

Grainger plc
 (“Grainger” or the “Company” or the “Group”)

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2010

Grainger delivers growth in operating profit through increased sales margins

Financial Highlights

- Operating profit up 19.5% to £94.2m (30 September 2009: £78.8m) before valuation movements and non recurring items
- Gross NAV per share up 3.1% to 200p (30 September 2009: 194p); Grainger NAV 180p (30 September 2009: 177p)
- Adjusted profit before tax £18.8m prior to £39.6m charge for mark to market on financial derivatives (30 September 2009: loss of £131.3m, prior to charge of £38.7m)
- Loss before tax of £20.8m after mark to market adjustment of £39.6m (30 September 2009: £170.0m loss)
- Sales of vacant residential property from the UK residential and retirement solutions portfolios of £110m (30 September 2009: £109m) at improved margins of 43.3% (30 September 2009: 35.5%)
- Investment sales and sales of other assets of £40m contributing a profit of £10m (30 September 2009: £60m and a profit of £8m), further demonstrating the portfolio’s ongoing liquidity
- Total combined sales therefore resulting in an improvement in overall residential trading profits to £58m from £47m at 30 September 2009, at improved margins of 38.5% compared to 27.8% (30 September 2009)
- Overall vacant possession sales during the year were at a level some 6.6% above 30 September 2009 vacant possession values (30 September 2009: 6.9% below 30 September 2008)
- Valuation of the UK residential portfolio (assisted by its London and South East bias) shows a year on year increase in vacant possession values of 4.8% compared to increases of 2.6% and 3.1% in the Halifax and Nationwide indices respectively
- Rights issue raising £237m net of costs resulting in loan-to-value on core facility falling to 54% (30 September 2009: 66%)
- At 30 September 2010, Group cash and committed undrawn facilities amounted to £260m (30 September 2009: £171m)
- Final dividend of 1.20p per share bringing the total dividend for the year to 1.70p

Operational highlights

- Executive Board strengthened with appointment of Nick Jopling as Executive Property Director, Mark Greenwood as Finance Director and Peter Couch, Chief Operating Officer and head of Grainger’s retirement solutions business
- Recommencement of prudent buying programme with some £63m of new property acquired compared to £12m in 2009. Approximately £53m of these acquisitions were of tenanted property at a 30% discount to vacant possession value, providing a gross yield of 3.7%
- Acquisition of AIM listed Sovereign Reversions plc for £34.2m. Net assets acquired were £38.7m, including circa £68m of home reversion assets. A 50% equity stake was subsequently sold into a joint venture

Robin Broadhurst, Chairman of Grainger plc, commented:

“In light of the on-going challenge of the current economic climate, we remain cautious about the prospects for general growth in residential values over the next two years. Nevertheless the Company has repeatedly demonstrated that because of its carefully selected and highly reversionary portfolio and the application of its extensive asset management skills, it can out-perform the sector and we expect to continue this trend in 2011.

“Over the last few years the proportion of private rented accommodation has increased and we believe that the changes proposed in the Comprehensive Spending Review to the social and

affordable housing systems will produce opportunities for large scale, well established residential landlords such as Grainger.

“With a strengthened senior management team and the benefit of market-leading positions in the residential and home reversion market, we will continue to concentrate on the returns from long term reversionary residential assets supplemented by other regular sources of income such as management fees and rental yield. In addition, we have seen the benefit of opportunistic acquisitions in related residential asset classes and will continue to pursue these if appropriate returns can be achieved on behalf of our shareholders.

“We look forward to a successful year.”

Analyst presentation

Grainger plc will be holding a presentation for analyst and investors today at Financial Dynamics, 26 Southampton Buildings, London, WC2A 1PB.

The meeting can be accessed through the following dial-in facility at 09.00 and a copy of the presentation slides will be available on Grainger’s website, www.graingerplc.co.uk

Title:	Grainger Full Year Results
Participant Dial in Number:	+44 (0) 1452 569 393
The Conference ID number:	27209347

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Chairman's Statement

Following a difficult year in 2008/09 the Group has taken a number of positive steps including the completion of a successful rights issue in December 2009 raising £237m net of issue costs. This has secured a stronger position, with considerable financial headroom, from which to move forward positively, but cautiously, in an uncertain economic environment. During the year the Board undertook a detailed review of the Group's businesses to identify those areas within the residential sector which will provide the greatest opportunities to maximise growth and return.

Our focus during the year to the 30 September 2010 has been to:

- Commence a targeted buying programme within the core regulated residential and equity release portfolios.
- Maximise sales revenues at the appropriate margin.
- Seek out attractively priced opportunities for the Group in an uncertain economic climate.
- Complete the consolidation of the German residential business.

Key progress during the year

- Sales of vacant residential property from the UK residential and retirement solutions portfolios of £110m (30 September 2009: £109m) at improved margins of 43.3% (30 September 2009: 35.5%)
- Investment sales and sales of other assets of £40m contributing a profit of £10m (2009: £60m and a profit of £8m), further demonstrating the portfolio's ongoing liquidity
- Total combined sales therefore resulting in an improvement in overall residential trading profits to £58m from £47m at 30 September 2009, at improved margins of 38.5% (2010) compared to 27.8% (2009)
- Overall vacant possession sales during the year were at a level some 6.6% above September 2009 vacant possession values (2009: 6.9% below).
- During the year the Company acquired the AIM listed company Sovereign Reversions plc which held some £68m of home reversion assets. Since the year end, we have sold 50% of our equity stake in this company to form a joint venture with Moorfield and it is anticipated that the joint venture will make further acquisitions in this area, thereby further enhancing our market-leading position in this sector.
- The valuation of our UK residential portfolio assisted by its London and South East bias indicates a year on year increase in vacant possession values of 4.8% compared to increases of 2.6% and 3.1% in the Halifax and Nationwide indices respectively. Within retirement solutions, which has a wider geographical distribution, there has been a smaller uplift in investment values in the year of 2.2%. Our portfolio of some 7,000 assets in Germany showed a marginal valuation decrease of less than 1% related to a small number of specific properties.
- During the year we recommenced a prudent buying programme acquiring some £63m of new property compared to £12m in 2009. Approximately £53m of these acquisitions were of tenanted property at a discount to vacant possession value of 30% and providing a gross yield of 3.7%.

As anticipated the Company has commenced a cautious and successful re-entry into the market leaving ample financial headroom to take advantage of opportunities we foresee within the residential sector over the next 24 months. The Company's financial position remains strong and it would take a 32% fall in current UK residential values for there to be a breach in the banking covenants on our core UK debt portfolio.

We will continue to focus on owning and acquiring reversionary assets in the UK supplemented by other regular sources of income such as rental yield or management fees from co-investment structures which utilise our strong residential property and asset management skills.

Chairman's Statement (continued)

Results

During the year, Grainger made a loss before taxation of £20.8m (2009: loss of £170.0m) following a charge of £39.6m for the change in fair value of derivatives. Operating profit before net valuation movements and non-recurring items amounted to £94.2m compared with £78.8m in 2009. The improvement has arisen primarily from increased sales margins.

Net asset values are as follows:

	Pence per share	
	2010	2009
Gross net asset value ('NAV')	200p	194p
Triple net asset value ('NNAV')	140p	141p
Grainger net asset value ('GNAV')	180p	177p

The comparative figures for 2009 have been adjusted to take account of the rights issue in the year. Details of the calculations of these net asset value measures are provided in the financial review.

NNAV and GNAV measures have been adversely affected by the mark to market adjustment on our derivative financial instruments.

Dividends

The Board is recommending a final dividend of 1.20p per share, bringing the total for the year to 1.70p. If approved, this will be paid on 11 February 2011 to shareholders on the register on 10 December 2010.

Board changes

The Company has strengthened the Board with the appointment of three new executive directors.

In June 2010 Peter Couch, the Company's Chief Operating Officer and head of its retirement solutions business, was appointed to the Board. Peter has been with the Company for more than five years and has demonstrated his expertise not only through the growth of the retirement solutions business, but also in his skill in managing the process elements of our business.

In September 2010 we welcomed Nick Jopling as Executive Property Director and Mark Greenwood as Finance Director. Together with Andrew Cunningham, the Chief Executive, these three new appointments bring considerable experience to an already strong management team ensuring the Company is well placed to grow shareholder value over the long term.

Outlook

In light of the ongoing challenge of the current economic climate, we remain cautious about the prospects for general growth in residential values over the next two years. Nevertheless the Company has repeatedly demonstrated that because of its carefully selected and highly reversionary portfolio and the application of its extensive asset management skills, it can out-perform the sector and we expect to continue this trend in 2011. Indeed, the cyclical nature of property markets is such that we anticipate there being compelling buying opportunities during this period and we will take advantage of these where the Company's undoubted track record and skills can be utilised to add value for the benefit of our shareholders.

We see an attractive opportunity to use our core property management skills and broad range of residential activities in both the UK and Germany to enhance the Grainger brand and reputation as a professional and caring landlord for the benefit of our tenants, partners and shareholders.

None of this would be possible without the enthusiasm and commitment of all the staff within Grainger to whom I would like to extend my grateful thanks.

