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# Interim results for the six months ended 31 March 2007

7 June 2007

# Agenda

- Introduction
- Highlights

- Financial Results
- Market
- Portfolio Review

- Update on Strategy
- Outlook

# Highlights

- Market value of property and property related assets £2.2 billion (up 10% from £2.0 billion at 30 September 2006)
- Invested £411m in the period across all key business divisions
- Major acquisitions include CAT £72m; CHARM £134m; increased G:res1 equity stake for Ability acquisition £45m
- G:res1, market rented fund successfully launched, new UK and overseas investors, post March Grainger stake now 44%
- Joint venture with Development Securities at Curzon Park
- Growing pipeline in Germany with dedicated team in Mannheim
- Dividend increase of 10% to 2.06p per share


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# Financial Results

# Financial Summary

| | 31 March 2007 | 30 Sept 2006 | Growth |
|---|---|---|---|
| Property and related assets (£m) | 2,201 | 2,010 | 10% |
| Gross NAV per share (p) | 659 | 677 | (3)% |
| Grainger NAV per share (p) (basic) | 597 | 595 | - |
| LTV% | 58% | 52% | - |

| | 31 March 2007 | 31 March 2006 |
|---|---|---|
| Operating profit before valuation/fair value movements | 38.3 | 36.0 |
| Earnings per share (p) | 6.7 | 20.0 |
| Dividends per share (p) | 2.06p | 1.87p |

Note: no revaluation undertaken at 31 March 2007



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# Market Value Balance Sheet

**Before any contingent tax**

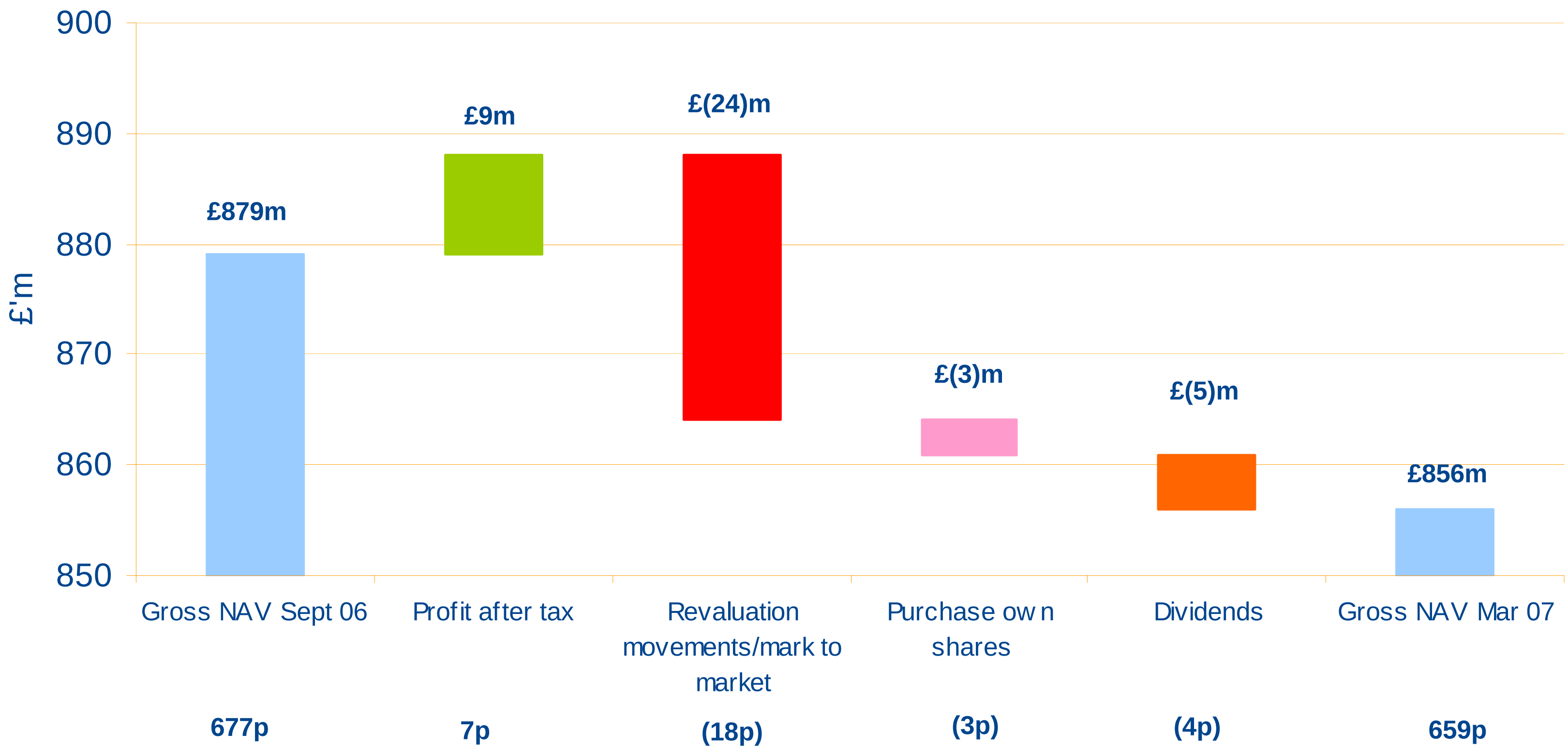
| £m | Residential | Development | Total | 30 September 2006 |
|---|---|---|---|---|
| | 31 March 2007 | | | |
| Property assets: | | | | |
| UK | 1,557 | 96 | 1,653 | 1,773 |
| Europe | 151 | 11 | 162 | 128 |
| | 1,708 | 107 | 1,815 | 1,901 |
| Investment and other assets | | | 386 | 109 |
| Total property related assets | | | 2,201 | 2,010 |
| Cash | | | 32 | 39 |
| | | | 2,233 | 2,049 |
| Debt | | | (1,309) | (1,098) |
| Other net liabilities | | | (68) | (72) |
| **Net assets** | | | **856** | 879 |
| **Gross net asset value per share (p)** | | | **659p** | 677p |

