

19 May 2011

**Grainger plc (“Grainger”/ “Group”/ “Company”)**

**INTERIM RESULTS FOR THE SIX MONTHS TO 31 MARCH 2011**

**GRAINGER DELIVERS SIGNIFICANT OPERATIONAL PROGRESS IN FIRST HALF AND STRONG SET OF RESULTS**

**Financial Highlights**

- Profit before tax of £65.2m (31 March 2010: £3.5m)
- Operating profit before valuation movements and non-recurring items up 24% to £59.4m (31 March 2010: £48.0m)
- Significant gains in net assets with triple net asset value (“NNNAV”) rising by 13% to 158p per share (September 2010: 140p per share)
- UK portfolio, assisted by the strong London and South East weighting, showed a market valuation uplift of 2.2%, with UK Residential increasing by 2.8% and Retirement Solutions unchanged. German portfolio values moved down marginally by 0.1%
- Total cashflow from completed property sales of £90m (2010: £91m). At 13 May 2011 the total sales pipeline (which includes transactions with contracts exchanged or where solicitors have been instructed) was £155m
- Following a number of strategic acquisitions, at 31 March 2011 Group net debt levels stood at £1,570m (30 September 2010: £1,350m) and committed undrawn facilities and cash amounted to £155m (30 September 2010: £260m). Significant progress has been made during the period to widen the Company’s sources of alternative debt funding. Amounts drawn on the UK syndicate have fallen since September 2010 and the LTV has been maintained at 54%
- The Company has today announced a return of cash by way of a tender offer rather than paying an interim dividend. A tender offer of 1 for 238 shares at 149p representing a premium of 20.4% to the mid closing share price of 123.75p on 18 May 2011 will be proposed in a circular to be issued shortly, delivering £2.6m of cash to shareholders.

**Operational Highlights**

- Completion of the joint venture with Moorfield on the Sovereign home reversions portfolio, thereby reducing Grainger’s equity exposure and increasing the level of external fee income
- Acquisition of Genesis Housing Group’s share in Grainger GenInvest for £15m providing Grainger with full ownership of c.1,650 Central London properties with a market value of £289m and a vacant possession value of £354m
- Acquisition of HI Tricomm Holdings Limited and its trading subsidiary, Tricomm Housing Limited for £18.5m. Let to the Ministry of Defence for periods up to October 2028 the portfolio is financed by non-recourse debt with a final maturity also in October 2028
- Management agreement signed with Defence Estates to promote the development of up to 4,500 residential units on the Aldershot Urban Extension providing long term management fee income
- Planning permission secured for c.2,500 residential units at Newlands near West Waterlooville in Hampshire. Once infrastructure is installed sales of serviced plots to housebuilders will commence and will produce regular cashflows through to c.2025
- Following the period end, Grainger selected as preferred supplier to Lloyds Banking Group’s Residential Asset Management Platform (“RAMP”) to provide property and asset

management services for property portfolios following the commencement of insolvency processes

- Good progress with asset disposal plan over and above normal sales on vacancy. Sales of assets from UK residential and development divisions and German portfolio of £25m, with a further £70m of potential disposals identified
- Strong lettings market, with G:res 1, Grainger's market rented fund experiencing uplifts on new rental agreements averaging 14.7% in the six months to 31 March 2011.

**Robin Broadhurst, Chairman of Grainger plc, commented:**

"Grainger has made very significant progress in the first six months of this financial year and delivered a strong set of results. Key financial performance measures show strong improvement and a series of major transactions emphasise both our ambition and our ability to source and deliver well priced opportunities.

"General house prices have remained broadly stable over the last six months although liquidity and transaction volumes remain low. Grainger has continued to respond to this environment by rebalancing its portfolio to geographic locations where economic activity and therefore the potential for capital appreciation is higher. We have also introduced additional and innovative sources of income which are less reliant on trading.

"We remain confident in the ability of our well located, cash generative portfolio to outperform the market."

**Analyst presentation**

Grainger plc will be holding a presentation for analyst and investors today at Financial Dynamics, 26 Southampton Buildings, London, WC2A 1PB at 10.30am.

The meeting can be accessed through the following dial-in facility and a copy of the presentation slides will be available on Grainger's website, [www.graingerplc.co.uk](http://www.graingerplc.co.uk).

Participant Dial in Number: +44 (0)20 7806 1955  
The Conference ID number is 6474529

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## **Chairman's Statement**

Although conditions in the general residential market remain subdued, Grainger has made significant progress in the first six months of this financial year. Key financial performance measures show strong improvement and a series of major transactions emphasise both our ambition and our ability to source and deliver well priced opportunities.

### ***Results***

Profit before tax to 31 March 2011 amounted to £65.2m (2010: £3.5m). The increase was principally driven by

- a 24% improvement in operating profit to £59.4m from £48.0m
- one off gains of £16.1m arising from discounts on company acquisitions
- a favourable movement in the fair value of financial instruments of £22.9m.

Net assets have also shown significant gains, with triple net asset values ("NNNAV") rising by 13.3% from the September 2010 position of 140p per share to 158p per share.

### ***Dividends***

The board is extremely conscious that the group's share price continues to trade at a very significant discount to its net asset value, despite the achievements made so far this year. Consequently, the board has decided to take the opportunity to return cash to shareholders by way of a tender process rather than by paying an interim dividend. A tender offer of 1 for every 238 shares at 149p representing a premium of 20.4% to the mid closing price of 123.75p on 18 May 2011, will be proposed in a circular to be issued shortly. It is the view of the board that this move will serve to highlight the wide disparity between the group's share price and its underlying asset value. The tender price represents a c.29% discount to the Gross NAV. The estimated cash returned will amount to £2.6m compared to the 2010 interim dividend amount of £2.1m.

### ***Board changes***

Bill Tudor-John retired from our board at the annual general meeting in February 2011 and we would like to take this opportunity to thank him for his significant contribution and wise counsel over the years. As previously reported, we have welcomed Belinda Richards to the board and we look forward to being able to take advantage of her considerable experience derived in the corporate arena.

### ***Outlook***

General house prices have remained broadly stable over the last six months although liquidity and transaction volumes remain low. Grainger has responded to this environment by rebalancing its portfolio to geographic locations where economic activity is more robust and therefore the potential for capital appreciation is higher. We have also introduced additional and innovative sources of income which are less reliant on trading, such as the Lloyds Banking Group Residential Asset Management Platform (RAMP) transaction.

As the UK's leading residential landlord we are committed to providing the highest standards of management. This is a key factor in the ability of our well located, cash generative portfolio to outperform the market.

Robin Broadhurst  
Chairman  
19 May 2011

## **Chief Executive Review**

### **Market conditions**

After the severe falls in house prices in 2008 and 2009 and the subsequent recovery through to the spring of 2010, the market has latterly shown stability. The average increase in the two most commonly quoted measures, the Halifax and Nationwide indices, for the six months ended March 2011 is approximately 0.4%. Transaction volumes remain low as evidenced by the number of mortgage approvals – in March 2011 these amounted to 31,700, the highest figures since July 2010 but only approximately half the levels seen during the peak years of 2006 and 2007. Although mortgages remain affordable by historical comparison, the need for higher deposit levels continues to reduce demand.

We believe that these twin themes of broadly stable prices and low liquidity will persist for the rest of this calendar year and into early 2012. After that, provided the current ambivalence about the strength of the economic recovery is removed, we anticipate that prices will start to show gradual improvement. This will be more pronounced in areas where there are imbalances between supply and demand, most likely in those where economic activity is greatest. Indeed this is already the case in London where a combination of inward investment, high demand and economic strength has already supported price increases to the extent that certain areas are back to 2008 levels.

One of the by-products of the current conditions in the residential trading market has been an increase in the proportion of properties in the private rented sector. This has increased from 10% of occupied housing stock in 2000 to 15.6% in 2010. In London the figure is higher and is currently estimated at 20%. This in turn has led to rental pressure and in G:res 1, our market rented fund, we have seen significant uplifts on new rental agreements with the average increase in the six months to 31 March 2011 being 14.7%. There appears to be greater political impetus supporting the private rented sector, as evidenced by positive announcements in the recent Budget, and we foresee opportunities for market rented properties to become a greater part of our business going forward.

