24 November 2011

Grainger plc

(“Grainger”/”Group”/”Company”)

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

Grainger delivers robust performance with a return to profit

Financial highlights

- Profit before tax £26.1m (2010: loss of £20.8m)
- Operating profit before valuation movements and non-recurring items up 34% to £126.2m (30 September 2010: £94.2m)
- Gross net asset value per share up 8.2% to 216p (30 September 2010: 200p)
- HI Tricomm and Grainger GenInvest acquisitions performing above expectations
- £1.2bn of new debt secured during the year and up to the date of this announcement to refinance existing debt and in connection with acquisitions, taking average maturity of the Group’s drawn debt to 5.9 years (2010: 3.6 years)
- Over £100m of net debt reduction in the second half of the year
- Final dividend of 1.30p per share. At the half year £2.2m was returned to shareholders (equivalent to 0.53p per share) through a tender offer for shares making a total return to shareholders equivalent to 1.83p per share (2010: 1.70p) an increase of 8.3% on the final dividend and 7.6% on the full year dividend

Robin Broadhurst, Chairman of Grainger plc, commented:

“Our business has continued to demonstrate resilient performance and a proven ability to take advantage of opportunities that will provide long term value. This is supported both by our recent refinancing and by the strong cash generative capability of our portfolio. As a result, whilst being mindful of the challenges presented by the external environment, we are confident the residential market will provide good medium term opportunities.

“We have invested wisely in strategic acquisitions during the year. Going forward we will also continue to supplement profits from our core reversionary business with a growth in fee income from our asset and property management activities. Such activities enhance our return on capital and rely less on investment. We therefore anticipate a further reduction in our requirement for debt in the near to medium term and our successful refinancing strategy has been based around this approach.

“We look forward to continuing using our skills to enhance our performance within the residential sector.”

Analyst presentation

Grainger plc will be holding a presentation for analyst and investors today at 9.15.a.m. at FTI Consulting, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

The meeting can also be accessed via live audio webcast. Webcast attendees should register on the home page of Grainger's website, www.graingerplc.co.uk.

In addition, there is a conference call dial in facility, using the following details:

Dial in number: +44 (0)20 3140 0668

Password: 951389#

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Chairman's Statement

The Group has performed strongly in the year to 30 September 2011, achieving a profit before tax of £26.1m compared to a loss of £20.8m in 2010 . Profit before tax and movements on financial derivatives rose almost three-fold from £18.8m to £54.1m, while operating profit before valuation movements and non-recurring items has shown a 34% increase to £126.2m from £94.2m. Gross net asset value per share increased 8.2% to 216p from 200p.

Business Overview

Our business has three income streams – sales of residential properties, rental income and fees or other income from managed or co-invested vehicles. In each of these areas we have made good progress in consolidating our position as a leading residential trader, investor and manager:-

- Trading. We have actively sought to improve the range and quality of our residential portfolio, selling non-core and low growth assets and acquiring good quality replacements. An example of this was the acquisition of our partners' interests in Grainger GenInvest which helped increase our proportion of UK assets in London and the South East to 62%.

- Investment. Our gross rental income has increased from £75.6m to £86.3m, augmented by the acquisition of HI Tricomm Holdings. Its portfolio of 317 properties let on a long term basis to the Ministry of Defence generates a gross annual rental yield of 8.3% on its acquisition price.

- Management. We have been successful in leveraging our asset and property management skills to increase the Group's fee income levels. In so doing, we have established working relationships with high quality partners such as Moorfield, Lloyds Banking Group, Defence Infrastructure Organisation and Bouygues Development. Fees have increased 23% in the year.

Dividends

The board is recommending a final dividend of 1.30p per share. If approved, this will be paid on 10 February 2012 to shareholders on the register on 9 December 2011. At the half year we returned £2.2m to shareholders (equivalent to 0.53p per share) through a tender offer for shares. This totals an equivalent of 1.83p per share (2010: 1.70p).

Board

As announced at the half year, Bill Tudor-John left the board after six years of valuable service as a director and was replaced by Belinda Richards. Robert Hiscox will retire from the board at our annual general meeting on 8 February 2012 and his place has been taken by Tony Wray, Chief Executive of Severn Trent plc. Robert has been a director since March 2002 and has made a significant and pertinent contribution to our business over that period. We look forward to being able to take advantage of both Tony's broad corporate experience gained at a major listed company and Belinda's corporate finance expertise.

It is appropriate for me to also note the sad and premature death of Rupert Dickinson in September. Rupert was Chief Executive of Grainger until ill health caused his early retirement in October 2009. His leadership of the business was characterised by his passion and enthusiasm for the Company and the residential sector. He will be sadly missed.

Outlook

Our business has continued to demonstrate resilient performance and a proven ability to take advantage of opportunities that will provide long term value. Our core skills remain our ability to asset manage, across the UK, large numbers of residential properties efficiently to provide enhanced returns within the sector. This is supported both by our recent refinancing and by the strong cash generative capability of our portfolio. As a result, whilst mindful of the challenges presented by the external environment we are positioning ourselves to take advantage of what we expect to be interesting opportunities over the medium term.

We have invested wisely in strategic acquisitions during the year. Going forward we will also continue to supplement profits from our reversionary business with a growth in fee income from our asset and property management activities. Such activities enhance return on capital and rely less on investment. We therefore anticipate a reduction in our requirement for debt in the near to medium term and our successful refinancing strategy has been based around this approach.

Grainger was incorporated in 1912 and as we enter our first centenary year, we have cemented our brand and our reputation as a professional and caring landlord. In turn this has benefitted our tenants, partners and stakeholders. None of this would have been possible without the enthusiasm, skill and commitment not only of our current staff but also their predecessors. I would like to extend my thanks to them all.

Robin Broadhurst
Chairman
24 November 2011

Chief Executive's Review

Grainger operates as a trader, investor and manager of residential properties and therefore offers its investors exposure to residential returns from three main sources of income:-

- Receipts from the sale of assets (profit from sales: £81m)
- Rents (net rents: £62m)
- Fees from co-invested and/or managed vehicles (total fees: £8m)

Business Overview

Grainger owns £2.4bn of residential property of which 82% is located in the UK and the balance in Germany. In the year ended 30 September 2011, this portfolio generated £86m of gross rents and total asset sales amounted to £223m. A further £8m of fees and other income was produced.

The overall portfolio can be categorised by asset type, location and income as follows:-

Asset value (£m)		Rents	Sales	Fees
1,402	UK Residential Portfolio	✓	✓	✓
474	Retirement Solutions Assets	✓	✓	✓
73	Development Assets		✓	✓
422	German Residential Portfolio	✓	✓	✓
54	Fund Management and Residential Investments			✓

Our UK residential portfolio comprises 13,564 tenanted houses and flats, together with other associated interests such as ground rents and garage blocks. Most of the properties are, or have been, subject to regulated tenancies or home reversions plans. Under a regulated tenancy the tenant pays us a rent set by a local rent officer, which is usually below the prevailing market rent. The tenant also has right of tenure, but when the property is vacated it reverts back to Grainger and can be sold on the open market with vacant possession. We buy these tenanted properties at a discount to the vacant possession ("the reversion") value and so our returns consist of rents received during occupation, the value of the reversion crystallised when the property is vacated and sold, together with any growth in value from house price inflation during the period of ownership. It is a key characteristic of the residential market that properties are more valuable vacant than tenanted. The properties are usually owned for ten years or more and this helps smooth out price volatility arising from economic cycles.

Our retirement solutions assets consist primarily of ownership stakes in properties occupied by elderly people (home reversion plans). A lump sum is paid to the owner occupier for some or all of their residential property, reflecting an appropriate discount and they are entitled to remain in their house for the rest of their lives without paying any rent. When they vacate the property it reverts back to Grainger and we are then able to sell it with vacant possession. The returns therefore consist of the reversion, enhanced by house price inflation.

These two reversionary portfolios account for about 77% by value of our total business and offer a blend of trading and rental returns. The majority of our regulated tenants receive financial support through housing benefit and, because of their rights of tenure, have a vested interest in ensuring the rent is paid. Consequently our rental returns are long term, stable and secure with very low levels of arrears. Both of our reversionary portfolios provide a steady stream of predictable vacancies giving us the opportunity to sell and crystallise value. The reversionary surplus in our UK business (the difference between vacant possession value and tenanted or market value) now stands at £571m (2010: £604m). The low average value (c.£197k), often un-refurbished nature of the properties and high level of cash purchasers they attract mean that these vacant properties sell well and quickly.

Our development activities are much smaller in scale (the book value was £80m at 30 September 2011), but offer opportunities for significant returns and cashflow. We often work in joint venture arrangements (for example with Development Securities in Birmingham and Helical Bar in Hammersmith) to leverage the respective skills and resources of ourselves and our partners. Our major development activity at present is at our site in West Waterlooville in Hampshire. We will bring some 2,550 residential units through the planning process, install infrastructure and then sell fully serviced plots to housebuilders under common standards of quality and sustainability. This activity follows the core Grainger principles of long term residential expertise and the creation of returns through a change in value and subsequent sale. In the UK residential and home reversions portfolios, this comes from a change in tenure; and in development, it largely derives from a change in use or planning permission.

Our German residential portfolio consists of some 6,718 units with a value at the year-end of €490m. The returns from these assets are more heavily biased towards rental income than those in the UK, and so provide a good balance of risk through stable asset values and higher gross yields.

