 30 September 2017, the Group saw like-for-like rental growth across the entire portfolio of 3.8 per cent. with 3.3 per cent. across PRS assets, ahead of market rental growth of 1.6 per cent.<sup>75</sup> Efficiencies in the Group’s operating platform have led to a sustainable increase in net rental margins from 69 per cent. to 74 per cent. since 2015.

Grainger’s overall objective is to continue to deliver sustainable value from its residential property portfolio which includes growing net rental income through: (i) rental growth on its underlying rent portfolio; (ii) acquisitions; and (iii) improving the efficiency of its operating platform. Other measures include an improvement in operating margin, simplifying the business and focusing on core sales, cost reduction in property operating costs and financing costs, as well as building on its experience (see below).

#### ***Build on experience and use the Group’s established position to achieve growth***

Over the past 106 years, the Group has established itself as a leading, responsible and professional landlord. The Group’s resulting position and expertise (which comes from scale and depth of operating experience) will be used to gain market share in the PRS growth market, by improving customer service and reinvesting cash flows from the Regulated Tenancies Portfolio.

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<sup>75</sup> Average from ONS, Countrywide and Homelet

### 3. BUSINESS DESCRIPTIONS

#### 3.1 Residential Properties<sup>76</sup>

The strategy of the Residential business is to grow recurring net rental income by investing in high-quality PRS assets, supplemented by strong returns on a liquid portfolio of regulated tenancy properties.

##### *Trading summary*

	Financial year ended 30 September		
	2015	2016	2017
	£m	£m	£m
Revenue .....	154.3	165.3	179.2
Net rental income .....	32.3	37.2	40.3
Profit on disposal of trading property .....	60.5	58.1	58.2
Profit on disposal of investment property .....	0.4	1.6	2.2
Fees and other income .....	0.5	1.0	0.3
Adjusted earnings .....	42.8	53.0	67.7

In the financial year ended 30 September 2017, the Residential business recorded revenue of £179.2 million (compared to £165.3 million in the financial year ended 30 September 2016 and £154.3 million in the financial year ended 30 September 2015).

The Residential business derives its revenue principally from a combination of rental income derived approximately equally from the PRS Portfolio and the Regulated Tenancies Portfolio and from the proceeds on the sale of trading properties. The Group's primary focus for the Residential business is to grow rents and simplify strategy by focusing on developing an already extensive and market leading PRS Portfolio.

Net rental income has grown rapidly in recent years; on a like-for-like basis, rental growth in the year ended 30 September 2017 was 3.8 per cent. and net rental income increased by 8 per cent. compared to a year earlier. In the financial year ended 30 September 2017, the Residential business' net rental income was £40.3 million (compared to £37.2 million in the financial year ended 30 September 2016 and £32.3 million in the financial year ended 30 September 2015).

In the financial year ended 30 September 2017, the Group sold 516 UK residential properties raising £130.8 million compared to 366 properties raising £115.6 million in the financial year ended 30 September 2016 and 440 properties raising £115.5 million in the financial year ended 30 September 2015.

In the financial year ended 30 September 2017, the Group's profit on the sale of UK residential properties was £60.4 million (compared to £59.7 million in the financial year ended 30 September 2016 and £60.9 million in the financial year ended 30 September 2015).

The average sales price achieved by the Residential business on vacant possession sales in the financial year ended 30 September 2017 was £402,000 (compared to £336,000 in the financial year ended 30 September 2016 and £297,000 in the financial year ended 30 September 2015). The margins on vacant possession sales by the Residential business were 46 per cent. in the financial year ended 30 September 2017 (compared to

<sup>76</sup> Note to Grainger: Please review presentation of company business descriptions

50 per cent. in the financial year ended 30 September 2016 and 57 per cent. in the financial year ended 30 September 2015).

### *Residential Portfolio*

The table below summarises the Residential Portfolio by units owned and shows both the Market Value and the Vacant Possession Value, in each case at 30 September in 2016 and 2017. The tables demonstrate the considerable recent growth in the PRS Portfolio.

	<b>As at 30 September 2017</b>			
	<b>No. of units.</b>	<b>Market value</b>	<b>Vacant possession value</b>	<b>Reversionary surplus</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Residential – PRS .....	2,513	526	573	47
Residential – regulated tenancies.....	3,508	1,214	1,444	230
Residential – mortgages (CHARM).....	634	86	86	-
<b>TOTAL .....</b>	<b>6,655</b>	<b>1,826</b>	<b>2,103</b>	<b>277</b>

As illustrated in the two tables below, the Group has seen good growth in its Property Portfolio. The first table shows the growth in the Group's wholly-owned portfolio. The table includes wholly-owned properties in the PRS Portfolio and Regulated Tenancies Portfolio only; it excludes 634 units and £86 million of market value relating to the CHARM Portfolio and co-investments.

The second table indicates the distribution of Total Assets Under Management, by number of units, market value and vacant possession value.

As at 30 September 2017

			Market value FY17 £m	Change since FY16
	Market Value change by region	No of Units		
1	Central and Inner London .....	1,535	898	1.0%
2	Outer London.....	475	172	6.2%
3	South East .....	590	148	11.4%
4	South West.....	610	167	3.8%
5	East and Midlands.....	794	132	5.1%
6	North West.....	1,485	161	4.1%
7	Other regions.....	532	62	6.7%
	<b>TOTAL .....</b>	<b>6,021</b>	<b>1,740</b>	<b>3.4%</b>

		No of Units	Market value (£m)	Grainger's share of Market Value (£m)	Average Vacant Possession Value per unit (£000s)
	Regional Analysis				
1	Central and Inner London .....	3,415	1,627	1,131	549
2	Outer London.....	511	228	187	506
3	South East .....	838	191	171	278
4	South West.....	855	243	197	307
5	East and Midlands.....	1,071	166	162	177
6	North West.....	1,583	171	171	118
7	Other regions.....	658	77	77	125
	<b>TOTAL .....</b>	<b>8,931<sup>77</sup></b>	<b>2,703<sup>78</sup></b>	<b>2,096<sup>79</sup></b>	<b>346<sup>80</sup></b>

<sup>77</sup> Total no. of reversionary assets under management: 4,142. Total no. of PRS (wholly-owned & co-investment units) units under management: 4,789.

<sup>78</sup> Total market value of reversionary assets under management: £1,300 million. Total market value of PRS (wholly-owned & co-investment units) units under management: £1,403 million (excluding development work in progress).

<sup>79</sup> Total market value of reversionary assets under management: £1,300 million. Grainger's total share of market value for PRS (wholly-owned and co-investments) under management: £796 million.

<sup>80</sup> Average Vacant Possession Value per unit of reversionary assets under management: £369,000. Average Vacant Possession Value per unit of PRS assets under management: £326,000.

In the year ended 30 September 2017, £14.2 million out of gross rental income of £54.5 million was spent on directly related expenditure, including repair and maintenance, across the Property Portfolio.

### *PRS Portfolio*

The PRS business of the Group constitutes a successful and expanding source of revenue and growth. As at 30 September 2017, Grainger is the largest provider of PRS property in the UK, with a total of 4,789 PRS homes (including co-investments). Pursuing the objective of investing £850 million in PRS assets by 2020, as of 7 February 2018, Grainger has already secured £688 million worth of investment. A further £206 million in undergoing planning and legal preparations and an additional £373 million worth of investment is under consideration.

With an occupancy rate of 97 per cent., an average length of customer stay of 27 months and (as at 30 September 2017) a 3.3 per cent. like-for-like rental growth, the Group's PRS business is well-positioned to benefit from significant demand for PRS accommodation.

There is considerable opportunity in the PRS market<sup>81</sup>. Currently, 98 per cent. of the market is supplied by small landlords, and the total market value is £1,290 billion. It is estimated that a further 1.8 million PRS homes will be needed by 2025, requiring an additional £360 billion's worth of investment. Less than 100,000 new PRS units are under development.

The demand for PRS properties is driven both by the expense of buying (especially for first time buyers) and by changes to lifestyle that lead to more people renting (see the diagrams on the following page. The source of the second diagram is English Housing Survey).

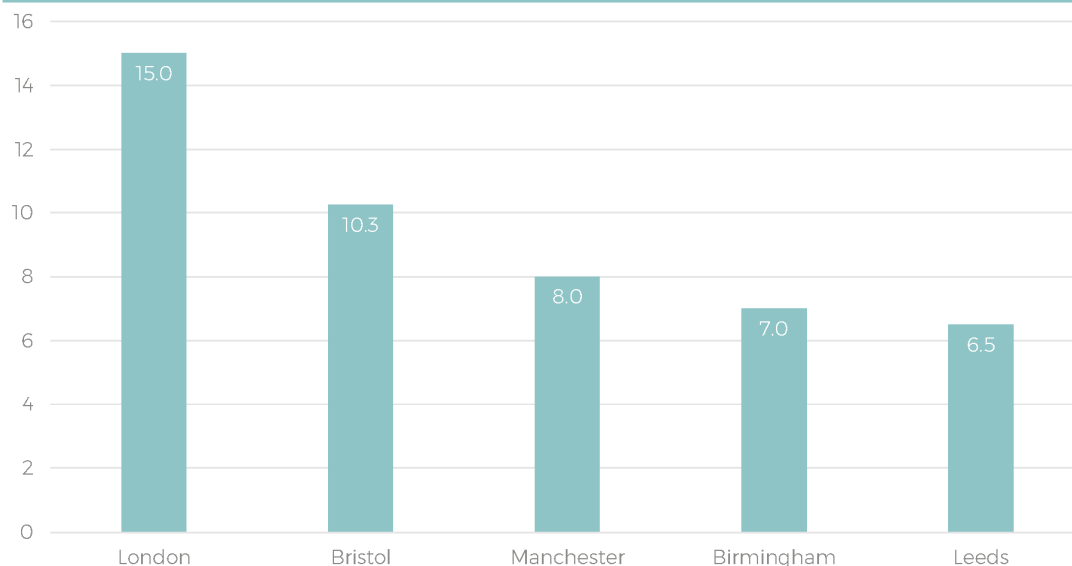
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<sup>81</sup> Sources: English Housing Survey, PwC, BPF

## Demand partly driven by affordability...

Originate Invest Operate

Years required to save for a 10% deposit and SDLT on the average first-time buyer home

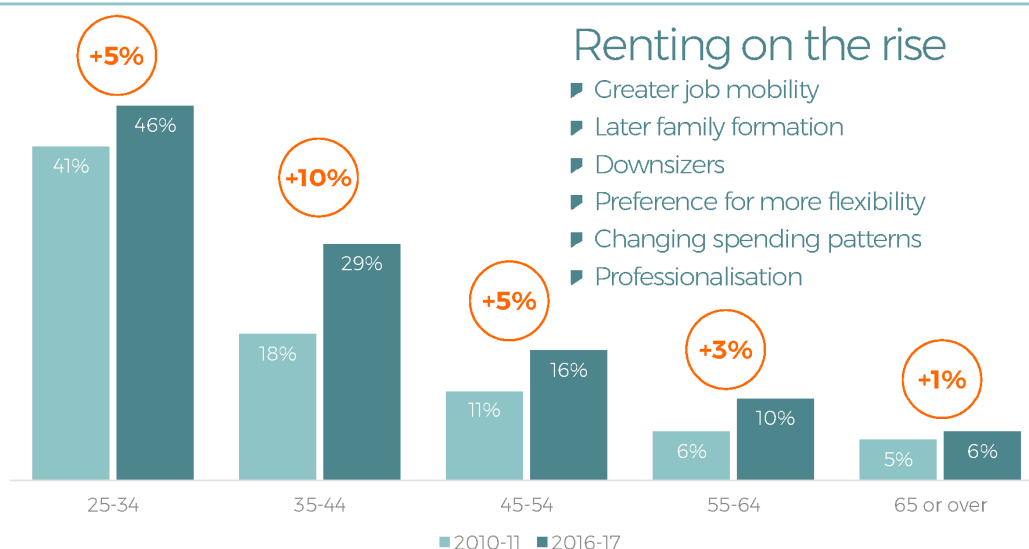


Average First Time Buyer price based on Hometrack City Average Price and a 15% discount (Nationwide First Time Buyer Index); Number of years saving required for deposit and SDLT based on Grainger research, utilising ONS data for average first time buyer salaries and expenditure, and 2017 wage growth.

## ...but demand is also driven by other lifestyle factors

Originate Invest Operate

Age groups, %



Source: English Housing Survey 2018

Grainger pursues three routes for investment in PRS assets: forward funding the development of housing units; directly developing units; and acquiring existing stabilised tenanted units and acquisitions through its

joint ventures business (for more information on which, please see “*Overview – Business Descriptions – Joint Ventures and Associations*”). By investing in this variety of ways, the Group is able to diversify risk even within the PRS Portfolio (the below points are based on March 2018 management information).

1. Forward funding development projects allows Grainger to partner with local developers and to provide design input for the development. This strategy accelerates the supply of PRS units, whilst also minimising the Group’s exposure to development risk. Typically, Grainger forward funds developments of between 150 and 600 PRS units, investing between £30 million and £100 million. Forward funded developments provide gross annual yields of 7 to 8 per cent. outside of London, and 5 to 6 per cent. inside London. In February 2016, Grainger completed the forward funded acquisition of 614 PRS units in Clippers Quay in Salford, Manchester. This impressive development represents an investment of £99 million and a gross yield of 8 per cent. is anticipated. In November 2017, the Group entered into a further agreement to forward fund and acquire a PRS development at Gilder’s Yard, Birmingham. This £28 million investment comprises 156 PRS homes and complements the Group’s existing forward funding portfolio. A further recent example that demonstrates successful forward funding of development is Argo Apartments, 134 homes in Canning Town, London, which is held within GRIP and opened in mid-January 2018.
2. Direct development provides the Group with full control over the development’s design and delivery. It provides the greatest opportunity to enhance returns. These investments are typically between £20 million and £80 million, and consist of between 100 and 200 units. Typically, the gross annual yield is between 6.5 per cent. and 7.5 per cent. For example, the Group has invested £17 million into 104 units in the Berewood development in Waterlooville, Hampshire. This development was allocated for PRS in March 2016 and is due for completion. The expected gross yield from the Berewood development is 7.5 per cent. Grainger looks to manage the risk on direct development to an appropriate level by entering into fixed price contracts prior to the commencement of construction and through a robust assessment of the capabilities and financial strength of key counterparties.
3. Acquisitions of stabilised, existing tenanted assets provides an immediate source of income. These acquisitions also provide great scope for the Group to provide asset management services directly to customers. Grainger seeks to provide an honest and reliable service to its customers, and has dedicated and expert in-house management teams. It provides a 24/7 repairs and services team, alongside its professional management. Tenants benefit from all-inclusive rents, without hidden fees. The Group is actively pursuing technological developments to assist customers when searching for, purchasing and living in Grainger’s PRS accommodation. This approach has led to an improvement in the average length of customer stay (up by 50 per cent., from 18 months to 27 months, within the two years from 30 September 2015 to 30 September 2017). Stabilised acquisitions typically involve an investment of between £5 million and £25 million and consist of between 60 and 250 units. Stabilised assets typically also produce strong annual rental yields of around 7 per cent. In June 2017, the Group acquired The Rock in Bury, Manchester. The Rock consists of 233 PRS flats with a gross yield of 7.5 per cent. The Rock was already tenanted and provided an immediate source of income. The Rock is an example of the Group’s acquisition of stabilised, tenanted assets. This was supplemented by the acquisition in November 2017 of a stabilised portfolio of three blocks of PRS assets in Manchester. This £22 million investment consists of 233 PRS homes.

As at 30 September 2017, the Group owned 2,513 PRS assets (compared with 2,092 in 2016). These assets had a market value of £526 million (compared to £461 million as at 30 September 2016) and a Vacant Possession Value of £573 million (compared to £500 million as at 30 September 2016). The Reversionary Surplus in the PRS Portfolio as at 30 September 2017 was £47 million (compared to £39 million in 2016).

### *Regulated Tenancies Portfolio*

The Regulated Tenancies Portfolio continues to represent a steady source of revenue for the Group. It provides a sound basis from which to invest in the PRS market. As at 30 September 2017, the Regulated Tenancies Portfolio consisted of 3,508 wholly-owned properties in the UK, with a Market Value of £1,214 million, with rental rates set in accordance with the Rent Act. The remaining properties in the Residential Portfolio are not subject to regulated tenancies and include ex-regulated assured and periodic tenancies and assured shorthold tenancies, all of which are subject to market rents, vacant units, properties held agricultural tenancies and other property interests. The regulated properties in the Residential Portfolio are typically bought at a discount to their Vacant Possession Value and therefore have an inherent Reversionary Surplus. The Reversionary Surplus that crystallises upon vacancy of the regulated properties in the Residential Portfolio was £230 million as at 30 September 2017.

Under the terms of a regulated tenancy, the tenant has a right to live at a property for the rest of his or her life. The Group typically receives a sub-market rent. This is reassessed by a local government rent officer every two years and is capped at the percentage change in RPI since the rent was last registered plus a percentage for the past two years prescribed by law (currently 5 per cent.). A description of the regulatory treatment of the regulated and non-regulated tenancies in the Residential Portfolio is set out in “*Regulation.*”

Rents arrears in the portfolio are low and, as at 30 September 2017, the average level in the Residential Portfolio was 2.1 per cent. Furthermore, where tenants do default on rental payments and are evicted, this generally permits the Group to sell the properties and realise their Reversionary Surplus.

No new regulated tenancies have been capable of being created since 1989, so the tenants in regulated properties are, on average, getting older. Vacancies sometimes occur on a voluntary basis, but the death or move into long-term care of the tenant is the principal contributing factor. The portfolio has a stable vacancy rate of approximately 6.5 per cent. Grainger believes the average age of tenants is approximately 76 years old.

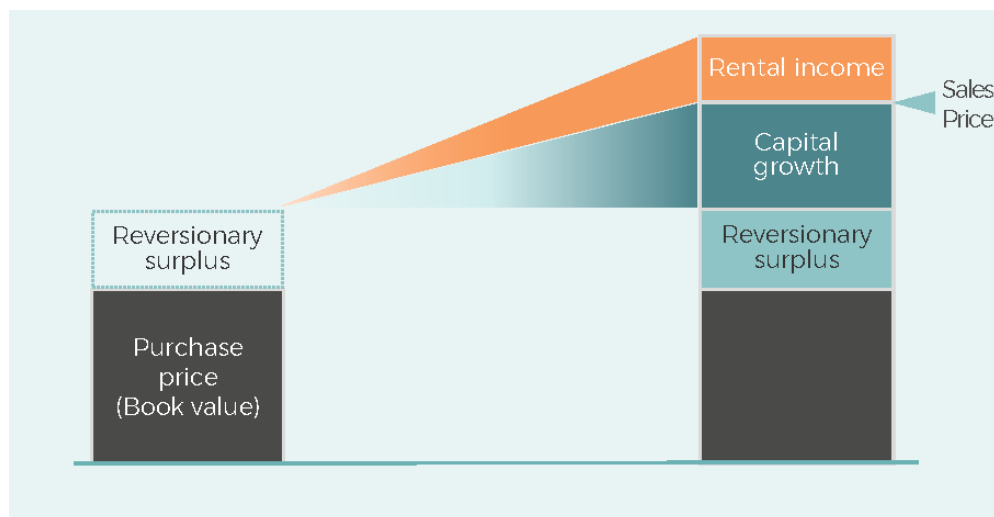
The gross rental income generated by the regulated properties in the Residential Portfolio was £29 million in the financial year ended 30 September 2017 (compared to £29 million in the financial year ended 30 September 2016 and £30 million in the financial year ended 30 September 2015). The Residential business generally seeks to sell regulated properties on vacancy to realise the Reversionary Surplus. Regulated properties are not generally re-let following vacancy, and remain vacant until completion of the sale, during which time no rent is payable on the property. The total sales proceeds from vacant regulated properties was £110.1 in the financial year ended 30 September 2017 (compared to £103.1 in the financial year ended 30 September 2016 and £92.0 in the financial year ended 30 September 2015).