### **Grainger response to the current market conditions**

Our strategy in response to these conditions has been to:-

- i) increase our exposure to those areas where we foresee greater potential for long term capital appreciation
- ii) continue to trade out of non-core assets
- iii) continue to apply strict acquisition criteria
- iv) introduce sources of income that are less reliant on trading activities

In practice the following has been achieved:-

- taking complete ownership of c1,650 Central London properties with a market value of £289m by acquiring the share of our joint venture partner, Genesis Housing Group, in Grainger GenInvest for £15m. This portfolio has a vacant possession value of £354m and is exceptionally well positioned for both capital appreciation and portfolio development.
- commencement of an asset disposal plan over and above normal sales on vacancy to rebalance our portfolio and to trade out of non-core assets. Including sales of assets from our UK residential and development divisions and our German portfolio a total of £25m of such sales were completed by 31 March 2011. A further £70m of potential disposals have been identified.
- completion of the joint venture with Moorfield on the Sovereign home reversions portfolio, thereby reducing Grainger's equity exposure and increasing the level of external fee income.
- we have focussed on acquisitions that provide exceptional value or opportunity. Consequently we have acquired only a small number of individual properties as at this level pricing remains competitive. Such 'day to day' acquisitions amount to £10m. The criteria

that we apply in evaluating such purchases are that properties must be well located and/or have development potential and/or be available at significant discount.

- we acquired HI Tricomm Holdings Limited and its trading subsidiary, Tricomm Housing Limited, from Invista Real Estate Investment Management for a consideration of £18.5m. This transaction produced a discount on acquisition of £14.9m and produces gross rental income of c.£8.8m, giving a yield of c.9.0%. The properties in the portfolio are let to the Ministry of Defence for periods up to October 2028 and are financed by non-recourse debt with a final maturity also in October 2028.
- we have entered into a management agreement with Defence Estates to promote the development of up to 4,500 residential units on the Aldershot Urban Extension. This transaction will produce a regular source of management fees based upon the sale of serviced plots for the duration of the project which could be up to 14 years.
- planning permission has been obtained for some 2,500 units at our residential development site at Newlands near West Waterlooville in Hampshire. Once infrastructure is installed sales of serviced plots to housebuilders will commence and will produce regular cashflows through to c2025.
- since the period end we have been selected as the preferred supplier to Lloyds RAMP. Under this agreement we will receive fees based on rent, disposals and shared success for providing property and asset management services for property portfolios following the commencement of insolvency processes.

These transactions and initiatives illustrate the breadth of Grainger's residential capability and expertise.

During the period we have also increased the spread of our lenders through the introduction of M&G, Bank of America, HSBC and Santander as funders.

### **Trading and Valuation Update**

Our portfolio continues to show resilient cash generation and outperformance. Total cashflow from property sales completed in the first six months amounted to £90m (2010: £91m) and by 13 May 2011 our total sales pipeline (which includes transactions with contracts exchanged or where solicitors have been instructed) amounted to £155m.

For the first time we have revalued our portfolios at the interim stage. The UK portfolio, assisted by the strong London and South East weighting showed a market valuation uplift of 2.2%, with UK Residential increasing by 2.8% and Retirement Solutions unchanged. The German portfolio values moved down marginally by 0.1%.

The average vacant possession value of our UK residential properties stands at £177,000 (September 2010: £160,000) and the reversionary surplus (the difference between vacant possession value and market value) is £602m (September 2010: £604m including £45m for Sovereign sold into a JV during 2011).

Andrew R. Cunningham  
Chief Executive  
19 May 2011

## Operating and Financial Review

### Operating Review

Our main operating divisions and the market value of the assets in each are as follows:-

<u>Division</u>	<u>Market value</u> <u>£m</u>	<u>Percentage</u> <u>of total</u>	<u>Assets</u>
UK residential	1,450	58	Primarily properties subject to regulated tenancies
Retirement solutions	503	20	Home reversions and retirement related assets plus investment in Sovereign
Fund management and residential investments	33	1	Investment in G:res
Development	77	3	Residential or residential led mixed use developments
German residential	452	18	Investment in German residential portfolio plus investment in Gebau, property managers
	<u>2,515</u>	<u>100</u>	

In total, we own and/or manage approximately 40,800 properties, including those managed by Gebau Vermogen GmbH in Germany, in which we have a 50% stake.

### Valuation

All our assets are now subject to a directors' valuation supported by independent verification twice per year, at 31 March and 30 September. The majority of our property assets are classified as trading stock and are therefore shown in our statutory accounts at the lower of cost and net realisable value. For the purposes of our market value balance sheet (shown in the financial review section) these assets are shown at market value (i.e. current tenanted value) which presents a more realistic view of the portfolio's worth. At 31 March 2011 this trading stock was valued at £1,494m, representing 61% of our wholly owned residential property portfolio of £2,445m.

Our German residential portfolio, and some assets in the UK residential portfolio are held as investment property. The 'CHARM' portfolio is classified as a financial interest in property assets. All these assets are included in both the statutory and the market value balance sheets at directors' valuation at 31 March 2011 of £951m representing 39% of our wholly owned residential property portfolio.

The assets held in our fund management and residential investments division relate to our investment in G:res with an investment value of £33m.

Our Development portfolio has a market value of £77m at 31 March 2011. It was subject to an independent external update of the valuation carried out at 30 September 2010. The portfolio includes wholly owned UK assets as well as UK joint venture interests and a joint venture investment in Zizkov, a district of Prague.

The directors' valuations indicate that the vacant possession value of our UK residential assets have increased by 2.2% overall in the six month period to 31 March 2011. The value of the German portfolio is virtually unchanged.

## **Analysis of Grainger portfolio – wholly owned**

As at 31 March 2011

	No of units	Market value	£m Vacant Possession Value	Reversionary Surplus
Regulated	6,472	1,009	1,355	346
Retirement solutions	5,913	471	682	211
Assured shorthold	1,237	231	264	33
Vacant	255	61	61	-
Tricomm (MOD)	317	105	105	-
Other*	50	44	56	12
UK - residential	14,244	1,921	2,523	602
- development	-	73	-	-
Total UK	14,244	1,994	2,523	602
German portfolio	7,150	451		
Total 31 March 2011	21,394	2,445		
Total 30 September 2010	21,013	2,127		

\* Other units relate to serviced accommodation with a value of c£8m. The market value figure also includes c£5m sundry agricultural land and c£14m relating to 7,104 ground rents, 1,115 garages and other residential assets.

## **UK residential**

	31 March 2011*	30 September 2010
Regulated units owned	6,472	5,969
Market value	£1,009m	£863m
Vacant possession value	£1,355m	£1,185m
Other assets (vacants, assured etc) units owned	1,859	915
Market value	£441m	£205m
Vacant possession value	£486m	£232m

\* The portfolio as at 31 March 2011 includes all the assets acquired in Grainger GenInvest on 22 March 2011.

£m	6 months to 31 March 2011		6 months to 31 March 2010	
	Value	Profit	Value	Profit
Sales of vacant properties	39	16	39	17
Tenanted sales	13	5	5	1
Other one-off sales	3	2	19	4
	55	23	63	22
Net rental and other income		16		14
Divisional overhead/ internal re-charges		(5)		(4)
Operating profit		34		32

Sales of vacant properties, 'normal sales', are at the same level as last year and, although we continue to review the market with some caution, we have seen a 'spring bounce' in the Southern region, especially London, with sales volumes increasing and also some margin improvement.

The average sales price achieved was £186,000 (2010: £171,000) and our sales have been at prices some 2.2% above September's vacant possession values. Margins are slightly lower than last year at 41% compared to 44%.

We have also made investment sales (sales with a tenant in place) of £13m (2010: £5m) and other sales of £3m (2010: £19m).

We have identified potential further tenanted sales of £50m and as at 13 May 2011 total tenanted sales completed, exchanged and solicitors instructed was £24m. Such sales are focussed on assets where we do not anticipate future capital appreciation.

Rental income has had the benefit in 2011 of two months of rent from our Tricomm acquisition.

The overall valuation uplift in the portfolio, including the uplift in Grainger GenInvest asset valuations, in the six months to 31 March 2011 is £39m (2.8%).

