

**7 June 2007**

**Grainger plc (“Grainger”/”Group”)**

**Results for the six months ended 31 March 2007**

**Grainger reports strong progress**

Grainger plc, the UK’s largest quoted residential property owner, announces its results for the six months ended 31 March 2007.

- Market value of property and property related assets up 10% to £2.2 billion (30 September 2006: £2.0 billion)
- Profit before tax £12.1m (30 September 2006: £36.9m); decline due to distortion of valuation gains as a result of disposal of assets to G:res 1 in the six months to 31 March 2006 and the volatile nature of development profits
- Dividend up 10% to 2.06p per share in the light of the Board’s ongoing confidence in the Company’s prospects
- £411m invested in the period growing all key business divisions
- Major progress across the business:
  - Capital Appreciation Trust (£72m) and CHARM portfolio (£134m) acquired for the equity release division
  - G:res1 market rented fund successfully launched; it now owns £420m of property assets and has 7 UK and overseas investors
  - Significant joint venture agreed with Development Securities for major mixed-use scheme at Curzon Park, Birmingham
  - Growing portfolio and pipeline in Germany with dedicated team now based in Mannheim.

Robin Broadhurst, Chairman of Grainger plc, said:

“In my first interim statement as Grainger’s Chairman I am pleased to be able to report on a period of significant progress across all of our business divisions. This progress demonstrates the ability of our management to identify and act on opportunities to further strengthen our portfolio and our position as the UK’s largest listed residential property owner.

“Whilst our strategy is founded on a geared long term exposure to the housing market we are seeking to diversify our income stream and to improve our returns on capital by leveraging our residential property expertise.

“We are confident that we will be able to continue to deliver attractive returns to shareholders and enhance these by our diversification into a broadly based business with expertise and involvement across the whole range of the residential market.”

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## **Chairman's Statement**

In my first interim statement as Grainger's Chairman, I am pleased to report considerable progress in the Group's business model and ongoing investment both in assets and our people.

In total we have invested some £411m on property or related property assets in the period and we have strengthened our position as the UK's leading listed residential company with broad exposure through direct ownership, joint ventures and co-invested funds.

The progress has been substantial across all areas of our business

- Trading in our core regulated portfolio has produced strong results with average sales values some 7% higher than our September valuation.
- Our residential fund, G: res1, was successfully launched in November and it now owns some £420m of property assets. The fund has now raised or received commitments totalling £111m from leading UK and overseas institutional investors.
- Two major acquisitions of retirement solutions portfolios (Capital Appreciation Trust ("CAT") and the CHARM portfolio) have almost doubled the asset base in the Equity Release and Retirement Solutions division to £467m.
- Grainger Developments has entered into their first joint venture scheme with Development Securities and the end value of its development pipeline now stands at £865m;
- We have also furthered our drive into Europe with the opening of a management office in Mannheim, Germany to help accelerate the growth of our operations there. As at 31 March 2007 we had invested some £151m (€222m) into this market.

Grainger now owns £2.2 billion of property assets (30 September 2006: £2.0 billion) and the reversionary surplus (the difference between the disclosed market value of those assets and what we will sell them at, at today's prices) is £632m (30 September 2006: £566m). We now have a financial interest (through direct ownership and joint venture or management arrangements) in approximately 22,000 properties.

## **The Market**

UK residential property has continued to show good levels of return for investors – the IPD residential index indicates that total returns for 2006 amounted to 16.8%. The Halifax House Price Index showed year on year annual growth of 11.1% to the end of March and although some weakening in the volume of mortgage lending of late suggests that the market may be cooling as a result of recent interest rate rises, certain areas of the UK illustrate the on-going imbalance between supply and demand. In particular, Greater London, where we have 34% of our UK portfolio, has shown growth of 14.9% in the year to end March 2007. In Germany the IPD index for 2006 indicated that residential was the best performing real estate sector with total annual returns of 6.5%.

Although we do not revalue our portfolio at the half year because of the number of properties involved, the values we have achieved on selling on vacancy gives us confidence in the strength of the market. We are also delighted that the investment of UK and overseas institutions in G:res1 indicates the growing interest in, and appetite for, access to professionally managed residential property.

## Results

The results to 31 March 2006 were distorted by valuation gains of £24m on the establishment of G: res1 and as a result earnings before interest and tax (“EBIT”) have fallen from £65.2m to £38.7m. On a like for like basis, adjusting for these gains and for IFRS adjustments relating to goodwill write-offs and marking to market our financial instruments, EBIT has fallen by approximately 9% from £42.1m to £38.3m. This decrease is due primarily to the foreseen lower contribution from our development activities, reflecting the natural volatility of the profit stream in any development business.

For the same reason profit before tax has similarly moved from £36.9m to £12.1m. Again on a like for like basis, the movement is considerably smaller, from £13.8m to £11.7m with increased borrowing and overhead costs incurred in funding and supporting our significant investment programme being the major factors in the decrease.

## Net Assets

Assessments of our net asset value are a key indicator of our performance. As explained further in the operational review we disclose the following measures of net asset value:

Gross net asset value (before any adjustments for deferred and contingent tax or marking financial instruments to market): **659p** (30 September 2006: 677p).

Triple net asset value (“NNNAV”) (after full deduction for deferred and contingent tax and marking to market): **479p** (30 September 2006: 487p).

Grainger NAV (which adjusts the NNNAV to take into account the present value of the taxed reversionary surplus on our long term UK residential portfolios): **597p** (30 September 2006: 595p).

## Dividends

In light of our confidence in the Group’s prospects, we have increased our interim dividend by 10% to 2.06p per share (2006: 1.87p). This will be paid on 16 July 2007 to shareholders on the register at the close of business on 15 June 2007.

## People

I would like to take this opportunity to thank all of the Grainger staff for their support during my first few months as Chairman. I have very much enjoyed getting closer to the business and the knowledge, skills and commitment of our staff have proved invaluable.