In addition to sales upon vacancy, properties subject to regulated tenancies can be sold by way of Investment Sales (with tenants in place). As a result, regulated properties provide a portfolio from which to generate additional revenue as required, which contributes to the Group’s flexibility in adapting to difficult market conditions. In the financial year ended 30 September 2017, the Residential business generated gross proceeds from Investment Sales from the Residential Portfolio of £20.7 million compared to £12.5 million in the financial year ended 30 September 2016 and £23.5 million in the financial year ended 30 September 2015.

The Group expects to hold assets in its Regulated Tenancies Portfolio in order to capture the full extent of the Reversionary Surplus.

The Group’s mature portfolio of properties is attractive to first-time buyers and amateur developers. However, while un-modernised properties are generally sold as they are, Grainger may undertake some capital expenditure on the property in order to ensure that the buyer will get a mortgage, to protect value in areas of high concentration or where Grainger is expecting a strong return on its investment. Sales of the Group’s regulated properties have maintained high demand from purchasers without significant pricing discounts, with average sales values upon vacancy being 2.7 per cent. above the prior year end

Vacant Possession Value in the financial year ended 30 September 2017 compared to 8.9 per cent. above in the financial year ended 30 September 2016 and 11.0 per cent. above in the financial year ended 30 September 2015. For these reasons, the Group intends to take advantage of suitable acquisition opportunities in the regulated tenancy market with a view towards increasing its market share in this segment.



#### *Properties not subject to regulated tenancies*

As at 30 September 2017, the Regulated Tenancies Portfolio also included 340 ex-regulated assured and assured periodic tenancies and a further 482 units not subject to regulated tenancies, including assured shorthold tenancies, vacant units, assets held under a private finance initiative arrangement with the UK Ministry of Defence, agricultural tenancies, and, in addition, numerous other property interests such as garages and ground rents. As at 30 September 2017, the Regulated Tenancies Portfolio's 340 ex-regulated assured and assured periodic tenancies had a Market Value of £102 million (6 per cent. of the Market Value of the Residential Portfolio). The remaining 482 non-regulated properties in the Regulated Tenancies Portfolio had a Market Value of £210 million (12 per cent. of the Market Value of the Residential Portfolio).

Assured and assured periodic tenancies are usually former regulated tenancies which have passed by way of statutory succession rights to a relative of the previous tenant, following the expiry of the regulated tenancy upon the vacancy of the property. Assured and assured periodic tenancies offer security of tenure but are subject to market rental rates. Assured shorthold tenancies do not offer security of tenure (the landlord may take possession for any reason after the later of (i) six months after the beginning of the tenancy or (ii) the end of the fixed term, upon two months' notice) and are also subject to market rental rates. As the rental rates on the Group's assured, assured periodic and assured shorthold tenancies are driven by market rates, the rental rates tend to be more volatile in nature, although due to increased demand for rented property, market rents have increased over the last two years and this has been advantageous to the Group. However, as the assured, assured periodic and assured shorthold properties constituted only 6 per cent. of the Residential Portfolio by Market Value as at 30 September 2017, the impact of this volatility on the Residential business' total rental income is limited. The non-regulated properties in the Regulated Tenancies Portfolio generated £8 million in gross rental income in the financial year ended 30 September 2017 (compared to £8 million in the financial year ended 30 September 2016 and £8 million in the financial year ended 30 September 2015).

Due to the relatively low value of most of its regulated properties and sales margins which historically have been high due to acquisition prices being at a discount to Vacant Possession Value and/or the Residential business having held the property for a number of years, the Group has considerable flexibility with respect to pricing upon the disposal of the regulated properties in its Regulated Tenancies Portfolio and thus has generally been less impacted in periods where adverse market conditions contribute to low property prices and reduced demand. Furthermore, the properties in the Residential Portfolio have not been as severely

affected by declining prices and have out-performed the Nationwide and Halifax house price indices in the four year period ended 30 September 2017 when the Vacant Possession Value of the properties in the Residential Portfolio increased by 3.4 per cent. compared to an increase of 3.2 per cent. in the combined Nationwide and Halifax house price indices over the same period.

### *CHARM Portfolio*

The Group acquired an interest in the CHARM Portfolio from the Church Commissioners in early 2007 for £134.7 million. The Group's financial interest in the CHARM Portfolio entitles the Group to receive an amount payable by the Church Commissioners which is equal to the interest paid by the mortgagor to the Church of England Pensions Board in accordance with the terms of the relevant CHARM Portfolio mortgage. Additionally, the Group is entitled to receive from the Church Commissioners the agreed proportion of the gross sale proceeds of the property received by the Church of England Pensions Board in accordance with the terms of the relevant CHARM Portfolio mortgage, such proportion being based on the original loan and further advances.

Mortgages issued prior to 1993 were subject to an initial interest rate of 3.0 per cent. and the Church of England Pensions Board could vary the interest payable at its discretion. Mortgages issued after 1993 and related conditions were subject to an initial interest rate of 4.0 per cent., with the interest payable being increased in accordance with the Church pension index, which in part reflects RPI and the state pension.

The Group is entitled to payments of interest and the agreed proportion of sales proceeds from the Church Commissioners only to the extent that the Church of England Pensions Board has received the corresponding payments from the mortgagor. However, there are a number of mechanisms that can be triggered if the CHARM Portfolio mortgages or their administrators do not meet certain standards, resulting in a payment by the Church Commissioners to the Group of the amount (by agreement between the parties or upon determination by a third party) that would have been received had the relevant standard been met. In essence, the Group is broadly in the position that a mortgagee would be in, in that borrowers may not pay on time or at all and, in addition, the Group is reliant on the Church of England Pensions Board to administer and, if necessary, enforce the mortgages.

Allsop determines the current Vacant Possession Value of each property in the CHARM Portfolio. The Group uses discounted cash flow techniques to calculate the present value of the expected future interest payments and the Group's share of the anticipated sale proceeds of the relevant property on ultimate vacancy. As at 30 September 2017, the evaluated present value of the Group's total entitlements in respect of its interest in the remaining CHARM Portfolio was £86.1 million.

Vacancies within the CHARM Portfolio occur at a rate of about 8 per cent. per year and the CHARM Portfolio generated £9 million in sales proceeds with a profit on sales of £1 million for the Group in the financial year ended 30 September 2017. The overall income reflected in the income statement for the year ended 30 September 2017 was £5 million. The yield of the Group's interest in the CHARM Portfolio, based on the cash receipts and revalued average Market Values over the financial year to 30 September 2017, was 6 per cent.

### *HI Tricomm*

As at 30 September 2017, the HI Tricomm portfolio comprised 317 freehold houses in five locations in Bristol, Trowbridge and Fareham, built between 2001 and 2003 by Barratt Homes. The properties are occupied under an agreement between the Secretary of State for Defence and HI Tricomm. The agreement is under the Government's private finance initiative and has approximately 10 years remaining until reversion in 2028, at which point the UK Ministry of Defence can choose to acquire the dwellings at Market Value, re-tender the contract with a new contractor paying the Market Value of the properties to HI Tricomm or allow HI Tricomm to retain the properties.

The private finance initiative arrangement produces gross rental income of approximately £8.7 million per year and a net yield of 6.4 per cent.

As at 30 September 2017, Allsop valued the Group's interest by way of a discounted cash flow model which places a net present value on HI Tricomm's ultimate interest in the properties and the income streams generated by the private finance initiative arrangement. The valuation of £120 million was 7 per cent. of the Market Value of the wholly-owned residential assets at that date. The entities in the HI Tricomm structure, including Tricomm Housing Limited, are Excluded Entities.

#### *Valuation Methodology for the Residential Portfolio*

The Residential Portfolio is valued twice yearly as at 31 March and 30 September on a Vacant Possession Value basis. All of the properties which (i) form part of the HI Tricomm portfolio or (ii) are owned by Grainger Invest No1 LLP, Grainger Invest No2 LLP, Grainger Bradley Ltd, Grainger Southwark Ltd and PHA Ltd are valued externally by Allsop on a semi-annual basis. A sample of properties forming the Development Portfolio, PRS Portfolio and properties owned by the GRIP joint venture (see "*Overview – Business Descriptions – Joint Ventures and Associates*") is valued by CBRE on a fair value basis as defined by the RICS Professional Valuation Standards. For all other properties in the Residential Portfolio, for the semi-annual valuation as at 31 March, Allsop carries out external inspections and provides Vacant Possession Values for not less than 10 per cent. of the properties. Grainger values the same properties and compares its results with those provided by Allsop. Where such results show a difference in value of 10 per cent. or more, Grainger and Allsop discuss the reasons for the difference and agree the appropriate valuation that should be adopted by the Directors. The movement in value applied to the remaining 90 per cent. of the portfolio is derived, on an equally weighted basis, from the combination of (i) the movement in value determined by Allsop and Grainger for the 10 per cent. sample and (ii) the movement in value calculated by the application on an equal basis of the movement of the Nationwide, Halifax and Academetrics indices.

At the end of each financial year, Grainger values its entire residential property portfolio on a Vacant Possession Value basis. In addition, Allsop externally inspects not less than 67 per cent. of the properties in the Residential Portfolio. As mentioned above, where the results obtained by Grainger and Allsop differ significantly, the parties discuss the reasons for the differences and agree on the most appropriate valuation approach.

Accordingly, more than 70 per cent. of the combined Residential Portfolio is independently externally inspected and valued in each 12 month period.

The above valuations provide the Group with Vacant Possession Values. Market Values are derived by applying a discount recommended by Allsop for each tenancy to the respective Vacant Possession Value. The applicable discount is based on auction evidence and other relevant market transactions.

#### *Property and Asset Management*

The Group also has an in-house capability to provide property and asset management services to the Group's properties, including to its joint ventures and associates, as well as to external third parties.

The property and asset management services provided by the Group include:

- strategic asset management services focused on driving asset performance, including setting and delivering portfolio strategy;
- all elements of the day-to-day operational management of multi-tenure properties including lettings, reactive and routine cyclical repairs, proactive maintenance and budgeting of capital works and refurbishment. The Group focuses on increasing rental income and asset value for all its internal and external clients;
- regular interaction, communication and engagement with the Group's tenant base;

- block management of common parts, ground rent, service charge, caretaker, health and safety management; and
- managing large scale acquisition and disposal transactions.

In total, services are provided to 8,931 units with a Market Value of £2,703 million as at 30 September 2017. Grainger's in-house capability is a distinguishing feature of its residential business. The "owner manager" mentality enables the Group to drive asset value and facilitate outperformance. The Group focuses particularly on reducing the number of empty properties and increasing rental income for its internal and external clients.

Providing a solid and dependable customer service is a core aspect of Grainger's strategy. This is made possible by, and contributes to the success of, the significant development in PRS assets. In the PRS Portfolio, Grainger is able to provide services directly to customers living in sites it has developed or acquired, in order to provide healthy and safe homes.

In May 2013, the Group entered into a 10-year strategic partnering agreement with Kier Services Limited. This agreement relates to Kier Services Limited rendering services to the Group to carry out repairs and maintenance work across the Residential Portfolio.

### 3.2 *Development Business*

#### *Trading summary*

	Financial year ended 30 September (Audited)		
	2015	2016	2017
	£m	£m	£m
Revenue .....	34.4	49.7	81.3
Net rental income .....	0.1	0.2	0.1
Profit on disposal of trading property .....	9.8	11.8	14.7
Fees and other income .....	0.5	0.3	0.7
Share of trading profit of joint ventures and associates after tax .....	-	0.1	0.1
Adjusted earnings .....	6.4	10.3	14.9

The Development business focuses on developing rental homes specifically with the customer in mind. The development team works alongside the acquisitions team to secure PRS acquisitions and to manage the development process through to completion. The business model is to gain control of land at a low entry price, and create a step change in value prior to exit. Key drivers of this value creation include obtaining or enhancing planning consent, installing infrastructure and sale of serviced sites to house builders, and the building out of the scheme to create completed units for sale or rent. The division also generates revenue through the provision of development management services.

Revenues from the Development Portfolio were £81.3 million in the financial year ended 30 September 2017, £49.7 million in the financial year ended 30 September 2016 and £33.4 million in the financial year ended 30 September 2015 and there were profits on the disposal of trading properties of £14.7 million, £11.8 million and £9.8 million in the years ended 30 September 2017, 2016 and 2015 respectively.

The Market Value of the Development Portfolio as at 30 September 2017 was £138 million, which corresponded to 5 per cent. of the Market Value of the Group's total property assets (compared to £105 million, corresponding to 4 per cent. of the Market Value of the Group's total property assets as at 30

September 2016). The Group envisages that over the long term the Market Value of the Development Portfolio will continue to represent less than 10 per cent. of the Group's asset base by value, although the Development business division will aim to generate a margin of at least 15 per cent.

### 3.3 *Joint Ventures and Associates*

	Financial year ended 30 September (Audited)		
	2015	2016	2017
	£m	£m	£m
Revenue .....	4.3	4.8	4.1
Fees and other income .....	4.3	4.8	4.1
Share of trading profit of joint ventures and associates after tax .....	0.9	1.4	2.8
Adjusted earnings .....	(1.1)	1.3	4.6

In the financial year ended 30 September 2017 the Fund and Third Party Management business recorded gross external management fee income of £4.1 million (compared to £4.8 million in the financial year ended 30 September 2016 and £4.3 million in the financial year ended 30 September 2015).

The joint ventures and associates business currently owns a 24.9 per cent. share in GRIP, a fund that invests in market-let residential properties in the UK, and a 50 per cent. share in WIP, a joint venture with Dorrington formed in May 2013 to acquire the Walworth estate from the Group.

The Group provides property and asset management services with respect to the 1,708 properties owned by GRIP (which were valued at £673 million as at 30 September 2017) and the 568 properties owned by WIP (which were valued at £204 million as at 30 September 2017). The Group's Fund and Third Party Management business aims to capitalise on the Group's expertise in the area of property and asset management whilst reducing the Group's capital and risk exposure to the properties (which are held within co-investment vehicles, joint ventures or associates) and giving the Group the ability to generate revenue by way of management fees under such arrangements. The Group's property and asset management and performance fees are an important revenue stream and one which is not wholly reliant on UK house price inflation. The amount of asset management fee income payable in relation to the joint ventures and associates for which the Group offers asset management services is affected only in part by the value of the properties owned by such arrangements.

#### *GRIP*

The Market Value and Vacant Possession Value of, and the Fund and Third Party Management business' interest in, GRIP as at 30 September 2017 are summarised below:

	Number of Units	Gross Market Value (£m)	Gross Vacant Possession Value (£m)	Gross Reversionary Surplus (£m)	Grainger's equity stake (%)	Grainger's share of Reversionary Surplus (£m)
		(Unaudited)	(Unaudited)	(Unaudited)		
GRIP .....	1,708	673	761	88	24.9	22

Source: Management information.

GRIP is a unit trust created by Grainger and APG in January 2013. GRIP acquired the residential property portfolio owned by G:Res, a Jersey-based closed-end fund for £348.9 million. G:Res has been wound-

down. In August 2013, GRIP acquired Grainger's Tilt portfolio which comprised over 300 residential units and which was sold to GRIP for £58.1 million. As a result of the transaction, Grainger's proportionate stake in GRIP was slightly reduced to 24.9 per cent. (valued at £123 million as at 30 September 2017) due to APG's greater contribution of equity finance. Grainger Asset Management Ltd and Grainger Residential Management Ltd earn asset and property management fees from GRIP.

GRIP's aim is to grow by investing in predominantly stabilised, market-let blocks and portfolios focused on Greater London. GRIP also has the scope to invest in Build to Rent development opportunities.

As at 30 September 2017, based upon the preceding external valuation of the GRIP portfolio as at 30 June 2017, as adjusted by reference to sales of units since that date, GRIP held 1,708 units with a total Market Value of £673 million and a total Vacant Possession Value of £761 million, giving rise to a Reversionary Surplus of £88 million. Approximately 96 per cent. of the properties in the portfolio are in London and the South East. The GRIP business plan is to hold the majority of units over the life of the fund and add value through improved management and a refurbishment programme. The plan also includes limited sales of underperforming assets with proceeds being used for reinvestment and capital improvements. The Group earns fees as adviser and provides asset and property management services through its Fund and Third Party Management business. As a co-investor in the fund, the Group receives dividends paid from time to time by GRIP. GRIP has an infinite life with liquidity reviews every five years.

As at 30 September 2017, GRIP was funded in part by debt financing which is non-recourse to the Group.

#### *WIP*

The Market Value and Vacant Possession Value of, and the Fund and Third Party Management business' interest in, WIP as at 30 September 2017 are summarised below:

		<b>Gross Market Value (£m)</b>	<b>Gross Vacant Possession Value (£m)</b>	<b>Gross Reversionary Surplus (£m)</b>	<b>Grainger's equity stake (%)</b>	<b>Grainger's share of Reversionary Surplus (£m)</b>
	<b>Number of Units</b>	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Audited)</b>		
WIP.....	568	204	225	21	50	10.5

On 13 May 2013, WIP, a 50:50 joint venture between Grainger and Dorrington, was formed to acquire the Walworth estate, which had formerly been wholly-owned by the Group, for a total consideration of £112.0 million. The Walworth estate consists of 568 residential units and two commercial units in Walworth, South London. The day-to-day property management services are outsourced to a third party property manager. As at 30 September 2017, the portfolio held by WIP had an aggregate Market Value of £204 million. The gross rental income for the portfolio is currently £7 million (reflecting a gross yield of approximately 3.5 per cent.). Allsop's valuation of the properties in the WIP portfolio is done in accordance with the RICS Valuation – Professional Standards and based on a 100 per cent. external valuation inspection.

#### **4. CORPORATE RESPONSIBILITY**

The Group is proud of its continually evolving and strengthening approach to sustainability and views its leading position in this field as a significant source of opportunity and strength. For the seventh consecutive year, the Group is a member of the FTSE4Good Index.

##### *Sustainability strategy*

The Group's sustainability strategy is focused on three core aims:

- i. treating people positively to build strong, loyal customer relationships, support customer and employee wellbeing, and nurture the best possible talent;

- ii. creating desirable, healthy and safe homes, which are high-quality and affordable to a broad range of people and incomes; and
- iii. securing the Group's future by minimising the Group's impact on the environment.

Grainger's Sustainability and Corporate Social Responsibility ("CSR") committee includes senior representatives from each aspect of the business and oversees the implementation of the Group's sustainability strategy, providing regular updates to the Executive Committee and Board of Directors.

### *Opportunities and Risks*

The Group's approach to sustainability is based on a rigorous assessment of risks and opportunities for the business. A robust materiality review identified key risk areas, and the Group's Sustainability and CSR committee is responsible for managing these risks and taking advantage of opportunities as they are identified. The active monitoring and managing of these risks has enabled the Group to future proof its assets and secure a long-term income stream in-line with its long-term investment strategy. Climate change risks are reported annually in the Group's submission to the CDP (formerly Carbon Disclosure Project) climate change programme.

