14 May 2020

Grainger plc

Half year results for the six months ended 31 March 2020

Strong H1 performance; positive lead indicators for H2

- Net rental income up +27%
- Like-for-like rental growth up +3.4%
- LTV at six year low at 32.9%
- No staff furloughed
- Dividend policy maintained, +6% on a per share basis

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

"Grainger is in a strong position financially and our portfolio is performing as expected, showing a high degree of resilience during these uncertain times. We have achieved high rent collection, strong rental growth and maintained occupancy levels over 97%. We have continued to grow our business, serve our customers and deliver new rental homes.

"Our business has been focused on three key areas since the coronavirus lockdown: Innovate, Communicate and Improve. We have implemented new ways of serving our customers remotely and enabling safe interactions and property transactions using technology and virtual viewings. We have increased our contact with and support for our customers, suppliers and partners. And we have been investing in training for our employees so that we can emerge from this global crisis stronger.

"Due to the strength of the business and the resilience of our sector, our dividend policy will be maintained, with a +6% increase in our interim dividend.

"Our focus for the rest of the year will remain on the continuity of service to our customers and the delivery of new rental homes, whilst ensuring the health and safety of all our employees, customers and suppliers remains our highest priority."

Key financial headlines

- Resilient rental demand
  - 60% of Grainger's income is now derived from PRS assets
  - Net rental income[1] up +27% to £37.0m in H1 (HY19: £29.1m)
  - +3.4% like-for-like rental growth[2] in H1 across our entire portfolio (HY19: 3.7%)
  - Rent collection for March 2020 of 95% and April 2020 of 94%
  - Rental growth in April of +3.3% (PRS: 3.0%; Regulated tenancies: 4.0%)
- Robust sales in H1, continuing in H2
  - H1 sales generated £22.8m of profits (HY19: £31.3m) with last year having a higher level of asset recycling from our GRIP portfolio
  - In line with Government guidelines we took swift action to ensure sales momentum continue into early H2 with new offers received and contracts exchanged. Government guidelines were further relaxed on 13 May 2020.
- Pipeline delivery continues and construction sites active

- Our PRS pipeline remains in progress, totalling £2bn of investment and c.9,000 new rental homes
- The majority of our schemes under construction in our secured pipeline are open and active, with a few having temporarily closed in order to implement social distancing and new safety guidelines

- Strong balance sheet and liquidity
    - £527m of cash and committed undrawn facilities available, a six year high
    - LTV at six-year low at 32.9%
    - No debt maturities until March 2022
    - Cost of debt reduced to 3.0%
- Robust H1 performance
    - Adjusted earnings[3] were in line with expectations at £33.7m (HY19: £38.3m) due to higher levels of asset recycling last year
    - Profit before tax[3] was £49.6m (HY19: £54.3m)
    - Adjusted EPRA earnings[4] were up +9% to £16.0m (HY19: £14.7m)
    - Valuation of our total portfolio increased +1.6%
    - EPRA Net Tangible Assets (NTA)[4] per share rose to 281p (FY19: 278p)
    - Dividend policy maintained with interim dividend per share increased +6% to 1.83p per share[5] (HY19: 1.73p), driven by rental growth and investment activity

Financial Highlights

Income return	**HY19**	**HY20**	**Change**
Rental growth *(like-for-like)*[2]	3.7%	3.4%	(33) bps
PRS rental growth (like-for-like)	3.4%	3.0%	(41) bps
Regulated tenancy rental growth (like-for-like)	4.4%	4.5%	+7 bps
Net rental income[1]	£29.1m	£37.0m	+27%
Adjusted earnings[3]	£38.3m	£33.7m	(12)%
Adjusted EPRA Earnings[4]	£14.7m	£16.0m	+9%
Profit before tax	£54.3m	£49.6m	(9)%
Earnings per share (diluted, after tax)	9.0p	6.4p	(29)%
Dividend per share[5]	1.73p	1.83p	+6%

Capital return	**FY19**	**HY20**	**Change**
EPRA NTA per share[4]	278p	281p	+1%
EPRA NNNAV per share[4]	272p	280p	+3%
Net debt[6]	£1,097m	£1,000m	(9)%
Group LTV[6]	37.1%	32.9%	(420) bps
Cost of debt (average)	3.2%	3.0%	(20) bps
Reversionary surplus	£302m	£306m	+1%

Net rental income – strong H1, resilient performance in early H2 trading

- Overall net rental income increased +27% to £37m (HY19: £29.1m).
- We achieved strong like-for-like rental growth across our total portfolio of +3.4% (HY19: 3.7%), with +3.0% growth on our PRS homes (HY19: 3.4%) and +4.5% annualised growth on regulated tenancy rent reviews (HY19: 4.4%).

- Our gross to net (property operating costs ratio) remained stable at 26.0% and we achieved further efficiencies on our stabilised portfolio with gross to net now at 24.9% (HY19: 26.2% / 25.2%).
- Occupancy within our PRS portfolio remains high at 97.2% (HY19: 97.5%).
- Rental performance proving resilient in early H2 trading. For the month of April, post-half year close, we have seen similar levels of rent collection (94%) and rental growth (+3.3%) albeit with a higher proportion of renewals compared to new lets in our PRS portfolio, as customers choose to cancel or postpone their home moves.
- The lettings market remains active, albeit at lower levels. We have seen a pick-up in enquiries in recent weeks, returning to normal pre-Covid levels. Leveraging our digital platform and virtual viewings capability, we have safely continued to secure new customers.

Sales – strong H1, transactions continuing in early H2 trading with strong visibility on pipeline for remainder of year

Profit from sales was £22.8m (HY19: £31.3m) with last year's performance reflecting a higher level of asset recycling from the GRIP portfolio.

- In H1, we have been selling vacant residential properties 1.0% ahead of previous valuations (FY19 vacant possession value).
- Sales velocity (our 'keys to cash' metric) during H1 remained strong, measuring 113 days (HY19: 112 days).
- We have taken actions that enable us to safely conduct sales transactions within current government guidelines, and we are seeing the benefits of this come through.
- As we enter the second half of our financial year, sales activity continues:
    - We have transacted on six vacant properties in the month of April, ahead of valuations, compared with seven vacant properties this time last year.
    - As at 30 April 2020, we have £23.9m of properties in our sales pipeline (committed or in solicitors' hands) compared to £21.5m this time last year, providing us with a high degree of visibility on future sales in H2.

Valuations

- The market value of our total portfolio rose by +1.6% (HY19: 0.6%).
    - The market value of our PRS portfolio rose by +1.5% (HY19: 0.9%).
    - The market value of our regulated tenancy portfolio rose by +1.8% (HY19: 0.3%).
    - Our PRS development pipeline remained flat reflecting current market uncertainty.

Operational highlights: supporting all stakeholders amidst uncertainty

- Our primary focus has been on the health and safety of our customers, staff, partners and suppliers.
- We have successfully implemented our business continuity plans with little to no disruption in business operations.
- We have retained all of our staff across the whole business, with no employee furloughed and no one laid off as a result of Covid-19.

- We have continued to serve our customers throughout the current crisis, including all critical repairs and maintenance work across our portfolio of c.9,300 homes.
- Our strategic focus on providing mid-market homes continues to serve us well, and our homes remain in high demand.
- We have increased support for our customers, including enhanced outreach and communications, particularly with our older customers. We have also included initiatives to support mental health and wellbeing.
- To date, we have been contacted by less than 2% of our customers regarding affordability concerns due to Covid-19. With support from our specialist inhouse team many customers have subsequently successfully accessed government support measures. For those that have required further assistance, we have agreed rent deferral repayment plans. This totals less than 1% of our customer base.
- Overheads remained stable at £13.8m for the half year (HY19: £13.8m) despite our growth, demonstrating our operational leverage.

Investment activity & pipeline update

- Grainger's PRS growth strategy remains as relevant as ever and we continue to see opportunities in the market and are pursuing those that meet with our strict investment criteria. We are, however, remaining prudent and highly disciplined in our investment decision making during these times of increased economic uncertainty.
- During the first half, we secured five new schemes totalling £376m and 1,377 new PRS homes, including:
    - Exchange Square, Birmingham – £77m investment and 375 units
    - Canning Town 3, London – £56m investment and 132 units
    - Capital Quarter, Cardiff – £57m investment and 307 units
    - Queens Road, Nottingham – £56m investment and 348 units
    - Waterloo, London – £130m additional investment and 215 units
- We have £1,048m of investment in our secured PRS pipeline, comprising 4,213 new homes. In addition, we have a further £349m in the planning and legal process and £600m for the TfL partnership. Further details on our secured pipeline below.
- Development activity is ongoing on all nine sites under construction in our pipeline. A number of our projects under construction paused due to social distancing measures. We are pleased to report that all sites are now open and active.

Secured pipeline	
Total investment value	£1,048m
Total units	4,213
Total number of schemes	18
Total number of schemes under construction	9
Targeted net rental income	£51m
Targeted gross yield on cost (weighted average)	6.5%

Strong cash position and robust capital structure

- We are well capitalised and in a strong financial position to weather any near-term economic uncertainty.
- Following the successful equity raise in February to support our strategic growth plans, we have £527m of available headroom in cash and committed undrawn facilities, compared to an expected capital expenditure of £165m for the next twelve months.
- Loan to value[6] stands at a six-year low of 32.9% (FY19: 37.1%).
- Average cost of debt at 3.0% for the first half of the year (FY19: 3.2%), with our incremental cost of debt at 1.7%.
- Net debt[6] was £1,000m (FY19: £1,097m).
- We have no debt maturities until March 2022, and we have significant headroom to our debt covenants.

Dividend

- Dividend policy maintained: to distribute the equivalent of 50% of net rental income (with a one-third, two-third split between interim and full dividend).
- +6% growth in our interim dividend to 1.83p per share (HY19: 1.73p).

Positive lead indicators for H2

- Rent collection stable at 95% and 94% in March and April respectively.
- Rental growth in April stable with the first half at +3.3%.
- Occupancy remains high at 97.2%.
- Continued to secure new customers, and a similar level of vacant sales completed in April as at the same time last year, with resilient pricing in line with valuations.

[1] *Refer to Note 5 for net rental income calculation.*

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

[3] *Refer to Note 2 for profit before tax and adjusted earnings reconciliation.*

[4] *Refer to Note 3 for reconciliation of EPRA measures and EPRA performance measures section at the end of this document.*

[5] *Dividend – The dividend of 1.83p per share (gross) amounting to £12.3m will be paid on 3 July 2020 to shareholders on the register at the close of business on 29 May 2020. Shareholders will again be offered the option to participate in a dividend re-investment plan and the last day for election is 12 June 2020 – refer also to Note 10.*

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

Future reporting dates

- Capital Markets Day & Trading update – 29 September 2020
- Full year results – 19 November 2020

Half year results presentation

Grainger plc will be holding a virtual presentation of the results at 8:30am (UK time) today, 14 May 2020 via webcast and a telephone dial-in facility (details below), which will be followed by a Q&A session.