## Prospects and Strategy

Whilst we have again enjoyed a relatively strong period of house price growth it seems inevitable that recent interest rate rises will serve to soften the market although this may be more drawn out than in the past because of the greater use of fixed rate mortgages. However, several factors underpin long term house price growth, in particular the shortage of supply in comparison to demand due to planning constraints, low new build volumes and higher household numbers. It is worth noting that 70% of Grainger’s regulated portfolio has a vacant possession value below £250,000 – and it is properties in this price range that tend to have a high demand from those increasing numbers of households.

The large and geographically diverse nature of our portfolio together with its steady yield profile and large reversionary surplus provides us with a long term resilience rare amongst most property companies.

The Grainger business is founded on long term exposure to the residential housing market. Historically we have enhanced returns from this business by exploiting advantageous levels of

financial gearing. We are now seeking to improve returns on capital and build the diversification of the business further by leveraging our property management infrastructure and the expertise of our people. We commenced this process by the launch and subsequent expansion of G: res1 and will continue to examine whether the efficient use of third party capital can be introduced to other parts of the business, in particular Grainger Europe.

We are confident that our evolving business model will continue to deliver attractive returns to shareholders; and that these returns will be further enhanced by our diversification into a broadly based business with expertise and involvement across the whole range of the residential market.

Robin Broadhurst  
Chairman, 7 June 2007

# Operating and Financial Review

## Analysis of Grainger portfolio

	<u>No of units</u>	<u>Market value £m</u>	<u>Vacant possession value £m</u>	<u>Reversionary surplus value £m</u>
Regulated	7,698	1,093	1,407	314
Equity release	5,519	467	715	248
Assured	320	46	52	6
*Share of joint ventures/associates	-	451	500	49
Vacant	246	41	45	4
Other	50	45	56	11
	<hr/>	<hr/>	<hr/>	<hr/>
UK residential	13,833	2,143	2,775	632
UK development (incl. JV)	-	113	113	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total UK portfolio	13,833	2,256	2,888	632
	<hr/>	<hr/>	<hr/>	<hr/>
German portfolio	3,398	151		
European development	-	11		
	<hr/>	<hr/>		
Total Europe portfolio	3,398	162		
	<hr/>	<hr/>		
Total Group portfolio	17,231	2,418		
	<hr/>	<hr/>		

\* Note: Share of joint venture and associates represents our share of the market value of the properties held in those entities. The investment value of our equity stakes in these businesses amounts to £227m. In addition we manage a further 347 properties for third parties, but without an ownership interest.

## Analysis of UK residential sales

	<u>No</u>	<u>Sales proceeds</u>	<u>£m</u> <u>Trading profit/ profit on disposal of fixed assets</u>
Regulated (including APT)	267	43	24
Assured	34	8	2
Vacant	36	8	3
Equity release	51	8	4
Other	-	1	-
	<hr/>	<hr/>	<hr/>
	388	68	33
	<hr/>	<hr/>	<hr/>

## Analysis of UK residential acquisitions

	<u>No</u>	<u>Cost</u>	<u>£m</u> <u>Vacant possession value</u>
Regulated (including APT)	225	29	39
Assured	79	9	11
Vacant	17	2	2
Equity release	2,532	226	294
Other	-	1	1
	<hr/>	<hr/>	<hr/>
	2,853	267	347
	<hr/>	<hr/>	<hr/>

## Core portfolio

The majority of our core portfolio comprises residential properties let on regulated tenancies. As at 31 March 2007 these properties accounted for 49% of total group property and related assets by value and comprised 7,698 units at a market value of £1,093m (based on 30 September 2006 values) (30 September 2006 7,715 units at £1,090m). The vacant possession value of the regulated portfolio (i.e the price which we aim to achieve on sale when vacancy arises, shown at today's prices) amounts to £1,407m (30 September 2006: £1,403m). We also have interests in joint ventures which own significant values of regulated tenancies and, when we include our share of these joint ventures the total vacant possession value in which we have an interest amounts to £1,477m (30 September 2006: £1,474m).

In addition to the regulated assets we also own a further 616 units comprising vacant properties, assured tenancies, short term lets and other interests with a market value of £132m (30 September 2006: £141m) and a vacant possession value of £153m (30 September 2006: £160m).

### Trading summary – core portfolio

	6 months to 31 March 2007 £m		6 months to 31 March 2006 £m	
	<u>Value</u>	<u>Profit</u>	<u>Value</u>	<u>Profit</u>
Sales on vacancy	53	26	45	20
Investment sales	7	3	17	8
	<u>60</u>	<u>29</u>	<u>62</u>	<u>28</u>
Net rental income and other income		16		15
Divisional overhead costs		(8)		(6)
		<u>37</u>		<u>37</u>

Total sales from the core portfolio amounted to £59.9m (2006: £61.8m), the slight decline arising from the fact that we have made fewer investment sales this year. In the six months to 31 March 2006, we sold 157 properties as investment sales which produced a profit of £8m; this year we sold 47 such properties for a profit of £3m. Investment sales are sales of properties with tenants in place and are generally made as a result of active portfolio management where we feel that the returns would not be significantly enhanced by waiting for vacancy in the usual way.

Investment sales have been relatively high over the last few years as we have carefully worked through assets acquired in major portfolios. As we are nearing the end of that process we would expect to see a continued reduction in the level of those sales going forward.

Acquisitions in the period totalled £40m (31 March 2006: £31m) and included the Portland portfolio which consisted of 110 regulated properties at a cost of £15m and 25 other properties at a cost of £3m.