We have been particularly selective with regard to purchases other than for strategic acquisitions. Excluding corporate acquisitions, at 31 March 2011 we had completed on £3m of 'day to day' residential property purchases, all regulated tenancies, and had a further £3m in solicitors' hands or with contracts exchanged.

## **Retirement solutions**

	<u>31 March 2011</u>	<u>30 September 2010*</u>
Residential units owned	5,913	6,981
Market value	£471m	£545m
Vacant possession value	£682m	£800m

\* 30 September 2010 includes £67m of Sovereign property assets sold into a joint venture in October 2010.

<u>£m</u>	6 months to 31 March 2011		6 months to 31 March 2010	
	<u>Value</u>	<u>Profit</u>	<u>Value</u>	<u>Profit</u>
Property sales	12	6	12	6
Receipts from CHARM sales	2	-	4	-
	<u>14</u>	<u>6</u>	<u>16</u>	<u>6</u>
Net rental and other income		4		4
Divisional overheads/ internal re-charges		(1)		(1)
Operating profit		<u>9</u>		<u>9</u>

Although sales are marginally lower than last year, £14.6m including CHARM sales, compared to £15.7m in 2010, margins are higher at 42% (2010: 36%) thereby increasing profit to £6.1m from £5.7m in 2010.

The overall valuation of the Retirement Solutions property portfolio was unchanged in the six months to 31 March 2011.

In the period we bought 107 units for £7m (2010: 35 units for £2m).

Our Bridgewater brand was voted Best Home Reversion Provider of the Year for the fifth year in succession.

On 12 October 2010 we announced that the underlying value of the assets acquired in the purchase of Sovereign Reversions plc during 2010 had been sold into a joint venture owned 50% by Grainger and 50% by Moorfield.

## **Fund management and residential investments**

	<u>Holding %</u>	<u>Number of units</u>	<u>Gross asset Value £m</u>	<u>Net asset Value £m</u>	<u>Grainger Investment £m</u>
Total 31 March 2011*	21.96	2,056	402	150	33
Total 30 September 2010	21.63	3,449	686	121	109

\* comprising G:res1

The movement in units held in the six months to 31 March 2011 principally relates to Grainger's acquisition on 22 March 2011 of the 50% share in Grainger GenInvest previously owned by Genesis Housing Group. Hence, as at 31 March 2011, the assets in those entities are shown as part of our UK Residential business. The results of this portfolio up to 22 March 2011 are reported within fund management and residential investments.

<u>£m</u>	6 months to 31 March 2011 <u>Profit</u>	6 months to 31 March 2010 <u>Profit</u>
Management fees	2	2
Profit on redemption of equity units in ResPUT	-	1
Divisional overheads	(1)	(2)
Operating profit	<u>1</u>	<u>1</u>

The division's income arises from management fees relating to both asset and property management activities for both G:res and Grainger GenInvest (up to Grainger's acquisition on 22 March 2011).

Below operating profit, the division's result is impacted by asset valuation movements. Asset values in G:res increased by 2.8% in the period, Grainger's share being £2.3m. Asset values in Grainger GenInvest in the period to acquisition increased by £7.8m.

As we have previously disclosed, in January 2009 the investors in Schroders ResPUT agreed to a controlled liquidation of the fund. This was completed during the period.

## **Property Services**

All of the above divisions are supported by our Property Services division which, in the UK, manages a total of 19,239 residential units with a gross rent roll of £87m.

Since the period end we have signed contracts with Lloyds Banking Group to manage the assets which will be placed into Lloyds Residential Asset Management Platform ('RAMP') following commencement of various insolvency processes.

Grainger will receive fees based on rent, disposals and on reaching various targets. This represents a significant further step forward in increasing revenues from our existing management platform.

## **Development**

	<u>31 March 2011</u>	<u>30 September 2010</u>
Market value of development portfolio (including share of joint ventures)	£76m	£81m
Estimate of completed development value	£708m	£578m
Of this, with planning consent	£387m	£442m
Committed cash expenditure	£6m	£10m

<u>£m</u>	6 months to 31 March 2011		6 months to 31 March 2010	
	<u>Value</u>	<u>Profit</u>	<u>Value</u>	<u>Profit</u>
Trading sales	<u>20</u>	14	<u>10</u>	1
Net rental and other income		-		1
Divisional overheads		(1)		(1)
Operating profit		<u>13</u>		<u>1</u>

The division has benefitted from a sale of a property in Kensington for £10.5m generating a profit of £7.6m, a further receipt of £5.0m from Barnsbury which has no associated cost to expense and further sales at our Hornsey Road development of £4.0m generating a profit of £0.8m.

We do not anticipate equivalent levels of sales or profit in the second half of the year.

The market value of the UK portfolio increased by £5m (7.3%), the majority of the increase relating to the Newlands site. This follows receipt, in March 2011, of outline planning permission for 2,550 units and detailed planning permission for the Robert Adam designed Phase 1 at the gateway to the site. This will establish the highest standards of design and sustainability and will set the tone for the wider development in the future.

## **German residential**

	<u>31 March 2011</u>	<u>30 September 2010</u>
Residential units owned	7,150*	7,148*
Market value	£451m	£442m

\*This includes 363 commercial units (2010: 372 commercial units).

	6 months to 31 March 2011		6 months to 31 March 2010	
	<u>Value</u>	<u>Profit</u>	<u>Value</u>	<u>Profit</u>
Trading property sales	-	-	1	-
Investment property sales	<u>1</u>	-	<u>2</u>	-
Net rental and other income		10	<u>3</u>	11
Divisional overheads		(2)		(2)
Operating profit		<u>8</u>		<u>9</u>

The division's results are consistent with the prior year although higher refurbishment costs have been incurred to support letting initiatives in the second half year.

Sales of property in the six months to 31 March 2011 amounted to €1m. Further sales in April 2011 amounted to €3m at 5.1% above book value before sales fees and there is a further healthy pipeline of sales of c.€25m.

## Financial Review

We set out below a summary of our net assets as shown in both the statutory and market value balance sheet:-

	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	850	-	850	-	-	850
CHARM	101	-	101	-	-	101
Trading stock	1,151	343	1,494	-	-	1,494
JV/ Associates	74	-	74	-	(4)	70
Cash	73	-	73	-	-	73
Other assets	27	6	33	-	-	33
<b>Total assets</b>	<b>2,276</b>	<b>349</b>	<b>2,625</b>	<b>-</b>	<b>(4)</b>	<b>2,621</b>
External debt	(1,643)	-	(1,643)	-	-	(1,643)
Derivatives	(89)	89	-	-	(97)	(97)
Deferred tax	(30)	29	(1)	(141)	26	(116)
Other liabilities	(106)	-	(106)	-	-	(106)
<b>Total liabilities</b>	<b>(1,868)</b>	<b>118</b>	<b>(1,750)</b>	<b>(141)</b>	<b>(71)</b>	<b>(1,962)</b>
<b>Net assets</b>	<b>408</b>	<b>467</b>	<b>875</b>	<b>(141)</b>	<b>(75)</b>	<b>659</b>
31 March 2011 net assets per share (pence)	98	112	210	(34)	(18)	158
30 September 2010 net assets per share (pence)	83	117	200	(34)	(26)	140

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

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

## Market value analysis of wholly owned 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	1,072	349	1,421	951	2,372
Development	79	(6)	73	-	73
<b>Total 31 March 2011</b>	<b>1,151</b>	<b>343</b>	<b>1,494</b>	<b>951</b>	<b>2,445</b>
<b>Total 30 September 2010</b>	<b>1,056</b>	<b>332</b>	<b>1,388</b>	<b>739</b>	<b>2,127</b>

## Net asset value

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

	<u>March</u> <u>2011</u>	<u>September</u> <u>2010</u>	<u>Movement</u>
Gross net assets per share (EPRA NAV)	210p	200p	+5%
- market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives			
Triple net assets per share (EPRA NNAV)	158p	140p	+13%
- Gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for mark to market adjustments			
Grainger NAV	200p	180p	+12%
- NNAV adjusted for the discounted and taxed reversionary surplus (the difference between vacant possession and current market value) in our long term regulated and home reversion portfolios.			

