

COMPANY REGISTRATION NUMBER: 3798495

**Grainger Finance Company Limited**  
**Financial statements**  
**30 September 2019**



# **Grainger Finance Company Limited**

## **Financial statements**

**Year ended 30 September 2019**

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# **Grainger Finance Company Limited**

## **Officers and professional advisers**

<b>The board of directors</b>	Helen C Gordon Vanessa K Simms Adam McGhin Eliza Pattinson
<b>Company secretary</b>	Adam McGhin
<b>Registered office</b>	Citygate St James' Boulevard Newcastle upon Tyne NE1 4JE
<b>Auditor</b>	KPMG LLP Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX
<b>Banker</b>	Barclays Bank plc 5 St Ann's Street Quayside Newcastle upon Tyne NE1 2BH
<b>Solicitor</b>	Womble Bond Dickinson (UK) LLP St Ann's Wharf 112 Quayside Newcastle upon Tyne NE1 3DX

# Grainger Finance Company Limited

## Strategic report

Year ended 30 September 2019

The directors present their strategic report for the year ended 30 September 2019.

### Principal activity

The principal activity of the company during the year was that of a finance company for the wider Grainger plc group. The principal activities of the company's subsidiary undertakings during the year were that of a finance company and an investment partnership.

### Strategy and business model

Grainger is the UK's largest listed residential landlord in the Private Rented Sector ('PRS'). Our strategy is to be the leading provider of private rental homes in the UK and deliver sustainable, attractive returns to our shareholders, with three strategic priorities: to grow net rental income, simplify and focus, and build on our experience as a responsible landlord.

We will continue to increase and accelerate investment into existing and newly built rental homes; development team resources are focussed on delivery of new PRS stock; and the acquisitions team are improving access and conversion of PRS opportunities. We have concentrated resources on two core assets (PRS and regulated tenancies); overheads continue to be tightly controlled following the transition to a simpler, streamlined structure; direct investment has been prioritised; and our cost of financing reduced. We will continue to build on our experience through a continued commitment to our high quality, regulated tenancy portfolio, which delivers excellent total returns and cash generation which supports our PRS growth; and maximise the opportunities from our market leading residential platform by exploiting our existing competitive advantages and investing in technology.

### Review of the business

The company is a subsidiary of Grainger plc. The directors of Grainger plc, the ultimate parent undertaking, manage the group's strategy and risks at a group level, rather than at an individual company level. Similarly the financial and operational performance of the business is assessed at an operating segment level. The directors of the company are satisfied with the results for the year ended 30 September 2019.

The company's directors believe that analysis using financial and non-financial measures is not necessary or appropriate to understand the business' development, performance or position. As such they have not been included within this report, but are included within the group's annual report.

### Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. The principal risks and uncertainties of the group, which are specific to the company, include: weak macro-economic conditions leading to long-term flat or negative valuation movements and/or the inability to transact and acquire PRS assets on acceptable terms; the inability to obtain sufficient finance arising from external factors/events (including, but not limited to, the United Kingdom's exit from the European Union ('Brexit')) which impacts the ability to fund the delivery of the strategy and maintain a strong capital structure; a failure to meet current or increased regulatory obligations or anticipate and respond to changes in regulation that increase cost; a failure to attract, retain and develop our people to ensure we have the right skills in the right place at the right time for our strategy, and a failure to take necessary action to increase the number of females and ethnic minorities at senior levels within the organisation; a significant failure within, or by, a key third-party supplier or contractor, or the failure to deliver the full benefits of our technological change ambitions to our key repairs and maintenance suppliers; a significant health and safety incident owing to inadequate or inappropriately implemented procedures; the allocation of a portion of our capital to development activities which may be complex and potentially bring multiple related risks; the breach of confidential data or technology disruption due to an internal or external attack on our information systems and data or by internal security control failure; and the loss of our position as the UK's leading PRS landlord owing to the failure to fulfil our customer proposition and reach our service standards to all our existing and future customers.

# Grainger Finance Company Limited

## Strategic report *(continued)*

Year ended 30 September 2019

The Covid-19 pandemic has had a substantial impact on many aspects of society, including business, with the duration and depth of the impact being uncertain. Specifically in relation to the group, it is currently considered that the principal risks noted above remain our principal risks. However, it is recognised that a pandemic, and consequently Government restrictions and societal behavioural changes flowing therefrom increase the likelihood of such risks being accelerated or becoming more acute. This would include, but is not limited to, market, regulatory and supplier risks. The risks to the group will continue to be monitored closely as well as the potential controls and mitigants that may be applied during this unprecedented period.