In total we own 20,282 residential properties. This has enabled us to invest in the systems, processes and people required to run such a large portfolio. Together with the breadth and depth of our residential expertise, this has placed us in a good position to offer these skills to third parties, often on a co-investing basis (for example, G:res and our Sovereign Reversions Joint Venture with Moorfield). This is a growing part of the business as demonstrated clearly this year by the success of our expanding these activities through arrangements with Defence Infrastructure Organisation (the Aldershot Urban Extension) and with Lloyds Banking Group (through the Grainger Residential Asset Management Platform G:RAMP). Subsequent to the year end, we also announced our framework agreement with Bouygues Development to co-invest in a residential Build-to-Let fund which, on creation, will provide institutional investors with the opportunity to invest in scale in the private rented sector.

Strategy in Action

Objective set in 2010	Action in 2011
Rebalancing residential portfolios to selective areas of value or growth.	• Acquisitions of high yielding HI Tricomm portfolio and the Grainger GenInvest LLPs. • Some 62% of UK portfolio now in London and the South East (54% two years ago). • Increase in gross rental income of 14%.
Reducing capital employed in non-core assets and underperforming locations.	• Disposal of £41m of tenanted properties in the UK and €23m in Germany to improve overall portfolio quality.
Introducing third party capital to diversify returns.	• Joint venture with Moorfield to hold Sovereign Reversion assets. • G:res life extended. • Partnership with Defence Infrastructure Organisation at Aldershot • Partnership with Lloyds Banking Group through G:RAMP. • Increase in management fees of 23%.
Acting early to consider and implement debt financing options.	• Approximately £1.2bn of debt finance raised including the introduction of several new lenders and the extension of average maturities.

Business Performance

This year has been characterised by a number of significant transactions which have moved the business forward and which reflect how our strategic objectives are put into practice.

Transaction	Description	Impact
Sovereign Reversions joint venture	Sovereign Reversions was acquired by Grainger in August 2010. It owned 1,038 home reversion assets with a market value of approximately £68m. In October 2010, Moorfield acquired a 50% stake in the vehicle.	The acquisition adds scale to Grainger's own home reversion business. As well as the returns from our investment we obtain fees for managing the portfolio.
HI Tricomm acquisition	Acquisition of corporate entity owning 317 houses let to the Ministry of Defence. Gross annual yield of 8.3% based on its acquisition price and existing long term financing retained.	Adds c. £9m to the Group's gross rent roll. The financing brought a new lender into the Group and extended our overall debt maturities. The discount on acquisition produced a one-off gain of £14.9m and the value has increased by a further £0.6m since acquisition. Net rental income since acquisition was £5.0m.
Grainger GenInvest LLPs acquisition	The acquisition of our JV partner's (Genesis Housing Group) stake in these LLPs to give us 100% ownership. The portfolios included c.1,650 residential units in Central London with a market value of £289m and a vacant possession value of £353m.	Incremental gross rents of £12m and a significant addition to the UK Residential portfolio, increasing its size by 25% on acquisition and providing us with significant development and reversionary potential. The acquisition also enabled us to introduce two new lenders, HSBC and Santander. Since acquisition, net rental income £5.3m representing a gross annual yield of 4.2% and a further revaluation uplift of 4.2% at £11.9m.
G:RAMP	Provision of G:RAMP for Lloyds Banking Group. By 30 September 2011 some 1,545 residential units were included in G:RAMP	Significant leveraging off existing skills and operational platform to provide fees and improve return on capital employed.
Aldershot Urban Extension	Appointment as preferred developer by Defence Infrastructure Organisation and Homes and Communities Agency for 148 hectares of land which may result in up to 4,500 residential units.	Long term recurring fee income with high quality partner. Based on value of sales of serviced plots to housebuilders.
Waterlooville	Outline planning consent obtained for 2,550 homes. 15-20 year pipeline of serviced land sales to housebuilders.	Long term income from land sales.

Overall Market Review

Residential property values are driven by supply and demand and can be distorted significantly by local economic factors. This has been most noticeable over the last year in the prime London market where ultra high value properties have adopted many of the characteristics of precious metal investment. Shortage of supply, exacerbated by planning restrictions, geopolitical stability, the attractiveness of the time zone and London's standing as a high quality urban environment have pushed prices of these properties to unprecedented levels. To a lesser extent, prices in other London and South East areas have also reflected the imbalance between supply and demand by exhibiting stronger price levels than other parts of the UK, which are much more susceptible to the weak economy and to the effects of the mortgage market. Some 62% of our UK properties are situated in London and the South East and so benefit from these factors.

As well as geographical imbalances we find, that in these markets, certain types of property sell better. Generally, our properties are of low average value and tend to be un-refurbished on vacancy. Demand for these properties from a mixed constituency of cash buyers, amateur and professional developers and local specialist landlords as well as the usual mortgage backed owner-occupier, remains strong. This is reflected by the fact that our average sales period runs at approximately 112 days and our vacant sales were completed for values on average 3.7% above the equivalent September 2010 valuation. Refurbishment works prior to sale can improve returns and when these are taken into account we have sold at 6.7% above September 2010 valuations.

Mortgage funding for house purchases remain at very low levels reflecting primarily the higher levels of deposit required by lenders – the average first time buyer deposit stands at 21% of purchase price. This, allied to weak confidence in the economic outlook, has led to a significant increase in the number of household properties being rented. In London it is estimated that the percentage level of home ownership has fallen from 60% in 2001 to 52% in 2010. The increase in demand has also pushed rentals up with prime London residential rents showing annual increases of up to 10% on new lettings.

Government has indicated support for a stronger more professional private rented sector. There is an increased possibility of residential REIT's being created once legislative changes are enacted in 2012. The Government's Housing Strategy, announced on 21 November 2011, clearly states the Government's desire to support the private rented sector and announced the creation of an independent review to explore ways to attract institutional investment into the sector.

We believe the switch between home ownership and rented occupation signals a significant and permanent structural change in the housing market. We anticipate demand for rental properties, particularly in major metropolitan areas, to increase and there to be more blurring of the edges between the affordable/public/private rented sectors.

We are well placed to take advantage of these changes through our expertise as a major residential landlord and by positioning ourselves in the market rented sector through our involvement with G:res and the Bouygues and Grainger Build-to-Let fund. The fund was recognised by the UK Government in its Housing Strategy as an exemplar of private sector initiatives.

The German residential market shows different characteristics from the UK. Overall levels of home ownership are much lower at approximately 42%, the second lowest in Europe. The size of the rental market has led to a diverse range of rental housing and vacancy rates are relatively constant at below 4%. These factors have led to a more investment based market, with some 40% of rental units being owned by professional/commercial landlords. As with the UK, geographical differences are evident and both residential prices and rental demand are strongest in the larger economically successful cities, particularly in the West. It is in these areas that our German portfolio is located and these attractive locations together with a good quality portfolio bode well for future rental growth and capital appreciation.

Future prospects

The prospects for the UK economy and therein the broad housing market is uncertain. Wider global economic conditions will play an important, if not the most important, part in the health of the UK economy in the short to medium term. This uncertainty will result in subdued behaviour both among businesses and consumers. We therefore take a cautious view of the prospects for general house price growth in the short to medium term, but believe this can be offset by the severe undersupply of housing compared to growing demand in local markets. The imbalance between supply and demand will vary significantly from area to area with an impact on pricing.

Our future focus will be to build on our three main income streams in a risk controlled way – property sales primarily of assets to capture their reversionary value, rental income and fees or other income from managed or co-invested vehicles. Our existing portfolio provides us with a ready source of liquid assets that sell well and quickly. The portfolio also provides opportunities for rental appreciation and we continue to increase our fee income through the application of our residential property expertise.

We have seen a good start to the new financial year and our total Group sales pipeline (completed sales, contracts exchanged and properties in solicitors hands) amounted to £58.7m at 18 November 2011 with UK normal residential sales values some 5.3% above September 2011 vacant possession values.

We are disposing of assets that are either regarded as non-core or where we see limited opportunities for growth. When taken in conjunction with our normal sales on vacancy, we anticipate being net sellers of property in the short to medium term. We believe that operating at lower levels of debt, in conjunction with a greater emphasis on fee generating activities, will generate a better risk adjusted return to our shareholders. Our property management activities may result in increased assets under management.

We are well positioned to take advantage of the opportunities presented by the changes in the residential market. A large proportion of our portfolio is in geographic areas where economic activity, and therefore demand, is highest enabling us to maximise sales value and velocity. Our expertise as residential landlords will enable us to take full advantage of the increasing rental market and, in particular, the Build-to-Let sector. We are optimistic about our opportunities to improve return on capital by managing other parties' residential real estate exposure.

In summary, we remain confident in our ability to deliver good levels of long term return in the residential property sector for our shareholders.

Andrew R. Cunningham
Chief Executive
24 November 2011

Operating and Financial Review

Operating Review

UK residential

The UK residential business (UKR) primarily consists of properties subject to a regulated tenancy, the whole portfolio producing a gross rental yield of 4.1%. These are valued at 75% of vacant possession value in London and at 72.5% of vacant possession value in other locations. The portfolio is geographically widespread but with a strong concentration in London and the South East, where 72% by value and 59% by volume of these properties are situated.

Net rental income in the year increased significantly to £38.4m from last year's figure of £28.5m, assisted by the strategic portfolio acquisitions during the year of the HI Tricomm and Grainger GenInvest LLPs. (Prior to the date of acquisition of the remaining 50% of Grainger GenInvest our share of its results are reported in Fund Management and Residential Investments business below). The division also generated £0.5m of other income.