Webcast details:

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

https://webcasting.brrmedia.co.uk/broadcast/5df9ecd91727256b168b6cd6

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

Conference call details:

Call: +44 (0)330 336 9105

Confirmation Code: 1072758

A copy of the presentation slides will also be available to download on Grainger's website (http://corporate.graingerplc.co.uk/) from 8:00am (UK time).

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Forward-looking statements disclaimer

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

Grainger's principal risks are described in more detail in its Annual Report and Accounts, set out in the Risk Management report on pages 41-43 of the 2019 Annual Report and Accounts.

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

In line with our risk management approach detailed on pages 39-40 of the 2019 Annual Report and Accounts, the key risks to the business are under regular review by the Board and management, applying Grainger's risk management framework. The Covid-19 pandemic has had a substantial impact on many aspects of society, including business, with the duration and depth of the impact being uncertain. Specifically in relation to Grainger, it is currently considered that the principal risks previously reported remain our principal risks. However, it is recognised that a pandemic, and consequently Government restrictions and societal behavioural changes flowing therefrom increase the likelihood of such risks being accelerated or becoming more acute. This would include, but is not limited to market, regulatory and supplier risks. The risks to Grainger will continue to be monitored closely as well as the potential controls and mitigants that may be applied during this unprecedented period.

These risks and other factors could adversely affect the outcome and financial effects of the events specified in this publication. The forward-looking statements reflect knowledge and information available at the date they are made and Grainger plc does not intend to update on the forward-looking statements contained in this publication.

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

Chief Executive's review

Overview

Our strategy is to continue to transition Grainger into a business focused on the private rented sector (PRS), which we believe has long-term structural growth and compelling returns. Today with over 60% of our portfolio and income derive from our PRS assets, the strength of our business, our strategy and our sector are being reaffirmed during the current uncertain economic climate.

The first half of our financial year, the majority of which predates social distancing in the UK, was a period of strong performance and significant achievements. We delivered an increase in net rental income of +27% from our investment activity and secured +3.4% like-for-like rental growth across our 9,300-home portfolio. To accelerate our growth strategy and to bring forward four further PRS, build-to-rent schemes in our pipeline, we successfully raised £183m of net proceeds from an equity raise in February at a premium to net asset value, receiving significant backing from our shareholders.

Coronavirus (Covid-19)

As the first half came to a close, the business was in its strongest financial position in recent years. With a robust balance sheet, low leverage and significant liquidity, Grainger is well positioned to weather the current economic uncertainty caused by coronavirus, while continuing to serve our customers, retaining full employment and delivering on our growth plans.

Our focus during the pandemic and lockdown has had three themes: (1) innovate, (2) communicate, and (3) improve.

Ahead of the UK Government's lockdown measures, Grainger had successfully tested our business continuity plans and swiftly implemented full remote working across all our offices. With instructions for everyone to work from home, we found our assets being used more intensely than ever before. We adapted swiftly, ensuring no disruption to customer service and critical repairs, while we have successfully carried on with lettings and sales safely through the use of virtual viewings and other innovative measures.

We have increased our contact with our customers, introducing a buddy-system across our portfolio so that customers have a single point of contact at Grainger on a first name basis. We have been in regular active dialogue with the UK Government and their officials, providing insight and perspective to inform their rapidly evolving policy response. In addition, we have been supporting our suppliers to ensure that they can continue to operate and enable us to efficiently serve our customers.

Lastly, we have been increasing our focus on training and professional development for our employees, with the launch of our internally-developed, bespoke training programme, the Grainger Academy; and the roll out of the second phase of our best-in-class health & safety programme, Live.Safe 2.0. We have also been working to further improve our customer service, standardising and refining every aspect of operating a PRS asset, which covers 320 separate tasks and responsibilities. This exercise will enhance the rental experience for our customers, ensuring that there is a Grainger standard that is met across each and every one of our 9,300 properties today, and c.9,000 more from our pipeline.

Our ambition is to emerge from the coronavirus lockdown even stronger.

Strong H1 performance

Financial performance over the past six months has been strong. We have increased net rental income by +27% and like-for-like rental growth of +3.4%. We delivered strong adjusted earnings for the period at £33.7m, reflecting a high level of asset recycling this time last year, and EPRA earnings rose +9%. Our EPRA net tangible asset value (EPRA NTA) rose to 281p.

Our portfolio grew to 9,300 homes over the period, with new scheme openings, including Brook Place in Sheffield and Solstice Apartments in Milton Keynes. Our PRS portfolio now represents over 60% of our asset base and income.

Our pipeline continues to progress well. Our secured pipeline now totals £1,048m and 4,213 new PRS homes. Our pipeline of schemes in planning or legals totals £949m and 4,323 new PRS homes, which includes our joint venture with Transport for London. Once completed, we expect that the projected income from these new investments will more than double our net rental income and provide us with sustainable dividend growth of a similar scale.

During the first half we successfully raised £183m of net proceeds in an equity placing to bring forward four new schemes into our secured pipeline. Our prudence in the way we manage the business meant that we sought commitment for the funding ahead of the commitment to start on site. This has enabled us to increase the pace of our pipeline delivery whilst maintaining a strong balance sheet.

Key highlights

During the first half of the financial year, we had a number of key achievements.

<u>TfL Partnership update</u>

We have made good progress on all seven sites in the TfL partnership, with planning applications for three schemes having been submitted, with a further one to be submitted imminently.

We are assured that TfL remain committed to the partnership, which will deliver homes on public land and generate income to support TfL.

<u>Waterloo planning consent</u>

We achieved planning consent on our Waterloo site, an existing asset within our regulated tenancy portfolio, which will see us redevelop the site and deliver 215 new homes for our PRS portfolio. This is a great example of the opportunities that exist within our portfolio, aligned to our PRS growth strategy.

<u>New acquisitions</u>

During the period, we successfully acquired four new schemes for our secured pipeline, including:

- Capital Quarter, Cardiff (on site with construction underway)
- Exchange Square, Birmingham (start on site expected in the Summer)
- Queens Road, Nottingham (start on site expected in the Autumn)
- Canning Town 3 (start on site follows the completion of Canning Town 2)

New scheme completions & launches

In the first half, we completed two new PRS schemes:

- Solstice Apartments in Milton Keynes: 139 homes, £32m investment, c.6% gross yield targeted, which was launched just before lockdown but continues to lease through the period at rents ahead of underwriting.
- Millet Place, Pontoon Dock, London: 236 homes, £26m investment (our share), c.6% gross yield targeted, which is due to launch at the end of May and we are experiencing good levels of interest.

New lettings continued over the past month during lockdown, leveraging our digital leasing platform, which forms part of our CONNECT technology platform.

Strong operational performance

In addition to strong like-for-like rental growth over the period, we have further improved our gross to net efficiency which now stands at 24.9% on our stabilised portfolio and occupancy remains high at 97.2%.

Political update

The Government recognises the benefits that a professionalised private rental housing sector can bring to the UK. We have an open and constructive positive dialogue with Ministers and officials across Whitehall.

In March, in a letter to the Mayor of London, the Secretary of State for Housing confirmed this Government's strong opposition to rent controls, demonstrating support for a strong professional rental sector.

We have increased our engagement with the Government during the coronavirus pandemic, providing support and insight to help inform their rapidly evolving policy decisions.

Positive lead indicators in early H2

We have carefully monitored our performance indicators in the early weeks of our second half due to the economic uncertainties. Rent collection, a key performance metric particularly during this period, remains stable at 95% and 94% in March and April respectively. Rental growth in April remained stable with the first half at +3.3%. Occupancy remains high at 97.2%. We have continued to secure new customers, and we have completed a similar level of vacant sales in April as we did this time last year, with resilient pricing in line with valuations.

Dividend maintained

Reflecting the strength of the business, our sector and the positive trading we are seeing early in the second half, the Board has confirmed that we remain committed to our dividend policy to distribute 50% of annual net rental income as a dividend, with a one-third payment at the interim stage. Our interim dividend has increased by +6% to 1.83p on a per share basis (HY19: 1.73p).

Outlook – a strong business in a resilient sector

Our PRS strategy has transitioned Grainger into a stronger business in a resilient sector. We enter our second half of this financial year well positioned and well capitalised. We aim to emerge from this global crisis stronger, having invested in innovation, communication and improvement during the lockdown. Lead indicators in April show that both the lettings and sales market are active, and that Grainger successfully and safely carrying on performing in line with our strategy.

We are prepared to adapt to a new way of life, as the lockdown is lifted, ensuring that we can continue to serve our customers and deliver our pipeline of new homes. As market leader in PRS, with a business model that can deliver income and growth through the cycle, we believe Grainger is well positioned to maintain momentum in the second half as well as in the years to come.

Helen Gordon
Chief Executive
14 May 2020

Financial review

The past six months have seen the business continue to transition into a majority PRS business with earnings now predominantly driven by rental income and over 60% of our portfolio now in PRS assets.

We continued to deliver strong rental growth with +3.4% across our portfolio and our rent collection through the current lockdown has remained high at 94% in April. It is our confidence in the resilience of our income that enables us to maintain our dividend policy with an interim dividend of 1.83p per share, an increase of +6%.

We have taken steps to ensure that our growth is delivered from a position of financial strength. Following our successful equity raise of £187m in February, we end this half year with an LTV at a six year low of 32.9% and cash and committed facilities headroom at a six year high of £527m. We also refinanced our near-term debt maturities, with our next maturity now in March 2022.

Whilst there is a heightened level of uncertainty surrounding the current economic outlook, we believe our business has both the flexibility and firepower to navigate its way through these challenges and capitalise on any opportunities that may arise.

Highlights

Income returns	HY19	HY20	Change
Rental growth (like-for-like)	3.7%	3.4%	(33) bps
- PRS	3.4%	3.0%	(41) bps
- Regulated tenancies (annualised)	4.4%	4.5%	+7 bps
Net rental income *(Note 5)*	£29.1m	£37.0m	+27%
Adjusted earnings *(Note 2)*	£38.3m	£33.7m	(12)%
Adjusted EPRA earnings *(Note 3)*	£14.7m	£16.0m	+9%
Profit before tax *(Note 2)*	£54.3m	£49.6m	(9)%
Earnings per share (diluted, after tax) *(Note 9)*	9.0p	6.4p	(29)%
Dividend per share *(Note 10)*	1.73p	1.83p	+6%

Capital returns	FY19	HY20	Change
EPRA NTA per share *(Note 3)*	278p	281p	+1%
EPRA NNNAV per share *(Note 3)*	272p	280p	+3%
Net debt *(Note 19)*	£1,097m	£1,000m	(9)%
Group LTV *(Note 19)*	37.1%	32.9%	(420) bps
Cost of debt (average)	3.2%	3.0%	(20) bps
Reversionary surplus	£302m	£306m	+1%

Income statement

The transition in the composition of earnings has continued with a significant increase in net rental income (+27%). Recurring net rental income delivered over 60% of income and this proportion will continue to grow as our PRS pipeline delivers. The resilience of this net rental income provides a solid foundation for both earnings and cashflow.