- Reversionary surplus: £632m (2006: £566m)

Note: no revaluation undertaken at 31 March 2007

# Change in NAV

Gross NAV movements



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# Net Asset Value Per Share

| | pence per share | |
|---|---|---|
| | 31 March | 30 Sept |
| | **2007** | **2006** |
| Gross net asset value | 659 | 677 |
| Add/Deduct: | | |
| Mark to market adjustments | 5 | (3) |
| Deferred tax on revaluation surpluses (undiscounted) | (185) | (187) |
| **NNNAV** | **479** | 487 |

# Grainger NAV – Sensitivity Analysis

### Without discounting tax

| | | Discount rate 8.75% | 7.0% | 5.75% |
|---|---|---|---|---|
| | 0% | 597p | 621p | 641p |
| | 2% | 627p | 657p | 683p |
| HPI | 4% | 664p | 701p | 733p |
| | 5% | 685p | 727p | 762p |
| | 6% | 708p | 755p | 795p |

### Discounting tax

| | | Discount rate 8.75% | 7.0% | 5.75% |
|---|---|---|---|---|
| | 0% | 709p | 719p | 727p |
| HPI | 2% | 739p | 755p | 769p |
| | 4% | 776p | 799p | 819p |
| | 5% | 797p | 825p | 848p |
| | 6% | 821p | 853p | 881p |

**Note**

- **Grainger NAV brings in the present taxed value of reversionary surpluses in our long term portfolio**
- **Full sensitivity available on Grainger website: graingerplc.co.uk**

# Summary Operating Contributions

| £m | 31 March 2007 | 31 March 2006 |
|---|---|---|
| Core portfolio - regulated | 44.8 | 42.5 |
| Market rented | 1.4 * | 2.9 ** |
| | 46.2 | 45.4 |
| Equity release | 4.3 | 2.7 |
| Europe | 3.9 | 1.0 |
| Development | 0.9 | 7.9 |
| | 55.3 | 57.0 |
| Goodwill written off | - | (6.1) |
| Direct and administrative overheads | (17.0) | (14.9) |
| Operating profit before revaluation and fair value gain | 38.3 | 36.0 |

* Market rented in 2007 represents contribution earned up to 16 November 2006 when external equity acquired stakes in the Jersey fund. At this point the fund became an associate for accounting purposes.