During the year we generated normal sales of £88.5m from this portfolio (2010: £81.0m) producing a profit of £37.8m (2010: £37.4m). The margins that we achieved on normal sales were 42.8% (2009 46.2%). This year we conducted a regional review of our portfolios in view of future expected returns. This resulted in a growth of 'investment sales' (those with a tenant in place) which gave £56.6m of sales with a profit of £14.6m (2010: sales £7.5m and profit £2.0m). We also made other miscellaneous sales of £7.3m with a profit of £2.6m. Last year, including a larger amount of agricultural sales, the miscellaneous sales figure was £32.4m with a profit of £8.2m.

Year-end valuations were up 3.8% from the previous September compared to decreases in the Nationwide and Halifax Housing Indices of 0.3% and 2.3% respectively. This clearly illustrates the specialised nature of our property assets and the value we add to them through expert asset and property management. The carrying values were also again supported by the fact that completed normal sales were at values, on average, 4.6% above September 2010 valuations. Refurbishment works prior to sale can improve returns and when these are taken into account we have sold at 8.6% above September 2010 valuations. The liquidity of the properties was also demonstrated by the time taken for sale, measured from the date of vacancy to receipt of cash, being maintained at 99 days.

Other than the two specific strategic portfolios referred to above we were cautious buyers in the UK residential business in 2011 acquiring 44 units for £7.5m (2010: 308 units for £55.7m).

Given current economic conditions our key criteria for purchases continue to be:

- Good prospects for long term capital appreciation. This is reflected by the geographic spread of our purchases this year, with some 72% above by value being in London and the South East.
- Good levels of discounts and/ or high yields.
- Opportunities for redevelopment or refurbishment potential.

Retirement Solutions

Sales proceeds in 2011 including CHARM amounted to £27.6m, generating a profit of £10.0m (2010: sales £29.1m; profit £10.2m). Certain assets in the portfolio also produce a net rental income and this amounted to £3.8m in the year (2010: £4.1m). Other income of £0.5m comprises management fees from the Sovereign Reversions joint venture.

The assets in this portfolio are more geographically widespread than the UK residential portfolios and do not benefit from the bias they have towards London and the South East. This is reflected in the valuation results for the year, which showed a small increase of 0.1% at investment value level.

We bought £14.0m of home reversion assets in the year. We also, early in the year and as noted in last year's report and accounts, 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 paid 50% of the acquisition and certain integration costs and Grainger receives management fees.

Fund Management and Residential Investments

Profit from our Fund Management and Residential Investments business amounted to £3.6m (2010: profit of £2.7m) arising from gross fee income of £6.3m from asset and property management fees from G:res 1 ('G:res'), G:RAMP and GenInvest, less allocated overheads. At the year end, and following our acquisition in the year of the remaining equity in the two Grainger GenInvest LLP's, the remaining equity investment in this division is our 21.96% stake in G:res which is a market rented fund of 2,031 units.

G:res is subject to a full external valuation in December and June of each year and showed an increase in market values of 5.2% for the twelve months ended 30 June 2011, producing an increase in net asset value in the fund of 13.6%.

Operational results at G:res provide a continuing insight into the current UK residential rental market. Rental increases on renewals amounted to 5.2% for the quarter ended September 2011 and increases on new lets for the same period were 11.4%. Both results indicate a continued strengthening rental market. The investors in this fund voted to extend its duration by two years to 2013 and its controlled liquidation is under way as planned.

During the year, and before we acquired our partner's 50% stake referred to above, our 50% investment in GenInvest was reported in this division. Prior to that acquisition the values in Grainger GenInvest increased by 2.8% in the period from 1 October 2010.

The controlled liquidation of the Schroders Residential Property Unit Trust was completed in the year; 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.

A significant advance in the fee earning element of this business in the year was the agreement with Lloyds Banking Group to establish G:RAMP. There is no requirement for Grainger investment in this arrangement. By the year end, G:RAMP was proceeding to plan with 1,545 units under management.

Development

Sales in this division at £22.1m were similar to last year's of £18.7m. The profits derived from this year's sales were significantly increased at £15.1m (2010: £2.1m). The profits primarily derive from two transactions in central London which both yielded profits of c.£7m each, one of which was an overage receipt which had no associated cost.

During the year the business was appointed as development partner for the Aldershot Urban Extension. This will lead to further fee generation from 2012.

German Residential

The German business delivered net rents of €25.3m (2010: €24.7m) at an annual net yield of 4.6% (gross yield of 7.03%) in a largely stable price environment: property assets were written down at year end by €1.9m (0.4%). Our portfolio comprises 6,397 residential units and 321 commercial units located predominantly in the South and South-West of the country. We have undertaken 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 investment assets for €24.3m generating a profit on sale of €1.1m in 2011 and have identified further assets to be sold in 2012.

Financial Review

Performance overview

Our key performance indicators are:

	2011	2010
Operating profit before valuation movements and non-recurring items	£126.2m	£94.2m
Gross net asset value per share (pence)	216p	200p
Triple net asset value per share (pence)	153p	140p
Excess on sale of normal sales to previous valuation (UKR and RS excl refurbishment)	3.7%	5.7%
Profit before tax	26.1	(20.8)
Return on capital employed	6.5%	5.3%

	1 year	5 year	10 year
Return on shareholder equity	11.1%	(5.4)%	3.9%

Our three income streams, sales of residential properties, rental income and fees or other income, net of property expenses and overheads and before valuation and non-recurring items has produced an operating profit before valuation movements ("OPBVM") as follows:

	Net Rents £	Profit on sale of assets £	Fees £	Overheads/ Other/ CHARM £	2011 Total £	2010 Total £
UK Residential Portfolio	38.4	55.0	0.5	(9.7)	84.2	69.4
Retirement Solutions Portfolio	3.8	10.0	0.5	4.4	18.7	12.2
Fund Management and Residential Investments	-	-	6.3	(2.7)	3.6	2.7
Development Assets	-	15.1	0.4	(1.1)	14.4	2.0
German Residential Portfolio	20.2	0.9	0.3	(3.1)	18.3	17.1
Group and other	-	-	-	(13.0)	(13.0)	(9.2)
OPBVM – 2011	62.4	81.0	8.0	(25.2)	126.2	
OPBVM – 2010	52.9	61.5	6.5	(26.7)		94.2

In the year, net rents rose by 18% from £52.9m to £62.4m primarily due to contributions from our acquisitions in the year of the Grainger GenInvest LLPs and HI Tricomm which are both performing in line with expectations.

Profit from sales of property including CHARM, was £81.0m, compared to £61.5m in 2010 including a £1.4m release of net realisable value provision. This was generated from gross sales proceeds of £223m compared to £173m in 2010. This movement in volume was driven mainly by an increase in investment sales (properties with tenants in place) and other sales which rose from £39.9m to £63.9m. Overall margins rose from 34.8% to 36.3% assisted by an increased contribution from our development business.

Fees have risen to £8.0m from £6.5m assisted by increased G:res fees (fees have been driven by increased asset values and higher rents) and income from both G:RAMP and the Sovereign Reversions joint venture.

Sales and margins

	Full Year 2011				Full Year 2010			
	Units sold	**Sales**	**Profit**	**Margin**	Units sold	Sales	Profit	Margin
		£m	£m			£m	£m	
Sales on vacancy								
UK residential	423	88.5	37.8	42.8%	447	81.0	37.4	46.2%
Retirement solutions	217	27.6	10.0	36.0%	251	29.1	10.2	35.1%
	640	116.2	47.8	41.2%	698	110.1	47.6	43.3%
Investment and other	607	63.9	17.2	26.9%	111	39.9	10.2	25.5%
Residential sales total	1,247	180.1	65.0	36.1%	809	150.0	57.8	38.5%
Development	-	22.1	15.1	68.2%	-	18.7	2.1	11.4%
UK Total	1,247	202.2	80.1	39.6%	809	168.7	59.9	35.5%
Germany	438	21.1	0.9	4.4%	55	4.3	0.2	5.0%
Overall total	**1,685**	**223.3**	**81.0**	**36.3%**	**864**	**172.9**	**60.1**	**34.8%**

Overhead costs in 2011 at £33.1m are £2.4m higher than in 2010 (£30.7m) supporting the increase in the business represented by additional assets under management and to enable for future growth in our management capacity.

The key elements of the movement in OPBVM are shown below:

	£m
2010 OPBVM	94.2
Increase in gross rents and other income	12.9
Increase in property expenses and overheads	(4.8)
Increase in residential trading profit	6.0
Increase in development trading profit	12.9
Increase in interest income from CHARM	5.4
Other	(0.4)
2011 OPBVM (see note 2 to the accounts)	**126.2**

Valuation movements, impairment and goodwill adjustments and non-recurring items amounted to a credit of £1.3m (2010: charge of £9.3m) as shown below:

	2011 £m	2010 £m
Gain on acquisition of subsidiaries	16.1	2.8
Goodwill impairment	(2.2)	(1.5)
(Write down)/ write back of inventories to net realisable value	(1.8)	2.9
Movement on impairment provisions against loans	(4.2)	(10.7)
Valuation deficit on investment properties	(2.0)	(0.8)
Transaction costs	(3.8)	-
Non recurring overhead costs	(0.8)	(2.0)
	1.3	**(9.3)**

Interest expense and similar charges

Our net interest charge has increased by £3.6m from £76.3m to £79.9m, the principal reason being debt either assumed or raised in connection with the acquisitions of the Grainger GenInvest LLPs and HI Tricomm and a write off of brought forward loan costs on the refinancing.

