

**GRAINGER TRUST plc:
PRELIMINARY ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 30 SEPTEMBER 2005**

HIGHLIGHTS

- Core business operating contribution up by 7.6% to £88.2m.
- Grainger NAV up by 2.5% to 4.92p per share
- First acquisitions on Continental Europe announced
- Sales and distribution agreement with Norwich Union finalised
- £61m takeover of City North Group plc
- Total dividend up to 5.11p per share, an increase of 10%
- Portfolio continues to grow in asset value terms:
 - Vacant Possession value now £2.067bn
 - Investment value now £1.507bn
 - Reversionary surplus stands at £560m

“This has been another year of significant progress at Grainger Trust. We have continued to meet many of our strategic objectives – in particular, we have consolidated our position as the UK’s leading quoted residential investor and trader” said Robert Dickinson, Chairman”

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Contact:

Grainger Trust plc

Rupert Dickinson, Chief Executive

Andrew Cunningham, Deputy Chief Executive and Finance Director

020 7795 4700

020 7795 4700/

0191 261 1819

Baron Phillips Associates

Baron Phillips

020 7920 3161

07050 124119

Chairman's Statement

I am pleased to report another year of significant progress at Grainger Trust. Whilst we have not benefited from the exceptional market growth that has characterised more recent results, we have concentrated on consolidating our position as the UK's leading quoted residential investor and trader and have worked to meet the strategic objectives we set ourselves 12 months ago.

Our focus remains on Grainger's core business – the acquisition, management and sale on vacancy, of residential regulated tenancies. This business provides us with a unique set of skills, asset base, cash flow and market knowledge that allows us to examine residential based opportunities that have similar management challenges or return characteristics.

During the year under review we have launched our equity release joint venture programme with Norwich Union, expanded into Europe for the first time with two joint venture developments, acquired a substantial land bank in Hampshire, and commenced work on several mixed-use urban developments.

In addition we concluded a £61.3m agreed takeover of the central London-based market rented residential investment company City North Group plc and a £70m joint venture acquisition of a tenanted residential portfolio with Genesis Housing Group, one of the country's leading Registered Social Landlords. We also disposed of our last remaining major commercial property investments through an asset swap.

Since the year end we have exchanged contracts on a €71.5m residential investment portfolio in Germany comprising more than 1,400 units and generating annual income of €4.5m. This acquisition will mark our first key investment purchase within continental Europe and we continue to look for further similar acquisitions where we can bring our deep and extensive knowledge of the sector to generate superior returns for shareholders.

Shareholders will also be aware that we entered into preliminary discussions with Parkdean Holidays to acquire its entire issued share capital. Although these discussions were terminated, they demonstrate our willingness to examine a wide range of less obvious opportunities where we believe we can bring our residential and development skills to deliver long term reversionary returns.

Results

Sales of tenanted residential property and net rental income from our core portfolio continue to be the group's main profits drivers. Operating contributions from our core business, increased by 7.6% over the year to £88.2m from £81.9m. This included a contribution of £2.4m from City North. At the pre-tax level, results for the 12 months to 30 September 2005 were impacted by both a more normal contribution from our development and trading division of £12.8m compared with £25.3m we recorded last year and higher interest charges of £49.5m against £40.1m, resulting from our successful acquisition programme over the period.

Accordingly pre-exceptional profits before tax were lower, but in line with expectations at £42.1m compared with £59.6m for the same period a year ago. I am also pleased to report that Grainger's net asset value continues to rise despite the general perception of the residential market.

As shareholders appreciate, we consider the group's net asset position in three ways: net asset value per share ("NAV"), diluted net asset value per share ("NNNAV"), which takes into account contingent tax and the market value of long term debt and hedging, and the Grainger Net Asset Value, which adjusts for the reversionary surplus within our portfolio. Our NAV has grown 2.0% to 558p from 547p, NNNAV has risen 3.5% to 385p from 372p, and the Grainger NAV is up 2.5% to 492p from 480p.

In line with the guidelines we established last year the Board is recommending a final dividend of 3.41p per share which, together with the interim payment of 1.7p per share, will make a total for the year of 5.11p per share, an increase of 10%. If approved, the final dividend will be paid on 8 March 2006 to the shareholders on the register on 17 February 2006.

Strategy

Long term exposure to the residential investment market has delivered annual compound growth rates (as measured by the Halifax House Price Index) of 7%, 10.5% and 14.2% over the last 20, 10 and 5 years. There has been a more recent slow down in growth - house prices rose by 3% over the 12 months to the end of September 2005 - and the outlook over the coming 12 months is somewhat uncertain.

Despite contradictory views of the market our own experience is that sales in the first two months of the current financial year have been marginally ahead of the end of September 2005 vacant possession values. We believe that over the course of the current financial year overall house price inflation within our portfolio will be muted.

However our business model is based on long term investment returns rather than short term gains. Our interests are focused on market sectors where reversionary potential is not entirely dependant on short term market growth, but also on gains secured through tenure or use changes and by gaining planning consent. These opportunities exist both in the UK and within continental Europe.

At the same time we will continue to generate income through our asset and property management skills, particularly when these can be used to help third party investors maximise their returns from the residential market. Also we aim to take full advantage of any market opportunities that may arise where our strong financial base, long term outlook and experience will enable us to unlock value.