### **Future developments**

The directors expect the performance of the company to continue satisfactorily for the foreseeable future.

This report was approved by the board of directors on 28 May 2020 and signed on behalf of the board by:



Adam McGhin  
Company Secretary

# Grainger Finance Company Limited

## Directors' report

Year ended 30 September 2019

The directors present their report and the financial statements of the company for the year ended 30 September 2019.

### Directors

The directors who served the company during the year were as follows:

Helen C Gordon  
Vanessa K Simms  
Adam McGhin  
Eliza Pattinson  
Mark J Robson

(Appointed 23 April 2019)

(Resigned 30 April 2019)

### Dividends

A dividend of £111,593,927 was paid during the year (2018: £83,653,731).

### Events after the end of the reporting period

Particulars of events after the reporting date are detailed in note 20 to the financial statements.

### Directors' responsibilities statement

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 *Reduced Disclosure Framework*. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# Grainger Finance Company Limited

## Directors' report *(continued)*

Year ended 30 September 2019


### Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board of directors on 28 May 2020 and signed on behalf of the board by:



Adam McGhin  
Company Secretary

## **Independent auditor's report to the members of Grainger Finance Company Limited**

### **Opinion**

We have audited the financial statements of Grainger Finance Company Limited ("the company") for the year ended 30 September 2019 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations; and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## **Independent auditor's report to the members of Grainger Finance Company Limited (continued)**

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Independent auditor's report to the members of Grainger Finance Company Limited (continued)**

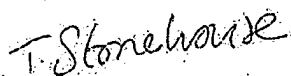
### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Tara Stonehouse (Senior Statutory Auditor)**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
Quayside House  
110, Quayside  
Newcastle upon Tyne  
NE1 3DX

8th June 2020

# Grainger Finance Company Limited

## Statement of comprehensive income

Year ended 30 September 2019

	Note	2019 £000	2018 £000
<b>Turnover</b>	<b>4</b>	<b>113,519</b>	<b>97,796</b>
Cost of sales		<b>(89,892)</b>	<b>(70,235)</b>
<b>Gross profit</b>		<b>23,627</b>	<b>27,561</b>
Administrative expenses		<b>(2,059)</b>	<b>(1,748)</b>
<b>Operating profit</b>		<b>21,568</b>	<b>25,813</b>
Income from investments in group undertakings	<b>5</b>	<b>89,453</b>	<b>6,872</b>
Interest receivable and similar income	<b>6</b>	<b>–</b>	<b>1,373</b>
Interest payable and similar expenses	<b>7</b>	<b>(13,500)</b>	<b>(10)</b>
<b>Profit before taxation</b>		<b>97,521</b>	<b>34,048</b>
Tax on profit	<b>8</b>	<b>(18,456)</b>	<b>(5,136)</b>
<b>Profit for the financial year and total comprehensive income</b>		<b>79,065</b>	<b>28,912</b>

All the activities of the company are from continuing operations.

The notes on pages 12 to 22 form part of these financial statements.


# Grainger Finance Company Limited

## Statement of financial position

30 September 2019

	Note	2019 £000	2018 £000
<b>Fixed assets</b>			
Investments	10	182,441	249,671
<b>Current assets</b>			
Stocks	11	43,689	48,579
Debtors	12	2,199,441	1,863,730
Cash at bank and in hand		4,338	17,690
		<u>2,247,468</u>	<u>1,929,999</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(1,717,550)</u>	<u>(1,484,656)</u>
<b>Net current assets</b>		<u>529,918</u>	<u>445,343</u>
<b>Total assets less current liabilities</b>		<u>712,359</u>	<u>695,014</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(295,946)</u>	<u>(246,072)</u>
<b>Net assets</b>		<u>416,413</u>	<u>448,942</u>
<b>Capital and reserves</b>			
Called up share capital	16	425,000	425,000
Profit and loss account	17	(8,587)	23,942
<b>Shareholders' funds</b>		<u>416,413</u>	<u>448,942</u>

These financial statements were approved by the board of directors and authorised for issue on 28 May 2020, and are signed on behalf of the board by:



Adam McGhin  
Director

Company registration number: 3798495

The notes on pages 12 to 22 form part of these financial statements.