Our profit before tax and before movements on derivatives was £54.1m compared to £18.8m in 2010.

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 in the full year has been to increase the Group's fair value of derivatives liability in the consolidated statement of financial position from £128.3m to £154.3m with a charge through the consolidated income statement of £28.0m (2010: £39.6m).

Having taken account of these derivative movements profit before tax was £26.1m compared to a loss of £20.8m in 2010.

Tax

During the year, the Group successfully concluded discussions with HM Revenue & Customs on a number of outstanding tax matters for which credit had not previously been taken. The Group's tax credit to income statement includes non-recurring tax credits of £16.5m relating to agreements reached with UK and overseas tax authorities which assisted in giving an overall tax credit of £13.0m for the year.

Earnings per share

Basic earnings per share is a profit of 9.5p (2010: 2.9p loss). A year on year comparison is shown below:

	£m	Pence per share
2010 Loss/ (loss) per share	(10.8)	(2.9)
Movements in:		
OPBVM	32.0	7.9
Contribution from joint ventures and associates	(3.7)	(0.9)
Fair value of derivatives	11.6	2.8
Revaluation deficits on investment properties	(1.2)	(0.3)
Provisions against trading stock values and loans	1.8	0.4
Goodwill credit	12.5	3.1
Net interest payable	(3.6)	(0.9)
Taxation and other	0.5	0.3
2011 Profit/ earnings per share	**39.1**	**9.5**

Dividend for the year

After considering the investment and working capital needs of the business the directors have recommended a final dividend of 1.30p per ordinary share (2010: 1.20p) which equates to £5.3m (2010: £4.9m). This is in addition to return to shareholders by way of a tender offer earlier in the year which amounted to £2.2m. Earnings cover dividends by 7.4 times.

Net asset value

We set out two measurements to better enable shareholders to compare our performance year on year.

	2011	2010	Movement
Gross net assets per share (NAV) - market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives	216p	200p	8.2%
Triple net asset value per share (NNNAV) - gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives	153p	140p	9.7%

Reconciliation of Gross NAV to NNNAV

	£m	Pence per share
Gross NAV	**900**	**216**
Deferred and contingent tax	(132)	(32)
Fair value of derivatives adjustments net of tax	(130)	(31)
NNNAV	**638**	**153**

The major movements in Gross NAV in the year are:

	£m	Pence per share
Gross NAV at 30 September 2010	**832**	**200**
Results after tax	39	9
Revaluation gains	57	14
Elimination of previously recognised surplus on sales	(45)	(11)
Dividends paid	(5)	(1)
Derivatives movement net of tax	29	7
Others	(7)	(2)
Gross NAV at 30 September 2011	**900**	**216**

The major movements in NNNAV in the year are:

	£m	Pence per share
NNNAV at 30 September 2010	**582**	**140**
Results after tax	39	9
Revaluation movements	57	14
Elimination of previously recognised surplus on sales	(45)	(11)
Dividends paid	(5)	(1)
Cashflow hedge reserve net of tax	9	2
Contingent tax	3	1
Others	(2)	(1)

NNNAV at 30 September 2011	**638**	**153**

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	**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**
Investment property	820	-	820	-	-	820
CHARM	102	-	102	-	-	102
Trading stock	1,105	344	1,449	-	-	1,449
JV/ Associates	59	-	59	-	(5)	54
Cash	91	-	91	-	-	91
Deferred tax	43	(40)	3	-	43	46
Other assets	24	7	31	-	-	31
Total assets	2,244	311	2,555	-	38	2,593
External debt	(1,545)	-	(1,545)	-	-	(1,545)
Derivatives	(154)	154	-	-	(168)	(168)
Deferred tax	(48)	48	-	(132)	-	(132)
Other liabilities	(110)	-	(110)	-	-	(110)
Total liabilities	(1,857)	202	(1,655)	(132)	(168)	(1,955)
Net assets	387	513	900	(132)	(130)	638
30 September 2011 net assets per share (pence)	**93.1**	**123.1**	**216.2**	**(31.7)**	**(31.1)**	**153.3**
30 September 2010 net assets per share (pence)	82.9	116.9	199.8	(34.1)	(26.0)	139.7

Market value analysis of property assets

	Shown as stock at cost £m	**Market value adjustment £m**	**Market value £m**	**Investment property/ financial interest in property assets £m**	**Total £m**
Residential	1,025	351	1,376	922	2,298
Development	80	(7)	73	-	73
Total September 2011	**1,105**	**344**	**1,449**	**922**	**2,371**
Total September 2010	1,056	332	1,388	739	2,127

Financial resources

The Group has significantly refreshed and diversified its sources of finance during the year and up to the date of this announcement. A total of £1.2bn of new debt has been secured for the purposes of refinancing existing debt and in connection with acquisitions. This has resulted in an average maturity of the Group's committed facilities of 5.5 years (2010: 3.5 years) and an average maturity of the Group's drawn debt of 5.9 years (2010: 3.6 years).

The Group has diversified its lender base with the addition of HSBC, Bank of America, Banco Santander, M&G and Partnership Assurance to its range of funders – at the same time securing large long-term commitments and continued support from its existing major lenders. Financing secured includes:

- A new forward start facility, signed with RBS, Lloyds, Barclays, Nationwide and HSBC, providing £840m of committed facilities which will be used to refinance the

Group's existing core facilities. £606m of the committed £840m has a five year tenor, maturing in July 2016. The balance of the facilities matures in three years (£166.5m maturing December 2014), seven years (£7.5m maturing July 2018) and nine years (£60m maturing July 2020).

- Committed facilities of £120m from HSBC and Banco Santander to fund the Grainger GenInvest portfolio acquired in March 2011. These are five year facilities, £108.8m of which matures in March 2016.
- £100m from the M&G UK Companies Financing Fund, used to pay down existing core facilities and with a 10 year maturity to March 2021.
- £69m from Bank of America funding the HI Tricomm portfolio acquired in February 2011. These are 17 year facilities and have a final maturity date in 2028.
- £50m from Partnership Assurance provided through an innovative structure against certain of the Group's Retirement Solutions assets, non-recourse to the rest of the Group. This facility is repayable on a property-by-property basis as the assets are sold on vacancy, with interest rolling up. Thus the facility exactly matches the cash flow characteristics of this part of the business, with an expected average maturity of 11 years. These funds have been used to reduce the Group's core facilities.

We can today announce an agreement for a further £28.6m of debt provided by Partnership Assurance under similar terms to those mentioned above.

The Group's existing core facilities were £1,093m on 30 September 2011, of which £927m were drawn. The Group had free cash balances plus available overdraft of £48m and undrawn committed facilities of £166m at 30 September 2011. The core facilities have since been reduced to £1,043m, of which £877m were drawn as at 18 November 2011. The new forward start facility of £840m (which will be drawn to replace the existing facilities by 30 September 2012) together with existing free cash balances of £44m (as at 18 November 2011) will enable the Group to repay the existing core facilities in the course of the current financial year.

We have the flexibility through cash generation and new debt facilities to ensure the Group can operate its business as planned and meet its strategic objectives.

Following these refinancing's, the Group's average effective cost of debt (based on current LIBOR rates and on current debt hedging of 73%) will be 5.8% (2010: 5.0%).

The business has produced £254m 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 £71m of net interest.

At the year-end net debt levels had risen from £1,350m in 2010 to £1,454m which is an increase of £104m. The increase mainly comprises the addition of debt through the acquisitions noted above (£255m) offset by the cash generation referred to above net of property acquisitions and capital expenditure which generated in total net cash of £127m, with £28m of debt in Sovereign Reversions moving into a joint venture in the year. Year end net debt of £1,454m is £116m lower than at 31 March 2011 when net debt was £1,570m. The reduction is indicative of the ability of the business to generate very strong cashflows.

At 30 September 2011 gross debt was 73% hedged (2010: 75%) of which 5.0% was subject to caps.

During the year loan-to-value (LTV) on the core facility has fallen to 52% (2010: 54%). This compares to a minimum required LTV covenant of 75%.

At 30 September 2011 the interest cover ratio on the core facility stood at 3.1 times (2010: 2.4 times). This compares to an interest cover covenant of 1.35.

Mark Greenwood
Finance Director
24 November 2011

Consolidated income statement (unaudited)

For the year ended 30 September 2011	Notes	2011 £m	2010 £m
Group revenue	3,4	**296.2**	244.5
Net rental income	5	**49.1**	40.8
Profit on disposal of trading property	6	**72.3**	52.8
Administrative expenses	7	**(13.0)**	(11.2)
Other income and expenses		**4.2**	5.9
Net gain on acquisition of subsidiary	22	**16.1**	2.8
Goodwill impairment		**(2.2)**	(1.5)
Profit on disposal of investment property	8	**1.1**	0.4
Profit on redemption of equity units in associate	12	**–**	1.0
Finance income from financial interest in property assets	14	**7.9**	2.5
(Write down)/write back of inventories to net realisable value		**(1.8)**	2.9
Provision for impairment of loans receivable net of write backs		**(4.2)**	(10.7)
Operating profit before net valuation deficits on investment property		**129.5**	85.7
Net valuation deficits on investment property	11	**(2.0)**	(0.8)
Operating profit after net valuation deficits on investment property		**127.5**	84.9
Change in fair value of derivatives	18	**(28.0)**	(39.6)
Finance costs		**(82.6)**	(81.3)
Finance income		**2.7**	5.0
Share of profit of associates after tax	12	**4.4**	5.6
Share of profit of joint ventures after tax	13	**2.1**	4.6
Profit/(loss) before tax		**26.1**	(20.8)
Tax credit before exceptional item		**2.8**	10.0
Exceptional tax credit		**10.2**	–
Tax credit for the year	17	**13.0**	10.0
Profit/(loss) for the year attributable to owners of the company	20	**39.1**	(10.8)

All of the above results relate to continuing operations.