We are pleased that the Chancellor has committed to introducing UK REITs (Real Estate Investment Trusts), in the 2006 Finance Bill. We now hope that the eventual legislation is not overly restrictive and that it will encourage real new investment to the Residential Sector.

Board

During the course of the year under review Bill Tudor John, former senior partner at Allen & Overy and currently a Managing Director of Lehman Brothers, joined the Board and has taken over the chairmanship of the Remuneration Committee from Robert Hiscox.

People

As Grainger expands it is essential we have the right level of skills and expertise to manage this growth. Although much of this comes from our core of committed and dedicated professional senior executives, in the year we have been able to augment this with a number of external high level appointments. It is pleasing that Grainger is able to attract such highly qualified executives.

Outlook

The way forward is clear. We will focus on our core regulated business but, recognising that this stock is finite, we will continue to develop into areas that capitalise on our existing skills and economic base and which offer exposure to the residential market. The most significant of these will be equity release, investment in Europe, residential development and residential fund and property management.

Bearing these objectives in mind, together with our solid financial platform and our asset and skills base, we believe we have the framework for continued long term success.

Robert Dickinson
6 December 2005

Chief Executive's Review

Last year we set out our objectives for Grainger Trust in our key business areas and we have made significant progress in all of these.

Tenanted Residential

This is our core business, providing us with a long term exposure to the residential market and good levels of profit and cash generation. It is based on our large and diverse portfolio – at 30 September 2005 its market value amounted to £1.5 billion an increase of 10.8% in the year – our experience and expertise at managing and trading property and our solid financial underpinning.

Despite sluggish market conditions throughout the last year this division has continued to trade well, generating sales of £133m, only marginally down on 2004's figure of £135m. It has been pleasing that we have achieved these levels without significantly reducing prices on sale. Margins on normal sales in 2005 (i.e when a property is sold on vacancy) were 48.5%; the equivalent figure in 2004 was 48.6%.

In valuation terms, our portfolio has risen in value by 2.6% and the average vacant possession value of our properties at 30 September 2005 stood at £173,000. The reversionary surplus in our portfolio (including our share of joint ventures) is £560m (2004: £536m) or 433p per share. This figure represents the difference between what we expect to sell our properties on vacancy for and what we value them at in our market value balance sheet. The difference between the vacant possession value of our residential portfolio and its original cost is £967m (2004: £928m).

Just as important as annual trading performance and valuation uplifts is our ability to replenish stock levels and to grow businesses offering long term growth potential.

In our regulated business we have acquired 480 properties for £51m. We have also purchased a highly reversionary portfolio of 455 London flats for £70m from the Church Commissioners in a joint venture with the Genesis Housing Group. We are delighted to have been successful in acquiring this portfolio as well as to be working with Genesis and their property management subsidiary Pathmeads. We see an interesting future for Grainger in working more closely with the Housing Association Sector.

As has been announced previously we entered into an agreement with Norwich Union enabling our home reversion products to be sold through their own in-house advisors and IFA distribution network. Sales through this channel have been slower than anticipated when we announced the initiative in March. This reflects general market conditions in the equity release market and a slower than expected start up, although recent figures for our originations and the home reversion sector in general are more encouraging.

We are building our home reversion portfolio using three routes (Bridgewater, Norwich Union and portfolio acquisitions) and we anticipate being able to increase the total portfolio by at least £50m in the year ahead. As part of this strategy, we have recently launched our own Bridgewater Flexible Reversion Plan, and this has been well received by the market.

We are pleased with the progress we have made in our market rented and asset and property management businesses. We believe that the key is to ally a good portfolio with excellent property and asset management skills and appropriate financing. The acquisition of City North Group plc combined with our existing holdings has provided us with a critical mass of market rented properties – close to £200m as at 30 September 2005. We are now well advanced in preparing a fund structure to attract third party equity into this portfolio. This will enable us to benefit from the rent and reversionary potential in market rented housing directly as one of the fund participants and indirectly through the receipt of management and performance fees.

Our management expertise is illustrated by the fact that we currently manage our own portfolio of 12,382 properties and a further 1,185 properties for other residential investors. These include Schroders Residential Property Unit Trust (ResPUT) where we have increased our stake and are due to take on further responsibilities including strategy and acquisitions in addition to our asset and property management roles.

Grainger Europe

Our objective in mainland Europe has been to replicate certain key aspects of the Grainger UK business. Consequently we have been reviewing opportunities in reversionary residential portfolios and development.

Shortly after the year end we announced our first portfolio acquisition – a total of 1,400 properties in the Metro Ruhr of Germany for a consideration of €71.5m (£48.9m). This is due to complete by the end of 2005. The combination of relatively high rental yields, low borrowing costs and potential for significant gain over time, if the properties are sold to the owner occupier sector, make this an attractive area for us. We are optimistic that this first acquisition will provide a good platform for us to build on.

During the year we also announced our participation in two development opportunities. Firstly, an 81.6% stake in a mixed residential/retail scheme in Zizkov in Prague, representing an investment of €6.7m and which we hope to take through the planning process over the next 18 months. Secondly a €2.6m investment representing a 45.7% stake in an 800 unit proposed residential development in Tallinn, Estonia.

