



# grainger plc

Preliminary Announcement of Results for the year ended  
30 September 2007

29 November 2007



# Agenda



- Introduction
- Highlights
  
- Financial Results
- Market
- Portfolio Review
  
- Update on Strategy
- Outlook
- Key Conclusions

# Financial Highlights



	<u>2007</u>	<u>2006</u>	<u>Change</u>
Gross NAV per share	828p	677p	+22.3%
Return on shareholders' equity	27.1%	26.5%	+0.6 percentage points
Return on capital employed	12.1%	14.0% *	(1.9) percentage points
Earnings per share	47.3p	26.0p*	+81.9%
Dividend per share	6.18p	5.62p	+10%

\* As adjusted for the prior period correction

# Operational Highlights



- Significant level of on-balance sheet property expenditure (£614m)
- Major corporate acquisitions:-
  - CHARM
  - CAT
  - Tilt
  - Ability (in G:res1)
- Established ourselves as market leader in Residential Fund Management and successfully recycled capital with G:res1 launch
- Total property sales £180m
- Establishment of asset management platform for German portfolio
- Core debt portfolio renegotiated and £587m of new debt finance raised (including £251m off-balance sheet)
- New organisational structure
- Increasingly diversified business model and dominant market position

## Financial Results - Financial Summary



	<u>2007</u>	<u>2006</u>	<u>Growth</u>
Property and related assets (£m)	2,505	2,004	+25.0%
Gross NAV per share (p)	828	677	+22.3%
Grainger NAV per share (p) (basic)	732	595	+23.0%
Earnings before interest and tax* (£m)	89.0	81.5	+9.2%
Earnings per share (p)	47.3	26.0	+81.9%
Dividends per share (p)	6.18	5.62p	+10%
LTV (%)	53%	52%	
Interest cover	2.2	1.8	

\* Earnings before interest and tax comprises operating profit before valuation gains, fair value adjustments and goodwill impairment

Note: 2006 earnings per share and 2006 interest cover are both shown after adjusting for the prior period correction

# Financial Results - Market Value Balance Sheet



	<u>2007</u>	<u>2006</u>	
	£m	£m	
<b>Before any contingent tax</b>			
Property related assets			
- wholly owned	2,322	1,901	
- jv/associates	183	103	
<hr/>			
Total property related assets	2,505	2,004	+25.0%
Other assets and cash	105	45	
<hr/>			
Gross assets	2,610	2,049	+27.4%
Debt	(1,420)	(1,098)	
Other net liabilities	(125)	(72)	
<hr/>			
<b>Net assets</b>	1,065	879	+21.2%
<b>Gross net asset value per share (p)</b>	828p	677p	+22.3%

# Financial Results - Analysis of Wholly Owned Assets



	Residential	Development	<u>2007</u> Total	<u>2006</u> Total	
UK	1,959	110	2,069	1,773	+16.7%
Germany/Europe	242	11	253	128	+97.7%
	2,201	121	2,322	1,901	+22.1%