We look forward to a successful year.

Robin Broadhurst
Chairman
25 November 2010

Chief Executive's and Operating Review

Grainger offers a geared exposure to residential property in the UK and Germany. The UK business accounts for 80% of our total asset base and produces a range of sources of income – rents, trading and development profits and returns from fund management and residential investments. The German business is primarily focused on rental income.

Market Overview

The UK residential market has been characterised by strong capital growth over the last fifty years with occasional periods of price correction. House price growth is driven by the complex relationship between supply and demand. In the short term, as we are currently seeing, factors such as the lack of available credit and low levels of consumer confidence can depress demand. In the longer term, however, the UK suffers from a significant imbalance between supply and demand which helps support price levels. This imbalance is driven by a combination of the increasing number of households and the difficulties in providing new product, primarily because of planning restrictions and the lack of available land, and by the attraction to many home owners of investing in a long term, tax friendly asset.

These imbalances are generally more pronounced at a local and property type level. For example, the central London residential market has out performed the rest of the country because of economic strength, its cosmopolitan nature and the attractiveness of sterling denominated property prices to overseas purchasers. In contrast, other parts of the UK residential market have suffered through the oversupply of new build one and two bedroom apartments and through lack of confidence in the general economic outlook.

The German residential market is very different from the UK. It is characterised by price stability, by higher rental yields and by significantly lower levels of home ownership. Returns are therefore principally driven by rental income. As in the UK however there are regional variations with the more affluent South and South-West of the country experiencing more rapid economic growth and greater levels of demand for housing. This in turn has led to increased investor demand for properties in areas with strong demographic profiles such as Frankfurt and Munich.

Our operating businesses reflect these different environments and have been structured so that good levels of cash return can be achieved even when underlying general house price growth is at lower levels than we have previously experienced.

Our business units

Our business comprises:

		Market value £m	Percentage of total
Division	Assets		
UK residential	Primarily our portfolio of regulated tenancies	1,068	47.6
Retirement solutions	Our interests in home reversion and retirement related assets	545	24.3
Residential investments and fund management	Investments in managed funds (G:res1) and in Grainger GenInvest	109	4.8
UK and European Development	Residential or residential led mixed use developments	79	3.6
German residential	Investment in German residential portfolio	442	19.7
		2,243	100.0

Grainger's UK businesses are generally low yielding but highly reversionary. The total reversionary surplus in our UK businesses (the difference between vacant possession value and the tenanted or current market value) amounts to £604m (2009: £570m).

Chief Executive's and Operating Review (continued)

UK residential

The UK residential business primarily consists of properties subject to a regulated tenancy, producing a gross rental yield of 3.7% and valued at 72.5% of vacant possession value. The portfolio is geographically widespread but with a strong concentration in London and the South East, where 67% by value of these properties are situated.

Returns from this portfolio are derived from a combination of rental income and trading profits on the sale of property, generally when the property falls vacant (a "normal sale") and the crystallisation of the reversionary gain. A key aspect of this portfolio is its strong cashflow, both from rents and asset sales. Rent arrears are low (at approximately 2% of the rent roll) and the predictable vacancy rate in our portfolio produces a consistent stream of properties available for sale. The properties are generally unrefurbished and of low average value (average vacant possession value per unit at 30 September 2010 was £199,000 despite the high London/ South East weighting). They therefore do not compete directly with the new build sector and attract demand from a range of potential purchasers including first time buyers, small scale developers and cash-led local investors. These characteristics also provide our asset managers with the opportunity to add value through active management by, for example, refurbishing certain properties prior to their sale. This is reflected in the results achieved in the year; completed normal sales were at values, on average, 6.6% above September 2009 valuations, the time taken for sale, measured from the date of vacancy to receipt of cash, was just 99 days and the margins that we achieved on normal sales were up to 46.2% from the 2009 figure of 37.6%. Year-end valuations were up 4.8% from the previous September compared to the average movement in the Halifax and Nationwide Housing Indices of 2.9%. This is evidence that with a carefully selected and managed portfolio, outperformance can be achieved.

During the year we sold £81m of properties from this portfolio on vacancy (2009: £83m) producing a profit of £38m (2009: £32m). In addition to these normal sales the portfolio provides a good opportunity for cash generation from other asset sales. This year we deliberately reduced the level of 'investment sales' (those with a tenant in place) but we saw significant benefits from sales from our agricultural portfolio (including land and agricultural related residential properties). In total we made £40m of investment, agricultural and other sales in the year, and produced a profit of £10m (2009: £60m sales, £8m profit). This demonstrates our ability to recognise, invest in and realise value from residential related sectors alongside the regulated portfolio.

We have recommenced a cautious buying programme in the UK residential business in 2010, acquiring some 308 units for £55.7m (2009: 7 units for £0.9m). Given current economic conditions we have set out key criteria for purchases which include:

- Good prospects for long term capital appreciation. This is reflected by the geographic spread of our purchases this year, with some 63% by value being in London and the South East.
- Good levels of discounts and/ or high yields. For example, in the year we acquired a portfolio of some 161 units in South West England which, despite half of them being subject to regulated tenancies, delivers a cash yield of 5.8%.
- Opportunities for redevelopment or refurbishment potential. As an example, early this year, we acquired a portfolio of 16 units in South West London at an average cost of £246,000, with the intention of phased development as properties fell vacant. We have sold our first unit at a profit margin of 17%, achieved within a six month period, and interest in other units has been such that we have started to sell vacant units off plan.

We believe that by applying these criteria to new acquisitions and by assiduous management of our existing portfolio we will remain in position to produce levels of return that consistently exceed the long term return of the UK market.

Chief Executive's and Operating Review (continued)

Retirement Solutions

The retirement solutions business consists mostly of home reversion assets (assets bought at a significant discount to vacant possession value with the home owner retaining a right to occupation). This is a highly reversionary business and depends on scale to produce consistent levels of vacancy and therefore sales income. With nearly 7,000 units, Grainger's portfolio is the largest in the UK and produces a predictable level of cash flow – in 2010 sales proceeds amounted to £29m, generating a profit of £10m (2009: Sales £27m; profit £7m). Certain assets in the portfolio also produce a rental income or equivalent and this amounted to £6m in the year (2009: £6m).

The assets in this portfolio are more geographically widespread than the UK residential portfolios and do not benefit from the same geographical bias towards London and the South East. This is reflected in the valuation results for the year, which showed a smaller uplift of 2.2% at investment value level.

As with the residential portfolio we recommenced purchasing activity this year buying some £8m of home reversion assets as well as acquiring Sovereign Reversions plc ('Sovereign'), an AIM listed business with a portfolio valued at £68m. Shortly after our year end we announced that we had sold 50% of our equity in Sovereign to MREF II Equity Release Limited, a wholly owned subsidiary of Moorfield Real Estate Fund II ('Moorfield'), and entered into a 50:50 joint venture agreement under which Moorfield pay 50% of the acquisition and certain integration costs and Grainger will receive management fees. The total purchase price for the company was £34.2m representing 202p per share, compared with the net asset value on acquisition of 229p per share.

As well as portfolio size and an efficient operating platform, the keys to the retirement solutions business are reputation, product innovation and distribution. We are delighted therefore to have won the Equity Release award for Best Home Reversion provider for the fifth consecutive year and the ILP Moneyfacts Award for Best Home Reversion Provider 2010. Both the JV with Moorfield and our existing directly owned holdings provide us with an extremely strong platform for growth.

Fund Management and Residential Investments

Our fund management and residential investments division comprises our investments in funds and joint ventures and the income (share of profits and revaluation movements, dividends received and fee income) that we consequently receive. In total this income amounted to a profit of £14m (2009: loss £14m). The major investments are in Grainger GenInvest (a 50:50 joint venture with Genesis Housing Group) which owns a total of 1,443 residential units of which 56% are subject to regulated tenancies and G:res1 ('G:res') which is a market rented fund of 2,006 units and in which we hold a 21.6% stake.

Residential values in Grainger GenInvest increased by 5% in the year to end September. G:res is subject to a full valuation in December and June of each year and showed an increase in market values of 7.3% for the twelve months ended in June 2010, producing an increase in net asset value in the fund of 17%.

External funding arrangements in both Grainger GenInvest LLP's are due for renewal within the next 12 months. Discussions with potential funders are progressing and we expect all external loans to be successfully refinanced.

Recent operational results at G:res provide an insight into the current UK residential rental market. Rental increases on renewals amounted to 3.2% for the quarter ended September 2010 and increases on new lets for the same period were 10.5%. Both results show an improvement on the previous four quarters and, together with a decrease in the level of voids, indicate a strengthening rental market.

The controlled liquidation of the Schroders Residential Property Unit Trust has been successful and is virtually complete; cash realisations were 6.3% in excess of the property value at the time of the decision of the unit holders taken to liquidate the fund in January 2009.

Chief Executive's and Operating Review (continued)

Property Services

All of the above divisions are supported by our property services division which, in the UK, manages a total of 19,263 residential units and a gross rent roll of £76m from five regional offices. We believe this in-house capability is a distinguishing feature of our residential business and the 'owner-manager' mentality that it produces is one of the factors that facilitates its outperformance and secures our reputation for exceptional service.