Adjusted earnings decreased by 12% to £33.7m (HY19: £38.3m) as a result of higher levels of asset recycling in the same period last year. Overheads remained flat demonstrating our inherent operational leverage as we continue to invest in our best in class operating platform.

Income statement (£m)	**HY19**	**HY20**	**Change**
Net rental income	29.1	37.0	+27%
Profit from sales	31.3	22.8	(27)%
Mortgage income (CHARM) *(Note 15)*	2.8	2.6	(7)%
Management fees	2.2	1.6	(27)%
Overheads	(13.8)	(13.8)	+0%
Pre-contract costs	(0.6)	(0.2)	(67)%
Joint ventures and associates	1.8	0.1	(94)%
Net finance costs	(14.5)	(16.4)	+13%
Adjusted earnings	**38.3**	**33.7**	**(12)%**
Valuation movements	31.7	14.6	
Other adjustments	(15.7)	1.3	
Profit before tax	**54.3**	**49.6**	**(9)%**

Rental income

Net rental income increased by +27% to £37.0m (HY19: £29.1m) as a result of investment activity and strong operating performance.

Like-for-like rental growth remained strong in the six months to March demonstrating the resilience of our net rental income stream. Like-for-like rental growth across the portfolio was +3.4%. In our PRS portfolio we delivered +3.0% like-for-like rental growth with +2.7% on renewals and +3.5% on new lets. The regulated tenancy portfolio also continued to deliver strong growth of +4.5% on an annualised basis.

Our occupancy rate has remained high at 97.2% and the gross to net (property operating cost ratio) remained relatively flat at 26.0% (HY19: 26.2%). Our stabilised portfolio improved further to 24.9% (FY19: 25.2%). Passing net rental income at the half year is now £74m, up +10% from £67m at HY19.

	£m
HY19 Net rental income	**29.1**
Disposals	(1.7)
PRS investment	8.7
Rental growth	0.9
HY20 Net rental income	**37.0**
YoY growth	+27%

Sales

Sales activity during the period was in line with expectations delivering £22.8m of profits (HY19: £31.3m). Vacant sales profit from our regulated tenancy portfolio remains robust and in line with the prior year and we continue to recycle our legacy assets.

Residential sales

Vacant property sales delivered £13.5m of profit (HY19: £13.5m) from £21.6m of revenue (FY19: £28.2m) in the period, with a regulated tenancy vacancy rate of 6.6% over the six month period. Sales values achieved were strong with pricing 1.0% ahead of previous vacant possession value. Our sales transaction velocity (keys to cash) remained flat at 113 days (HY19: 112 days).

Going into the second half of the year we have a good sales pipeline in place with of £26.2m committed or in solicitors' hands (HY19: £19.6m) and, despite the current disruption in the market, we have taken actions to ensure that we are able to continue to sell our vacant properties in line with government guidelines. Our properties are unique and have historically proven to be resilient in challenging markets.

Sales of tenanted and other properties delivered £16.0m of revenue (HY19: £52.3m) and £5.2m of profit (HY19: £13.0m). This reduction is a result of a higher level of asset recycling from the GRIP portfolio this time last year.

Development activity

Development activity continues to wind down in the business with the £4.1m profit relating to the sale of a strategic land asset in the period. Our legacy development for sale activity completed last year.

Sales

	HY19			HY20		
	Units sold	**Revenue**	**Profit**	**Units sold**	**Revenue**	**Profit**
		£m	**£m**		**£m**	**£m**
Residential sales on vacancy	80	28.2	13.5	54	21.6	13.5
Tenanted and other sales	277	52.3	13.0	42	16.0	5.2
Residential sales total	**357**	**80.5**	**26.5**	**96**	**37.6**	**18.7**
Development activity	-	11.9	4.8	-	5.3	4.1
Overall sales	**357**	**92.4**	**31.3**	**96**	**42.9**	**22.8**

Cost Control

Cost control remains a key focus for the business as we continue with our targeted investment in technology to drive further efficiency and scalability of our platform.

Overheads

Overheads remained flat in the period at £13.8m (HY19: £13.8m) as the size of our PRS portfolio continues to grow.

Financing costs

Finance cost increased on the prior year at £16.4m (HY19: £14.5m) as we have a full six-month cost from our GRIP acquisition and we made further investments into our PRS portfolio. Our average cost of debt decreased by 20bps to 3.0% (HY19 3.2%) with our marginal cost of debt at 1.7%.

Balance sheet

Our ambitions for growth have always been aligned with a continued focus on balance sheet discipline, and of increasing importance given the current levels of uncertainty. Our conservative LTV and strong liquidity position ensure we can make the right decisions for the business from a position of financial strength.

Our successful equity placing in February provided net proceeds of £183m to fund our pipeline commitments and puts our balance sheet in great shape with an LTV at 32.9%, a six year low with £527m of available cash and undrawn facilities.

Market value balance sheet (£m)	FY19	HY20
Residential – PRS	1,526	1,615
Residential – regulated tenancies	1,017	1,017
Residential – mortgages (CHARM)	76	73
Forward Funded – PRS work in progress	160	162
Development work in progress	120	124
Investment in JVs/associates	33	41
Total investments	**2,932**	**3,032**
Net debt	(1,097)	(1,000)
Other assets/liabilities	(14)	(2)
EPRA NAV/EPRA NRV*	**1,821**	**2,030**
Deferred and contingent tax – trading assets	(102)	(114)
Exclude: intangible assets	(11)	(17)
EPRA NTA*	**1,708**	**1,899**
Add back: intangible assets	11	17
Deferred and contingent tax – investment assets	(19)	(21)
Fair value of fixed rate debt and derivatives	(34)	(3)
EPRA NNNAV/EPRA NDV*	**1,666**	**1,892**
EPRA net asset values (pence per share)		
EPRA NAV	**297**	**301**
EPRA NNNAV	**272**	**280**
EPRA NTA	**278**	**281**
Reversionary surplus (excluded from NAV - £m)	**302**	**306**
Reversionary surplus (pence per share)	**49**	**45**

* EPRA Net Reinstatement Value (NRV), Net Tangible Assets (NTA) and Net Disposal Value (NDV) were introduced in October 2019. Definitions are included in Note 3 to the financial statements.

EPRA NTA increased by +1% from the year end to 281p per share (FY19: 278p per share) with the other NAV measures showing similar uplifts. EPRA NAV increased by +1% during the period to 301p per share (FY19: 297p per share) whilst EPRA NNNAV increased by +3%

during the year to 280p per share (FY19: 272p per share), as the mark to market valuation of debt instruments moved in our favour.

Excluded from all these EPRA NAV measures is a reversionary surplus of £306m or 45p per share (FY19: £302m). This embedded value in our portfolio is the difference between the market value of our assets whilst they are tenanted and the value we could realise if they became vacant and were sold.

The following table shows the movement in EPRA NTA in the period with the largest contributors being adjusted earnings and the movement in property valuations.

EPRA NTA movement

	£m	Pence per share
EPRA NTA at 30 September 2019	**1,708**	**278**
Adjusted earnings	34	5
Valuations (trading & investment property)	37	6
Disposals (trading assets)	(17)	(3)
Tax (current, deferred & contingent)	(19)	(3)
Dividends	(21)	(3)
Intangible assets	(6)	(1)
Equity Placing	183	2
EPRA NTA at 31 March 2020	**1,899**	**281**

Property portfolio valuations

The market value of our property portfolio increased by +1.6% over the six-month period (HY19: 0.6%). The PRS portfolio saw an uplift of +1.5% (HY19: 0.9%), with the regulated portfolio also delivering a strong performance at +1.8% (HY19: 0.3%). The valuation of our development pipeline remained flat over the period, due to the level of uncertainty around on-site progress and stabilisation within the current environment. This will be reviewed further at the financial year end.

Financing and capital structure

We are a well capitalised business with the lowest LTV and highest liquidity headroom of recent times. With £198m of cash available and £329m of available committed undrawn facilities we have enough liquidity to cover all future costs and liabilities comfortably for an extended period.

Following the repayment of two near-term debt maturities in the period, we now have an average debt maturity of 5.7 years, with the next maturity due in March 2022. At the same time, we have reduced our average cost of debt further to 3.0%, with significant headroom in our debt covenants.

	FY19	HY20
Net debt	£1,097m	£1,000m
Loan to value	37.1%	32.9%
Cost of debt (average)	3.2%	3.0%
Incremental cost of debt	1.7%	1.7%
Fully drawn cost of debt	2.9%	2.8%
Interest cover	3.6x	3.3x
Headroom	£430m	£527m
Weighted average facility maturity^	5.8	5.7
Hedging	98%	88%

^ Including extension options; excluding these options it is 5.8 years (FY19) and 5.6 years (HY20).

Cashflow and investment

Net debt decreased to £1,000m (FY19: £1,097m). Our equity placing provided net proceeds of £183m for PRS investment. We generated £56m of cash from operations in the six months ended 31 March 2020, which reflects the timing of our sales, and invested £103m into our property portfolio in the period.

Dividend

We remain committed to our policy to distribute 50% of annual net rental income as a dividend, with a one-third payment at the interim stage. Our interim dividend has increased by +6% to 1.83p on a per share basis (HY19: 1.73p).

Summary and outlook

We have delivered a good performance over the first half of the financial year and have continued to enhance our income profile and balance sheet with over 60% of our portfolio invested into PRS assets and over 60% of our income from net rents. The resilience of our business model combined with the strength of our balance sheet places us in a strong financial position in the current economic uncertainty.

We have continued to deliver good results during the lockdown period. The diversity of our customer base, alongside the strength of operations and the quality of our space has enabled us to maintain high occupancy across our portfolio at 97.2% and strong rental growth at +3.3% since the half year close.

Our property sales have continued throughout the current uncertainty, having exchanged and closed on numerous transactions and we enter the second half with a strong pipeline of sales, ahead of our position this time last year.

Our balance sheet and liquidity are in a strong position with the lowest LTV and highest level of liquidity for six years. This position of strength combined with the resilience of our portfolio positions us well to navigate through the challenges in the economy and capitalise on any opportunities that may arise.