Development and Trading

Over the last few years we have moved away from pure commercial investment and this process was substantially completed in the year.

We are now focussed on three areas: residential development, primarily mixed use and residential schemes in London and the South East, urban and rural regeneration schemes, including the acquisition of strategic land with development potential, and Grainger Homes, our housebuilding arm based largely in the North East of England.

After the exceptional year ended 2004, when several major schemes came to fruition, the division this year has moved to a more normal level of trading, producing an operating contribution of £12.8m on an asset base at the beginning of the period of £109m.

The development of the former South London Hospital in Clapham comprising 77 units has gone well with 67 reserved or exchanged for a value of £20.3m. In April we acquired 520 acres of land at West Waterlooville, Hampshire, which were previously held under option. This has been included in the West of Waterlooville Major Development Area and provisionally allocated 1,550 residential units with a further 1,000 in reserve.

A key element of our progress has been our ability and willingness to work with partners. At Smiths Dock in North Tyneside we have formed a joint venture with two local landowners to regenerate some 30 acres of waterfront land. We have submitted an application for detailed planning permission for 1,250 units. We have made progress on our schemes with Islington Borough Council having now obtained planning consent for our 208 unit scheme at Hornsey Road and the 141 unit scheme in Barnsbury.

Grainger Homes has continued to develop, completing the sale of 84 units in the year for a total of £11.3m, producing a trading contribution of £3.3m.

Operationally, therefore, we are pleased with the Group's performance in a year in which market conditions have, as expected, proved testing.

People

As this Group continues to grow and operate in new market areas it is very important to ensure that we have the personnel and management structure in place to maximise the potential of both our existing asset base and new opportunities. This year has been one of continued growth and change and we have made three senior appointments Peter Couch, as Director of our Equity Release business, Quinton Hill-Lines as Director of Corporate Development and, most recently, Richard Exley who has joined as Director of Development and who is charged with moving forward this division. In addition we have recently introduced a new Senior Management Structure to ensure that each part of our business is run in accordance with our stated strategy and that we take full advantage of the vast range of knowledge and skills we have within the organisation.

Outlook

We remain very confident in the outlook for Grainger. Our core portfolio is geographically widespread, with a typical value near or below the UK average and is generally un-modernised. These features help sustain demand in times of market fragility. As importantly, the reversionary surplus in the portfolio of over half a billion pounds acts as a potential reservoir for future gains. We will focus on reversionary property for our core portfolio and continue to grow our property and asset management skills so that we can make them more widely available to external investors in the market rented sector.

We have put in place the products, distribution network and funding capability to support high levels of growth in the home reversion market. Uncertainty concerning the adequacy of pension provision and the widespread view that house price inflation will be lower in the future should provide the impetus for increased demand. Home reversion products fit well with other related sectors of the market, for example second homes and retirement living and these may present further opportunities for growth.

We look forward to completing our first German acquisition and are reviewing several other opportunities that should help our European operation to become a meaningful part of the Group's business.

We have continued to invest in the development division and have several schemes in the pipeline that will produce attractive returns in the short to medium term. We are growing this division and are confident that we can use our understanding of local housing markets and management to ensure attractive returns to our shareholders from a wide range of developments in the residential sector.

In the coming year we will continue to progress in these main areas, whilst exploring new opportunities to exploit our skills and asset base. I am confident that the team we have is well placed to continue at the forefront of residential investment and development in this country and in Europe. We are continuously challenged by new legislation and regulations but we will look at these as opportunities rather than threats.

Rupert Dickinson
6 December 2005

Operational Review

Tenanted residential

Key performance statistics

	<u>2005</u>		<u>2004</u>	
	<u>No.</u>	<u>£m</u>	<u>No.</u>	<u>£m</u>
Properties sold on vacancy	720	109	783	111
Properties sold with tenants in occupation	193	24	248	24
	<hr/>	<hr/>	<hr/>	<hr/>
Total sales	913	133	1,031	135
	<hr/>	<hr/>	<hr/>	<hr/>
Profits on sale*		61		58
Release of negative goodwill on sales		6		6
		<hr/>		<hr/>
		67		64
		<hr/>		<hr/>
Net rental income and other income		23		20
Direct overhead costs		(2)		(2)
		<hr/>		<hr/>
Trading contribution		88		82
		<hr/>		<hr/>

* including gains on the sale of fixed assets

Trading and rental performance has held up well in the year. The acquisition of City North Group contributed £2.4m to the years result. The overall return, which includes the net valuation uplift, has been depressed in comparison to last year by the slowing down in house price inflation. In 2005 the percentage valuation uplift in our portfolio was 2.6%, in 2004 it was 12.4%. After taking account of the elimination of revaluation surpluses realised on sales the valuation movement in the year was £15.8m (2004: £121.3m).

Although the sales process has been more sluggish this year, as reflected by the number of vacant properties at the year end (423 compared to 356 last year) we have still experienced good levels of demand, helped by the geographic spread and typical low value of individual units. Approximately 59% of our properties by value are in London and the South East, 26% in the Midlands, East, South West and Wales and 15% in the North and Scotland. Less than 22% of our properties by value have vacant possession values in excess of £250,000 – the level at which demand volatility becomes more marked.