Development

The development division focuses on value creation by assembling residential development opportunities, obtaining or amending planning permissions, installing infrastructure and then either selling or self-developing plots. As anticipated, sales in this division at £19m were lower than last year's figures of £48m which included the sale of the bulk of the successful Hornsey Road development in North London. The major focus in 2010 has been on preparing and submitting planning applications on a number of sites, in particular at Newlands near West Waterlooville in Hampshire, where we would anticipate commencing infrastructure work in June 2011, with the first land sales due in the first quarter of 2012. We believe that the timing and nature of the release of plots (fully infrastructured and planned) will attract high levels of interest from housebuilders.

This business area will continue to focus on strategic land opportunities, primarily in Southern England (e.g. Newlands), on design led smaller sized London developments (e.g. Macauley Road), and the promotion of larger scale joint venture partnerships (e.g. in London with Helical Bar at King Street in Hammersmith). In addition we are actively looking at income producing assets offering the potential for future residential development.

German Residential

Our German residential business provides a counter balance of risk and return compared with the UK business where, as noted previously, our assets are low yielding. The German business complements this by delivering gross rents of €35.1m (2009: €34.6m) at gross yields of 6.9% in a largely stable price environment: year-end write downs amounted to 0.6% and related primarily to a small number of specific properties with an above average proportion of commercial space. Our portfolio comprises 6,776 residential units and 372 commercial units located predominantly in the South and South-West of the country. With the exception of Berlin and Potsdam, we have no exposure to markets in the former Eastern Germany where rental growth in most areas has been much lower due to economic weakness and poorer asset quality.

Our strategy is to improve the returns in our German business by undertaking:

- a high level of active asset management aimed at improving operational efficiency and maximising net rental returns by reducing voids and property expenses.
- attracting third-party investors by placing parts of the existing portfolio into new structures which will be managed long-term by Grainger's German asset management platform. We are in discussions with a number of potential partners.
- a programme of capital recycling to improve the overall quality of the asset base and enhance cash flow. As part of this on-going process we sold some €5m of investment assets in 2010 and have identified further assets totalling €25m to be sold in the first half of 2011. We have also selected an initial portfolio of €10m suitable for potential tenant privatisation.

We also anticipate growth in our property manager JV, Gebau Vermogen, following a strengthening of senior management there during the year.

Future prospects

The near term outlook for the general economy and the UK residential market is challenging. Nevertheless the new financial year has started well and our UK residential and development sales pipeline (completed sales, contracts exchanged and properties in solicitors' hands) amounted to £54.9m at 19 November 2010 with residential sales values at or slightly above September 2010 vacant possession levels. Grainger has repeatedly shown that it can outperform the general market through active management of its distinctive portfolio and by taking advantage of the broad spread

Chief Executive's and Operating Review (continued)

of returns that it generates. By careful application of the purchasing criteria noted above, cash generated from operations can be recycled into assets that will deliver long term returns.

Over the last few years the proportion of private rented accommodation has increased and we believe that the changes proposed in the Comprehensive Spending Review to the social and affordable housing systems will provide opportunities for large scale, well established residential landlords such as Grainger.

We will continue to engage with the Coalition Government on specific policy areas, such as the energy efficiency of existing houses and housing benefit, to encourage either changes for improvement or discourage changes that would negatively impact on our business and the residential sector as a whole.

Lack of liquidity in the banking markets will necessitate changes in our balance sheet structure with reduced dependency on pooled bank debt sources of finance and increased emphasis on recycling capital rather than asset accumulation. This is also likely to produce an increase in the proportion of assets funded by third party capital, either in joint ventures, as with the Sovereign – Moorfield transaction or in fund structures, such as G:res1 or as planned for part of the German portfolio.

With a strengthened senior management team and the benefit of market-leading positions in the residential and home reversion market, we will continue to concentrate on the returns from long term reversionary residential assets supplemented by other regular sources of income such as management fees and rental yield. In addition, we have seen the benefit of opportunistic acquisitions (for example our agricultural portfolio) in related residential asset classes and will continue to pursue these if appropriate returns can be achieved on behalf of our shareholders.

Going forward our focus will be on:

- rebalancing our residential portfolios to selective areas of value or growth, through the application of careful acquisition criteria.
- reducing capital employed in non-core assets and underperforming locations.
- introducing third party capital into selected business units to improve diversified returns.
- early consideration and implementation of debt financing options.

We remain confident in our ability to deliver good levels of long term return in the residential property sector.

Andrew R. Cunningham
Chief Executive
25 November 2010

Financial Review

Performance overview

Our key performance indicators are:

	2010	2009
Gross net asset value per share (pence) (NAV)	200p	194p
Triple net asset value per share (pence) (NNNAV)	140p	141p
Grainger net asset value per share (pence) GNAV	180p	177p
Operating profit before valuation and goodwill adjustments	£94.2m	£78.8m
Return on capital employed (1)	5.3%	(2.7%)

	1 year	5 year	10 year
Return on shareholder equity (2)	0.6%	(4.0)%	3.6%

1. Operating profit after net valuation movements on investment properties plus share of results from Joint Ventures/ Associates plus the movement on the uplift of trading stock to market value as a percentage of opening gross capital defined as investment property, financial interest in property assets (CHARM), investment in Joint Ventures/ Associates and trading stock at market value.
2. Growth in net net net asset value ("NNNAV") in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

Most of our properties are held as trading stock and are therefore shown in the statutory balance sheet at the lower of cost and net realisable value. This does not reflect the market value of the assets and so we set out below a summary of our net assets with the properties restated at market value.

	Statutory balance sheet £m	Re-statement to market value, adjust deferred tax and derivatives £m	Gross NAV balance sheet £m	Add deferred and contingent tax £m	Add back fair value of derivatives £m	Triple NAV balance sheet £m
Properties	1,795	332	2,127	-	-	2,127
Investments/ other assets	121	9	130	-	(7)	123
Goodwill	6	-	6	-	-	6
Cash	95	-	95	-	-	95
Total assets	2,017	341	2,358	-	(7)	2,351
Borrowings etc	(1,574)	128	(1,446)	-	(141)	(1,587)
Other net liabilities	(79)	-	(79)	-	-	(79)
Provisions/ deferred tax	(19)	18	(1)	(142)	40	(103)
Total liabilities	(1,672)	146	(1,526)	(142)	(101)	(1,769)
Net assets	345	487	832	(142)	(108)	582
2010 net assets per share (pence)	83	117	200	(34)	(26)	140
2009 net assets per share (pence) (restated for rights issue)	88	106	194	(33)	(20)	141

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

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

Financial Review (continued)
Market value analysis of property assets

	Shown as stock at cost	Market value adjustment	Market value	Investment property/ financial interest in property assets	Total
	£m	£m	£m	£m	£m
Residential	975	341	1,316	739	2,055
Development	81	(9)	72	-	72
Total September 2010	1,056	332	1,388	739	2,127
Total September 2009	1,016	304	1,320	763	2,083

Net asset value

Movements in net asset value are key performance indicators for the Group. We set out three measurements to better enable shareholders to compare our performance year on year with our peers, whilst reflecting the distinctive nature of our business.

	2010	2009 (restated for rights issue)	Movement
Gross net assets per share (NAV)	200p	194p	+3.1%
- market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives			
Triple net asset value per share (NNNAV)	140p	141p	-0.6%
- gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives			
Grainger NAV (GNAV)	180p	177p	+1.7%
- NNNAV adjusted for the discounted and taxed reversionary surplus (the difference between vacant possession and current market value) in our long-term regulated and home reversion portfolios (2010 includes the full reversionary surplus of £46m in relation to Sovereign assets at 30 September 2010).			

The major movements in NAV in the year are:

	£m	Pence per share
NAV at 1 October 2009	570	411
Rights issue (net proceeds)	237	(217)
Adjusted NAV 1 October 2009	807	194
Results after tax	(11)	(3)
Revaluation movements	53	13
Elimination of previously recognised surplus on sales	(32)	(8)
Dividends paid	(7)	(2)
Fair value of derivatives net of tax	20	5
Others	2	1
NAV at 30 September 2010	832	200

Reconciliation of NAV measures

	£m	Pence per share
NAV	832	200
Deferred and contingent tax	(142)	(34)
Fair value of derivatives adjustments net of tax	(108)	(26)
NNNAV	582	140
Discounted reversionary surplus	228	55
Tax thereon	(62)	(15)
GNAV as at 30 September 2010	748	180

The major assumptions used in calculating the base case GNAV are set out below:

- House price inflation taken as zero over the entire reversionary period;
- Discount rate of 8.66% used to calculate the present value of the reversionary surplus (weighted average cost of capital + 3%) (2009: discount rate 8.22%);
- No discounting of contingent tax on the revaluation surpluses; and

Financial Review (continued)

- Reversionary periods taken as 13 years for regulated properties and 10 years for home reversions.

Our website (www.graingerplc.co.uk) sets out how these assumptions may be varied.