Vanessa Simms
Chief Financial Officer
14 May 2020

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their 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

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Helen Gordon
Chief Executive Officer
14 May 2020

Vanessa Simms
Chief Financial Officer
14 May 2020

Independent Review Report to Grainger plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2020 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Other Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Emphasis of matter – property valuations

We draw attention to note 1a to the condensed financial statements which states that all property assets are subject to a Directors' valuation at the period end, supported by independent external valuations on a sample basis. As described in note 1e these external valuations are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty should be attached to the valuation than would normally be the case. Our conclusion is not modified in respect of this matter.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1a, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Richard Kelly
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

14 May 2020

Consolidated income statement

For the 6 months ended 31 March	Notes	Unaudited **2020** **£m**	 2019 £m
Group revenue	4	**86.9**	107.0
Net rental income	5	**37.0**	29.1
Profit on disposal of trading property	6	**22.1**	29.5
Profit on disposal of investment property	7	**0.7**	1.8
Income from financial interest in property assets	15	**2.0**	2.7
Fees and other income	8	**3.2**	2.2
Administrative expenses		**(13.8)**	(13.8)
Other expenses		**(0.2)**	(3.6)
Impairment of goodwill	25	**-**	(12.7)
Reversal of impairment/(impairment) of inventories to net realisable value	12	**0.1**	(0.1)
Reversal of impairment of joint venture	14	**-**	9.8
Operating profit		**51.1**	44.9
Net valuation gains on investment property	11	**15.6**	22.1
Finance costs		**(16.8)**	(15.0)
Finance income		**0.1**	0.5
Share of (loss)/profit of associates after tax	13	**(0.5)**	0.5
Share of profit of joint ventures after tax	14	**0.1**	1.3
Profit before tax	2	**49.6**	54.3
Tax charge for the period	20	**(9.5)**	(5.0)
Profit for the period attributable to the owners of the Company		**40.1**	49.3
Basic earnings per share	9	**6.4p**	9.0p
Diluted earnings per share	9	**6.4p**	9.0p

Consolidated statement of comprehensive income

For the 6 months ended 31 March	Notes	Unaudited **2020** **£m**	 2019 £m
Profit for the period	2	**40.1**	**49.3**
Items that will not be transferred to the consolidated income statement:			
Actuarial gain/(loss) on BPT Limited defined benefit pension scheme	21	**0.1**	**(1.5)**
Items that may be or are reclassified to the consolidated income statement:			
Changes in fair value of cash flow hedges		**(0.1)**	**(9.2)**
Other comprehensive income and expense for the period before tax		**-**	**(10.7)**
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to the consolidated income statement	20	**0.1**	**0.3**
Tax relating to items that may be or are reclassified to the consolidated income statement	20	**0.3**	**1.7**
Total tax relating to components of other comprehensive income		**0.4**	**2.0**
Other comprehensive income and expense for the period after tax		**0.4**	**(8.7)**
Total comprehensive income and expense for the period attributable to the owners of the Company		**40.5**	**40.6**

Consolidated statement of financial position

As at	Notes	**Unaudited 31 March 2020 £m**	Audited 30 Sept 2019 £m
ASSETS			
Non-current assets			
Investment property	11	**1,661.6**	1,574.6
Property, plant and equipment		**2.2**	0.3
Investment in associates	13	**13.0**	11.7
Investment in joint ventures	14	**28.0**	21.6
Financial interest in property assets	15	**73.5**	76.4
Deferred tax assets	20	**9.5**	5.6
Intangible assets	16	**17.0**	11.2
		1,804.8	1,701.4
Current assets			
Inventories – trading property	12	**702.1**	700.0
Trade and other receivables	17	**26.6**	40.5
Current tax assets		**7.1**	-
Cash and cash equivalents		**257.0**	189.3
		992.8	929.8
Total assets		**2,797.6**	2,631.2
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**1,247.8**	1,176.8
Retirement benefits	21	**1.3**	1.7
Provisions for other liabilities and charges		**1.2**	1.2
Deferred tax liabilities	20	**36.3**	32.7
		1,286.6	1,212.4
Current liabilities			
Interest-bearing loans and borrowings	19	**-**	100.0
Trade and other payables	18	**67.6**	73.6
Provisions for other liabilities and charges		**0.2**	0.4
Current tax liabilities		**-**	4.0
Derivative financial instruments	19	**17.4**	17.3
		85.2	195.3
Total liabilities		**1,371.8**	1,407.7
NET ASSETS		**1,425.8**	1,223.5
EQUITY			
Issued share capital		**33.8**	30.7
Share premium account		**616.1**	436.5
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**(14.1)**	(14.3)
Retained earnings		**769.6**	750.2
TOTAL EQUITY		**1,425.8**	1,223.5

Consolidated statement of changes in equity

	Notes	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2018		20.9	111.4	20.1	0.3	0.5	6.0	656.4	-	815.6
Profit for the period	2	-	-	-	-	-	-	49.3	-	49.3
Other comprehensive loss for the period		-	-	-	-	(7.5)	-	(1.2)	-	(8.7)
Total comprehensive income		-	-	-	-	(7.5)	-	48.1	-	40.6
Issue of share capital	24	9.7	324.8	-	-	-	-	-	-	334.5
Purchase of own shares		-	-	-	-	-	-	(0.9)	-	(0.9)
Share-based payments charge	22	-	-	-	-	-	-	0.9	-	0.9
Dividends paid		-	-	-	-	-	-	(14.7)	-	(14.7)
Fair value of non-controlling interest acquired through business combination	25	-	-	-	-	-	-	-	3.1	3.1
Transfer of available-for-sale reserve		-	-	-	-	-	(6.0)	6.0	-	-
Total transactions with owners recorded directly in equity		9.7	324.8	-	-	-	(6.0)	(8.7)	3.1	322.9
Balance as at 31 March 2019		30.6	436.2	20.1	0.3	(7.0)	-	695.8	3.1	1,179.1
Profit for the period		-	-	-	-	-	-	65.6	-	65.6
Other comprehensive loss for the period		-	-	-	-	(7.3)	-	(1.4)	-	(8.7)
Total comprehensive income		-	-	-	-	(7.3)	-	64.2	-	56.9
Issue of share capital		0.1	-	-	-	-	-	-	-	0.1
Award of SAYE shares		-	0.3	-	-	-	-	-	-	0.3
Purchase of own shares		-	-	-	-	-	-	(0.1)	-	(0.1)
Share-based payments charge		-	-	-	-	-	-	0.8	-	0.8
Dividends paid		-	-	-	-	-	-	(10.5)	-	(10.5)
Acquisition of non-controlling interest	25	-	-	-	-	-	-	-	(3.1)	(3.1)
Total transactions with owners recorded directly in equity		0.1	0.3	-	-	-	-	(9.8)	(3.1)	(12.5)
Balance as at 30 September 2019		**30.7**	**436.5**	**20.1**	**0.3**	**(14.3)**	**-**	**750.2**	**-**	**1,223.5**
Profit for the period	2	**-**	**-**	**-**	**-**	**-**	**-**	**40.1**	**-**	**40.1**
Other comprehensive income for the period		**-**	**-**	**-**	**-**	**0.2**	**-**	**0.2**	**-**	**0.4**
Total comprehensive income		**-**	**-**	**-**	**-**	**0.2**	**-**	**40.3**	**-**	**40.5**
Issue of share capital	24	**3.1**	**179.4**	**-**	**-**	**-**	**-**	**-**	**-**	**182.5**
Award of SAYE shares		**-**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**
Purchase of own shares		**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**-**	**(0.2)**
Share-based payments charge	22	**-**	**-**	**-**	**-**	**-**	**-**	**1.0**	**-**	**1.0**
Dividends paid	10	**-**	**-**	**-**	**-**	**-**	**-**	**(21.2)**	**-**	**(21.2)**
IFRS 16 transition adjustment		**-**	**-**	**-**	**-**	**-**	**-**	**(0.5)**	**-**	**(0.5)**
Total transactions with owners recorded directly in equity		**3.1**	**179.6**	**-**	**-**	**-**	**-**	**(20.9)**	**-**	**161.8**
Balance as at 31 March 2020		**33.8**	**616.1**	**20.1**	**0.3**	**(14.1)**	**-**	**769.6**	**-**	**1,425.8**

Consolidated statement of cash flows

For the 6 months ended 31 March	Notes	Unaudited **2020** **£m**	 2019 £m
Cash flow from operating activities			
Profit for the period	2	**40.1**	49.3
Depreciation and amortisation		**0.8**	0.4
Impairment of goodwill	25	**-**	12.7
Net valuation gains on investment property	11	**(15.6)**	(22.1)
Net finance costs		**16.7**	14.5
Share of loss/(profit) of associates and joint ventures	13,14	**0.4**	(1.8)
Profit on disposal of investment property	7	**(0.7)**	(1.8)
Share-based payment charge	22	**1.0**	0.9
Reversal of impairment of joint venture	14	**-**	(9.8)
Income from financial interest in property assets	15	**(2.0)**	(2.7)
Tax	20	**9.5**	5.0
Cash generated from operating activities before changes in working capital		**50.2**	44.6
Decrease in trade and other receivables		**14.1**	73.9
Decrease in trade and other payables		**(5.8)**	(10.5)
Decrease in provisions for liabilities and charges		**(0.2)**	(0.1)
(Increase)/decrease in inventories		**(2.1)**	15.5
Cash generated from operating activities		**56.2**	123.4
Interest paid		**(17.6)**	(16.9)
Tax paid		**(20.5)**	(8.4)
Payments to defined benefit pension scheme	21	**(0.3)**	(0.3)
Net cash inflow from operating activities		**17.8**	97.8
Cash flow from investing activities			
Acquisition of subsidiary net of cash acquired	25	**-**	(350.9)
Proceeds from sale of investment property	7	**8.9**	26.4
Proceeds from financial interest in property assets	15	**4.9**	4.8
Investment in associates and joint ventures	13,14	**(4.7)**	-
Loans advanced to associates and joint ventures	13,14	**(3.4)**	(1.4)
Loans repaid by associates and joint ventures	13,14	**-**	5.7
Acquisition of investment property	11	**(79.6)**	(96.9)
Acquisition of property, plant and equipment and intangible assets		**(6.3)**	(4.1)
Net cash outflow from investing activities		**(80.2)**	(416.4)
Cash flow from financing activities			
Net proceeds from issue of share capital	24	**182.5**	334.5
Awards of SAYE options		**0.2**	-
Purchase of own shares		**(0.2)**	(0.9)
Proceeds from new borrowings		**299.4**	84.7
Payment of loan costs		**(0.6)**	(0.5)
Repayment of borrowings		**(330.0)**	(52.8)
Dividends paid	10	**(21.2)**	(14.7)
Net cash inflow from financing activities		**130.1**	350.3
Net increase in cash and cash equivalents		**67.7**	31.7
Cash and cash equivalents at the beginning of the period		**189.3**	109.3
Cash and cash equivalents at the end of the period		**257.0**	141.0

Notes to the unaudited interim financial results

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 Finance Conduct 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 2019 which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

With the exception of the changes detailed in Note 1b, the accounting policies used are consistent with those contained in the Group's last annual report and accounts for the year ended 30 September 2019 which is available on the Group's website (www.graingerplc.co.uk). The Grainger business is not judged to be highly seasonal, therefore comparatives used for the six month period ended 31 March 2020 Consolidated Income Statement are the six month period ended 31 March 2019 Consolidated Income Statement. It is therefore not necessary to disclose the Consolidated Income Statement for the full year ended 30 September 2019 (available in the last annual report).

