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14 November 2018

Grainger plc

Full year financial results for the year ended 30 September 2018

Acceleration of Grainger's private rented sector (PRS) growth strategy

- **Strong full year financial results and operational performance across all metrics**
- **Expanded PRS investment pipeline to £1.37bn**
- **Proposed acquisition of GRIP REIT PLC, £696m PRS portfolio**
- **Proposed c.£347m Rights Issue to fund growth**
- **Enhanced total shareholder returns: step change in rental income and dividend**

Following the successful implementation of its PRS growth strategy and a strong set of financial results for the year ending 30 September 2018, today Grainger announces its intention to accelerate its strategy.

Grainger has conditionally agreed to acquire the entire share capital and shareholder loans in GRIP REIT plc ("GRIP") from its joint venture partner, APG, for £396 million (the "Acquisition"). GRIP is currently owned 75.1% by APG and 24.9% by Grainger and comprises 35 PRS assets (c.1,700 units) with a gross asset value of £696m. Following the acquisition Grainger will become the 100% owner of GRIP.

Grainger also announces a significant increase in its PRS investment pipeline to £1.37bn, ahead of its £850m target set for 2020.

To support its accelerated strategy, Grainger today announces its intention to raise £346.7m through a proposed Rights Issue.

Alongside the publication of the Company's full year results to the year ending 30 September 2018, a press release has today been published which outlines the full details of the proposed Rights Issue, including the acquisition of GRIP and the expanded PRS Pipeline.

Helen Gordon, Chief Executive of Grainger plc, the UK's largest listed residential landlord, comments:

"I am pleased to announce today the acceleration of our growth strategy in the UK private rented sector with the proposed acquisition of GRIP, our £696m PRS co-investment vehicle with APG, the expansion of our PRS investment pipeline to £1.37bn, and a strong set of financial results for the year.

"The GRIP portfolio, which we have managed since 2013 and therefore know very well, is an exceptional acquisition. It will provide a step change in our investment in the PRS market and generate increased net rental income growth, which in turn will deliver enhanced shareholder returns.

“We have a well-established strategy for growth supported by an excellent operational platform to successfully manage the enlarged PRS portfolio, ensuring that we can deliver strong returns and great homes for our customers.

“These actions will reinforce Grainger’s position as the UK market leader in the private rented sector and will deliver enhanced shareholder returns going forward as we deliver our pipeline of PRS investments.

“Today's announcements, highlighting our acceleration of our PRS strategy, coupled with our consistently strong financial performance gives us confidence in the continued future success of the Group.”

<u>Highlights</u>

GRIP Acquisition – Excellent strategic fit

GRIP’s large, high quality residential property portfolio of c.1,700 PRS units at mid-market rental price points, are already well known to Grainger, who has managed the portfolio directly since 2013:

- The Acquisition is expected to be accretive to EPRA NNNAV in the medium term due to additional value from asset management initiatives on the GRIP portfolio and future development profits from the expanded pipeline which are expected to more than offset any immediate dilution from the Rights Issue and Acquisition
- Delivers £32.5m of gross rents per annum
- Generates a gross yield of 4.9% with strong rental growth prospects
- Assets located in strong rental growth locations in London and the South East of England;
- Mid-market pricing – average weekly rent in the GRIP portfolio is 8% lower in London than the market average and 24% lower in the SE than the market average, supporting high occupancy of 95% and strong rental growth of 3.0% for the year to 30 June 2018
- A portfolio with a strong track record of performance:
    - +4.2% outperformance in MSCI UK Residential Universe over the past 3 years
    - Sector Leader award for past two years in the Global Real Estate Sustainability Benchmark
- £17m of additional profit targeted from value add opportunities within the GRIP portfolio
- Alignment of operational and portfolio strategies which will deliver improvements on occupancy levels and gross to net from 32% to 26% in line with Grainger’s overall operational performance

Expanded pipeline to £1.37bn

- Secured PRS investments of £943m (FY17: £651m), with a further £45m from the GRIP acquisition and £382m in the planning or legal stages, totalling £1.37bn and an additional c.5,300 PRS units on top of Grainger’s existing portfolio of c.8,200 rental properties

Impact on Grainger – enhanced total shareholder returns

- Step change in net rental income and dividend; additional £32.5m gross rents per annum; projected increase in net rental income of approximately 3 times post pipeline stabilisation, underpinning dividend growth
- Future NAV growth potential captured from expanded pipeline; small EPRA NNNAV dilution day one, expected strong accretion from pipeline, planned asset management and recycling programme
- Enables the Company to use existing funding capacity to expand its PRS pipeline and take full control over PRS investments in London and the South East
- Operational and financial synergies
- Supports improved credit profile
- PRS portfolio will exceed regulated tenancy portfolio based on gross asset value
- Acceleration to REIT conversion

Strong financial performance for FY18

- Adjusted earnings[1] up +26% to £94.0m (FY17: £74.4m)
- Profit before tax[1] increased +17% to £100.7m (FY17: £86.3m)
- Net rental income[2] up +8% to £43.8m (FY17: £40.4m)
- EPRA NNNAV[3] up +4% to 316p per share (FY17: 303pps)
- +4.0% like for like rental growth[4] across our entire portfolio (FY17: 3.8%)
- Investment value increased by +1.6% on total property portfolio
- Strong overall sales performance with sales profit of £81.8m, up 9% on the year (FY17: £75.1m)
- Recommended dividend per share up +8% to 5.26p[5] (FY17: 4.86p)
- Net debt[6] of £866m reflecting our continuing investment into PRS assets (FY17: £848m)
- Loan to value[6] of 37.1% (FY17: 37.7%). The Company's target range remains 40-45%
- Cost of debt reduced to 3.2% at period end, supported by the successful refinancing of our corporate bond (£350m, BBB- at 3.375% for 10 years)

Business update

- £157m of asset recycling completed within the year
- Successful lease up of Argo Apartments (134 apartments): 97% let within four months of launch, achieving 8% gross yield on cost, ahead of underwriting
- Successful launch of 104 PRS homes at Berewood in Hampshire, with rents achieved 2.4% ahead of ERV and > 60% take-up of longer term leases
- Successful pre-leasing of Phase 1 at Clippers Quay (135 units of 614) with 54% let within six weeks of marketing, prior to completion of construction
- Significant investments made in driving operational performance, including customer insight and research, and technology to enhance efficiencies and customer experience, delivering 84% improvement in response time for repairs, high occupancy (97%) and +4.0% like for like rental growth

Outlook

- Positive outlook for PRS market performance
- Fundamental undersupply of housing remains, with further compounding factors including reduction in buy-to-let supply
- Demand for rental housing set for continued growth
- Strong rental growth prospects in target locations
- PRS remains a resilient asset class
- Improved favourability in the planning system for PRS development underpins pipeline and ongoing investment

[1] *Refer to Note 3 for adjusted earnings reconciliation and PBT.*

[2] *Refer to Note 6 for net rental income calculation.*

[3] *Refer to Note 4 for reconciliation of EPRA measures.*

[4] *Rental growth is the average increase in rent charged across our portfolio on a like for like basis.*

[5] *Dividend – Subject to approval at the AGM, the final dividend of 3.52p per share (gross) amounting to £14.7m will be paid on 11 February 2019 to shareholders on the register at the close of business on 14 December 2018. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 18 January 2019. An interim dividend of 1.74p per share amounting to a total of £7.2m was paid to shareholders on 5 July 2018.*

[6] *Refer to Note 19 for net debt and LTV calculations.*

FY19 reporting dates

- Trading update – February 2019
- Half year results – 16 May 2019
- Trading update – September 2019
- Full year results – 28 November 2019

Full year results presentation

Grainger plc will be holding a presentation of the results at 9:30am (UK time) today, 14 November 2018 and will be broadcast live via webcast and a telephone dial-in facility (details below).

A copy of the presentation slides will be available to download on Grainger's website (www.graingerplc.co.uk) from 9:00am (UK time).

Webcast details:

To view the webcast, please go to the following URL link. Registration is required.

http://webcasting.brrmedia.co.uk/broadcast/5bd1c641b01efb6b20c2f926

The webcast will be available for six months from the date of the presentation.

Conference call details:

Call: +44 (0)330 336 9411

Confirmation Code: 5631488

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IMPORTANT NOTICE

This announcement has been determined to contain inside information for the purposes of Article 7 of the Market Abuse Regulation EU 596/2016. Upon publication of this announcement the inside information is now considered to be in the public domain.

The contents of this announcement have been prepared by and are the sole responsibility of Grainger.

This announcement is not a prospectus but an advertisement and investors should not acquire any securities referred to in this announcement except on the basis of the information contained in the prospectus when published. The information contained in this announcement is for background purposes only and does not purport to be full or complete. No reliance may be placed by any person for any purpose on the information contained in this announcement or its accuracy, fairness or completeness.

This announcement has been prepared in accordance with English law, the EU Market Abuse Regulation and the Disclosure Guidance Rules and Transparency Rules of the Financial Conduct Authority and information disclosed may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside England.

The distribution of this announcement into jurisdictions other than the United Kingdom may be restricted by law, and, therefore, persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdiction. In particular, subject to certain exceptions, this announcement should not be distributed, forwarded to or transmitted in or into in any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including the United States, Australia, Canada, Japan and South Africa.

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No statement in this announcement is intended as a profit forecast and no statement in this announcement should be interpreted to mean that (i) future earnings per share, profits, margins or cash flows will necessarily match or be greater than the Company's historical published earnings per share, profits, margins or cash flows; or (ii) that the Company endorses the broker consensus referred to herein.

Forward-looking statements disclaimer

This publication contains certain forward-looking statements. Any statement in this publication that is not a statement of historical fact including, without limitation, those regarding Grainger plc's future financial condition, business, operations, financial performance and other future events or developments involving Grainger, is a forward-looking statement. Such statements may, but not always, be identified by words such as 'expect', 'estimate', 'project', 'anticipate', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. By their nature, forward-looking statements involve inherent risks, assumptions and uncertainties as they relate to events which occur in the future and depend on circumstances which may or may not occur and go beyond Grainger's ability to control. Actual outcomes or results may differ materially from the outcomes or results expressed or implied by these forward-looking statements. Factors which may give rise to such differences include (but are not limited to) changing economic, financial, business, regulatory, legal, political, industry and market trends, house prices, competition, natural disasters, terrorism or other social, political or market conditions. Grainger's principal risks are described in more detail in its Annual Report and Accounts. These and other factors could adversely affect the outcome and financial effects of the events specified in this publication. The forward-looking statements reflect knowledge and information available at the date they are made and Grainger plc does not intend to update on the forward-looking statements contained in this publication.

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This publication does not constitute an offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities of Grainger plc.