### *Environmental matters*

The Group ensures compliance with all environmental legislation, including Minimum Energy Efficiency Regulations, environmental protection, and health and safety laws. The Group works with its suppliers and contractors to monitor and reduce the environmental impact of its supply chain and reports on the environmental performance of operations and the Group's property portfolios in alignment with EPRA's Sustainability Best Practice Recommendations. The Group has adopted an environmental policy which sets out commitments to energy and resource management and is supported by an environmental management system. A rigorous analysis of environmental risk factors is included in the Group's acquisitions process.

## **5. COMPETITION**

The Group competes with other companies, funds and individuals who invest in property in the United Kingdom. The Directors are not aware of any UK listed property company with the same size, overall strategy, and operational strategy as the Company and, although the Group may compete with a number of individuals and/or property companies or funds on the acquisition of any one property, the investors competing vary from one acquisition to another. Entry barriers for individuals or companies acquiring residential properties in the UK to let are generally low, however barriers to entry in respect of a PRS business at scale and Build to Rent are in contrast significantly higher, principally due to capital requirements and development, as well as investment and operational capabilities required to develop, acquire and manage a large scale PRS portfolio. In addition, the Group competes for tenants with other property owners in its local markets in the United Kingdom. See also "*Risk Factors Risks Relating to the Group's Operations – The Group faces competition from other property companies and other commercial organisations active in the UK property market*".

## **6. EMPLOYEES**

As of 30 September 2017, the total number of individuals employed by the Group (including Executive Directors of the Group) is 218.

## DESCRIPTION OF THE GUARANTORS

Each of the Guarantors is (directly or indirectly) a wholly-owned subsidiary of the Issuer. With the exception of Grainger Treasury Property (2006) LLP, all of the Guarantors were incorporated and registered as private limited companies in England and Wales and operate under the Companies Act 2006. The directors of each of the Guarantors are all employees of the Issuer and have no functions and activities outside the Group and none of the directors of the Guarantors have any potential conflict of interest between their duties to the Guarantors and their private interests or other duties. The registered office of each of the Guarantors and the business address of each of the directors of the Guarantors is Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JE, +44 (0) 191 261 1819 unless otherwise set out below. In addition, details as to each of the Guarantor's date of incorporation, registration number and principal activity are set out below.

<b>Name of Original Guarantor</b>	<b>Registration number</b>	<b>Principal Activity</b>
BPT (Bradford Property Trust) Limited	252992	Property Trading
Bromley Property Investments Limited	04066391	Finance Company
Grainger Finance Company Limited	3798495	Finance Company
Grainger Homes Limited	4125751	Property Development and Trading
Grainger Kensington & Chelsea Limited	08151345	Property Development
Grainger Land & Regeneration Limited	05245541	Property Investment
Grainger OCCC Limited	07557656	Property Development and Trading
Grainger Residential Limited	05016546	Property Development
Grainger Rural Limited	4736078	Property Development and Trading
Grainger Serviced Apartments Limited	5162999	Property Investment and Trading
Grainger Treasury Property (2006) LLP	OC325497	Investment Partnership
Northumberland & Durham Property Trust Limited	182763	Property Trading Trust Limited
Warren Court Limited	3109104	Property Trading

### ***BPT (Bradford Property Trust) Limited***

Full legal and commercial name	BPT (Bradford Property Trust) Limited
Date of incorporation	23/12/1930
Registration number	252992
Directors	Helen Gordon, Adam McGhin, Mark Robson, Andrew Saunderson, Vanessa Simms
Principal activity	Property Trading

***Bromley Property Investments Limited***

Full legal and commercial name	Bromley Property Investments Limited
Date of incorporation	06/09/2000
Registration number	04066391
Directors	Helen Gordon, Adam McGhin, Mark Robson, Vanessa Simms
Principal activity	Property Investment Company

***Grainger Finance Company Limited***

Full legal and commercial name	Grainger Finance Company Limited
Date of incorporation	30/06/1999
Registration number	3798495
Directors	Helen Gordon, Adam McGhin, Mark Robson, Mark Fleetwood, Vanessa Simms
Principal activity	Finance Company

***Grainger Homes Limited***

Full legal and commercial name	Grainger Homes Limited
Date of incorporation	14/12/2000
Registration number	4125751
Directors	Helen Gordon, Adam McGhin, Vanessa Simms
Principal activity	Property Development and Trading

***Grainger Kensington & Chelsea Limited***

Full legal and commercial name	Grainger Kensington & Chelsea Limited
Date of incorporation	20/07/2012
Registration number	08151345
Directors	Helen Gordon, Adam McGhin, Vanessa Simms
Principal activity	Property Development

***Grainger Land & Regeneration Limited***

Full legal and commercial name	Grainger Land & Regeneration Limited
Date of incorporation	29/09/2004
Registration number	05245541

Directors Helen Gordon, Adam McGhin, Vanessa Simms, Andrew Saunderson

Principal activity Property Investment

***Grainger OCCC Limited***

Full legal and commercial name

Date of incorporation

Registration number 07557656

Directors

Principal activity Property Development and Trading

***Grainger Residential Limited***

Full legal and commercial name Grainger Residential Limited

Date of incorporation 09/03/2011

Registration number 05016546

Directors Helen Gordon, Adam McGhin, Vanessa Simms, Mark Robson

Principal activity Property Development

***Grainger Rural Limited***

Full legal and commercial name Grainger Rural Limited

Date of incorporation 16/04/2003

Registration number 4736078

Directors Helen Gordon, Adam McGhin, Vanessa Simms, Mark Robson

Principal activity Property Development and Trading

***Grainger Serviced Apartments Limited***

Full legal and commercial name Grainger Serviced Apartments Limited

Date of incorporation 25/06/2004

Registration number 5162999

Directors Helen Gordon, Adam McGhin, Vanessa Simms, Mark Robson

Principal activity Property Investment and Trading

***Grainger Treasury Property (2006) LLP***

Full legal and commercial name	Grainger Treasury Property (2006) LLP
Date of incorporation	23/01/2007
Registration number	OC325497
Members	Grainger Residential Management Limited, Northumberland & Durham Property Trust Limited Atlantic Metropolitan (U.K.) Limited
Principal activity	Investment Partnership

***Northumberland & Durham Property Trust Limited***

Full legal and commercial name	Northumberland & Durham Property Trust Limited
Date of incorporation	28/06/1922
Registration number	182763
Directors	Helen Gordon, Adam McGhin, Vanessa Simms, Mark Fleetwood, Mark Robson, Andrew Saunderson
Principal activity	Property Development and Trading

***Warren Court Limited***

Full legal and commercial name	Warren Court Limited
Date of incorporation	02/10/1995
Registration number	3109104
Directors	Helen Gordon, Adam McGhin, Vanessa Simms, Mark Robson
Principal activity	Property Trading

## GROUP EBITDA AND NET ASSETS

### Information based on Group Consolidated Numbers

The figures in the table as set out below show, by relevant category, the unaudited individual entity figures adjusted for all Group consolidation items to arrive at the consolidated Group figures for EBITDA and Group net assets as reflected in the Group's 2017 audited financial statements.

The main adjustments made to adjust the entity figures for EBITDA to the Group EBITDA are (i) to add back any provisions made to reduce the valuation of investments in subsidiaries to their recoverable amount and (ii) entries to adjust the book value of trading properties disposed of, to Group book value.

The main adjustments made to adjust the entity figures for net assets to Group net assets are (i) to eliminate the value of investment in subsidiaries (ii) to eliminate all inter group balances and (iii) to adjust the book value of trading property to group book value.

Year ended and as at 30 September 2017								
	Issuer		Guarantors		Non-Guarantors		Totals	
	£m	%	£m	%	£m	%	£m	%
Revenue.....	-	-	167.3	63.2	97.4	36.8	264.7	100.0
EBITDA <sup>(1)</sup> .....	(0.0)	(0.0)	86.7	75.2	28.6	24.8	115.3	100.0
Net Assets .....	(395.6)	(53.1)	575.0	77.2	565.9	75.9	745.3	100.0

Note

- (1) In accordance with presentation under UK GAAP, Guarantor EBITDA includes income of £27.9 million relating to intra group recharges of external finance costs. Of this amount, £17.7 million has been charged against non-Guarantor EBITDA and £10.2 million against Issuer EBITDA.

### Information based on Entity Numbers

For the purposes of clarification, the figures in the table set out below show, by relevant category, the unaudited individual entity figures, without adjustment, except that the trading stock is shown at market value rather than at the lower of cost and net realisable value. These figures are presented to provide a more representative picture of the net assets and EBITDA at an entity level as opposed to a Group consolidated level:

Year ended and as at 30 September 2017								
	Issuer		Guarantors		Non-Guarantors		Totals	
	£m	%	£m	%	£m	%	£m	%
Revenue.....	-	-	186.2	70.3	78.5	29.7	264.7	100.0
EBITDA <sup>(1)</sup> .....	(0.0)	(0.0)	64.6	59.5	44.0	40.5	108.6	100.0
Net Assets .....	325.1	7.2	1,964.5	43.9	2,194.2	48.9	4,483.8	100.0

Note

- (1) In accordance with presentation under UK GAAP, Guarantor EBITDA includes income of £27.9 million relating to intra group recharges of external finance costs. Of this amount, £17.7 million has been charged against non-Guarantor EBITDA and £10.2 million against Issuer EBITDA.

## **ADDITIONAL INFORMATION ON GUARANTORS**

### ***Northumberland & Durham Property Trust Limited***

Northumberland & Durham Property Trust Limited (“**NDP**”) was incorporated on 28 June 1922 under the laws of England and Wales and has its registered office at Citygate, St James’ Boulevard, Newcastle upon Tyne, NE1 4JE. NDP’s registered number is 0182763.

NDP’s business activities principally involve investing and trading in UK properties subject to regulated tenancies.

Other than the risk factors described under the heading “*Risk Factors*” of this Offering Memorandum, there are no other risks that could materially affect NDP in its ability to meet its obligations under the Notes Guarantee. Any encumbrances which could materially affect NDP’s ability to meet its obligations under the Notes Guarantee are described under the heading “*Description of Indebtedness*” of this Offering Memorandum. As at 30 September 2017, NDP represents (i) 52.6 per cent. of the Group’s net assets which is equal to £391.9 million and (ii) 27.0 per cent. of the Group’s EBITDA which is equal to £31.2 million.

### ***BPT (Bradford Property Trust) Limited***

BPT (Bradford Property Trust) Limited (“**BPT**”) was incorporated on 23 December 1930 under the laws of England and Wales and has its registered office at Citygate, St James’ Boulevard, Newcastle upon Tyne, NE1 4JE. BPT’s registered number is 0252992.

BPT’s business activities principally involve investing and trading in UK properties subject to regulated tenancies.

Other than the risk factors described under the heading “*Risk Factors*” of this Offering Memorandum, there are no other risks that could materially affect BPT in its ability to meet its obligations under the Notes Guarantee. Any encumbrances which could materially affect BPT’s ability to meet its obligations under the Notes Guarantee are described under the heading “*Description of Indebtedness*” of this Offering Memorandum. As at 30 September 2017, BPT represents (i) 7.0 per cent. of the Group’s net assets which is equal to £51.9 million and (ii) 36.0 per cent. of the Group’s EBITDA which is equal to £41.5 million.

## DESCRIPTION OF INDEBTEDNESS

### 1. OVERVIEW

Upon the completion of the issue of the Notes and the use of certain proceeds to repay existing indebtedness (including the Existing Corporate Bonds), the Group's indebtedness under its principal debt facilities will comprise the following:

- (i) the Bank Facilities (£441 million drawn);
- (ii) the Notes (£350 million); and
- (iii) indebtedness incurred by the Excluded Entities ("**Excluded Entities' Indebtedness**") which is non-recourse to Grainger and the Guarantors and which is secured over specific assets of the Excluded Entities. As at 30 September 2017, Excluded Entities' Indebtedness was £159 million (£234 million as of the date of this Offering Memorandum).

Upon completion of the issue of the Notes (which process includes the accession of the Trustee to the Intercreditor Deed), the Notes, the Bank Facilities, any secured hedging liabilities and the Existing Corporate Bonds will rank *pari passu* and benefit from (i) upstream guarantees from the Guarantors and (ii) a floating charge over certain assets of each of the Issuer and the Guarantors.

Under the Bank Facilities, the Issuer must ensure that the Guarantors and the Issuer hold at least 85 per cent. of the Group's properties excluding those held by Excluded Entities. For so long as the Bank Facilities and/or any other core credit facilities remain outstanding, the Guarantors will be the same as the guarantors in respect of the Bank Facilities and/or any other core credit facility.

### 2. CORE DEBT FACILITIES

The Bank Facilities comprise the "core debt facilities".

#### *The Bank Facilities*

Following the issue of the Notes and the use of certain proceeds to repay existing indebtedness (including the Existing Corporate Bonds), the Bank Facilities of £720 million (of which £441 million will be drawn) will comprise six separate tranches:

- (i) a term loan of £130 million (fully drawn and repayable in August 2020);
- (ii) a term loan of £120 million (fully drawn and repayable in August 2022) (with a further two one-year extension options available);
- (iii) a revolving credit facility of £330 million (£51 million drawn, repayable in August 2022) (with a further two one-year extension options available);
- (iv) a bilateral term loan of £50 million with HSBC (fully drawn and repayable in November 2022) (with a further one-year extension option available);
- (v) a bilateral term loan of £50 million with RBS (fully drawn and with final maturity in November 2022) (with no further extension options available); and
- (vi) a bilateral term loan of £40 million with Handelsbanken (fully drawn and repayable in June 2022) (with a further one-year extension option available).

As at the last testing date, the interest rate margin for each tranche was 160 to 180 basis points above LIBOR with certain additional margin ratchets, depending upon the Core LTV at the previous testing date (see "*Key covenants under the core debt facilities*" below).

### ***Key covenants under the core debt facilities***

Under the Bank Facilities, the Group must ensure that its Core LTV does not exceed 70 per cent. and that its ICR is not less than 1.35:1. The Core LTV covenant and the ICR covenant under the core debt facilities are both tested quarterly. Breach of either of these financial covenants would constitute an event of default which could result, amongst other things, in an acceleration of the Group's obligations to repay the Bank Facilities.

If the Core LTV is greater than or equal to 62.5 per cent. but less than 70 per cent., the Group is subject to certain obligations under the Bank Facilities:

- not to make investments or acquisitions, other than acquisitions of property not exceeding £2.0 million per month or such purchases or transfers are made in accordance with contracts entered into prior to the date that Core LTV is at 62.5 per cent. or above; and
- not to incur additional indebtedness that is secured on the same assets and on a *pari passu* basis with the Bank Facilities.

The Bank Facilities also contain covenants, events of default, warranties and representations in similar terms and customary for facilities of their nature. See “*Risk Factors – Risks Relating to Finance – The Group could trigger an event of default under its borrowing arrangements, in which event the obligations under its borrowing arrangements could be accelerated and become immediately due and payable*”.

### **Performance against the financial covenants**

Under the Bank Facilities, the Core LTV and the ICR covenants (as applicable) are both tested quarterly. Under the Notes, the Core LTV covenant is tested semi-annually.

As at 30 September 2017, “V” (as defined in Condition 21 (*Definitions*)) was £2,147 million (compared to £2,024 million as at 30 September 2016) and “L” (as defined in Condition 21 (*Definitions*)) was £743 million (compared to £668 million as at 30 September 2016) in each case for purposes of the Core LTV covenant. Accordingly, Core LTV (at market value) was 34.6 per cent. as at 30 September 2017 (compared to 33 per cent. as at 30 September 2016).

As at 30 September 2017, consolidated cash flow (calculated as described under “Presentation of Financial Information-Non-IFRS Measures”) was £206 million (compared to £173 million as of 30 September 2016) and consolidated net interest payable (calculated as described under “Presentation of Financial Information-Non-IFRS Measures”) was £29 million (compared to £45 million as at 30 September 2016) in each case for the purposes of the ICR covenant. Consequently, ICR was 7.1 times as at 30 September 2017 (compared to 3.9 times as at 30 September 2016).

### **Existing Corporate Bonds**

In November 2013, the Company issued £200 million 5.00 per cent. secured corporate bonds due 2020, with a secondary tap issue in August 2014 of £75 million (such bonds, the “**Existing Corporate Bonds**”). £275 million remains outstanding as at 30 September 2017. The Existing Corporate Bonds are secured on a *pari passu* basis with the Bank Facilities, the Notes and any secured hedging liabilities. The Issuer intends to use part of the proceeds from the issue of the Notes to redeem the Existing Corporate Bonds.

### **Intercreditor Deed General**

In connection with the issuance of the Existing Corporate Bonds, the Issuer and the Guarantors entered into the Intercreditor Deed with, among others, the Security Trustee, the trustee in relation to the Existing Corporate Bonds (the “**Existing Corporate Bonds Trustee**”), various bank creditors and hedging creditors. In connection with the issuance of the Notes, the Trustee will accede to the Intercreditor Deed pursuant to the accession provisions for new creditors described in the Intercreditor Deed.

Under the Intercreditor Deed, the term “Secured Parties” is defined to mean the Security Trustee, any Receiver or Delegate and each of the Creditor Representatives, the Credit Facilities Arrangers, the Pari Passu Bond Agents and the Senior Creditors from time to time but, in the case of each Creditor Representative or Credit Facilities Arranger or Credit Facilities/Hedging Creditor, only if it is a party to or has acceded to the Intercreditor Deed or (in the case of a Pari Passu Bondholder only) its Creditor Representative is a party to or has acceded to the Intercreditor Deed (each capitalised term as defined in the Intercreditor Deed).

The Intercreditor Deed is governed by English law. The Intercreditor Deed includes terms that establish:

- the ranking and priority of the liabilities owed to the lenders under the Bank Facilities, to the Trustee on behalf of the holders of the Notes, to the Existing Corporate Bonds Trustee on behalf of the holders of the Existing Corporate Bonds and to the hedging creditors (the “**Pari Passu Liabilities**”) and to certain intra group lenders (the “**Intra Group Liabilities**”);
- the basis on which the Security Trustee is appointed to hold the collateral created by the Transaction Security Documents;
- under what circumstances the Transaction Security Documents may be enforced;
- the application of proceeds from an enforcement in respect of the collateral; and
- under which circumstances the collateral may be shared on a *pari passu* basis with additional third party creditors.

### ***Priority of Secured Obligations***

The Intercreditor Deed purports to rank (in right and priority of payment) the debt held by the Secured Parties under the documents relating to the Pari Passu Liabilities (the “**Secured Obligations**”), together with the collateral that secures such Secured Obligations *pari passu* without any preference between any such class of Secured Obligations. The Intercreditor Deed also purports to postpone and subordinate the Intra Group Liabilities to the Pari Passu Liabilities and certain other related liabilities.

### ***Incremental and Refinancing Debt***

The Intercreditor Deed permits certain additional secured debt, including any debt which is raised pursuant to additional credit facilities and additional bonds or notes issued by the Issuer and which are permitted under the terms of the Secured Obligations to share in the collateral and rank *pari passu* alongside the other Secured Obligations.

### ***No Limit on Payments***

The Intercreditor Deed does not limit the making of payments in respect of the Secured Obligations in accordance with terms of the documents governing the relevant class of Secured Obligations until the occurrence of certain acceleration and/or enforcement events.

### ***Enforcement of Transaction Security Documents***

The Intercreditor Deed provides that only the Security Trustee will have the right to enforce the Transaction Security Documents.