# Financial Results - Analysis of JV's/associates



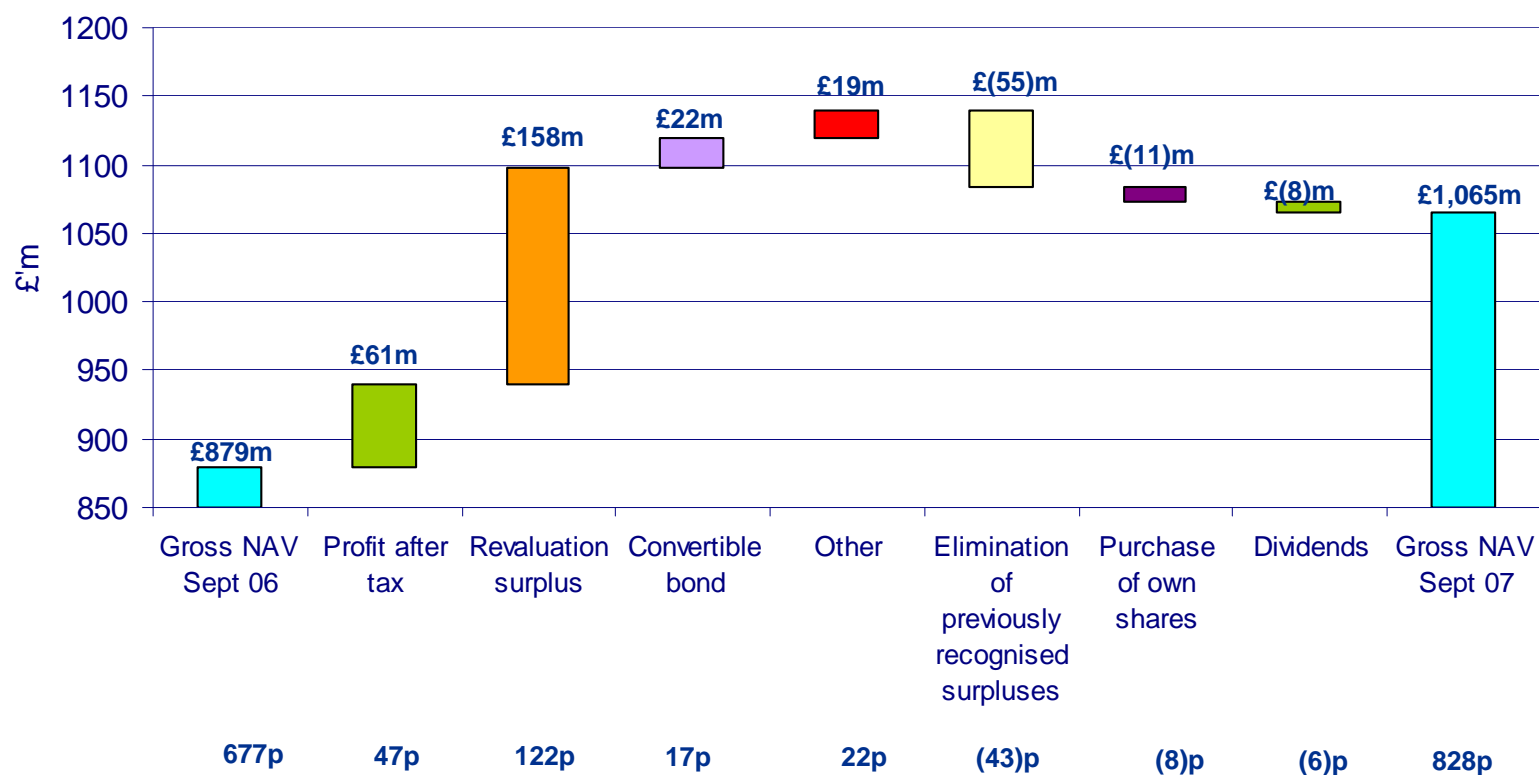
		2007	Gross Assets	Liabilities/ Debt	Net Assets	Grainger Share	Grainger Share	Loan	Total Grainger Investment
		<u>Designation</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>%</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
UK	- Residential								
	G:res1	Associate	457	(238)	219	21.6%	47	-	47
	Schroder	Associate	90	-	90	22.4%	20	-	20
	GenInvest	JV	364	(284)	80	50.0%	40	68	108
UK Residential Total			911	(522)	389		107	68	175
UK	- Development								
	Curzon Park	JV	42	(43)	(1)	50.0%	-	7	7
	Regen	JV	1	-	1	33.3%	-	-	-
Europe - development			2	-	2	43.20%	1	-	1
Total 2007 balance sheet			956	(565)	391		108	75	183
Total 2006 balance sheet			312	(285)	27		14	60	74

Note: In 2006 Schrodgers was shown as an 'at fair value through profit or loss financial asset' with a market value of £19m. G:res1 was a wholly owned subsidiary in 2006.

# Financial Result - Change in NAV



## Gross NAV movements



The pence per share movement under “other” includes a movement of 7 pence due to the reduction in shares arising from the share buy-backs.

## Financial Results - Net Asset Value Per Share



<b>Pence per Share</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Gross net asset value	828	677
Add(Deduct):		
Mark to market adjustments	6	(3)
Deferred tax on revaluation surpluses (undiscounted)	(221)	(187)
<b>NNNAV</b>	<b>613</b>	<b>487</b>

# Financial Results – Grainger NAV

## – Sensitivity Analysis



### Without discounting tax

		Discount rate		
		9.38%	7.0%	6.38%
HPI	0%	732p	768p	780p
	2%	764p	811p	825p
	4%	805p	863p	882p
	5%	828p	894p	915p
	6%	855p	929p	952p

#### Note

- Grainger NAV brings in the present taxed value of reversionary surpluses in our long term portfolio
- Grainger WACC: 6.38%
- Full sensitivity available on Grainger website: [graingerplc.co.uk](http://graingerplc.co.uk)

### Discounting tax

		Discount rate		
		9.38%	7.0%	6.38%
HPI	0%	878p	892p	896p
	2%	910p	934p	942p
	4%	951p	987p	998p
	5%	974p	1,018p	1,032p
	6%	1,001p	1,053p	1,069p

# Financial Results - Summary Operating Contributions



£m	Restated	
	<u>2007</u>	<u>2006</u>
UK core portfolio	96.7	93.3
Home reversion	10.4	5.6
Europe	8.1	4.0
Development	4.5	10.6
Property and fund management income	2.9	-
	<hr/> 122.6	<hr/> 113.5
Direct and administrative overheads	(33.6)	(32.0)
<u>Operating profit before revaluation and fair value gains</u>	<u>89.0</u>	<u>81.5</u>

## Financial Results - Post Tax Earnings



£m	Restated	
	<u>2007</u>	<u>2006</u>
Operating profit before valuation and fair value movement	89.0	81.5
Goodwill/Fair value movements		
Goodwill written off	-	(6.4)
Revaluation surpluses	9.9	18.5
Fair value of derivatives etc	3.0	10.8
	101.9	104.4
Interest	(65.0)	(57.1)
Joint ventures/associates	40.6	0.4
	77.5	47.7
Taxation	(16.6)	(14.2)
Profit after taxation	60.9	33.5

# Financial Results - Cashflow



£m	<u>2007</u>	<u>2006</u>
Income		
Rents and other income net of overheads	27	34
Property sales	180	193
Net proceeds from sale of equity in G:res1	251	-
Working capital movements	39	(19)
	497	208
Interest, tax and dividends	(69)	(74)
<b>Net operating income</b>	<b>428</b>	<b>134</b>
Loan movements	336	153
Available for property spend	764	287
Acquisitions/spend		
UK residential	(453)	(112)
Development	(51)	(29)
Europe	(110)	(99)
Investment in JV/Associates	(101)	(61)
Other	(8)	-
Total property spend	(723)	(301)
<b>Cash movement</b>	<b>41</b>	<b>(14)</b>

## Financial Results - Debt Analysis



<b>£m</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Gross debt	1,422	1,098
Cash	80	39
Net debt (before deducting costs)	1,342	1,059
Available headroom	226	307
Average maturity (years)	5.9	4.7
Hedging level	74%	66%
Blended interest rate	6.1%	5.8%
LTV	53%	52%

During the year £110m was raised through the issue of a seven year convertible bond; coupon 3.625%, conversion price £8.64 and post tax cash cost c1.5%.