# Grainger Finance Company Limited

## Statement of changes in equity

Year ended 30 September 2019

		Called up share capital £000	Profit and loss account £000	Total £000
<b>At 1 October 2017</b>		425,000	78,684	503,684
Profit for the year		—	28,912	28,912
<b>Total comprehensive income for the year</b>		—	28,912	28,912
Dividends paid	9	—	(83,654)	(83,654)
<b>Transactions with owners, recorded directly in equity</b>		—	(83,654)	(83,654)
<b>At 30 September 2018</b>		425,000	23,942	<b>448,942</b>
Profit for the year		—	79,065	<b>79,065</b>
<b>Total comprehensive income for the year</b>		—	79,065	<b>79,065</b>
Dividends paid	9	—	(111,594)	<b>(111,594)</b>
<b>Transactions with owners, recorded directly in equity</b>		—	(111,594)	<b>(111,594)</b>
<b>At 30 September 2019</b>		<u>425,000</u>	<u>(8,587)</u>	<u><b>416,413</b></u>

The notes on pages 12 to 22 form part of these financial statements.

# Grainger Finance Company Limited

## Notes to the financial statements

Year ended 30 September 2019

### 1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

### 2. Statement of compliance

The financial statements of Grainger Finance Company Limited ("the company") for the year ended 30 September 2019 were authorised for issue by the board of directors on 28 May 2020 and the statement of financial position was signed on the board's behalf by Adam McGhin.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

The company's ultimate parent undertaking, Grainger plc, includes the company in its consolidated financial statements. The consolidated financial statements of Grainger plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

### 3. Accounting policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention, except in respect of derivative financial instruments which are stated at fair value, and in accordance with applicable UK accounting standards.

The financial statements are prepared on the going concern basis in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom, which have been applied consistently throughout the year.

#### Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The company has net assets of £416,412,649 at 30 September 2019 and has generated a profit for the period then ended of £79,064,575. The company is a subsidiary of Grainger plc. The directors of Grainger plc, the ultimate parent undertaking, manage the group's strategy and risks on a consolidated basis, rather than at an individual entity level. Similarly, the financial and operating performance of the business is assessed at a Grainger plc operating segment level. For these reasons, the directors do not prepare cash flow forecasts at an individual entity level.

On a consolidated basis, the Group has assessed its future funding commitments and compared these to the level of committed loan facilities and cash resources over the medium term. In making this assessment, consideration has been given to compliance with borrowing covenants along with the uncertainty inherent in future financial forecasts and, where applicable, reasonable severe sensitivities, including the potential impact of Covid-19 (note 20), have been applied to the key factors affecting financial performance of the Group. This includes the potential impact on performance due to possible changes in the level of cash collection, rental growth, letting activity, sales performance and development activity. The Directors of the Group have a reasonable expectation that it has adequate resources to continue operating for the foreseeable future period, and not less than 12 months from the date of approval of these financial statements.

# Grainger Finance Company Limited

## Notes to the financial statements *(continued)*

Year ended 30 September 2019

### 3. Accounting policies *(continued)*

Whilst the entity does not expect to rely on future support from its ultimate parent undertaking, or any of its fellow subsidiaries, Grainger plc has indicated that it will make available such funds as are needed by the entity and that it does not intend to seek repayment of amounts due at the balance sheet date for the foreseeable future. As with any entity placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. The directors do not intend to nor have they identified any circumstances which may lead to the entity being liquidated or to cease operating.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

#### **Disclosure exemptions**

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- (a) Cash flow statement and related notes;
- (b) Comparative period reconciliations for share capital;
- (c) Disclosures in respect of transactions with wholly owned subsidiaries;
- (d) Disclosures in respect of capital management;
- (e) The effects of new but not yet effective IFRSs;
- (f) Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Grainger plc include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instruments: Disclosures.

The company has considered the impact of the adoption of those new and revised International Financial Reporting Standards and interpretations that were effective for the first time from 1 October 2018. The most significant of these were IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. There has been no material impact on the company following the adoption of these standards.