Consolidated statement of comprehensive income (unaudited)

For the year ended 30 September 2011	Notes	2011 £m	2010 £m
Profit/(loss) for the year		**39.1**	(10.8)
Actuarial gain/(loss) on BPT Limited defined benefit pension scheme		**1.2**	(0.5)
Fair value movement on financial interest in property assets	14	**(0.3)**	3.1
Exchange adjustments offset in reserves		**(0.9)**	0.9
Changes in fair value of cash flow hedges		**13.2**	(1.4)
Other comprehensive income and expense for the year before tax		**13.2**	2.1
Tax relating to components of other comprehensive income	17	**(4.5)**	(0.7)
Other comprehensive income and expense for the year		**8.7**	1.4
Total comprehensive income and expense for the year attributable to equity shareholders		**47.8**	(9.4)
Basic earnings/(loss) per share	9	**9.5p**	(2.9)p
Diluted earnings/(loss) per share	9	**9.4p**	(2.9)p
Dividend per share	10	**1.83p**	1.70p

Included within other comprehensive income is £8.8m (2010: £11.1m) relating to associates and joint ventures accounted for under the equity method.

Consolidated statement of financial position (unaudited)

As at 30 September 2011	Notes	**2011 £m**	2010 £m
ASSETS			
Non-current assets			
Investment property	11	**819.9**	634.7
Property, plant and equipment		**1.2**	1.3
Investment in associates	12	**34.6**	28.6
Investment in joint ventures	13	**23.9**	91.0
Financial interest in property assets	14	**102.3**	103.9
Deferred tax assets	17	**42.7**	38.4
Goodwill		**5.3**	6.2
		1,029.9	904.1
Current assets			
Investment in associates	12	**–**	0.1
Inventories – trading property		**1,105.1**	989.9
Trade and other receivables	15	**18.3**	17.2
Derivative financial instruments	18	**0.2**	–
Cash and cash equivalents		**90.9**	91.5
Assets held for sale		**–**	70.7
		1,214.5	1,169.4
Total assets		**2,244.4**	2,073.5
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	16	**1,428.0**	1,361.7
Trade and other payables		**4.0**	4.0
Retirement benefits		**4.5**	6.0
Provisions for other liabilities and charges		**0.6**	0.8
Deferred tax liabilities	17	**47.7**	52.6
		1,484.8	1,425.1
Current liabilities			
Interest-bearing loans and borrowings	16	**116.7**	55.6
Trade and other payables	19	**76.4**	57.3
Current tax liabilities	17	**24.6**	27.8
Derivative financial instruments	18	**154.5**	128.3
Liabilities held for sale		**–**	34.1
		372.2	303.1
Total liabilities		**1,857.0**	1,728.2
Net assets		**387.4**	345.3

EQUITY			
Capital and reserves attributable to the company's equity holders			
Issued share capital		**20.8**	20.8
Share premium		**109.8**	109.8
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**(34.4)**	(43.0)
Equity component of convertible bond		**5.0**	5.0
Available-for-sale reserve		**4.1**	4.2
Retained earnings	20	**261.6**	228.0
Total shareholders' equity		**387.3**	345.2
Non-controlling interests		**0.1**	0.1
Total equity		**387.4**	345.3

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	Non-controlling interests £m	Total equity £m
Balance as at 1 October 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)
Actuarial loss on BPT Limited defined benefit pension scheme	–	–	–	–	–	–	–	(0.5)	–	(0.5)
Fair value movement on financial interest in property assets	–	–	–	–	–	–	3.1	–	–	3.1
Exchange adjustments offset in reserves	–	–	–	–	–	–	–	0.9	–	0.9
Changes in fair value of cash flow hedges	–	–	–	–	(1.4)	–	–	–	–	(1.4)
Tax relating to components of other comprehensive income	–	–	–	–	–	–	(0.8)	0.1	–	(0.7)
Total comprehensive income and expense for the year	–	–	–	–	(1.4)	–	2.3	(10.3)	–	(9.4)
Issue of shares	–	0.1	–	–	–	–	–	–	–	0.1
Purchase of own shares	–	–	–	–	–	–	–	(4.5)	–	(4.5)
Rights issue	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
Profit for the year	–	–	–	–	–	–	–	39.1	–	39.1
Actuarial gain on BPT Limited defined benefit pension scheme	–	–	–	–	–	–	–	1.2	–	1.2
Fair value movement on financial interest in property assets	–	–	–	–	–	–	(0.3)	–	–	(0.3)
Net exchange adjustments offset in reserves	–	–	–	–	–	–	–	(0.9)	–	(0.9)
Changes in fair value of cash flow hedges	–	–	–	–	13.2	–	–	–	–	13.2
Tax relating to components of other comprehensive income	–	–	–	–	(4.6)	–	0.2	(0.1)	–	(4.5)
Total comprehensive income and expense for the year	–	–	–	–	8.6	–	(0.1)	39.3	–	47.8
Purchase of own shares	–	–	–	–	–	–	–	(2.8)	–	(2.8)
Share-based payments charge	–	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	–	–	–	–	–	–	–	(4.9)	–	(4.9)
Balance as at 30 September 2011	**20.8**	**109.8**	**20.1**	**0.3**	**(34.4)**	**5.0**	**4.1**	**261.6**	**0.1**	**387.4**

Consolidated statement of cash flows (unaudited)

For the year ended 30 September 2011	Notes	**2011 £m**	2010 £m
Cash flow from operating activities			
Profit/(loss) for the year		**39.1**	(10.8)
Depreciation		**0.6**	0.7
Net gain on acquisition of subsidiary	22	**(16.1)**	(2.8)
Goodwill impairment		**2.2**	1.5
Net valuation deficits on investment property	11	**2.0**	0.8
Net finance costs		**79.9**	76.3
Share of profit of associates and joint ventures	12,13	**(6.5)**	(10.2)
Profit on disposal of investment property	8	**(1.1)**	(0.4)
Provision for impairment of loans receivable net of write-backs		**4.2**	10.7
Profit on redemption of equity units in associate	12	**–**	(1.0)
Share-based payment charge		**2.0**	1.3
Change in fair value of derivatives	18	**28.0**	39.6
Interest income from financial interest in property assets	14	**(7.9)**	(2.5)
Taxation	17	**(13.0)**	(10.0)
Operating profit before changes in working capital		**113.4**	93.2
Increase in trade and other receivables		**(0.8)**	(2.5)
Decrease in trade and other payables		**(4.8)**	(23.9)
Decrease in provisions for liabilities and charges		**(0.2)**	–
Decrease in trading property		**71.7**	42.5
Cash generated from operations		**179.3**	109.3
Interest paid		**(73.1)**	(80.2)
Taxation (paid)/refund	17	**(4.4)**	3.6
Net cash inflow from operating activities		**101.8**	32.7
Cash flow from investing activities			
Proceeds from sale of investment property	8	**24.6**	9.9
Proceeds from financial interest in property assets	14	**9.2**	10.8
Proceeds from redemption of equity units in associate	12	**0.1**	9.8
Interest received		**1.9**	1.7
Proceeds from disposal of interest in subsidiary		**17.5**	–
Acquisition of subsidiaries, net of cash acquired		**(23.1)**	(47.0)
Investment in associates and joint ventures	12,13	**(2.4)**	(7.0)
Acquisition of investment property and property, plant and equipment		**(5.9)**	(15.4)
Net cash inflow/(outflow) from investing activities		**21.9**	(37.2)
Cash flows from financing activities			
Proceeds from the issue of share capital	21	**–**	236.7
Purchase of own shares		**(2.8)**	(4.5)
Proceeds from new borrowings		**220.0**	–
Repayment of borrowings		**(335.1)**	(139.4)
Settlement of derivative contract		**–**	(13.4)
Dividends paid	10,20	**(4.9)**	(7.4)
Payments to defined benefit pension scheme		**(0.6)**	(0.6)
Net cash (outflow)/inflow from financing activities		**(123.4)**	71.4
Net increase in cash and cash equivalents		**0.3**	66.9
Cash and cash equivalents at beginning of the year		**91.5**	28.3
Net exchange movements on cash and cash equivalents		**(0.9)**	(0.6)
Total cash and cash equivalents at the end of the year		**90.9**	94.6
Cash held in Sovereign Reversions Limited at the end of the year		**–**	(3.1)
Cash and cash equivalents at the end of the year		**90.9**	91.5

Notes to the Preliminary Announcement of unaudited results

1a Basis of preparation

The Board approved this preliminary announcement on 24 November 2011.

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 2010 or 30 September 2011. Statutory accounts for the year ended 30 September 2010 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2011 will be delivered to the Registrar of Companies following the company's annual general meeting.

The auditors have reported on the 2010 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 2011 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 instruments and financial interest in property assets. The accounting policies used are consistent with those contained in the Group's last annual report and accounts for the year ended 30 September 2010.

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 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 2010.