The comparative figures for the financial year ended 30 September 2019 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The financial information included in this announcement has been prepared in accordance with EU endorsed IFRS, IFRS IC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

All property assets are subject to a Directors' valuation at the half year end, supported by an independent external valuation. External valuations at the half year are conducted by the Group's valuers, Allsop LLP and CBRE Limited, in line with the approach set out on pages 111-112 of the 2019 Annual Report and Accounts, with the exception being the Group's Residential and Ginvest portfolio's. At the half year, Allsop inspected 10.9% of the residential portfolio and 12.3% of the Ginvest portfolio, with the movement extrapolated over the non-sampled assets to form 50% of the valuation movement for these portfolio's. The remaining 50% is based on a blended rate arrived at by taking Halifax, Nationwide and Acadata indices (16.6% weighting each), indexed on a regional IPD basis.

The Group's financial derivatives were valued as at 31 March 2020 in-house by a specialised treasury management system, using a discounted cash flow model and market information. The fair value is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments.

Notes to the unaudited interim financial results continued

1b Adoption of new and revised International Financial Reporting Standards

New standards and interpretations in the year

New standards, amendments and interpretations that have been published and are therefore mandatory for the Group's accounting periods beginning on or after 1 October 2018 and later periods are disclosed on page 109-110 of the Annual Report and Accounts for the year ended 30 September 2019.

IFRS 16 Leases - IFRS 16 replaced IAS 17 Leases and was effective for the Group from 1 October 2019. As a lessor, the Group's position was substantially unchanged. As a lessee of office space, the asset and corresponding lease liability are now presented in the statement of financial position and in the notes to the financial statements.

On 1 October 2019, the Group recognised property, plant and equipment of £2.2m and a corresponding lease liability of £3.2m, with an adjustment to retained earnings on transition.

1c Group risk factors

The principal risks and uncertainties facing the Group are set out in the Risk Management report on pages 41-43 of the 2019 Annual Report and Accounts.

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

In line with our risk management approach detailed on pages 39-40 of the 2019 Annual Report and Accounts, the key risks to the business are under regular review by the Board and management, applying Grainger's risk management framework. The Covid-19 pandemic has had a substantial impact on many aspects of society, including business, with the duration and depth of the impact being uncertain. Specifically in relation to Grainger, it is currently considered that the principal risks previously reported remain our principal risks. However, it is recognised that a pandemic, and consequently Government restrictions and societal behavioural changes flowing therefrom increase the likelihood of such risks being accelerated or becoming more acute. This would include, but is not limited to market, regulatory and supplier risks. The risks to Grainger will continue to be monitored closely as well as the potential controls and mitigants that may be applied during this unprecedented period.

There have been no failures of control within the reporting period.

1d Forward-looking statements

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

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

Notes to the unaudited interim financial results continued

1e Significant judgements and estimates

Full details of critical accounting estimates are given on pages 110-114 of the 2019 Annual Report and Accounts. This includes detail of the Groups approach to valuation of property assets and the use of external valuers in the process. In respect of valuations undertaken for the interim financial statement, all valuers are including an industry standard market uncertainty clause in their reports.

"MARKET UNCERTAINTY CLAUSE
The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuations under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer."

The valuations exercise is an extensive process which includes the use of historical experience, estimates and judgements. The Directors are satisfied that the valuations agreed with our external valuers are a reasonable representation of property values in the circumstances known and evidence available at the reporting date. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an on-going basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

1f Going concern assessment

The Directors are required to make an assessment of the Group's ability to continue to trade as a going concern for the foreseeable future. The financial position of the Group, including details of its financing and capital structure, is set out in the Financial review section of this announcement. The Directors have assessed the future funding commitments of the Group and compared these to the level of committed loan facilities and cash resources over the medium term. In making this assessment, consideration has been given to compliance with borrowing covenants along with the uncertainty inherent in future financial forecasts and, where applicable, reasonable severe sensitivities, including the potential impact of Covid-19, have been applied to the key factors affecting financial performance for the Group. This included the potential impact on performance due to possible changes in the level of cash collection, rental growth, letting activity, sales performance and development activity. The Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future period, and not less than 12 months from the date of this interim financial report. For this reason, it continues to adopt the Going Concern basis of accounting in preparing its condensed interim financial statements.

Notes to the unaudited interim financial results continued

2. Analysis of profit before tax

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

For the 6 months ended 31 March (Unaudited)	**2020**				2019			
£m	**Statutory**	**Valuation**	**Other adjustments**	**Adjusted earnings**	Statutory	Valuation	Other adjustments	Adjusted earnings
Group revenue	**86.9**	**-**	**(1.6)**	**85.3**	107.0	-	-	107.0
Net rental income	**37.0**	**-**	**-**	**37.0**	29.1	-	-	29.1
Profit on disposal of trading property	**22.1**	**-**	**-**	**22.1**	29.5	-	-	29.5
Profit on disposal of investment property	**0.7**	**-**	**-**	**0.7**	1.8	-	-	1.8
Income from financial interest in property assets	**2.0**	**0.6**	**-**	**2.6**	2.7	0.1	-	2.8
Fees and other income	**3.2**	**-**	**(1.6)**	**1.6**	2.2	-	-	2.2
Administrative expenses	**(13.8)**	**-**	**-**	**(13.8)**	(13.8)	-	-	(13.8)
Other expenses	**(0.2)**	**-**	**-**	**(0.2)**	(3.6)	-	3.0	(0.6)
Impairment of goodwill	**-**	**-**	**-**	**-**	(12.7)	-	12.7	-
Reversal of impairment/ (impairment) of inventories to net realisable value	**0.1**	**(0.1)**	**-**	**-**	(0.1)	0.1	-	-
Reversal of impairment of joint venture	**-**	**-**	**-**	**-**	9.8	(9.8)	-	-
Operating profit	**51.1**	**0.5**	**(1.6)**	**50.0**	44.9	(9.6)	15.7	51.0
Net valuation gains on investment property	**15.6**	**(15.6)**	**-**	**-**	22.1	(22.1)	-	-
Finance costs	**(16.8)**	**-**	**0.3**	**(16.5)**	(15.0)	-	-	(15.0)
Finance income	**0.1**	**-**	**-**	**0.1**	0.5	-	-	0.5
Share of (loss)/profit of associates after tax	**(0.5)**	**0.5**	**-**	**-**	0.5	-	-	0.5
Share of profit of joint ventures after tax	**0.1**	**-**	**-**	**0.1**	1.3	-	-	1.3
Profit before tax	**49.6**	**(14.6)**	**(1.3)**	**33.7**	54.3	(31.7)	15.7	38.3
Tax charge for the period	**(9.5)**				(5.0)			
Profit for the period attributable to the owners of the Company	**40.1**				49.3			
Diluted earnings per share – adjusted				**4.3p**				5.7p

Notes to the unaudited interim financial results continued

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

Profit before tax in the adjusted columns above of £33.7m (2019: £38.3m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £6.4m (2019: £7.3m) in line with the current standard UK corporation tax rate of 19.0% (2019: 19.0%), divided by the weighted average number of diluted shares as shown in Note 9.

Other adjustments in 2020 of £1.3m is comprised of £1.6m relating to the write-back of provisions relating to historic non-core businesses, offset by £0.3m refinancing costs. In 2019, other adjustments related to the acquisition of GRIP, comprising £12.7m goodwill written off and £3.0m acquisition, restructuring and refinancing costs.

3. Segmental Information

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

The title 'Other' has been included in the tables below to reconcile the segments to the figures reviewed by the CODM and includes certain central costs that cannot be allocated to the operating segments. The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and non-recurring items.

The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and other adjustments. Historically, the CODM reviewed by segment two key statement of financial position measures of net asset value, being EPRA Net Asset Value ('EPRA NAV') and EPRA Triple Net Asset Value ('EPRA NNNAV'). In October 2019, EPRA issued new guidelines on its definitions of NAV measures. The revision includes the introduction of EPRA Net Tangible Assets (NTA), which is considered to become the most relevant NAV measure for the Group and we expect this to be our primary NAV measure going forward. EPRA NTA reflects the tax that will crystallise in relation to the trading portfolio, whilst excluding the volatility of mark to market movements on fixed rate debt and derivatives which are unlikely to be realised. The new EPRA guidelines do not become effective for the Group until 1 October 2020, therefore during this period both the existing and new EPRA measures are monitored and reported.

Information relating to the Group's operating segments is set out in the tables below. The tables distinguish between adjusted earnings, valuation movements and other adjustments and should be read in conjunction with Note 2.

Notes to the unaudited interim financial results continued

March 2020 Income statement (unaudited)

For the 6 months ended 31 March 2020 **£m**	**PRS**	**Reversionary**	**Other**	**Total**
Group revenue	**37.4**	**42.0**	**5.9**	**85.3**
Segment revenue – external				
Net rental income	**27.1**	**9.8**	**0.1**	**37.0**
Profit on disposal of trading property	**-**	**18.0**	**4.1**	**22.1**
Profit on disposal of investment property	**0.7**	**-**	**-**	**0.7**
Income from financial interest in property assets	**-**	**2.6**	**-**	**2.6**
Fees and other income	**0.9**	**-**	**0.7**	**1.6**
Administrative expenses	**-**	**-**	**(13.8)**	**(13.8)**
Other expenses	**(0.2)**	**-**	**-**	**(0.2)**
Net finance costs	**(10.2)**	**(5.9)**	**(0.3)**	**(16.4)**
Share of trading (loss)/profit of joint ventures and associates after tax	**(0.1)**	**-**	**0.2**	**0.1**
Adjusted earnings	**18.2**	**24.5**	**(9.0)**	**33.7**
Valuation movements				**14.6**
Other adjustments				**1.3**
Profit before tax				**49.6**

A reconciliation from adjusted earnings to adjusted EPRA earnings is detailed in the table below, with further details shown in the EPRA performance measures section at the end of this document:

For the 6 months ended 31 March 2020 **£m**	**PRS**	**Reversionary**	**Other**	**Total**
Adjusted earnings	**18.2**	**24.5**	**(9.0)**	**33.7**
Profit on disposal of investment property	**(0.7)**	**-**	**-**	**(0.7)**
Previously recognised profit through EPRA market value measures	**-**	**(15.5)**	**(1.5)**	**(17.0)**
Adjusted EPRA earnings	**17.5**	**9.0**	**(10.5)**	**16.0**

March 2019 Income statement (unaudited)