Financial performance in the year

Operating profit before all revaluation movements, fair value, impairment and goodwill adjustments has increased £15.4m (19.5%) to £94.2m from £78.8m.

	£m
2009 operating profit	78.8
Decrease in gross rents and other income	(3.8)
Decrease in property expenses and overheads	3.4
Increase in residential trading profits	11.4
Decrease in development trading profits	(5.2)
Increase in interest income from CHARM	7.2
Other	2.4
2010 operating profit (see note 2)	94.2

The major movement in operating profit is due to the higher margins achieved on sales during the year. The decrease in development trading profit was anticipated and results from the majority of sales at Hornsey Road, London being completed in 2009.

Overhead costs in 2010 (excluding non-recurring costs) at £28.7m are £1.7m lower than in 2009 (£30.4m).

Loss per share

Basic loss per share is a loss of 2.9p (2009: 32.3p loss after adjusting for the full impact of the rights issue in 2009).

	£m	Pence per share
2009 Loss/ loss per share	(122.0)	(89.8)
Re-statement for rights issue	-	39.0
Restated under IAS 33	(122.0)	(50.8)
Further adjustment for comparative purposes (see below)	-	18.5
2009 loss per share adjusted for full impact of rights issue	(122.0)	(32.3)

Movements in:

Operating profit	15.4	4.1
Contribution from joint ventures and associates	17.9	4.8
Fair value of derivatives	(0.9)	(0.2)
Reversal of revaluation deficits on investment properties	24.8	6.6
Decrease in provisions against trading stock values and loan balances	30.2	8.0
Goodwill credit/ (impairment)	4.2	1.1
Net interest payable	25.7	6.8
Inducement costs in 2009 on convertible bond	31.1	8.3
Taxation and other	(37.2)	(10.1)
2010 Loss/ loss per share	(10.8)	(2.9)

The majority of the movements below operating profit relate to the reversal of valuation deficits on owned property assets and those held within joint ventures and associates. In addition provisions made against the carrying value of trading stock or loan balances were, overall, either reversed or reduced in the current year compared to 2009.

Loss per share for 2009 shown above has been adjusted for the full impact of the right issue. This basis isolates the impact of the rights issue providing a clearer view of the pence per share movements in the current financial year.

Rights Issue

On 16 December 2009 the Group completed a rights issue of 278m ordinary shares. This produced a cash inflow of £236.7m net of expenses. This was used to eliminate £104.5m of debt and

Financial Review (continued)

increase cash balances by £132.2m. Consequently it created an increase in net assets of £236.7m and decreased gross net assets per share by 53%.

Interest expense and similar charges

Our net interest charge has decreased by £25.6m from £101.9m to £76.3m, the principal reason being that 2009 included a non-recurring write-off of loan refinancing costs arising from the re-financing at the end of our 2009 financial year. In addition 2010 has benefitted from a reduction in debt of £104.5m paid out of the rights issue proceeds thereby reducing interest costs.

In the second half of our financial year the yield curve for long term interest rates showed rates staying lower and for longer. The effect has been to increase the Group's fair value of derivatives liability in the consolidated statement of financial position to £128.3m with a charge through the consolidated income statement of £39.6m (2009: £38.7m).

Financial resources

The business has produced £203m of cash from its operating activities being net rents and other income, property sales and other working capital movements net of overheads. The largest outflow of cash is £79m of net interest.

At the year-end our net debt levels (before unamortised finance costs) had reduced from £1,561m in 2009 to £1,360m. The reduction mainly comprises loan repayments of £139m, a favourable exchange movement of £26m, an increase in net cash of £67m mainly resulting from the rights issue in December, offset partly by a net £25m of bank loans and cash acquired with Sovereign.

The Group's cash and committed undrawn facilities amounted to £260m at 30 September 2010 (2009: £171m).

At 30 September 2010 gross debt was 75% hedged (2009: 93%) of which 4.5% was subject to caps. The Group has core banking facilities of £101m maturing in the next two financial years with a further £868m maturing in December 2012 and the balance of £275m in June 2013.

On 30 September 2009 we announced the finalisation of two new forward start facilities totalling £615m. The first part, some £250m, commenced 30 June 2010 and was used to refinance a facility of £250m maturing on that date. The second part, £365m commencing 30 June 2011, will be used to refinance a £390m facility maturing on that date. The other facilities under our core banking facilities are a £228m revolving credit facility maturing in December 2012 and term loans of £376m maturing June 2013.

The average maturity of all of the Group's debt is 3.5 years (2009: 4.4 years).

The effective average interest rate on the Group's debt at 30 September 2010 was 5.0% (2009: 5.3%).

During the year our loan-to-value (LTV) on the core facility has fallen to 54% (2009: 66%) This compares to a default LTV level of 80% (at 70% purchasing restrictions and a cash sweep would apply). A 32% fall in property values would be needed to breach the 80% LTV. (23% fall to reach 70%).

At 30 September 2010 our interest cover ratio stood at 2.4 times (2009: 2.7 times). This compares to an interest cover covenant of 1.25.

Although the funding position of the Group is very secure for the next two financial years we are already focused on the need to re-shape our sources of long-term funding in an environment where traditional bank lending is likely to remain constrained. We are already in discussions to advance a number of initiatives in this regard.

Mark Greenwood
Finance Director
25 November 2010

Consolidated Income Statement (unaudited)
For the year ended 30 September 2010

	Notes	2010 £m	2009 £m
Group revenue		244.5	302.2
Net rental income	4	40.8	38.5
Profit on disposal of trading properties	5	52.8	44.9
Administrative expenses	6	(11.2)	(8.9)
Other income and expenses		5.9	7.3
Net gain on acquisition of subsidiary	22, 23	2.8	-
Goodwill impairment	14	(1.5)	(2.9)
Profit/ (loss) on disposal of investment property	7	0.4	(1.1)
Profit on redemption of equity units in associate		1.0	-
Interest income/ (expense) from financial interest in property assets	13	2.5	(4.7)
Write back/ (write down) of inventories to net realisable value		2.9	(18.4)
Provision for impairment of loans receivable net of write backs		(10.7)	(19.6)
Operating profit before net valuation deficits on investment properties		85.7	35.1
Net valuation deficits on investment properties	10	(0.8)	(25.6)
Operating profit after net valuation deficits on investment properties		84.9	9.5
Change in fair value of derivatives		(39.6)	(38.7)
Interest expense and similar charges		(81.3)	(107.1)
Interest income		5.0	5.2
Inducement costs and expenses on convertible bond		-	(31.1)
Share of profit/ (loss) of associates after tax	11	5.6	(6.4)
Share of profit/ (loss) of joint ventures after tax	12	4.6	(1.4)
Loss before tax		(20.8)	(170.0)
Tax – current		0.1	10.8
Tax – deferred		9.9	37.2
Tax credit for the year	17	10.0	48.0
Loss for the year attributable to equity shareholders	20	(10.8)	(122.0)
Basic loss per share (2009: Restated)	8	(2.9)p	(50.8)p
Diluted loss per share (2009: Restated)	8	(2.9)p	(50.8)p
Dividend per share (2009: Restated)	9	1.70p	1.29p

All of the above results relate to continuing operations.

Consolidated Statement of Comprehensive Income (unaudited)
For the year ended 30 September 2010

			2010	2009
	Notes	£m	£m	£m
Loss for the year			(10.8)	(122.0)
Actuarial loss on BPT Limited defined benefit pension scheme net of tax	20	(0.4)		(2.9)
Fair value movement on financial interest in property assets net of tax	20	2.3		1.9
Net exchange adjustments offset in reserves net of tax	20	0.9		0.6
Changes in fair value of cash flow hedges net of tax	20	(1.4)		(47.0)
Other comprehensive income and expense for the year			1.4	(47.4)
Total comprehensive income and expense for the year attributable to equity shareholders			(9.4)	(169.4)

Consolidated Statement of Financial Position (unaudited)
As at 30 September 2010

	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Investment property	10	634.7	654.3
Property, plant and equipment		1.3	1.9
Investment in associates	11	28.6	24.5
Investment in joint ventures	12	91.0	80.7
Financial interest in property assets	13	103.9	109.1
Goodwill	14	6.2	5.9
		865.7	876.4
Current assets			
Investment in associates	11	0.1	8.7
Inventories - trading properties		989.9	1,015.6
Trade and other receivables	15	17.2	20.0
Derivative financial instruments	18	-	0.2
Cash and cash equivalents		91.5	28.3
Assets held for sale	22	70.7	-
		1,169.4	1,072.8
Total assets		2,035.1	1,949.2
LIABILITIES			
Non-current liabilities			
Interest bearing loans and borrowings	16	1,361.7	1,557.0
Trade and other payables		4.0	4.0
Retirement benefits		6.0	5.8
Provisions for other liabilities and charges		0.8	0.9
Deferred tax liabilities	17	14.2	21.1
		1,386.7	1,588.8
Current liabilities			
Interest-bearing loans and borrowings	16	55.6	19.9
Trade and other payables	19	57.3	88.1
Current tax liabilities	17	27.8	24.4
Derivative financial instruments	18	128.3	99.5
Liabilities held for sale	22	34.1	-
		303.1	231.9
Total liabilities		1,689.8	1,820.7
Net assets		345.3	128.5
EQUITY			
Capital and reserves attributable to the company's equity holders			
Issued share capital		20.8	6.9
Share premium		109.8	109.7
Merger reserve		20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve		(43.0)	(41.6)
Equity component of convertible bond		5.0	5.0
Available-for-sale reserve		4.2	1.9
Retained earnings		228.0	26.1
Total shareholders' equity		345.2	128.4
Non-controlling interests		0.1	0.1
Total Equity	20	345.3	128.5

