COMPANY REGISTRATION NUMBER: 3798495

Grainger Finance Company Limited

Financial statements

30 September 2022

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Grainger Finance Company Limited

Financial statements

Year ended 30 September 2022

Contents

Grainger Finance Company Limited

Officers and professional advisers

The board of directors	Helen C Gordon Adam McGhin Eliza Pattinson Rob J Hudson Steven R Clark Henry B Gervaise-Jones
Company secretary	Adam McGhin
Registered office	Citygate St James' Boulevard Newcastle upon Tyne NE1 4JE
Auditor	KPMG LLP Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX
Banker	Barclays Bank plc 5 St Ann's Street Quayside Newcastle upon Tyne NE1 2BH
Solicitor	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 2022

The directors present their strategic report for the year ended 30 September 2022.

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 provider of private rental homes 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 by increasing overall income returns and improving the resilience and efficiency of our business model.

Our fully integrated business model and operating platform has three key pillars to ensure we are investing in, designing and operating the best possible homes while providing great service:

Originate - *planning, design and delivery:* Planning and creating sustainable buildings to our own specific design gives us control over the delivery and quality of new homes, whilst also ensuring our properties are efficient to run, lead the sector in health and safety, and are desirable to renters.

Invest - *research-backed capital allocation, geographic targeting, acquisitions and asset management:* Our investment process begins with comprehensive research to identify cities with the greatest demand and greatest growth potential. We invest in sites in safe neighbourhoods that provide residents with good proximity to public transport and local services.

Operate - *lettings, management and customer service:* With more than 100 years of experience in renting homes, we are committed to operational excellence and great customer service to achieve high occupancy rates and sustainable rental growth. Investment in technology and our online digital platform, CONNECT, secures our leading position in the market and enables our continued growth.

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 2022.

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 in 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 include:

- ***Market and transactional:*** Rising inflation and interest rates highlights both the rising cost of living for households and surging cost pressures on businesses leading to a slowdown in the UK economic recovery following the pandemic.

- ***Financial:*** The inability to obtain sufficient finance, and rising interest rates, arising from the external macro-environment which impacts the ability to fund the delivery of the growth strategy and maintain a strong capital structure.

- ***Regulatory:*** A failure to meet current regulatory obligations and adapt to ongoing requirements of changing policy proposals, and our ability to forward look and prepare for the future, understanding complexities of a changing regulatory landscape in which we operate.

- ***People:*** A failure to attract, retain and develop an inclusive and diverse workforce to ensure we drive business transformation at a time of business growth, and a failure to retain our talented employees by providing development opportunities, workplace flexibility, a sense of purpose and remuneration.

- ***Supplier:*** Unprecedented pressures created by Covid-19, Brexit, and the latest military conflict in Ukraine, destabilising the economic environment and impacting on logistics and supply chain activities leading to a significant failure within, or by, a key third-party supplier or contractor.

- ***Health and safety***: A significant health and safety incident, in particular a fire or gas safety incident or near-miss occurrence, owing to inadequate or inappropriately implemented procedures; our reputation as a leading landlord impacted by our ability and responsibility to understand and follow fire safety and building control requirements to protect our residents; and ensuring the performance of our portfolio aligns to our Environmental, Social and Governance standards.

- ***Development:*** The allocation of a portion of our capital to development activities which may be complex and potentially bring multiple related risks; increased costs including build cost inflation, labour and material shortages; and reduction in value through economic climate.

- ***Cyber and information security:*** 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.

- ***Customer satisfaction:*** Our ability to successfully retain our customers caused by a failure to fulfil our customer proposition and our service standards, amidst a backdrop of cost of living rises.

- ***Climate change:*** The impacts of climate change on our business and operations, including an extreme weather event, adaptation to changes in weather patterns, the cost and feasibility of transitioning our existing portfolio to a zero-carbon economy whilst ensuring our new build portfolio meets our ESG standards, and customer and investor preference for more energy efficient properties and growing stakeholder expectations.

Section 172 statement

This section of the strategic report describes how the directors have had regard to the matters set out in Section 172(1) of the Companies Act 2006 ('s172') when performing their duty to promote the success of the company for the benefit of its shareholders. As the company is a subsidiary of Grainger plc (the 'Group'), its parent company and other members of the Group are key stakeholders of the company. Accordingly, the interests of the Group have been taken into account by the directors and decisions have been made in agreement with the Board of Grainger plc. The approach to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006 are summarised as follows, and are detailed in the Grainger plc Annual Report.

- ***The long term:*** Grainger is committed to being a long-term investor in homes and communities, and delivering long-term success to our shareholders.

- ***Employees:*** Employees are at the heart of our business and our People Strategy focuses on delivering the highest levels of learning and development, wellbeing and inclusion.