For the 6 months ended 31 March 2019 £m	PRS	Reversionary	Other	Total
Group revenue				
Segment revenue – external	33.6	60.7	12.7	107.0
Net rental income	18.8	10.3	-	29.1
Profit on disposal of trading property	1.6	23.1	4.8	29.5
Profit on disposal of investment property	1.8	-	-	1.8
Income from financial interest in property assets	-	2.8	-	2.8
Fees and other income	1.4	0.1	0.7	2.2
Administrative expenses	-	-	(13.8)	(13.8)
Other expenses	(0.6)	-	-	(0.6)
Net finance costs	(8.2)	(5.8)	(0.5)	(14.5)
Share of trading profit of joint ventures and associates after tax	0.5	-	1.3	1.8
Adjusted earnings	15.3	30.5	(7.5)	38.3
Valuation movements				31.7
Other adjustments				(15.7)
Profit before tax				54.3

Notes to the unaudited interim financial results continued

A reconciliation from adjusted earnings to adjusted EPRA earnings is detailed in the table below:

For the 6 months ended 31 March 2019 £m	PRS	Reversionary	Other	Total
Adjusted earnings	15.3	30.5	(7.5)	38.3
Profit on disposal of investment property	(1.8)	-	-	(1.8)
Previously recognised profit through EPRA market value measures	-	(21.8)	-	(21.8)
Adjusted EPRA earnings	13.5	8.7	(7.5)	14.7

Segmental assets

The principal net asset value measures reviewed by the CODM are EPRA NAV, EPRA NNNAV and, following the new guidelines issued in October 2019, EPRA NTA. These measures reflect the current market value of trading property owned by the Group rather than the lower of historical cost and net realisable value. These measures are considered to be a more relevant reflection of the value of the assets owned by the Group.

EPRA NAV is the Group's statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value to its market value. In addition, the statutory statement of financial position amounts for both deferred tax on property revaluations and derivative financial instruments net of deferred tax, including those in joint ventures and associates, are added back to statutory net assets. Finally, the market value of Grainger plc shares owned by the Group are added back to statutory net assets. For the Group, EPRA NAV is aligned with EPRA Net Reinstatement Value (NRV), which was introduced in EPRA's October 2019 guidelines.

EPRA NTA assumes that entities buy and sell assets, thereby crystallising certain levels of deferred tax liabilities. For the Group, deferred tax in relation to revaluations of its trading portfolio is taken into account by applying the expected rate of tax to the adjustment that increases the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. The measure also excludes all intangible assets on the statutory balance sheet, including goodwill.

EPRA NNNAV reverses some of the adjustments made between statutory net assets, EPRA NAV and EPRA NTA. 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 investment property revaluations excluded from EPRA NAV and EPRA NTA are also reversed, as is the intangible adjustment in respect of EPRA NTA, except for goodwill which remains excluded. In addition, adjustments are made to net assets to reflect the fair value, net of deferred tax, of the Group's fixed rate debt. For the Group, EPRA NNNAV is broadly aligned with EPRA Net Disposal Value (NDV), which was introduced in EPRA's October 2019 guidelines, with the only difference being the exclusion of goodwill from EPRA NDV which, at the reporting date, is £0.5m.

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

Notes to the unaudited interim financial results continued

March 2020 Segment net assets (unaudited)

£m	PRS	Reversionary	Other	Total	Pence per share
Total segment net assets (statutory)	**1,123.1**	**265.2**	**37.5**	**1,425.8**	**211**
Total segment net assets (EPRA NAV)	**1,239.1**	**732.9**	**58.1**	**2,030.1**	**301**
Total segment net assets (EPRA NTA)	**1,213.6**	**644.1**	**41.1**	**1,898.8**	**281**
Total segment net assets (EPRA NNNAV)	**1,193.0**	**643.7**	**55.9**	**1,892.6**	**280**

March 2020 Reconciliation of EPRA NAV measures (unaudited)

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Adjustments to deferred and contingent tax and intangibles	EPRA NTA balance sheet	Adjustmen ts to derivatives , fixed rate debt and intangibles	EPRA NNNAV balance sheet
Investment property	**1,661.6**	**-**	**1,661.6**	**-**	**1,661.6**	**-**	**1,661.6**
Investment in joint ventures and associates	**41.0**	**-**	**41.0**	**-**	**41.0**	**-**	**41.0**
Financial interest in property assets	**73.5**	**-**	**73.5**	**-**	**73.5**	**-**	**73.5**
Inventories – trading property	**702.1**	**553.6**	**1,255.7**	**-**	**1,255.7**	**-**	**1,255.7**
Cash and cash equivalents	**257.0**	**-**	**257.0**	**-**	**257.0**	**-**	**257.0**
Other assets	**62.4**	**3.2**	**65.6**	**(17.0)**	**48.6**	**17.5**	**66.1**
Total assets	**2,797.6**	**556.8**	**3,354.4**	**(17.0)**	**3,337.4**	**17.5**	**3,354.9**
Interest-bearing loans and borrowings	**(1,247.8)**	**-**	**(1,247.8)**	**-**	**(1,247.8)**	**14.7**	**(1,233.1)**
Deferred and contingent tax liabilities	**(36.3)**	**30.1**	**(6.2)**	**(114.3)**	**(120.5)**	**(21.0)**	**(141.5)**
Other liabilities	**(87.7)**	**17.4**	**(70.3)**	**-**	**(70.3)**	**(17.4)**	**(87.7)**
Total liabilities	**(1,371.8)**	**47.5**	**(1,324.3)**	**(114.3)**	**(1,438.6)**	**(23.7)**	**(1,462.3)**
Net assets	**1,425.8**	**604.3**	**2,030.1**	**(131.3)**	**1,898.8**	**(6.2)**	**1,892.6**

Notes to the unaudited interim financial results continued

September 2019 Segment net assets (audited)

£m	PRS	Reversionary	Other	Total	Pence per share
Total segment net assets (statutory)	979.3	224.5	19.7	1,223.5	199
Total segment net assets (EPRA NAV)	1,090.4	689.9	40.6	1,820.9	297
Total segment net assets (EPRA NTA)	1,068.2	610.5	29.4	1,708.1	278
Total segment net assets (EPRA NNNAV)	1,048.8	610.5	6.9	1,666.2	272

September 2019 Reconciliation of EPRA NAV measures (audited)

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Adjustments to deferred and contingent tax and intangibles	EPRA NTA balance sheet	Adjustments to derivatives, fixed rate debt and intangibles	EPRA NNNAV balance sheet
Investment property	1,574.6	-	1,574.6	-	1,574.6	-	1,574.6
Investment in joint ventures and associates	33.3	-	33.3	-	33.3	-	33.3
Financial interest in property assets	76.4	-	76.4	-	76.4	-	76.4
Inventories – trading property	700.0	548.8	1,248.8	-	1,248.8	-	1,248.8
Cash and cash equivalents	189.3	-	189.3	-	189.3	-	189.3
Other assets	57.6	3.6	61.2	(11.2)	50.0	18.2	68.2
Total assets	2,631.2	552.4	3,183.6	(11.2)	3,172.4	18.2	3,190.6
Interest-bearing loans and borrowings	(1,276.8)	-	(1,276.8)	-	(1,276.8)	(23.4)	(1,300.2)
Deferred and contingent tax liabilities	(32.7)	27.7	(5.0)	(101.6)	(106.6)	(19.4)	(126.0)
Other liabilities	(98.2)	17.3	(80.9)	-	(80.9)	(17.3)	(98.2)
Total liabilities	(1,407.7)	45.0	(1,362.7)	(101.6)	(1,464.3)	(60.1)	(1,524.4)
Net assets	1,223.5	597.4	1,820.9	(112.8)	1,708.1	(41.9)	1,666.2

Notes to the unaudited interim financial results continued

4. Group revenue

	Unaudited 2020 £m	2019 £m
Gross rental income (Note 5)	**50.0**	39.4
Gross proceeds from disposal of trading property (Note 6)	**33.7**	65.4
Fees and other income (Note 8)	**3.2**	2.2
	86.9	107.0

5. Net rental income

	Unaudited 2020 £m	2019 £m
Gross rental income	**50.0**	39.4
Property operating expenses	**(13.0)**	(10.3)
	37.0	29.1

6. Profit on disposal of trading property

	Unaudited 2020 £m	2019 £m
Proceeds from disposal of trading property	**33.7**	61.1
Contract revenue	**-**	4.3
Gross proceeds from disposal of trading property	**33.7**	65.4
Selling costs	**(0.6)**	(1.2)
Net proceeds from disposal of trading property	**33.1**	64.2
Carrying value of trading property sold	**(11.0)**	(31.2)
Carrying value of contract expenses	**-**	(3.5)
	22.1	29.5

Amounts relating to the contract revenue and expenses in the prior period relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea. The Group managed and funded the construction of a number of sites and received a developer's priority return at a fixed rate margin recoverable from the sale of completed residential units to third-parties.

7. Profit on disposal of investment property

	Unaudited 2020 £m	2019 £m
Gross proceeds from disposal of investment property	**9.2**	27.0
Selling costs	**(0.3)**	(0.6)
Net proceeds from disposal of investment property	**8.9**	26.4
Carrying value of investment property sold	**(8.2)**	(24.6)
	0.7	1.8

Notes to the unaudited interim financial results continued

8. Fees and other income

	Unaudited	
	2020	2019
	£m	£m
Property and asset management fee income	**1.3**	2.1
Other sundry income	**1.9**	0.1
	3.2	2.2

9. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the 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 Plan ('LTIP'), Deferred Bonus Plan ('DBP') and Save As You Earn ('SAYE') schemes, on which the dividends are being waived.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its share option schemes and contingent share awards under the LTIP and DBP, based upon the number of shares that would be issued if 31 March 2020 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	Unaudited					
	31 March 2020			31 March 2019		
	Profit for the period £m	**Weighted average number of shares (millions)**	**Earnings per share (pence)**	Profit for the period £m	Weighted average number of shares (millions)	Earnings per share (pence)
Basic earnings per share						
Profit attributable to equity holders	**40.1**	**625.6**	**6.4**	49.3	545.8	9.0
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.4**	**-**	-	2.7	-
Diluted earnings per share						
Profit attributable to equity holders	**40.1**	**628.0**	**6.4**	49.3	548.5	9.0

10. Dividends

The Company has announced an interim dividend of 1.83p (March 2019: 1.73p) per share which will return £12.3m (March 2019: £10.5m) of cash to shareholders. In the six months ended 31 March 2020, the final dividend for the year ended 30 September 2019 which amounted to £21.2m has been paid.