Chairman’s statement

I am pleased to report that 2018 has been a year of significant progress in delivering the strategy, underpinned by a good financial performance. This puts Grainger in a strong position going forward to deliver growth in the business and its returns.

Net rental income growth reflects acquisitions and strong like for like rental growth ahead of the market. Sales from the regulated portfolio and asset recycling initiatives have contributed to the strong profit performance, supported by a continued focus on cost control.

Progress on growing our PRS business continues with the launch of Argo in London and Clippers Quay in Manchester. Over the next few years around 5,300 PRS units are expected to be added to our pipeline. In parallel, our commitment to the efficient management of our regulated portfolio and delivering good levels of service remains.

During the year the board carried out a thorough review of the company’s strategy and were very satisfied with the progress made. The key areas discussed included how growth of the PRS portfolio could be accelerated and how the investment in operational efficiency and enhancing customer experience will be delivered.

Our business as a housing provider is important, serving those who either cannot get onto the ‘housing ladder’ or simply don’t want to buy. Forecasts of the growth needed to match demand isn’t being delivered and that is why we will continue to lobby Government to support PRS in order to accelerate housing supply and enable us to deliver good quality homes for rent where people can put down roots.

The board takes governance requirements very seriously and our aim is to take a leadership position where we can. One of the critical areas of focus is health and safety. The company has clear plans to ensure that it continues to keep staff, customers and the general public safe. Alongside delivering a customer service culture, keeping safe is one of the highest priorities within the business.

Tony Wray has decided to step down at the AGM in 2019, by which time he will have served over seven years on the Board as a Non-Executive Director. I would like to thank Tony for his significant contribution to the success of the Company and wish him well for the future.

The board is pleased to see the company receive external recognition for the service it provides its customers as Asset Manager of the Year at the RESI Awards but it also acknowledges that the job is not done. The board has a real expectation of continued progress which will deliver critical competitive advantage going forward.

Following on from the strong financial performance delivered, the Board is pleased to recommend an increase in the final dividend to 3.52p per share, bringing the total for the year to 5.26p per share, up 8% on the prior year.

This performance is testament to the hard work and dedication of every member of the Grainger team. I thank everyone, on behalf of the Board.

Looking ahead, our objective remains the same: to deliver great homes for rent and a great customer experience. We will do this by delivering our growth strategy, investing to improve our operational efficiency and by improving the performance of our portfolio wherever we can.

Mark Clare
Chairman
13 November 2018

Chief Executive's review

Overview

It is less than three years since I presented the strategy to transform Grainger into the UK's leading private rental provider, providing shareholders with resilient and strong returns, and I am pleased that the transformation of your company is ahead of plan with another strong set of financial results.

The opportunity in the rental market remains vast and we continue to take actions aligned to our strategic priorities: investing in PRS assets to increase net rental income, organisational improvements to simplify and focus the business, and operational enhancements to build on our century of experience in the market.

Our successful, disciplined approach to investment and operations alongside cost control is delivering strong results.

Strategic priority 1: grow rents

We have achieved our £850m investment target two years ahead of plan, acquiring some of the best PRS development opportunities, whilst securing superior levels of returns. These investments will increase our net rental income over the next two to three years, underpinning growth in our dividend. This year saw the successful completion and letting of three important new PRS assets, Argo Apartments in London, which was 97% let in four months; phase one of Clippers Quay in Greater Manchester, our largest PRS scheme; and our first 104 family units in Berewood, Hampshire.

Strategic priority 2: simplify and focus

We continue to streamline the business and its operations. Cost controls remain robust. We have retained a steady level of overheads following the 25% reduction of the previous two years. The reduction in our cost of debt has been a success. The refinancing of our corporate bond earlier this year reduced our cost of debt further to 3.2%. Operational excellence also remain a focus and we have maintained an optimal level of 26% gross to net leakage. The business is now well established and disciplined in its asset recycling, analysing each property for its future growth prospects. We profitably sold £157m worth of assets. These actions place us in a strong position for the growth trajectory we have embarked upon.

Strategic priority 3: build on our experience

Our reputation as a responsible and high performing landlord underpins our strategy. We have invested in operational improvements and our digital platform to deliver high quality customer service, and to improve our customers' lives. Our commitment to health and safety remains the most important aspect of securing our future and license to operate, and a critical focus area for the Executive management team.

Delivering results

Strong financial performance

With the actions we've taken, I am pleased to report that the underlying financial performance of the business remains strong.

Adjusted earnings increased by 26% in the year to £94.0m (FY17: £74.4m). Net rental income increased further by 8% to £43.8m (FY17: £40.4m). We delivered strong sales performance from our regulated tenancy portfolio and our remaining development activity.

We are focused on driving returns for shareholders, and over the year we delivered a total return of 6.1% (FY17: 7.3%).

Supported by our growth in net rental income, I am pleased to announce the Board is recommending an 8% increase in our total dividend to 5.26p per share (FY17: 4.86p per share), in line with our policy to deliver sustainable, income backed growth and distribute 50% of net rental income.

Investing in the right assets and places

At the end of last year we presented our work on investable cities. We have clear criteria for where we invest, in areas that have the strongest current rental demand and the greatest rental growth prospects. This enables us to allocate internal resources effectively and has contributed to our investment success.

Our operations team supplement local market insight and sign off the design of the assets prior to acquisition, whilst our development and investment teams ensure that schemes can deliver shareholder value.

Our research and insight into local markets informs our capital allocation, in terms of our investments and our disposals as part of our asset recycling programme.

Delivering in partnership

Grainger's heritage as a good landlord has enabled it to forge partnerships with landowners in the public and private sectors and with developers.

We have successful partnerships with the Defence Infrastructure Organisation at Wellesley and the London Pensions Partnership at Pontoon Dock, and I am particularly pleased we were selected by the London Borough of Lewisham to deliver c.300 private and social rental homes.

During the year, we brought two successful partnerships to an end: with Dorrington Investment plc and with the Royal Borough of Kensington and Chelsea. The JV with Dorrington was part of our asset recycling strategy. Our exit from this JV was amicable and profitable. The Royal Borough of Kensington and Chelsea has experienced challenges following the tragedy of the fire at Grenfell Tower and Grainger supported the Borough providing them with high quality homes for the displaced families and bringing our partnership to an appropriate conclusion.

We look forward to replicating these partnerships where they bring access to land to support Grainger's growth strategy.

Enhancing customer operations to secure our leading position

Customer service is a focus area. We have invested in training and improving processes to enable operational staff to deliver better service.

We are seeing signs of the benefits of these investments, with lower voids and arrears, maintained customer retention, increased customer satisfaction and efficient levels of property operating costs.

Enhancing operations through technology

We are investing in our digital platform to create a more efficient and scalable platform to support our growth plans and enable us to manage costs over this period of growth. We launched our Project Connect to improve our operations, enhanced by technology aimed at enabling scalable growth within the business and enhancing the rental experience for our customers, including a digital leasing journey. We have recruited talented specialists in this area and our plans for our customers' digital experience reinforce our vision for greater leadership in the sector.

Recognition as a market leader

Our leading position in the UK private rented sector was acknowledged during the year with Asset Manager of the Year at the national RESI Awards, and we were a finalist in the Residential Property Company of the Year at the national EG Awards.

Our leadership in sustainability and corporate social responsibility was also recognised, with a Gold Award in EPRA's Sustainability Best Practice Recommendations. We also received recognition through the Global Real Estate Sustainability Benchmark where Grainger's PRS fund GRIP REIT was awarded Sector Leader and Grainger took third overall among European Residential Listed peers.

Investing in our people

Without the dedication, commitment, expertise, compassion and enthusiasm of our people, Grainger could not retain our leadership of the sector. Nor would we have the confidence in our future and our growth plans, were it not for those that make up the organisation. We recognise the importance of our people – attracting and retaining the best.

Throughout the year we run our employee engagement programme. This includes a comprehensive annual employee survey, the Best Companies Index. I am delighted that over 80% of employees took part. We have made strides across all areas of the business. It is clear that colleagues are committed to the company vision, live our values, and come to work focused on delivering great homes for rent.

Grainger's success is a result of our ability to attract and retain highly talented individuals. We have made significant investment in our development team with four senior hires, ensuring we have the right resource in place to deliver our PRS development pipeline.

Delivering great homes to rent

Grainger's focus is on delivering private rental homes for the largest number, and most diverse range of people. We target investment at those earning local average incomes. This ensures our homes are always in high demand and occupancy levels are high, providing sustainable shareholder returns. In turn, the commitment of our operational teams to deliver the best rental experience supports customer retention and the creation of long-term communities within our buildings.

Our ambition is to be the best PRS landlord in the UK, delivering great homes to rent with great customer service. We are well on our way, yet we recognise there is much still to do. The outlook for the business is positive as we deliver numerous developments in our pipeline, and our operational platform undergoes a step change in delivery as a result of our investment in technology and our digital platform.

My thanks go to the Board and shareholders for their ongoing support but, most importantly, I thank the Grainger team for all their outstanding efforts.

Helen Gordon
Chief Executive
13 November 2018

Financial review

FY18 has been a year of strong financial performance, building on the solid foundation of the last two years. With a significantly improved capital structure and a leading operational platform, we are well-placed to take the company's growth strategy to the next level. As our investments in our development pipeline start to come on stream in the coming year, the benefits to both net rental income and our NAV will become evident. The fully integrated business model which we have constructed will help drive robust returns for shareholders for many years.

The actions we have taken to improve our balance sheet, capital structure, cost base and operations along with our disciplined approach to capital allocation, puts us in a strong position to accelerate our growth strategy and deliver attractive shareholder returns.

Adjusted earnings increased by 26% to £94.0m (FY17: £74.4m), driven by strong like for like rental growth of 4.0% as well as a particularly strong sales performance with £81.8m profit during the year. EPRA NNNAV increased by 4.3% to 316p per share (FY17: 303p per share) with a total shareholder return of 6.1% (FY17: 7.3%) reflecting lower valuation growth than in previous years.

We have made good progress on our pipeline with £943m now secured. Upon completion, this will provide a step change in our net rental income and earnings.

The recommended dividend for the year is 5.26p per share, up 8% (FY17: 4.86p per share), in-line with our policy of distributing 50% of net rental income.