**Market rented in 2006 represents contribution earned in the four months to 31 March 2006. Prior to 1 December 2005 market rented assets were included in the core portfolio.

# Post Tax Earnings

| £m | 31 March 2007 | 30 March 2006 |
|---|---|---|
| Operating profit before valuation and fair value movement | 38.3 | 36.0 |
| IFRS/Fair value movements | | |
| Revaluation surpluses | 0.6 | 24.0 |
| Fair value of derivatives etc | (0.2) | 5.2 |
| | 38.7 | 65.2 |
| Interest | (28.9) | (27.6) |
| Joint ventures/associates | 2.3 | (0.7) |
| | 12.1 | 36.9 |
| Taxation | (3.4) | (11.1) |
| **Profit after taxation** | **8.7** | **25.8** |

# Cashflow

| £m | 31 March 2007 | 31 March 2006 |
|---|---|---|
| Income | | |
| Rents and other income net of overheads | 4 | 5 |
| Property sales | 74 | 98 |
| Net proceeds from sale of equity in G:res1 | 159 | - |
| Working capital movements | (10) | (7) |
| | 227 | 96 |
| Interest, tax and dividends | (33) | (37) |
| **Net operating income** | **194** | **59** |
| Loan movements | 210 | 125 |
| Available for property spend | 404 | 184 |
| Acquisitions/spend | | |
| UK residential | (270) | (43) |
| Development | (11) | (11) |
| Europe | (34) | (67) |
| Investment in JV/Associates | (96) | (48) |
| Total property spend | (411) | (169) |
| **Cash movement** | **(7)** | **15** |


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# Debt Analysis

| £m | 31 March 2007 | 30 September 2006 |
|---|---|---|
| Gross debt | 1,301 | 1,090 |
| Cash | (32) | (39) |
| Net debt (after costs) | 1,269 | 1,051 |
| Available headroom | 193 | 307 |
| Average maturity (years) | 5.8 | 4.7 |
| Hedging level | 69% | 66% |
| Blended interest rate | 6.0% | 5.8% |
| LTV | 58% | 52% |

- Post balance sheet launch of seven year convertible bond with net proceeds of £110m. Coupon of 3.625%, conversion premium of 35% and post tax cash cost of c. 1.5%. Headroom now stands at over £300m

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# The Market

# UK Residential Market – Recent Background

- IPD Residential Index for 2006 shows total returns of 16.8%

- Halifax House Price Index to end March 2007: 11.1% (10.9% to end April)

- Regional areas of growth (Halifax House Price Indices):- (year on year to end March)

  | | |
  |---|---|
  | Greater London | 14.9% |
  | South East | 11.9% |

  Grainger has over 50% of its properties in these areas (by value)

- Grainger sales from core portfolio achieved 7% over September 2006 valuations as at March 2007

# Market Outlook

- Interest rates – recent increases have reduced mortgage lending and this may lead to softening in growth rates

- Long term performance sustained by imbalance between supply and demand
  - DCLG (formerly ODPM): anticipate annual shortfall of 50,000 households to 2026

- Good economic and employment conditions help to underpin housing demand (59 consecutive quarters of growth to March 2007)

- Historical regional trends expected to continue over next 10-20 years because of net internal migration flows – higher population growth in London, South East, South West, East Midlands

- Opportunities for private finance in intermediate sector and institutional funding of the private rented sector ie. Cave Review, Hills Review, Calcutt Review and Communities England

Source: DTZ, Capital Economics, Nationwide, Halifax

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# Portfolio Review

# Our Portfolio

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

- Share of joint ventures and associates includes the value of our share of the market value of the property assets in Grainger GenInvest companies, Schroders ResPUT and G:res1