The maturity of the gross debt is as follows:-

<b><u>Years</u></b>	<b><u>£m</u></b>	<b><u>%</u></b>
0-1	18	1
1-2	5	-
2-5	790	56
>5	609	43
	<b>1,422</b>	<b>100</b>

# The Market – UK Residential Market

## - Historical Background



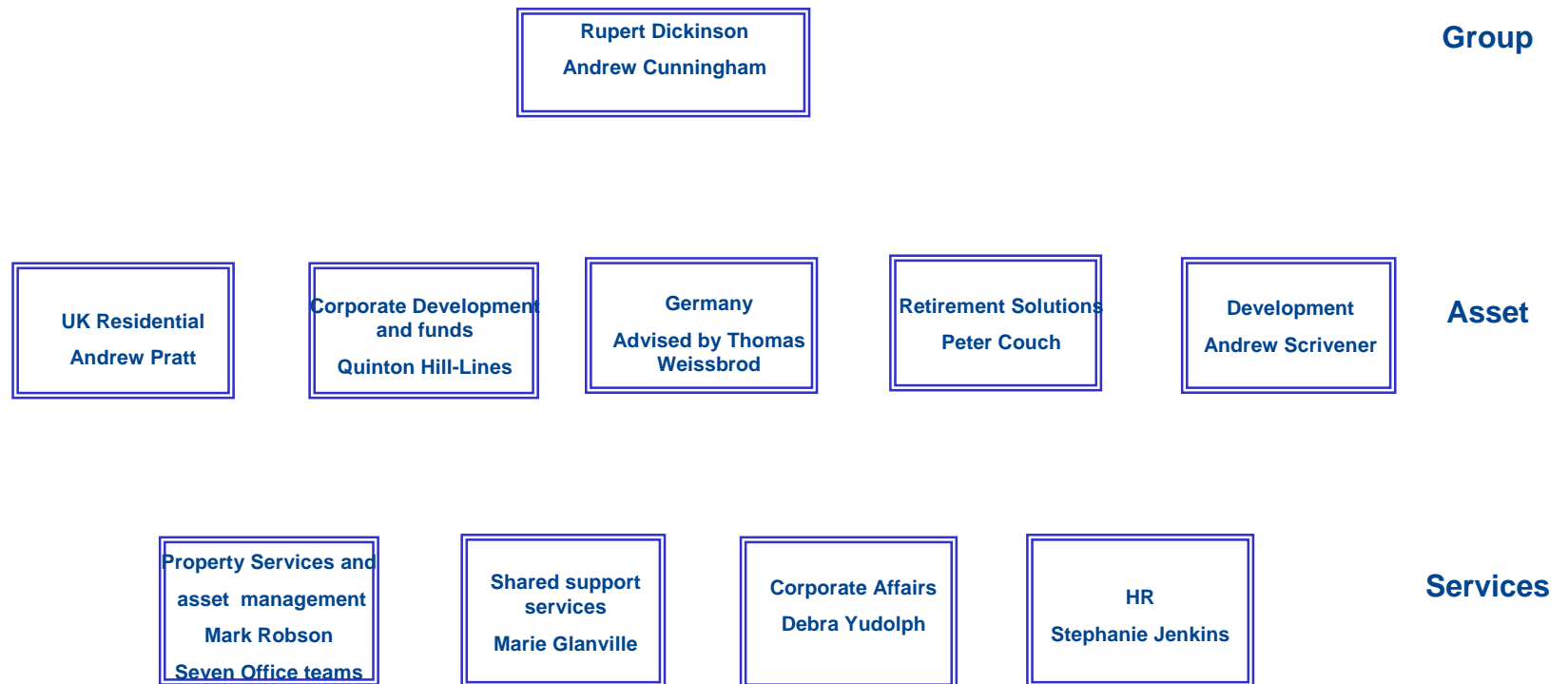
- Market has shown consistent long term growth:-
  - Annual average growth rates
    - 20 years 7.8%
    - 10 years 11.2%
    - 5 years 12%
  
- Strong 2007 performance (annualised to Sept 07)
  - Halifax 10.7%
  - Nationwide 9.0%
  - Grainger portfolio 9.8%
  
- Our model does not rely on these levels of house price growth going forward

# The Market - UK Residential - Market Commentary



- Inevitable short term slowdown in growth – demands careful purchasing approach
- Oversupply in certain speculative markets where we have virtually no exposure
- Medium and long term supported by imbalance between supply and demand
  - Historic shortfall (166,000 average annual completion 2000-2007 but demand > 200,000pa)
- Affordability better than early 1990's (high base and mortgage rates) and stronger economy (continued GDP growth and low unemployment) with likely reductions in base rates in 2008
- Grainger has a robust portfolio even in more challenging markets