Overall trading performance in this division has been good; the vacancy rate on our regulated portfolio is only circa 9% and although total sales volumes (excluding investment sales) have fallen from 296 units in the first half of last year to 290 units this year, increased margins (up from 44.0% to 48.7%) and higher average prices achieved (2007: £183,000 compared to 2006: £168,000 on properties sold on vacancy) have resulted in trading profits increasing from £27.7m to £29.3m despite the reduction in investment sales referred to above.

Net rental income and other income, net of divisional overhead costs amounted to £8m (2006: £9m).

## Equity Release

We have stated previously that our strategy to grow this division is through three principal routes: our own Bridgewater brand, the distribution arrangement with Norwich Union and by opportunistic portfolio acquisition. Whilst all three have proved successful, in this six month period it is this latter route which has been most plentiful with the acquisitions of the CHARM portfolio for £134.5m and The Capital Appreciation Trust ("CAT") for £71.6m.

The CHARM portfolio represents a financial interest in a portfolio of some 1,300 mortgages granted to retired clergy by the Church of England Pensions Board. Grainger receives annual RPI-linked interest payments (currently representing a yield of approximately 2.3%) and a further payment when the property is sold and the equity mortgage redeemed. These payments are a proportion of the value of the property on sale. Although we have only owned the portfolio for four months early indications are that realisation rates and sales values achieved are in line with our original expectations.

The second major acquisition, CAT, provided us with a portfolio of some 912 retirement properties, the majority of which are in McCarthy and Stone developments. On vacancy we have the opportunity either to sell a further lifetime lease, to let the property on an assured shorthold tenancy or to sell the property. This acquisition has therefore enabled us to expand our activities into the retirement home sector recognising that a wider offering will undoubtedly increase the market to which we appeal. Once again we have had ownership for only a few months but the signs for the rental side in particular are favourable.

Acquisitions through other routes have also progressed well and we have invested a total of £22.4m in the division with a majority through Bridgewater and Norwich Union and the balance through the various distribution arrangements we have worked hard to create throughout the period.

As at 31 March 2007 we owned 5,519 residential units in this division with an investment value of £467m and a vacant possession value of £715m (30 September 2006: 3,003 units with investment value of £241m, and a vacant possession value of £421m).

Our average vacancy rate is running at about 4.5% and we have sold 51 units for £7.5m to give a trading profit of £3.4m (2006: 62 units for £6.5m, with profit of £3.2m). After adding other income, including interest receipts, and deducting overheads this division has made an overall contribution to profits of £3m (2006: £2m).

## Fund Management

In November 2006 we launched G: res1, our market rented residential fund, with gross assets of £210m and debt of £125m. Since that date the fund, advised by Grainger, has acquired the Ability Portfolio, a 700 unit market let portfolio for £213m and raised an additional £105m of debt. In the half year we sold equity stakes totalling £66m leaving Grainger with a holding of 67% at the end of March. We have completed a second closing on 6 June totalling £45m which reduces Grainger's equity stake to 44%. This additional equity came from a combination of our existing investors and UK and Overseas institutions. We are in advanced negotiations with other similar investors which potentially will reduce our stake further.

At 31 March 2007 the fund owned a total of 2,150 residential units in 56 blocks and the portfolio had an investment value of £420m with a potential annualised rental income of £21.2m. The fund will be revalued at the end of June.

In the four and a half month period since external equity acquired stakes in the fund Grainger has received £1.1m in asset and property management fees. Management activities for other third parties (for example Schrodgers ResPUT) produced additional fee income of £0.9m in that period.

We anticipate that annualised fee income from all of our current management activities will be in the region of £6m.

It is our intention to grow assets under management in this fund and to continue to seek additional third party investment.

## **Grainger Developments**

At 31 March 2007 the market value of the assets in this division stood at £96.2m (cost: £89.2m) and the development pipeline had a gross end value of £865m, of which £173m has planning permission.

Work on our major site at Hornsey Road Baths, Islington continues and gradual progress is being made on the planning front at our other projects. In particular, we have submitted an outline planning application for 1,550 residential units, 12 hectares of employment use and 14 hectares of mixed-use at our site at West Waterlooville. We are aiming to obtain a planning consent later this year.

As announced in November 2006 we entered into a 50:50 joint venture agreement to develop the 10 acre Curzon Park site in Birmingham with Development Securities plc. With an end value of £350m to £400m and a significant residential element, this is the type of large scale mixed-use scheme, often in conjunction with partners, on which we will be seeking to focus in the future.

Gross contribution from this division including share of profit from joint ventures, has amounted to £2.5m (2006: £6.0m). This also included profits on sales of fixed assets of £0.2m. A major contributor was our £3.7m share of the profit realised on the sale of assets in Regen, a joint venture of Grainger, with a development site in North Shields.

## **Grainger Europe**

We have continued to invest in our German residential portfolio and by 31 March 2007 this had grown to 3,398 units with an investment value of £151m (€222m). Acquisitions in the period totalled some £34m and the portfolio now represents c. 7% of total group assets by value. Since 31 March 2007 we have completed on further properties worth £14m and notarised on further properties worth £25m.

The portfolio is principally funded by non-recourse euro loans of €170.2m, representing a loan to value ratio of approximately 77%.

We are constantly reviewing our options for this portfolio, one of which would be to increase it to a size were we can replicate the G: res1 fund structure by selling equity stakes to third parties. We will continue to consider options as our new management in Mannheim increases the size of the portfolio and the pipeline.

We have two further smaller European assets, one a subsidiary and the other an interest in a joint venture, and we will continue to consider new opportunities in these entities as they arise.

The net yield on the portfolio is 5.1% and after property and operating expenses, it contributed £2.3m to group profits (2006: £0.5m). Although income from sales is not yet a significant element of the returns from this division, where we have been selling units generally we have been realising sales prices significantly above our acquisition cost.