#### **Revenue recognition**

Turnover comprises gross interest receivable, gross rents, and gross sale proceeds of trading properties and land, exclusive of VAT. Property is regarded as sold when performance obligations have been met and control has been transferred to the buyer. This is generally deemed to be on legal completion as at this point the buyer is able to determine the use of the property and has rights to any cash inflows or outflows in respect of the property. Gross rentals are recognised on a straight line basis over the lease term on an accruals basis. Gross interest receivable is recognised when it becomes receivable.

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 3. Accounting policies (continued)

#### Income tax

The taxation charge for the year represents the sum of the tax currently payable and deferred tax. The charge is recognised in the statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax payable upon the realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred tax.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will give rise to a future tax liability against which the deferred tax assets can be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### Investments

Fixed asset investments are stated at cost less any provisions for diminution in value. An impairment loss is recognised for the amount by which the carrying value of the investment exceeds its recoverable amount.

#### Stocks

Trading properties are shown in the financial statements at the lower of cost and net realisable value. Cost includes legal and surveying charges incurred during the acquisition plus improvement costs. Net realisable value is the net sale proceeds which the company expects on sale of a property with vacant possession.

Repairs are expensed to the income statement as incurred. Improvement costs are capitalised.

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### Derivative financial instruments

The company uses derivative instruments to help manage its interest rate risk. In accordance with its treasury policy, the company does not hold or issue derivatives for trading purposes. Derivatives are classified as current assets or current liabilities.

The derivatives are recognised initially at fair value. Subsequently, the gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income, unless the derivatives qualify for cash flow hedge accounting in which case any gain or loss is taken to equity in a cash flow hedge reserve via other comprehensive income.

In order to qualify for hedge accounting, the company is required to document in advance the relationship between the item being hedged and the hedging instrument. The company is also required to demonstrate that the hedge will be highly effective on an on-going basis. The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the statement of comprehensive income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the statement of comprehensive income.

The fair value of interest rate swaps is based on a discounted cash flow model using market information.

### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are recorded at the date of the transactions. All differences are taken to the statement of comprehensive income.

### Group accounts

The financial statements contain information about Grainger Finance Company Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of the ultimate parent company, Grainger plc, a company registered in England and Wales.

### Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 3. Accounting policies (continued)

#### Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make significant judgements, estimates and assumptions that affect the amounts reported. The judgements, estimates and assumptions that the directors consider to be most significant to the financial statements relate to the carrying value of fixed asset investments (note 10) and the valuation of stocks (note 11).

### 4. Turnover

Turnover arises from:

	2019 £000	2018 £000
Interest	102,700	84,369
Proceeds from sale of trading properties	8,528	11,005
Rental income	2,291	2,422
	<u>113,519</u>	<u>97,796</u>

The total turnover of the company has been derived from its principal activity wholly undertaken in the UK as defined in the Strategic report.

### 5. Income from investments in group undertakings

	2019 £000	2018 £000
Dividends received	<u>89,453</u>	<u>6,872</u>

### 6. Interest receivable and similar income

	2019 £000	2018 £000
Gain on financial instruments	<u>—</u>	<u>1,373</u>

### 7. Interest payable and similar expenses

	2019 £000	2018 £000
Loss on financial instruments	13,500	—
Other interest payable and similar charges	<u>—</u>	<u>10</u>
	<u>13,500</u>	<u>10</u>

### 8. Tax on profit

#### Major components of tax expense

	2019 £000	2018 £000
<b>Current tax:</b>		
UK current tax expense	20,751	4,903

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 8. Tax on profit (continued)

	2019 £000	2018 £000
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(2,295)	233
<b>Tax on profit</b>	<b>18,456</b>	<b>5,136</b>

### Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £000	2018 £000
Profit on ordinary activities before taxation	97,521	34,048
Profit on ordinary activities by rate of tax	18,529	6,469
Non taxable income	(343)	(1,306)
Tax impact of movements in fair value of financial instruments	270	(27)
<b>Tax on profit</b>	<b>18,456</b>	<b>5,136</b>

### Factors that may affect future tax expense

No provisions have been made for tax that would have become payable if the company's properties had been sold at their year end replacement values. The total unprovided deferred tax in respect of this is £4,616,206 (2018: £5,152,434).