# Portfolio Overview - Grainger plc – Organisation



- Distinct divisions using common services
- True operating company
- Enables value to be added
- Ability to move into new markets using core expertise

# Portfolio Overview - Portfolio Analysis

## – Wholly Owned



	<u>No of units</u>	<u>Gross Market Value £m</u>	<u>Vacant Possession Value £m</u>	<u>Reversionary Surplus £m</u>	<u>VP%</u>
Regulated	7,655	1,221	1,571	350	78%
Home reversion	5,952	542	779	237	69%
Assured	555	104	116	12	90%
Vacant	277	50	55	5	90%
Other	50	42	49	7	85%
<hr/>					
UK - residential	14,489	1,959	2,570	611	
UK - development	-	110	110	-	
<hr/>					
<b>Total UK</b>	<b>14,489</b>	<b>2,069</b>	<b>2,680</b>	<b>611</b>	
<hr/>					
German portfolio	4,520	242			
<hr/>					
Europe - development	-	11			
<hr/>					
<b>Total</b>	<b>19,009</b>	<b>2,322</b>			

- Reversionary surplus on Grainger wholly owned portfolio £611m

# Portfolio Overview - Portfolio Analysis

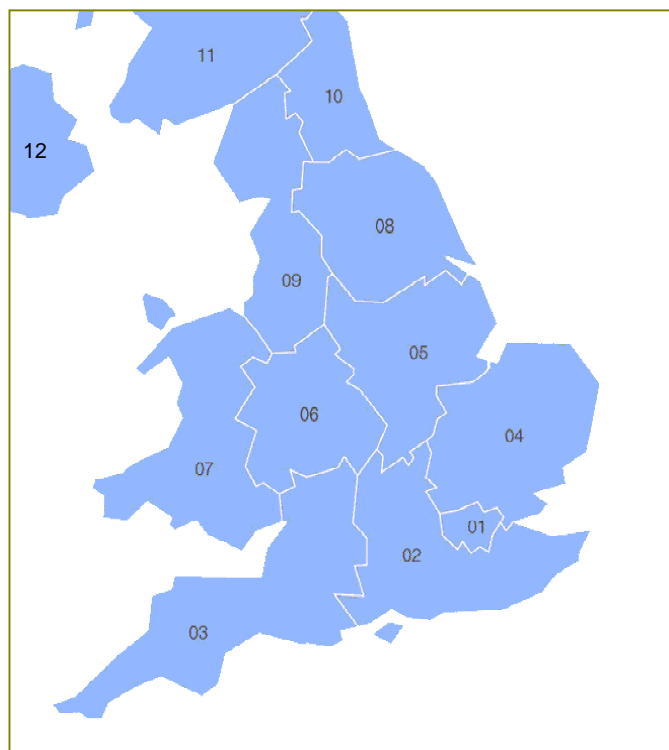
## – JV's and associates



	<u>No of units</u>	<u>Gross Market Value £m</u>	<u>Gross Vacant Possession Value £m</u>	<u>Grainger Share %</u>	<u>Grainger Equity £m</u>	<u>Grainger Share of Reversionary Surplus £m</u>
G:res1	2,155	435	470	21.6	47	8
Schroders	711	88	96	22.4	20	2
GenInvest	1,640	353	409	50.0	40	28
<b>Total</b>	<b>4,506</b>	<b>876</b>	<b>975</b>		<b>107</b>	<b>38</b>
UK - development	-	36				
Europe - development	-	-				
	<b>4,506</b>	<b>912</b>				

- Grainger's share of reversionary surplus £38m

# Portfolio Overview - UK Portfolio Location



		Number of units	Investment Value £m	%	Vacant Possession Value £m	%	Value growth in year
01	Central London	621	220	11.2%	280	10.9%	21.0%
01	Inner London	1,178	295	15.0%	368	14.3%	18.0%
01	Outer London	1,341	224	11.4%	293	11.4%	11.0%
02	South East	2,529	334	17.0%	444	17.3%	9.0%
03	South West	1,478	160	8.2%	214	8.3%	6.0%
04	East	1,518	165	8.4%	220	8.5%	6.0%
05	East Midlands	955	94	4.9%	125	4.9%	5.0%
06	West Midlands	1,198	133	6.8%	176	6.9%	4.0%
07	Wales	181	17	0.9%	25	1.0%	6.0%
08	Yorkshire	957	84	4.3%	114	4.4%	6.0%
09	North West	1,825	164	8.4%	221	8.6%	6.0%
10	North East	452	47	2.4%	61	2.4%	2.0%
11	Scotland	238	20	1.0%	26	1.0%	17.0%
12	Northern Ireland	18	2	0.1%	3	0.1%	101.0%
		14,489	1,959	100%	2,570	100%	9.8%

- 55% (by value) of our properties in London and South East – forecast future high growth areas
- (N.B: analysis excludes ground rents, garages and other property or our share of joint venture assets)