## Financial Review

### Net assets

Our gross net asset value per share (“NAV”) stood at 659p per share at 31 March compared to 677p at 30 September 2006 and the major movements since that date are as follows:-

	<u>Reflected in the</u> <u>accounts £m</u>	<u>Not reflected in the</u> <u>accounts £m</u>	<u>Total £m</u>	<u>p per share</u>
Net assets at 1 October 2006	250	629	879	677
Profit after tax	9	-	9	7
Revaluation movements	-	(24)	(24)	(18)
Mark to market adjustments	9	(9)	-	-
Purchase of own shares	(3)	-	(3)	(3)
Dividends paid	(5)	-	(5)	(4)
Sundry other	1	(1)	-	-
Net assets at 31 March 2007	<u>261</u>	<u>595</u>	<u>856</u>	<u>659</u>

Triple net asset value (“NNNAV”) after deducting contingent tax of 185p per share and adding mark to market adjustments for fixed rate debt of 5p (30 September 2006: deductions of 187p and 3p respectively) stood at 479p per share (2006: 487p). Contingent tax has been calculated at a rate of 30% but, at the year-end, the rate will fall to 28% provided the 2007 Finance Act (which is expected to reduce the rate of corporation tax) is given Royal Assent in the summer. This rate adjustment will increase NNNAV by 12p per share.

As in previous years we present the Grainger NAV which brings in the taxed, discounted reversionary surplus on our core regulated and retirement solutions portfolios. We show below the Grainger NAV under various assumptions:-

House price inflation per annum	No discount of deferred tax Discount rate		Discount deferred tax Discount rate	
	<u>WACC + 3%</u>	<u>WACC</u>	<u>WACC + 3%</u>	<u>WACC</u>
0%	597p	641p	709p	727p
4%	664p	733p	776p	819p
6%	708p	795p	821p	881p

WACC at 31 March 2007: 5.75%.

A financial model which calculates other permutations and a detailed explanation of Grainger NAV can be found on our website [www.graingerplc.co.uk](http://www.graingerplc.co.uk).

### Financial Performance

Operating profit before movements in fair value has increased from £36.0m to £38.3m, major movements being:-

	<u>£m</u>
31 March 2006 result	36.0
Contribution from German residential business (net rents, trading profits, sale of fixed assets)	1.9
Contribution from development business	(7.2)
Administrative expenses	1.6
Goodwill impairment loss	6.1
Other	(0.1)
31 March 2007 result	<u>38.3</u>

Basic earnings per share have decreased from 20.0p to 6.7p, largely as a result of last year's one-off revaluation surplus on the transfer of properties to G:res1. The main movements have been:-

	<u>Pence per share</u>	<u>Gross £m</u>
31 March 2006 EPS	20.0	25.8
Increase in operating profit before fair value movements	1.8	2.3
Fair value and valuation movements	(22.4)	(28.8)
Net interest payable	(1.0)	(1.3)
JV's and associates	2.3	3.0
Taxation	6.0	7.7
	<hr/>	<hr/>
31 March 2007 EPS	6.7	8.7
	<hr/>	<hr/>

## Financing

Our net interest cost was £28.9m, compared to £27.6m in 2006 reflecting higher debt levels and increased costs of borrowing – base rates have, on average, been 50 bps higher in the first six months of this year compared with 2006. At 31 March 2007 our all in cost of debt was 6.0% (30 September 2006: 5.8%) and our net borrowings were £1,269m (30 September 2006: £1,051m). Our net debt was 69% hedged or fixed including a £100m 15 year swap at 4.98% taken out in January 2007. We have hedges of approximately £840m in place until March 2009.

During the first six months of the year we have continued to invest significantly to a total of £411m including £134m on CHARM, £72m on CAT and net additional investment in G: res1 (after equity sales) of £45m.

This has been funded by a combination of operating cashflow, further drawings on our core facility and a draw down of €147m from the €179m facility established for our German acquisitions.

We believe that having sizeable headroom available gives us a substantial competitive advantage and ability to be able to bid for and complete on significant transactions with funding certainty already in place. At 31 March 2007 we had headroom available of £172m on our core facility and €32m on our European facility and since the period end we have supplemented this with the very successful launch of a seven year convertible bond. This is unsecured, has a coupon of 3.625%, a post tax cash cost of approximately 1.5% and a conversion premium of 35%. Net of costs, the proceeds of the issue were £110m and, at today's date, available committed funding to the Group stands at over £300m. At 31 March 2007 the loan to value ratio was 58% (30 September 2006: 52%).

**Consolidated income statement**  
**For the half year ended 31 March 2007**

	<b>Note</b>	Unaudited Six months to <b>31 March 2007</b> <b>£m</b>	31 March 2006 <b>£m</b>	Audited Year to 30 September 2006 <b>£m</b>
<b>Group revenue</b>		<b>93.0</b>	104.9	205.7
<b>Net rental income</b>	3	<b>11.4</b>	10.3	28.3
<b>Profit on disposal of trading properties</b>	4	<b>26.9</b>	33.8	55.9
<b>Administrative expenses</b>	5	<b>(4.5)</b>	(6.1)	(10.4)
Other income		<b>2.7</b>	1.1	2.1
Goodwill impairment loss		<b>-</b>	(6.1)	(6.4)
Net other income/(expense)		<b>2.7</b>	(5.0)	(4.3)
Profit on disposal of investment property	6	<b>1.8</b>	3.0	5.6
Operating profit before net valuation gains on investment properties and changes in fair value		<b>38.3</b>	36.0	75.1
Net valuation gains on investment properties	9	<b>0.6</b>	24.0	39.9
Change in fair value of derivatives		<b>(0.2)</b>	5.1	10.4
Change in fair value through profit or loss financial assets		<b>-</b>	0.1	0.4
Operating profit		<b>38.7</b>	65.2	125.8
Interest expense		<b>(33.1)</b>	(29.3)	(60.3)
Interest income		<b>4.2</b>	1.7	5.8
Share of profit/(loss) of associates after tax	10	<b>0.7</b>	-	(0.1)
Share of profit/(loss) of joint ventures after tax	11	<b>1.6</b>	(0.7)	0.5
Profit before tax		<b>12.1</b>	36.9	71.7
Taxation – current	16	<b>(5.7)</b>	(25.7)	(30.6)
Taxation – deferred	16	<b>2.3</b>	14.6	9.4
Tax charge for the period		<b>(3.4)</b>	(11.1)	(21.2)
Profit for the period attributable to equity holders of the company		<b>8.7</b>	25.8	50.5
Basic earnings per share	7	<b>6.70p</b>	20.0p	39.1p
Diluted earnings per share	7	<b>6.67p</b>	19.8p	38.9p
Dividend per share	8	<b>2.06p</b>	1.87p	5.62p