The average vacant possession values in our three key portfolios are:-

	<u>£K</u>
Regulated	165
Market rented	191
Home reversion	190
	<hr/>
Overall (excluding other interests)	173
	<hr/>

This compares to the Halifax All House figure at 30 September of £166,000.

We have continued to grow our portfolio in both number and asset value terms. The vacant possession value (including our share of joint ventures) is £2,067m and the investment value is £1,507m giving us a reversionary surplus of £560m. This is the gain over and above the market value of the properties we would achieve if we sold the properties on vacancy at today's values. The surplus above original cost is £967m.

We have acquired a total of 1,254 units in the year for a cost of £184m (including properties acquired in the City North portfolio).

During the year we increased our stake in the Schroders Residential Property Unit Trust ("ResPUT") to 19.5%. We provide asset and property management services to this fund and the fee income that we received from this and from other similar services for other customers amounted to £1.1m.

Development and Trading

Key performance statistics

	<u>2005</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>
Trading profits	11.7	13.5
Profits on sale of fixed assets	0.5	3.5
Net rental income less overheads	-	0.4
Other net income (2004 Pimlico flats)	0.6	7.9
	<hr/>	<hr/>
Trading contribution	12.8	25.3
	<hr/>	<hr/>

The results for 2004 included profits achieved on sales of the commercial portfolio, of the last major housing allocated land site at Kennel Farm and receipts relating to the Pimlico development, totalling £22.1m. These were largely one-off transactions and the division has now moved to more normal trading levels.

The movement on revaluation in the year was a deficit of £12.0m (2004: deficit of £3.8m); this represents the net effect of the elimination of revaluation surpluses realised on sales in the year together with the impact of year end valuations.

Major contributions to trading profits in the year have come from Kennel Farm (£3.5m) Grainger Homes (£3.3m) and the sale of Landmark Place, Slough (£2.3m).

Opportunities for future income from Kennel Farm relate primarily to approximately 5 acres of land currently allocated for business use and the local centre.

During the year Grainger Homes sold 84 units for £11.3m. Much effort has gone into creating a sustainable land bank at this division and over the next three years we hope to achieve average annual sales of up to 200 units.

Other projects in this division are making satisfactory progress and their status is shown in table 7 in the attached appendix.

Financial Review

Results

Group profit before interest and tax has fallen from £99.7m to £91.6m. Net residential rents and other income have increased by £3.5m to £23.2m, including £2.4m from City North Group, and trading profits on residential sales including negative goodwill released and profits on sale of fixed assets have improved by 4.3% from £64.4m to £67.1m. However, these have been more than offset by a decrease in the contribution from the development and trading division which fell from £25.3m to £12.8m.

Interest payable

Group pre-exceptional interest has increased from £40.1m to £49.1m. This is a combination of higher average debt levels (up by approximately £100m over the previous year) and higher borrowing costs. The average base rate in 2005 was 4.7% in 2004, 4.1%. This impacted on the proportion of our debt that is variable or is hedged through caps. Our average interest rate in the year was 5.9% (2004: 5.8%).

Interest is covered 1.9 times by profit before interest and tax (2004: 2.5 times). Net cashflow (being all group receipts less expenses and taxation) covered interest 3.8 times (2004: 5.1 times).

Taxation

Our annual tax charge is significantly affected by FRS 19, the accounting standard preventing the provision of deferred tax on revaluation gains when companies are acquired. This serves to increase our effective tax rate above the standard corporation tax rate of 30%. This year, it has been 37.1% (2004: 39.1%).

Major items affecting the tax charge are:-

	<u>£m</u>
Group profit before tax	42.1
	<hr/>
Tax at 30%	12.6
Adjusted for:	
Additional tax on the difference between book and tax base costs of trading property sales	7.4
Negative goodwill (not taxable)	(1.8)
Other including adjustments to tax in prior periods	(2.6)
	<hr/>
Actual tax charge	15.6
	<hr/>

Earnings per share and dividends

Earnings per share before exceptional items have fallen to 21.2p from 29.9p. Dividends have increased by 10% and are covered 4.0 times by profit after taxation but before exceptional items (2004: 6.5 times).

Financial Position

General

Most of our properties are held as trading stock and are therefore shown in the statutory balance sheet at cost. This does not reflect the true worth of Grainger's assets and therefore we set out in the notes to this statement our net assets with the properties restated to market value.

Fixed assets

Fixed assets properties in the balance sheet comprise £202.2m tenanted residential and £20.3m development totalling £222.5m (2004: £97.0m, £8.4m and £105.4m respectively). The major change relates to the acquisition of the City North portfolio in the year.

Investments and intangible assets

Investments relate to our investment in Schroders ResPUT and in joint ventures and associates. We invested a further £8.4m in the ResPUT this year and now own 19.5% of the units issued. The market value at 30 September 2005 was £18.2m and the cost £15.4m.

Our main joint venture interests are a 33⅓% stake in a limited liability partnership to develop Smiths Dock in North Tyneside of £4.1m including goodwill, (2004: £3.3m) a 50% stake in a similar structure with Genesis Housing Group of £8.8m which was established to acquire a portfolio of properties from the Church Commissioners which had a year end value of £72.6m and a 50% stake in a joint venture with Grange Prescot Limited to develop land at Prescot Street, London. E1 with a value of £5m.