Under the Intercreditor Deed and subject to the security having become enforceable in accordance with its terms, the Security Trustee shall determine the nature, management, timing and control of any enforcement of the security documents on the instructions of the Secured Parties who, in the aggregate, hold more than 66 2/3 per cent. of the amounts under the Bank Facilities, the Existing Corporate Bonds, any hedging arrangements and the Notes then outstanding (including certain additional notes, bonds and credit facilities) (the “**Majority Senior Creditors**”) provided that if there are three or more Creditor Groups (as

defined in the Intercreditor Deed to mean, at any time, each of the following groups of creditors to which liabilities may be owed: (i) the lenders under the Bank Facilities, (ii) any permitted additional credit facilities lenders (other than lenders under the Bank Facilities who provide credit facilities with commitments of £50,000,000 or less) and (iii) any bondholders in respect of each separate issue of notes) existing at that time, the Majority Senior Creditors will only be able to give enforcement instructions to the Security Trustee if the Requisite Majority (as defined in the Intercreditor Deed) of two or more Creditor Groups have voted, in each case, in favour of the relevant enforcement (the “**Instructing Group**”). In the absence of such instructions, the Security Trustee shall act as it sees fit.

The Security Trustee will not be liable in any respect to any Secured Party or any other person for exercising (or failing to exercise) any of its rights, powers or discretions in relation to the Transaction Security Documents. The Security Trustee may disregard any instructions to enforce any security if those instructions are inconsistent with the Intercreditor Deed.

### ***Snooze/Lose***

The Intercreditor Deed provides that if in relation to a request for a consent, to participate in a vote or to approve any other action or provide any confirmation or notification under the Intercreditor Deed, the agent under the Bank Facilities, the Trustee, the Existing Corporate Bonds Trustee or a hedge counterparty (each, for itself and on behalf of the creditors it represents) fails to respond to that request within 20 business days of the request being made, the consent or vote of such party (and the aggregate principal amount of indebtedness represented by such party) shall be disregarded for the purposes of ascertaining whether an agreement has been obtained, a vote carried or another action approved, and in the case of any confirmation or notification, that confirmation or notification will be deemed to have been given.

### ***Enforcement Proceeds***

The Intercreditor Deed regulates the order in which amounts received by the Security Trustee (including upon enforcement of the collateral) are distributed to the Secured Parties.

Under the Intercreditor Deed, the parties agree that, following any enforcement of the Transaction Security Documents, the claims of the Security Trustee, any receiver or delegate appointed by the Security Trustee pursuant to any of the Transaction Security Documents will have first ranking claims (without any priority between themselves), followed by the costs and expenses of any Secured Party (including the Trustee and the agents) incurred in realisation or enforcement of the Transaction Security Documents, and then by claims in respect of the obligations under the Bank Facilities, the obligations under the Trust Deed, the obligations under the Existing Corporate Bonds Trust Deed, the obligations of any hedging creditor and the obligations under any other additional bonds or additional credit facilities permitted under the Trust Deed and the Intercreditor Deed ranking *pari passu* and *pro rata* according to the respective amounts among themselves, and finally followed by any claim which the Security Trustee is obliged to pay in priority to the Issuer or the Guarantors. The balance (if any) will be paid to the Issuer and the Guarantors. The Security Trustee will apply amounts received following enforcement, including recoveries from enforcement, in accordance with this priority.

The Intercreditor Deed contains customary turnover provisions.

### ***Appointment of Security Trustee***

The Intercreditor Deed sets out the terms on which the Security Trustee holds the benefit of the Transaction Security Documents.

The Security Trustee shall not be obliged to take any action (including with respect to taking enforcement proceedings or enforcing the Transaction Security Documents) unless indemnified, secured or prepaid to its satisfaction. The Security Trustee shall be entitled to accept deposits from, lend money to and generally engage in any kind of banking or other business with either the Issuer or the Guarantors.

Unless acting on the instruction of the Majority Senior Creditors or the Instructing Group, or exercising certain specific discretions granted to it under the Intercreditor Deed, in exercising any discretion to exercise a right, power or authority under the Intercreditor Deed, the Security Trustee shall do so having regard to the interests of all the Secured Parties.

The Security Trustee is not obliged to insure any collateral, or require any other person to maintain such insurance, and will not be responsible for any loss, expense or liability which may be suffered as a result of the lack of, or inadequacy of, such insurance. Each Secured Party (other than the Security Trustee) is responsible for undertaking its own independent appraisal and investigation of all risks arising under or in connection with the Intercreditor Deed and related documents, including in respect of the financial condition, status and nature of each member of the Group and the title of any security provider to the collateral. Neither the Security Trustee nor any receiver or delegate shall be liable for (among other things) validity, effectiveness, adequacy or enforceability of the collateral.

### ***Release of Transaction Security***

The Intercreditor Deed provides that the Security Trustee may release the collateral (and the obligations of the obligors) under certain conditions, including in connection with the enforcement of the Transaction Security Documents or in connection with the sale or disposal of assets permitted by each relevant financing document.

### ***Common Security***

None of the lenders under the Bank Facilities, the Trustee on behalf of the holders of the Notes, the Existing Corporate Bonds Trustee on behalf of the holders of the Existing Corporate Bonds or the hedging creditors may take the benefit of any security or guarantees in respect of their respective Secured Obligations other than under the relevant financing documents and the Transaction Security Documents.

### ***Excluded Entities Indebtedness***

Other than permitted guarantees in relation to Excluded Entities up to an aggregate cap of £150 million, all Excluded Entities Indebtedness is non-recourse to Grainger or any of the Guarantors. Excluded Entities Indebtedness includes those set out below (and also a £9 million loan in respect of a development with Homes England (formerly the Homes and Communities Agency)):

### ***GInvest Facilities***

In October 2015, HSBC Bank and Abbey National Treasury Services plc granted a £150 million term loan (the “**GInvest Facilities**”) to Grainger Invest No 1 LLP and Grainger Invest No 2 LLP, both wholly-owned subsidiaries of the Group.

The loan is secured by fixed charges on certain of the properties owned by Grainger Invest No 1 LLP, Grainger Invest No 2 LLP, Grainger Bradley Ltd, Grainger Southwark Ltd and PHA Ltd. The value of properties secured against the loan stood at £342 million as at 30 September 2017. The GInvest Facilities also contain financial and other covenants, events of default, warranties and representations customary for such facilities.

### ***Grainger Pearl Term Loan***

In October 2017, Grainger Pearl Ltd, a wholly-owned subsidiary of the Group, issued £75 million 10 year fixed rate secured notes to Rothesay Life (the “**Grainger Pearl Note Facility**”). The Grainger Pearl Term Loan is secured by fixed charges on properties owned by Grainger Pearl Ltd and Grainger Pearl (Salford) Limited. The value of properties secured against the loan is £153 million. The Grainger Pearl Note Facility also contains financial and other covenants, events of default, warranties and representations customary for such facilities.

### ***Tricomm Facilities***

In February 2011, Grainger bought HI Tricomm, the indirect owner (direct ownership is held by a subsidiary vehicle, Tricomm Housing Limited) of a portfolio of 317 freehold houses in five separate locations around the Bristol and Portsmouth areas that were built under a private finance initiative arrangement to provide dwellings for senior UK Ministry of Defence personnel.

The portfolio is financed through a loan of £60.9 million from Grainger Finance (Tricomm) Ltd (the “**Tricomm Facilities**”) which finally matures in 2028. Grainger Finance (Tricomm) Ltd purchased this debt from Bank of America during 2013. It is secured through a floating charge over the properties that are indirectly owned by HI Tricomm.

The Tricomm Facilities also contain financial and other covenants, events of default, warranties and representation customary for such facilities.

## MANAGEMENT

### Directors

The Directors of the Company are as follows:

Name	Position
Mark Clare .....	Non-executive Chairman, chairman of nominations committee and member of remuneration committee
Helen Gordon* .....	Chief Executive, Chairman of executive committee
Vanessa Simms* .....	Chief Financial Officer, member of executive committee
Andrew Carr-Locke .....	Non-executive director, chairman of the audit committee, member of the nominations committee and remuneration committee
Tony Wray .....	Non-executive director, member of the audit committee, nominations committee and remuneration committee
Rob Wilkinson .....	Non-executive director, member of the audit committee, nominations committee and remuneration committee
Justin Read .....	Non-executive director, chairman of the remuneration committee, member of the audit committee and nominations committee

\* Executive Directors

The business address of each of the Directors is Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE.

#### **Mark Clare (Non-executive Chairman, chairman of nominations committee and member of remuneration committee)**

Mark was appointed as Chairman in February 2017. He has wide-ranging experience in a number of sectors and extensive knowledge of the residential property market. He has substantial plc-level experience and is senior independent director of both United Utilities Group plc and Ladbrokes Coral Group plc, and a non-executive director of Premier Marinas Holdings Limited. Mark was previously chief executive of Barratt Developments plc from 2006 to 2015, and is a former trustee of the Building Research Establishment and the UK Green Building Council. Prior to joining Barratt, he was an executive director of Centrica plc and held a number of senior roles within both Centrica plc and British Gas. Mark has also been a non-executive director of BAA plc, the airports operator.

#### **Helen Gordon (Chief Executive, Chairman of executive committee)**

Helen was appointed to the Board in November 2015, and as Chief Executive in January 2016. She is a highly experienced, proven and well-regarded real estate investor. She has significant experience working across a wide range of real estate asset classes, including residential property. This is combined with an extensive knowledge of the City. Helen is a chartered surveyor and before joining Grainger was global head of Real Estate Asset Management of Royal Bank of Scotland plc. She previously held senior property positions at Legal & General Investment Management, Railtrack and John Laing Developments. Helen has held a number of non-executive board roles over her career, including British Waterways and the Covent Garden Market Authority. Helen currently sits on the Board of Derwent London as a non-executive Director and is a Board Director of EPRA. She is also Junior Vice President of the British Property Federation and an advisory board member of Cambridge University's Land Economy Department.

**Vanessa Simms (Chief Financial Officer, member of executive committee)**

Vanessa was appointed to the Board in February 2016. She brings extensive financial experience to Grainger from the property sector in the UK. She has particular expertise in leading and implementing strategic change in businesses. She has substantial experience in senior finance leadership roles in a listed environment. Vanessa has worked in finance since 1998 and immediately prior to joining Grainger held a number of senior positions within Unite Group plc, including deputy chief financial officer. Prior to that Vanessa was UK finance director at SEGRO plc.

**Andrew Carr-Locke (Non-executive director, chairman of the audit committee, member of the nominations committee and remuneration committee)**

Andrew was appointed to the Board in March 2015. He has substantial experience in senior finance positions in listed companies, particularly in the residential property sector. He also has wide-ranging experience as a non-executive director of public companies. Andrew is a Fellow of the Chartered Institute of Management Accountants and was group finance director at George Wimpey plc between 2001 and 2007. He has previously held senior finance roles at Courtaulds Textiles plc, Diageo plc, Bowater-Scott and Kodak. More recently, Andrew was executive chairman of Countryside Properties, where he led the refocus of the company's strategy. Andrew stood down as a director of Countryside Properties in 2014. He is currently a non-executive director of Dairy Crest plc and previously held non-executive directorships at Royal Mail Holdings, Venture Production and AWG.

**Tony Wray (Non-executive director, member of the audit committee, nominations committee and remuneration committee)**

Tony was appointed to the Board in October 2011. He brings extensive experience in a broad range of senior operational and strategic leadership roles, in particular in public companies. He was the chief executive of FTSE 100 water company Severn Trent plc from 2007 to 2014, having joined its board in 2005. He has also held director roles within Transco and National Grid Transco, and was a member of the Water UK board.

**Rob Wilkinson (Non-executive director, member of the audit committee, nominations committee and remuneration committee)**

Rob was appointed to the Board in October 2015. He has substantial experience in real estate and corporate finance. He is a Chartered Accountant and the chief executive of AEW Europe, a leading European real estate investment manager. Prior to joining AEW Europe in 2009, Rob was a managing director with the Goodman Group and also held investment banking positions at UBS and Eurohypo. He is also chairman of the Green Rating Alliance.

**Justin Read (Non-executive director, chairman of the remuneration committee, member of the audit committee and nominations committee)**

Justin was appointed to the Board in February 2017. He has substantial experience in real estate and corporate finance. He was group finance director of SEGRO plc from August 2011 to December 2016. Between 2008 and 2011, Justin was group finance director at Speedy Hire plc. Prior to this, he spent 13 years in a variety of roles at Hanson plc, including deputy finance director, managing director of Hanson Continental Europe, head of corporate development, head of risk management and group treasurer. Justin has also held positions at Euro Disney SCA and Bankers Trust Company. Justin is also a non-executive director of Istock plc and Pro-Vice Chancellor of (Resource & Planning)'s Housing Advisory Board at Oxford University.

## SHARE CAPITAL AND INTERESTS OF MAJOR SHAREHOLDERS

### SUMMARY OF SHARE CAPITAL

As at the date of this Offering Memorandum, the Company's issued share capital amounts to £20.9 million, consisting of 418,749,762 ordinary shares (including shares held in treasury) with a nominal value of 5p per share. All of the Company's issued share capital is fully paid up. No preference shares are authorised or outstanding. As at the date of this Offering Memorandum, 1,506,300 ordinary shares are held in treasury. The Company has one class of ordinary shares and all shares rank equally and are fully paid.

### MAJOR SHAREHOLDERS

Insofar as is known to the Company, the name of each person who, directly or indirectly, has an interest in 3 per cent. or more of the Company's issued share capital (calculated excluding shares held in treasury), and the amount of such person's interest, as at 13 April 2018 (being the latest practicable date prior to the publication of this document) are as follows:

Name	Ordinary Shares	
	No. (million)	%
Schroder Investment Management Ltd .....	42.5	10.17
BlackRock Inc. ....	28.0	6.71
Standard Life Aberdeen.....	23.7	5.68
Aberforth Partners LLP .....	15.4	3.69
M&G Investment Management Ltd .....	15.3	3.66
Columbia Threadneedle Investments .....	15.0	3.61
The Vanguard Group Inc. ....	14.7	3.52
Highclere International Investors, LLP .....	13.1	3.14

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

None of the major shareholders referred to above has different voting rights from other shareholders.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):*

The £350,000,000 3.375 per cent. Guaranteed Secured Notes due 2028 (the “**Notes**”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes (“**Additional Notes**”) issued pursuant to Condition 17 (*Further Issues*) and forming a single series with the Notes) of Grainger plc (the “**Issuer**”) are constituted by a Trust Deed dated 24 April 2018 (the “**Trust Deed**”) made between the Issuer, certain subsidiaries of the Issuer as Guarantors (the “**Guarantors**”) and HSBC Corporate Trustee Company (UK) Limited (the “**Trustee**”, which expression shall include its successor(s) and any additional trustee) as trustee for the holders of the Notes (the “**Noteholders**”) and the holders of the interest coupons appertaining to the Notes (the “**Couponholders**” and the “**Coupons**” respectively).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the (i) Trust Deed, (ii) the Agency Agreement dated 24 April 2018 (the “**Agency Agreement**”) made between the Issuer, the Guarantors, HSBC Bank plc as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent), the other paying agent named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents) and the Trustee, (iii) the Intercreditor Deed (as defined below) and (iv) the Security Agreement (as defined below) are each available for inspection during normal business hours by the Noteholders and the Couponholders at the registered office for the time being of the Principal Paying Agent, being at the date of issue of the Notes at 8 Canada Square, London, E14 5HQ and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Intercreditor Deed and the Security Agreement applicable to them.

### 1. Form, Denomination And Title

The Notes are in bearer form, serially numbered, in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination. Title to the Notes and to the Coupons will pass by delivery.

The Issuer, each Guarantor, any Paying Agent and the Trustee will (except as required by law) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### 2. Status Of The Notes

The Notes and the Coupons are direct, unconditional, unsubordinated and secured obligations of the Issuer and rank and will rank *pari passu* without any preference among themselves.

### 3. Guarantee, Security And Intercreditor Deed

#### 3.1 Notes Guarantee

The payment of principal and interest in respect of the Notes and of all other moneys payable by the Issuer under or pursuant to the Trust Deed has been fully irrevocably and unconditionally jointly and severally guaranteed by the Guarantors in the Trust Deed (the “**Notes Guarantee**”). The obligations of the Guarantors under the Notes Guarantee are direct, unconditional, unsubordinated and secured obligations of the Guarantors and rank and will rank *pari passu* and without any preference among themselves.

### 3.2 Additional Guarantors

If any Subsidiary of the Issuer (other than (i) a Guarantor; or (ii) Grainger Unitholder 1 Limited, provided it ceases to be a guarantor in respect of all Pari Passu Liabilities within 30 days following the Issue Date) (i) provides a Guarantee or (ii) at the time it becomes a Subsidiary is providing a Guarantee, in either case in respect of all or any of the Pari Passu Liabilities, the Issuer shall procure that such Subsidiary shall, at or prior to the date of the giving of such Guarantee or within 30 days after the date of it becoming a Subsidiary, as applicable, become a Guarantor by executing a deed supplemental to the Trust Deed (in a form and with substance reasonably satisfactory to the Trustee, and accompanied by such legal opinion(s) as the Trustee shall reasonably require) pursuant to which such Subsidiary (an “**Additional Guarantor**”) shall guarantee the obligations of the Issuer in respect of the outstanding Notes, the Coupons and the Trust Deed on the same terms *mutatis mutandis* as the Notes Guarantee.

Without prejudice to the first paragraph of this Condition 3.2, a Subsidiary of the Issuer may also become an Additional Guarantor at any time at the option of the Issuer. The documentation formalities in the first paragraph of this Condition 3.2 shall apply *mutatis mutandis* to the accession of any such Subsidiary as an Additional Guarantor.

Each Original Guarantor has in the Trust Deed confirmed, and each Additional Guarantor shall confirm in the relevant supplemental trust deed, that it consents to any such entity becoming a Guarantor as aforesaid without any need for any other Guarantor to execute any such supplemental trust deed.

### 3.3 Release of a Guarantor

The Issuer may by written notice to the Trustee signed by two directors or one director and the company secretary of the Issuer request that a Guarantor cease to be a Guarantor in respect of the Notes if such Guarantor is no longer providing a Guarantee in respect of all or any of the Pari Passu Liabilities (or a similar request is being made in accordance with the terms of the documents governing such Liabilities, that such Guarantor will cease to provide a Guarantee in respect of those Liabilities). Upon the Trustee’s receipt of such notice (to be confirmed to the Issuer by the Trustee as soon as practicable) and without any consent being required from any Noteholder or Couponholder, such Guarantor shall automatically and irrevocably be released and relieved of all its future obligations under the Notes Guarantee and all of its future obligations as a Guarantor under the Trust Deed but without prejudice to any obligations which may have accrued prior to such release. Such notice must also contain the following certifications:

- (a) no Event of Default is continuing or will result from the release of that Guarantor;
- (b) no sum in respect of the Pari Passu Liabilities in respect of which that Guarantor is or was providing a Guarantee is at that time due and payable but unpaid;
- (c) such Guarantor is not providing a Guarantee in respect of all or any of the Pari Passu Liabilities, or such Guarantor will cease to provide a Guarantee in respect thereof simultaneously (or as close to simultaneously as practicable and as approved by the Trustee) with the release made pursuant to this Condition; and
- (d) the Issuer would remain in compliance with Condition 3.4 (*Minimum Guarantor Coverage*) immediately following the release of that Guarantor.