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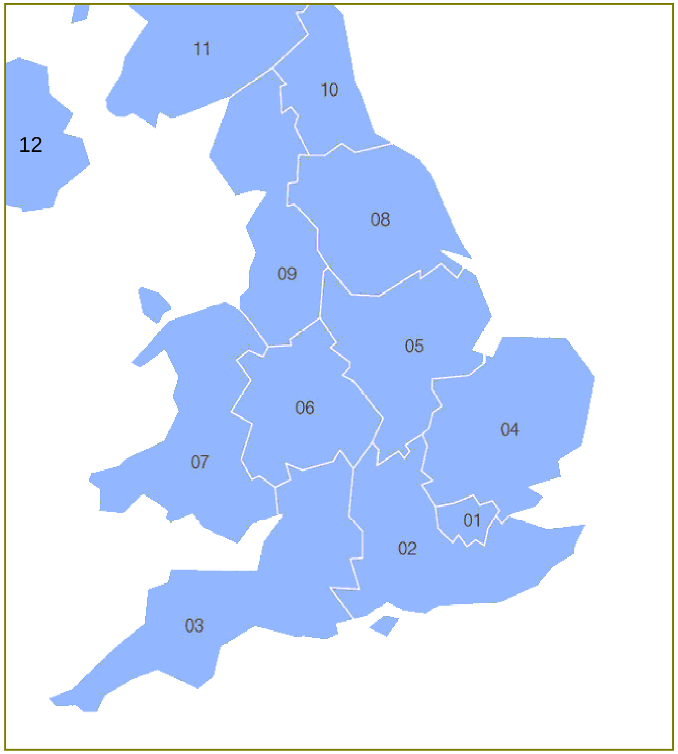
# UK Portfolio Location




| | | Number of units | Investment Value £m | % | Vacant Possession Value £m | % |
|---|---|---|---|---|---|---|
| 01 | Central London | 582 | 178 | 10.5% | 228 | 10.0% |
| 01 | Inner London | 882 | 193 | 11.4% | 250 | 11.0% |
| 01 | Outer London | 1,323 | 202 | 11.9% | 267 | 11.8% |
| 02 | South East | 2,426 | 294 | 17.4% | 407 | 17.9% |
| 03 | South West | 1,412 | 145 | 8.6% | 203 | 8.9% |
| 04 | East | 1,438 | 145 | 8.6% | 204 | 8.9% |
| 05 | East Midlands | 938 | 88 | 5.2% | 119 | 5.2% |
| 06 | West Midlands | 1,164 | 128 | 7.6% | 170 | 7.5% |
| 07 | Wales | 179 | 16 | 0.9% | 23 | 1.0% |
| 08 | Yorkshire | 952 | 80 | 4.7% | 108 | 4.7% |
| 09 | North West | 1,789 | 154 | 9.1% | 207 | 9.1% |
| 10 | North East | 458 | 50 | 2.9% | 63 | 2.8% |
| 11 | Scotland | 272 | 18 | 1.1% | 24 | 1.1% |
| 12 | Northern Ireland | 18 | 1 | 0.1% | 2 | 0.1.% |
| | | 13,833 | 1,692 | 100% | 2,275 | 100% |

- 51% (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)



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# Regulated Portfolio

- Total portfolio 7,698 units, market value £1,093m
- Vacant possession value £1,407m
- Valuation at 77.5% of vacant possession value
- Average vacant possession unit value of £183,000 (2006: £182,000)
- Acquisition in the six months to 31 March £18m of the Portland portfolio with 110 regulated properties