**Consolidated Statement of Recognised Income and Expense**  
**For the half year ended 31 March 2007**

	Unaudited Six months to <b>31 March</b> <b>2007</b> <u>£m</u>	31 March 2006 <u>£m</u>	Audited Year to 30 September 2006 <u>£m</u>
Profit for the period/year	<b>8.7</b>	25.8	50.5
Actuarial profit on BPT Limited defined benefit pension scheme net of tax	-	-	0.4
Net exchange adjustments offset in reserves net of tax	<b>0.1</b>	-	0.1
Changes in fair value of cash flow hedges net of tax	<b>9.0</b>	-	(0.8)
Total recognised income and expense for the period/year	<b>17.8</b>	25.8	50.2
Effect of adoption of IAS 32 and IAS 39 on 1 October 2005 net of tax	-	(5.4)	(5.4)
	<b>17.8</b>	20.4	44.8
The total recognised income and expense in the period/year is attributable to:			
Equity shareholders of the parent	<b>17.8</b>	25.8	50.2
Minority interest	-	-	-
	<b>17.8</b>	25.8	50.2

**Consolidated balance sheet**  
**as at 31 March 2007**

	<b>Note</b>	<b>Unaudited 31 March 2007 £m</b>	<b>Unaudited 31 March 2006 £m</b>	<b>Audited 30 September 2006 £m</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment property	9	329.2	224.8	252.7
Property, plant and equipment		2.0	1.9	2.1
Investment in associates	10	61.9	2.1	2.0
Investment in joint ventures	11	81.7	57.5	71.5
Financial interest in property assets	12	134.1	-	-
At fair value through profit or loss financial assets		-	18.8	19.0
Goodwill		4.4	-	-
Deferred tax assets		-	4.4	-
		<b>613.3</b>	<b>309.5</b>	<b>347.3</b>
<b>Current assets</b>				
Inventories - trading properties		978.5	931.1	952.7
Trade and other receivables	13	6.8	14.4	5.3
Derivative financial instruments		10.2	1.4	2.3
Cash and cash equivalents		31.5	64.1	34.5
Assets held for sale	14	95.0	160.9	168.3
		<b>1,122.0</b>	<b>1,171.9</b>	<b>1,163.1</b>
<b>Total assets</b>		<b>1,735.3</b>	<b>1,481.4</b>	<b>1,510.4</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	15	1,281.7	1,019.6	1,070.5
Trade and other payables		8.0	8.0	8.0
Retirement benefits		4.6	5.3	4.6
Provisions for other liabilities and charges		1.2	1.0	1.3
Deferred tax liabilities	16	94.6	90.3	91.1
		<b>1,390.1</b>	<b>1,124.2</b>	<b>1,175.5</b>
<b>Current liabilities</b>				
Interest bearing loans and borrowings	15	19.2	21.4	19.4
Trade and other payables	17	27.1	58.5	23.3
Current tax liabilities	16	35.2	41.0	37.2
Derivative financial instruments		2.3	7.7	4.4
		<b>83.8</b>	<b>128.6</b>	<b>84.3</b>
<b>Total liabilities</b>		<b>1,473.9</b>	<b>1,252.8</b>	<b>1,259.8</b>
<b>Net assets</b>		<b>261.4</b>	<b>228.6</b>	<b>250.6</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the company's equity holders</b>				
Issued share capital	18	6.5	6.5	6.5
Share premium	18	22.8	22.4	22.6
Merger reserve	18	20.1	20.1	20.1
Capital redemption reserve	18	0.2	0.2	0.2
Cash flow hedge reserve	18	8.2	-	(0.8)
Retained earnings	18	203.4	179.2	201.8
<b>Total shareholders' equity</b>		<b>261.2</b>	<b>228.4</b>	<b>250.4</b>
Equity minority interests		0.2	0.2	0.2
<b>Total Equity</b>	19	<b>261.4</b>	<b>228.6</b>	<b>250.6</b>