- ***Business relationships with suppliers, customers and partners:*** The relationships with our key partners and suppliers are critical to our ability to deliver and maintain high-quality rental homes. Strong relationships with our customers supports retention and creates a community within our buildings.

- ***The community and the environment:*** We consider communities to encompass those created within our buildings as well as those around them, and actively seek ways to promote thriving communities and to minimise our impact on the environment.

- ***High standards of business conduct:*** Grainger is proud to be a FTSE4Good business and adheres to the highest standards of business conduct in interactions with all our stakeholders.

- ***Shareholders:*** We conduct regular direct engagement with our shareholders through a range of channels, and ensure key issues raised are factored into strategic decision-making.

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 15 June 2023 and signed on behalf of the board by:

Adam McGhin
Company Secretary

Grainger Finance Company Limited

Directors' report

Year ended 30 September 2022

The directors present their report and the financial statements of the company for the year ended 30 September 2022.

Directors

The directors who served the company during the year, and subsequent to the year end, were as follows:

Helen C Gordon	
Adam McGhin	
Eliza Pattinson	
Rob J Hudson	(Appointed 14 October 2021)
Toby E Austin	(Appointed 14 October 2021, resigned 30 November 2022)
Steven R Clark	(Appointed 25 March 2022)
Andrew P Saunderson	(Resigned 26 November 2021)
Henry B Gervaise-Jones	(Appointed 30 November 2022)

Dividends

A dividend of £35,000,000 was paid during the year (2021: £nil).

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.

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 15 June 2023 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 2022 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 2022 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to Grainger plc's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- reading Board minutes.

- considering remuneration incentive schemes and performance targets for management.

- using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that proceeds from sale of properties close to the year end are recorded in the incorrect accounting period and the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as valuation of investment and recoverability of trading properties.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of Group-wide fraud risk management controls.

We also performed procedures including:

- tracing property sales recognised either side of the year end to completion statements to assess the appropriateness of the timing of revenue recognition.

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, landlord regulation and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 5, 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.

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.

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.

Dan Gibson

Dan Gibson (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
20 June 2023

Grainger Finance Company Limited

Statement of comprehensive income

Year ended 30 September 2022

	Note	2022 £000	2021 £000
Turnover	4	**94,814**	122,623
Cost of sales		**(75,999)**	(98,537)
Gross profit		**18,815**	24,086
Administrative expenses		**(1,117)**	(3,701)
Operating profit		**17,698**	20,385
Income from investments in group undertakings		**1,705**	3,786
Interest receivable and similar income		**36,641**	13,112
Profit before taxation		**56,044**	37,283
Tax on profit	8	**(16,572)**	(6,550)
Profit for the financial year and total comprehensive income		**39,472**	30,733

All the activities of the company are from continuing operations.

The notes on pages 14 to 24 form part of these financial statements.

Grainger Finance Company Limited

Statement of financial position

30 September 2022

	Note	2022 £000	2021 £000
Fixed assets			
Investments	9	172,356	172,356
Current assets			
Stocks	10	33,690	35,007
Debtors	11	1,986,922	2,497,495
Cash at bank and in hand		5,055	10,156
		2,025,667	2,542,658
Creditors: amounts falling due within one year	12	(1,543,658)	(2,083,725)
Net current assets		482,009	458,933
Total assets less current liabilities		654,365	631,289
Creditors: amounts falling due after more than one year	13	(178,570)	(168,071)
Provisions			
Deferred tax	14	(8,105)	–
Net assets		467,690	463,218
Capital and reserves			
Called up share capital	16	425,000	425,000
Profit and loss account	17	42,690	38,218
Shareholders' funds		467,690	463,218

These financial statements were approved by the board of directors and authorised for issue on 15 June 2023, and are signed on behalf of the board by:

Adam McGhin
Director

Company registration number: 3798495

The notes on pages 14 to 24 form part of these financial statements.

Grainger Finance Company Limited

Statement of changes in equity

Year ended 30 September 2022

	Called up share capital £000	Profit and loss account £000	**Total £000**
At 1 October 2020	425,000	7,485	432,485
Profit for the year	–	30,733	30,733
Total comprehensive income for the year	–	30,733	30,733
At 30 September 2021	425,000	38,218	**463,218**
Profit for the year	–	39,472	**39,472**
Total comprehensive income for the year	–	39,472	**39,472**
Dividends paid	–	(35,000)	**(35,000)**
Transactions with owners, recorded directly in equity	–	(35,000)	**(35,000)**
At 30 September 2022	425,000	42,690	**467,690**

The notes on pages 14 to 24 form part of these financial statements.

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 2022 were authorised for issue by the board of directors on 15 June 2023 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.