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

- IFRIC 15 'Arrangement for construction of real estates' clarifies when IAS 18 'Revenue Recognition' and IAS 11 'Construction contracts' should be applied to particular transactions
- IFRIC 18 'Transfer of assets from customers' clarifies the accounting for arrangements where an item of property, plant and equipment that is provided by the customer is used to provide an ongoing service
- IFRIC 19 'Extinguishing financial liabilities with equity instruments' clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the creditor issuing its own equity instruments to the debtor

Amendments to existing standards

- Amendment to IFRS 2 'Share-based payment' was updated to confirm that contribution of a business on the formation of a joint venture and common control transactions are not within its scope
- Amendment to IFRS 5 'Non-current assets held for sale and discontinued operations' confirmed the disclosure requirements required under IAS 1 'Presentation of Financial Statements' paragraphs 15 and 125
- Amendment to IFRS 8 'Operating Segments' which removes the automatic requirement to report a measure of total assets for each reportable segment. Total assets continue to be reported within note 3 of these financial statements as this measure is regularly provided to the chief operating decision maker

Notes to the Preliminary Announcement of unaudited results (continued)

- Amendment to IAS 1 'Presentation of Financial Statements' was updated to clarify the definition of a current liability where classification is derived from the lack of an unconditional right to defer settlement more than 12 months from the statement of financial position date
- Amendment to IAS 7 'Statement of Cash Flows' which restricts the eligibility of expenditure for inclusion as investing activity cash flows to those expenditures which result in recognised assets in the statement of financial position only
- Amendment to IAS 17 'Leases' to remove the presumption that leases of land were operating leases unless title transferred to the lessee at the end of the lease
- Amendment to IAS 18 'Revenue Recognition' to provide guidance for when an entity is acting as principal or agent. This has not resulted in any changes in accounting policy for the Group
- Amendment to IAS 38 'Intangible Assets' to confirm measurement of intangible assets in business combinations
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' to confirm the scope of the standard excludes forward contracts to enter into a business combination and clarify the definition of external parties for hedge accounting

Amendments to existing interpretations

- Amendment to IFRIC 9 'Reassessment of Embedded Derivatives' to confirm the scope of the interpretation excludes business combinations
- Amendment to IFRIC 16 'Hedges of a Net Investment in a Foreign Currency' to remove the restriction that the foreign entity being hedged may not hold the hedging instrument

These standards and amendments to these standard and interpretations have had no material financial impact on these financial statements.

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.

The principal risks facing the Group will be set out in more detail in the 2011 Annual Report and Accounts.

Notes to the Preliminary Announcement of unaudited results (continued)

2. Analysis of profit/(loss) before tax

The results for the years ended 30 September 2010 and 2011 respectively have been significantly affected by valuation movements and non-recurring items. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

	2011				2010			
	Trading £m	Valuation £m	Non-recurring £m	Total £m	Trading £m	Valuation £m	Non-recurring £m	Total £m
Group revenue	296.2	–	–	296.2	244.5	–	–	244.5
Net rental income	49.9	–	(0.8)	49.1	40.8	–	–	40.8
Profit on disposal of trading property	72.3	–	–	72.3	52.8	–	–	52.8
Administrative expenses	(13.0)	–	–	(13.0)	(9.2)	–	(2.0)	(11.2)
Other income and expenses	8.0	–	(3.8)	4.2	5.9	–	–	5.9
Net gain on acquisition of subsidiary	–	16.1	–	16.1	–	2.8	–	2.8
Goodwill impairment	–	(2.2)	–	(2.2)	–	(1.5)	–	(1.5)
Profit on disposal of investment property	1.1	–	–	1.1	0.4	–	–	0.4
Profit on redemption of equity units in associate	–	–	–	–	1.0	–	–	1.0
Finance income from financial interest in property assets	7.9	–	–	7.9	2.5	–	–	2.5
(Write down)/write back of inventories to net realisable value	–	(1.8)	–	(1.8)	–	2.9	–	2.9
Provision for impairment of loans receivable net of write-backs	–	(4.2)	–	(4.2)	–	(10.7)	–	(10.7)
Operating profit before net valuation deficits on investment property	126.2	7.9	(4.6)	129.5	94.2	(6.5)	(2.0)	85.7
Net valuation deficits on investment property	–	(2.0)	–	(2.0)	–	(0.8)	–	(0.8)
Operating profit after net valuation deficits on investment property	126.2	5.9	(4.6)	127.5	94.2	(7.3)	(2.0)	84.9
Change in fair value of derivatives	–	(28.0)	–	(28.0)	–	(39.6)	–	(39.6)
Finance costs	(79.0)	–	(3.6)	(82.6)	(82.2)	–	0.9	(81.3)
Finance income	2.7	–	–	2.7	5.0	–	–	5.0
Share of profit of associates after tax	0.2	4.2	–	4.4	–	5.6	–	5.6
Share of profit of joint ventures after tax	(1.8)	3.9	–	2.1	(2.3)	6.9	–	4.6
Profit/(loss) before tax	48.3	(14.0)	(8.2)	26.1	14.7	(34.4)	(1.1)	(20.8)

3 Segmental information

IFRS 8, 'Operating Segments' ('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 five segments and is treating all of these as reportable segments. The segments are: UK residential; retirement solutions; 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 five segments and the Group reports key financial information to the CODM on the basis of these five segments. Each of these five segments operate within a different part of the overall residential market.

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The title ‘All other segments’ has been included in the tables below to reconcile the segments to the figures reviewed by the CODM. Inter-segment sales, services and property management are charged at prevailing market prices with reference to external contracts in place.

The measure of profit or loss used by the CODM is the trading profit or loss before valuation gains or deficits on investment property 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 in the prior year resulted in several changes to the group’s segmental information. Major changes were to 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. In the current year we have included segmental information relating to the previously disclosed Property Services segment within UK residential and fund management and residential investments on the grounds of materiality as outlined within IFRS 8.

Information relating to the group’s operating segments is set out in the tables below.

2011 Income statement

(£m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Group revenue							
Segment revenue-external	**200.6**	**25.9**	**6.3**	**22.8**	**40.6**	**–**	**296.2**
Segment revenue-internal	**–**	**–**	**7.4**	**–**	**–**	**–**	**7.4**
Net rental income	29.0	3.8	–	–	17.1	–	**49.9**
Profit on disposal of trading property	50.9	7.4	–	14.0	–	–	**72.3**
Administrative expenses	–	–	–	–	–	(13.0)	**(13.0)**
Other income and expenses	0.5	0.5	6.3	0.4	0.3	–	**8.0**
Profit/(loss) on disposal of investment property	0.3	(0.1)	–	–	0.9	–	**1.1**
Finance income from financial interest in property assets	–	7.9	–	–	–	–	**7.9**
Internal recharges	3.5	(0.8)	(2.7)	–	–	–	**–**
Operating profit before net valuation deficits on investment property	**84.2**	**18.7**	**3.6**	**14.4**	**18.3**	**(13.0)**	**126.2**
Net trading interest payable	(2.9)	(3.2)	1.2	0.1	(13.9)	(57.6)	**(76.3)**
Share of trading loss of joint ventures and associates after tax	-	(0.1)	(1.0)	(0.5)	–	–	**(1.6)**
Trading profit before tax, valuation and non-recurring items							**48.3**
Write down of inventories to net realisable value	(0.8)	–	–	(1.0)	–	–	**(1.8)**
Net valuation gains/(deficits) on investment property	4.7	(5.1)	–	–	(1.6)	–	**(2.0)**
Change in fair value of derivatives	–	–	(0.8)	–	(1.6)	(25.6)	**(28.0)**
Provision for impairment of loans receivable net of write-backs	–	–	3.3	(5.2)	–	(2.3)	**(4.2)**
Net gain on acquisition of subsidiary	16.1	–	–	–	–	–	**16.1**
Goodwill impairment	(0.9)	–	–	–	(1.3)	–	**(2.2)**
Share of valuation gains in joint ventures and associates after tax	-	–	8.1	–	–	–	**8.1**
Other net non-recurring items	(2.3)	(0.1)	(0.2)	(0.2)	(0.8)	(4.6)	**(8.2)**
Profit before tax							**26.1**

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2010 Income statement

(£m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Group revenue							
Segment revenue-external	155.2	25.6	5.5	19.7	38.5	–	244.5
Segment revenue-internal	–	–	7.1	–	–	–	7.1
Net rental income	19.2	4.1	–	0.8	16.7	–	40.8
Profit on disposal of trading property	45.0	6.7	–	1.1	–	–	52.8
Administrative expenses	–	–	–	–	–	(9.2)	(9.2)
Other income and expenses	0.5	(0.4)	5.5	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
Finance income from financial interest in property assets	–	2.5	–	–	–	–	2.5
Internal recharges	4.5	(0.7)	(3.8)	–	–	–	–
Operating profit before net valuation deficits on investment property	69.4	12.2	2.7	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 property	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)

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

Notes to the Preliminary Announcement of unaudited results (continued)

deduct from net assets the contingent tax calculated by applying the expected rate of tax to the adjustment to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value.

These measures are set out below by segment along with a reconciliation to the summarised statutory balance sheet.