Notes to the unaudited interim financial results continued

11. Investment property

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Opening balance	**1,574.6**	589.7
Additions	**79.6**	212.6
Acquired through business combination (Note 25)	**-**	700.8
Transfer from inventories	**-**	71.5
Disposals	**(8.2)**	(57.5)
Net valuation gains	**15.6**	57.5
Closing balance	**1,661.6**	1,574.6

12. Inventories

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Opening balance	**700.0**	799.3
Additions	**13.0**	36.3
Transfer to investment property	**-**	(71.5)
Disposals	**(11.0)**	(63.7)
Reversal of impairment/(impairment) of inventories to net realisable value	**0.1**	(0.4)
Closing balance	**702.1**	700.0

13. Investment in associates

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Opening balance	**11.7**	134.0
Share of (loss)/profit for the period	**(0.5)**	0.4
Investment eliminated on consolidation following acquisition	**-**	(109.7)
Loan eliminated on consolidation following acquisition	**-**	(18.2)
Loans advanced to associates	**1.8**	5.1
Share of change in fair value of cash flow hedges taken through other comprehensive income	**-**	0.1
Closing balance	**13.0**	11.7

The closing balance comprises share of net liabilities of £0.5m (September 2019: £nil) and net loans due from associates of £13.5m (September 2019: £11.7m). At the balance date, there is no expectation of credit losses on loans due.

In the prior year, the investment and loan eliminated on consolidation following acquisition of £109.7m and £18.2m respectively represents the Group's share of net assets in GRIP which became a subsidiary of Grainger on 20 December 2018 (see Note 25).

As at 31 March 2020, the Group's interest in associates was as follows:

	% of ordinary share capital held	**Country of incorporation**	**Accounting period end**
Vesta LP	20.0	United Kingdom	30 September

Notes to the unaudited interim financial results continued

14. Investment in joint ventures

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Opening balance	**21.6**	11.6
Share of profit for the period	**0.1**	1.4
Reversal of impairment	**-**	9.8
Further investment[1]	**4.7**	2.9
Loans advanced to joint ventures	**1.6**	1.6
Loans repaid by joint ventures	**-**	(5.7)
Closing balance	**28.0**	21.6

1 Grainger invested £4.7m into Connected Living London (BTR) Limited in the period (September 2019: £2.9m).

The closing balance comprises share of net assets of £8.9m (September 2019: £4.1m) and net loans due from joint ventures of £19.1m (September 2019: £17.5m).

In the prior year, the impairment against loans made to the Curzon Park Limited joint venture totalling £9.8m was reversed in full. There are currently no impairments held against loans to joint ventures at the reporting date.

At 31 March 2020, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	**Country of incorporation**	**Accounting period end**
Connected Living London (BTR) Limited	51	United Kingdom	30 September
Curzon Park Limited	50	United Kingdom	31 March
Helical Grainger (Holdings) Limited	50	United Kingdom	31 March
Lewisham Grainger Holdings LLP	50	United Kingdom	30 September
CCZ a.s.	50	Czech Republic	30 September

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

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Opening balance	**76.4**	82.2
Cash received from the instrument	**(4.9)**	(10.0)
Amounts taken to income statement	**2.0**	4.2
Closing balance	**73.5**	76.4

The CHARM portfolio is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee. It is accounted for under IFRS 9 and is measured at fair value through profit and loss.

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

Notes to the unaudited interim financial results continued

16. Intangible assets

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Opening balance	**11.2**	4.7
Additions	**6.2**	7.7
Amortisation	**(0.4)**	(1.2)
Closing balance	**17.0**	11.2

17. Trade and other receivables

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Rent and other tenant receivables	**2.6**	2.5
Deduct: Provision for impairment	**(1.1)**	(0.7)
Rent and other tenant receivables – net	**1.5**	1.8
Contract assets	**-**	18.5
Other receivables	**22.8**	18.0
Prepayments	**2.3**	2.2
Closing balance	**26.6**	40.5

Contract assets in the prior period primarily related to revenue receivable on the arrangement with the Royal Borough of Kensington and Chelsea (Note 6).

Other receivables include £11.6m (September 2019: £4.0m) due from land and property sales, receivable by no later than March 2022.

The fair values of trade and other receivables are considered to be equal to their carrying amounts.

18. Trade and other payables

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Deposits received	**7.4**	7.5
Trade payables	**21.7**	17.5
Tax and social security costs	**1.5**	1.0
Accruals	**32.7**	42.8
Deferred income	**4.3**	4.8
Closing balance	**67.6**	73.6

Notes to the unaudited interim financial results continued

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

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Current liabilities		
Non-bank financial institution	**-**	100.0
	-	100.0
Non-current liabilities		
Bank loans – Pounds Sterling	**554.4**	483.8
Bank loans – Euro	**0.9**	0.9
Non-bank financial institution	**345.9**	345.7
Corporate bond	**346.6**	346.4
	1,247.8	1,176.8
Total interest-bearing loans and borrowings	**1,247.8**	1,276.8

The above analyses of loans and borrowings are net of unamortised costs and the discount on issuance of the corporate bond. As at 31 March 2020, unamortised cost totalled £11.9m (September 2019: £12.9m) and the outstanding discount was £1.2m (September 2019: £1.2m).

Categories of financial instrument

The Group holds financial instruments such as financial interest in property assets, trade and other receivables (excluding prepayments), derivatives, cash and cash equivalents. For all assets and liabilities excluding interest-bearing loans the book value was the same as the fair value as at 31 March 2020 and as at 30 September 2019.

As at 31 March 2020, the fair value of interest-bearing loans is less than the book value by £14.7m (September 2019: greater than by £23.4m), but there is no requirement under IFRS 9 to adjust the carrying value of loans, all of which are stated at amortised cost in the consolidated statement of financial position.

Net debt

The table below sets out the calculation of net debt and LTV:

	Unaudited 31 March 2020 £m	Audited 30 Sept 2019 £m
Gross debt	**1,247.8**	1,276.8
Cash (excluding restricted client cash)	**(248.1)**	(179.3)
Net debt	**999.7**	1,097.5
Market value of properties	**2,917.3**	2,823.4
Other property related assets	**117.5**	138.0
Total market value of properties and property related assets	**3,034.8**	2,961.4
LTV	**32.9%**	37.1%

Market risk

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

Notes to the unaudited interim financial results continued

Fair values

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

	Unaudited 31 March 2020		Audited 30 September 2019	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Level 3				
CHARM	**73.5**	**-**	76.4	-
Investment property	**1,661.6**	**-**	1,574.6	-
	1,735.1	**-**	1,651.0	-
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	**-**	**17.4**	-	17.3
	-	**17.4**	-	17.3

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and the effective interest rate. A reconciliation of movements and amounts recognised in the consolidated income statement are detailed in Note 15.

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

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

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

Assets – Level 3	**Unaudited 31 March 2020 £m**	Audited 30 Sept 2019 £m
Opening balance	**1,651.0**	671.9
Amounts taken to income statement	**17.6**	61.7
Other movements	**66.5**	917.4
Closing balance	**1,735.1**	1,651.0

Notes to the unaudited interim financial results continued

20. Tax

The tax charge for the period of £9.5m (2019: £5.0m) recognised in the consolidated income statement comprises:

	Unaudited	
	2020	2019
	£m	£m
Current tax		
Corporation tax on profit	**9.4**	11.5
Adjustments relating to prior periods	**-**	(0.2)
	9.4	11.3
Deferred tax		
Origination and reversal of temporary differences	**0.1**	(6.3)
	0.1	(6.3)
Total tax charge for the period in the consolidated income statement	**9.5**	5.0

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

In addition to the above, a deferred tax credit of £0.4m (2019: £2.0m) was recognised within other comprehensive income comprising:

	Unaudited	
	2020	2019
	£m	£m
Deferred tax		
Actuarial gain/(loss) on BPT Limited pension scheme	**(0.1)**	(0.3)
Fair value movement in cash flow hedges and exchange adjustments	**(0.3)**	(1.7)
Amounts recognised in other comprehensive income	**(0.4)**	(2.0)

Deferred tax balances comprise temporary differences attributable to:

	Unaudited	Audited
	31 March	30 Sept
	2020	2019
	£m	£m
Deferred tax assets		
Short-term temporary differences	**1.3**	1.4
Losses carried forward	**3.9**	0.3
Actuarial deficit on BPT Limited pension scheme	**1.0**	0.9
Fair value movement in derivative financial instruments and cumulative exchange adjustments	**3.3**	3.0
	9.5	5.6
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	**(9.1)**	(8.3)
Investment property revaluation	**(24.9)**	(19.7)
Short-term temporary differences	**(1.1)**	(3.6)
Fair value movement on financial interest in property assets	**(1.2)**	(1.1)
	(36.3)	(32.7)
Total deferred tax	**(26.8)**	(27.1)

Deferred tax has been predominantly calculated at a rate of 19% (September 2019: 17%) in line with the substantially enacted main rate of corporation tax at 1 April 2020.

In addition to the tax amounts shown above, contingent tax based on EPRA market value measures, being tax on the difference between the carrying value of trading properties in the statement of financial position and their market value has not been recognised by the Group. This contingent tax amounts to £105.2m, calculated at 19% (September 2019: £93.3m, calculated at 17%).

21. Retirement benefits

The Group retirement benefit liability decreased by £0.4m to £1.3m in the six months ended 31 March 2020. The Group obtained an updated valuation of the assets and liabilities of the pension scheme for the purposes of the annual financial statements. The movement has arisen from a £3.1m loss on plan assets, offset by changes in assumptions of £3.2m (primarily market observable discount rates) and £0.3m company contributions. The principal actuarial assumptions used to reflect market conditions as at 31 March 2020 are as follows:

	Unaudited 31 March 2020 %	Audited 30 Sept 2019 %
Discount rate	**2.20**	1.70
Retail Price Index (RPI) inflation	**2.60**	3.30
Consumer Price Index (CPI) inflation	**1.80**	2.30
Salary increases	**3.10**	3.80
Rate of increase of pensions in payment	**5.00**	5.00
Rate of increase for deferred pensioners	**1.80**	2.30

22. Share-based payments

The Group operates a number of equity-settled, share-based compensation plan comprising awards under a Long-Term Incentive Plan ('LTIP'), a Deferred Bonus Plan ('DBP'), a Share Incentive Plan ('SIP') and a Save As You Earn Scheme ('SAYE'). The share-based payments charge recognised in the income statement for the period is £1.0m (2019: £0.9m).