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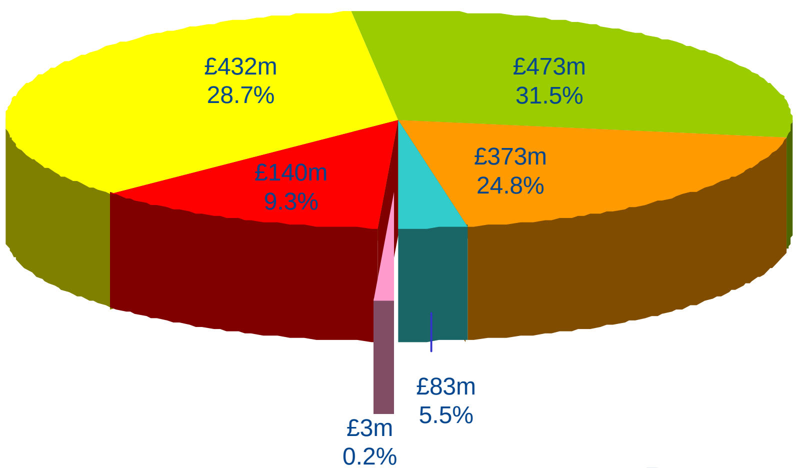
# Portfolio Characteristics

Core regulated portfolio

- Properties largely un-modernised
- Low exposure to top end volatility
- In demand price range
- High margins on sale give price flexibility

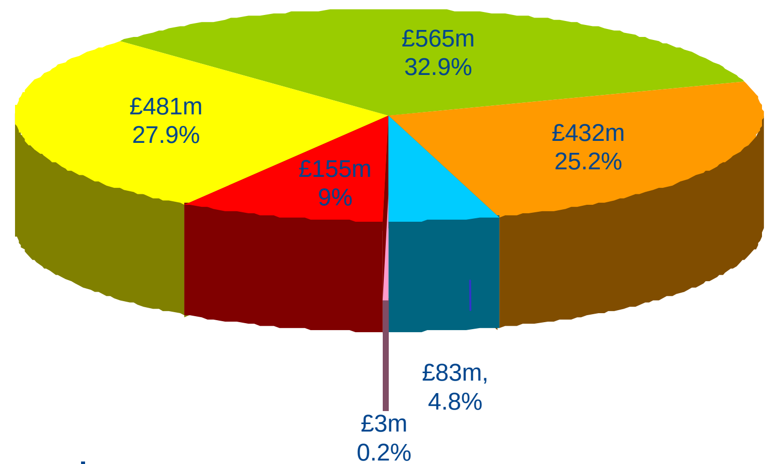
# Portfolio Affordability

31 March 2007




**Total £1,504m**

30 September 2006




**Total £1,719m**

By vacant possession value

*Regulated, assured and vacants only

£0-£50K £50-£100K £100K-£175K £175K-£250K £250K-£500K £500K+

- UK average price Q2 £194,500 (per Halifax)
- Grainger average price £183,000
- 70% by value of our properties below £250K
- No re-valuation at March 2007

# Equity Release/Retirement Solutions

- Grainger currently has in excess of 40% of UK home reversion market; corporate reputation to support future growth
- Home reversions expected to increase to 10% of total equity release market over next three years. Total market expected to reach £2bn by that time
- Market regulated by FSA since 6 April 2007 – Grainger achieved regulated status from that date
- Key to growth is distribution, regulation and product innovation
- Grainger uses four key routes to market
  - Bridgewater brand
  - Portfolio acquisitions
  - Norwich Union
  - New products and distribution channels
- Major acquisitions in period
  - CAT £72m – 912 retirement properties, life time lease or rented option
  - CHARM £134m – financial interest in c.1,300 mortgages
- Market value of portfolio £467m (2006: £241m)
- Exploring new opportunities in integrated retirement solutions

# Fund Management

G:res1

- As at 31 March 2007 G:res1 comprised 2,150 residential units in 56 blocks valued at £420m, with annualised rental income of £21.2m
- Portfolio debt of £230m (representing LTV of 55%)
- First closing in November with commitments of £56m and £33.6m drawn down
- At 31 March, Grainger equity stake 67% value £134m; since then reduced to c.44% with total external equity raised of £111m.
- Investors include broad mix of leading UK and Overseas institutional investors
- The fund is in advance negotiations with other similar investors which potentially will reduce our stake further to 20%
- Annual fee income from all fund management activities £6m