### 3.4 Minimum Guarantor Coverage

The Issuer shall (without prejudice to Condition 3.2 (*Additional Guarantors*)) procure that the gross value of the Properties owned by the Issuer and the Guarantors is not less than 75 per cent. of the gross value of the Properties (other than: (i) those owned by Excluded Entities; or (ii) those owned by any entity in respect of which steps have already been taken in respect of the Core Credit Facilities which would, with the lapse of time and the fulfilment of certain conditions, cause such entity to become an Excluded Entity for the purposes of the Core Credit Facilities, provided that such entity becomes an Excluded Entity within one calendar month following the initiation of such a process in respect of the Core Credit Facilities)

determined by reference to the most recently delivered consolidated financial statements of the Group delivered pursuant to Condition 18.1(a)(i) as adjusted with reference to sub-paragraphs (A) to (E) inclusive of the definition of “V” in paragraph (b) of the definition of Loan to Value Ratio with reference to those financial statements.

### **3.5 Notice of Change of Guarantors**

Notice of any release of a Guarantor or addition of a Guarantor pursuant to this Condition will be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

### **3.6 Excluded Entities**

The Issuer may at any time by written notice to the Trustee signed by two directors or one director and the company secretary of the Issuer request that a Non-Excluded Entity be designated an Excluded Entity. Upon the Trustee’s receipt of such notice without any consent being required from any Noteholder or Couponholder (receipt of such notice to be confirmed to the Issuer by the Trustee as soon as practicable), such Non-Excluded Entity shall automatically be designated an Excluded Entity. Such notice must also contain the following certifications:

- (a) no Event of Default is continuing at the date of the notice or would result from the designation of the relevant Non-Excluded Entity as an Excluded Entity;
- (b) the relevant Non-Excluded Entity is Limited Recourse to those members of the Group which are not Non-Excluded Entities; and
- (c) the relevant Non-Excluded Entity is or simultaneously with the designation made pursuant to this Condition (or as close to simultaneously as practicable as may be approved by the Trustee) will become an Excluded Entity for the purposes of the Core Credit Facilities.

The Issuer may at any time by written notice to the Trustee signed by two directors or one director and the company secretary of the Issuer request that an Excluded Entity cease to be an Excluded Entity. Upon the Trustee’s receipt of such notice without any consent being required from any Noteholder or Couponholder (receipt of such notice to be confirmed to the Issuer by the Trustee as soon as practicable), such Excluded Entity shall automatically cease to be an Excluded Entity and shall become a Non-Excluded Entity.

Notice of any designation or cessation of an Excluded Entity pursuant to this Condition will be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

### ***Transaction Security and Intercreditor Deed***

*The Trustee is a party to the Intercreditor Deed with, amongst others, the Secured Hedging Counterparties, the Security Trustee and the agents and/or trustees (as the case maybe) from time to time under the Core Credit Facilities and the Existing Corporate Bonds Liabilities. Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, will be deemed to have agreed to be bound by such provisions of the Intercreditor Deed (whether entered into as at the date of the Trust Deed or thereafter) and to have irrevocably appointed the Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Deed.*

*Under the Transaction Security Documents, the Transaction Security has been granted by the Issuer and the Guarantors to secure the payment when due of the Issuer’s and each Guarantor’s payment obligations under the Notes and the Trust Deed.*

*On the date of the Trust Deed, the Transaction Security consists of floating charges over the properties and other assets of the Issuer and each of the Guarantors.*

*Subject to the terms of the Intercreditor Deed and compliance with the Conditions, including compliance with Condition 4.1 (Negative Pledge), the paragraph entitled “Further Assurances” below and the provisions of the Trust Deed, the Issuer and the Guarantors are permitted to extend the benefit of the*

*Transaction Security to holders of certain future Financial Indebtedness that may be incurred, including any Additional Notes permitted under the Conditions and the Trust Deed.*

*The Intercreditor Deed also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security will be shared equally and rateably in satisfaction of the Pari Passu Liabilities and the Note Liabilities.*

*Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, shall be deemed (i) to have authorised the Security Trustee to enter into the Transaction Security Documents and the Intercreditor Deed and (ii) to be bound thereby.*

*Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Transaction Security Documents. The Noteholders may only act through the Trustee or the Security Trustee, as applicable. Subject to Conditions 11 (Enforcement of Security) and 12 (Noteholder Action) and the terms of the Intercreditor Deed, the Security Trustee will agree to any release of the security interests created by the Transaction Security Documents that is in accordance with the Conditions and the Trust Deed without requiring any consent of the Noteholders. The Trustee has the ability to direct the Security Trustee to commence enforcement action under the Transaction Security Documents, subject to the terms of the Intercreditor Deed. The enforcement of the Transaction Security provided for under the Transaction Security Documents is subject to the Intercreditor Deed.*

*Subject to the terms of the Transaction Security Documents and the Intercreditor Deed, each of the Issuer and the Guarantors is entitled (without consent of the Trustee or the Noteholders) to exercise any and all voting rights and to receive and retain any and all cash dividends, share dividends, liquidating dividends, non-cash dividends, shares resulting from share splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of any shares held by it that are part of the Transaction Security.*

*The rights under the Transaction Security Documents with respect to the Notes and the Trust Deed must be exercised by the Security Trustee in respect of all of the Notes outstanding and in accordance with the terms of the Intercreditor Deed.*

*All Security granted to the Security Trustee on behalf of the Noteholders and the Trustee under the Transaction Security Documents will be automatically and unconditionally released if all obligations under the Conditions, the Notes and the Trust Deed are discharged, in each case in accordance with the terms and conditions in the Trust Deed and the Intercreditor Deed.*

#### **Further Assurances**

*The Issuer has agreed under the Trust Deed to take all such action as is available to it (including making all filings and registrations) as may be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on the Security Trustee by or pursuant to the Transaction Security Documents.*

#### **4. Covenants**

##### **4.1 Negative Pledge**

- (a) Except as permitted under paragraph (b) below, so long as any of the Notes remains outstanding (as defined in the Trust Deed):
  - (i) the Issuer shall not and shall procure that no Guarantor shall, create, assume or permit to subsist, as security for any Financial Indebtedness, any Security upon the whole or any part of its present or future revenues or assets; and
  - (ii) the Issuer shall not and shall procure that no Guarantor shall:

- (A) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by it;
  - (B) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
  - (C) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
  - (D) enter into any other preferential arrangement having a similar effect, (sub-paragraphs (A) through (D) (inclusive) being “**Quasi Security**”) in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.
- (b) Paragraph (a) above does not apply to any Security or Quasi Security that:
- (i) is a Permitted Security; or
  - (ii) equally and rateably secures the Issuer’s or, as the case may be, the relevant Guarantor’s obligations in respect of the Notes and all other amounts due under the Trust Deed to the satisfaction of the Trustee.

#### 4.2 Financial Covenants

##### (a) Loan to Value Ratio

The Issuer will ensure that the Loan to Value Ratio does not exceed 75 per cent. on any Half-Year End Date as certified by a Compliance Certificate delivered pursuant to Condition 18.1 (*Reports and Compliance Certificates*).

##### (b) Limitation on Purchase of Assets

If the Loan to Value Ratio as certified in a Compliance Certificate delivered to the Trustee in accordance with sub-paragraphs (a)(iv) or (a)(v) of Condition 18.1 (*Reports and Compliance Certificates*) is greater than 67.5 per cent., then from the date of that Compliance Certificate (the “**LTV Trigger Date**”) until the next date on which a Compliance Certificate is delivered to the Trustee in accordance with sub-paragraphs (a)(iv) or (a)(v) of Condition 18.1 (*Reports and Compliance Certificates*) pursuant to which the Loan to Value Ratio is certified as being equal to or below 67.5 per cent., neither the Issuer nor any Guarantor will, and the Issuer will procure that no Non-Excluded Entity will, purchase or transfer to an Excluded Entity any property or properties unless:

- (i) the aggregate value of such purchases or transfers is less than £2,000,000 during each calendar month after the LTV Trigger Date and until such next date; or
- (ii) such purchases or transfers are made in accordance with contracts entered into prior to the LTV Trigger Date.

#### 4.3 Merger, Consolidation and Sale of Substantially All Assets

The Issuer shall not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries) to another Person, unless:

- (a) the resulting, surviving or transferee Person, if other than the Issuer (the “**Successor**”), shall be a Person organised and existing under the laws of England and Wales, any member state of the European Union as at 1 January 2004, or any State of the United States and shall expressly assume, by a supplement to the Trust Deed, executed and delivered to the Trustee, in a form satisfactory to the Trustee, all the obligations of the Issuer in respect of the Notes and under the Trust Deed and these Conditions;

- (b) immediately after giving effect to such transaction (and treating any Financial Indebtedness which becomes an obligation of the Issuer or the Successor, as applicable, or any Relevant Subsidiary of the Issuer or the Successor, as the case may be, as a result of such transaction as having been incurred by the Issuer or the Successor or such Relevant Subsidiary at the time of such transaction) no Event of Default or Potential Event of Default shall have occurred and be continuing; and
- (c) the Issuer shall have delivered to the Trustee (i) a certificate signed by two directors of the Issuer stating that such consolidation, merger, amalgamation or sale, assignment, conveyance, transfer, lease or other disposition and such supplement to the Trust Deed (if any) comply with the provisions of this covenant (in particular, as to the matters referred to in paragraph (b) above) and (ii) an opinion(s) of independent legal advisers of recognised standing as to all relevant laws in a form(s) satisfactory to the Trustee and opining as to the matters referred to in paragraph (a) above.

The Successor shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Trust Deed. The Issuer shall be relieved of all obligations and covenants under the Trust Deed and the Notes.

Nothing contained in the foregoing restrictions on merger, consolidation, amalgamation and asset transfers shall prohibit any Subsidiary of the Issuer from consolidating or amalgamating with, merging with or into, or transferring all or part of its properties and assets to a Relevant Subsidiary provided that, after giving effect to any such merger, consolidation, amalgamation or asset transfer, no Event of Default or Potential Event of Default shall have occurred and be continuing or would result therefrom.

#### **4.4 Trustee not obliged to monitor**

The Trustee shall be under no obligation to monitor compliance by the Issuer or any Guarantor, as the case may be, with any of the covenants, restrictions or provisions set out in this Condition and shall have no liability to any Person as a result of any failure to monitor such compliance.

### **5. Interest**

#### **5.1 Interest rate, interest accrual and broken interest**

- (a) The Notes bear interest from and including 24 April 2018 (the “**Issue Date**”) at the rate of 3.375 per cent. per annum, payable in arrear on 24 April and 24 October in each year (each an “**Interest Payment Date**”). The amount of interest in respect of each semi-annual interest period will amount to £16.875 per £1,000 in principal amount of the Notes.
- (b) Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal amount is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in this Condition 5 and the Trust Deed until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, and (b) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) When interest is required to be calculated in respect of a period of less than a full half-year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due divided by (b) twice the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

#### **5.2 Interest rate adjustment**

- (a) The rate of interest payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be.
- (b) Subject to paragraphs (d) and (f) below, from and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the rate of interest payable on the Notes under Condition 5.1 (*Interest rate, interest accrual and broken interest*) shall increase by 1.25 per cent. per annum.
- (c) Furthermore, subject to paragraphs (d) and (f) below, in the event of a Step Down Rating Change following a Step Up Rating Change, with effect from and including the first Interest Payment Date following the date of such Step Down Rating Change, the rate of interest payable on the Notes under Condition 5.1 (*Interest rate, interest accrual and broken interest*) shall decrease by 1.25 per cent. per annum.
- (d) If a Step Up Rating Change and, subsequently, a Step Down Rating Change both occur in the same interest period, the rate of interest payable on the Notes under Condition 5.1 (*Interest rate, interest accrual and broken interest*) shall neither increase nor decrease as a result of either event.
- (e) The Issuer shall use reasonable efforts to maintain credit ratings for the Notes with S&P. If, notwithstanding such reasonable efforts, S&P fails to or ceases to assign a credit rating to the Notes, the Issuer shall use all reasonable efforts to obtain a credit rating of the Notes from a substitute rating agency that shall be a Statistical Rating Agency, and references in this Condition 5.2 (*Interest rate adjustment*) to S&P or the credit ratings thereof, shall be to such substitute rating agency or, as the case may be, the equivalent credit ratings thereof.
- (f) A Step Up Rating Change (if any) and a Step Down Rating Change (if any) may only occur once during the term of the Notes.
- (g) The Issuer will cause the occurrence of a Step Up Rating Change or a Step Down Rating Change to be notified to the Trustee and the Principal Paying Agent and notice thereof to be given to Noteholders in accordance with Condition 14 (*Notices*) as soon as possible after the occurrence of the Step Up Rating Change or the Step Down Rating Change (whichever the case may be).

The Trustee is under no obligation (and shall have no liability to any person in relation thereto) to ascertain whether a change in the rating assigned to the Notes by S&P has occurred or whether there has been a failure or a ceasing by S&P to assign a credit rating to the Notes and until it shall have express written notice pursuant to the Trust Deed to the contrary, the Trustee may assume without liability that no such change to the credit rating assigned to the Notes has occurred or no such failure or ceasing by S&P has occurred.

If the rating designations employed by S&P is changed from those which are described in this Condition 5.2 (*Interest rate adjustment*), the Issuer shall determine, with the agreement of the Trustee, the rating designations of S&P as are most equivalent to the prior rating designations of S&P, and this Condition 5.2 (*Interest rate adjustment*) shall be construed accordingly. The Trustee shall provide its agreement upon receipt from the Issuer of a certificate addressed to the Trustee signed by two directors of the Issuer stating the rating designations of S&P as are most equivalent to the prior rating designations of S&P and the Trustee shall be entitled to accept and rely on such certificate without enquiry or liability to any person.

In these Conditions:

“**Fitch**” means Fitch Ratings Limited, or its successor;

“**Moody’s**” means Moody’s Investors Service Ltd, or its successor;

“S&P” means Standard & Poor’s Credit Market Services Europe Limited, or its successor;

“Statistical Rating Agency” means Fitch, Moody’s or such other rating agency as the Trustee may approve;

“Step Down Rating Change” means the first public announcement after a Step Up Rating Change by S&P of an increase in the credit rating of the Notes with the result that, following such public announcement, S&P rates the Notes as BBB- or higher. For the avoidance of doubt, any further increases in the credit rating of the Notes above BBB- shall not constitute a Step Down Rating Change; and

“Step Up Rating Change” means the first public announcement by S&P of a decrease in the credit rating of the Notes to below BBB-. For the avoidance of doubt, any further decrease in the credit rating of the Notes from below BBB- shall not constitute a Step Up Rating Change.

## 6. Payments

Payments of principal, premium and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office of any of the Paying Agents.

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with or, at the option of the payee, by a cheque in pounds Sterling drawn on, a bank in London.

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*).

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in this Condition 6 (*Payments*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority; and
- (c) there will at all times be a Paying Agent with a specified office in a city within Europe approved by the Trustee.

Notice of any termination or appointment and of any changes in, specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Guarantors and, in certain limited circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, the Noteholders or the Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **7. Redemption And Purchase**

### **7.1 Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 24 April 2028.

### **7.2 Redemption for Taxation Reasons**

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 23 April 2018, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*), and (ii) the requirement cannot be avoided by the Issuer taking reasonable measures available to it; or
- (b) (i) the Issuer will not have sufficient funds available to it to satisfy in full its obligations under the Notes and Coupons on the next Interest Payment Date;
- (ii) (A) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 23 April 2018, on such Interest Payment Date each of the Guarantors in making payment itself would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*); and  
(B) the requirement cannot be avoided by the Guarantors taking reasonable measures available to each of them; and
- (iii) each of the Guarantors would not be able for reasons outside its control to put the Issuer in funds to enable it to satisfy in full its obligations under the Notes and Coupons on such Interest Payment Date,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, any such Guarantor would be required to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that:

- (i) in the case of subparagraph (a) above, the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment; or
- (ii) in the case of subparagraph (b) above, each of the Guarantors has or will become obliged to pay such additional amounts as a result of such change or amendment and that each of the Guarantors would not be able for reasons outside its control to put the Issuer in funds to enable it to satisfy in full its obligations under the Notes and Coupons on the relevant Interest Payment Date.

In any case, the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the relevant conditions precedent set out above in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

### 7.3 Redemption upon a Change of Control

If a Put Event occurs, unless notice of redemption of all of the Notes has previously been given pursuant to Condition 7.2 (*Redemption for Taxation Reasons*) or Condition 7.4 (*Redemption at the option of the Issuer*), each Noteholder shall have the option to require the Issuer to redeem or purchase the Notes of such holder at a cash purchase price equal to the principal amount thereof together with interest accrued to but excluding the date of redemption or purchase, as the case may be. Such option shall operate as set out below.

As soon as practicable after the occurrence of a Put Event and in any case not later than 30 days thereafter, the Issuer shall, and at any time upon the Trustee becoming aware that a Put Event has occurred the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction and subject to the Trustee having received all the information referred to in sub-paragraphs (b) and (c) below) give a notice (the “**Change of Control Notice**”) to the Trustee (in the case of a notice from the Issuer) and the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable) stating:

- (a) that a Put Event has occurred and that each Noteholder is entitled to require the Issuer to redeem or purchase the Notes of such holder pursuant to this Condition;
- (b) the circumstances and relevant facts regarding such Put Event;
- (c) the redemption or purchase price and the redemption or purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is given (or such later date as is necessary to comply with requirements under any applicable securities laws or regulations)); and
- (d) the procedures for exercising the option in this Condition.

To exercise the option to require the redemption or purchase of a Note under this Condition, the holder of the Note must deliver such Note at the specified office of a Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the “**Put Period**”) of 45 days after the Change of Control Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of each Paying Agent (a “**Change of Control Put Notice**”). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is 7 days after the expiration of the Put Period (the “**Put Date**”), failing which the relevant Paying Agent will require payment of an amount equal to the face value of any missing such Coupon. Any amount so paid will be reimbursed in the manner provided in Condition 6 (Payments) against presentation and surrender of the relevant missing Coupon (or any replacement therefore issued pursuant to Condition 13 (*Replacement Of Notes And Coupons*)) at any time after such payment, but before the expiry of the period of five years from the Relevant Date in respect of that Coupon. The relevant Paying Agent will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made on the

Put Date by transfer to that bank account and, in every other case, on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of a Paying Agent. A Change of Control Put Notice once given shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition shall be treated as if they were Notes. The Issuer shall redeem or purchase the relevant Notes on the Put Date unless previously redeemed and cancelled or purchased.

The Trustee is under no obligation to ascertain whether a Put Event or any event which could lead to the occurrence of or could constitute a Put Event has occurred and, until it shall have actual knowledge or written notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Put Event or other such event has occurred.

A “**Put Event**” will occur if, while any of the Notes remains outstanding:

- (a) a Change of Control occurs; and
- (b) either (i) the Notes do not have an Investment Grade rating from at least one Rating Agency at the time the Change of Control occurs or (ii) the Notes do have an Investment Grade rating from at least one Rating Agency (and if there is more than one such rating, the Issuer shall be entitled to determine which one Rating Agency shall be relevant for the purposes of this provision) at the time the Change of Control occurs but at any time during the Change of Control Period such Rating Agency rates the Notes as non-Investment Grade and such rating is not within the Change of Control Period restored to an Investment Grade rating by such Rating Agency or replaced by an Investment Grade rating of another Rating Agency, or any such Rating Agency withdraws its rating of the Notes and the rating of such Rating Agency is not within the Change of Control Period replaced by an Investment Grade rating of another Rating Agency; and in each case such Rating Agency publicly announces or publicly confirms or informs the Trustee in writing that such non-Investment Grade rating or withdrawal of rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the Change of Control shall have occurred at the time such rating is given or rating is withdrawn).