The major movements in Gross NAV in the period have been:-

	<u>£m</u>	<u>Pence per share</u>
Gross net assets 1 October 2010	832	200
Profit after tax	49	12
Revaluation gains	36	9
Elimination of valuation surplus on disposal	(24)	(6)
Dividends paid	(5)	(1)
Derivatives movement	(10)	(2)
Other	(3)	(2)
Gross net assets 31 March 2011	<u>875</u>	<u>210</u>

## Reconciliation of Gross NAV Movements

	<u>£m</u>	<u>Pence per share</u>
Gross NAV	875	210
Deferred and contingent tax	(141)	(34)
Mark to mark adjustments net of tax	(75)	(18)
NNAV	<u>659</u>	<u>158</u>
Discounted reversionary surplus	237	57
Tax thereon at 26%	(62)	(15)
Grainger NAV at 31 March 2011	<u>834</u>	<u>200</u>

The major assumptions in calculating the base case Grainger NAV are set out below:-

- house price inflation taken as zero over the entire reversionary period
- discount rate of 7.93% used to calculate the present value of the reversionary surplus (weighted average cost of capital +3%) (2010: discount rate 8.66%). An equity risk premium of 3% (2010: 3%) is used within the calculation of the cost of equity
- no discounting of contingent tax on the revaluation surpluses

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

Our website ([www.graingerplc.co.uk](http://www.graingerplc.co.uk)) sets out how these assumptions may be varied.

## **Financial performance**

Operating profit before all revaluation movements, fair value, impairment, goodwill adjustments and non-recurring items has increased by £11.4m from £48.0m to £59.4m. This reconciles as follows:-

	<u>£m</u>
31 March 2010 result	48.0
Movements in:	
Residential trading profits	1.3
Gross rent and other income	1.7
Property expenses and overheads	(1.6)
Development trading profits	12.0
CHARM and other	(2.0)
	<u>59.4</u>
31 March 2011 result	<u>59.4</u>

The major movement in operating profit is an increase in development trading profit arising from the sale of a property in Kensington and the receipt of additional consideration relating to our Barnsbury site, sold in 2009.

Gross rents and other income have increased by £1.7m helped by the acquisition of Tricomm in February 2011 which will add c£9m of gross rent per annum and also the receipt of fees from the Sovereign JV.

Basic earnings per share are 11.8p (2010: 0.6p after adjusting for the full impact of the rights issue in December 2009):-

	<u>Pence</u>	<u>£m</u>
	<u>per share</u>	
31 March 2010 earnings per share/ profit	0.8	2.6
Adjusted for comparative purpose (see below)	(0.2)	-
Restated	<u>0.6</u>	<u>2.6</u>
Operating profit	2.8	11.4
Revaluation and non-recurring	11.0	45.1
Net interest payable	1.6	6.7
Joint ventures and associates	(0.4)	(1.4)
Taxation and other	(3.8)	(15.9)
	<u>11.8</u>	<u>48.5</u>
31 March 2011 earnings per share/ profit	<u>11.8</u>	<u>48.5</u>

The movement in operating profit is explained above. The movement in revaluation and non-recurring is analysed as follows:-

<u>£m</u>	<u>31 March</u>	<u>31 March</u>	<u>Movement</u>
	<u>2011</u>	<u>2010</u>	
Gain on acquisition	16.1	-	16.1
Fair value of derivatives	22.9	(6.7)	29.6
Other	3.3	3.9	(0.6)
	<u>42.3</u>	<u>(2.8)</u>	<u>45.1</u>

Gain on acquisition arises from our acquisition of Tricomm, £14.9m, and Grainger GenInvest, £1.2m. The change in fair value of derivatives reflects the movement in the interest yield curve in the period.

The reduction in net interest payable is a result of the cancellation or expiration of a number of SWAP contracts in 2010, the most significant of which was a £135m 5.38% SWAP cancelled in June 2010. In addition, average debt levels in 2011 were £51m lower with new debt in 2011 being added towards the end of the period and the debt reduction in 2010 through use of the rights issue proceeds, not taking place until the end of December 2009.

Earnings per share for 2010 shown above, have been adjusted for the full impact of the rights issue in December 2009. This adjustment isolates the impact of the rights issue providing a clearer view of the pence per share movements in the current period.

The board is extremely conscious that the group's share price continues to trade at a very significant discount to its net asset value, despite the achievements noted above. Consequently, the board has decided to take the opportunity to return cash to shareholders by way of a tender process rather than by paying an interim dividend. A tender offer of 1 for every 238 shares at 149p representing a premium of 20.4% to the mid closing price of 123.75p on 18 May 2011, will be proposed in a circular to be issued shortly. It is the view of the board that this move will serve to highlight the wide disparity between the group's share price and its underlying asset value. The tender price represents a c.29% discount to the Gross NAV. The estimated cash returned will amount to £2.6m compared to the 2010 interim dividend amount of £2.1m.

### **Financial resources**

In accordance with our previously stated intentions we have taken steps to increase the number, and diversify the type, of lenders to the group. We have also extended the average maturity of our debt.

The additional sources of debt comprise: £100m from the M&G UK Companies Fund which has an average term of 9.5 years; new bi-lateral facilities associated with the Grainger GenInvest acquisition totalling £120m from HSBC and Santander which has an average term of 4.8 years and £69m new bi-lateral facilities associated with the HI Tricomm acquisition from Bank of America with an average term of 15 years.

Following the growth referred to above, at 31 March 2011, Group net debt levels stood at £1,570m (30 September 2010 £1,350m) – this is after acquisition of assets to a value of £289m associated with the Grainger GenInvest acquisition and £105m with the HI Tricomm acquisition. Committed undrawn facilities and cash amounted to £155m (30 September 2010 £260m). Within total net debt the amounts drawn under our core syndicate fell from £1,056m to £992m.

Average debt maturity has increased by six months to 4.0 years (September 2010: 3.5 years) over the six months elapsed from the end of September last year. A total amount of £9m is due for repayment in the period up to 30 September 2011.

Our all in cost of debt at 31 March 2011 was 4.9% (30 September 2010: 5.0%). The gross debt was 70% hedged (2010: 75%) of which 5% was subject to caps.

We are actively working on further steps to diversify the sources and extend the terms of our debt and will provide updates as any of our activities progress.

Mark Greenwood  
Finance Director  
19 May 2011

**Consolidated income statement**

		Unaudited	
		31 March 2011	31 March 2010
<b>For the half year ended 31 March 2011</b>	<b>Notes</b>	<b>£m</b>	<b>£m</b>
<b>Group revenue</b>	2, 3	<b>133.8</b>	126.3
Net rental income	4	<b>21.4</b>	20.6
Profit on disposal of trading property	5	<b>38.7</b>	25.1
Administrative expenses	6	<b>(6.0)</b>	(6.4)
Other income and expenses		<b>0.6</b>	2.9
Net gain on acquisition of subsidiaries	21	<b>16.1</b>	-
Profit on disposal of investment property	7	<b>0.1</b>	0.4
Profit on redemption of equity units in associate		-	0.7
Interest income from financial interest in property assets	13	<b>1.7</b>	2.7
(Write down)/write back of inventories to net realisable value		<b>(0.4)</b>	0.3
(Write back)/provision for impairment of loans receivable		<b>1.2</b>	(3.3)
<b>Operating profit before net valuation (deficits)/gains on investment property</b>	2	<b>73.4</b>	43.0
Net valuation (deficits)/gains on investment property	10	<b>(0.8)</b>	1.7
<b>Operating profit after net valuation (deficits) /gains on investment property</b>	2	<b>72.6</b>	44.7
Change in fair value of derivatives		<b>22.9</b>	(6.7)
Interest expense and similar charges		<b>(35.8)</b>	(41.4)
Interest income		<b>2.1</b>	2.0
Share of profit of associates after tax	11	<b>2.4</b>	3.0
Share of profit of joint ventures after tax	12	<b>1.0</b>	1.9
<b>Profit before tax</b>		<b>65.2</b>	3.5
Taxation – current		<b>(9.4)</b>	(2.0)
Taxation – deferred		<b>(7.3)</b>	1.1
Tax charge for the period		<b>(16.7)</b>	(0.9)
<b>Profit for the period attributable to equity shareholders</b>		<b>48.5</b>	2.6
<b>Basic earnings per share</b>	8	<b>11.82p</b>	0.75p
<b>Diluted earnings per share</b>	8	<b>11.71p</b>	0.74p
<b>Dividend per share</b>	9	-	0.5p