Consolidated Statement of Changes in Equity (unaudited)

	Issued share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Equity component of convertible bond £m	Available- for-sale reserve £m	Retained earnings £m	Minority Interest £m	Total Equity £m
Balance as at 1 October 2008	6.4	23.1	20.1	0.3	5.4	22.4	-	152.0	0.1	229.8
Loss for the year	-	-	-	-	-	-	-	(122.0)	-	(122.0)
Other recognised income and expense for the year	-	-	-	-	(47.0)	-	1.9	(2.3)	-	(47.4)
Total recognised income and expense for the year	-	-	-	-	(47.0)	-	1.9	(124.3)	-	(169.4)
Issue of shares	0.5	86.6	-	-	-	-	-	-	-	87.1
Conversion of convertible bond	-	-	-	-	-	(17.4)	-	-	-	(17.4)
Transfer on early conversion of convertible bond	-	-	-	-	-	-	-	3.2	-	3.2
Purchase of own shares	-	-	-	-	-	-	-	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	-	-	0.8	-	0.8
Dividends paid	-	-	-	-	-	-	-	(5.2)	-	(5.2)
Balance as at 30 September 2009	6.9	109.7	20.1	0.3	(41.6)	5.0	1.9	26.1	0.1	128.5
Loss for the year	-	-	-	-	-	-	-	(10.8)	-	(10.8)
Other recognised income and expense for the year	-	-	-	-	(1.4)	-	2.3	0.5	-	1.4
Total recognised income and expense for the year	-	-	-	-	(1.4)	-	2.3	(10.3)	-	(9.4)
Purchase of own shares	-	-	-	-	-	-	-	(4.5)	-	(4.5)
Issue of shares	-	0.1	-	-	-	-	-	-	-	0.1
Rights Issue (see note 21)	13.9	-	235.9	-	-	-	-	(13.1)	-	236.7
Transfer to retained earnings	-	-	(235.9)	-	-	-	-	235.9	-	-
Share-based payments charge	-	-	-	-	-	-	-	1.3	-	1.3
Dividends paid	-	-	-	-	-	-	-	(7.4)	-	(7.4)
Balance as at 30 September 2010	20.8	109.8	20.1	0.3	(43.0)	5.0	4.2	228.0	0.1	345.3

Consolidated Cash Flow Statement (unaudited)
For the year ended 30 September 2010

		2010	2009
	<u>Notes</u>	<u>£m</u>	<u>£m</u>
Cash flow from operating activities			
Loss for the year		(10.8)	(122.0)
Depreciation		0.7	0.8
Net gain on acquisition of subsidiary	22, 23	(2.8)	-
Goodwill impairment	14	1.5	2.9
Net valuation deficits on investment properties	10	0.8	25.6
Net finance costs		76.3	101.9
Share of (profit)/ loss of associates and joint ventures	11,12	(10.2)	7.8
(Profit)/ loss on disposal of investment property	7	(0.4)	1.1
Provision for impairment of loans receivable net of write backs		10.7	19.6
Profit on redemption of equity units in associate	11	(1.0)	-
Inducement costs on convertible bond		-	31.1
Share-based payment charge		1.3	0.8
Change in fair value of derivatives		39.6	38.7
Interest (income)/ expense from financial interest in property assets	13	(2.5)	4.7
Taxation	17	(10.0)	(48.0)
Operating profit before changes in working capital		93.2	65.0
(Increase)/ decrease in trade and other receivables		(2.5)	1.4
Decrease in trade and other payables		(23.9)	(22.9)
Decrease in trading properties		42.5	126.9
Cash generated from operations		109.3	170.4
Interest paid		(80.2)	(77.9)
Taxation refund/ (paid)	17	3.6	(16.2)
Net cash inflow from operating activities		32.7	76.3
Cash flow from investing activities			
Proceeds from sale of investment property	7	9.9	8.8
Proceeds from financial interest in property assets	13	10.8	10.1
Proceeds from redemption of equity units in associate	11	9.8	7.6
Interest received		1.7	1.9
Dividends/distributions received	11, 12	-	0.4
Acquisition of subsidiaries, net of cash acquired	22	(47.0)	(0.8)
Investment in associates and joint ventures		(7.0)	(4.8)
Acquisition of investment property and property, plant and equipment		(15.4)	(5.1)
Net cash (outflow)/ inflow from investing activities		(37.2)	18.1
Cash flows from financing activities			
Proceeds from the issue of share capital	21	236.7	-
Purchase of own shares	20	(4.5)	(0.4)
Inducement payment to convertible bondholders		-	(31.1)
Proceeds from new borrowings		-	11.6
Repayment of borrowings		(139.4)	(86.0)
Settlement of derivative contract		(13.4)	-
Dividends paid	9, 20	(7.4)	(5.3)
Payment to defined benefit pension scheme		(0.6)	(0.5)
Net cash inflow/ (outflow) from financing activities		71.4	(111.7)
Net increase/ (decrease) in cash and cash equivalents		66.9	(17.3)
Cash and cash equivalents at the beginning of the year		28.3	43.2
Net exchange movements on cash and cash equivalents		(0.6)	2.4
Total Cash and cash equivalents at the end of the year		94.6	28.3
Cash held in Sovereign Reversions plc	22	(3.1)	-
Cash and cash equivalents at the end of the year		91.5	28.3

1a Basis of preparation

The Board approved this preliminary announcement on 25 November 2010.

The financial information included in this preliminary announcement is unaudited and does not constitute the Group's statutory accounts for the years ended 30 September 2009 or 30 September 2010. Statutory accounts for the year ended 30 September 2009 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2010 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The auditors have reported on the 2009 accounts; their report was unqualified, did not include any references 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 2010 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at their fair value; investment property, derivative financial interests, financial interest in property assets, share-based payments and pensions. The accounting policies used are consistent with those contained in the Group's last annual report and accounts for the year ended 30 September 2009.

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

1b Adoption of new and revised International Financial Reporting Standards

At the date of authorisation of these financial statements there are a number of standards, amendments and interpretations to existing standards that have been published but which are not yet effective and which have not been early adopted by the Group. These are as follows:

International Financial Reporting Standards ("IFRS")

- IFRS 9, 'Financial instruments'- The impact of IFRS 9 on the Group financial statements are currently being assessed

International Financial Reporting Interpretations Committee ("IFRIC") interpretations

- IFRIC 15, 'Agreements for construction of real estates'
- IFRIC 18, 'Transfer of assets from customers'
- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

Amendments to existing standards

- Annual improvements 2010
- Amendment to IFRS 2, 'Share based payments – Group cash-settled share-based payment transactions'
- Amendments to IFRS 1 for additional exemptions
- Amendment to IAS 24, 'Related Party disclosures'
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement'

All the above IFRS's and amendments to existing standards are yet to be endorsed by the European Union ('EU') at the date of approval of these financial statements.

At the date of approval of these financial statements, the following interpretations and amendments were issued, endorsed by the EU and are mandatory for the Group for the first time for the financial year beginning 1 October 2009.

Notes to the Preliminary Announcement of unaudited results (continued)
International Financial Reporting Standards ("IFRS")

- IFRS 3 (revised) 'Business combinations' (effective from 1 July 2009) and IAS 27 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). Some of the key changes are: i) the requirement to measure all consideration at fair value at acquisition date, with any subsequent changes (e.g. contingent consideration) re-measured at fair value through income ii) the expensing of all transaction costs iii) stepped acquisitions to be accounted for as a disposal of existing interests and an acquisition of an enlarged interest, giving rise to potential profits or losses on disposal of the existing property. The expensing of transaction costs has been applied in these financial statements although the impact has not been material.
- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 amends the current segmental reporting requirements of IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131. It requires a 'management approach' to be adopted so that segment information is presented on the same basis as that used for internal reporting purposes. This standard has been applied in these financial statements and further information is provided in note 3.
- IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009). This revised standard requires the introduction of a Statement of Comprehensive Income along with voluntary changes in the titles of some of the financial statements and the requirement to aggregate information in the financial statements on the basis of shared characteristics. This standard has therefore resulted in changes to the statement of recognised income and expense which has been split into two statements, one showing changes in equity resulting from transactions not reflected in the income statement and the other showing changes in equity resulting from transactions with shareholders. The statement of changes in equity has now become a primary statement in the Group's results.
- IAS 23 (revised), 'Borrowing costs' (effective from 1 January 2009). This revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. The option of immediately expensing these borrowing costs is removed. This revised standard has been applied to the group from 1 October 2009 but has had no material impact on these financial statements.
- IAS 27 (revised) 'Consolidated and separate financial statements' (effective from 1 July 2009). This revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. This revised standard has been applied to the group from 1 October 2009 but has had no material impact on these financial statements.
- IFRS 1 (revised) 'First time adoption'. This revised standard does not contain any technical changes as it only improves the structure, which had become complex due to the numerous amendments in recent years. No impact on the Group's results.