23. Related party transactions

During the period ended 31 March 2020, the Group transacted with its associates and joint ventures (details of which are set out in Notes 13 and 14). The Group provides a number of services to its associates and joint ventures. These include property and asset management services for which the Group receives fee income. The related party transactions recognised in the income statement and statement of financial position are as follows:

	Unaudited			
	31 March 2020		31 March 2019	
	Fees recognised £'000	**Period end balance £'000**	Fees recognised £'000	Period end balance £'000
GRIP REIT PLC[1]	**-**	**-**	840	-
Vesta Limited Partnership	**67**	**21**	528	528
Connected Living London (BTR) Limited	**384**	**384**	-	-
Lewisham Grainger Holdings LLP	**186**	**341**	155	155
	637	**746**	1,523	683

Notes to the unaudited interim financial results continued

	Unaudited				Audited	
	31 March 2020	**31 March 2020**	**31 March 2020**	31 March 2019	30 Sept 2019	30 Sept 2019
	Interest recognised	**Period end loan balance**	**Interest rate**	Interest recognised	Period end loan balance	Interest rate
	£'000	**£m**	**%**	£'000	£m	%
GRIP REIT PLC[1]	**-**	**-**		125	-	-
Vesta Limited Partnership	**-**	**13.5**	**Nil**	-	11.7	Nil
Lewisham Grainger Holdings LLP	**-**	**2.2**	**Nil**	-	1.7	Nil
Curzon Park Limited	**-**	**16.9**	**Nil**	-	16.2	Nil
CCZ a.s.	**-**	**-**	**4.00**	(6)	(0.4)	4.00
	-	**32.6**		119	29.2	

1 Amounts recognised from GRIP REIT PLC relate to pre-acquisition fees and interest where the Group's interest was classified as an associate. Following the acquisition, the results of GRIP REIT PLC are consolidated in full into the results of the Group.

24. Issue of share capital

In February 2020, the Group issued 61,200,000 new shares at an issue price of 305.0p raising a total amount of £182.5m net of costs. The shares were issued with a nominal value of £0.05p per share. This increased share capital by £3.1m and the share premium account by £179.4m.

In December 2018, the Group completed a 7 for 15 rights issue at an issue price of 178.0p raising a total amount of £334.5m net of costs. The rights issue increased the number of shares in issue by 194,758,491 shares, with shares being issued with a nominal value of £0.05 per share. This increased issued share capital by £9.7m and the share premium account by £324.8m.

25. Business combination in prior year

On 20 December 2018, the Group completed the acquisition of the remaining 75.1% interest in GRIP from joint venture partner APG for cash consideration of £396.6m. This comprised cash paid for the remaining shares of £341.3m and the repayment of loans and accrued interest owing to APG totalling £55.3m.

The acquisition of GRIP was accounted for as a business combination due to the integrated set of activities acquired in addition to the properties. Accordingly, transaction and subsequent structuring costs incurred in relation to the acquisition of £3.0m have been expensed in the consolidated income statement.

Notes to the unaudited interim financial results continued

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Material assets acquired	Valuation technique
Investment property	GRIP's property portfolio was valued externally by CBRE Limited and Allsop LLP. The valuations took into account whether the block is managed as a whole or a group of individual units and valued accordingly. Valuation on the basis of how the properties are managed is deemed to be the highest and best use of the property. The valuation of properties under construction assesses the market value of the property upon completion less estimated cost of work to complete and where appropriate an adjustment to take into account the remaining construction and stabilisation risks.
Interest-bearing loans and borrowings	Nominal amounts owed to lenders plus interest payable that has been adjusted for the difference between the contractual interest rate on the loans and borrowings and the market interest rate. The Directors' do not consider the difference between the contractual interest rate and the market interest rate to result in a material adjustment.

Goodwill arising from the acquisition has been recognised as follows:

	£m
Consideration transferred	341.3
Fair value of non-controlling interest acquired	3.1
Fair value of pre-existing equity interests	109.7
Recognition of deferred tax liability on acquisition	2.4
Fair value of identifiable net assets recognised	(443.8)
Goodwill	**12.7**

Goodwill recognised on acquisition of £12.7m represents the premium paid over the fair value of the net assets acquired. Goodwill has been subsequently assessed for impairment. As no definitive and measurable portfolio premium can be ascribed to the combined value of the properties, an impairment charge for the full amount of goodwill recognised on acquisition has been taken to the Group's consolidated income statement.

As part of the acquisition, the Group acquired the non-controlling interest held by APG in GRIP for £3.1m. This cost forms part of the acquisition of GRIP.

Following the acquisition, there remained a 10% non-controlling interest in GRIP Unit Trust 6, a wholly-owned subsidiary of the Group, held by BY Development Limited. On 13 May 2019, the 10% non-controlling interest was acquired by the Group for £3.1m.

EPRA Performance Measures - Unaudited

EPRA Earnings

The EPRA Best Practices Recommendations ('EPRA BPR') previously used by the Group were issued by EPRA's Reporting and Accounting Committee in November 2016. In October 2019, EPRA released updated guidelines that revised the approach to the calculation of NAV. The new guidelines introduce EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV) and will replace EPRA NAV and EPRA NNNAV, historically reported by the Group. Other EPRA performance measures contained in the latest EPRA BPR guide remain substantially unchanged.

EPRA NTA is considered to become the most relevant NAV measure for the Group and we expect this to be the primary NAV measure going forward. EPRA NTA reflects the tax that will crystallise in relation to the trading portfolio, whilst excluding the volatility of mark to market movements on fixed rate debt and derivatives which are unlikely to be realised.

On transition, all EPRA NAV metrics have been disclosed in the report to highlight differences that arise following the adoption of the new guidelines, which become effective for the Group from 1 October 2020.

	31 March 2020			31 March 2019		
	Earnings £m	**Shares millions**	**Pence per share**	Earnings £m	Shares millions	Pence per share
Earnings per IFRS income statement	**49.6**	**628.0**	**7.9**	54.3	548.5	9.9
Adjustments to calculate adjusted EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	**(15.0)**	**-**	**(2.4)**	(22.0)	-	(4.0)
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	**(0.7)**	**-**	**(0.1)**	(1.8)	-	(0.3)
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties	**(17.1)**	**-**	**(2.7)**	(21.7)	-	(3.9)
iv) Tax on profits or losses on disposals	**-**	**-**	**-**	-	-	-
v) Negative goodwill/goodwill impairment	**-**	**-**	**-**	12.7	-	2.3
vi) Changes in fair value of financial instruments and associated close-out costs	**0.3**	**-**	**-**	-	-	-
vii) Acquisition costs on share deals and non-controlling joint venture interests	**-**	**-**	**-**	3.0	-	0.6
viii) Deferred tax in respect of EPRA adjustments	**-**	**-**	**-**	-	-	-
ix) Adjustments i) to viii) in respect of joint ventures	**(1.1)**	**-**	**(0.2)**	(9.8)	-	(1.8)
x) Minority interests in respect of the above	**-**	**-**	**-**	-	-	-
Adjusted EPRA Earnings/Earnings per share	**16.0**	**628.0**	**2.5**	14.7	548.5	2.8

EPRA Performance Measures - Unaudited (continued)

EPRA NAV

	31 March 2020			30 Sept 2019		
	Net assets £m	**Shares millions**	**NAV pence per share**	Net assets £m	Shares millions	NAV pence per share
NAV from the financial statements	**1,425.8**	**675.2**	**211**	1,223.5	613.8	199
Include:						
i.a) Revaluation of investment property	**-**	**-**	**-**	-	-	-
i.b) Revaluation of investment property under construction	**-**	**-**	**-**	-	-	-
i.c) Revaluation of other non-current investments	**6.5**	**-**	**1**	6.5	-	1
ii) Revaluation of tenant leases held as finance leases	**-**	**-**	**-**	-	-	-
iii) Revaluation of trading properties	**553.6**	**-**	**82**	548.8	-	90
Exclude:						
iv) Fair value of financial instruments	**14.1**	**-**	**2**	14.4	-	2
v.a) Deferred tax	**30.1**	**-**	**5**	27.7	-	5
v.b) Goodwill as a result of deferred tax	**-**	**-**	**-**	-	-	-
Include/exclude:						
Adjustments i) to v) above in respect of joint venture interests	**-**	**-**	**-**	-	-	-
EPRA NAV/EPRA NAV per share	**2,030.1**	**675.2**	**301**	1,820.9	613.8	297

EPRA NNNAV

	31 March 2020			30 Sept 2019		
	Net assets £m	**Shares millions**	**NNNAV pence per share**	Net assets £m	Shares millions	NNNAV pence per share
EPRA NAV	**2,030.1**	**675.2**	**301**	1,820.9	613.8	297
Include:						
i) Fair value of financial instruments	**(14.1)**	**-**	**(2)**	(14.3)	-	(2)
ii) Fair value of debt	**11.9**	**-**	**2**	(19.4)	-	(3)
iii) Deferred tax	**(135.3)**	**-**	**(21)**	(121.0)	-	(20)
EPRA NNNAV/EPRA NNNAV per share	**1,892.6**	**675.2**	**280**	1,666.2	613.8	272

EPRA Performance Measures - Unaudited (continued)

EPRA NRV, EPRA NTA and EPRA NDV

	31 March 2020			30 Sept 2019		
	EPRA NRV £m	**EPRA NTA £m**	**EPRA NDV £m**	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS Equity attributable to shareholders	**1,425.8**	**1,425.8**	**1,425.8**	1,223.5	1,223.5	1,223.5
Include/Exclude:						
i) Hybrid Instruments	**-**	**-**	**-**	-	-	-
Diluted NAV	**1,425.8**	**1,425.8**	**1,425.8**	1,223.5	1,223.5	1,223.5
Include:						
ii.a) Revaluation of IP (if IAS 40 cost option is used)	**-**	**-**	**-**	-	-	-
ii.b) Revaluation of IPUC (if IAS 40 cost option is used)	**-**	**-**	**-**	-	-	-
ii.c) Revaluation of other non-current investments	**6.5**	**6.5**	**6.5**	6.5	6.5	6.5
iii) Revaluation of tenant leases held as finance leases	**-**	**-**	**-**	-	-	-
iv) Revaluation of trading properties	**562.7**	**448.4**	**448.4**	557.1	455.5	455.5
Diluted NAV at Fair Value	**1,995.0**	**1,880.7**	**1,880.7**	1,787.1	1,685.5	1,685.5
Exclude:						
v) Deferred tax in relation to fair value gains of IP	**21.0**	**21.0**	**-**	19.4	19.4	-
vi) Fair value of financial instruments	**14.1**	**14.1**	**-**	14.4	14.4	-
vii) Goodwill as a result of deferred tax	**-**	**-**	**-**	-	-	-
viii.a) Goodwill as per the IFRS balance sheet	**-**	**(0.5)**	**(0.5)**	-	(0.5)	(0.5)
viii.b) Intangible as per the IFRS balance sheet	**-**	**(16.5)**	**-**	-	(10.7)	-
Include:						
ix) Fair value of fixed interest rate debt	**-**	**-**	**11.9**	-	-	(19.3)
x) Revalue of intangibles to fair value	**-**	**-**	**-**	-	-	-
xi) Real estate transfer tax	**-**	**-**	**-**	-	-	-
NAV	**2,030.1**	**1,898.8**	**1,892.1**	1,820.9	1,708.1	1,665.7
Fully diluted number of shares	**675.2**	**675.2**	**675.2**	613.8	613.8	613.8
NAV pence per share	**301**	**281**	**280**	297	278	272