## Consolidated statement of comprehensive income

		Unaudited	
		31 March	31 March
		2011	2010
For the half year ended 31 March 2011	Notes	£m	£m
Profit for the period		<b>48.5</b>	2.6
Fair value movement on financial interest in property net of tax		<b>(1.1)</b>	1.9
Net exchange adjustments offset in reserves net of tax	18	<b>(0.6)</b>	0.3
Changes in fair value of cash flow hedges net of tax		<b>20.1</b>	(3.2)
Other comprehensive income and expense for the period		<b>18.4</b>	(1.0)
Total comprehensive income and expense for the period attributable to equity shareholders		<b>66.9</b>	1.6

## Consolidated statement of financial position

		Unaudited	Audited
		31 March 2011	30 September 2010
As at 31 March 2011	Notes	£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	10	850.0	634.7
Property, plant and equipment		1.2	1.3
Investment in associates	11	33.0	28.6
Investment in joint ventures	12	40.9	91.0
Financial interest in property assets	13	100.7	103.9
Goodwill		6.2	6.2
		<b>1,032.0</b>	<b>865.7</b>
<b>Current assets</b>			
Investment in associates		-	0.1
Inventories – trading property		1,151.0	989.9
Trade and other receivables	14	18.6	17.2
Derivative financial instruments		0.7	-
Cash and cash equivalents		73.2	91.5
Assets held for sale		-	70.7
		<b>1,243.5</b>	<b>1,169.4</b>
<b>Total assets</b>		<b>2,275.5</b>	<b>2,035.1</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	15	1,616.3	1,361.7
Trade and other payables	17	4.0	4.0
Retirement benefits		5.7	6.0
Provisions for other liabilities and charges		0.8	0.8
Deferred tax liabilities	16	29.5	14.2
		<b>1,656.3</b>	<b>1,386.7</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	15	26.5	55.6
Trade and other payables	17	58.2	57.3
Current tax liabilities	16	37.5	27.8
Derivative financial instruments		89.3	128.3
Liabilities held for sale		-	34.1
		<b>211.5</b>	<b>303.1</b>
<b>Total liabilities</b>		<b>1,867.8</b>	<b>1,689.8</b>
<b>Net assets</b>		<b>407.7</b>	<b>345.3</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
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		(22.9)	(43.0)
Equity component of convertible bond		5.0	5.0
Available-for-sale reserve		3.1	4.2
Retained earnings	18	271.4	228.0
<b>Total shareholders' equity</b>		<b>407.6</b>	<b>345.2</b>
Non-controlling interests		0.1	0.1
<b>Total equity</b>		<b>407.7</b>	<b>345.3</b>

## Consolidated statement of changes in equity

	Issued share capital	Share premium	Merger reserve	Capital redemption reserve	Cash flow hedge reserve	Equity component of convertible bond	Available- for-sale reserve	Retained earnings	Minority Interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance as at 1 October 2009 (audited)</b>	6.9	109.7	20.1	0.3	(41.6)	5.0	1.9	26.1	0.1	128.5
Profit for the period	-	-	-	-	-	-	-	2.6	-	2.6
Other recognised income and expense for the period	-	-	-	-	(3.2)	-	1.9	0.3	-	(1.0)
Total recognised income and expense for the period	-	-	-	-	(3.2)	-	1.9	2.9	-	1.6
Purchase of own shares	-	-	-	-	-	-	-	(3.7)	-	(3.7)
Rights issue	13.9	-	235.9	-	-	-	-	(13.1)	-	236.7
Share-based payments charge	-	-	-	-	-	-	-	0.7	-	0.7
Dividends paid	-	-	-	-	-	-	-	(5.3)	-	(5.3)
<b>Balance as at 31 March 2010 (unaudited)</b>	20.8	109.7	256.0	0.3	(44.8)	5.0	3.8	7.6	0.1	358.5
Loss for the period	-	-	-	-	-	-	-	(13.4)	-	(13.4)
Other recognised income and expense for the period	-	-	-	-	1.8	-	0.4	0.2	-	2.4
Total recognised income and expense for the period	-	-	-	-	1.8	-	0.4	(13.2)	-	(11.0)
Issue of shares	-	0.1	-	-	-	-	-	-	-	0.1
Purchase of own shares	-	-	-	-	-	-	-	(0.8)	-	(0.8)
Transfer to retained earnings	-	-	(235.9)	-	-	-	-	235.9	-	-
Share-based payments charge	-	-	-	-	-	-	-	0.6	-	0.6
Dividends paid	-	-	-	-	-	-	-	(2.1)	-	(2.1)
<b>Balance as at 1 October 2010 (audited)</b>	20.8	109.8	20.1	0.3	(43.0)	5.0	4.2	228.0	0.1	345.3
Profit for the period	-	-	-	-	-	-	-	48.5	-	48.5
Other recognised income and expense for the period	-	-	-	-	20.1	-	(1.1)	(0.6)	-	18.4
Total recognised income and expense for the period	-	-	-	-	20.1	-	(1.1)	47.9	-	66.9
Purchase of own shares	-	-	-	-	-	-	-	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	-	-	0.8	-	0.8
Dividends paid	-	-	-	-	-	-	-	(4.9)	-	(4.9)
<b>Balance as at 31 March 2011 (unaudited)</b>	20.8	109.8	20.1	0.3	(22.9)	5.0	3.1	271.4	0.1	407.7

## Consolidated cash flow statement

Unaudited

For the half year ended 31 March 2011	Notes	31 March 2011 £m	31 March 2010 £m
<b>Cash flow from operating activities</b>			
Profit for the period		48.5	2.6
Depreciation		0.3	0.4
Net gain on acquisition of subsidiaries	21	(16.1)	-
Net valuation deficits/(gains) on investment property	10	0.8	(1.7)
Net finance costs		33.7	39.4
Share of profit of associates and joint ventures	11, 12	(3.4)	(4.9)
Profit on disposal of investment property	7	(0.1)	(0.4)
(Write back)/ Provision for impairment of loans receivable		(1.2)	3.3
Profit on redemption of equity units in associate	11	-	(0.7)
Share-based payment charge		0.8	0.7
Change in fair value of derivatives		(22.9)	6.7
Interest income from financial assets	13	(1.7)	(2.7)
Taxation	16	16.7	0.9
<b>Operating profit before changes in working capital</b>		<b>55.4</b>	<b>43.6</b>
Decrease in trade and other receivables		0.5	3.1
Decrease in trade and other payables		(3.2)	(25.8)
Decrease in trading property		25.9	28.9
<b>Cash generated from operations</b>		<b>78.6</b>	<b>49.8</b>
Interest paid		(36.5)	(40.9)
Taxation (payments)/ refund	16	(0.5)	4.0
<b>Net cash inflow from operating activities</b>		<b>41.6</b>	<b>12.9</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of investment property and property, plant and equipment	7	2.2	6.8
Proceeds from financial interest in property assets	13	3.4	5.1
Proceeds from sale of associates and subsidiary		17.6	8.7
Interest received		0.9	0.8
Acquisition of subsidiaries, net of cash acquired	21	(23.1)	(14.9)
Investment in associates and joint ventures		(14.5)	(0.5)
Acquisition of investment property and property, plant and equipment		(2.0)	(0.6)
<b>Net cash (outflow)/ inflow from investing activities</b>		<b>(15.5)</b>	<b>5.4</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		-	236.7
Purchase of own shares	18	(0.4)	(3.7)
Proceeds from new borrowings		220.0	-
Repayment of borrowings		(258.7)	(134.2)
Dividends paid	9	(4.9)	(5.3)
Payments to defined benefit pension scheme		(0.3)	(0.3)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(44.3)</b>	<b>93.2</b>
Net (decrease)/increase in cash and cash equivalents		(18.2)	111.5
Cash and cash equivalents at beginning of the period		91.5	28.3
Net exchange movements on cash and cash equivalents		(0.1)	(3.2)
<b>Cash and cash equivalents at end of the period</b>		<b>73.2</b>	<b>136.6</b>

## **Notes to the unaudited interim financial statements**

### **1 Accounting policies**

#### **1a Basis of preparation**

These condensed interim financial statements are unaudited and do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. This condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2010 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

These condensed interim financial statements have been prepared in accordance with the accounting policies set out on pages 66 to 74 of the 2010 Annual Report and Accounts which is available on the Group's website ([www.graingerplc.co.uk](http://www.graingerplc.co.uk)).