The Budget on 11 March 2020 cancelled the enacted reduction in the UK corporation tax rate, which will now remain at 19%. Future current tax charges will continue to be based on the current 19% rate whilst future deferred tax will be measured at 19% rather than the 17% rate enacted at 30 September 2019.

### 9. Dividends

	2019 £000	2018 £000
Dividends paid	111,594	83,654

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 10. Investments

	Investments in group undertakings £000	Investment in participating interests £000	Other investments other than loans £000	Total £000
<b>Cost</b>				
At 1 October 2018	197,670	52,000	1	249,671
Disposals	(67,230)	—	—	(67,230)
<b>At 30 September 2019</b>	<b>130,440</b>	<b>52,000</b>	<b>1</b>	<b>182,441</b>
<b>Impairment</b>				
At 1 October 2018 and 30 September 2019	—	—	—	—
<b>Carrying amount</b>				
At 30 September 2019	130,440	52,000	1	182,441
At 30 September 2018	197,670	52,000	1	249,671

Impairment adjustments are made to align the carrying value of the investments with the lower of cost and the net assets of the related undertakings. No such impairment adjustments are considered necessary at 30 September 2019.

#### Subsidiary undertakings

The company owns 100% of the undertakings listed below:

Entity	Nature of business
Grainger Finance (Tricomm) Limited	Finance company
Grainger Treasury Property Investments Limited Partnership	Investment partnership

The disposal in the year represents a return of capital in respect of Grainger Treasury Property Investments Limited Partnership.

#### Investment in participating interests

The company owns the following participating interests:

Entity	Nature of investment
BPT Limited	Irredeemable preference shares totalling £52.0m

All of the entities noted above are registered at Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

### 11. Stocks

	2019 £000	2018 £000
Trading properties	43,689	48,579

The replacement value of stock is £70,842,734 (2018: £78,887,736) based on market value at 30 September 2019.

Stock is stated in the statement of financial position at the lower of cost and net realisable value. Net realisable value is the net sales proceeds which the company expects on sale of a property with vacant possession. The directors have reviewed the vacant possession valuations of the properties on an individual property by property basis. They concluded that a write down of the carrying value of stock of £437,414 (2018: £34,775) is required in the current year.

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 12. Debtors

	2019 £000	2018 £000
Trade debtors	50	72
Amounts owed by group undertakings	2,178,962	1,845,530
Deferred tax asset	2,528	233
Derivative financial assets	11	1,782
Other debtors	17,890	16,113
	<u>2,199,441</u>	<u>1,863,730</u>

Included within amounts owed by group undertakings are unsecured loans with year end balances totalling £2,140,530,068 (2018: £1,845,529,508). The loans bear interest at a weighted rate of 4.37% in the year (2018: 3.75%), and are repayable on demand but are not expected to be repaid within the next 12 months. All other amounts owed by group undertakings are unsecured, bear no interest, and are repayable on demand.

### 13. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	356	48
Amounts owed to group undertakings	1,701,293	1,480,213
Accruals and deferred income	836	900
Derivative financial liability	14,884	3,156
Other creditors	181	339
	<u>1,717,550</u>	<u>1,484,656</u>

Included within amounts owed to group undertakings are unsecured loans with year end balances totalling £1,701,293,332 (2018: £1,447,483,856). The loans bear interest at a weighted rate of 4.37% in the year (2018: 3.75%), and are repayable on demand but are not expected to be repaid within the next 12 months. All other amounts owed to group undertakings are unsecured, bear no interest, and are repayable on demand.

### 14. Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Bank loans and overdrafts	<u>295,946</u>	<u>246,072</u>

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 14. Creditors: amounts falling due after more than one year (continued)

Bank loans bear an interest rate 1.6% above LIBOR. These loans are secured on the assets of the company and guaranteed by cross guarantees and floating charges which have been executed by the company, the ultimate parent company and certain fellow subsidiaries.

Headroom on the bank loan facility at 30 September 2019 was £324.2m (2018: £329.1m).

#### Interest rate risk

The company's interest rate risk arises from the risk of fluctuations in interest charges on floating rate borrowings. The company mitigates this risk by the use of variable to fixed interest rate swaps and caps. The parent company's board reviews its policy on interest rate exposure regularly with a view to establishing that it is still relevant in the prevailing and forecast economic environment. At 30 September 2019 116.3% of the company's gross borrowings were economically hedged to fixed or capped rates. The table below summarises debt hedged at 30 September 2019.