**Statement of consolidated cash flows**  
**For the half year ended 31 March 2007**

	<b>Unaudited 31 March 2007</b>	Unaudited 31 March 2006	Audited 30 September 2006
<b>Note</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cash flow from operating activities</b>			
Profit for the period/year	8.7	25.8	50.5
Depreciation	0.3	0.3	0.6
Impairment of goodwill	-	6.1	6.4
Net valuation gains on investment properties	9 (0.6)	(24.0)	(39.9)
Net finance costs	28.9	27.6	54.5
Share of (profit)/loss of associates and joint ventures	10&11 (2.3)	0.7	(0.4)
Gain on disposal of investment properties and other investments	6 (1.8)	(3.0)	(5.6)
Share based payment charge	19 0.5	0.5	0.9
Change in fair value of derivatives and fair value through profit or loss financial assets	0.2	(5.2)	(10.8)
Taxation	16 3.4	11.1	21.2
<b>Operating profit before changes in working capital and provisions</b>	<b>37.3</b>	<b>39.9</b>	<b>77.4</b>
(Increase)/decrease in trade and other receivables	(1.2)	(9.7)	3.2
(Decrease)/Increase in trade and other payables	(4.7)	3.1	2.7
Increase in trading properties	(7.4)	(7.1)	(31.4)
<b>Cash generated from operations</b>	<b>24.0</b>	<b>26.2</b>	<b>51.9</b>
Interest paid	(29.3)	(27.3)	(55.0)
Taxation paid	16 (7.8)	(6.6)	(15.4)
<b>Net cash outflow from operating activities</b>	<b>(13.1)</b>	<b>(7.7)</b>	<b>(18.5)</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of investment property and property, plant and equipment	9.5	21.9	42.4
Proceeds from sale of joint venture	-	5.4	5.4
Disposal of subsidiary net of cash disposed of	158.8	-	-
Interest received	1.1	1.0	2.6
Dividends/distributions received	7.6	0.1	0.4
Acquisition of subsidiaries, net of cash acquired	(87.1)	(1.0)	(3.4)
Investment in associates and joint ventures	10&11 (96.2)	(46.7)	(57.8)
Acquisition of investment property and property, plant and equipment	(55.3)	(60.8)	(131.8)
Acquisition of financial interest in property assets	(134.1)	-	-
Acquisition of at fair value through profit or loss financial assets	-	(0.4)	(0.4)
<b>Net cash outflow from investing activities</b>	<b>(195.7)</b>	<b>(80.5)</b>	<b>(142.6)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	19 0.2	0.8	1.0
Purchase of own shares	19 (3.4)	-	(0.5)
Proceeds from new borrowings	212.9	111.4	165.2
Repayment of borrowings	(3.2)	(5.0)	(12.0)
Dividends paid	19 (4.9)	(4.4)	(6.9)
Purchase of financial derivative	(0.3)	-	-
<b>Net cash inflow from financing activities</b>	<b>201.3</b>	<b>102.8</b>	<b>146.8</b>
Net (decrease)/increase in cash and cash equivalents	(7.5)	14.6	(14.3)
Cash and cash equivalents at beginning of period/year	39.0	53.3	53.3
<b>Cash and cash equivalents at end of period/year</b>	<b>31.5</b>	<b>67.9</b>	<b>39.0</b>

## Notes to the interim statement

### 1. Basis of preparation

These interim results are unaudited and do not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The statutory accounts for 2006, which were prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The Auditors' Report on those accounts was unqualified and did not contain a statement under section 237 (2) or 237 (3) of the Companies Act 1985.

The financial information contained in these interim results has been prepared in accordance with the Listing rules of the Financial Services Authority and, other than the new accounting policy for financial interest in property assets set out in note 12, the accounting policies set out on pages 69 to 78 of the 2006 Annual Report and Accounts which is available on the Group's website ([www.graingerplc.co.uk](http://www.graingerplc.co.uk)). The accounting policies have been consistently applied to all periods presented in the interim results. The Group has chosen not to adopt IAS 34 'Interim Financial Reporting' in preparing this Interim Statement.

### 2. Gross net asset value (NAV) and NNNAV as at 31 March 2007

	<u>£m</u>					
	Statutory balance sheet	Market value, deferred tax and derivatives adjustment	Gross NAV Balance sheet	Contin -gent Tax	Derivatives	Triple NAV Balance Sheet
Properties	1,308	507	1,815	-	-	1,815
Investments/other assets	374	12	386	-	3	389
Goodwill	4	(4)	-	-	-	-
Cash	32	-	32	-	-	32
<b>Total assets</b>	<b>1,718</b>	<b>515</b>	<b>2,233</b>	<b>-</b>	<b>3</b>	<b>2,236</b>
Borrowings/creditors/derivative financial instruments	(1,301)	(8)	(1,309)	-	6	(1,303)
Other net liabilities	(60)	(5)	(65)	-	-	(65)
Provisions/deferred tax	(96)	93	(3)	(240)	(2)	(245)
<b>Total liabilities</b>	<b>(1,457)</b>	<b>80</b>	<b>(1,377)</b>	<b>(240)</b>	<b>4</b>	<b>(1,613)</b>
<b>Net assets</b>	<b>261</b>	<b>595</b>	<b>856</b>	<b>(240)</b>	<b>7</b>	<b>623</b>
<b>2007 Net assets per share (pence)</b>	<b>201p</b>	<b>458p</b>	<b>659p</b>	<b>(185)p</b>	<b>5p</b>	<b>479p</b>
2006 Net assets per share (pence)	193p	484p	677p	(187)p	(3)p	487p

There is no revaluation exercise carried out at the half year due to the number of properties in the portfolio. The market value balance sheets include properties at 30 September 2006 values, adjusted for acquisitions and capital expenditure at cost, and disposals. In addition, properties that have become vacant in the period to 31 March are ascribed a higher percentage of the previous year end vacant possession valuation in recognition that they are more likely to be sold. This uplift is reflected in the income statement as a revaluation gain.

### 3. Net rental income

	Unaudited 31 March 2007 £m	Unaudited 31 March 2006 £m	Audited 30 September 2006 £m
Gross rental income	<b>24.3</b>	25.2	52.6
Property repair and maintenance costs	<b>(5.9)</b>	(7.4)	(12.7)
Property operating expenses (see note 5)	<b>(7.0)</b>	(7.5)	(11.6)
	<b>11.4</b>	10.3	28.3

#### 4. Profit on disposal of trading properties

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	£m	£m	£m
Proceeds from sale of trading properties	66.0	78.5	151.0
Carrying value of trading properties sold	(33.6)	(43.4)	(85.1)
Operating expenses (see note 5)	(5.5)	(1.3)	(10.0)
	26.9	33.8	55.9

#### 5. Administrative expenses

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	£m	£m	£m
Total Group expenses	17.0	14.9	32.0