International Financial Reporting Interpretations Committee ("IFRIC") interpretations

- IFRIC 12, 'Service concession arrangements'
- IFRIC 13, 'Customer loyalty programmes relating to IAS 18, Revenue'
- IFRIC 14, 'IAS 19 – The limit of a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IFRIC 17, 'Distributions of non-cash assets to owners'

Notes to the Preliminary Announcement of unaudited results (continued)

These interpretations have no material impact on the Group's financial statements.

Amendments to existing standards

- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'
- Amendments to IAS 32 Financial instruments: Presentation on classification of rights issues and IAS1, 'Presentation of financial statements on 'Puttable financial instruments and obligations arising on liquidation'
- Amendment to IFRS 7, 'Financial instruments: Disclosures'. This amendment has changed the IFRS 7 disclosure requirements in those finalised statements. The main impact will be the classification of fair value assets and liabilities against a fair value hierarchy
- Amendment to IAS 39 Financial instruments: 'Recognition and measurement: Eligible hedged items'

The amendments to these standards have had no material financial impact on these financial statements.

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

1c. Group risk factors

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

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

2. Analysis of Loss before tax

The results for the years ended 30 September 2009 and 2010 respectively have been significantly affected by valuation movements and non-recurring items, although the impact of these items in 2009 was much greater than it has been in 2010. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

	2010				2009			
	Trading	Valuation	Non-recurring	Total	Trading	Valuation	Non-recurring	Total
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Group revenue	244.5	-	-	244.5	302.2	-		302.2
Net rental income	40.8	-	-	40.8	40.2	-	(1.7)	38.5
Profit on disposal of trading properties	52.8	-	-	52.8	45.3	-	(0.4)	44.9
Administrative expenses	(9.2)	-	(2.0)	(11.2)	(8.2)	-	(0.7)	(8.9)
Other income and expenses	5.9	-	-	5.9	7.3	-	-	7.3
Net gain on acquisition of subsidiary	-	2.8	-	2.8	-	-	-	-
Goodwill impairment	-	(1.5)	-	(1.5)	-	(2.9)	-	(2.9)
Profit/ (loss) on disposal of investment property	0.4	-	-	0.4	(1.1)	-	-	(1.1)
Profit on redemption of equity units in associate	1.0	-	-	1.0	-	-	-	-
Interest income/ (expense) from financial interest in property assets	2.5	-	-	2.5	(4.7)	-	-	(4.7)
Write back/ (write down) of inventories to net realisable value	-	2.9	-	2.9	-	(18.4)	-	(18.4)
Provision for impairment of loans receivable net of write backs	-	(10.7)	-	(10.7)	-	(19.6)	-	(19.6)
Operating profit before net valuation deficits on investment properties	94.2	(6.5)	(2.0)	85.7	78.8	(40.9)	(2.8)	35.1
Net valuation deficits on investment properties	-	(0.8)	-	(0.8)	-	(25.6)	-	(25.6)
Operating profit after net valuation deficits on investment properties	94.2	(7.3)	(2.0)	84.9	78.8	(66.5)	(2.8)	9.5
Change in fair value of derivatives	-	(39.6)	-	(39.6)	-	(38.7)	-	(38.7)
Interest expense and similar charges	(82.2)	-	0.9	(81.3)	(84.5)	-	(22.6)	(107.1)
Interest income	5.0	-	-	5.0	5.2	-	-	5.2
Inducement costs and expenses on convertible bond	-	-	-	-	-	-	(31.1)	(31.1)
Share of profit/ (loss) of associates after tax	-	5.6	-	5.6	0.2	(6.6)	-	(6.4)
Share of (loss)/ profit of joint ventures after tax	(2.3)	6.9	-	4.6	(3.1)	1.7	-	(1.4)
Loss before tax	14.7	(34.4)	(1.1)	(20.8)	(3.4)	(110.1)	(56.5)	(170.0)

3. Segmental Information

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

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

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

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

The adoption of IFRS 8 has resulted in several changes to the group's segmental information. Major changes are to add property services as a reportable segment, combine UK and European development into a single segment, to change the basis of the segment operating profit/(loss) and to show NAV and NNNAV by segment in addition to statutory net assets by segment.

Information relating to the Group's operating segments is set out in the tables below. Comparatives have been restated to conform with the requirements of IFRS 8.

Notes to the Preliminary Announcement of unaudited results (continued)

2010 Income Statement (£m)	UK Residential	Retirement Solutions	Property Services	Fund Management/ Residential Investments	UK and European Development	German Residential	All Other Segments	Total
GROUP REVENUE								
Segment revenue-external	155.2	25.6	0.6	4.9	19.7	38.5	-	244.5
Segment revenue-internal	-	-	7.1	-	-	-	-	7.1
Net rental income	19.5	4.1	(0.3)	-	0.8	16.7	-	40.8
Profit on disposal of trading properties	45.0	6.7	-	-	1.1	-	-	52.8
Administrative expenses	-	-	-	-	-	-	(9.2)	(9.2)
Other income and expenses	0.5	(0.4)	0.6	4.9	0.1	0.2	-	5.9
Profit on disposal of investment property	0.2	-	-	-	-	0.2	-	0.4
Profit on redemption of equity units in associate	-	-	-	1.0	-	-	-	1.0
Interest income from financial interest in property assets	-	2.5	-	-	-	-	-	2.5
Internal recharges	4.5	(0.7)	0.2	(4.0)	-	-	-	-
Operating profit before net valuation deficits on investment properties	69.7	12.2	0.5	1.9	2.0	17.1	(9.2)	94.2
Net trading interest payable	-	(3.2)	-	2.4	0.1	(13.9)	(62.6)	(77.2)
Share of trading loss of joint ventures and associates after tax	-	-	-	(1.7)	(0.6)	-	-	(2.3)
Trading profit before tax valuation and non-recurring items								14.7
Reversal of write down of inventories to net realisable value	2.3	-	-	-	0.6	-	-	2.9
Net valuation deficits on investment properties	5.2	(3.4)	-	-	-	(2.6)	-	(0.8)
Change in fair value of derivatives	-	-	-	-	-	(1.5)	(38.1)	(39.6)
Provision for impairment of loans receivable net of write-backs	-	-	-	-	(4.9)	-	(5.8)	(10.7)
Net gain on acquisition of subsidiary	-	2.8	-	-	-	-	-	2.8
Goodwill impairment	(0.1)	-	-	-	-	(1.4)	-	(1.5)
Share of valuation gains in joint ventures and associates after tax	-	-	-	12.5	-	-	-	12.5
Other net non-recurring items	-	-	-	-	-	-	(1.1)	(1.1)
Loss before tax								(20.8)

Notes to the Preliminary Announcement of unaudited results (continued)

2009 Income Statement (£m)	UK Residential	Retirement Solutions	Property Services	Fund Management/ Residential Investments	UK and European Development	German Residential	All other Segments	Total
GROUP REVENUE								
Segment revenue-external	180.0	24.1	0.4	5.3	48.2	44.2	-	302.2
Segment revenue-internal	-	-	8.3	-	-	-	-	8.3
Net rental income	20.8	4.3	(0.2)	-	1.1	14.2	-	40.2
Profit on disposal of trading properties	35.5	4.4	-	-	5.4	-	-	45.3
Administrative expenses	-	-	-	-	-	-	(8.2)	(8.2)
Other income and expenses	0.9	0.1	0.5	5.3	-	0.5	-	7.3
Loss on disposal of investment property	0.3	(0.3)	-	-	-	(1.1)	-	(1.1)
Interest expense from financial interest in property assets	-	(4.7)	-	-	-	-	-	(4.7)
Internal recharges	3.4	(0.9)	1.4	(3.9)	-	-	-	-
Operating profit before net valuation deficits on investment properties	60.9	2.9	1.7	1.4	6.5	13.6	(8.2)	78.8
Net trading interest payable	-	(3.2)	-	3.2	0.1	(15.1)	(64.3)	(79.3)
Share of trading loss of joint ventures and associates after tax	-	-	-	(2.3)	(0.8)	0.2	-	(2.9)
Trading loss before tax valuation and non-recurring items								(3.4)
Write down of inventories to net realisable value	(4.4)	-	-	-	(14.0)	-	-	(18.4)
Net valuation deficits on investment properties	(5.2)	(9.5)	-	-	-	(10.9)	-	(25.6)
Change in fair value of derivatives	-	-	-	-	-	(0.5)	(38.2)	(38.7)
Provision for impairment of loans receivable net of write-backs	-	-	-	(9.2)	(5.7)	-	(4.7)	(19.6)
Goodwill impairment	(2.2)	-	-	-	-	(0.7)	-	(2.9)
Share of valuation deficits in joint ventures and associates after tax	-	-	-	(4.9)	-	-	-	(4.9)
Other net non-recurring items	(0.1)	-	(0.2)	-	(0.3)	(1.5)	(54.4)	(56.5)
Loss before tax								(170.0)

The majority of the Group's properties are held as trading stock and are shown in the statutory balance sheet at the lower cost and net realisable value. This does not reflect the market value of the assets and so our key balance sheet measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are gross net asset value (NAV) and triple net asset value (NNNAV).