Historically, the residential housing market is more active in the second half of our financial year. Therefore, we would normally expect that property sales and trading profit would be higher in the second half compared to the first half of the year. However, given the current generally challenging market conditions, the second half year may be similar to the first half in respect of sales of vacant properties. We have identified some £70m of properties for sale as investment sales for the second half year. Our expectation, therefore, is that investment sales in the second half year will exceed the £13m achieved in the first half year. Net rental income is not impacted by seasonality. Trading in the development division is subject to cyclicalities with results dependent on the timing of development sales.

All our assets are now subject to a Directors' valuation at the half year end, supported by independent verification.

The Group's financial derivatives were valued as at 31 March 2011 by external consultants, using a discounted cash flow model and quoted market information.

Taxation is calculated based upon the best estimate of the weighted average corporation tax rate expected for the full year.

#### **1b Adoption of new and revised International Financial Reporting Standards**

At the date of approval of these condensed interim 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.

Annual improvements to IFRSs (2009) (effective 1 January 2010). This is a collection of amendments to 12 standards as part of the IASB's programme of annual improvements.

The standards impacted are:

- IFRS 2, "Share-based Payment"
- IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations"
- IFRS 8, "Operating Segments"
- IAS 1, "Presentation of Financial Statements"
- IAS 7, "Statement of Cash Flows"
- IAS 17, "Leases"
- IAS 18, "Revenue"
- IAS 36, "Impairment of Assets"
- IAS 38, "Intangible Assets"
- IAS 39, "Financial Instruments: Recognition and Measurement"
- IFRIC 9, "Reassessment of Embedded Derivatives"
- IFRIC 16, "Hedges of a Net Investment in Foreign Operation"

## Notes to the unaudited interim financial statements (continued)

Most of the amendments are effective for annual periods beginning on or after 1 January 2010; early adoption is permitted.

There is no material impact of the adoption of these standards in this condensed consolidated half-yearly financial information.

At the date of approval of these condensed interim financial statements, the following standards, interpretations and amendments were issued but not yet mandatory for the Group and early adoption has not been applied.

### **International Financial Reporting Standards**

- IFRS 9, 'Financial instruments'- We are currently assessing the impact of IFRS 9 on the Group financial statements

### **International Financial Reporting Interpretations Committee ("IFRIC") interpretations**

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

Amendments to existing standards:

- Amendment to IFRS 1, "First-time Adoption: Financial Instrument Disclosures"
- Amendment to IFRS 1, "First-time Adoption: On Fixed Dates and Hyperinflation"
- Amendment to IAS 12, "Income Taxes' on Deferred Tax"
- Amendment to IFRS 7, "Financial Instruments: Disclosures on Derecognition"
- Amendment to IFRIC 14, "Prepayments of a Minimum Funding Requirement"
- Annual Improvements to IFRSs 2010

All the above IFRS's, IFRIC interpretations and amendments to existing standards are endorsed by the EU at the date of approval of these condensed interim financial statements with the exception of IFRS 9, the amendment to IFRS 1, "First Time Adoption: On Fixed Dates and Hyperinflation", the amendment to IAS 12 and the amendment to IFRS 7.

### **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; and
- Significant increases in borrowing costs and/or a lack of or reduction in finance available to Grainger.

The principal risks and uncertainties facing the Group have not changed from those as set out on pages 101 to 109 of the 2010 Annual Report and Accounts.

**1d Forward-looking statements**

Certain statements in these condensed interim financial statements are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

**2 Analysis of profit before tax**

The results for the periods to 31 March 2010 and 2011 respectively have been significantly affected by valuation movements and non-recurring items, although the impact of these items in 2011 has been greater than it was in 2010. The table below provides further analysis of the income statement showing the results of trading activities separately from these other items.

	31 March 2011 (Unaudited)				31 March 2010 (Unaudited)			
	Trading £m	Valuation £m	Non- recurring £m	Total £m	Trading £m	Valuation £m	Non- recurring £m	Total £m
Group revenue	<b>133.8</b>	-	-	<b>133.8</b>	126.3	-	-	126.3
Net rental income	<b>21.4</b>	-	-	<b>21.4</b>	20.6	-	-	20.6
Profit on disposal of trading property	<b>38.7</b>	-	-	<b>38.7</b>	25.1	-	-	25.1
Administrative expenses	<b>(6.0)</b>	-	-	<b>(6.0)</b>	(4.4)	-	(2.0)	(6.4)
Other income and expenses	<b>3.5</b>	-	<b>(2.9)</b>	<b>0.6</b>	2.9	-	-	2.9
Net gain on acquisition of subsidiaries	-	<b>16.1</b>	-	<b>16.1</b>	-	-	-	-
Profit on disposal of investment property	<b>0.1</b>	-	-	<b>0.1</b>	0.4	-	-	0.4
Profit on redemption of equity units in associate	-	-	-	-	0.7	-	-	0.7
Interest income from financial interest in property assets	<b>1.7</b>	-	-	<b>1.7</b>	2.7	-	-	2.7
(Write down)/write back of inventories to net realisable value	-	<b>(0.4)</b>	-	<b>(0.4)</b>	-	0.3	-	0.3
Write back/(provision) for impairment of loans receivable net of write-backs	-	<b>1.2</b>	-	<b>1.2</b>	-	(3.3)	-	(3.3)
<b>Operating profit before net valuation (deficits)/gains on investment property</b>	<b>59.4</b>	<b>16.9</b>	<b>(2.9)</b>	<b>73.4</b>	48.0	(3.0)	(2.0)	43.0
Net valuation (deficits)/gains on investment property	-	<b>(0.8)</b>	-	<b>(0.8)</b>	-	1.7	-	1.7
<b>Operating profit/after net valuation (deficits)/gains on investment property</b>	<b>59.4</b>	<b>16.1</b>	<b>(2.9)</b>	<b>72.6</b>	48.0	(1.3)	(2.0)	44.7
Change in fair value of derivatives	-	<b>22.9</b>	-	<b>22.9</b>	-	(6.7)	-	(6.7)
Interest expense and similar charges	<b>(35.8)</b>	-	-	<b>(35.8)</b>	(42.3)	-	0.9	(41.4)
Interest income	<b>2.1</b>	-	-	<b>2.1</b>	2.0	-	-	2.0
Share of profit of associates after tax	<b>0.1</b>	<b>2.3</b>	-	<b>2.4</b>	-	3.0	-	3.0
Share of profit/(loss) of joint ventures after tax	<b>(2.9)</b>	<b>3.9</b>	-	<b>1.0</b>	(1.4)	3.3	-	1.9
<b>Profit before tax</b>	<b>22.9</b>	<b>45.2</b>	<b>(2.9)</b>	<b>65.2</b>	6.3	(1.7)	(1.1)	3.5

**3 Segmental information**

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 assess their performance. The Group's CODM is the Chief Executive Officer.



Notes to the unaudited interim financial statements (continued)

The majority of the group's 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 our key balance sheet measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are gross net asset value ('NAV') and triple net asset value ('NNNAV').