Highlights

Growing our income return	**FY17**	**FY18**	**Change**
Rental growth (like for like)	3.8%	4.0%	+20 bps
Net rental income	£40.4m	£43.8m	+8%
Adjusted earnings *(Note 3)*	£74.4m	£94.0m	+26%
Adjusted EPS (after tax) *(Note 3)*	14.3p	18.2p	+27%
Profit before tax *(Note 3)*	£86.3m	£100.7m	+17%
Dividend per share *(Note 11)*	4.86p	5.26p	+8%
Earnings per share (diluted) *(Note 10)*	17.6p	20.9p	+19%

Driving our capital return	**FY17**	**FY18**	**Change**
EPRA NAV per share	343p	348p	+1%
EPRA NNNAV per share	303p	316p	+4%
Net debt	£848m	£866m	+2%
Group LTV	37.7%	37.1%	(53) bps
Cost of debt (average)	3.5%	3.4%	(13) bps
Cost of debt (year end)	3.4%	3.2%	(22) bps
Reversionary surplus	£310m	£277m	(11)%
Total return on shareholder equity	7.3%	6.1%	(120) bps

Income Statement

2018 saw us deliver strong earnings performance, with good growth in net rental income combined with a strong sales performance, whilst continuing our focus on cost management. Finance cost came down significantly as we refinanced our corporate bond, securing a low cost of debt for the future. The coming year should see the capital recycled from our asset hierarchy review into our PRS pipeline starting to deliver income.

Income statement £m	FY17	FY18	Change
Net rental income	40.4	43.8	+8%
Profit on sale of assets – residential	60.4	70.1	+16%
Profit on sale of assets – development	14.7	11.7	(20)%
Mortgage income (CHARM) *(Note 16)*	6.2	5.8	(6)%
Management fees	5.1	7.1	+39%
Overheads	(27.2)	(27.9)	+3%
Other expenses	(1.1)	(1.1)	0%
Joint ventures and associates	2.9	9.6	+231%
Net finance costs	(27.0)	(25.1)	(7)%
Adjusted earnings	**74.4**	**94.0**	**+26%**
Valuation movements	14.4	34.2	
Derivative movements	0.3	(0.1)	
Other adjustments	(2.8)	(27.4)	
Profit before tax*	**86.3**	**100.7**	**+17%**

* From continuing operations

Our focus on driving operational excellence has resulted in rental growth and reduced costs through improved voids, lower arrears and customer retention. The investment we are making in our technology platform will deliver further improvements in coming years and provide us with greater scalability as we continue to grow.

Rental Income

Gross rental income has increased by 8% to £59.2m (FY17: £54.6m). Acquisitions and completions added £4.5m of gross rent during the year and more than offset a £2.1m decrease from disposals. Overall like for like rental growth was 4.0%, with 3.0% like for like rental growth in our PRS portfolio and 5.4% in our regulated tenancy portfolio. Our like for like rental growth significantly outperformed the market which was 1.4% over the same period (average based on ONS, Countrywide and HomeLet), demonstrating the quality of our offering and operational excellence.

Net rental income increased by 8% to £43.8m (FY17: £40.4m) in line with our gross rental income growth, with our gross to net stable at 26.0% (FY17: 26.0%), whilst we continue to invest in our operational platform and build scalability for the future.

The split of net rental income between our regulated tenancy portfolio and our PRS portfolio is c.50:50.

	£m
FY17 Net rental income	**40.4**
Disposals	(1.6)
Acquisitions	3.4
Rental growth	1.6
FY18 Net rental income	**43.8**
YoY growth	+8%

Sales

It has been an excellent year for our sales activity delivering £81.8m of profits, up 9% on the year (FY17: £75.1m). Vacant residential sales contributed £49.1m of profits at 0.9% ahead of vacant possession values, reflecting the resilience of our portfolio. Our sales transactions velocity (i.e keys to cash) of 112 days remains significantly better than the market.

Development activity also had a strong year, with profits from development activities at £11.7m (FY17: £14.7m), the majority of which was from the conclusion of our RBKC partnership. Development profit from sales will slow in FY19 as we focus our development activity on PRS investments.

Sales

	FY17			FY18		
	Units sold	Revenue	Profit	Units sold	Revenue	Profit
		£m	£m		£m	£m
Residential sales on vacancy	274	110.1	51.1	262	107.4	49.1
Tenanted and other sales	242	20.7	9.3	185	40.1	21.0
Residential sales total	**516**	**130.8**	**60.4**	**447**	**147.5**	**70.1**
Development activity	-	83.7	14.7	-	62.0	11.7
Overall sales	**516**	**214.5**	**75.1**	**447**	**209.5**	**81.8**

Overheads

Our cost base remains a key focus for the business, balancing the delivery of a market leading operational platform with our future growth plans. Having reduced overhead cost by 25% since FY15, the overheads for FY18 were relatively flat year-on-year at £27.9m (FY17: £27.2m).

We continue to keep overheads tightly under control whilst at the same time developing a market leading platform to support our plans for growth. We continue to invest in technology that improves both our customer experience and our operational efficiency through streamlining our processes, reducing costs, and delivering a scalable platform for the future. We believe our overheads are at a sustainable level to support our medium-term growth plans.

Other adjustments

Other adjustments that are one-off in nature for the year were £27.4m. This includes the cost associated with refinancing our corporate bond, where we incurred a prepayment cost net of tax of £21m.

Grainger is a UK based, tax paying Group with a tax charge of £13.3m (FY17: £13.1m). We continue to work in an open and transparent manner with the tax authorities. HM Revenue and Customs has graded the Group as a 'low risk' tax payer and we are committed to maintaining this status.

Balance sheet

We continue to strengthen our balance sheet, maintaining an efficient capital structure whilst delivering enough fire power to fund our pipeline of opportunities.

Market value balance sheet (£m)	**FY17**	**FY18**
Residential – PRS	526	591
Residential – regulated tenancies	1,214	1,107
Residential – mortgages (CHARM)	86	82
Forward Funded – PRS work in progress	75	198
Development work in progress	63	100
Investment in JVs/associates	206	146
Total investments	**2,170**	**2,224**
Net debt	(848)	(866)
Other assets/liabilities	112	99
EPRA NAV	**1,434**	**1,457**
Deferred and contingent tax – trading assets	(123)	(109)
Deferred and contingent tax – investment assets	(21)	(22)
Fair value of fixed rate debt and derivatives	(22)	(2)
EPRA NNNAV	**1,268**	**1,324**
EPRA NAV (pence per share)	**343**	**348**
EPRA NNNAV (pence per share)	**303**	**316**
LTV	**37.7%**	**37.1%**

EPRA NNNAV increased by 4% during the year to 316p per share (FY17: 303p per share), driven by valuation growth and a strong earnings performance.

Excluded from both EPRA NAV measures is a reversionary surplus of £277m or 66p per share (FY17: £310m). This is the difference between the market value of our assets whilst they are tenanted and the value we could realise if they became vacant today and were sold.

The main difference between EPRA NAV and EPRA NNNAV is the inclusion of deferred and contingent tax liabilities associated with revaluations of our portfolio. Around 83% relates to our trading asset portfolio, which will crystallise on disposal of these assets. We therefore view EPRA NNNAV as an important measure for valuing our balance sheet.

EPRA NNNAV movement

	£m	Pence per share
EPRA NNNAV at 30 September 2017	**1,268**	**303**
Adjusted earnings	94	22
Revaluations (trading & investment property)	55	13
Corporate bond redemption	(27)	(7)
Disposals (trading assets)	(60)	(14)
Tax (deferred & contingent)	(10)	(2)
Derivatives / other	25	6
Dividends	(21)	(5)
EPRA NNNAV at 30 September 2018	**1,324**	**316**

Property portfolio

We delivered a solid portfolio performance for the year with values up by 1.6% (FY17: 3.4%). This was split between our PRS portfolio at 2.6% and our regulated portfolio at 1.1%. The UK housing market indices over the same period were: Halifax 2.5% and Nationwide 2.0%.

Regional performance	**Units**	**Market value FY18 (£m)**	**Change since FY17**
Central and Inner London	1,456	833	(0.2)%
Outer London	441	162	+2.1%
South East	698	168	+5.5%
South West	576	165	+1.8%
East and Midlands	692	122	+5.0%
North West	1,596	189	+3.8%
Other regions	491	59	+1.5%
Total	**5,950**	**1,698**	**1.6%**

The table above includes wholly-owned PRS and regulated tenancy assets only, it excludes 580 units and £82m of market value relating to mortgages (CHARM) and excludes co-investments.

Portfolio summary – property assets

	No. units	Market value £m	Vacant possession value £m	Reversionary surplus £m
Residential – PRS	2,841	591	641	50
Residential – regulated tenancies	3,109	1,107	1,317	210
Residential – mortgages (CHARM)	580	82	81	(1)
Forward Funded – PRS work in progress	-	198	198	-
Development work in progress	-	100	100	-
Wholly-owned assets	**6,530**	**2,078**	**2,337**	**259**
Co-investments (Grainger share)	425	173	191	18
FY18 total investments	**6,955**	**2,251**	**2,528**	**277**
Assets under management (third party share)	**1,282**	**523**	**573**	**50**
Total assets under management	**8,237**	**2,774**	**3,101**	**327**

Financing and capital structure

FY18 was a landmark year in terms of repositioning our capital structure, where we secured longer term debt at lower rates through refinancing our corporate bond.

Our regulated tenancy sales business continues to generate strong cash flows, providing a stable source of capital to help fund our PRS strategy. During the year we generated £135m of cash from this part of the business.

In terms of our capital deployment we invested £218m during the year. This was split between investment in our forwarding funding and development pipeline (£162m), acquisitions of stabilised assets (£26m), affordable homes (£17m) and regulated tenancies (£4m) and a further £9m in refurbishment activities. Of our £943m secured pipeline, we have already invested £425m, leaving an outstanding capital requirement of £518m which can be comfortably covered by future working capital or, indeed, headroom on our debt facilities which amounts to £388m.

Group LTV at FY18 reduced slightly to 37.1% (FY17 37.7%) as we have continued to deploy our recycled capital into our investment pipeline. Net debt for the Group also increased to £866m (FY17: £848m) and we retain our LTV target range of 40-45%.

During the year we refinanced our corporate bond, issuing a new 10-year £350m corporate bond at 3.375%. We incurred a prepayment cost net of tax of £21m for the previous £275m corporate bond at 5%, which was due to mature in 2020. Overall this action locks us into lower rates for longer and delivers over £3m of savings each year.

As a result of the corporate bond refinancing and other actions we've taken, cost of debt at the period end stands at 3.2%, a reduction of 22 bps from the prior year (FY17 3.4%). Our incremental cost of debt is less than 2%, and our cost of debt would be 3.0% if our debt facilities were fully drawn at the year end.

Our weighted average debt maturity was also lengthened this year from 4.4 years to 5.7 years. Including extension options our weighted average debt maturity stands at 6.1 years.

With the business moving from a reliance on capital appreciation to an increasing income focus we expect to see continued improvement in our business and financial risk profile.

Summary and outlook

We have delivered strong financial results for FY18, which reflects our focus on operational excellence, disciplined investment and cost management.