Other

- Improved performance in Schroders ResPUT
- Growing appetite for institutional investment in residential and related asset classes – with established operating company



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# Property and Asset Management

- Seven offices across the UK with c.100 dedicated property management and sales and acquisitions staff
- Unique perspective of owner/manager/trader
- Provides services to Gres:1, Schroders ResPUT, GenInvest joint ventures
- In total, services provided to approximately 18,600 units in the United Kingdom
- Office opened in Mannheim, Germany
- Opportunity to provide services to other (third party) portfolios and related asset classes
- Scaleable and marketable model

# Development

- Reduced contribution:-
  - Sale of interest in JV and receipts from discontinued housebuilding in the North East
- Balance sheet value at period end £105m including joint venture interests (cost £98m)
- New pipeline expected end development value:
  - with planning consent £173m
  - without planning consent £692m
- Commence demolition at our first major public sector partnership and start of new development programme
- Collaboration agreement with Development Securities and first acquisition made (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



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# Germany

## Background

- Europe's largest residential market
- Increasing investor appetite – private equity firms have bought c.600,000 flats for €25 billion since 2002
- Estimated that 150,000 residential units will be privatised over next 5 years acceptance will create value growth
- Forecast that industrial groups and local housing authorities will sell about 4.8m flats (c. €240 billion)
- Grainger model
- Grainger's reputation as a strong partner should differentiate it from financial purchasers

Sources: Eurohypo; Gagfah Prospectus; German Finance Ministry



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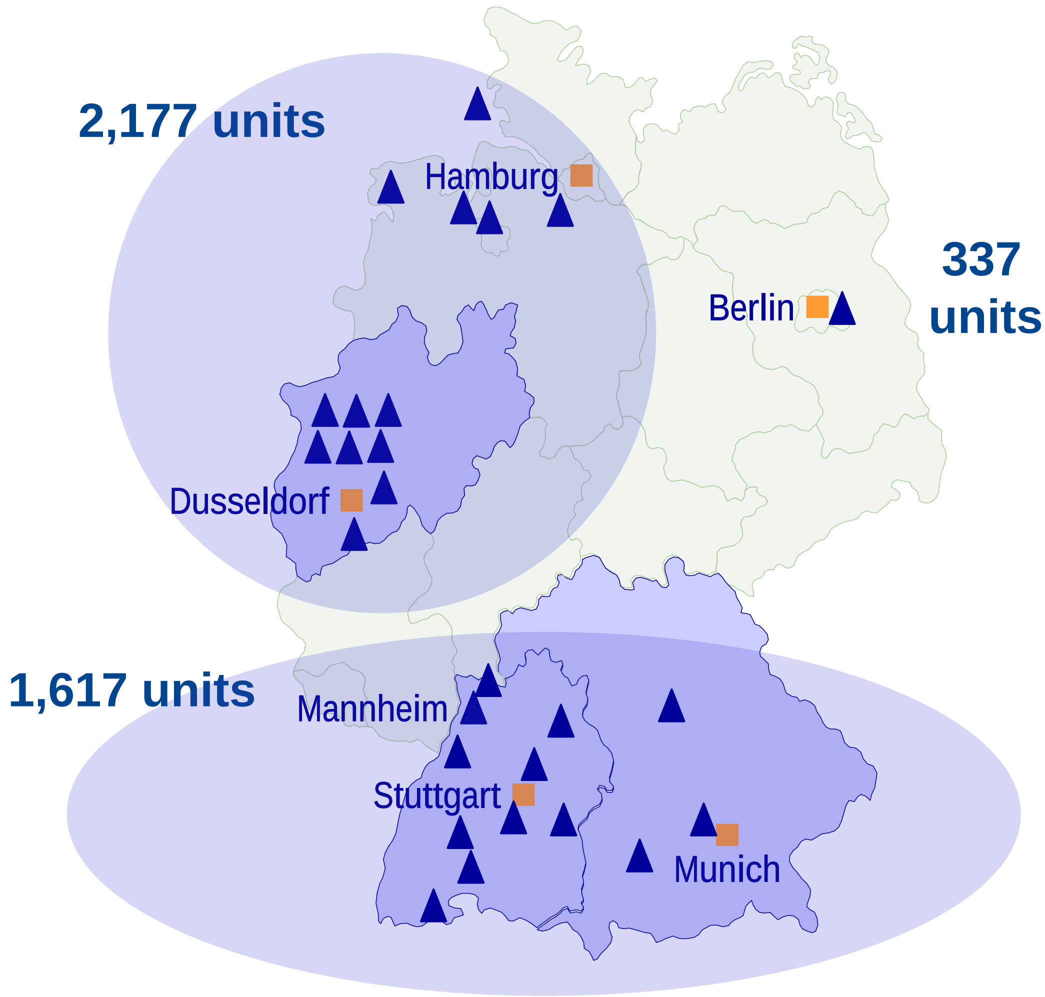
# Germany