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

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

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

31 March 2011								
Segment assets (unaudited) £m								
	UK residential	Retirement solutions	Property services	Fund management/ residential investments	Development	German residential	All other segments	Total
Total segment assets (Statutory)	1,039.9	401.6	-	33.0	85.4	145.2	(1,297.4)	<b>407.7</b>
Total segment assets (NAV)	1,395.4	448.8	-	33.0	78.9	154.1	(1,235.6)	<b>874.6</b>
Total segment assets (NNNAV)	1,263.9	436.6	-	33.0	77.5	145.2	(1,297.2)	<b>659.0</b>

  

	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	850.0	-	850.0	-	-	850.0
CHARM	100.7	-	100.7	-	-	100.7
Trading stock	1,151.0	343.4	1,494.4	-	-	1,494.4
JVs and associates	73.9	-	73.9	-	(4.1)	69.8
Cash	73.2	-	73.2	-	-	73.2
Other assets	26.7	6.0	32.7	-	-	32.7
<b>Total assets</b>	<b>2,275.5</b>	<b>349.4</b>	<b>2,624.9</b>	<b>-</b>	<b>(4.1)</b>	<b>2,620.8</b>
External debt	(1,642.8)	-	(1,642.8)	-	-	(1,642.8)
Derivatives	(89.3)	89.3	-	-	(96.7)	(96.7)
Deferred tax	(29.5)	28.2	(1.3)	(141.0)	26.2	(116.1)
Other liabilities	(106.2)	-	(106.2)	-	-	(106.2)
<b>Total liabilities</b>	<b>(1,867.8)</b>	<b>117.5</b>	<b>(1,750.3)</b>	<b>(141.0)</b>	<b>(70.5)</b>	<b>(1,961.8)</b>
<b>Net assets</b>	<b>407.7</b>	<b>466.9</b>	<b>874.6</b>	<b>(141.0)</b>	<b>(74.6)</b>	<b>659.0</b>

## Notes to the unaudited interim financial statements (continued)

**31 March 2010**  
**Segment assets**  
**(unaudited) £m**

	UK residential	Retirement solutions	Property services	Fund management/ residential investments	Development	German residential	All other segments	Total
Total segment assets (Statutory)	778.2	372.8	-	102.0	86.9	138.3	(1,119.7)	<b>358.5</b>
Total segment assets (NAV)	1,089.9	415.2	-	108.6	71.5	160.0	(1,050.2)	<b>795.0</b>
Total segment assets (NNNAV)	969.4	397.0	-	102.0	75.8	138.6	(1,113.7)	<b>569.1</b>

	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	639.1	-	639.1	-	-	639.1
CHARM	109.3	-	109.3	-	-	109.3
Trading stock	1,003.9	289.0	1,292.9	-	-	1,292.9
JVs and associates	114.8	17.0	131.8	-	(7.9)	123.9
Cash	136.6	-	136.6	-	-	136.6
Other assets	19.8	-	19.8	-	-	19.8
Total assets	2,023.5	306.0	2,329.5	-	(7.9)	2,321.6
External debt	(1,433.6)	-	(1,433.6)	-	-	(1,433.6)
Derivatives	(108.7)	108.7	-	-	(117.1)	(117.1)
Deferred tax	(21.7)	21.7	-	(135.9)	35.0	(100.9)
Other liabilities	(101.0)	0.1	(100.9)	-	-	(100.9)
Total liabilities	(1,665.0)	130.5	(1,534.5)	(135.9)	(82.1)	(1,752.5)
Net assets	<b>358.5</b>	436.5	<b>795.0</b>	(135.9)	(90.0)	<b>569.1</b>

### 4. Net rental income

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Gross rental income	39.1	38.1
Property repair and maintenance costs	(11.8)	(11.1)
Property operating expenses (see note 6)	(5.9)	(6.4)
	<b>21.4</b>	<b>20.6</b>

### 5. Profit on disposal of trading property

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Proceeds from sale of trading property	83.9	78.3
Carrying value of trading property sold	(41.9)	(49.7)
Other sales costs (see note 6)	(3.3)	(3.5)
	<b>38.7</b>	<b>25.1</b>

**6. Administrative expenses**

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Total Group expenses	15.2	16.3

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:

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Property operating expenses (see note 4)	5.9	6.4
Costs directly attributable to the disposal of trading property (see note 5)	3.3	3.5
Administrative expenses	6.0	6.4
	15.2	16.3

**7. Profit on disposal of investment property**

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Proceeds from sale of investment property	2.2	6.8
Carrying value of investment property sold	(2.1)	(6.4)
	0.1	0.4

**8. Earnings per share****Basic**

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period, 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 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 31 March 2011 was the end of the contingency period. The profit for the period 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 anti-dilutive, they are excluded from the calculation of diluted earnings per share.

Notes to the unaudited interim financial statements (continued)

	31 March 2011			31 March 2010		
	Profit for the period £m	Weighted average number of shares (thousands)	Earnings per share pence	Profit for the period £m	Weighted average number of shares (thousands)	Earnings per share pence
<b>(unaudited)</b>						
<b>Basic earnings per share</b>						
Earnings attributable to equity holders	48.5	410,370	11.82	2.6	340,534	0.75
<b>Effect of potentially dilutive securities</b>						
Share options and contingent shares	-	4,121	(0.11)	-	2,805	(0.01)
Convertible bond	0.6	5,366	-	-	-	-
<b>Diluted earnings per share</b>						
Earnings attributable to equity holders	49.1	419,857	11.71	2.6	343,339	0.74

## 9. Dividends

The board has taken the decision to return cash to shareholders by way of a tender process rather than by paying an interim dividend. A tender offer of 1 for every 238 shares at 149p representing a premium of 20.4% to the mid closing price of 123.75p on 18 May 2011, will be proposed in a circular to be issued shortly. The tender price represents a c.29% discount to the Gross NAV. The estimated cash returned will amount to £2.6m compared to the 2010 interim dividend amount of £2.1m. In the six months to 31 March 2011, the final proposed dividend of £4.9m, for the year ended 30 September 2010, has been paid.

## 10. Investment property

	Unaudited 31 March 2011 £m	Audited 30 Sep 2010 £m
Opening balance	634.7	654.3
Additions:		
- Acquisitions	207.8	13.0
- Subsequent expenditure	1.0	2.1
Disposals	(2.1)	(9.5)
Revaluation deficits	(0.8)	(0.8)
Exchange adjustments	9.4	(24.4)
Closing balance	850.0	634.7

## 11. Investment in associates

	Unaudited 31 March 2011 £m	Audited 30 Sep 2010 £m
Opening balance	28.7	33.2
Share of profit	2.4	5.6
Profit on redemption of equity units	-	1.0
Proceeds on redemption of equity units	(0.1)	(9.8)
Acquisition of additional equity	0.3	-
Share of change in fair value of cash flow hedges taken through equity	1.7	(1.3)
Closing balance	33.0	28.7
Disclosed as:-		
Non-current assets	33.0	28.6
Current assets	-	0.1
	33.0	28.7

Notes to the unaudited interim financial statements (continued)

As at 31 March 2011, the Group's interest in associates was as follows:

	% of ordinary share capital/units held	Country of Incorporation
G:res1 Limited	22.0%	Jersey

## 12. Investment in joint ventures

	Unaudited 31 March 2011 £m	Audited 30 Sep 2010 £m
Opening balance	91.0	80.7
Loans advanced	15.3	9.3
Write back/(provision) for impairment of loans receivable	1.5	(4.9)
Share of profit	1.0	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 on joint venture	-	(1.4)
Exchange adjustment	-	(0.1)
Share of change in fair value of cash flow hedges taken through equity	1.3	2.8
Closing balance	40.9	91.0

The write back of the provision for impairment of loans receivable in 2011 of £1.5m (2010: provision of £4.9m) relates to the release of £3.3m provision against the Group's mezzanine loan to Grainger GenInvest No. 2 (2006) LLP and a further provision of £1.8m 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 21).

As at 31 March 2011, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of Incorporation
Curzon Park Limited	50.00%	United Kingdom
King Street Developments (Hammersmith) Limited	50.00%	United Kingdom
Sovereign Reversions Limited	50.00%	United Kingdom
Gebau Vermogen GmbH	50.00%	Germany
CCZ a.s.	50.00%	Czech Republic
CCY a.s.	50.00%	Czech Republic
Prazsky Project a.s.	50.00%	Czech Republic

## 13. Financial interest in property assets

	Unaudited 31 March 2011 £m	Audited 30 Sep 2010 £m
Opening balance	103.9	109.1
Cash received from the instrument	(3.4)	(10.8)
Amounts taken to income statement	1.7	2.5
Amounts taken to equity before tax	(1.5)	3.1
Closing balance	100.7	103.9

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

Notes to the unaudited interim financial statements (continued)

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 31 March 2011 we have revised our assessment of future cash flows and of the effective interest rate to discount those cash flows. This has resulted in a decrease to the fair value of £1.5m before tax which has been taken through equity reserves.