The investment we are making into our business and operational platform, including technology, will underpin future financial performance as we continue to grow and maintain our position as the UK's largest listed residential landlord and a market leader in the PRS.

The £943m pipeline of PRS investments we have built up since setting out our strategy in January 2016 will significantly increase our net rental income over the next two to three years as the projects complete and are stabilised. This will enable us to both grow our dividend significantly and our NAV over coming years.

The actions we have taken over the recent years to improve our capital structure, operations and financial discipline to our investments put us in a position for accelerating our growth trajectory and delivering strong shareholder returns.

Vanessa Simms
Chief Financial Officer
13 November 2018

Responsibility statement

The Statement of Directors' Responsibilities below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 30 September 2018. Certain parts of the Annual Report and Accounts have not been included in this announcement.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Governance section of the Annual Report and Accounts confirm that, to the best of their knowledge:

(a) the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors and signed on its behalf by:

Helen Gordon
Chief Executive Officer
13 November 2018

Vanessa Simms
Chief Financial Officer
13 November 2018

Consolidated income statement

For the year ended 30 September	Notes	**2018 £m**	2017 £m
Group revenue	5	**270.7**	264.7
Net rental income	6	**43.8**	40.4
Profit on disposal of trading property	7	**81.2**	73.7
Profit on disposal of investment property	8	**1.4**	2.2
Income from financial interest in property assets	16	**6.5**	5.3
Fees and other income	9	**7.1**	5.1
Administrative expenses		**(27.9)**	(27.2)
Other expenses		**(1.1)**	(3.9)
Profit on disposal of joint venture	15	**7.0**	-
Impairment of inventories to net realisable value		**(0.5)**	(5.4)
Reversal of impairment/(impairment) of joint venture	15	**5.5**	(3.6)
Operating profit before net valuation gains on investment property		**123.0**	86.6
Net valuation gains on investment property	12	**22.6**	18.0
Operating profit after net valuation gains on investment property		**145.6**	104.6
Change in fair value of derivatives		**(0.2)**	0.2
Finance costs		**(27.2)**	(29.1)
Finance income		**2.1**	2.1
Corporate bond redemption	19	**(27.4)**	-
Share of profit of associates after tax	14	**7.2**	4.3
Share of profit of joint ventures after tax	15	**0.6**	4.2
Profit before tax – continuing operations	3	**100.7**	86.3
Tax charge for the year – continuing operations	20	**(13.3)**	(12.8)
Profit after tax – continuing operations		**87.4**	73.5
Discontinued operations			
Profit after tax for the year for discontinued operations	2	**-**	1.2
Profit for the year attributable to the owners of the Company		**87.4**	74.7
Basic earnings per share	10	**21.0p**	18.0p
Diluted earnings per share	10	**20.9p**	17.9p
Basic earnings per share – continuing operations only	10	**21.0p**	17.7p
Diluted earnings per share – continuing operations only	10	**20.9p**	17.6p

Consolidated statement of comprehensive income

For the year ended 30 September	Notes	**2018 £m**	2017 £m
Profit for the year – continuing operations	3	**87.4**	73.5
Items that will not be transferred to the consolidated income statement:			
Actuarial gain on BPT Limited defined benefit pension scheme	21	**0.5**	4.6
Items that may be or are reclassified to the consolidated income statement:			
Fair value movement on financial interest in property assets	16	**(0.5)**	(1.0)
Exchange differences on translating foreign operations		**-**	(0.2)
Changes in fair value of cash flow hedges		**3.2**	11.9
Other comprehensive income and expense for the year before tax – continuing operations		**3.2**	15.3
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to the consolidated income statement	20	**(0.1)**	(0.8)
Tax relating to items that may be or are reclassified to the consolidated income statement	20	**(0.5)**	(1.8)
Total tax relating to components of other comprehensive income – continuing operations		**(0.6)**	(2.6)
Other comprehensive income and expense for the year after tax – continuing operations		**2.6**	12.7
Total comprehensive income and expense for the year after tax – continuing operations		**90.0**	86.2
Profit after tax – discontinued operations	2	**-**	1.2
Total comprehensive income and expense for the year attributable to the owners of the Company		**90.0**	87.4

Consolidated statement of financial position

As at 30 September	Notes	**2018 £m**	2017 £m
ASSETS			
Non-current assets			
Investment property	12	**589.7**	391.0
Property, plant and equipment		**0.3**	0.7
Investment in associates	14	**134.0**	123.2
Investment in joint ventures	15	**11.6**	74.4
Financial interest in property assets	16	**82.2**	86.1
Retirement benefits	21	**0.9**	-
Deferred tax assets	20	**3.4**	9.7
Intangible assets		**4.7**	2.4
		826.8	687.5
Current assets			
Inventories – trading property	13	**799.3**	841.3
Trade and other receivables	17	**150.4**	145.9
Derivative financial instruments	19	**4.4**	3.4
Cash and cash equivalents		**109.3**	88.9
		1,063.4	1,079.5
Total assets		**1,890.2**	1,767.0
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**960.1**	924.6
Retirement benefits	21	**-**	0.2
Provisions for other liabilities and charges		**1.3**	1.3
Deferred tax liabilities	20	**29.9**	32.6
		991.3	958.7
Current liabilities			
Interest-bearing loans and borrowings	19	**1.1**	1.1
Trade and other payables	18	**70.7**	48.8
Provisions for other liabilities and charges		**0.7**	0.8
Current tax liabilities		**7.4**	7.4
Derivative financial instruments	19	**3.4**	4.9
		83.3	63.0
Total liabilities		**1,074.6**	1,021.7
NET ASSETS		**815.6**	745.3
EQUITY			
Issued share capital		**20.9**	20.9
Share premium account		**111.4**	111.1
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**0.5**	(2.1)
Available-for-sale reserve		**6.0**	6.5
Retained earnings		**656.4**	588.5
TOTAL EQUITY		**815.6**	745.3

Consolidated statement of changes in equity

	Notes	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2016		20.9	110.8	20.1	0.3	(12.0)	7.3	527.7	0.1	675.2
Profit for the year	3	-	-	-	-	-	-	74.7	-	74.7
Other comprehensive income/(loss) for the year		-	-	-	-	9.9	(0.8)	3.6	-	12.7
Total comprehensive income		-	-	-	-	9.9	(0.8)	78.3	-	87.4
Award of SAYE shares		-	0.3	-	-	-	-	-	-	0.3
Purchase of own shares		-	-	-	-	-	-	(0.3)	-	(0.3)
Share-based payments charge	22	-	-	-	-	-	-	2.1	-	2.1
Elimination of non-controlling interests		-	-	-	-	-	-	-	(0.1)	(0.1)
Dividends paid		-	-	-	-	-	-	(19.3)	-	(19.3)
Total transactions with owners recorded directly in equity		-	0.3	-	-	-	-	(17.5)	(0.1)	(17.3)
Balance as at 30 September 2017		**20.9**	**111.1**	**20.1**	**0.3**	**(2.1)**	**6.5**	**588.5**	**-**	**745.3**
Profit for the year	3	**-**	**-**	**-**	**-**	**-**	**-**	**87.4**	**-**	**87.4**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**2.6**	**(0.5)**	**0.5**	**-**	**2.6**
Total comprehensive income		**-**	**-**	**-**	**-**	**2.6**	**(0.5)**	**87.9**	**-**	**90.0**
Award of SAYE shares		**-**	**0.3**	**-**	**-**	**-**	**-**	**-**	**-**	**0.3**
Purchase of own shares		**-**	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Share-based payments charge	22	**-**	**-**	**-**	**-**	**-**	**-**	**1.1**	**-**	**1.1**
Dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**(20.8)**	**-**	**(20.8)**
Total transactions with owners recorded directly in equity		**-**	**0.3**	**-**	**-**	**-**	**-**	**(20.0)**	**-**	**(19.7)**
Balance as at 30 September 2018		**20.9**	**111.4**	**20.1**	**0.3**	**0.5**	**6.0**	**656.4**	**-**	**815.6**

Consolidated statement of cash flows

For the year ended 30 September	Notes	**2018 £m**	2017 £m
Cash flow from operating activities			
Profit for the year		**87.4**	74.7
Depreciation and amortisation		**0.9**	0.9
Net valuation gains on investment property	12	**(22.6)**	(18.0)
Net finance costs		**25.1**	27.0
Corporate bond redemption	19	**27.4**	-
Share of profit of associates and joint ventures	14, 15	**(7.8)**	(8.5)
Profit on disposal of investment property	8	**(1.4)**	(2.2)
Share-based payment charge	22	**1.1**	2.1
Change in fair value of derivatives		**0.2**	(0.2)
(Reversal of impairment)/impairment of joint venture	15	**(5.5)**	3.6
Profit on disposal of joint venture	15	**(7.0)**	-
Income from financial interest in property assets	16	**(6.5)**	(5.3)
Tax	20	**13.3**	13.1
Cash generated from operating activities before changes in working capital		**104.6**	87.2
Increase in trade and other receivables		**(3.0)**	(78.8)
Increase in trade and other payables		**23.9**	15.5
Decrease in provisions for liabilities and charges		**(0.1)**	(0.2)
Decrease in inventories		**42.0**	61.2
Cash generated from operating activities		**167.4**	84.9
Interest paid		**(30.4)**	(27.1)
Tax paid		**(10.2)**	(11.8)
Payments to defined benefit pension scheme	21	**(0.5)**	(0.5)
Net cash inflow from operating activities		**126.3**	45.5
Cash flow from investing activities			
Proceeds from sale of investment property		**5.0**	9.4
Proceeds from sale of joint venture	15	**67.0**	-
Proceeds from financial interest in property assets	16	**9.9**	11.3
Dividends received	14, 15	**2.3**	4.8
Investment in associates and joint ventures	14	**(5.2)**	(8.8)
Loans advanced to associates and joint ventures	14, 15	**(5.4)**	(9.5)
Loans repaid by associates and joint ventures	14, 15	**14.0**	5.0
Acquisition of investment property	12	**(179.7)**	(118.9)
Acquisition of property, plant and equipment and intangible assets		**(2.9)**	(0.8)
Net cash outflow from investing activities		**(95.0)**	(107.5)
Cash flow from financing activities			
Awards of SAYE options		**0.3**	0.3
Purchase of own shares		**(0.3)**	(0.3)
Corporate bond redemption	19	**(25.8)**	-
Proceeds from new borrowings		**650.3**	320.0
Payment of loan costs		**(3.0)**	(3.1)
Repayment of borrowings		**(611.6)**	(237.6)
Dividends paid		**(20.8)**	(19.3)
Net cash (outflow)/inflow from financing activities		**(10.9)**	60.0
Net increase/(decrease) in cash and cash equivalents		**20.4**	(2.0)
Cash and cash equivalents at the beginning of the year		**88.9**	90.7
Net exchange movements on cash and cash equivalents		**-**	0.2
Cash and cash equivalents at the end of the year		**109.3**	88.9

The consolidated statement of cash flows above includes cash flows from both continuing and discontinued operations. Cash flows from discontinued operations are set out in Note 2 to the financial statements.