The negative intangible asset of £81.3m (2004: £84.8m) principally reflects goodwill arising on the acquisition of Bromley, the acquisition vehicle used to acquire the BPT group. It is being released to the profit and loss account in line with property sales from that business.

Trading properties

	30 Sept 2005 £m	30 Sept 2004 £m
<u>Statutory Balance Sheet</u>		
Tenanted residential	870	843
Development and trading	92	76
	<u>962</u>	<u>919</u>
<u>Market value balance sheet</u>		
Tenanted residential	1,271	1,232
Development and trading	104	101
	<u>1,375</u>	<u>1,333</u>

The cost of our tenanted residential stock has increased from £843m to £870m, being stock purchases of £85m, capitalised improvement costs of £6m less sales and transfers of £64m. Market value figures have risen to £1,271m from £1,232m. Valuation uplifts account for £48m and this is reduced by the elimination on sale of previously recognised surpluses of £36m. The balance of £27m relates to the net effect of sales, acquisitions and transfers.

The market value of all our tenanted residential property at 30 September 2005 is £1,473m (2004: £1,329m).

The group's development and trading assets held as stock increased in cost terms to £92m and in market terms to £104m (2004: £76m and £101m respectively), the major movements being expenditure on West Waterlooville amounting to £21.5m, net investment at Grainger Homes of £11.4m, and the sale of Landmark Place, Slough which eliminated £20.0m of cost.

The total market value of all of the Group's development and trading assets at 30 September 2005 was £123.8m (2004: £109.0m)

Proforma net assets

	Statutory balance sheet £m	Market value adjustments £m	Market value balance sheet £m	FRS 13 £m	Conti- gent tax £m	NNNAV balance sheet £m
Properties:-						
Tenanted residential	1,072	401	1,473	-	-	1,473
Development and trading	112	12	124	-	-	124
Total properties	<u>1,184</u>	<u>413</u>	<u>1,597</u>	<u>-</u>	<u>-</u>	<u>1,597</u>
Investment/others assets/cash	87	8	95	-	-	95
Negative goodwill	(80)	80	-	-	-	-
Total assets	<u>1,191</u>	<u>501</u>	<u>1,692</u>	<u>-</u>	<u>-</u>	<u>1,692</u>
Borrowings and creditors	(922)	-	(922)	(18)	-	(940)
Net current liabilities	(39)	-	(39)	-	-	(39)
Provisions/contingent tax	(6)	(1)	(7)	7	(213)	(213)
Minority interest	-	(2)	(2)	-	-	(2)
Total liabilities	<u>(967)</u>	<u>(3)</u>	<u>(970)</u>	<u>(11)</u>	<u>(213)</u>	<u>(1,194)</u>
Net assets 30 September 2005	<u>224</u>	<u>498</u>	<u>722</u>	<u>(11)</u>	<u>(213)</u>	<u>498</u>
Net assets pence per share	<u>173</u>	<u>385</u>	<u>558</u>	<u>(8)</u>	<u>(165)</u>	<u>385</u>

Other assets and liabilities

Other net liabilities excluding cash balances and current debt instalments have fallen from £77.0m to £45.4m. Two major items contribute to this. Firstly the acquisition of a major portfolio of equity release properties (£19.5m) and secondly the payment of the final instalment of the purchase price for Deutsche Bank's stake in the Bromley joint venture (£10.0m) – both of these were included in creditors in the September 2004 balance sheet and were paid shortly thereafter.

Net assets

Net assets at market value have increased from £678m to £722m:-

	Reflected in the accounts £m	Not reflected in the accounts £m	Total £m
Net assets at 1 October 2004	178	500	678
Retained profits	20	(6)	14
Revaluation surpluses:-			
Tenanted residential	5	12	17
Development and trading	1	(13)	(12)
Investments	-	4	4
Goodwill movements	-	1	1
Shares issued on acquisition of City North Group	20	-	20
Net assets at 30 September 2005	<u>224</u>	<u>498</u>	<u>722</u>

Diluted NAV (or NNNAV) is computed by adjusting NAV for the market value of long term debt and derivatives and for contingent tax.

These two adjustments amount to 8p and 165p per share respectively (2004: 0p and 174p respectively).

The FRS 13 adjustment has increased because of the current low 5 year swap rate. At 30 September 2005 this was 4.535%, compared to 5.122% in 2004. This has resulted in some of our hedging instruments moving out of the money.

Contingent tax, which will only crystallise on the realisation of the assets and is therefore payable sometime in the future, has stayed relatively constant because of the low level of movement in the revaluation surplus in the year.

As in previous years we also present Grainger NAV. This reflects our estimate of the present value of the reversionary surplus in our regulated and equity release portfolios. In gross terms this is the difference between what we would achieve on sale of our properties on vacancy and the value attributed to them in the market value balance sheet. We have calculated the after tax present value of that surplus by discounting it back over its expected average period of realisation at the discount rate of 8.6% (our weighted average cost of capital plus a risk premium of 3% (2004: 8.6%). The adjustment increases NNNAV by 107p per share to give Grainger NAV of 492p (2004: 480p).