#### 7.4 **Redemption at the Option of the Issuer**

Subject as provided below, upon giving not less than 7 nor more than 14 days’ notice to the Noteholders, in accordance with Condition 14 (*Notices*), the Issuer may redeem any Notes in whole or in part (subject as provided in Condition 7.6 (*Provisions relating to Partial Redemption*) below) on any date which is more than 90 days prior to 24 April 2028, at the higher of (a) their principal amount; and (b) the principal amount of the relevant Notes multiplied by the price (as reported in writing to the Issuer and the Trustee by an independent financial adviser (the “**Financial Adviser**”) appointed by the Issuer at the Issuer’s expense and whose identity is approved in writing by the Trustee) expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards) at which the Gross Redemption Yield on the Notes (if the Notes were to remain outstanding until their original maturity) on the Determination Date would be equal to the sum of (x) the Gross Redemption Yield on the Notes at 11.00 a.m. (London time) on the Determination Date of the Benchmark Gilt (or, where the Financial Adviser advises the Issuer that, for reasons of illiquidity or otherwise, the Benchmark Gilt is not appropriate for such purpose, such other government bond as such Financial Adviser may recommend) plus (y) a margin of 0.30 per cent.

In these Conditions:

“**Benchmark Gilt**” means 6.00 per cent. United Kingdom Government Treasury Stock due 2028;

“**Determination Date**” means the date which is the second Business Day in London prior to the Optional Redemption Date;

“**Gross Redemption Yield**” means a yield calculated by the Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 5, Section One: Price/Yield Formulae (Conventional Gilts; Double-dated and Undated Gilts with

Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June 1998 and updated on 15 January 2002 and 16 March 2005) (as amended or supplemented from time to time); and

“**Optional Redemption Date**” means the date fixed for redemption pursuant to this Condition 7.4.

#### **7.5 Maturity Par Call**

The Issuer may, at any time during the period commencing on (and including) the day that is 90 days prior to 24 April 2028 to (and excluding) 24 April 2028, on giving not less than 7 nor more than 14 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption) redeem the Notes in whole or in part (subject as provided in Condition 7.6 (*Provisions relating to Partial Redemption*) below) at their principal amount, together with interest accrued to the date fixed for redemption.

#### **7.6 Provisions relating to Partial Redemption**

In the case of a partial redemption of the Notes, Notes to be redeemed will be selected, in such place as the Trustee may approve and in such manner as the Trustee may deem appropriate and fair, not more than 17 days before the date of redemption. Notice of any such selection will be given not less than 7 days before the date fixed for redemption. Each notice will specify the date fixed for redemption and the aggregate principal amount of the Notes to be redeemed, the serial numbers of the Notes called for redemption, the serial numbers of the Notes previously called for redemption and not presented for payment and the aggregate principal amount of the Notes which will be outstanding after the partial redemption.

#### **7.7 Purchases**

The Issuer or any of the Issuer's Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation, provided that for so long as the Issuer or any of the Issuer's Subsidiaries holds Notes, (a) in ascertaining whether any given percentage (including, for the avoidance of doubt, unanimity) of the principal amount of the Notes for the time being outstanding has been obtained to approve any request for a consent, waiver, amendment or other vote or direction under the Trust Deed or these Conditions, such principal amount shall be deemed to be zero, and (b) the Issuer or the relevant Issuer's Subsidiary shall be deemed not to count in the quorum for the purposes of determining whether the requisite quorum is present at any meeting of the Noteholders.

#### **7.8 Cancellations**

All Notes which are purchased pursuant to Condition 7.3 (*Redemption upon a Change of Control*) or redeemed will forthwith be cancelled (together with all unmatured Coupons attached to the Notes or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.7 (*Purchases*) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent for cancellation and cannot be reissued or resold.

#### **7.9 Notices Final**

Upon the expiry of any notice as is referred to in Condition 7.2 (*Redemption for Taxation Reasons*), Condition 7.3 (*Redemption upon a Change of Control*) or Condition 7.4 (*Redemption at the option of the issuer*) above, the Issuer shall be bound to redeem or purchase, as the case may be, the Notes to which the notice refers in accordance with the terms of such Condition (provided that such obligation shall not apply in the case of a Conditional Optional Redemption Notice unless each of the conditions precedent to that Conditional Optional Redemption Notice has been satisfied).

#### **7.10 Conditional Optional Redemption**

Any notice of redemption delivered in accordance with Conditions 7.4 or 7.5 may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent to which: (i) an acquisition of shares in the Issuer which would, if completed, cause a Change of Control, (ii) a direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole which would, if completed, cause a Change of Control; or (iii) a refinancing of the Notes in whole or in part, is subject, any notice so conditioned being, a **“Conditional Optional Redemption Notice”**. Any such conditions precedent shall be specified in the relevant Conditional Optional Redemption Notice.

## **8. Taxation**

### **8.1 Payment without Withholding**

All payments in respect of the Notes and Coupons by or on behalf of the Issuer or any Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**“Taxes”**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the relevant Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable by them in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by, or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date; or
- (c) presented for payment in the United Kingdom; or
- (d) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

For the avoidance of doubt, payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto, as provided in Condition 6 (*Payments*). No additional amounts will be paid on the Notes with respect to any such withholding or deduction.

### **8.2 Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

## **9. Prescription**

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal or premium) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 7 (*Redemption And Purchase*).

## 10. Events of Default

10.1 Subject to paragraph (b) below, each of the following will be an “Event of Default”:

- (a) default is made in the payment of any amount of principal or premium or any amount of purchase moneys due under Condition 7.3 (*Redemption upon a Change of Control*) in respect of any of the Notes for a period of 7 days or more or any amount of interest in respect of any of the Notes for a period of 21 days or more;
- (b) an order is made or an effective resolution is passed for winding up, or an administration order is made in relation to, the Issuer or any Guarantor (except for (a) the purpose of a reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (b) in connection with any consolidation, merger, amalgamation, sale, assignment, conveyance, transfer, lease or other disposal effected in compliance with Condition 4.3 (*Merger, Consolidation and Sale of Substantially All Assets*) or, (c) in the case of a Guarantor, a voluntary solvent winding up in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or any other Guarantor);
- (c) (a) the Issuer or any Guarantor stops or, without the prior written approval of the Trustee, announces its intention unconditionally to stop payment of its debts generally (or any then current conditional intention to stop payment of its debts generally which has been announced becomes unconditional), or (b) the Issuer and the Guarantors, taken as a whole, suspend or cease to carry on (or threaten to suspend or cease to carry on) all or a material part of their business where such suspension or cessation (A) would need the approval of the Issuer’s shareholders in a general meeting (including, without limitation, any suspension or cessation which would qualify as a Class 1 Transaction) and (B) would have a Material Adverse Effect provided that this subparagraph (b) excludes any acquisition or disposal effected by way of a reconstruction, merger consolidation, amalgamation or other similar arrangement that is permitted by Condition 4.3 (*Merger, Consolidation and Sale of Substantially All Assets*);
- (d) a distress, execution or any similar proceeding is levied or enforced upon or sued out against a substantial part of the chattels or property of any member of the Group (other than the Excluded Entities) and is not discharged within 21 Business Days in London;
- (e) any trustee in bankruptcy, liquidator, provisional liquidator, receiver, administrative receiver, administrator or other similar official is appointed in relation to the Issuer or any Guarantor or in respect of the whole or a substantial part of their respective properties or assets or an encumbrancer, takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or any Guarantor and in any of the foregoing cases is not discharged within 21 days or the directors of the Issuer or any Guarantor request any person to make any such appointment or to take possession as aforesaid (except for (a) the purpose of a reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or (b) in connection with any consolidation, merger, amalgamation, sale, assignment, conveyance, transfer, lease or other disposal effected in compliance with Condition 4.3 (*Merger, Consolidation and Sale of Substantially All Assets*) or, (c) in the case of a Guarantor, a voluntary solvent winding up in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or any other Guarantor);
- (f) the Issuer or any Guarantor becomes or is declared or determined by any competent court to be unable, or admits in writing its inability, to pay its debts as they fall due (except that for the purposes of Section 123 of the Insolvency Act 1986, the amount of the statutory demand shall be deemed to be £20,000,000 or such higher figure as may be agreed by an Extraordinary Resolution of the Noteholders or is adjudicated or found bankrupt or insolvent by any competent court);
- (g) any kind of composition, scheme of arrangement, compromise or other similar arrangement involving the Issuer or any Guarantor and all its creditors or substantially all (determined by reference to the amount or value of their claims) its creditors is entered into or made (with the

exception of a scheme of arrangement as approved by a UK court which is carried out on a solvent basis);

- (h) any Financial Indebtedness of any member of the Group (other than the Excluded Entities) shall be or be declared due and payable prior to the date on which the same would otherwise become due and payable by reason of the occurrence of an event of default (howsoever described) in relation thereto or any member of the Group (other than the Excluded Entities) defaults in the repayment of any Financial Indebtedness and such default is not remedied within 21 days of the maturity thereof or, if longer, any applicable grace period as originally provided or any guarantee of or indemnity in respect of any Financial Indebtedness given by any member of the Group (other than the Excluded Entities) shall not be paid within 21 days of the date when such guarantee or indemnity is due and called upon or, if longer, any applicable grace period as originally provided; provided that no event described in this subparagraph (h) shall constitute an Event of Default unless the relevant amount of Financial Indebtedness or other relative Liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Financial Indebtedness and/or other Liabilities due and unpaid relative to all (if any) other events specified in this subparagraph (h) which have occurred and are continuing amounts to at least £20,000,000 (or the equivalent in any other currency or currencies as at the date the relative Financial Indebtedness or other relative Liability becomes due);
- (i) default is made by the Issuer or any Guarantor in the performance or observance of any obligation, condition or provision binding on it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes as referred to in subparagraph (a) above and other than as referred to in subparagraph (j) below) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case no such continuation or notice as hereinafter provided shall be required), such default continues for 30 days after written notice thereof is given by the Trustee to the Issuer requiring the same to be remedied;
- (j) default is made by the Issuer or any Guarantor in the performance or observance of any provision of Condition 4 (*Covenants*) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case no such continuation or notice as hereinafter provided shall be required), such default continues for 30 days after written notice thereof is given by the Trustee to the Issuer requiring the same to be remedied;
- (k) the Notes Guarantee ceases to be in full force and effect;
- (l) the Transaction Security ceases to be legal, valid, binding, enforceable or effective for any reason other than as permitted by these Conditions or is alleged by the Issuer or any Guarantor to be invalid or unenforceable; or
- (m) any Guarantor (other than the Issuer) is not or ceases to be a Subsidiary of the Issuer.

10.2 Any event that occurs under paragraph 10.1 above shall constitute an Event of Default only if the Trustee has certified in writing to the Issuer that, in its opinion, the occurrence of that event is materially prejudicial to the interests of the Noteholders, provided that no such certification shall be required in respect of the following events, each of which shall automatically constitute an Event of Default:

- (a) an event that occurs under sub-paragraph 10.1(a), 10.1(c)(a), 10.1(h) or 10.1(j) (with respect to Condition 4.2(a) (*Loan to Value Ratio*) and Condition 4.2(b) (*Limitation on Purchase of Assets*) only) above; and
- (b) an event that occurs under sub-paragraph 10.1(b), 10.1(c)(a), 10.1(e), 10.1(f) or 10.1(g), in each case only to the extent such event occurs in relation to the Issuer, or any Material Guarantor or group of Guarantors that, when taken together with reference to the latest audited consolidated financial statements of the Group for the period covered by those audited consolidated financial statements, would constitute a Material Guarantor.

10.3 In determining whether or not an event in relation to a non-Material Guarantor is materially prejudicial under paragraph 10.2(b) above, the Trustee shall, without limitation, be able to take into account whether any other Guarantor has been subject to an event described in paragraph 10.2(a) above.

(a) If an Event of Default occurs and is continuing, the Trustee:

(i) may in its absolute discretion; and

(ii) shall if it has been directed to do so:

(A) in writing by the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding; or

(B) by an Extraordinary Resolution of the Noteholders,

subject, in each case, to it being indemnified and/or pre-funded and/or secured to its satisfaction, give a notice (a “**Note Acceleration Notice**”) to the Issuer and the Security Trustee declaring the principal of, premium, if any, and accrued interest on all the outstanding Notes immediately due and payable.

*The ability of the Trustee and the Noteholders to declare, and of the Noteholders to direct the Trustee to declare, the Notes due and payable is subject to the terms of the Intercreditor Deed (as described in the paragraph entitled “Intercreditor Deed” in Condition 3 (Guarantee, Security And Intercreditor Deed)).*

## 11. Enforcement of Security

At any time after a Note Acceleration Notice has been given to the Issuer and the Security Trustee, the Trustee may in its absolute discretion and shall if it has been directed to do so in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Notes outstanding, or by an Extraordinary Resolution of Noteholders, subject, in each case, to it being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, instruct the Security Trustee to make a request for voting in relation to enforcing the Transaction Security pursuant to the terms of the Intercreditor Deed (each, a “**Request Instruction**”).

The Trustee shall, subject to it being indemnified and/or pre-funded and/or secured to its satisfaction in accordance with the Trust Deed, promptly after receiving any Request Instruction, give a notice to Noteholders in accordance with Condition 14 (*Notices*) soliciting the direction from holders of the Notes then outstanding (each, a “**Noteholder Direction**”) to the Trustee as to whether to instruct the Security Trustee to take enforcement action in relation to the Transaction Security pursuant to the Intercreditor Deed (such instruction, an “**Enforcement Instruction**”). Upon the conclusion of the solicitation of Noteholder Directions, the Trustee shall inform the Issuer and the Security Trustee promptly in writing of the aggregate principal amount of Notes represented by the holders of Notes voting in favour or against of the Enforcement Instruction, if any.

Any enforcement of the Transaction Security will be undertaken by the Security Trustee, subject to, and in accordance with, the provisions of the Intercreditor Deed.

## 12. Noteholder Action

12.1 Subject to Condition 11 (*Enforcement Of Security*) and paragraphs 12.2, 12.3 and 12.4 below, no

Noteholder or Couponholder shall be entitled to take any proceedings or other action directly against the Issuer or any Guarantor or to enforce the Transaction Security, including:

(a) itself giving Request Instructions or Enforcement Instructions;

- (b) taking or joining any person in taking steps against the Issuer or any Guarantor or to enforce the Transaction Security for the purpose of obtaining payment of any amount due from the Issuer or any Guarantor to it; and
  - (c) initiating or joining any person in initiating any Insolvency Proceedings in relation to the Issuer or any Guarantor or the appointment of an Insolvency Official in relation to the Issuer or any Guarantor or in relation to the whole or any part of the undertakings or assets of the Issuer or any Guarantor.
- 12.2 If the Trustee having become bound to give a Note Acceleration Notice to the Issuer fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may sign and give a Note Acceleration Notice to the Issuer in accordance with Condition 10 (*Events Of Default*).
- 12.3 If the Trustee having become bound to give a Request Instruction to the Security Trustee fails to do so and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the principal amount of the Notes outstanding may give a Request Instruction in writing direct to the Security Trustee.
- 12.4 If the Trustee having become bound to inform the Issuer and the Security Trustee of the aggregate principal amount of Notes represented by the holders of Notes voting in favour of the Enforcement Instruction fails to do so and that failure is continuing, Noteholders may provide their Noteholder Direction in writing in relation to the taking of enforcement action in relation to the Transaction Security pursuant to the Intercreditor Deed direct to the Security Trustee.

### **13. Replacement of Notes and Coupons**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

### **14. Notices**

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

### **15. Substitution**

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer of any Relevant Subsidiary as principal debtor under the Trust Deed,

the Notes and the Coupons providing such substitution is not in the Trustee's opinion materially prejudicial to the interests of the Noteholders. The Trustee may also agree, without such consent as aforesaid, to the substitution of a new group holding company of the Group in place of the Issuer if the Issuer has or will be replaced as the ultimate holding company of the Group by such new group holding company on terms which shall have been previously approved in writing by the Trustee and which are not in its opinion materially prejudicial to the interests of the Noteholders. Any such substitution shall be subject to such conditions as the Trustee may require.

## **16. Meetings of Noteholders, Modification, Waiver, Authorisation and Determination**

### **16.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed or these Conditions. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer at the request of Noteholders holding not less than 10.0 per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Coupons, these Conditions or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, or the Coupons, all as more particularly described in the Trust Deed), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-quarters of the votes cast on such a resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-quarters in principal amount of the Notes for the time being outstanding or (iii) consents given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of not less than three-quarters in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution of the Noteholders shall be binding on all the Noteholders, whether or not they vote on such resolution, and on all Couponholders.

### **16.2 Modification, Waiver, Authorisation and Determination**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Intercreditor Deed or the Security Agreement or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

### **16.3 Trustee to have Regard to Interests of Noteholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests

arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, any Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

#### **16.4 Notification to the Noteholders**

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

### ***INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTORS***

#### ***Indemnification of the Trustee***

*The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.*

#### ***Trustee Contracting with the members of the Group***

*The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any Guarantor and/or any of the Issuer's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any Guarantor and/or any of the Issuer's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.*

### **17. Further Issues**

The Issuer is at liberty from time to time without the consent of the Trustee, the Noteholders or the Couponholders, but subject always to the provisions of these Conditions and the Trust Deed, to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

## **18. Reports, Compliance Certificates and Listing**

### **18.1 Reports and Compliance Certificates**

- (a) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:
- (i) as soon as the same are posted to the shareholders of the Issuer, but in any event within 120 days after the end of each of the Issuer's financial years, the audited consolidated financial statements of the Group for such financial year;
  - (ii) as soon as the same are posted to the shareholders of the Issuer, but in any event within 60 days after the end of the first financial half-year of each of the Issuer's financial years, the interim unaudited financial statements of the Group for such financial half-year;
  - (iii) within 15 Business Days in London after issuance, all information that is required to be provided to the holders of the ordinary shares of the Issuer under the Listing Rules or company law in the United Kingdom; and
  - (iv) within 10 Business Days in London after the delivery of each of the financial statements delivered pursuant to sub-paragraphs (i) and (ii) above, a Compliance Certificate signed by two directors or a director and the secretary of the Issuer certifying the Loan to Value Ratio and compliance with Condition 3.4 (*Minimum Guarantor Coverage*) as at such Half-Year End Date.
- (b) At the same time as providing any of the documents set forth in subparagraphs (a)(i), (a)(ii) and (a)(iii) above of this Condition to the Trustee, the Issuer will also make the relevant documents available via the Regulatory News Service of Euronext Dublin subject to any distribution and offering restrictions and subject to compliance with applicable laws and regulations.
- (c) The Issuer shall notify the Trustee within 15 Business Days in London of it becoming aware of the occurrence of any Event of Default or Potential Event of Default stating what action, if any, the Issuer is taking with respect to that Event of Default or Potential Event of Default.

### **18.2 Trustee not obliged to review**

The Trustee shall not be required to review or check any accounts or other information provided to it by the Issuer or any Guarantor pursuant to Condition 18.1 (*Reports and Compliance Certificates*) and/or the Trust Deed and shall have no liability to any person as a result of any failure to do so.

### **18.3 Listing**

So long as any of the Notes remains outstanding, the Issuer has covenanted in the Trust Deed that it shall use all reasonable endeavours to maintain a listing of the Notes on any market for notes operated by the London Stock Exchange or Euronext Dublin or, if it is unable to do so having used such endeavours, or if the maintenance of such listing is reasonably considered by the Issuer to be unduly onerous, it shall use all reasonable endeavours to obtain and maintain a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets as the Issuer may (unless the Trustee reasonably objects) decide and shall also, upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets, enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

## **19. Governing Law**

The Trust Deed (including the Notes Guarantee), these Conditions, the Notes and the Coupons and any non-contractual obligations arising therefrom or in connection therewith shall be governed by, and construed in accordance with, English law.