Notes to the preliminary financial results continued

1. Accounting policies

1a Basis of preparation

The board approved this preliminary announcement on 13 November 2018.

The financial information included in this preliminary announcement does not constitute the Group's statutory accounts for the years ended 30 September 2017 or 30 September 2018. Statutory accounts for the year ended 30 September 2017 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2018 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The auditors, KPMG LLP, have reported on the accounts for both years. The reports were unqualified, did not include reference to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

These financial statements for the year ended 30 September 2018 have been prepared under the historical cost convention except for the following assets and liabilities, and corresponding income statement accounts, which are stated at their fair value; investment property; derivative financial instruments; and financial interest in property assets.

The accounting policies used are consistent with those contained in the Group's full annual report and accounts for the year ended 30 September 2018.

The financial information included in this preliminary announcement has been prepared in accordance with EU endorsed International Financial Standards ('EU IFRS'), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under EU IFRS.

1b Adoption of new and revised International Financial Reporting Standards and interpretations

A number of new standards and amendments to standards have been issued but are not yet effective for the Group. The most significant of these, and their potential impact on the Group's accounting, are set out below:

i) IAS 40 Investment Property (effective 1 October 2018)

The amendment to IAS 40 widens the scope for transfers to and from investment property. Previously the standard provided an exhaustive list to evidence a change in use that would permit a transfer. This is now a non-exhaustive list of examples of circumstances that could represent a property's change in use.

A change in management's intention does not alone constitute a change in use. Transfers to and from investment property can only occur when the property meets or ceases to meet the definition of an investment property and there is evidence of change in use.

On transition, the Group is required to assess property classifications across its entire portfolio held at the effective date (1 October 2018) and, if applicable, reclassify property to reflect the conditions as at that date.

A review of the Group's property portfolio held as at 30 September 2018 has been undertaken. Trading property with a cost of £75.9m and market value of £78.8m has been identified as requiring reclassification to investment property. There have been no properties identified that are classified as investment property that would be reclassified as trading property.

Notes to the preliminary financial results continued

There will be limited impact to the market value balance sheet and related metrics including EPRA NAV, EPRA NNNAV and LTV as these already reflect the market value of properties. There will however be a valuation uplift of £2.9m taken through the statutory income statement, impacting statutory net profit before and after tax, as well as statutory earnings per share. The adjusted earnings of the Group, a non-statutory measure, will not be impacted.

ii) IFRS 9 Financial Instruments (effective 1 October 2018)

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, which is currently used by the Group. The new standard sets out the classification, recognition and measurement requirements for financial assets and liabilities, impairment provisioning and general hedge accounting.

The key changes that will follow the adoption of this standard are:

- classification of financial assets according to their contractual cash flow characteristics;
- impairments of financial assets based on prospective expected credit losses rather than retrospective objective evidence of impairment;
- changes to hedge accounting effectiveness testing; and
- changes to disclosures.

Classification, recognition and measurement of financial assets and liabilities
The standard applies to the Group's financial assets consisting of CHARM, receivables, derivatives and cash, as well as financial liabilities consisting of borrowings, payables and derivatives.

IFRS 9 retains almost all of the existing classification, recognition and measurement requirements of IAS 39 on financial liabilities and will not have an impact on the Group's financial liabilities for financial results and reporting.

For financial assets, the permissible measurement bases are now amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit and loss ('FVTPL'). IFRS 9 has abolished the held to maturity loans and receivables and available-for-sale classifications that were previously available under IAS 39. CHARM is therefore impacted by this change as it is currently classified as an available-for-sale asset.

As a result, CHARM will need to be reclassified from available-for-sale to FVTPL. The implication of the reclassification is that the fair value difference between the updated projected cashflows using the effective interest rate applicable at acquisition compared to the year-end effective interest rate will now be taken through the statutory income statement as opposed to other comprehensive income.

This will impact statutory net profit before and after tax, as well as statutory earnings per share. This will not impact the Group's adjusted earnings, statutory net assets, EPRA NAV, EPRA NNNAV or LTV as the fair value and deferred tax positions remain unchanged.

IFRS 9 has retrospective application, which requires the new standard to be applied to transactions as if those requirements had always been applied. There are however exceptions from the requirement to restate comparatives, allowing the accounting to be reflected in the year of adoption which the Group will utilise. Effective 1 October 2018, the Group will transfer £6.0m from the available-for-sale reserve to retained earnings, on transition to the new standard.

Notes to the preliminary financial results continued

Expected credit loss model of impairment
The new standard no longer requires a loss event to occur before an impairment to financial assets is recognised. IFRS 9 requires an entity to recognise an expected credit loss, being the present value of all cash shortfalls over the expected life of the entity's various financial assets.

Of the Group's financial assets, the standard will apply to trade receivables. Trade receivables held at 30 September 2018 were £2.3m, with an impairment provision recognised under IAS 39 of £0.5m.

Management have assessed the impact of impairment losses were the new standard to be applied at 30 September 2018, utilising both historical data and forward-looking macro-economic information. Based upon this assessment, the Group would have recognised an impairment provision of £0.5m at 30 September 2018 under IFRS 9. Given that the provision is broadly consistent on transition, the expected credit loss model will not have a material effect on the remainder of the financial assets held by the Group.

Hedge accounting
Hedge accounting continues to be optional under the new standard, though the removal of the '80-125% test' in favour of a more principles-based approach allows greater scope for entities to hedge account.

The current hedge relationships in place for the Group as at 30 September 2018 for interest rate swaps will qualify as continuing hedges upon adoption of the new standard. No other derivatives instruments are expected to be designated as hedging relationships under IFRS 9. As a result, there will be no quantitative impact on the results of the Group.

Disclosures
IFRS 9 will require new disclosures, particularly around credit risk and expected credit losses. The relevant disclosures will be presented in the notes to the financial statements upon adoption of the new standard.

iii) IFRS 15 Revenue from Contracts with Customers (effective 1 October 2018)

IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue, both of which are currently used by the Group. The new standard sets out a five-step model for the recognition of revenue and establishes the principles to apply to the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The key changes that will follow the adoption of this standard are:

- identifying performance obligations based on contracts with customers and recognising revenue either at a point in time or over time in accordance with the performance obligations; and
- increased revenue disclosures that arise from contracts with customers.

Revenue recognition
This standard applies to Grainger's revenue including proceeds from disposal of trading and investment property, property and asset management fees and revenue from construction contracts. It does not apply to gross rental income or CHARM revenue which as at the date of reporting are covered by IAS 17 and IAS 39 respectively.

The revenue recognition point for the Group's revenue streams impacted by the standard is not expected to differ following the adoption of the new standard. As a result, the effects of the new standard will be immaterial to the Group's financial results.

Notes to the preliminary financial results continued

Disclosures
IFRS 15 will require new qualitative disclosures and the relevant disclosures will be presented in the notes to the financial statements upon adoption of the new standard.

iv) IFRS 16 Leases (effective 1 October 2019)

IFRS 16 replaces IAS 17 Leases which is currently used by the Group. The standard sets out the criteria to recognise, measure, present and disclose leases.

The key changes that will follow the adoption of this standard are:

- a single lessee accounting model that removes the distinction between operating and finance leases. The previous off-balance sheet financing permitted by operating leases will now be brought on balance sheet by recognising the asset and corresponding liability; and
- the standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases.

As a lessor, the Group's position is substantially unchanged.

As a lessee of office space, the assets and the corresponding lease liabilities will now be required to be measured and presented on the balance sheet and in the notes to the financial statements. Although these leases are currently off-balance sheet, they will have an immaterial impact on the overall net assets and the consolidated income statement of the Group.

Of the other IFRSs that are available for early adoption, none are expected to have a material impact on the financial statements.

1c Critical accounting estimates and judgments

Estimates

i. Valuation of property assets

Residential trading property is carried in the statement of financial position at the lower of cost and net realisable value and investment property is carried at fair value. The Group does, however, in its principal non-GAAP net asset value measures, EPRA NAV and EPRA NNNAV, include trading property at market value. The adjustment in the value of trading property is the difference between the statutory book value and its market value as set out in Note 4. For investment property, market value is the same as fair value. In respect of trading properties, market valuation is the key assumption in determining the net realisable value of those properties.

The results and the basis of each valuation and their impact on both the financial statements and market value for the Group's non-GAAP net asset value measures are set out below:

Notes to the preliminary financial results continued

	Residential £m	Development £m	Others £m	Financial assets £m	Total £m	Valuer	% of properties for which external valuer provides valuation
Trading property	756.5	42.8	-	-	**799.3**		
Investment property	589.7	-	-	-	**589.7**		
Financial asset (CHARM)	-	-	-	82.2	**82.2**		
Total statutory book value	**1,346.2**	**42.8**	**-**	**82.2**	**1,471.2**		
Trading property							
Residential	952.6	-	-	-	**952.6**	Allsop LLP	71%
GInvest	369.5	-	-	-	**369.5**	Allsop LLP	100%
Developments	38.1	46.2	-	-	**84.3**	CBRE Limited	83%
Total trading property	**1,360.2**	**46.2**	**-**	**-**	**1,406.4**		
Investment property							
Residential	153.9	-	-	-	**153.9**	Allsop LLP	71%
Tricomm housing	121.4	-	-	-	**121.4**	Allsop LLP	100%
Affordable housing	50.8	-	-	-	**50.8**	Allsop LLP	100%
PRS build to rent	263.6	-	-	-	**263.6**	CBRE Limited	98%
Total investment property	**589.7**	**-**	**-**	**-**	**589.7**		
Financial asset (CHARM)[1]	-	-	-	82.2	**82.2**	Allsop LLP	
Total assets at market value	**1,949.9**	**46.2**	**-**	**82.2**	**2,078.3**		
Statutory book value	1,346.2	42.8	-	82.2	**1,471.2**		
Market value adjustment[2]	603.7	3.4	-	-	**607.1**		
Total assets at market value	**1,949.9**	**46.2**	**-**	**82.2**	**2,078.3**		
Net revaluation gain recognised in the income statement for wholly-owned properties	22.6	-	-	-	**22.6**		
Net revaluation gain relating to joint ventures and associates[3]	-	-	5.1	-	**5.1**		
Net revaluation gain recognised in the year[3]	**22.6**	**-**	**5.1**	**-**	**27.7**		

1 Allsop provides vacant possession values used by the Directors to value the financial asset.

2 The market value adjustment is the difference between the statutory book value and the market value of the Group's properties. Refer to Note 4 for market value net asset measures.