It should be stressed that this calculation is based on current house prices and assumes no future house price inflation. An annual increase in house prices of 4% would increase the adjustment to 177p and give a Grainger NAV of 562p.

Cash and Debt

Cash balances at the year end amounted to £53m, representing 3.1% of our total market value gross assets. Of this £26m, (2004:£30m) represents deposits received or acts as security for cash backed loan notes.

Group borrowings have increased from £757m to £921m, including capitalised loan costs of £7m (2004: £7m). These will be written off over the period of the loan. The increase in borrowings has principally arisen from the acquisition of City North and West Waterlooville.

The total of our net borrowings expressed as a percentage of the market value of our gross property assets ("loan to value ratio") at 30 September 2005 was 54% (2004: 49%) and gearing was 120% (2004: 103%).

Financing

During the year the group extended its core borrowing facility by £400m to £1,300m and in so doing reduced the blended margin on the facility by 7 basis points. At 30 September 2005, the Group had headroom in its borrowing capacity of £450m.

Capital Management

The group finances its operations through a combination of shareholders funds and borrowings with the objective of optimising weighted average cost of capital ("WACC") whilst retaining funding flexibility. At 30 September 2005 our estimate of WACC was 5.58% (2004: 5.64%).

The group does not take trading positions in financial instruments but holds them to minimise the risk of exposure to fluctuating interest rates. The majority of our debt is subject to protective swaps, caps or collars or is maintained at fixed rates of interest. At 30 September 2005, £658m or 76% of the groups net debt was either fixed to termination, or for over one year, or was protected by financial instruments (2004: 71%).

A combination of interest rate swaps and financial caps is used to provide a degree of certainty over future interest rate costs whilst enabling the group to take advantage of favourable short term rates. At 30 September 2005 the group held £347m of swap contracts at an average pre margin rate of 5.4% maturing between 2006 and 2014 (2004: £223m @ 5.4%). There were also financial caps in place of £265m at an average capped rate of 6.1% expiring between 2006 and 2009 (2004: £233m @ 6.1%). A summary of our gross borrowings is:-

	<u>Principal</u>	<u>Interest rate %</u>	<u>Terminating</u>
Fixed to termination	45	6.3	2006-32
Hedged by swap contracts	347	6.3	2006-14
Hedged by financial caps	265	5.6	2006-09
Variable/fixed under one year	264	5.4	2006-14
	<hr/>	<hr/>	<hr/>
Total debt	921	5.9	
Less: cash	(53)		
	<hr/>		
Net debt	868		

The effect of the fair value adjustment of marking the group's fixed rate debt and derivatives to current market rates ("FRS 13 adjustments") would be to produce a notional "liability" after tax of £10.6m or 8p per share (2004: 0p). This adjustment represents approximately 1.1% of group borrowings at 30 September 2005 and will not be recognised in the accounts until the position matures or is terminated.

The group also maintains a range of borrowing maturities to enable it to balance continuity of funding with flexibility. At 30 September 2005 the average duration of the group debt was 5.1 years (2004: 6.4 years).

International Financial Reporting Standards (IFRS)

IFRS are mandatory for the main UK listed companies for accounting periods ending on or after 31 December 2005 and so will affect Grainger's financial statements for the first time next year. As with most property companies, we expect the main changes will arise in the areas of deferred taxation, financial instruments, valuation movements and treatment of goodwill. In particular, the FRS13 adjustment and part of the contingent tax adjustment we currently make to NAV to arrive at NNNAV will form a part of the statutory balance sheet. The difference between NAV and NNNAV will therefore represent the contingent tax on the uplift of trading properties from book value to market value. We anticipate that, along with other companies with significant investment property assets, our income and expenditure account will become more volatile as valuation surpluses and deficits will be recognised therein. In line with other FTSE companies, we will announce the restatement of prior year figures and the qualitative impacts on our accounts prior to our half year in March 2006.

Andrew Cunningham
6 December 2005

Consolidated Profit and Loss Account
For the year ended 30 September 2005

	<u>Note</u>	Year Ended 30.09.2005 (unaudited) £m	Year Ended 30.09.2004 (audited) £m
Turnover (2005: including share of joint ventures and associates)		226.9	217.4
Less: Share of turnover of joint ventures and associates		(0.6)	-
Group turnover		226.3	217.4
Gross rentals		45.5	41.0
Trading profits		74.8	72.6
Other income		2.9	9.8
		123.2	123.4
Less:			
Property expenses		(24.3)	(22.7)
Administrative expenses		(9.4)	(7.5)
Operating profit – group and share of joint ventures and associates		89.5	93.2
Net profit on disposal of and provisions against fixed assets			
- Group		2.1	6.5
Profit on ordinary activities before interest and taxation		91.6	99.7
Net interest payable and similar charges			
- Group normal		(49.1)	(40.1)
- Group exceptional		-	(5.4)
- Joint venture		(0.4)	-
		(49.5)	(45.5)
Profit on ordinary activities before taxation		42.1	54.2
Tax on profit on ordinary activities	2	(15.6)	(21.2)
Profit on ordinary activities after taxation		26.5	33.0
Dividends	3	(6.6)	(5.7)
Retained profit for the group		19.9	27.3
Basic earnings per share	1	21.2p	26.8
Diluted earnings per share	1	20.9p	26.7
Basic earnings per share before exceptional items	1	21.2p	29.9
All results relate to continuing operations.			