NAV is 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 balance sheet 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.

NNNAV reverses some of the adjustments made between statutory net assets and 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.

Notes to the Preliminary Announcement of unaudited results (continued)

Segment Assets 30 September 2010

	UK Residential £m	Retirement Solutions £m	Property Services £m	Fund Management/ Residential Investments £m	UK and European Development £m	German Residential £m	All other Segments £m	Total £m
Total segment assets (Statutory)	781.8	403.4	-	108.6	88.3	131.4	(1,168.2)	345.3
Total segment assets (NAV)	1,115.5	459.6	-	114.5	73.5	152.5	(1,083.8)	831.8
Total segment assets (NNNAV)	993.3	433.3	-	111.1	76.0	131.2	(1,163.3)	581.6

	Statutory Balance Sheet £m	Adjustments to market value, deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,795.0	331.5	2,126.5	-	-	2,126.5
Investments/other assets	121.0	9.4	130.4	-	(7.0)	123.4
Goodwill	6.2	-	6.2	-	-	6.2
Cash	94.6	-	94.6	-	-	94.6
Total assets	2,016.8	340.9	2,357.7	-	(7.0)	2,350.7
Borrowings/ Derivatives	(1,574.0)	128.4	(1,445.6)	-	(141.1)	(1,586.7)
Other net liabilities	(79.0)	-	(79.0)	-	-	(79.0)
Provisions/Deferred Tax	(18.5)	17.2	(1.3)	(142.1)	40.0	(103.4)
Total liabilities	(1,671.5)	145.6	(1,525.9)	(142.1)	(101.1)	(1,769.1)
Net assets	345.3	486.5	831.8	(142.1)	(108.1)	581.6

Segment Assets 30 September 2009

	UK residential £m	Retirement Solutions £m	Property Services £m	Fund Management/ Residential Investments £m	UK and European Development £m	German residential £m	All other Segments £m	Total £m
Total segment assets (Statutory)	788.4	376.6	-	101.3	87.6	138.2	(1,363.6)	128.5
Total segment assets (NAV)	1,108.3	422.1	-	107.9	73.4	158.2	(1,300.3)	569.6
Total segment assets (NNNAV)	987.6	403.3	-	101.3	77.3	138.6	(1,359.7)	348.4

	Statutory Balance Sheet £m	Adjustments to market value, deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,779.0	303.5	2,082.5	-	-	2,082.5
Investments/other assets	115.8	17.2	133.0	-	(8.5)	124.5
Goodwill	5.9	-	5.9	-	-	5.9
Cash	28.3	-	28.3	-	-	28.3
Total assets	1,929.0	320.7	2,249.7	-	(8.5)	2,241.2
Borrowings/ Derivatives	(1,676.2)	99.3	(1,576.9)	-	(108.1)	(1,685.0)
Other net liabilities	(103.2)	-	(103.2)	-	-	(103.2)
Provisions/Deferred Tax	(21.1)	21.1	-	(137.2)	32.6	(104.6)
Total liabilities	(1,800.5)	120.4	(1,680.1)	(137.2)	(75.5)	(1,892.8)
Net assets	128.5	441.1	569.6	(137.2)	(84.0)	348.4

4. Net rental income

	2010 £m	2009 £m
Gross rental income	75.6	77.9
Service charge income on a principal basis	7.2	13.4
Property repair and maintenance costs	(19.9)	(22.3)
Service charge expense on a principal basis	(10.0)	(15.3)
Property operating expenses (see note 6)	(12.1)	(15.2)
	40.8	38.5

5. Profit on disposal of trading properties

	2010	2009
	£m	£m
Proceeds from sale of trading properties	151.0	198.4
Carrying value of trading properties sold	(90.8)	(144.4)
Other sales costs (see note 6)	(7.4)	(9.1)
	52.8	44.9

6. Administrative expenses

	2010	2009
	£m	£m
Total group expenses	30.7	33.2

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

	2010	2009
	£m	£m
Property operating expenses (see note 4)	12.1	15.2
Costs attributable to the disposal of trading properties (see note 5)	7.4	9.1
Administrative expenses	11.2	8.9
	30.7	33.2

7. Profit/ (loss) on disposal of Investment Property

	2010	2009
	£m	£m
Proceeds from sale of investment property	9.9	8.8
Carrying value of investment property sold	(9.5)	(9.9)
	0.4	(1.1)

8. Loss per ShareBasic

Basic (loss)/earnings per share is calculated by dividing the profit or loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the 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 scheme ('LTIS') and Deferred Bonus Plan ('DBP').

Diluted

Diluted (loss)/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 convertible bond and its share option schemes and contingent share awards under the LTIS and DBP, based upon the number of shares that would be issued if 30 September 2010 was the end of the contingency period. The (loss)/profit for the year is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is antidilutive, as is the case for both years being reported, they are excluded from the calculation of diluted (loss)/earnings per share.

	30 September 2010			30 September 2009		
	Loss for the year	Weighted average number of shares	Loss per share pence	Loss for the year	Weighted average number of shares	Loss per share pence
	£m	(thousands)		£m	(thousands)	
Basic loss per share						
Loss attributable to equity holders (2009 as originally stated)	(10.8)	375,687	(2.9)	(122.0)	135,816	(89.8)
Loss attributable to equity holders in 2009 (as restated)	-	-	-	(122.0)	240,340	(50.8)
Effect of potentially dilutive securities						
Share options and contingent shares	-	-	-	-	-	-
Diluted loss per share						
Loss attributable to equity holders (2009 as originally stated)	(10.8)	375,687	(2.9)	(122.0)	135,816	(89.8)
Loss attributable to equity holders in 2009 (as restated)	-	-	-	(122.0)	240,340	(50.8)

The 2009 loss per share has been restated to reflect the impact of the rights issue in December 2009. In accordance with IAS 33 the rights issue comprised a bonus issue of shares for no consideration and an issue of shares at the full theoretical ex-rights price. The bonus issue represented 104,523,114 shares and has been added to the weighted average number of shares with effect from the beginning of the earliest period being reported, 1 October 2008. The remaining 173,030,292 shares have been time apportioned from their date of issue, 16 December 2009, in calculating the weighted average number of shares.

9. Dividends

Under IAS 10, final dividends are excluded from the balance sheet either until they are approved by the company in general meeting or until they have been appropriately authorised and are no longer at the discretion of the group. Dividends paid in the year are shown below:

	2010 £m	2009 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2008 - 1.29p per share	-	5.3
Final dividend for the year ended 30 September 2009 – 1.29p per share	5.3	-
Interim dividend for the year ended 30 September 2010 - 0.5p per share	2.1	-
	7.4	5.3

Dividend per share figures above relating to the prior period have been re-stated to reflect the rights issue in December 2009.

A final dividend in respect of the year ended 30 September 2010 of 1.20p per share amounting to £4.9m will be proposed at the 2011 Annual General Meeting. If approved, this dividend will be paid on 11 February 2011 to shareholders on the register at close of business on 10 December 2010. The 2010 interim dividend of 0.5p per share was paid in July 2010. This gives a total dividend for 2010 of 1.70p per share.

10. Investment Property

	2010 £m	2009 £m
Opening balance	654.3	619.3
Additions	15.1	4.8
Disposals	(9.5)	(9.9)
Revaluation deficits	(0.8)	(25.6)
Exchange adjustments	(24.4)	65.7
Closing balance	634.7	654.3

11. Investment in Associates

	2010 £m	2009 £m
Opening balance	33.2	51.6
Share of profit/ (loss)	5.6	(6.4)
Distributions received	-	(0.4)
Profit on redemption of equity units	1.0	-
Proceeds on redemption of equity units	(9.8)	(7.6)
Share of change in fair value of cash flow hedges taken through equity	(1.3)	(4.0)
Closing balance	28.7	33.2
Disclosed as:		
Non-current assets	28.6	24.5
Current assets	0.1	8.7
	28.7	33.2

The investors in Schroders ResPUT have agreed to a controlled liquidation of the fund and the Group has received a number of redemption payments as assets have been realised. The remaining investment of £0.1m (2009: £8.7m) is held as a current asset.