3 Includes the Group's share of joint ventures and associates revaluation gain after tax.

Notes to the preliminary financial results continued

Judgments

i. Adjusted earnings

Adjusted earnings is one of Grainger's key performance indicators. The metric is utilised as a key measure to aid understanding of the performance of the continuing business and excludes valuation movements and other adjustments that are one-off in nature, which do not form part of the normal ongoing revenue or costs of the business and, either individually or in aggregate, are material to the reported Group results. The classification of amounts as other adjustments is a significant judgement made by management and is a matter referred to the Audit Committee for approval.

Other adjustments in 2018 comprise costs in relation to the previous corporate bond of £27.4m, being £25.8m gross prepayment cost and £1.6m expense of unamortised costs. In 2017, £2.8m other adjustments were recorded, being a provision for historic non-core businesses of £1.6m and costs in relation to the implementation of strategic operations of £1.2m.

1d Group risk factors

The principal risks and uncertainties facing the Group are set out in the Risk Management report of the 2018 Annual Report and Accounts.

A number of risks faced by the Group are not directly within our control such as the wider economic and political environment.

Specific risks include the failure to fulfil our customer proposition consistently, the failure of a key third party supplier, the failure to attract, develop and retain our people, inability to secure sufficient funding, potential cyber or information security breaches together with our ongoing obligations to comply with health and safety requirements and other regulatory demands.

1e Forward-looking statements

Certain statements in this preliminary announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct.

Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Notes to the preliminary financial results continued

2. Discontinued Operations

The 2017 comparatives presented represent activities relating to the disposal of the remaining assets and in winding down the remaining business in Germany.

Discontinued operations **For the year ended 30 September**	Notes	**2018** **£m**	2017 £m
Group revenue		**-**	0.4
Net rental income		**-**	0.2
Profit on disposal of trading property, investment property and assets held-for-sale		**-**	0.7
Fees and other income		**-**	0.8
Administrative expenses		**-**	(0.2)
Profit before tax		**-**	1.5
Current tax			
Current tax on discontinued operations	20	**-**	(0.3)
Profit after tax		**-**	1.2
Basic earnings per share - discontinued operations		**-**	0.3p
Diluted earnings per share - discontinued operations		**-**	0.3p

Cash flow from discontinued operations:

	2018 **£m**	2017 £m
Net cash outflow from operating activities	**-**	(0.4)
Net cash outflow from investing activities	**-**	(0.8)
Net cash outflow from financing activities	**-**	(5.1)
Net cash outflow	**-**	(6.3)

Notes to the preliminary financial results continued

3. Analysis of profit before tax

The table below provides adjusted earnings, which is one of Grainger's key performance indicators. The metric is utilised as a key measure to aid understanding of the performance of the continuing business and excludes valuation movements and other adjustments (previously non-recurring) that are one-off in nature, which do not form part of the normal ongoing revenue or costs of the business and, either individually or in aggregate, are material to the reported Group results.

	2018				2017			
£m	**Statutory**	**Valuation**	**Other adjustments**	**Adjusted earnings**	Statutory	Valuation	Other adjustments	Adjusted earnings
Group revenue	**270.7**	**-**	**-**	**270.7**	264.7	-	-	264.7
Net rental income	**43.8**	**-**	**-**	**43.8**	40.4	-	-	40.4
Profit on disposal of trading property	**81.2**	**(0.8)**	**-**	**80.4**	73.7	(0.8)	-	72.9
Profit on disposal of investment property	**1.4**	**-**	**-**	**1.4**	2.2	-	-	2.2
Income from financial interest in property assets	**6.5**	**(0.7)**	**-**	**5.8**	5.3	0.9	-	6.2
Fees and other income	**7.1**	**-**	**-**	**7.1**	5.1	-	-	5.1
Administrative expenses	**(27.9)**	**-**	**-**	**(27.9)**	(27.2)	-	-	(27.2)
Other expenses	**(1.1)**	**-**	**-**	**(1.1)**	(3.9)	-	2.8	(1.1)
Profit on disposal of joint venture	**7.0**	**-**	**-**	**7.0**				
Impairment of inventories to net realisable value	**(0.5)**	**0.5**	**-**	**-**	(5.4)	5.4	-	-
Reversal of impairment/ (impairment) of joint venture	**5.5**	**(5.5)**	**-**	**-**	(3.6)	3.6	-	-
Operating profit before net valuation gains on investment property	**123.0**	**(6.5)**	**-**	**116.5**	86.6	9.1	2.8	98.5
Net valuation gains on investment property	**22.6**	**(22.6)**	**-**	**-**	18.0	(18.0)	-	-
Operating profit after net valuation gains on investment property	**145.6**	**(29.1)**	**-**	**116.5**	104.6	(8.9)	2.8	98.5
Change in fair value of derivatives	**(0.2)**	**0.2**	**-**	**-**	0.2	(0.2)	-	-
Finance costs	**(27.2)**	**-**	**-**	**(27.2)**	(29.1)	-	-	(29.1)
Finance income	**2.1**	**-**	**-**	**2.1**	2.1	-	-	2.1
Corporate bond redemption	**(27.4)**	**-**	**27.4**	**-**				
Share of profit of associates after tax	**7.2**	**(5.0)**	**-**	**2.2**	4.3	(1.8)	-	2.5
Share of profit of joint ventures after tax	**0.6**	**(0.2)**	**-**	**0.4**	4.2	(3.8)	-	0.4
Profit before tax – continuing operations	**100.7**	**(34.1)**	**27.4**	**94.0**	86.3	(14.7)	2.8	74.4
Tax charge for the year – continuing operations	**(13.3)**				(12.8)			
Profit after tax – continuing operations	**87.4**				73.5			
Discontinued operations – profit before tax	**-**				1.5			
Tax charge for the year – discontinued operations	**-**				(0.3)			
Profit for the year attributable to the owners of the Company	**87.4**				74.7			
Diluted earnings per share - adjusted				**18.2p**				14.3p

Notes to the preliminary financial results continued

Income from financial interest in property assets ('CHARM') comprises income from the asset calculated at the effective interest rate shown as adjusted earnings, and any movements in future cash flow projections related to the asset, are shown within valuations. Further details are included in Note 16.

Profit before tax in the adjusted columns above of £94.0m (2017: £74.4m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £17.9m (2017: £14.5m) in line with the current effective rate of 19.0% (2017: 19.5%), divided by the weighted average number of shares as shown in Note 10.

Other adjustments in 2018 comprise costs in relation to the previous corporate bond of £27.4m, being £25.8m gross prepayment cost and £1.6m expense of unamortised costs. In 2017, £2.8m other adjustments were recorded, being a provision for historic non-core businesses of £1.6m and costs in relation to the implementation of strategic operations of £1.2m.

4. Segmental Information

IFRS 8, Operating Segments requires operating segments to be identified based upon the Group's internal reporting to the Chief Operating Decision Maker ('CODM') so that the CODM can make decisions about resources to be allocated to segments and assess their performance. The Group's CODM is the Chief Executive Officer. The three significant segments for continuing operations are Residential, Development, and Funds.

The title 'Other' has been included in the tables below to reconcile the segments to the figures reviewed by the CODM and includes certain central costs that cannot be allocated to the operating segments. The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and other adjustments. The CODM reviews by segment two key statement of financial position measures of net asset value. These are EPRA Net Asset Value ('EPRA NAV') and EPRA Triple Net Asset Value ('EPRA NNNAV').

Information relating to the Group's operating segments is set out in the tables below. The tables distinguish between adjusted earnings, valuation and other adjustments and should be read in conjunction with Note 3.

2018 Income statement

£m	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	**201.4**	**64.2**	**4.6**	**0.5**	**270.7**
Net rental income	**43.5**	**0.3**	**-**	**-**	**43.8**
Profit on disposal of trading property	**68.7**	**11.7**	**-**	**-**	**80.4**
Profit on disposal of investment property	**1.4**	**-**	**-**	**-**	**1.4**
Income from financial interest in property assets	**-**	**-**	**-**	**5.8**	**5.8**
Fees and other income	**0.2**	**1.8**	**4.6**	**0.5**	**7.1**
Administrative expenses	**(7.0)**	**(1.7)**	**(0.6)**	**(18.6)**	**(27.9)**
Other expenses	**(0.1)**	**(1.0)**	**-**	**-**	**(1.1)**
Profit on disposal of joint venture	**-**	**-**	**7.0**	**-**	**7.0**
Net finance costs	**(27.3)**	**3.6**	**(1.4)**	**-**	**(25.1)**
Share of trading profit of joint ventures and associates after tax	**-**	**(0.1)**	**2.7**	**-**	**2.6**
Adjusted earnings	**79.4**	**14.6**	**12.3**	**(12.3)**	**94.0**
Valuation movements					**34.1**
Other adjustments					**(27.4)**
Profit before tax – continuing operations					**100.7**

Notes to the preliminary financial results continued

2017 Income statement

£m	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	179.2	81.3	4.1	0.1	264.7
Net rental income	40.3	0.1	-	-	40.4
Profit on disposal of trading property	58.2	14.7	-	-	72.9
Profit on disposal of investment property	2.2	-	-	-	2.2
Income from financial interest in property assets	-	-	-	6.2	6.2
Fees and other income	0.3	0.7	4.1	-	5.1
Administrative expenses	(6.1)	(1.6)	(0.6)	(18.9)	(27.2)
Other expenses	(0.6)	(0.3)	(0.1)	(0.1)	(1.1)
Net finance costs	(26.6)	1.2	(1.6)	-	(27.0)
Share of trading profit of joint ventures and associates after tax	-	0.1	2.8	-	2.9
Adjusted earnings	67.7	14.9	4.6	(12.8)	74.4
Valuation movements					14.7
Other adjustments					(2.8)
Profit before tax – continuing operations					86.3

Segmental assets

The two principal net asset value measures reviewed by the CODM are EPRA NAV and EPRA NNNAV. These measurements reflect the current market value of trading property owned by the Group rather than the lower of historical cost and net realisable value. These measures are considered to be a more relevant reflection of the value of the assets owned by the Group.

EPRA NAV is the statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. In addition, the statutory statement of financial position amounts for both deferred tax on property revaluations and derivative financial instruments net of deferred tax, including those in joint ventures and associates, are added back to statutory net assets. Finally, the market value of Grainger plc shares owned by the Group are added back to statutory net assets.

EPRA NNNAV reverses some of the adjustments made between statutory net assets and EPRA NAV. All of the adjustments for the value of derivative financial instruments net of deferred tax, including those in joint ventures and associates, are reversed. The adjustment for the deferred tax on property revaluations is also reversed. In addition, adjustments are made to net assets to reflect the fair value, net of deferred tax, of the Group's fixed rate debt and to deduct from net assets the contingent tax calculated by applying the expected rate of tax to the adjustment to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value.