Statement of Group Total Recognised Gains and Losses
For the year ended 30 September 2005

	Year Ended 30.09.2005 (unaudited) £m	Year Ended 30.09.2004 (audited) £m
Profit for the period attributable to shareholders	26.5	33.0
Taxation on realisation of property revaluation gains of previous years	-	(0.4)
Unrealised surplus on revaluation of properties	5.4	4.3
Total gains and losses recognised since the last annual report - group	31.9	36.9

Consolidated Balance Sheet
at 30 September 2005

	<u>Note</u>	30.09.2005 (unaudited) £m	30.09.2004 (audited) £m
Fixed assets			
Intangible assets		(81.3)	(84.8)
Tangible assets		224.4	106.7
Investments in joint ventures:			
Share of gross assets		44.7	-
Share of gross liabilities		(28.3)	-
Goodwill		1.5	-
		17.9	-
Investment in associates		0.1	-
Other Investments		15.4	10.3
		<hr/> 176.5	<hr/> 32.2
Current assets			
Stocks		961.5	918.6
Debtors: amounts falling due within one year	4	12.9	10.6
Cash at bank and in hand		53.3	53.8
		<hr/> 1,027.7	<hr/> 983.0
Creditors: amounts falling due within one year	5	(76.2)	(109.0)
Net current assets		<hr/> 951.5	<hr/> 874.0
Total assets less current liabilities		1,128.0	906.2
Creditors: amounts falling due after more than one year	5	(895.9)	(717.9)
Provisions for liabilities and charges		(8.5)	(10.4)
Net assets		<hr/> 223.6	<hr/> 177.9
Capital and reserves			
Called-up equity share capital		6.5	6.2
Share premium account		21.6	21.5
Revaluation reserve		17.7	13.9
Merger reserve		20.1	-
Capital redemption reserve		0.2	0.2
Profit and loss account		157.5	136.1
Equity shareholders' funds		<hr/> 223.6	<hr/> 177.9

Consolidated Cashflow Statement
For the year ended 30 September 2005

	30.09.2005 (unaudited) £m	30.09.2004 (audited) £m
Net cash inflow from operating activities	<u>19.3</u>	<u>56.7</u>
Returns on investments and servicing of finance		
Interest received	2.2	3.3
Interest paid – normal	(49.9)	(42.2)
– exceptional	-	(5.4)
Dividends received	0.1	0.2
	<u>(47.6)</u>	<u>(44.1)</u>
Taxation		
UK corporation tax paid	(16.6)	(24.1)
Capital expenditure and financial investment		
Purchase of fixed asset investments	(8.4)	(4.5)
Purchase of tangible fixed assets	(18.8)	(29.8)
Sale of fixed asset investments	-	1.2
Sale of tangible fixed assets	13.3	41.1
	<u>(13.9)</u>	<u>8.0</u>
Acquisitions and disposals		
Purchase of subsidiaries	(39.8)	(2.3)
Costs on purchase of subsidiaries	(1.5)	-
(Overdraft)/cash acquired on purchase of subsidiaries	(0.3)	0.2
Investment in associates and joint ventures	(11.1)	-
	<u>(52.7)</u>	<u>(2.1)</u>
Equity dividends paid	(6.9)	(4.2)
Cash outflow before financing	<u>(118.4)</u>	<u>(9.8)</u>
Financing		
New loans raised	170.0	726.1
Repayment of loans	(52.2)	(743.7)
Purchase of shares	-	(0.6)
Issue of shares	0.1	0.1
Net cash inflow/(outflow) from financing	<u>117.9</u>	<u>(18.1)</u>
	<u>(0.5)</u>	<u>(27.9)</u>
Decrease in cash in the year		
	30.09.2005 (unaudited) £m	30.09.2004 (audited) £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	89.5	93.2
Depreciation	0.4	0.4
Movement in provisions for liabilities and charges	(0.2)	(0.2)
Provision against investment	0.9	-
Amortisation of goodwill	(5.3)	(6.1)
Decrease/(increase) in debtors	0.9	(2.0)
(Decrease)/increase in creditors	(24.3)	1.7
Increase in stocks	(42.6)	(30.3)
Net cash inflow from operating activities	<u>19.3</u>	<u>56.7</u>

NOTES TO THE PRELIMINARY ANNOUNCEMENT OF RESULTS

1 Earnings Per Share

The calculation of basic, diluted and adjusted earnings per share is based on the following earnings and number of shares:

	Year ended 30 September 2005			Year ended 30 September 2004		
	Profit	Weighted	Earnings	Profit	Weighted	Earnings
	for the	average	per share	for the	average	per share
	Year	number	per share	year	number	per share
	£m	of shares	pence	£m	of shares	pence
		(thousands)			(thousands)	
Basic earnings per share						
Profit attributable to shareholders	26.5	125,077	21.2	33.0	122,815	26.8
Exceptional item less tax	-		-	3.8		3.1
Adjusted earnings	26.5	125,077	21.2	36.8	122,815	29.9
Effect of potentially dilutive securities						
Options and shares	-	1,770	(0.3)	-	720	(0.1)
Diluted earnings per share						
Profit attributable to shareholders	26.5	126,847	20.9	33.0	123,535	26.7
Exceptional item less tax	-		-	3.8		3.1
Adjusted earnings	26.5	126,847	20.9	36.8	123,535	29.8

The adjusted earnings per share is presented as, in the opinion of the directors, it gives a better picture of the underlying performance of the business.