## Portfolio Overview - Core portfolio

### - Characteristics - Gross asset value £1,417m



- Model does not rely on high price inflation – net rental income and reversionary surplus
- Primarily (90% by value) regulated properties or vacant ex regulated's
- Diverse portfolio assembled over a number of years; actively managed with high latent value
- High levels of demand with average value £205K (Halifax average £198K)
- Liquid portfolio - always a market clearing price for a house
- High margins on sale give price flexibility – only selling 8-9% of portfolio per annum
- Geographic spread mitigates against cluster risk, but 55% by value in London and South East
- Unique irreplaceable long term cashflows generated by this portfolio

## Portfolio Overview - Home Reversions - Characteristics - Gross Asset Value £542m



- Grainger is market leader with 40% of market (September 2007 figures from SHIP) through our various marketing initiatives
- FSA regulation achieved in April 2007
- Core skills in distribution and product innovation
- Major acquisitions in year CHARM and CAT extend product offering
- CAT. Sheltered housing for rent or sale or lifetime lease
- Strong market position and Grainger infrastructure in management and development allow us to investigate other potential sectors of retirement market

## Portfolio Overview - Fund Management and JV's/associates - Gross Asset Value £183m



- G:res1 closed in year : £389m raised in equity and debt. Grainger retained equity £47m (21.63%)
- Property and asset advisor to Schrodgers ResPUT: Grainger equity £20m (22.4%)
- Grainger GenInvest: 50/50 JV with Genesis, Grainger equity £40m
- Property and asset management activities produce £7m of fee income on annualised basis
- Growing appetite for institutional investment in residential and related asset classes with established operating company

# Portfolio Overview - Property and Asset Management Services



- Provides unique perspective of owner/manager
- Combines long term asset management, day to day property management and specialist sales and acquisitions teams on nationwide basis
- Provides services to JV's/associates as well as owned portfolio (total 23,832 units of which 4,520 in Germany)
- Operates from seven UK offices with over 100 dedicated property management staff
- At forefront of professionalism of residential property management with consistent standards in terms of quality of service and tenant care – investing for the future
- Internal and external charging structures introduced in the year
- Clear market leader with scaleable and marketable model

# Portfolio Overview - Development



- Balance sheet value at year end £110m (cost £98m)
- Expected end development value:
  - with planning consent £324m
  - without planning consent £485m  
£809m
- Resolution to grant planning for 100,000 sq.metres commercial space, 1,550 new homes at West Waterlooville
- Collaboration agreement with Development Securities and first acquisition made during the year (10 acre Curzon Park site in Birmingham with end value in excess of £350m)
- Focus on larger long term residential led mixed use schemes, often with partners and intention for build to let if circumstances are favourable
- Considerable investment in human capital

# Portfolio Overview - Development



## Current Developments



### Waterlooville

**Units** 1,550  
**Timescale** Infrastructure Start 2008



### Hornsey

**Units** 150 (private)  
**Timescale** Completion Aug-Nov 08

# Portfolio Overview - Development

## – Status of Major Projects



Project	Description	Status	Gross Development Value of schemes	
			With planning Permission £m	Without planning permission £m
Hornsey Road Islington	212 residential units, community buildings	Under construction	44	
West Waterlooville	100,000 sq. m commercial and 1,000 reserve	1,550 new homes	Section 106 being negotiated	
			135	
Macaulay Road, Clapham	97 residential units, 30,000 sq. ft. retail	Consent granted and demolition commenced	56	
Barnsbury Complex Islington	141 residential units	Detailed planning consent obtained	49	
Wards Corner	198 residential	Conditional development agreement signed		76
Gateshead College	263 residential units	Detailed planning application pending		72
Newbury	330 residential units, 50,000 sq.ft retail	Preferred developer status, conditional development agreement early 2008		82
Curzon Park	Mixed use joint venture with Development Securities including 400,000 sq. ft. residential; 800,000 sq.ft; office, 20,000 sq.ft. retail; 118 bed hotel	Outline application submitted		196
Others			40	59
			<u>324</u>	<u>485</u>