## **20. Rights of Third Parties**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **21. Definitions**

For the purposes of these Conditions:

“**Additional Guarantor**” has the meaning given to such term in Condition 3.2 (*Additional Guarantors*);

“**Applicable Cash**” means cash in hand or on deposit with any bank or financial institution to the extent beneficially owned by a member of the Group free of restrictions on withdrawal or transfer and not subject to any Security;

“**Business Day**” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place;

**“Cash Equivalents”** means:

- (a) securities issued or unconditionally guaranteed by the government of the United States of America or the United Kingdom or by any agency of such a government having an equivalent credit rating;
- (b) commercial paper in Euro, Sterling or US Dollars not issued or guaranteed by a member of the Group, for which a recognised trading market exists and maturing within one year of being acquired and having a rating of at least A-1 from Standard and Poor’s Corporation or at least P-1 from Moody’s Investor Services Inc. or, if unrated, whose issuer has an equivalent rating in respect of its long-term debt obligations; and
- (c) certificates of deposit or bankers’ acceptances maturing within one year of being acquired issued by any bank or financial institution having a long-term unsecured debt rating of at least A-1 from Standard and Poor’s Corporation or at least P-1 from Moody’s Investor Services Inc;

**“Change of Control”** means:

- (a) any Person or Persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in the Companies Act 2006, as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Issuer or any holding company of the Issuer, shall become interested (within the meaning of Part 22 of the Companies Act 2006, as amended) in (i) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (ii) shares in capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer; or
- (b) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole to any Person;

**“Change of Control Period”** means the period:

- (a) commencing on the date that is one Business Day in London before the date of the relevant Change of Control; and
- (b) ending 90 days after the date of the relevant Change of Control or such longer period for which the Notes are under consideration by a Rating Agency for rating or rating review (such consideration having been announced publicly within the period ending 90 days after the date of the relevant Change of Control and such period not to exceed 60 days after the public announcement of such consideration);

**“Class 1 Transaction”** means a transaction as defined as a class 1 transaction under L.R.10 of the Listing Rules;

**“Compliance Certificate”** means a certificate substantially in the form set out in Schedule 6 of the Trust Deed or in any other form requested by the Issuer and agreed by the Trustee;

**“Conditional Optional Redemption Notice”** has the meaning given to such term in Condition 7.4 (*Redemption at the option of the Issuer*).

**“Core Credit Facilities”** means the £580,000,000 syndicated bank facility dated 10 July 2011, the £50,000,000 HSBC bi-lateral term loan dated 28 November 2016, the £50,000,000 RBS bi-lateral term loan dated 28 November 2016 and the £40,000,000 Handelsbanken term loan dated 29 June 2017 (including, without limitation, any guarantee agreements and security documents), in each case as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreements extending the maturity of, refinancing, replacing (whether or not contemporaneously) or otherwise restructuring (including increasing the amount of available borrowings thereunder or adding Additional Guarantors as additional borrowers or guarantors thereunder) all or any portion of the Financial Indebtedness under such agreement or any successor or replacement agreements and whether by the same or any other agent, lender or group of

lenders or investors and whether such refinancing or replacement is under one or more debt facilities or commercial paper facilities, indentures or other agreements or deeds, in each case with banks or other institutional lenders or trustees or investors providing for revolving credit loans, term loans, notes or letters of credit.

A certificate addressed to the Trustee by two directors or one director and the company secretary of the Issuer (addressed to the Trustee) certifying that a facility is or is not a Core Credit Facility shall, in the absence of manifest error, be conclusive and binding on all parties;

**“Core Credit Facilities Liabilities”** means the Liabilities of any member of the Group under the Core Credit Facilities;

**“Existing Corporate Bonds Liabilities”** means the Liabilities owed by the Issuer and/or any Guarantor to the Existing Corporate Bonds Trustee on behalf of the Existing Corporate Bondholders or to the Existing Corporate Bondholders under the Intercreditor Deed, the Existing Corporate Bonds Trust Deed, the Existing Corporate Bonds and the Security Agreement;

**“Existing Corporate Bonds Trust Deed”** means the trust deed dated 28 November 2013 between the Issuer and the Existing Corporate Bonds Trustee, as amended by a supplemental trust deed dated 7 August 2014 between the Issuer, the Guarantors and the Existing Corporate Bonds Trustee;

**“Existing Corporate Bonds Trustee”** means Deutsche Trustee Company Limited (or its successor(s) and/or any additional trustee appointed pursuant to the Existing Corporate Bonds Trust Deed) in its capacity as such;

**“Existing Corporate Bondholders”** means the holders from time to time of the Existing Corporate Bonds;

**“Existing Corporate Bonds”** means the £275,000,000 in aggregate principal amount of 5.00 per cent. secured corporate bonds due 2020 issued by the Issuer;

**“Event of Default”** has the meaning given to such term in Condition 10 (*Events Of Default*);

**“Excluded Entities”** means:

- (a) Grainger Portfolio No 3 GmbH (Germany);
- (b) Grainger Europe No.4 Limited;
- (c) HI Tricomm Holdings Limited;
- (d) Tricomm Housing (Holdings) Limited;
- (e) Tricomm Housing Limited;
- (f) Infrastructure Investors Defence Housing (Bristol) Limited;
- (g) Grainger Invest No 1 LLP;
- (h) Grainger Invest No 2 LLP;
- (i) BPT (Assured Homes) Limited;
- (j) Grainger Invest (No 1 Holdco) Limited;
- (k) Grainger (Octavia Hill) Limited;
- (l) BPT (Residential Investments) Limited;
- (m) Grainger (Clapham) Limited;

- (n) GIP Limited;
  - (o) Grainger Bradley Limited;
  - (p) PHA Limited;
  - (q) Grainger Southwark Limited;
  - (r) Grainger PRS Limited;
  - (s) Grainger (Aldershot) Limited;
  - (t) Grainger Pearl Limited;
  - (u) Grainger Pearl (Salford) Limited;
  - (v) Grainger Pearl Holdings Limited; and
  - (w) any further Subsidiaries which are designated excluded by the Issuer from time to time,
- (each an “**Excluded Entity**”);

“**Financial Indebtedness**” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Group which is cash collateralised);
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (otherwise than on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with GAAP;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

The amount of any Financial Indebtedness outstanding as at any date will be:

- (a) the accreted value of the Financial Indebtedness, in the case of any Financial Indebtedness issued with original issue discount;
- (b) in respect of Financial Indebtedness of another Person secured by Security on the assets of the specified Person, the lesser of:
  - (i) the fair market value of such assets at the date of determination;
  - (ii) the amount of the Financial Indebtedness of the other Person; and

- (c) the principal amount of the Financial Indebtedness, in the case of any other Financial Indebtedness;

“**GAAP**” means generally accepted accounting principles in the UK including IFRS and in effect on the date of any calculation or determination required hereunder, provided that at any date after the Issue Date, the Issuer may make an irrevocable election to establish that “GAAP” shall mean GAAP as in effect on a date that is on or prior to the date of such election;

“**Group**” means the Issuer and its Subsidiaries;

“**Guarantee**” means any obligation of any Person directly or indirectly guaranteeing any Financial Indebtedness or other obligation of any other Person and any obligation, direct or indirect, of such Person:

- (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Financial Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or
- (b) entered into for purposes of assuring in any other manner the obligations of such Financial Indebtedness or other obligation of the payment thereof or to protect such obligation against loss in respect thereof (in whole or in part).

The term “**Guarantee**” used as a verb has a corresponding meaning;

“**Half-Year End Date**” means each period of six months ending on the last day of the financial half-year or financial year of the Issuer;

“**Hedging Obligations**” of any Person means the obligations of such Person pursuant to any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in interest rates or any foreign exchange contract, currency swap agreement, currency option or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates or other similar agreement or arrangement involving interest rates, currencies, commodities or otherwise;

“**IFRS**” means International Financial Reporting Standards issued and/or adopted by the International Accounting Standards Board from time to time to the extent applicable to the relevant financial statements;

“**Insolvency Official**” means, in respect of any company, a liquidator, provisional liquidator, administrator (whether appointed by the court or otherwise), administrative receiver, receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian or other similar official in respect of such company or in respect of the whole or any part of the company’s assets or in respect of any arrangement or composition with creditors;

“**Insolvency Proceedings**” means the winding-up, dissolution, company voluntary arrangement or administration of a company or corporation and shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief from creditors or the appointment of an Insolvency Official;

“**Intercreditor Deed**” means the security trust deed (as acceded to from time to time) dated 1 July 2004 between amongst others, the Issuer (previously known as Grainger Trust PLC) and the Security Trustee, as amended and restated by a supplemental deed dated 28 November 2013 between, amongst others, the Issuer, the Guarantors, the Trustee (through its accession in connection with the issue of the Notes), the Existing Corporate Bonds Trustee, the Security Trustee, the parties to the Core Credit Facilities and the

Secured Hedge Counterparties (as further amended, waived, restated, novated, replaced and/or supplemented from time to time);

**“Investment Assets”** means all of the investments as shown in the non-current assets section of the balance sheet contained in the Relevant Financial Statements (other than Applicable Cash and Cash Equivalents) owned by members of the Group including any investments in Excluded Entities which are not consolidated in the financial statements of the Group;

**“Investment Grade”** means, with respect to a rating given by a Rating Agency, an investment grade credit rating (BBB- or equivalent, or better) from such Rating Agency;

**“Issue Date”** has the meaning given to such term in Condition 5 (*Interest*);

**“Liabilities”** means all present and future moneys, debts, liabilities and obligations due at any time to any Person both actual and contingent and whether incurred solely or jointly with any other person or in any other capacity;

**“Limited Recourse”** means in respect of a Person:

- (a) its liabilities for Financial Indebtedness are not directly or indirectly the subject of a guarantee, indemnity or any other form of assurance, undertaking or support from any Relevant Subsidiary; and
- (b) any Person from outside the Group making available to such Person any Financial Indebtedness has no recourse whatsoever to any Relevant Subsidiary for the repayment of or payment of such Financial Indebtedness other than recourse directly or indirectly to a member of the Group under any form of completion guarantee, assurance or undertaking, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specific way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the Person against whom such recourse is available;

**“Loan to Value Ratio”** means the ratio of L to V where:

- (a) **L** is equal to Total Debt minus:
  - (i) Applicable Cash and Cash Equivalents other than Applicable Cash and Cash Equivalents belonging to Excluded Entities; and
  - (ii) minus the share of the amount of Total Debt owed by the Excluded Entities.
- (b) **V** is equal to:
  - (i) the aggregate of the market value of the Properties and the market value of the Investment Assets which are consolidated in the financial statements of the Group provided that, if the value of commercial premises and/or office premises would (but for the operation of this proviso) comprise in excess of 10 per cent. of such aggregate, then the amount of such excess shall be excluded in this calculation; minus
  - (ii) the aggregate of the market value of the Properties and the market value of the Investment Assets held by the Excluded Entities which are consolidated in the financial statements of the Group; plus
  - (iii) the net asset value of the Excluded Entities which are consolidated in the financial statements of the Group less, in respect of a minority interest held in an Excluded Entity by a person which is not a member of the Group, the proportion of the net asset value of an Excluded Entity equivalent to the proportion of that minority interest.

The valuation of the Properties and the Investment Assets shall each be adjusted as required (except as otherwise provided) from the values given in the Relevant Financial Statements adjusted to Original GAAP for, in each case after the date of such financial statements:

- (A) purchases (at cost);
- (B) sales (at book value);
- (C) in the case of the Properties, movements in valuation arising from the change of tenanted status;
- (D) disposals to and transfers between Excluded Entities and members of the Group which are not Excluded Entities; and
- (E) the value of the Properties and Investment Assets held by:
  - (1) each member of the Group which has been designated an Excluded Entity in accordance with Condition 3.6 (*Excluded Entities*); and
  - (2) each member of the Group which has ceased to be an Excluded Entity.

**“Material Adverse Effect”** means an effect which is materially adverse to:

- (a) the business or financial condition of the Issuer and the Guarantors taken as a whole;
- (b) the ability of the Issuer to perform its obligations under Condition 4.2(a) (*Loan to Value Ratio*); or
- (c) the ability of the Issuer or any Guarantor to perform its payment obligations under the Notes or the Trust Deed (taking into account resources available to it without breaking the terms of any agreement made with other members of the Group which are binding upon it);

**“Material Guarantor”** means a Guarantor that meets either of the following conditions:

- (a) it (on a consolidated basis with its Subsidiaries) has gross assets representing at least 5.0 per cent. of the gross assets of the Group calculated on a consolidated basis; or
- (b) it (on a consolidated basis with its Subsidiaries) has operating profit representing at least 5.0 per cent. of the operating profit of the Group,

in each case as determined by reference to the then most recent audited consolidated financial statements of the Group.

**“Non-Excluded Entity”** means any member of the Group that is not a Guarantor and is not an Excluded Entity;

**“Note Liabilities”** means the Liabilities owed by the Issuer and/or any Guarantor to the Trustee on behalf of the Noteholders or to the Noteholders under the Intercreditor Deed, the Trust Deed, the Notes and the Security Agreement;

**“Original Financial Statements”** means the audited consolidated financial statements of the Group for the financial year ending 30 September 2017;

**“Original GAAP”** means the accounting principles and practices applied in the preparation of the Original Financial Statements;

**“Original Guarantor”** means a Guarantor that is an original party to the Trust Deed as a Guarantor;

**“Pari Passu Liabilities”** means the Core Credit Facilities Liabilities, the Secured Hedging Liabilities, the Existing Corporate Bonds Liabilities and any Additional Notes;

**“Permitted Security”** means:

- (a) any Security or Quasi Security existing at the Issue Date;
- (b) any Security or Quasi Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangement having similar effect in respect of goods supplied to a Guarantor in the ordinary course of trading;
- (c) any Security or Quasi Security over debit and credit balances arising under or in connection with any netting or set off arrangements or other cash pooling arrangements entered into by any member of the Group in the ordinary course of its banking arrangements;
- (d) any lien, security or customary rights of set off upon deposits of cash in favour of banks and other depository institutions under its general terms and conditions or under customary account agreements with whom any member of the Group maintains a banking relationship in the ordinary course of business;
- (e) any payment or close out netting arrangement pursuant to any Hedging Obligations entered into in the ordinary course of business;
- (f) any Security or Quasi Security arising by operation of law and in the ordinary course of trading;
- (g) any Security or Quasi Security permitted under the Core Credit Facilities or permitted under the Intercreditor Deed;
- (h) any Security or Quasi Security on assets acquired by a member of the Group after the Issue Date provided that (i) any such Security or Quasi Security is in existence prior to, and has not been created at the instigation of the Issuer and/or a Guarantor, as the case may be, in contemplation of, such acquisition, (ii) the amount secured by such Security or Quasi Security does not exceed, at any time, the amount secured thereby as at the date of acquisition (the “**Maximum Amount**”) and (iii) such Security or Quasi Security is removed or discharged within 6 months of the date of acquisition of such assets;
- (i) any Security or Quasi Security on assets of a company which becomes a member of the Group after the Issue Date provided that (i) any such Security or Quasi Security is in existence prior to, and has not been created at the instigation of the Issuer and/or a Guarantor, as the case may be, in contemplation of, such company becoming a member of the Group, (ii) the amount secured by such Security or Quasi Security does not exceed, at any time, the amount secured thereby as at the date such company becomes a member of the Group (the “**Maximum Amount**”) and (iii) such Security or Quasi Security is removed or discharged within 12 months of the date of that company becoming a member of the Group;
- (j) any Security or Quasi Security created after the Issue Date as additional security for the amount secured by any Security falling within paragraphs (a), (h) or (i) above the agreement for which contains an obligation to create such additional security;
- (k) any Security or Quasi Security created for the purpose of securing a counter-indemnity or any other obligations provided by any member of the Group in connection with the issuance of any performance bonds, advance payment bonds or documentary letters of credit arising in the ordinary course of its business;
- (l) any Security or Quasi Security created as security for any Financial Indebtedness incurred solely for the purpose of any extension of maturity, renewal or refinancing of any indebtedness secured by Security or Quasi Security permitted by paragraphs (a) to (k) above; and
- (m) any Security or Quasi Security permitted under paragraphs (h) and (i) above to the extent that the Financial Indebtedness secured thereby exceeds the relevant Maximum Amount and any other Security or Quasi Security created over any asset of any member of the Group (other than any Security permitted under paragraphs (a) to (l) above) provided that the maximum aggregate principal amount of the Financial Indebtedness secured by such Security or Quasi Security (being, in the case of those permitted under paragraphs (h) and (i) above, the excess over the relevant Maximum Amount) does not, on the date of creation of the latest such Security or Quasi Security

or, as the case may be, the assumption of any such additional Financial Indebtedness, exceed £75,000,000 (or its equivalent in Sterling if such Financial Indebtedness is denominated in any other currency);

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

“**Potential Event of Default**” has the meaning given to that term in the Trust Deed; “**Presentation Date**” means a day which (subject to Condition 9 (*Prescription*)):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a Sterling account in London as referred to above, is a Business Day in London;

“**Properties**” means all of the properties owned by members of the Group;

“**Quasi Security**” has the meaning given to such term in Condition 4.1 (*Negative Pledge*);

“**Rating Agency**” means Standard & Poor’s Credit Market Services Europe Limited or its successors or any internationally recognised securities rating agency or agencies substituted for it or otherwise appointed by the Issuer from time to time with the prior written approval of the Trustee (which approval may be given by the Trustee if to do so would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders) (and the Trustee may and shall if so required by the Issuer, subject, in each case, to its being indemnified and/or secured and/or prefunded to its satisfaction consult and may rely absolutely on advice from a reputable financial adviser in this regard and shall not be liable to the Noteholders, Couponholders or any other person for such reliance) and, in each case, their respective successors but excluding any rating agency providing a rating of the Notes on an unsolicited basis;

“**Relevant Date**” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders in accordance with Condition 14 (*Notices*);

“**Relevant Financial Statements**” means, in respect of any calculation of the ratio set out in the Loan to Value Ratio for the purposes of a Compliance Certificate, the financial statements of the Group to which that Compliance Certificate relates being as at each Half-Year End Date, the relevant financial statements delivered pursuant to Condition 18.1 (*Reports and Compliance Certificates*);

“**Relevant Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax;

“**Relevant Subsidiary**” means any Subsidiary of the Issuer which is not an Excluded Entity;

“**Secured Hedge Counterparty**” any hedge counterparty which is party to the Intercreditor Deed in that capacity;

“**Secured Hedging Liabilities**” means the Liabilities owed by any member of the Group to any Secured Hedge Counterparty;

“**Security**” means a mortgage, charge, pledge, lien, hypothecation, assignment by way of security, title retention arrangement or other security interest securing any obligation of any person or any other agreement or arrangement having a substantially similar effect;

**“Security Agreement”** means

- (a) the security agreement dated 1 July 2004;
- (b) the second security agreement dated 30 September 2011;
- (c) the third security agreement dated 28 November 2013;
- (d) the fourth security agreement dated 7 August 2015; and
- (e) the fifth security agreement dated 9 May 2017,

in each case between the Security Trustee and the chargors named therein (the **“Chargors”**) under which the Chargors grant a floating charge over their respective properties and all other assets in favour of the Security Trustee and, in either case, any deed of accession thereto;

**“Security Trustee”** means Barclays Bank PLC;

**“Subsidiary”** means a subsidiary as defined in Section 1159 of the Companies Act 2006;

**“Total Debt”** means, at any time, the aggregate outstanding borrowings of the Group (being, as at each Half-Year End Date, the aggregate outstanding borrowings of the Group as set out in the “creditors” section of the Relevant Financial Statements and adjusted to Original GAAP less the value of any loan note or other fiscal obligation to the extent that these are cash collateralised in the currency of such loan note or other fiscal obligation;

**“Transaction Security”** means the Security created or expressed to be created in favour of the Security Trustee pursuant to the Transaction Security Documents; and

**“Transaction Security Documents”** means the Security Agreement and any other document evidencing or creating any Security over any asset of the Issuer or any Guarantor in favour of the Security Trustee.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

*The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Conditions of the Notes while the Notes are represented by the Global Notes.*

### 1. EXCHANGE

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (A) upon the happening and continuance of any of the events defined in Condition 10 (*Events of Default*) as “Events of Default”;
- (B) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (C) if the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8.2 (*Additional Amounts*) which would not be required were the Notes represented by the Permanent Global Note in definitive form and a certificate to that effect signed by two Directors of the Issuer is delivered to the Trustee.