Many of the Group's expenses relate directly to either property management activities or to staff involved directly with the sale and acquisition of property. Accordingly, total Group expenses shown above have been allocated as follows:-

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	£m	£m	£m
Deducted within net rental income (see note 3)	7.0	7.5	11.6
Deducted within profit on disposal of trading properties (see note 4)	5.5	1.3	10.0
Administrative expenses	4.5	6.1	10.4
	17.0	14.9	32.0

#### 6. Profit on disposal of investment property

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	£m	£m	£m
Proceeds from sale of investment property	9.5	27.3	47.8
Carrying value of investment property sold	(7.7)	(24.3)	(42.2)
	1.8	3.0	5.6

#### 7. Earnings per share

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	No. of Shares '000	No. of shares '000	No. of shares '000
Weighted average number of shares for basic earnings per share	129,388	128,723	129,001
Weighted average number of shares for diluted earnings per share	129,922	130,119	129,804

##### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the group to meet its obligations under the Long Term Incentive Scheme (LTIS).

##### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding 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 LTIS, based upon the number of shares that would be issued if 31 March 2007 was the end of the contingency period.

## 8. Dividends

An interim dividend of 2.06p per share has been proposed by the directors for payment on 16 July 2007 (31 March 2006: 1.87p per share). This dividend, totalling £2.7m, has not been provided for in the accounts to 31 March 2007. In the six months to 31 March 2007, the final proposed dividend for the year ended 30 September 2006 of £4.9m has been paid.

## 9. Investment property

Investment property is valued annually at the end of each financial year. It is shown in the balance sheet as at 31 March at the previous year-end valuation adjusted for acquisitions and capital expenditure at cost, and disposals. In addition, properties that have become vacant in the period to 31 March are ascribed a higher percentage of the previous year-end vacant possession valuation in recognition that they are more likely to be sold. This uplift is shown through the income statement as a revaluation gain.

	Unaudited 31 March 2007 £m	Unaudited 31 March 2006 £m	Audited 30 September 2006 £m
Opening balance	252.7	222.4	222.4
Additions	125.1	114.8	148.1
Disposals	(7.7)	(19.3)	(33.3)
Disposal as part of disposal of subsidiary	(209.8)	-	-
Revaluation gain	0.6	24.0	42.4
Transferred from trading properties	-	41.4	41.4
Transfer from/(to) a disposal group (see note 14)	168.3	(158.5)	(168.3)
Closing balance	329.2	224.8	252.7

## 10. Investment in associates

	Unaudited 31 March 2007 £m	Unaudited 31 March 2006 £m	Audited 30 September 2006 £m
Opening balance	2.0	0.1	0.1
Loans advanced	-	2.0	2.0
Share of profits/(losses)	0.7	-	(0.1)
Distributions received	(0.2)	-	-
Share of change in fair value of cash flow hedges taken through equity	1.6	-	-
At fair value through profit or loss financial assets transferred to investment in associates	19.0	-	-
Net assets of subsidiary transferred to investment in associates	49.4	-	-
Additional equity invested	84.4	-	-
Transfer to disposal group (see note 14)	(95.0)	-	-
Closing balance	61.9	2.1	2.0

As at 31 March 2007, the Group's interest in associates was as follows:-

	% of share capital/ units held	Country of Incorporation
G:res1 Limited	67.0	Jersey
Schroders Residential Property Unit Trust	22.3	Jersey
Ou Robbins	43.2	Estonia

## 11. Investment in joint ventures

	<b>Unaudited</b> <b>31 March 2007</b>	Unaudited 31 March 2006	Audited 30 September 2006
	<b>£m</b>	£m	£m
Opening balance	<b>71.5</b>	17.9	17.9
Additions	-	6.6	6.6
Loans advanced	<b>14.7</b>	38.7	51.7
Share of profits/(losses)	<b>1.6</b>	(0.7)	0.5
Share of change in fair value of cash flow hedges taken through equity	<b>1.3</b>	-	(0.2)
Distribution received	<b>(7.4)</b>	-	-
Disposals	-	(5.0)	(5.0)
Closing balance	<b>81.7</b>	57.5	71.5

As at 31 March 2007, the Group's interest in joint ventures was as follows:-

	<b>% of share capital/ units held</b>	Country of Incorporation
Grainger GenInvest LLP	<b>50</b>	United Kingdom
Grainger GenInvest No. 2 (2006) LLP	<b>50</b>	United Kingdom
Regen (NT) LLP	<b>33 1/3</b>	United Kingdom

## 12. Financial interest in property assets

	<b>Unaudited</b> <b>31 March</b> <b>2007</b>	Unaudited 31 March 2006	Audited 30 September 2006
	<b>£m</b>	£m	£m
Financial interest in property assets	<b>134.1</b>	-	-

Financial interest in property assets are accounted for under IAS 39 in accordance with the designation available-for-sale financial assets. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Changes in the fair value are taken through equity. When gains or losses in the assets are realised the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from financial interest in property assets. Income received from financial interest in property assets is recognised in the income statement as part of other income.

## 13. Trade and other receivables

	<b>Unaudited</b> <b>31 March</b> <b>2007</b>	Unaudited 31 March 2006	Audited 30 September 2006
	<b>£m</b>	£m	£m
Trade receivables	<b>3.9</b>	2.9	2.9
Other receivables	<b>2.8</b>	10.3	2.2
Prepayments and accrued income	<b>0.1</b>	1.2	0.2
	<b>6.8</b>	14.4	5.3

## 14 Assets held for sale

In the six months to 31 March 2007, Grainger disposed of 33% of its equity interest in G:res1 Limited. Marketing of the equity is continuing and it remains the group's intention to reduce its equity stake to 20% as soon as is practicable and within 12 months of the balance sheet date.

G:res1 is independently managed with the voting rights, and therefore control over the key operational, financial and strategic decisions, being such that the fund is an associate of the Group at 31 March 2007.