# Portfolio Overview - Strategy for Germany



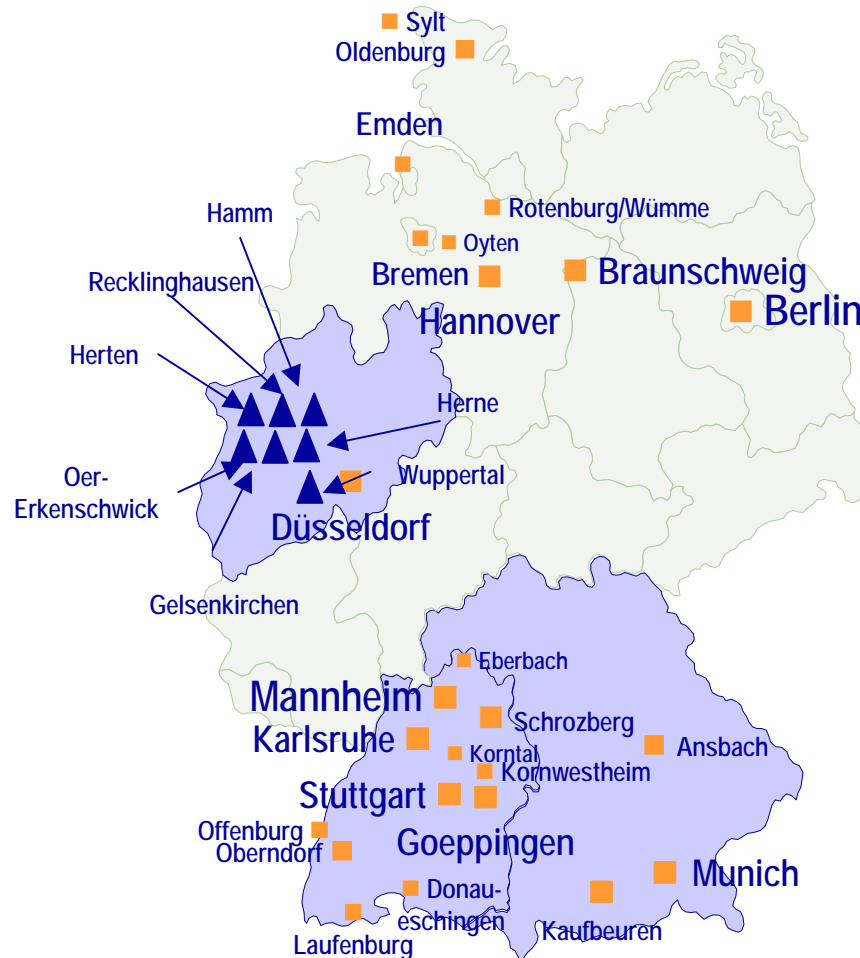
## Grainger Model

- Areas of population growth
- Smaller lot sizes – build portfolio on property characteristics
- Platform set up and pipeline established €10-20m a month
- Potential for capital growth after long term stagnation
- Attracting third party equity to apply co-investing fund management model
- Grainger's reputation as a professional landlord differentiates us from financial purchasers

# Portfolio Overview - Germany



## Portfolio overview



## Portfolio Overview

- 4,520 residential units
- 164 commercial units
- 1 nursing home in Northern Germany
- 321,300 sq. metres in total
- €346m book value
- €14.5m gross rent
- €21.5m gross running rent
- Valuation uplift of 4.0%
- Between 5 - 10% under market rent

# Update on Strategy and Outlook - Strategy



- Deliver superior risk-adjusted returns
- Maximise efficiency of capital structure through introduction of third party equity and debt
- Strong operational platform and access to deals in order to diversify income streams
- Unique brand as long term holder, asset manager, manager, trader and developer of residential property
- Leverage operational platform, balance sheet and reputation to become the UK's leading integrated residential co-investor, developer, operating company and fund manager
- Build development team to support existing programme and to build to let – once economically viable

# Update on Strategy and Outlook - Outlook



Confident in future based on:

- Highly experienced management team through cycles
- Long term HPI expectations – although cautious in the immediate term
- Unique portfolio and diversification of income streams
- Market leading infrastructure
- Strong stakeholder and market reputation
- Ability to work with co-investors and partners
- Political and economic imperative: establishment of long term, large scale professionally managed residential investment sector
- Growing acceptance by UK and overseas investors of residential as an investment class

# Key Conclusions



- Core portfolio has strong defensive characteristics
- Grainger is not dependent on UK house price growth; substantial in-built reversion
- Increasingly diversified business model
- Strong liquidity and debt position = financial firepower
- Market leadership and structure offers great opportunities