#### Cash flow hedged debt

	2019 £000	2018 £000
Cashflow hedges maturing:		
Within one year	100,000	—
Between one and two years	—	100,000
Between two and five years	250,000	200,000
Total of above	<u>350,000</u>	<u>300,000</u>
	2019 £000	2018 £000
Interest rate profile:		
Hedged by swap contracts	250,000	200,000
Hedged by caps	100,000	100,000
Over hedged	(49,115)	(49,109)
Total of above	<u>300,885</u>	<u>250,891</u>
	2019 £000	2018 £000
Payment profile:		
Due between two and five years	300,885	250,891
Total of above	<u>300,885</u>	<u>250,891</u>

The analysis of loans and borrowings above is before deducting unamortised issue costs of £4,938,789 (2018: £4,818,563).

The fair value of the interest rate hedging contracts at 30 September 2019 was a net liability of £14,873,504 (2018: net liability of £1,373,532).

#### Foreign exchange risk

The company's foreign exchange risk arises from the exposure due to translating overseas loans and overseas net assets into sterling and it does not have foreign currency trading with cross border currency flows. The directors of Grainger plc manage foreign exchange risk at group level, rather than at an individual business unit level. The group hedges foreign currency assets naturally by funding them through borrowings in the applicable foreign currency and aims to ensure that it has no material unhedged net assets or liabilities denominated in a foreign currency. Profit translation is not hedged. Grainger Finance Company Limited holds some of the group's borrowings in foreign currencies, but the corresponding assets are held by other

# Grainger Finance Company Limited

## Notes to the financial statements (continued)

Year ended 30 September 2019

### 14. Creditors: amounts falling due after more than one year (continued)

companies within the Grainger plc group.

At 30 September 2019 the company held £884,799 of loans in Euros (2018: £860,631).

### 15. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2019 £000	2018 £000
Included in debtors (note 12)	<u>2,528</u>	<u>233</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2019 £000	2018 £000
Derivative financial instruments	<u>2,528</u>	<u>233</u>

### 16. Called up share capital

Issued, called up and fully paid

	2019		2018	
	No.	£000	No.	£000
Ordinary shares of £1 each	<u>425,000,000</u>	<u>425,000</u>	<u>425,000,000</u>	<u>425,000</u>

### 17. Reserves

Profit and loss account - This reserve records retained earnings and accumulated losses.

### 18. Operating leases

As lessor

The total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2019 £000	2018 £000
Not later than 1 year	13	12
Later than 1 year and not later than 5 years	51	48
Later than 5 years	<u>1,615</u>	<u>1,430</u>
	<u>1,679</u>	<u>1,490</u>

### 19. Contingent liabilities

At 30 September 2019 the company, together with certain of its fellow subsidiaries, has guaranteed the £350,000,000 (2018: £350,000,000) corporate bond issued by Grainger plc, together with bank loans of £140,000,000 (2018: £140,000,000) of certain fellow subsidiaries by means of a legal charge over its assets and book debts. Details of the debt repayment profile are shown in the statutory financial statements of the ultimate parent undertaking, Grainger plc.

# Grainger Finance Company Limited

## Notes to the financial statements *(continued)*

Year ended 30 September 2019

### 20. Events after the end of the reporting period

Following the emergence of Covid-19 in the early months of 2020, the World Health Organization (WHO) declared the virus outbreak a pandemic on 11 March 2020. The directors consider the pandemic to be a non-adjusting post balance sheet event and as such no adjustments have been made to the carrying values of assets and liabilities as at 30 September 2019. At the date of approval of these financial statements, the longer term impact of the pandemic is unclear and therefore it is not practicable to give any quantitative estimates of the impacts on the financial position or performance of the company in future.

### 21. Related party transactions

The company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the Grainger plc group.

### 22. Ultimate parent undertaking and controlling party

The directors regard Grainger plc, a company registered in England and Wales, as the ultimate parent undertaking and the ultimate controlling party, being the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Grainger plc consolidated financial statements may be obtained from The Secretary, Grainger plc, Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

Grainger plc is the immediate controlling party and parent company by virtue of its 100% shareholding in the company.