Portfolio overview (exchanged)




- 4,131 units
- Approx. 275,800 sq. metres in total
- €253m purchase price (€274m total cost), thereof €36.8m exchanged but not completed
- €17.6m gross rent
- €13.7m net rent
- Between 5 - 10% under market rent
- Current position shown
- Additionally purchase of a nursing home in northern Germany for €9.3m
- Office in Mannheim opened in October 2006 with local team
- 51 units sold from the Ruhr portfolio

# Strategy for Germany

## Opportunities for Grainger

- Grainger reputation as long term investor
- Changing attitudes to home ownership
- Long term experience of privatising industrial/institutional residential
- Tenant friendly laws, controlled rents favour professional landlords
- New local team investigating related asset classes eg. Nursing homes, mixed use
- Potential for capital growth after long term stagnation
- Attracting third party equity to apply co-investing fund management model
- Will continue international expansion with local partners or strategic opportunities

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Update on strategy and Outlook

# Strategy

- Deliver superior risk-adjusted returns
- Maximise efficiency of capital structure through introduction of third party equity and debt - G:res1, convertible bond
- Entry into new areas of residential investment where we can use our skills and management platform to build portfolios in scale
- Diversify income streams to include co-investment income and management fees
- Unique brand as long term holder, asset manager, manager, trader and developer of residential property
- Leverage property network skills and reputation to become the leading integrated residential investor developer operating company and fund manager
- Capitalise on globalisation of property investor and development market

# Outlook

Confident in future based on:

- Long term HPI expectations
- Unique portfolio in a niche sector
- Market leading infrastructure and strength in depth of management
- Strong stakeholder reputation
- Ability to work with co-investors and partners
- Potential policy changes to encourage long term investment in PRS
- Diversification of income streams to include provision of services and co-investing fund management
- Growing acceptance by UK and overseas investors of residential as an investment class
- Opportunistic approach and ability to undertake and finance large corporate transactions
- New areas of growth in both UK and Europe



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# Appendices

# Detailed Profit and Loss Account

| | 31 March 2007 | | | | 31 March 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 | 21.9 | 0.7 | 4.3 | 26.9 | 24.1 | 0.7 | 1.5 | 26.3 |
| Property expenses | (4.9) | (0.3) | (0.6) | (5.8) | (6.5) | (0.4) | (0.5) | (7.4) |
| | 17.0 | 0.4 | 3.7 | 21.1 | 17.6 | 0.3 | 1.0 | 18.9 |
| Trading profits | 32.1 | 0.3 | - | 32.4 | 30.2 | 4.9 | - | 35.1 |
| Profits on sale of fixed assets | 1.4 | 0.2 | 0.2 | 1.8 | 0.3 | 2.7 | - | 3.0 |
| | 33.5 | 0.5 | 0.2 | 34.2 | 30.5 | 7.6 | - | 38.1 |
| Direct overheads | (8.8) | (2.1) | (1.6) | (12.5) | (6.4) | (1.9) | (0.5) | (8.8) |
| Operating contributions | 41.7 | (1.2) | 2.3 | 42.8 | 41.7 | 6.0 | 0.5 | 48.2 |
| Administrative expenses | (3.2) | (1.0) | (0.3) | (4.5) | | | | (6.1) |
| | 38.5 | (2.2) | 2.0 | 38.3 | | | | 42.1 |
| Joint ventures/associates | (1.3) | 3.7 | (0.1) | 2.3 | | | | (0.7) |
| Net interest payable | (25.5) | (1.6) | (1.8) | (28.9) | | | | (27.6) |
| | 11.7 | (0.1) | 0.1 | 11.7 | | | | 13.8 |
| Goodwill written off | | | | - | | | | (6.1) |
| Derivative/fair value movements | | | | (0.2) | | | | 5.2 |
| Revaluation movements | | | | 0.6 | | | | 24.0 |
| Profit before tax | | | | 12.1 | | | | 36.9 |