2 Taxation

Tax on profit on ordinary activities:

	30 September	30 September
	<u>2005</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>
Group:		
Normal	15.6	22.8
Exceptional	-	(1.6)
	<u>15.6</u>	<u>21.2</u>

3 Dividends

Interim of 1.70p per share (2004: 0.81p)	2.2	1.0
Final of 3.41p per share (2004: 3.84p)	4.4	4.7
	<u>6.6</u>	<u>5.7</u>

4 Debtors	30 September 2005 £m	30 September 2004 £m
Trade debtors	1.9	5.8
Other debtors	4.8	0.5
Prepayments and accrued income	3.8	2.9
Deferred tax	2.4	1.4
	12.9	10.6

5 Creditors		
Amounts falling due within one year:		
Loan notes	26.4	31.8
Deposits received	1.1	0.8
Trade creditors	6.7	22.2
Corporation tax payable	22.0	20.5
Other taxation and social security	1.5	3.2
Accruals and deferred income	14.1	25.8
Dividends payable	4.4	4.7
	76.2	109.0
Amounts falling due after more than one year:		
Bank loans	887.9	717.9
Other Creditors	8.0	-
	895.9	717.9

6 This announcement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 30 September 2004 have been filed with the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

7 Copies of the statement may be obtained from the Company's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE. Further details of this announcement can be found on our website, www.graingertrust.co.uk.

8 The Board of Directors approved this preliminary announcement on 6 December 2005

Appendices

1. Analysis of tenanted residential portfolio by tenure

	No of <u>properties</u>	Vacant Possession <u>value £m</u>	Investment <u>value £m</u>	% Vacant possession <u>value</u>
Regulated	8,161	1,349	984	73
Assured	1,102	210	188	90
Vacant	423	65	58	89
Equity Release	2,663	354	196	55
Hotel complex – short term lettings	33	5	5	100
Other interests	-	41	42	97
Share of joint ventures		43	34	80
	<hr/>	<hr/>	<hr/>	<hr/>
30 September 2005	12,382	2,067	1,507	73
	<hr/>	<hr/>	<hr/>	<hr/>
30 September 2004	12,041	1,865	1,329	71
	<hr/>	<hr/>	<hr/>	<hr/>

2. Range of vacant possession values (excluding other interests and share of joint ventures)

	No of <u>properties</u>	Vacant possession <u>value £m</u>
> £500K	71	56
£250K - £500K	1,167	385
£175K - £250K	2,809	587
£100K - £175K	4,943	690
<£100K	3,392	257
	<hr/>	<hr/>
	12,382	1,975
	<hr/>	<hr/>

3. Geographic distribution of residential portfolio

	Investment <u>value £m</u>	% of assets <u>£m</u>
London	636	43
South East	237	16
South West	83	6
East	94	6
East Midlands	61	4
West Midlands	134	9
Wales	11	1
Yorkshire	56	4
North West	127	9
North East	23	1
Scotland	11	1
Northern Ireland	-	-
	<hr/>	<hr/>
	1,473	100
Share of joint ventures	34	
	<hr/>	<hr/>
	1,507	
	<hr/>	

4. Analysis of acquisitions in the year (excluding JV but including City North)

	No.	Cost	Vacant possession value £m
Regulated (including APT)	480	51	73
Assured	584	110	125
Vacant	30	4	5
Equity Release	156	18	36
Other	4	1	3
	<u>1,254</u>	<u>184</u>	<u>242</u>

5. Market value analysis of property assets

	Held as stock at cost £m	Market value adjustment £m	Market value £m	Fixed assets at valuation £m	Total £m
Residential	870	401	1,271	202	1,473
Development and trading	92	12	104	20	124
Total	<u>962</u>	<u>413</u>	<u>1,375</u>	<u>222</u>	<u>1,597</u>

6. Analysis of residential sales in the year (from stock and fixed assets)

	No	Sales proceeds	Trading profit/ profit on disposal £m
Regulated	600	86	43
Assured	99	11	2
Vacant	145	24	9
Equity Release	69	7	4
Other	-	5	3
Total	<u>913</u>	<u>133</u>	<u>61</u>

7. Major development projects

Project	Description	Status	Income expected from
West Waterlooville	520 acres of greenfield land in Hampshire	Planning application for 1,550 units due to be submitted in 2006	2008
Macaulay Road	110,00 sq. ft. mixed use scheme in Clapham	Planning decision expected by mid 2006	2008/9
South London Hospital	77 residential units above Tesco store in Clapham	Completion of project due by Spring 2006	2006
Hornsey Road, Barnsbury Complex	Public/private partnership mixed use scheme of 350 residential units, 43,000 sq. ft. council office facilities and community	Planning consent granted in October 2005.	2008/9
Smiths Dock, North Shields	Joint venture to regenerate 30 acres at former dry docks	Planning decision for 1,250 units due early 2006	2007