Thereupon (in the case of (A) and (B) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (C) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Note Exchange Date (as defined below).

On or after the Note Exchange Date, the holder of the Permanent Global Note may or, in the case of (C) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

“**Note Exchange Date**” means a day specified in the notice requiring exchange falling not less than 45 days and not more than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (B) above, in the place in which the relevant clearing system is located.

### 2. PAYMENTS

On and after 3 June 2018, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

### 3. NOTICES

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 14 (*Notices*). Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder to the Principal Paying Agent (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

### 4. ACCOUNTHOLDERS

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 7.3 (*Redemption upon a Change of Control*) or Condition 10 (*Events of Default*)) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

### 5. PRESCRIPTION

Claims against the Issuer and the Guarantors in respect of principal, premium and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal or premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 21 (*Definitions*)).

### 6. CANCELLATION

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

### 7. PUT OPTION

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 7.3 (*Redemption upon a Change of Control*) may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same

time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

#### **8. REDEMPTION AT THE OPTION OF THE ISSUER**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, in the event that the Issuer exercises its call option pursuant to Condition 7.4 (*Redemption at the option of the Issuer*) in respect of less than the aggregate principal amount of the Notes outstanding at such time, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Note(s) are to be subject to such option.

#### **9. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG**

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee in which the Notes are held from time to time.

## UNITED KINGDOM TAXATION

*The comments below are of a general nature and are based on United Kingdom tax law and published HMRC's practice as at the date of this Offering Memorandum and are subject to any change in such law or practice that may take effect after such date (possibly with retrospective effect). They relate to certain aspects of United Kingdom taxation. They do not purport to be a complete analysis of all tax considerations relating to the Notes. They relate only to persons who are the absolute beneficial owners of the Notes and hold the Notes as an investment, and do not deal with certain classes of persons (such as dealers in securities, persons connected or associated with the Issuer or certain professional investors) to whom special rules may apply. The summary set out below is a general guide and should be treated with appropriate caution.*

**The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective purchasers of Notes who may be subject to tax in any jurisdiction other than the United Kingdom, or who have any doubt whatsoever as to their tax position, should consult an appropriate professional adviser without delay.**

### United Kingdom Withholding Tax

Payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax so long as the Notes are and remain listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. Euronext Dublin is a recognised stock exchange for these purposes. Securities will be treated as listed on Euronext Dublin if they are included in the Official List and are admitted to trading on the Global Exchange Market of Euronext Dublin. Provided therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

In other cases, interest will generally be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty and subject to any other exemption or relief that may be available to particular Noteholders.

Any premium payable on redemption may be treated as a payment of interest for United Kingdom tax purposes and may accordingly be subject to the withholding tax treatment described above.

Depending on the correct legal analysis of payments made by a Guarantor as a matter of UK tax law, it is possible that payments by a Guarantor would be subject to withholding on account of United Kingdom tax, subject to any claim which could be made under applicable double tax treaties or any other available exemption or relief. Such payments by a Guarantor may not be eligible for the exemptions described above in relation to payments of interest.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

### Further United Kingdom Income Tax Issues

Interest on the Notes constitutes United Kingdom source income for tax purposes which may be subject to UK income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that Noteholder (i) carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency, or for a Noteholder which is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment, in connection with which the interest is received or to which the Notes are attributable, or (ii) is a trustee of a trust in certain circumstances. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The provisions relating to additional payments referred to in Condition 8 (*Taxation*) of the Notes do not apply to income tax chargeable on the relevant interest by direct assessment. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

### **United Kingdom Corporation Tax Payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open-ended investment companies) will be treated for tax purposes as realising profits, gains or losses in respect of the Notes on a basis which is broadly in accordance with their statutory accounting treatment as that term is defined for tax purposes. Such profits, gains and losses will be taken into account in computing taxable income for corporation tax purposes. Noteholders that are investment trusts, venture capital trusts, authorised unit trusts or open ended investment companies should generally be subject to the same taxation treatment in respect of the Notes as other Noteholders that are within the charge to United Kingdom corporation tax, other than with respect to capital profits, gains or losses as defined.

### **Other United Kingdom Tax Payers**

#### *Taxation of Chargeable Gains*

The Notes should constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

#### *Accrued Income Scheme*

The provisions of the accrued income scheme (the “**Scheme**”) may apply to certain Noteholders who are not subject to corporation tax, in relation to a transfer of the Notes. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount. Generally, persons who are not resident in the United Kingdom and who do not carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable will not be subject to the provisions of these rules.

### **Stamp Duty and SDRT**

No stamp duty or stamp duty reserve tax is payable on issue of the Notes or on a transfer of the Notes by delivery.

### **U.S. FOREIGN ACCOUNT TAX COMPLIANCE WITHHOLDING ACT**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions including the jurisdiction of the issuer have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered”

for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

#### **THE PROPOSED FINANCIAL TRANSACTION TAX (“FTT”)**

On 14 February 2013, the European Commission published a proposal for a Directive for a common FTT in certain participating Member States.

The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions).

The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State.

The proposed Directive remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc, and The Royal Bank of Scotland plc (trading as NatWest Markets) (together, the “**Managers**”) have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 23 April 2018 between the Issuer, the Guarantors and the Managers, jointly and severally agreed to subscribe for the Notes at the issue price of 99.588 per cent. of the principal amount of Notes, less a combined management, and underwriting commission. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment being made to the Issuer.

### United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or any state securities law of any other jurisdiction and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act (“**Regulation S**”) except in accordance with Regulation S or in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period (as defined in Regulation S) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that:

- (A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### Prohibition of Sales to EEA Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (A) a retail client as defined in point (11) of MiFID II; or

- (B) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

**General**

No action has been taken by the Issuer, the Guarantors or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## **GENERAL INFORMATION**

### **1. LISTING AND ADMISSION TO TRADING**

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of Euronext Dublin.

The Issuer has appointed Arthur Cox Listing Services Limited as Irish listing agent with its address at Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland, and HSBC Bank plc as principal paying agent with its address at 8 Canada Square, London E14 5HQ. The Trustee is HSBC Corporate Trustee Company (UK) Limited and its address is 8 Canada Square, London E14 5HQ. The Trustee will be acting in its capacity of trustee for the holders of the Notes and will provide such services to the holders of the Notes as described in the Trust Deed. The Issuer reserves the right to change these appointments.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the notes and is not itself seeking admission of the notes to the Official List of Euronext Dublin or to trading on the Global Exchange Market of Euronext Dublin.

So long as the Notes are listed on Euronext Dublin, the Notes will be freely transferable and negotiable in accordance with the rules of Euronext Dublin.

The estimated expenses related to admission to trading will be approximately €5,000.

### **2. AUTHORISATION**

Each of the Issuer and the Guarantors has obtained all necessary consents, approvals and authorisations in connection with, as applicable, the issue and performance of the Notes and the giving of the Notes Guarantee. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer passed on 7 February 2018 and 23 April 2018. The giving of the Notes Guarantee by each Guarantor has been authorised by a resolution of the Board of Directors of each Guarantor passed on 23 April 2018.

### **3. INCORPORATION OF THE ISSUER**

The Issuer, a public limited liability company incorporated under the laws of England and Wales, has its registered office at Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE. The Issuer was incorporated on 27 November 1912. The Issuer's registered number is 00125575 and its telephone number is +44 (0) 191 261 1819.

### **4. CLEARING SYSTEMS**

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1790055229 and the Common Code is 179005522.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

The LEI number of the Issuer is 2138007CEIRKZMNI2979.

### **5. PERSONS RESPONSIBLE**

The Issuer and the Guarantors accept responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of the Issuer and the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

However, the information set forth under the headings "*Overview*", "*Risk Factors*", "*Market Overview*" and "*Information on the Group*" includes extracts from information and data, including industry and market

data, released by publicly available sources in the United Kingdom and elsewhere. The Issuer has relied on the accuracy of such information without carrying out an independent verification thereof. This information has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by each such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

#### **6. NO CONFLICTS OF INTEREST**

There are no potential conflicts of interest between any duties of the directors of the Issuer, and their private interests and/or other duties.

#### **7. NO SIGNIFICANT CHANGE**

There has been no significant change in the financial or trading position of the Issuer, any Guarantor or the Group since 30 September 2017, the date of the Group's last published audited financial statements. There has been no material adverse change in the prospects of the Issuer, any Guarantor or the Group since 30 September 2017, the date of the Group's most recent audited financial statements.

#### **8. MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, none of the Issuer, the Guarantors nor any other member of the Group is a party to any contract which contains a provision that could result in any member of the Group being under an obligation or entitlement which is material to the Issuer's ability to meet its obligations to the Noteholders in respect of the Notes or any Guarantor's ability to meet their obligations under the Notes Guarantee.

#### **9. LEGAL PROCEEDINGS**

None of the Issuer, any Guarantor nor any other member of the Group is or has been engaged in nor, so far as the Issuer, any Guarantor or any other member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Memorandum, significant effects on the Issuer's, the Guarantor's or the Group's financial position or profitability.

#### **10. AUDITORS**

The auditor of the Issuer and each of the Guarantors for each of the financial years ended 30 September 2017 and 2016 was KPMG LLP of 15 Canada Square, Canary Wharf, London E14 5GL, United Kingdom, which is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales.

#### **11. US TAX**

The Notes and Coupons will contain the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

#### **12. DOCUMENTS AVAILABLE FOR INSPECTION**

For so long as the Notes are listed on Euronext Dublin and the rules of that exchange so require, physical copies of the following documents may be inspected and obtained at the office of the Issuer, Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JE during normal business hours on any weekday:

(A) the Articles of Association of the Issuer;

- (B) the Memorandum of Association and Articles of Association or the Articles of Association of each of the Guarantors (as applicable);
- (C) a copy of this Offering Memorandum, together with any supplement to this Offering Memorandum or further offering memoranda;
- (D) the documents incorporated by reference into this document, as described in “*Documents Incorporated by Reference*” and including the audited consolidated financial statements for the Group for the financial year ended 30 September 2017 and 2016; and
- (E) the Agency Agreement, the Trust Deed, the Intercreditor Deed and the Security Agreement.

### **13. MANAGERS TRANSACTING WITH THE ISSUER AND THE GUARANTORS**

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantors and its/their affiliates in the ordinary course of business.

Prospective investors should note that certain of the Managers are lenders under the Group’s senior bank borrowings and hence, in such capacity, will receive repayment out of the proceeds of the issue of the Notes.

## **ANNEX: DEFINITIONS**

<b>“Accountholder”</b>	a person shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes
<b>“admission”</b>	admission of the Notes to (a) the Official List, and (b) trading on the Global Exchange Market
<b>“Allsop”</b>	Allsop LLP, a limited liability partnership with registered number OC315531 whose registered office is at 33 Wigmore Street, London W1U 1BZ, as independent property valuer
<b>“Annual Report and Accounts”</b>	the annual report and accounts prepared by the Company
<b>“assured periodic tenancy”</b>	market-rented tenancy arising from succession from regulated tenancy where the tenant has security of tenure
<b>“assured tenancy”</b>	market-rented tenancy as defined in Section 1 of the Housing Act 1988
<b>“audit committee”</b>	of the Board of Directors, responsible for financial accounting and disclosure
<b>“Bank Facilities”</b>	a total of £720 million bank facilities
<b>“Board”</b>	the Board of Directors, from time to time, of the Company
<b>“Chairman”</b>	the Chairman for the time being of the Company
<b>“Clearstream, Luxembourg”</b>	Clearstream Banking S.A.
<b>“Closing Date”</b>	24 April 2018
<b>“Company”</b>	Grainger plc, a public limited company incorporated under the laws of England and Wales
<b>“Corporate Governance Code”</b>	The UK Corporate Governance Code published by the Financial Reporting Council
<b>“Directors”</b>	the Directors of the Company as at the date of this document
<b>“Disclosure and Transparency Rules”</b>	the Disclosure Rules and Transparency Rules of the Financial Conduct Authority
<b>“EPC”</b>	Energy Performance Certificate
<b>“EPRA”</b>	European Public Real Estate Association
<b>“EU”</b>	European Union
<b>“Euroclear”</b>	Euroclear Bank S.A./N.V.
<b>“Euronext Dublin”</b>	the Irish Stock Exchange plc trading as Euronext Dublin or any other body to which its functions have been transferred
<b>“Exchange Date”</b>	3 June 2018
<b>“Executive Directors”</b>	the Executive Directors of the Company as at the date of this document

<b>“Excluded Entities”</b>	Grainger Portfolio No 3 GmbH (Germany), Grainger Europe No.4 Limited, HI Tricomm Holdings Limited, Tricomm Housing (Holdings) Limited, Tricomm Housing Limited, Infrastructure Investors Defence Housing (Bristol) Limited, Grainger Invest No 1 LLP, Grainger Invest No 2 LLP, BPT (Assured Homes) Limited, Grainger Invest (No 1 Holdco) Limited, Grainger (Octavia Hill) Limited, BPT (Residential Investments) Limited, Grainger (Clapham) Limited, GIP Limited, Grainger Bradley Limited, PHA Limited, Grainger Southwark Limited, Grainger PRS Limited, Grainger (Aldershot) Limited, Grainger Pearl Limited, Grainger Pearl (Salford) Limited, Grainger Pearl Holdings Limited and any further Subsidiaries which are designated excluded by the Issuer from time to time (each an <b>“Excluded Entity”</b> )
<b>“Excluded Entities’ Indebtedness”</b>	indebtedness incurred by the Excluded Entities
<b>“Existing Corporate Bonds”</b>	£275,000,000 in aggregate principal amount of 5.00 per cent. secured corporate bonds issued by the Company due 2020
<b>“FA”</b>	an FCA-regulated Financial Adviser
<b>“FCA”</b>	the Financial Conduct Authority
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended
<b>“Global Exchange Market”</b>	the Global Exchange Market of Euronext Dublin
<b>“Global Notes”</b>	Temporary Global Notes together with Permanent Global Notes
<b>“GRIP”</b>	a joint venture unit trust with APG Strategic Real Estate Pool (2013) which acquired Grainger’s G:Res 1 portfolio of residential units
<b>“Group”</b>	the Company and its subsidiary undertakings and, where the context requires, its associated undertakings
<b>“Gross Net Asset Value”</b>	shareholders’ funds adjusted for the Market Value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives
<b>“Guarantors”</b>	each of the subsidiaries of the Issuer set forth on page 102
<b>“HI Tricomm”</b>	HI Tricomm Holdings Limited
<b>“Housing Act”</b>	the Housing Act 1988 (as amended)
<b>“IFRS”</b>	International Financial Reporting Standards as adopted by the EU

<b>“Intercreditor Deed”</b>	the security trust deed (as acceded to from time to time, most recently by the Trustee) dated 1 July 2004 between amongst others, the Issuer (previously known as Grainger Trust PLC) and the Security Trustee, as amended and restated by a supplemental deed dated 28 November 2013 between, amongst others, the Issuer, the Guarantors, the Trustee, the Existing Corporate Bonds Trustee, the Security Trustee, the parties to the Core Credit Facilities and the Secured Hedge Counterparties (as further amended, waived, restated, novated, replaced and/or supplemented from time to time). The Trustee will accede to the Intercreditor Deed in connection with the issue of the Notes
<b>“Investment Sales”</b>	sales of properties subject to an existing tenancy
<b>“Issue Date”</b>	24 April 2018
<b>“Issuer”</b>	Grainger plc
<b>“Landlord and Tenant Act”</b>	the Landlord and Tenant Act 1985
<b>“LIBOR”</b>	London Interbank Offered Rate
<b>“lifetime lease”</b>	an arrangement under which Grainger sells a lease on a residential property owned by Grainger, to an individual, on the basis that the individual is entitled, under the lease, to use the property as his or her home until he or she dies or enters a care home. Lifetime leases may be entered into with several individuals (usually husband and wife) on the basis that they are entitled to use the property as their home until the last of them dies or enters a care home
<b>“Listing Rules”</b>	the listing rules of the Financial Conduct Authority
<b>“Managers”</b>	Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc (trading as NatWest Markets) who have together jointly and severally agreed to subscribe for the Notes at the issue price of 99.588 per cent. of the principal amount of Notes, less a combined management and underwriting commission
<b>“Maturity Date”</b>	the maturity date of the Notes, being 24 April 2028
<b>“NAV”</b>	Gross Net Asset Value
<b>“Notes”</b>	£350,000,000 3.375 per cent. Guaranteed Secured Notes due 2028
<b>“Offering Memorandum” or “this document”</b>	the Offering Memorandum issued by the Company in respect of the issue of the Notes, together with any supplements or amendments thereto
<b>“Official List”</b>	the Official List of Euronext Dublin
<b>“ordinary shares”</b>	ordinary shares of 5 pence each in the capital of the Company having the rights set out in the Articles of Association of the Company
<b>“regulated tenancy”</b>	tenancy regulated under the Rent Act. Rent is usually sub-market and is set by a local government rent officer and the tenant has security of tenure

<b>“Regulation S”</b>	Regulation S under the U.S. Securities Act
<b>“remuneration committee”</b>	the remuneration committee of the Board
<b>“Rent Act”</b>	the Rent Act 1977 (as amended by the Housing Act)
<b>“S&amp;P”</b>	Standard & Poor’s Credit Market Services Europe Limited
<b>“Securities Act”</b>	the U.S. Securities Act of 1993, as amended
<b>“Security Agreement”</b>	the security agreement dated 1 July 2004, the second security agreement dated 30 September 2011, the third security agreement dated 28 November 2013, the fourth security agreement dated 7 August 2015 and the fifth security agreement dated 9 May 2017 in each case between the Security Trustee (as defined in “ <i>Terms and Conditions of the Notes</i> ”) and the chargors named therein (the “ <b>Chargors</b> ”) under which the Chargors grant a floating charge over their respective properties and all other assets in favour of the Security Trustee and, in either case, any deed of accession thereto
<b>“security of tenure”</b>	a tenant’s right to remain on a property following expiry of the tenancy
<b>“shareholders”</b>	holders of ordinary shares
<b>“Stabilising Manager”</b>	HSBC Bank plc who in connection with the Notes issue may over-allot Notes or effect transactions with a view to supporting the market price of the Notes
<b>“Subscription Agreement”</b>	the agreement dated 23 April 2018 between the Issuer, the Guarantors and the Managers, who have jointly and severally agreed to subscribe for the Notes at the issue price of 99.588 per cent. of the principal amount of Notes, less a combined management and underwriting commission
<b>“Tricomm Facilities”</b>	£66.3 million facility provided by Grainger Finance (Tricomm) Limited
<b>“Trustee”</b>	HSBC Corporate Trustee Company (UK) Limited
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“United States” or “US”</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia

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