As at 30 September 2010, the Group's interest in associates was as follows:-

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

12. Investment in Joint Ventures

	2010 £m	2009 £m
Opening Balance	80.7	90.8
Loans advanced	9.3	7.5
Provision against loans	(4.9)	(14.8)
Share of profit/ (loss)	4.6	(1.4)
Net assets acquired through purchase of joint venture	-	0.1
Goodwill arising on investment in Gebau Vermogen GmbH	-	2.7
Goodwill impairment charge on investment in Gebau Vermogen GmbH (see note 14)	(1.4)	-
Exchange adjustment	(0.1)	0.4
Share of change in fair value of cash flow hedges taken through equity	2.8	(4.6)
Closing balance	91.0	80.7

At 30 September 2010, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation
Grainger Geninvest LLP	50	United Kingdom
Grainger Geninvest No 2 (2006) LLP	50	United Kingdom
Curzon Park Limited	50	United Kingdom
King Street Developments (Hammersmith) Limited	50	United Kingdom
CCZ a.s.	50	Czech Republic
CCY a.s.	50	Czech Republic
Prazsky Project a.s.	50	Czech Republic
Gebau Vermogen GmbH	50	Germany

As we announced at the half year, a recent White paper on the proposed High Speed Rail Network from London to Birmingham indicates that the potential route will cover at least part of our development site (held in joint venture with Development Securities plc) at Curzon Park in Birmingham. We are assessing the long-term impact with our advisers and aim to collaborate with other affected owners in the area. A provision of £4.9m has been made in our year-end accounts against the carrying value of our joint venture investment. In view of the uncertainty relating to the future of the Curzon Park site, the Group is seeking advice in order to protect its position. Should the value of the site, together with any compensation received, be insufficient to repay the bank loan in the joint venture entity, the Group may incur further charges in respect of its obligations to the joint venture and the bank.

13. Financial Interest in Property Assets

	2010 £m	2009 £m
Opening balance	109.1	121.2
Cash received from the instrument	(10.8)	(10.1)
Amounts taken to income statement	2.5	(4.7)
Amounts taken to equity before tax	3.1	2.7
Closing balance	103.9	109.1

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

For interests held at 30 September 2010 we have revised our assessment of future cash flows and of the effective interest rate to discount those cash flows. This has resulted in an increase to the fair value of £3.1m before tax which has been taken through equity reserves.

Credit risk arises from the credit exposure relating to cash receipts from the financial instrument. All of the cash receipts are payable by the Church Commissioners, a counterparty considered to be low risk as they have no history of past due or impaired amounts and there are no past due amounts outstanding at the year end.

14. Goodwill

	2010	2009
	£m	£m
Opening balance	5.9	8.0
Arising on prior year acquisition	-	0.8
Arising on acquisition in the year (see note 22)	0.4	-
Impairment charge taken to income statement	(0.1)	(2.9)
Closing balance	6.2	5.9

The total goodwill impairment charge to the consolidated income statement comprises:

	2010	2009
	£m	£m
Impairment charge shown above	(0.1)	(2.9)
Impairment charge on goodwill shown within investment in joint ventures (see note 12)	(1.4)	-
	(1.5)	(2.9)

15. Trade and Other Receivables

	2010	2009
	£m	£m
Trade receivables	8.8	10.1
Deduct: Provisions for impairment of trade receivables	(2.0)	(2.2)
	6.8	7.9
Other receivables	5.4	9.9
Prepayments	5.0	2.2
	17.2	20.0

16. Interest Bearing Loans and Borrowings

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

	2010	2009
	£m	£m
Within one year	55.6	19.9
Between one and two years	51.4	109.6
Between two and five years	1,144.9	1,275.6
Over five years	165.4	171.8
	1,417.3	1,576.9

17. Taxation

	Opening balance £m	Refund/ (payments) in the year £m	Transfers £m	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in equity £m	Closing balance £m
Current tax	24.4	3.6	-	0.1	(0.1)	(0.2)	-	27.8
Deferred tax								
Trading property uplift to fair value on acquisition	42.0	-	0.3	2.4	(3.2)	-	-	41.5
Investment property revaluation	9.4	-	-	-	(0.2)	-	-	9.2
Accelerated capital allowances	0.4	-	-	-	-	-	-	0.4
Short term timing differences	(14.8)	-	(0.3)	-	(6.5)	-	-	(21.6)
Actuarial deficit on BPT Limited pension scheme	(0.4)	-	-	-	-	-	(0.1)	(0.5)
Equity component of available-for-sale financial asset	0.7	-	-	-	-	-	0.8	1.5
Fair value movement in cash flow hedges and exchange adjustments	(16.2)	-	-	-	-	(0.1)	-	(16.3)
	21.1	-	-	2.4	(9.9)	(0.1)	0.7	14.2
Total tax - 2010 movement	45.5	3.6	-	2.5	(10.0)	(0.3)	0.7	42.0
Total tax - 2009 movement	129.8	(16.2)	-	-	(48.0)	0.3	(20.4)	45.5

The tax credit for the year of £10.0m (2009: credit of £48.0m) comprises:-

	<u>2010</u>	<u>2009</u>
UK Taxation	(8.6)	(46.1)
Overseas taxation	(1.4)	(1.9)
	(10.0)	(48.0)

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. The Finance (No. 2) Act 2010 introduced legislation to reduce the main rate of corporation tax from 28% to 27% effective from 1 April 2011. Based on our assessment of the reversal of timing differences we have reduced our deferred tax liability by £0.9m as a result of this change. Further reductions to the main rate of corporation tax are proposed that would reduce the rate by 1% per annum to 24% by 1 April 2014. These further changes are not substantively enacted at the balance sheet date and are therefore not included in these financial statements.

Although a number of matters have been agreed during the year with the relevant tax authorities, we are currently in discussions with HM Revenue and Customs in connection with a number of outstanding tax matters. The Group has continued with its policy of prudent tax provisioning and no credit has been taken as at 30 September 2010 for any potential benefits that may arise from settlement of these outstanding matters.

18. Derivative Financial Instruments

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedges in hedge accounting relationships	-	55.6	-	60.0
Interest rate swaps – cash flow hedges not in hedge accounting relationships	-	72.7	0.2	39.5
	-	128.3	0.2	99.5

In accordance with IAS 39 the Group has reviewed its interest rate hedges. In the absence of hedge accounting, movements in fair value would have been taken directly to the income statement. However, where cash flow hedges have been viewed as being effective, any gains or losses have been taken to equity through the cash flow hedge reserve.

19. Trade and Other Payables

	2010	2009
	<u>£m</u>	<u>£m</u>
Deposits received	3.7	3.6
Trade payables	10.9	7.3
Other taxation and social security	1.2	0.3
Accruals and deferred income	41.5	76.9
	57.3	88.1

Trade payables includes £3.0m (2009: £nil) relating to acquisitions of property where contracts have either been unconditionally exchanged or notarised.

Accruals and deferred income includes £22.7m (2009: £26.1m) of rent received in advance on the granting of lifetime leases.

20. Movement in equity shareholders' funds

	2010	2009
	<u>£m</u>	<u>£m</u>
Opening equity shareholders funds	128.5	229.8
Retained loss for the year	(10.8)	(122.0)
Actuarial loss on BPT Limited defined benefit pension scheme net of tax	(0.4)	(2.9)
Change in fair value of cash flow hedges net of tax	(1.4)	(47.0)
Net exchange adjustment offset in reserves net of tax	0.9	0.6
Purchase of own shares	(4.5)	(0.4)
Issue of shares	0.1	87.1
Share-based payments charge	1.3	0.8
Dividends paid	(7.4)	(5.2)
Fair value movement on available for sale financial asset net of tax	2.3	1.9
Conversion of convertible bond	-	(17.4)
Transfer on early conversion convertible bond	-	3.2
Rights Issue (see note 21)	236.7	-
Closing equity shareholders funds	345.3	128.5

21. Rights Issue

In December 2009 the Group completed a 2 for 1 rights issue at an issue price of 90p raising a total gross amount of £249.8m, net of costs £236.7m. The rights issue increased the number of shares in issue by 277,553,406 shares, increasing share capital by £13.9m.

The Group took advantage of Section 612 of the Companies Act 2006 to take proceeds in excess of the nominal value of shares issued, amounting to £235.9m, to a merger reserve. Under the cash-box mechanism this amount has been subsequently transferred to retained earnings and of this, £104.5m is currently not distributable. Costs of issue, which totalled £13.1m, have been taken directly to reserves.

22. Acquisitions in the year

On 31 March 2010 the Group acquired PHA Limited, a company which owns 162 residential properties located in Devon. The total consideration for the purchase was £15.4m and was paid in cash. The acquisition has been treated as a business combination and goodwill of £0.4m arose.

On 9 August 2010 the Group acquired Sovereign Reversions plc ('Sovereign'). The total consideration for the purchase was £34.2m. The acquisition has been treated as a business combination and a gain on acquisition of £4.5m arose. This has been credited to the income statement. In accordance with IFRS 5 all of the assets and liabilities of Sovereign have been classified as a disposal group held for resale (see note 23). Included on the face of the

Notes to the Preliminary Announcement of unaudited results (continued)

consolidated statement of financial position are total assets of £70.7m and total liabilities of £34.1m relating to Sovereign.

23. Post balance sheet events

The Sovereign acquisition was made with the intention of entering into a joint venture with Moorfield Real Estate Fund II Equity Release Limited ('Moorfield'). On 12 October 2010, Grainger sold 50% of its equity stake in Sovereign, to Moorfield. The consideration received from Moorfield was £17.5m for a 50% stake in Sovereign valued at £19.2m. The Group has provided for this loss of £1.7m in its accounts for the year ended 30 September 2010.

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