These measures are set out below by segment along with a reconciliation to the summarised statutory statement of financial position:

2018 Segment net assets

	Continuing					
£m	**Residential**	**Development**	**Funds**	**Other**	**Total**	**Pence per share**
Total segment net assets (statutory)	**485.5**	**136.0**	**86.9**	**107.2**	**815.6**	**-**
Total segment net assets (EPRA NAV)	**1,115.8**	**139.4**	**87.3**	**114.6**	**1,457.1**	**348**
Total segment net assets (EPRA NNNAV)	**986.1**	**139.3**	**86.9**	**111.4**	**1,323.7**	**316**

'Other' includes CHARM assets.

Notes to the preliminary financial results continued

2018 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	**589.7**	**-**	**589.7**	**-**	**-**	**589.7**
Investment in joint ventures and associates	**145.6**	**0.4**	**146.0**	**-**	**(0.4)**	**145.6**
Financial interest in property assets	**82.2**	**-**	**82.2**	**-**	**-**	**82.2**
Inventories – trading property	**799.3**	**607.1**	**1,406.4**	**-**	**-**	**1,406.4**
Cash and cash equivalents	**109.3**	**-**	**109.3**	**-**	**-**	**109.3**
Other assets	**164.1**	**2.7**	**166.8**	**-**	**4.9**	**171.7**
Total assets	**1,890.2**	**610.2**	**2,500.4**	**-**	**4.5**	**2,504.9**
Interest-bearing loans and borrowings	**(961.2)**	**-**	**(961.2)**	**-**	**(3.4)**	**(964.6)**
Deferred and contingent tax liabilities	**(29.9)**	**27.9**	**(2.0)**	**(131.1)**	**-**	**(133.1)**
Other liabilities	**(83.5)**	**3.4**	**(80.1)**	**-**	**(3.4)**	**(83.5)**
Total liabilities	**(1,074.6)**	**31.3**	**(1,043.3)**	**(131.1)**	**(6.8)**	**(1,181.2)**
Net assets	**815.6**	**641.5**	**1,457.1**	**(131.1)**	**(2.3)**	**1,323.7**

2017 Segment net assets

	Continuing					
£m	Residential	Development	Funds	Other	Total	Pence per share
Total segment net assets (statutory)	394.5	135.9	113.5	101.4	745.3	-
Total segment net assets (EPRA NAV)	1,069.0	133.6	122.0	109.9	1,434.5	343
Total segment net assets (EPRA NNNAV)	932.3	134.7	112.7	88.5	1,268.2	303

‘Other’ includes CHARM assets.

2017 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	391.0	-	391.0	-	-	391.0
Investment in joint ventures and associates	197.6	8.5	206.1	(7.7)	(0.8)	197.6
Financial interest in property assets	86.1	-	86.1	-	-	86.1
Inventories – trading property	841.3	645.8	1,487.1	-	-	1,487.1
Cash and cash equivalents	88.9	-	88.9	-	-	88.9
Other assets	162.1	3.6	165.7	-	8.0	173.7
Total assets	1,767.0	657.9	2,424.9	(7.7)	7.2	2,424.4
Interest-bearing loans and borrowings	(925.7)	-	(925.7)	-	(24.8)	(950.5)
Deferred and contingent tax liabilities	(32.6)	26.4	(6.2)	(136.1)	-	(142.3)
Other liabilities	(63.4)	4.9	(58.5)	-	(4.9)	(63.4)
Total liabilities	(1,021.7)	31.3	(990.4)	(136.1)	(29.7)	(1,156.2)
Net assets	745.3	689.2	1,434.5	(143.8)	(22.5)	1,268.2

5. Group revenue

	2018 £m	2017 £m
Gross rental income (Note 6)	**59.2**	54.6
Gross proceeds from disposal of trading property (Note 7)	**204.4**	205.0
Fees and other income (Note 9)	**7.1**	5.1
	270.7	264.7

6. Net rental income

	2018 £m	2017 £m
Gross rental income	**59.2**	54.6
Property operating expenses	**(15.4)**	(14.2)
	43.8	40.4

7. Profit on disposal of trading property

	2018 £m	2017 £m
Proceeds from disposal of trading property	**160.5**	169.1
Revenue from construction contract	**43.9**	35.9
Gross proceeds from disposal of trading property	**204.4**	205.0
Selling costs	**(4.1)**	(3.8)
Net proceeds from disposal of trading property	**200.3**	201.2
Carrying value of trading property sold	**(85.1)**	(100.6)
Carrying value of construction contract expenses	**(34.0)**	(26.9)
	81.2	73.7

Amounts relating to the construction contract included in the above table relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea. The Group is managing and funding the construction of a number of sites and is receiving a developer's priority return at a fixed rate margin recoverable from the sale of units to third parties as they are completed. The construction contract is being accounted for as a cost plus contract in line with IAS 11 Construction Contracts, and is expected to conclude in early 2019.

8. Profit on disposal of investment property

	2018 £m	2017 £m
Gross proceeds from disposal of investment property	**5.1**	9.5
Selling costs	**(0.1)**	(0.1)
Net proceeds from disposal of investment property	**5.0**	9.4
Carrying value of investment property sold (Note 12)	**(3.6)**	(7.2)
	1.4	2.2

9. Fees and other income

	2018 £m	2017 £m
Property and asset management fee income	**6.5**	5.1
Other sundry income	**0.6**	-
	7.1	5.1

Notes to the preliminary financial results continued

10. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held both in Trust and as treasury shares to meet its obligations under the Long-Term Incentive Plan ('LTIP'), Deferred Bonus Plan ('DBP') and Save As You Earn ('SAYE') schemes, on which the dividends are being waived.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its share option schemes and contingent share awards under the LTIP and DBP, based upon the number of shares that would be issued if 30 September 2018 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	30 September 2018			30 September 2017		
	Profit for the year £m	**Weighted average number of shares (millions)**	**Earnings per share (pence)**	Profit for the year £m	Weighted average number of shares (millions)	Earnings per share (pence)
Basic earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**87.4**	**416.3**	**21.0**	74.7	415.6	18.0
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.1**	**(0.1)**	-	2.3	(0.1)
Diluted earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**87.4**	**418.4**	**20.9**	74.7	417.9	17.9
Basic earnings per share – continuing operations only						
Profit attributable to equity holders	**87.4**	**416.3**	**21.0**	73.5	415.6	17.7
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.1**	**(0.1)**	-	2.3	(0.1)
Diluted earnings per share – continuing operations only						
Profit attributable to equity holders	**87.4**	**418.4**	**20.9**	73.5	417.9	17.6

11. Dividends

Subject to approval at the AGM, the final dividend of 3.52p per share (gross) amounting to £14.7m will be paid on 11 February 2019 to shareholders on the register at the close of business on 14 December 2018. Shareholders will again be offered the option to participate in a dividend re-investment plan and the last day for election is 18 January 2019. An interim dividend of 1.74p per share amounting to a total of £7.2m was paid to shareholders on 5 July 2018.

Notes to the preliminary financial results continued

12. Investment property

	2018 £m	2017 £m
Opening balance	**391.0**	261.3
Additions	**179.7**	118.9
Disposals (Note 8)	**(3.6)**	(7.2)
Net valuation gains	**22.6**	18.0
Closing balance	**589.7**	391.0

13. Inventories

	2018 £m	2017 £m
Residential trading property	**756.5**	797.6
Development trading property	**42.8**	43.7
	799.3	841.3

14. Investment in associates

	2018 £m	2017 £m
Opening balance	**123.2**	105.1
Share of profit for the year	**7.2**	4.3
Dividends received	**(2.2)**	-
Further investment[1]	**5.2**	8.8
Loans advanced to associates	**5.2**	4.5
Loans repaid by associates	**(4.9)**	-
Share of change in fair value of cash flow hedges taken through other comprehensive income	**0.3**	0.5
Closing balance	**134.0**	123.2

[1] The Group invested a total additional £5.2m (2017: £8.8m) into GRIP REIT PLC in the year to enable further investment in PRS assets.

The closing balance comprises share of net assets of £109.2m (2017: £98.7m) and net loans due from associates of £24.8m (2017: £24.5m).

As at 30 September 2018, the Group's interest in associates was as follows:

	% of ordinary share* capital/ units held*	**Country of incorporation**	**Accounting period end**
GRIP REIT PLC	24.9	United Kingdom	31 December
Vesta LP	20.0	United Kingdom	30 September

Notes to the preliminary financial results continued

15. Investment in joint ventures

	2018 **£m**	2017 £m
Opening balance	**74.4**	78.9
Share of profit for the year	**0.6**	4.2
Dividends received	**(0.1)**	(4.8)
Reversal of impairment/(impairment)	**5.5**	(3.6)
Loan interest received	**-**	(0.4)
Loans advanced to joint ventures	**0.2**	5.0
Loans repaid by joint ventures	**(9.1)**	(5.0)
Disposal	**(60.0)**	-
Exchange movements	**-**	(0.1)
Share of change in fair value of cash flow hedges taken through other comprehensive income	**0.1**	0.2
Closing balance	**11.6**	74.4

The closing balance comprises share of net liabilities of £0.2m (2017: net assets of £54.6m) and net loans due from joint ventures of £11.8m (2017: £19.8m).

On 2 May 2018, the Group disposed of its joint venture interest in Walworth Investment Properties Limited to the joint venture partner, Dorrington Investment plc. The consideration received was £67.0m, resulting in a profit on sale of £7.0m. The amounts shown in the consolidated income statement represent the trading performance to the date of disposal.

At 30 September 2018, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	**Country of incorporation**	**Accounting period end**
Curzon Park Limited	50	United Kingdom	28 February
Helical Grainger (Holdings) Limited	50	United Kingdom	31 March
Lewisham Grainger Holdings LLP	50	United Kingdom	30 September
CCZ a.s.	50	Czech Republic	30 September

During the year, the Group was selected by Lewisham Borough Council as preferred partner on its Besson Street Build to Rent development opportunity to deliver up to 300 PRS homes on local authority owned land. Lewisham Graigner Holdings LLP was formed to undertake this development.

Effective 28 August 2018, two of the three Czech Republic companies the Group had an interest in, being CCY a.s. and Prazsky Projeckt a.s., were liquidated. The Group's remaining joint venture interest at 30 September 2018 is the holding in CCZ a.s.