# Appendices - Detailed Profit and Loss Account



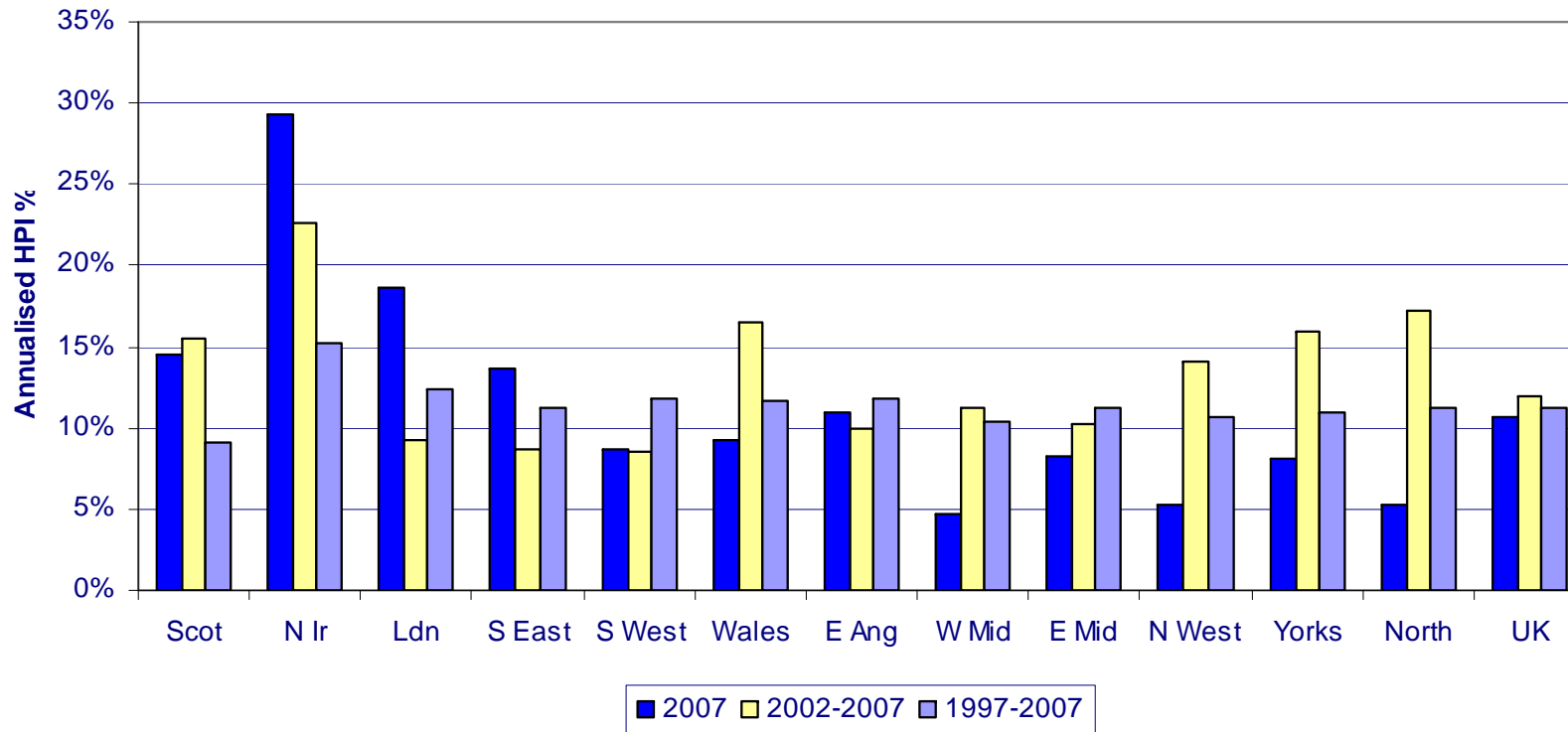
	2007				Restated 2006			
	UK Residential £m	UK Development £m	Europe £m	Total £m	UK Residential £m	UK Development £m	Europe £m	Total £m
Gross rents/other income	47.1	1.9	9.9	58.9	48.8	1.5	4.5	54.8
Property expenses	(13.2)	(0.5)	(2.2)	(15.9)	(11.1)	(1.0)	(0.7)	(12.8)
	33.9	1.4	7.7	43.0	37.7	0.5	3.8	42.0
Trading profits	70.6	2.7	-	73.3	59.6	6.3	-	65.9
Profits on sale of fixed assets	1.7	0.4	0.4	2.5	1.6	3.8	0.2	5.6
Profits on sale of G:res1	2.0	-	-	2.0	-	-	-	-
Interest income from financial assets	1.8	-	-	1.8	-	-	-	-
	76.1	3.1	0.4	79.6	61.2	10.1	0.2	71.5
Direct overheads	(17.3)	(3.8)	(3.0)	(24.1)	(15.7)	(3.9)	(2.0)	(21.6)
Operating contributions	92.7	0.7	5.1	98.5	83.2	6.7	2.0	91.9
Administrative expenses				(9.5)				(10.4)
				89.0				81.5
Joint ventures/associates	36.1	3.3	1.2	40.6				0.4
Net interest payable				(65.0)				(57.1)
				64.6				24.8
Goodwill written off				-				(6.4)
Derivative/fair value movements				3.0				10.8
Revaluation movements	0.9	-	9.0	9.9				18.5
Profit before tax				77.5				47.7

## Appendices - Detailed UK Residential Income Account



	<u>£m</u>					
	<u>Core</u>	<u>Home Reversion</u>	<u>Fund Management/ Residential Investments</u>	<u>Consolidation adjustments</u>	<u>Total</u>	
Gross rents/other income	38.1	2.4	6.9	(0.3)	47.1	
Property expenses	(11.8)	(1.2)	(0.2)	-	(13.2)	
	26.3	1.2	6.7	(0.3)	33.9	
Trading Profits	63.2	7.4	-	-	70.6	
Profit on sale of fixed assets	1.6	-	0.1	-	1.7	
Profit on sale of G:res 1	-	-	2.0	-	2.0	
Interest income from financial assets	-	1.8	-	-	1.8	
	64.8	9.2	2.1	-	76.1	
	91.1	10.4	8.8	(0.3)	110.0	
Divisional overheads	(10.1)	(2.6)	(4.9)	0.3	(17.3)	
Operating contribution	81.0	7.8	3.9	-	92.7	

# Appendices - Regional Performance



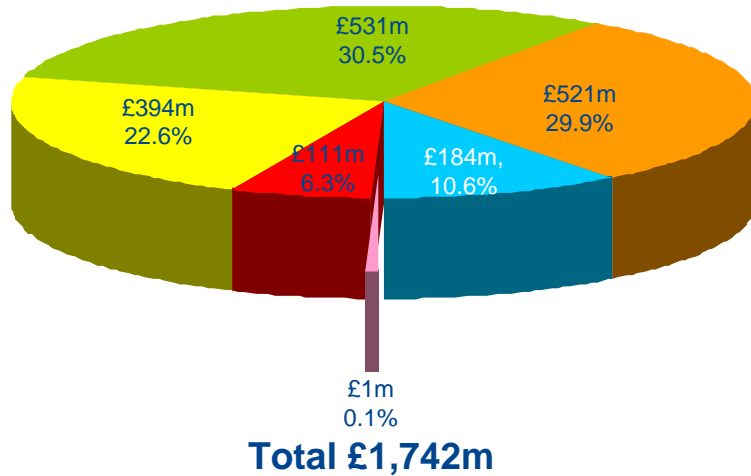
- Relatively consistent long term growth shows advantage of geographically spread portfolio