The Group's total investment in G:res1 at 31 March 2007 was £135.4m and, as it is intended to reduce the Group's equity stake from the current 67%, to 20%, these statements show a 20% interest as an investment in associates with the balance shown as a disposal group under assets held for sale within current assets. As at 31 March 2006 and 30 September 2006, the Group owned 100% of the equity of the fund and, therefore, consolidated the results and net assets of the fund. The comparatives show the composition of 80% of the assets and liabilities of the fund which, collectively, have been shown as a disposal group.

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	£m	£m	£m
Investment in associates	95.0	-	-
Investment property	-	158.5	168.3
Trade and other receivables	-	0.7	0.2
Cash and cash equivalents	-	3.8	4.5
Trade and other payables	-	(2.1)	(4.7)
	<b>95.0</b>	<b>160.9</b>	<b>168.3</b>

## 15. Interest bearing loans and borrowings

As at 31 March 2007 the maturity profile of the Group's debt, net of finance costs, was as follows:-

	Unaudited 31 March 2007	Unaudited 31 March 2006	Audited 30 September 2006
	£m	£m	£m
Within one year	19.2	21.4	19.4
Between one and two years	1.0	-	0.4
Between two and five years	759.9	756.8	822.3
Over five years	520.8	262.8	247.8
	<b>1,300.9</b>	<b>1,041.0</b>	<b>1,089.9</b>

## 16. Tax

	Audited As at 30 September 2006	Payments in the period	Acquired in the period	Movements recognised in income	Movements recognised in equity	Unaudited As at 31 March 2007
	£m	£m	£m	£m	£m	£m
<b>Current tax</b>	<b>37.2</b>	(7.8)	0.1	5.7	-	35.2
<b>Deferred tax</b>						
Trading property uplift to fair value on acquisition	73.7	-	2.6	(2.4)	-	73.9
Investment property revaluation	16.5	-	-	(0.4)	-	16.1
Accelerated capital allowances	1.4	-	-	0.6	-	2.0
Short term timing differences	(0.5)	-	-	(0.1)	-	(0.6)
Actuarial surplus on BPT pension scheme	0.2	-	-	-	-	0.2
Share-based payments	-	-	-	-	(0.6)	(0.6)
Fair value movement in cash flow hedges	(0.2)	-	-	-	3.8	3.6
	<b>91.1</b>	-	2.6	(2.3)	3.2	94.6
<b>Total tax</b>	<b>128.3</b>	(7.8)	2.7	3.4	3.2	129.8

The tax charge for the period of £3.4m comprises:-

	<b>Unaudited</b>
	<b>31 March 2007</b>
	<b>£m</b>
UK taxation	<b>2.7</b>
Overseas taxation	<b>0.7</b>
	<b>3.4</b>

## 17. Trade and other payables

	<b>Unaudited</b>	Unaudited	Audited
	<b>31 March 2007</b>	31 March 2006	30 September 2006
	<b>£m</b>	£m	£m
Deposits received	<b>0.3</b>	0.5	0.8
Trade payables	<b>4.9</b>	3.6	8.4
Other taxation and social security	<b>0.3</b>	3.6	1.5
Accruals and deferred income	<b>21.6</b>	50.8	12.6
	<b>27.1</b>	58.5	23.3

## 18. Capital and reserves attributable to the Company's equity holders

	Issued share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Retained earnings £m
Balance as at 1 October 2006 (Audited)	6.5	22.6	20.1	0.2	(0.8)	201.8
Retained profit for the period	-	-	-	-	-	8.7
Issue of shares	-	0.2	-	-	-	-
Changes in fair value of cash flow hedges net of tax	-	-	-	-	9.0	-
Net exchange adjustments offset in reserves net of tax	-	-	-	-	-	0.1
Purchase of own shares	-	-	-	-	-	(3.4)
Share-based payments charge	-	-	-	-	-	0.5
Tax on share-based payments	-	-	-	-	-	0.6
Dividends paid	-	-	-	-	-	(4.9)
<b>Balance as at 31 March 2007 (unaudited)</b>	<b>6.5</b>	<b>22.8</b>	<b>20.1</b>	<b>0.2</b>	<b>8.2</b>	<b>203.4</b>

## 19. Consolidated statement of changes in equity

	Unaudited <b>31 March</b> <b>2007</b> <b>£m</b>	Unaudited 31 March 2006 £m	Audited 30 September 2006 £m
Opening equity shareholders funds	<b>250.6</b>	211.1	211.1
Effect of adoption of IAS 32 and IAS 39 on 1 October 2005	-	(5.4)	(5.4)
	<b>250.6</b>	205.7	205.7
Retained profit for the period/year	<b>8.7</b>	25.8	50.5
Actuarial gain on BPT Limited defined benefit pension scheme net of tax	-	-	0.4
Changes in fair value of cash flow hedges net of tax	<b>9.0</b>	-	(0.8)
Net exchange adjustment offset in reserves net of tax	<b>0.1</b>	-	0.1
Purchase of own shares	<b>(3.4)</b>	-	(0.5)
Issue of shares	<b>0.2</b>	0.8	1.0
Share based payments charge	<b>0.5</b>	0.5	0.9
Tax on share-based payments	<b>0.6</b>	-	-
Dividends paid	<b>(4.9)</b>	(4.4)	(6.9)
Minority interest on business combination	-	0.2	0.2
	<b>261.4</b>	228.6	250.6
Closing equity shareholders funds	<b>261.4</b>	228.6	250.6

20. Copies of this statement are being sent to all shareholders. Copies may be obtained from the Group's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE. Further details of this announcement can be found on our website, [www.graingerplc.co.uk](http://www.graingerplc.co.uk).
21. The Board of Directors approved this interim statement on 7 June 2007. This interim statement has neither been audited nor reviewed by the auditors.