2011 Segment net assets

(£m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	**962.8**	**385.0**	**37.6**	**84.1**	**132.8**	**(1,214.9)**	**387.4**
Total segment net assets (NAV)	**1,303.2**	**437.7**	**41.0**	**72.3**	**151.4**	**(1,105.6)**	**900.0**
Total segment net assets (NNNAV)	**1,188.1**	**414.3**	**37.6**	**75.3**	**132.7**	**(1,209.8)**	**638.2**

2011 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Investment property	**819.9**	**–**	**819.9**	**–**	**–**	**819.9**
CHARM	**102.3**	**–**	**102.3**	**–**	**–**	**102.3**
Trading stock	**1,105.1**	**344.0**	**1,449.1**	**–**	**–**	**1,449.1**
JV/Associates	**58.5**	**0.4**	**58.9**	**–**	**(4.6)**	**54.3**
Cash	**90.9**	**–**	**90.9**	**–**	**–**	**90.9**
Deferred tax	**42.7**	**(39.7)**	**3.0**	**–**	**43.2**	**46.2**
Other assets	**24.8**	**6.4**	**31.2**	**–**	**–**	**31.2**
Total assets	**2,244.2**	**311.1**	**2,555.3**	**–**	**38.6**	**2,593.9**
External debt	**(1,544.7)**	**–**	**(1,544.7)**	**–**	**–**	**(1,544.7)**
Derivatives	**(154.3)**	**154.3**	**–**	**–**	**(168.2)**	**(168.2)**
Deferred tax	**(47.7)**	**47.2**	**(0.5)**	**(132.2)**	**–**	**(132.7)**
Other liabilities	**(110.1)**	**–**	**(110.1)**	**–**	**–**	**(110.1)**
Total liabilities	**(1,856.8)**	**201.5**	**(1,655.3)**	**(132.2)**	**(168.2)**	**(1,955.7)**
Net assets	**387.4**	**512.6**	**900.0**	**(132.2)**	**(129.6)**	**638.2**

2010 Segment net assets

(£m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	781.8	403.4	108.6	88.3	131.4	(1,168.2)	345.3
Total segment net assets (NAV)	1,115.5	459.6	114.5	73.5	152.5	(1,083.8)	831.8
Total segment net assets (NNNAV)	993.3	433.3	111.1	76.0	131.2	(1,163.3)	581.6

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2010 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Investment property	634.7	–	634.7	–	–	634.7
CHARM	103.9	–	103.9	–	–	103.9
Trading stock	1,056.4	331.5	1,387.9	–	–	1,387.9
JV/Associates	119.7	2.8	122.5	–	(7.0)	115.5
Cash	94.6	–	94.6	–	–	94.6
Deferred tax	38.4	(36.5)	1.9	–	40.0	41.9
Other assets	24.7	6.6	31.3	–	–	31.3
Total assets	2,072.4	304.4	2376.8	–	33.0	2,409.8
External debt	(1,445.7)	–	(1,445.7)	–	–	(1,445.7)
Derivatives	(128.3)	128.3	–	–	(141.1)	(141.1)
Deferred Tax	(56.9)	53.8	(3.1)	(142.1)	–	(145.2)
Other liabilities	(96.2)	–	(96.2)	–	–	(96.2)
Total liabilities	(1,727.1)	182.1	(1,545.0)	(142.1)	(141.1)	(1,828.2)
Net assets	345.3	486.5	831.8	(142.1)	(108.1)	581.6

4 Group revenue

	2011 £m	2010 £m
Gross rental income (see note 5)	**86.3**	75.6
Service charge income on a principal basis (see note 5)	**10.1**	7.2
Proceeds from sale of trading property	**191.8**	155.1
Other income	**8.0**	6.6
	296.2	244.5

Proceeds from sale of trading property are exclusive of fees on sale of trading property of £4.5m (2010: £4.1m) included within note 6.

5. Net rental income

	2011 £m	2010 £m
Gross rental income	**86.3**	75.6
Service charge income on a principal basis	**10.1**	7.2
Property repair and maintenance costs	**(22.4)**	(19.9)
Service charge expense on a principal basis	**(11.6)**	(10.0)
Property operating expenses (see note 7)	**(13.3)**	(12.1)
	49.1	40.8

6. Profit on disposal of trading property

	2011 £m	2010 £m
Proceeds from sale of trading property	**187.3**	151.0
Carrying value of trading property sold	**(108.2)**	(90.8)
Other sales costs (see note 7)	**(6.8)**	(7.4)
	72.3	52.8

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7. Administrative expenses

	2011 £m	2010 £m
Total Group expenses	**33.1**	30.7

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:

	2011 £m	2010 £m
Property operating expenses (see note 5)	**13.3**	12.1
Costs directly attributable to the disposal of trading property (see note 6)	**6.8**	7.4
Administrative expenses	**13.0**	11.2
	33.1	30.7

8. Profit/ (loss) on disposal of investment property

	2011 £m	2010 £m
Proceeds from sale of investment property	**24.6**	9.9
Carrying value of investment property sold	**(23.5)**	(9.5)
	1.1	0.4

9. Earnings/ (loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to the owners of the company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the group and held both in trust and as treasury shares to meet its obligations under the long-term incentive scheme ('LTIS') and deferred bonus plan ('DBP').

Diluted

Diluted earnings/(loss) 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 2011 was the end of the contingency period. The profit/(loss) 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, they are excluded from the calculation of diluted earnings/(loss) per share.

	30 September 2011			30 September 2010		
	Profit for the year £m	**Weighted average number of shares (thousands)**	**Earnings per share pence**	Loss for the year £m	Weighted average number of shares (thousands)	Loss per share pence
Basic earnings/(loss) per share						
Profit/(loss) attributable to equity holders	**39.1**	**410,003**	**9.5**	(10.8)	375,687	(2.9)
Effect of potentially dilutive securities						
Share options and contingent shares	**–**	**5,472**	**(0.1)**	–	–	–
Diluted earnings/(loss) per share						
Profit/(loss) attributable to equity holders	**39.1**	**415,475**	**9.4**	(10.8)	375,687	(2.9)

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10. 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:

	2011 £m	2010 £m
Ordinary dividends on equity shares:		
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
Final dividend for the year ended 30 September 2010 – 1.20p per share	**4.9**	–
	4.9	7.4

The directors took the decision to return cash to shareholders by way of a share buyback rather than by paying an interim dividend for 2011 and a tender offer of 1 for every 238 shares at 149p was announced in May 2011. Pursuant to the tender offer a total of 1,484,890 ordinary shares were tendered at a price of 149p per share and were purchased by the company in June 2011 for £2.2m. This was equivalent to 0.53p per share.

A final dividend in respect of the year ended 30 September 2011 of 1.30p per share amounting to £5.3m will be proposed at the 2012 Annual General Meeting. If approved, this dividend will be paid on 10 February 2012 to shareholders on the register on 9 December 2011.

11. Investment property

	2011 £m	2010 £m
Opening balance	**634.7**	654.3
Additions:		
Acquisition arising from business combinations	**207.8**	13.0
Subsequent Expenditure	**5.4**	2.1
Disposals	**(23.5)**	(9.5)
Net valuation deficits	**(2.0)**	(0.8)
Exchange adjustments	**(2.5)**	(24.4)
Closing balance	**819.9**	634.7

12. Investment in associates

	2011 £m	2010 £m
Opening balance	**28.7**	33.2
Share of profit	**4.4**	5.6
Profit on redemption of equity units	**–**	1.0
Proceeds on redemption of equity units	**(0.1)**	(9.8)
Acquisition of additional equity in G:res	**0.3**	–
Share of change in fair value of cash flow hedges taken through other comprehensive income	**1.3**	(1.3)
Closing balance	**34.6**	28.7
Disclosed as:		
Non-current assets	**34.6**	28.6
Current assets	**–**	0.1
Closing balance	**34.6**	28.7

In January 2009 the investors in Schroders ResPUT agreed to a controlled liquidation of the fund. The liquidation was completed by 31 March 2011. The equity stake in G:res1 Limited was increased from 21.6% to 21.96% during the year.

As at 30 September 2011, the Group's interest in associates was as follows:

	% of ordinary share capital/ units held	Country of incorporation
G:res1 Limited	21.96	Jersey

13. Investment in joint ventures

	2011 £m	2010 £m
Opening Balance	**91.0**	**80.7**
Loans advanced	**2.1**	**9.3**
Provision for impairment of loans receivable	**(1.9)**	**(4.9)**
Share of profit	**2.1**	**4.6**
Net assets acquired through sale of subsidiary into a joint venture	**19.2**	**-**
Net assets disposed of through transfer to subsidiary	**(88.4)**	**-**
Goodwill impairment charge taken to income statement	**(1.3)**	**(1.4)**
Exchange adjustment	**(0.2)**	**(0.1)**
Share of change in fair value of cash flow hedges taken through other comprehensive income	**1.3**	**2.8**
Closing balance	**23.9**	**91.0**

The provision for impairment of loans receivable in 2011 of £1.9m (2010: provision of £4.9m) comprises the release of £3.3m provided against the Group's mezzanine loan to Grainger GenInvest No. 2 (2006) LLP and a further provision of £5.2m against the Group's interest in its Czech Republic joint venture.

The net assets disposed of through transfer to a subsidiary of £88.4m represents the Group's net assets in the two Grainger GenInvest LLP's which became a subsidiary of Grainger on 22 March 2011 (see note 22).

At 30 September 2011, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation
Curzon Park Limited	50	United Kingdom
King Street Developments (Hammersmith) Limited	50	United Kingdom
Sovereign Reversions 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

14. Financial Interest in Property Assets

	2011 £m	2010 £m
Opening balance	**103.9**	109.1
Cash received from the instrument	**(9.2)**	(10.8)
Amounts taken to income statement	**7.9**	2.5
Amounts taken to other comprehensive income before tax	**(0.3)**	3.1

	2011	2010
Closing balance	**102.3**	103.9

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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 2011 we have revised our assessment of the projected future cash flows from the instrument. This has resulted in an increase to the fair value of £0.3m (2010 decrease of £3.1m) before tax which has been taken through the statement of other comprehensive income.