Source: Halifax

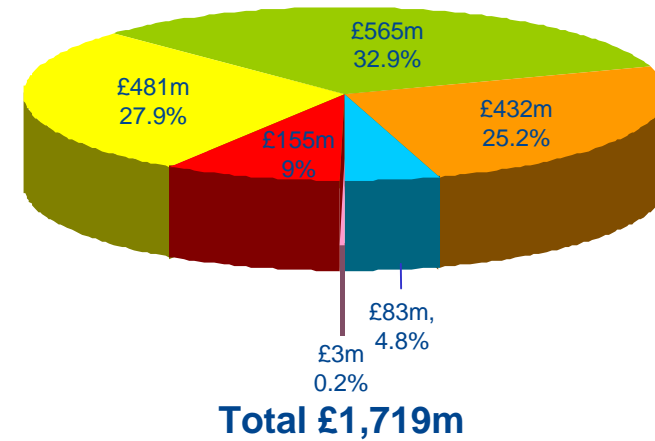
# Appendices - Portfolio Affordability



30 September 2007



30 September 2006



By vacant possession value

\*Regulated, assured and vacants only



- UK average price Q3 £198,300 (per Halifax)
- Grainger average price £205,000
- 60% by value of our properties below £250,000

## Appendices - Analysis of JV's/associate Income



<u>£m</u>	<u>2007 Designation</u>	<u>Net rents</u>	<u>Trading profit</u>	<u>Fixed asset profit</u>	<u>Revaluation uplift</u>	<u>Interest</u>	<u>Other Cost</u>	<u>Profit</u>	<u>Grainger Share £m</u>
G:res1	Associate	13.6	-	1.6	19.2	(8.9)	(8.4)	17.1	4.8
Schroders	Associate	3.2	-	3.4	1.7	(0.2)	(1.6)	6.5	1.7
Grainger GenInvest portfolios	JV	5.9	-	2.6	69.8	(19.1)	-	59.2	29.6
UK residential total		22.7	-	7.6	81.1	(28.2)	(10.0)	73.2	36.1
UK development	JV	-	15.4	-	-	(0.4)	-	15.0	3.3
Europe development	Associate	-	3.2	-	-	(0.4)	(0.1)	2.7	1.2
Total		22.7	18.6	7.6	81.1	(29.0)	(10.1)	90.9	40.6

## Appendices - Prior Period Adjustments



- Reclassification of certain assets from stock to investment properties and vice versa, involving 4% of asset base
- No impact on market value NAV measures
- Main impact has been to take revaluation gain of £23.5m from 2006 income statement, net of tax of £7.0m and to take through retained earnings at 1 October 2005

# Appendices - Glossary of Terms



<b>Property</b>	
Assured periodic tenancy ("APT")	Market rented tenancy arising from succession from regulated. Tenant has security of tenure.
Assured shorthold tenancy ("AST")	Market rented tenancy where landlord may obtain possession if appropriate notice served.
Assured tenancy ("AT")	Market rented tenancy where tenant has right to renew.
Investment value ("IV")	Open market value of a property subject to relevant tenancy in place.
Home reversion	Rent free tenancy where tenant has right of occupation until possession is forfeited (usually on death). If tenant retains an equity interest in the property this is a partial life tenancy.
PRS	Private Rented Sector
Regulated tenancy	Tenancy regulated under 1977 Rent Act, rent (usually sub market) set by rent officer and tenant has security of tenure.
Tenanted residential ("TR")	Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.
Vacant possession value ("VP")	Open market value of a property free from any tenancy.
<b>Financial</b>	
Cap	Financial instrument which, in return for a fee, guarantees an upper limit for the interest rate on a loan.
Contingent tax	The amount of tax that would be payable should assets be sold at the market value shown in the accounts.
Dividend cover	Earnings per share divided by dividends per share.
Earnings per share ("EPS")	Profit after tax attributable to shareholders divided by the weighted average number of shares in issue in the year.

## Appendices - Glossary of Terms



<b>Financial (continued)</b>	
Gearing	The ratio of borrowings, net of cash, to market net asset value.
Hedging	The use of financial instruments to protect against interest rate movements.
IFRS	International Financial Reporting Standards
Interest cover	Profit on ordinary activities before interest and tax divided by net interest payable
Goodwill	On acquisition of a company, the difference between the fair value of net assets acquired and the purchase price paid.
Net asset value (“NAV”)	Shareholders’ funds adjusted for the market value of property assets held as stock.
Net net asset value (triple net or “NNNAV”)	NAV adjusted for contingent tax liabilities which would accrue if assets sold at market value and for the market value of long term debt and derivatives
Grainger NAV	NNNAV adjusted for the taxed discounted reversionary surplus on core UK residential portfolios
Return on capital employed	Growth in NNNAV plus dividends paid per share as a percentage of opening NNNAV
Return on shareholders equity	Profit before financing costs plus all revaluation surpluses as percentage of opening gross capital
Swap	Financial instrument to protect against interest rate movements.
Total shareholder return (“TSR”)	Return attributable to shareholders on basis of share price growth with dividends reinvested.
Weighted average cost of capital (“WACC”)	The weighted average cost of funding the Group’s activities through a combination of shareholders’ funds and debt.