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# Detailed Tenanted Residential Income Account

## Six months ended 31 March 2007

£m

| | Core Regulated | Equity Release | *Market Lets | Consolidation adjustments | Total |
|---|---|---|---|---|---|
| Gross rents/other income | 20.3 | 0.6 | 1.3 | (0.3) | 21.9 |
| Property expenses | (4.8) | 0.1 | (0.2) | - | (4.9) |
| | 15.5 | 0.7 | 1.1 | (0.3) | 17.0 |
| Trading Profits | 28.7 | 3.4 | - | - | 32.1 |
| Profit on sale of fixed assets | 0.6 | 0.2 | 0.6 | - | 1.4 |
| | 29.3 | 3.6 | 0.6 | - | 33.5 |
| | 44.8 | 4.3 | 1.7 | (0.3) | 50.5 |
| Divisional overheads | (7.5) | (1.3) | (0.3) | 0.3 | (8.8) |
| Operating contribution | 37.3 | 3.0 | 1.4 | - | 41.7 |

*Represents trading in the period to 16 November 2006 when G: res1 was 100% owned. Results from that date are shown within share of profit of associates.



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# Tenanted Residential – Portfolio Analysis

| | No. of Resid. Units | Cost £m | Market Value £m | VP Value £m | IV Value % |
|---|---|---|---|---|---|
| Regulated/APT | 7,698 | 697 | 1,093 | 1,407 | 78 |
| Assured shorthold | 320 | 41 | 46 | 52 | 88 |
| Hoteling complex - serviced apartments | 50 | 9 | 9 | 9 | 100 |
| Equity Release | 5,519 | 402 | 467 | 715 | 65 |
| Vacant | 246 | 28 | 41 | 45 | 91 |
| | 13,833 | 1,177 | 1,656 | 2,228 | 74 |
| Other interests | - | 21 | 36 | 47 | 77 |
| Total | 13,833 | 1,198 | 1,692 | 2,275 | 74 |
| Share of joint ventures/associates | - | - | 451 | 500 | 90 |
| Total 31 March 2007 | 13,833 | 1,198 | 2,143 | 2,775 | 77 |



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# Tenanted Residential – Portfolio Analysis

**Units under direct ownership, joint venture/associate or management arrangements**

| | |
|---|---|
| UK residential portfolio | 13,800 |
| German residential portfolio | 3,400 |
| G:res1 | 2,200 |
| Grainger GenInvest portfolios | 1,600 |
| Schroder JPUT | 600 |
| RYSA and Pemberstone | 400 |
| | 22,000 |



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# Development projects

**Grainger's development projects, with associated values**

| | Development Value £m | |
|---|---|---|
| | With planning permission | Without planning permission |
| Curzon Park (50%) | | 179 |
| West Waterlooville | | 111 |
| Islington | 87 | |
| Newbury | | 82 |
| Gateshead College | | 71 |
| Wards Corner | | 67 |
| Macaulay Road | 54 | |
| Kensington Church Street | 16 | |
| Others | 16 | 182 |
| | 173 | 692 |

# Glossary of Terms

| | |
|---|---|
| **Property** | |
| 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. |
| **Financial** | |
| 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. |

# Glossary of Terms

| Financial (continued) | |
|---|---|
| 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 |
| 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. |