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.

15. Trade and Other Receivables

	2011 £m	2010 £m
Trade receivables	**11.5**	8.8
Deduct: Provision for impairment of trade receivables	**(2.1)**	(2.0)
Trade receivables – net	**9.4**	6.8
Other receivables	**17.7**	16.0
Deduct: Provision for impairment of other receivables	**(12.9)**	(10.6)
Other receivables – net	**4.8**	5.4
Prepayments	**4.1**	5.0
	18.3	17.2

16. Interest Bearing Loans and Borrowings

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

	2011 £m	2010 £m
Within one year	**116.7**	55.6
Between one and two years	**8.9**	51.4
Between two and five years	**1,082.0**	1,144.9
Over five years	**337.1**	165.4
	1,544.7	1,417.3

17. Tax

During the year ended 30 September 2011, the Group concluded its discussions with HM Revenue & Customs in connection with a number of outstanding tax matters. This has resulted in a non-recurring exceptional credit of £10.2m within the overall tax credit of £13.0m.

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17. Tax (continued)

2011 Movement in taxation	Opening balance £m	Payments made in the year £m	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in other comprehensive income £m	Closing balance £m
Current tax	**27.8**	**(4.4)**	**0.7**	**0.6**	**(0.1)**	**–**	**24.6**
Deferred tax							
Trading property uplift to fair value on acquisition	**41.5**	**–**	**–**	**(3.7)**	**–**	**–**	**37.8**
Investment property revaluation	**9.2**	**–**	**1.2**	**(3.2)**	**–**	**–**	**7.2**
Accelerated capital allowances	**0.4**	**–**	**1.0**	**(0.1)**	**–**	**–**	**1.3**
Short-term temporary differences	**(21.6)**	**–**	**–**	**(6.6)**	**–**	**–**	**(28.2)**
Actuarial deficit on BPT Limited pension scheme	**(0.5)**	**–**	**–**	**–**	**–**	**0.3**	**(0.2)**
Equity component of available-for-sale financial asset	**1.5**	**–**	**–**	**–**	**–**	**(0.1)**	**1.4**
Fair value movement in cash flow hedges and exchange adjustments	**(16.3)**	**–**	**(2.3)**	**–**	**–**	**4.3**	**(14.3)**
	14.2	**–**	**(0.1)**	**(13.6)**	**–**	**4.5**	**5.0**
Total tax – 2011 movement	**42.0**	**(4.4)**	**0.6**	**(13.0)**	**(0.1)**	**4.5**	**29.6**
Total tax – 2010 movement	45.5	3.6	2.5	(10.0)	(0.3)	0.7	42.0

The tax credit for the year of £13.0m (2010: credit of £10.0m) comprises:

	2011 £m	2010 £m
UK taxation	**(11.5)**	(8.6)
Overseas taxation	**(1.5)**	(1.4)
	(13.0)	(10.0)

The main rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011 and will change to 25% from 1 April 2012. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 27% and should be taxed at 25.5% in the 2012 period. The change in tax rate has resulted in a £0.8m credit to the income statement in the current year.

Deferred tax balances are disclosed as follows:

Disclosed as:	**2011 £m**	2010 £m
Deferred Tax assets – non-current assets	**42.7**	38.4
Deferred Tax liabilities – non-current liabilities	**(47.7)**	(52.6)
	(5.0)	(14.2)

Notes to the Preliminary Announcement of unaudited results (continued)

18. Derivative Financial Instruments

	2011		2010	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedges in hedge accounting relationships	-	62.7	-	55.6
Interest rate swaps – cash flow hedges not in hedge accounting relationships	0.2	91.8	-	72.7
	0.2	**154.5**	**-**	**128.3**

In accordance with IAS 39, the group has reviewed its interest rate hedges. In the absence of hedge accounting, movements in fair value have been taken directly to the income statement. However, where derivatives qualify for cash flow hedge accounting the movement in fair value is taken to other comprehensive income through the cash flow hedge reserve.

The fair value movement relating to cash flow hedges not in hedge accounting relationships amounted to a charge through the income statement of £28.0m in the year ended 30 September 2011 (2010: a charge of £39.6m).

19. Trade and Other Payables

	2011 £m	2010 £m
Deposits received	**4.0**	3.7
Trade payables	**12.7**	10.9
Taxation and social security	**1.5**	1.2
Accruals and deferred income	**58.2**	41.5
	76.4	57.3

Trade payables includes £nil (2010: £0.6m) relating to acquisitions of property where contracts have either been unconditionally exchanged or notarised.

Accruals and deferred income includes £20.1m (2010: £22.7m) of rent received in advance relating to lifetime leases.

Notes to the Preliminary Announcement of unaudited results (continued)

20. Movement in retained earnings

The retained earnings reserve comprises various elements. Those elements, and the movements in each, are set out below:

	Share-based payment reserve £m	Treasury shares bought back and cancelled £m	Investment in own shares £m	Translation reserve £m	Retained earnings £m	Total retained earnings reserve £m
Balance as at 1 October 2009	2.1	(7.8)	(9.1)	1.8	39.1	26.1
Loss for the year	–	–	–	–	(10.8)	(10.8)
Actuarial loss on BPT pension scheme net of tax	–	–	–	–	(0.4)	(0.4)
Net exchange adjustment offset in reserves	–	–	–	0.9	–	0.9
Purchase of own shares	–	–	(4.5)	–	–	(4.5)
Award of shares from own shares	(0.5)	–	0.5	–	–	–
Rights issue costs	–	–	–	–	(13.1)	(13.1)
Transfer from merger reserve	–	–	–	–	235.9	235.9
Share-based payments charge	1.3	–	–	–	–	1.3
Dividends	–	–	–	–	(7.4)	(7.4)
Balance as at 30 September 2010	2.9	(7.8)	(13.1)	2.7	243.3	228.0
Profit for the year	–	–	–	–	39.1	39.1
Actuarial gain on BPT pension scheme net of tax	–	–	–	–	0.8	0.8
Net exchange adjustment offset in reserves	–	–	–	(0.6)	–	(0.6)
Purchase of own shares	–	–	(2.8)	–	–	(2.8)
Award of shares from own shares	(0.7)	–	0.7	–	–	–
Share-based payments charge	2.0	–	–	–	–	2.0
Dividends	–	–	–	–	(4.9)	(4.9)
Balance as at 30 September 2011	**4.2**	**(7.8)**	**(15.2)**	**2.1**	**278.3**	**261.6**

21. Rights Issue

In December 2009 the Group completed a two for one rights issue at an issue price of 90p per share 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 a cash-box mechanism this amount has been subsequently transferred to retained earnings. Costs of issue which totalled £13.1m have been taken directly to reserves.

22. Acquisitions in the year

(a) Acquisition of HI Tricomm Holdings Limited

On 4 February 2011 Grainger acquired the HI Tricomm Holdings Limited ("HITHL") group including its trading subsidiary Tricomm Housing Limited ("THL") from Invista Castle Limited (‘Invista’). The main reason for the acquisition was reflective of Grainger's strategy to diversify its assets into selective areas of value or growth. THL owns a high quality portfolio of 317 freehold houses in five separate locations around the Bristol and Portsmouth areas and the assets are high yielding. The houses are let under a long-term lease arrangement with the Secretary of State for Defence until 2028 providing a consistent revenue stream.

The fair value at acquisition of the total consideration transferred amounted to £6.8m and was paid in cash. The acquisition has been treated as a business combination and resulted in a gain on acquisition of £14.9m. This gain on acquisition arose due to it being a bargain purchase reflecting the particular situation of the vendors and their requirement to dispose of HITHL quickly. The acquisition from Invista of a loan note receivable plus accrued interest thereon totalling £9.5m and the settlement of an inter company loan of £2.2m with Invista brought the total consideration to £18.5m, all of which was paid in cash.

(b) Acquisition of 50% equity in Grainger GenInvest LLP's

On 22nd March, Grainger acquired the 50% interest of Genesis Housing Group in the two Grainger GenInvest LLP's thereby becoming the sole owner of both entities. The main reason for the acquisition is as part of Grainger's strategy to diversify its assets into selective areas of value or growth. The partnerships own c. 1,650 properties in Central London where we believe there are good prospects for long term capital appreciation.

The fair value at acquisition of the total consideration transferred amounted to £15.0m and was paid in cash. This consideration was paid to acquire the remaining 50% equity in Grainger GenInvest LLP. No consideration was paid for the remaining 50% equity in Grainger GenInvest No. 2 (2006) LLP. The acquisition has been treated as a business combination and resulted in a gain on acquisition of Grainger GenInvest LLP of £1.2m. This gain on acquisition arose due to it being a bargain purchase and reflected the particular situation of the vendor and the requirement to re-finance the debt in the two LLP's.

23. Post balance sheet events

On 5 October 2011, the Group signed an agreement for £50m debt funding from Partnership Assurance provided through an innovative structure against certain of the Group's Retirement Solutions assets, non-recourse to the rest of the Group. On 21 November 2011 the Group signed a further agreement with Partnership Assurance for an additional £28.6m of debt funding under similar terms to the initial £50m. These facilities are repayable on a property-by-property basis as the assets are sold on vacancy, with interest rolling up. In this way the facility exactly matches the cash flow characteristics of this part of the business, with an expected average maturity of 11 years. These funds are being used to reduce the Group's core debt facilities.

Copies of this announcement may be obtained from the Group's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE. Copies of this announcement can also be found on the Group's website, www.graingerplc.co.uk.