16. Financial interest in property assets ('CHARM' portfolio)

	2018 **£m**	2017 £m
Opening balance	**86.1**	93.1
Cash received from the instrument	**(9.9)**	(11.3)
Amounts taken to income statement	**6.5**	5.3
Amounts taken to other comprehensive income before tax	**(0.5)**	(1.0)
Closing balance	**82.2**	86.1

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

It is considered to be a Level 3 financial asset as defined by IFRS 13. The financial asset is included in the fair value hierarchy within Note 19.

Notes to the preliminary financial results continued

17. Trade and other receivables

	2018 £m	2017 £m
Rent and other tenant receivables	**2.3**	2.1
Deduct: Provision for impairment	**(0.5)**	(0.6)
Rent and other tenant receivables – net	**1.8**	1.5
Amounts recoverable on contracts	**112.0**	86.8
Other receivables	**34.8**	49.4
Prepayments	**1.8**	8.2
	150.4	145.9

Amounts recoverable on contracts primarily relate to revenue receivable on the arrangement with the Royal Borough of Kensington and Chelsea (Note 7. Between the year end and the date of approval of these financial statements, £54.6m has been recovered on the contract in the form of cash receipts.

Other receivables includes £15.6m (2017: £29.0m) due from land sales, which is receivable by no later than July 2019.

18. Trade and other payables

	2018 £m	2017 £m
Deposits received	**3.1**	3.2
Trade payables	**20.6**	14.6
Tax and social security costs	**0.5**	9.1
Accruals	**44.4**	19.9
Deferred income	**2.1**	2.0
	70.7	48.8

19. Interest-bearing loans and borrowings and financial risk management

	2018 £m	2017 £m
Current liabilities		
Non-bank financial institution	**1.1**	1.1
	1.1	1.1
Non-current liabilities		
Bank loans – Pounds sterling	**533.4**	637.7
Bank loans – Euro	**0.9**	6.2
Non-bank financial institution	**79.8**	7.6
Corporate bond	**346.0**	273.1
	960.1	924.6
Total interest-bearing loans and borrowings	**961.2**	925.7

During the year the Group refinanced its corporate bond, issuing a new 10 year £350m corporate bond at 3.375%. Prepayment costs of £25.8m were incurred and unamortised costs of £1.6m were expensed on redemption of the previous £275m bond, which was due to mature in 2020.

The above analyses of loans and borrowings are net of unamortised loan issue costs and the discount on issuance of the corporate bond. As at 30 September 2018, unamortised costs totalled £10.9m (2017: £9.6m) and the outstanding discount was £1.4m (2017: a premium of £0.4m).

Categories of financial instrument

The Group holds financial instruments such as financial interest in property assets, trade and other receivables (excluding prepayments), derivatives, cash and cash equivalents. For all assets and liabilities excluding interest-bearing loans the book value was the same as the fair value as at 30 September 2018 and as at 30 September 2017.

As at 30 September 2018, the fair value of interest-bearing loans is greater than the book value by £3.4m (2017: £24.8m), but there is no requirement under IAS39 to adjust the carrying value of loans, all of which are stated at unamortised cost in the consolidated statement of financial position.

Market risk

The Group is exposed to market risk through interest rates, the availability of credit and house price movements relating to the Tricomm Housing portfolio and the CHARM portfolio. The Group is not significantly exposed to equity price risk or to commodity price risk.

Fair values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable inputs for the asset or liability.

The following table presents the Group's assets and liabilities that are measured at fair value:

	2018		2017	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Level 3				
CHARM	**82.2**	**-**	86.1	-
Investment property	**589.7**	**-**	391.0	-
	671.9	**-**	477.1	-
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	**4.2**	**3.4**	3.0	4.9
Interest rate caps – not in cash flow hedge accounting relationships	**0.2**	**-**	0.4	-
	4.4	**3.4**	3.4	4.9

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and the effective interest rate. A reconciliation of movements and amounts recognised in the consolidated income statement and other comprehensive income are detailed in Note 16.

The investment valuations provided by Allsop LLP and CBRE Limited are based on RIC's Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions.

Notes to the preliminary financial results continued

The fair value of swaps and caps were valued in-house by a specialised treasury management system, using first a discounted cash flow model and market information. The fair value is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments. As all significant inputs required to value the swaps and caps are observable, they fall within Level 2.

The reconciliation between opening and closing balances for Level 3 is detailed in the table below:

Assets – Level 3	**2018 £m**	2017 £m
Opening balance	**477.1**	354.4
Amounts taken to income statement	**29.1**	23.3
Other movements	**165.7**	99.4
Closing balance	**671.9**	477.1

20. Tax

The tax charge for the year of £13.3m (2017: £13.1m) recognised in the consolidated income statement comprises:

	2018 £m	2017 £m
Current tax		
Corporation tax on profit	**17.7**	14.1
Adjustments relating to prior years	**(7.4)**	0.3
	10.3	14.4
Deferred tax		
Origination and reversal of temporary differences	**(0.5)**	3.5
Adjustments relating to prior years	**3.5**	(4.8)
	3.0	(1.3)
Total tax charge for the year	**13.3**	13.1
Tax charge for the year comprises:		
Tax charge in the income statement – continuing operations	**13.3**	12.8
Tax from discontinued operations	**-**	0.3
Total tax charge for the year	**13.3**	13.1

The 2018 current tax adjustments relating to prior years include adjustments to recognise utilisation of tax losses and other reliefs available to the Group, which have been included in submitted tax returns, whilst deferred tax adjustments relate primarily to differences between the tax and accounting value of fixed assets.

The Group works in an open and transparent manner and maintains a regular dialogue with HM Revenue & Customs. This approach is consistent with the 'low risk' rating we have been awarded by HM Revenue & Customs, and to which the Group is committed.

In addition to the above, a deferred tax charge of £0.6m (2017: £2.6m) was recognised within other comprehensive income comprising:

	2018 £m	2017 £m
Deferred tax		
Actuarial deficit on BPT Limited pension scheme	**0.1**	0.8
Equity component of available-for-sale financial asset	**(0.1)**	(0.2)
Fair value movement in cash flow hedges and exchange adjustments	**0.6**	2.0
Amounts recognised in other comprehensive income	**0.6**	2.6

Deferred tax balances comprise temporary differences attributable to:

	2018 £m	2017 £m
Deferred tax assets		
Accelerated capital allowances	**-**	0.3
Short-term temporary differences	**3.1**	4.2
Losses carried forward	**-**	4.5
Actuarial deficit on BPT Limited pension scheme	**0.3**	0.2
Fair value movement in derivative financial instruments and cumulative exchange adjustments	**-**	0.5
	3.4	9.7
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	**(9.3)**	(10.3)
Investment property revaluation	**(18.6)**	(20.7)
Short-term temporary differences	**(0.8)**	(0.4)
Equity component of available-for-sale financial asset	**(1.1)**	(1.2)
Fair value movement in derivative financial instruments and cumulative exchange adjustments	**(0.1)**	-
	(29.9)	(32.6)
Total deferred tax	**(26.5)**	(22.9)

Deferred tax has been predominantly calculated at a rate of 17% (2017: 17%) in line with changes to the main rate of corporation tax from 1 April 2020 which have been substantively enacted.

In addition to the tax amounts shown above, contingent tax based on EPRA market value measures, being tax on the difference between the carrying value of trading properties in the consolidated statement of financial position and their market value has not been recognised by the Group. This contingent tax amounts to £103.2m (2017: £109.8m).

21. Retirement benefits

The Group retirement benefit liability decreased by £1.1m to an asset of £0.9m in the year ended 30 September 2018. This movement has arisen from changes in assumptions of £0.5m (primarily market observable discount rates), £0.5m company contributions and £0.1m net interest income. The principal actuarial assumptions used to reflect market conditions as at 30 September 2018 are as follows:

	2018 %	2017 %
Discount rate	**2.80**	2.65
Retail Price Index (RPI) inflation	**3.05**	2.90
Consumer Price Index (CPI) inflation	**2.05**	1.90
Salary increases	**3.55**	3.40
Rate of increase of pensions in payment	**5.00**	5.00
Rate of increase for deferred pensioners	**2.05**	1.90

22. Share-based payments

The Group operates a number of equity-settled, share-based compensation plan comprising awards under a Long-Term Incentive Plan (‘LTIP’), a Deferred Bonus Plan (‘DBP’), a Share Incentive Plan (‘SIP’) and a Save As You Earn Scheme (‘SAYE’). The share-based payments charge recognised in the consolidated income statement for the period is £1.1m (2017: £2.1m).

Notes to the preliminary financial results continued

23. Related party transactions

During the year ended 30 September 2018, the Group transacted with its associates and joint ventures (details of which are set out in Notes 14 and 15). The Group provides a number of services to its associates and joint ventures. These include property and asset management services for which the Group receives fee income. The related party transactions recognised in the consolidated income statement and consolidated statement of financial position are as follows:

	2018		2017	
	Fees recognised £'000	**Year end balance £'000**	Fees recognised £'000	Year end balance £'000
GRIP REIT PLC	**3,798**	**1,048**	3,737	2,815
Walworth Investment Properties Limited	**23**	**-**	40	40
Vesta Limited Partnership	**712**	**-**	234	-
	4,533	**1,048**	4,011	2,855

	2018			2017		
	Interest recognised £'000	**Year end loan balance £m**	**Interest rate %**	Interest recognised £'000	Year end loan balance £m	Interest rate %
GRIP REIT PLC	**647**	**18.2**	**Nil and 4.75**	764	23.1	Nil and 4.75
Czech Republic combined	**(45)**	**(0.4)**	**4.00**	(99)	(0.5)	4.00
Curzon Park Limited[1]	**-**	**21.9**	**Nil**	-	21.9	Nil
Helical Grainger (Holdings) Limited[1]	**-**	**7.5**	**Nil**	-	9.9	Nil
King Street Developments (Hammersmith) Limited[2]	**-**	**0.3**	**Nil**	-	-	-
Walworth Investment Properties Limited	**-**	**-**	**-**	156	-	7.00
Vesta LP	**-**	**6.6**	**Nil**	-	1.4	Nil
	602	**54.1**		821	55.8	

1 The amount disclosed above is the gross loan amount. Some provisions have been made against the loans.

2 King Street Developments (Hammersmith) Limited is a wholly-owned subsidiary of Helical Grainger (Holdings) Limited in which the Group has a 50% joint venture interest.

24. Post balance sheet events

On 18 October 2018, the maturity date on £50m of sterling bank loans was extended by a further year, increasing our weighted average debt maturity to 5.8 years.

On 8 November 2018, the Group confirmed the signing of a joint venture agreement with Lewisham Borough Council to deliver up to 300 purpose-built PRS homes at Besson Street, New Cross Gate, for a cost to the Group of c.£51m.

On 9 November 2018, the Group agreed to forward find and acquire a PRS, build-to-rent development in Tottenham Hale, North London, comprising 108 private rental homes for £41m.