#### 14 Trade and other receivables

	Unaudited 31 March 2011 £m	Audited 30 Sep 2010 £m
Trade receivables	11.5	8.8
Less: Provision for impairment of trade receivables	(3.1)	(2.0)
	8.4	6.8
Other receivables	6.7	5.4
Prepayments	3.5	5.0
	<b>18.6</b>	<b>17.2</b>

#### 15 Interest bearing loans and borrowings

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

	Unaudited 31 March 2011 £m	Audited 30 Sep 2010 £m
Within one year	26.5	55.6
Between one and two years	790.3	51.4
Between two and five years	497.0	1,144.9
Over five years	329.0	165.4
	<b>1,642.8</b>	<b>1,417.3</b>

#### 16 Tax

	Audited As at 30 Sep 2010 £m	Payments in the period £m	Acquired in the period £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in equity £m	Unaudited As at 31 March 2011 £m
<b>Current tax</b>	27.8	(0.5)	0.7	9.4	0.1	-	<b>37.5</b>
<b>Deferred tax</b>							
Trading property uplift to fair value on acquisition	41.5	-	-	(3.7)	-	-	<b>37.8</b>
Investment property revaluation	9.2	-	1.2	4.5	0.1	-	<b>15.0</b>
Accelerated capital allowances	0.4	-	1.0	(0.2)	-	-	<b>1.2</b>
Short-term timing differences	(21.6)	-	-	6.7	-	-	<b>(14.9)</b>
Actuarial deficit on BPT pension scheme	(0.5)	-	-	-	-	-	<b>(0.5)</b>
Equity component of available-for-sale financial asset	1.5	-	-	-	-	(0.4)	<b>1.1</b>
Fair value movement in cash flow hedges and exchange adjustments	(16.3)	-	(2.3)	-	-	8.4	<b>(10.2)</b>
	14.2	-	(0.1)	7.3	0.1	8.0	<b>29.5</b>
<b>Total tax</b>	<b>42.0</b>	<b>(0.5)</b>	<b>0.6</b>	<b>16.7</b>	<b>0.2</b>	<b>8.0</b>	<b>67.0</b>

The tax charge for the period of £16.7m comprises:

	Unaudited 31 March 2011 £m
UK taxation	<b>18.6</b>
Overseas taxation	<b>(1.9)</b>
	<b>16.7</b>

Notes to the unaudited interim financial statements (continued)

**17. Trade and other payables**

	<b>Unaudited</b>	Audited
	<b>31 March</b>	30 Sep
	<b>2011</b>	2010
	<b>£m</b>	£m
Deposits received	3.8	3.7
Trade payables	10.4	10.9
Other taxation and social security	1.0	1.2
Accruals and deferred income	43.0	41.5
Deferred consideration payable	4.0	4.0
Closing balance	<b>62.2</b>	61.3
Disclosed as:-		
Non-current liabilities	<b>4.0</b>	4.0
Current liabilities	<b>58.2</b>	57.3
	<b>62.2</b>	61.3

Accruals and deferred income at 31 March 2011 includes £21.2m of rent received in advance on the granting of lifetime leases (30 September 2010: £22.7m)

**18. 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
<b>Balance as at 1 October 2009 (audited)</b>	2.1	(7.8)	(9.1)	1.8	39.1	26.1
Profit for the year	-	-	-	-	2.6	2.6
Net exchange adjustment offset in reserves	-	-	-	0.3	-	0.3
Purchase of own shares	-	-	(3.7)	-	-	(3.7)
Award of shares from own shares	(0.4)	-	0.4	-	-	-
Rights issue costs	-	-	-	-	(13.1)	(13.1)
Share-based payments charge	0.7	-	-	-	-	0.7
Dividends paid	-	-	-	-	(5.3)	(5.3)
<b>Balance as at 31 March 2010 (unaudited)</b>	2.4	(7.8)	(12.4)	2.1	23.3	7.6
Loss for the year	-	-	-	-	(13.4)	(13.4)
Actuarial loss on BPT pension scheme net of tax	-	-	-	-	(0.4)	(0.4)
Net exchange adjustment offset in reserves	-	-	-	0.6	-	0.6
Purchase of own shares	-	-	(0.8)	-	-	(0.8)
Award of shares from own shares	(0.1)	-	0.1	-	-	-
Transfer from merger reserve	-	-	-	-	235.9	235.9
Share-based payments charge	0.6	-	-	-	-	0.6
Dividends paid	-	-	-	-	(2.1)	(2.1)
<b>Balance as at 30 September 2010 (audited)</b>	2.9	(7.8)	(13.1)	2.7	243.3	228.0
Profit for the period	-	-	-	-	48.5	48.5
Net exchange adjustment offset in reserves	-	-	-	(0.6)	-	(0.6)
Purchase of own shares	-	-	(0.4)	-	-	(0.4)
Award of shares from own shares	(0.6)	-	0.6	-	-	-
Share-based payments charge	0.8	-	-	-	-	0.8
Dividends paid	-	-	-	-	(4.9)	(4.9)
<b>Balance as at 31 March 2011 (unaudited)</b>	3.1	(7.8)	(12.9)	2.1	286.9	271.4

**19. Post balance sheet events**

On 4 May 2011 Grainger entered contracts with Lloyds Banking Group to manage the assets which will be placed into Lloyds Residential Asset Management Platform ("RAMP") following commencement of various insolvency processes. Grainger will receive fees based on rent, disposals and on reaching various agreed targets.

**20. Related party transactions**

Detailed disclosure of all related party arrangements was provided in note 35 of the 2010 Annual Report and Accounts. There has been no material change in the period to 31 March 2011 except that the group earned fee income of £0.6m from the management of assets in its Sovereign joint venture. These fees were a new source of income in 2011. In addition, loans to the Grainger GenInvest LLPs are no longer loans to joint ventures following Grainger's acquisition of the two LLPs on 22 March 2011 (see note 21). Grainger provided a loan of £13.9m to Sovereign Reversions Limited during the period, interest is payable at 7.78% on the loan.

Material transactions in the period to 31 March 2011 and as at 31 March 2011 were as follows:

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Fee income from joint ventures and associates	3.0	2.5
Interest receivable from joint ventures and associates	1.4	1.2

  

	Unaudited	
	31 March 2011 £m	31 March 2010 £m
Loans to Grainger GenInvest LLP and Grainger GenInvest No. 2 (2006) LLP (net of impairment provision)	-	83.1
Loan to Sovereign Reversions Limited	13.9	-

**21. Acquisitions in the period**

On 4 February 2011 Grainger acquired HI Tricomm Holdings Limited, and its trading subsidiary Tricomm Housing Limited, from Invista Castle Limited. The consideration for the acquisition was £18.5m. The fair value of net assets acquired was £33.8m and the resulting gain on acquisition of £14.9m has been credited to the income statement.

On 22 March 2011 Grainger acquired the 50% equity interest of Genesis Housing Group in the two Grainger GenInvest LLP's thereby becoming the sole owner of both businesses. The partnerships own c.1,650 properties in central London with a market value on acquisition of £289m. Grainger paid consideration of £15m to acquire the remaining 50% in Grainger GenInvest LLP. No consideration was paid for the remaining 50% in Grainger GenInvest No. 2 (2006) LLP. A gain on acquisition of Grainger GenInvest LLP amounting to £1.2m has been credited to the income statement.

Further details of both transactions will be provided in the group's 2011 Annual Report and Accounts.

**22. Directors' responsibility statement**

The directors confirm that this condensed set of interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the six months and the impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

Notes to the unaudited interim financial statements (continued)

The directors of Grainger plc are listed in the Grainger plc Annual report and Accounts for the year ended 30 September 2010 and on the Grainger plc website: [www.graingerplc.co.uk](http://www.graingerplc.co.uk). There have been two changes since 30 September 2010. Bill Tudor John retired from the board at the Annual General Meeting held on 9 February 2011. Belinda Richards was appointed to the board as a non-executive director on 6 April 2011.

By order of the Board  
Andrew R. Cunningham  
Director  
19 May 2011

Copies of this statement are being made available to shareholders through the Group's website. Copies may be obtained from the Group's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE. Further details of this announcement can be found on the Group's website, [www.graingerplc.co.uk](http://www.graingerplc.co.uk).