3. Accounting policies *(continued)*

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 £467,690,000 at 30 September 2022 and has generated a profit for the period then ended of £39,472,000. 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, severe sensitivities have been applied to the key factors affecting financial performance of the Group. The assessment includes the potential impact of reduced PRS occupancy, contraction in rental levels, reduced property valuations, cost inflation and changes in interest rates. 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 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.

3. Accounting policies *(continued)*

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 2021. 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.

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.

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.

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 9) and the valuation of stocks (note 10).

4. Turnover

Turnover arises from:

	2022	2021
	£000	£000
Interest	**90,051**	112,647
Proceeds from sale of trading properties	**2,854**	7,998
Rental income	**1,909**	1,978
	94,814	122,623

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. Operating profit

Audit fees of £6,900 (2021: £4,400) are statutory audit fees only and are borne by another group company.

There are no persons holding service contracts with the company (2021: none). None of the directors received any remuneration from the company during the year, or in the previous year, in respect of their services to the company.

6. Income from investments in group undertakings

	2022	2021
	£000	£000
Dividends received	**1,705**	3,786

7. Interest receivable and similar income

	2022	2021
	£000	£000
Gain on financial instruments	**50,238**	13,112
Premium payable on financial instruments	**(13,679)**	–
Other interest receivable and similar income	**82**	–
	36,641	13,112

8. Tax on profit

	2022	2021
	£000	£000
Current tax:		
UK current tax expense	**4,704**	4,307
Adjustments in respect of prior periods	**2,728**	–
Total current tax	**7,432**	4,307
Deferred tax:		
Origination and reversal of temporary differences	**9,140**	2,243
Tax on profit	**16,572**	6,550

Reconciliation of tax expense
The tax assessed on the profit on ordinary activities for the year is higher than (2021: lower than) the standard rate of corporation tax in the UK of 19% (2021: 19%).

	2022	2021
	£000	£000
Profit on ordinary activities before taxation	**56,044**	37,283
Profit on ordinary activities by rate of tax	**10,648**	7,084
Income from investments in group undertakings	**(758)**	(285)
Impact of tax rate changes	**2,194**	(249)
Effects of corporate interest restriction	**630**	–
Share of partnership profits	**3,858**	–
Tax on profit	**16,572**	6,550

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 £7,631,154 (2021: £6,998,868).

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) has been enacted. This will increase the company's future current tax charge accordingly. Deferred tax at 30 September 2022 has been measured at 25% (2021: 25%).

9. Investments

	Equity in group undertakings £000	Investment in participating interests £000	Other investments other than loans £000	**Total £000**
Cost				
At 1 October 2021 and 30 September 2022	120,355	52,000	1	**172,356**
Impairment				
At 1 October 2021 and 30 September 2022	–	–	–	**–**
Carrying amount				
At 30 September 2022	120,355	52,000	1	**172,356**
At 30 September 2021	120,355	52,000	1	**172,356**

9. Investments *(continued)*

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 2022.

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.

10. Stocks

	2022	2021
	£000	£000
Trading properties	**33,690**	35,007

The replacement value of stock is £64,214,354 (2021: £63,002,597) based on market value at 30 September 2022.

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 back to the carrying value of stock of £55,339 (2021: £29,885) was required in the current year.

11. Debtors

	2022	2021
	£000	£000
Trade debtors	–	2,149
Amounts owed by group undertakings	**1,918,348**	2,476,519
Deferred tax asset	–	1,035
Derivative financial assets	**46,098**	–
Other debtors	**22,476**	17,792
	1,986,922	2,497,495

11. Debtors *(continued)*

Amounts owed by group undertakings relates to unsecured loans with year end balances totalling £1,918,348,403 (2021: £2,451,375,734). The loans bear interest at a weighted rate of 4.34% in the year (2021: 4.29%), and are repayable on demand but are not expected to be repaid within the next 12 months.

12. Creditors: amounts falling due within one year

	2022	2021
	£000	£000
Trade creditors	17	–
Amounts owed to group undertakings	1,542,570	2,078,741
Accruals and deferred income	558	653
Derivative financial liability	–	4,140
Other creditors	513	191
	1,543,658	2,083,725

Included within amounts owed to group undertakings are unsecured loans with year end balances totalling £890,596,828 (2021: £2,078,742,203). The loans bear interest at a weighted rate of 4.34% in the year (2021: 4.29%), and are repayable on demand but are not expected to be repaid within the next 12 months. Interest payable for the year amounted to £64,978,859 (2021: £81,006,369). All other amounts owed to group undertakings are unsecured, bear no interest, and are repayable on demand.

13. Creditors: amounts falling due after more than one year

	2022	2021
	£000	£000
Bank loans and overdrafts	178,570	168,071

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. Interest payable and similar charges for the year amounted to £9,022,290 (2021: £13,214,691).

Headroom on the bank loan facility at 30 September 2022 was £390.8m (2021: £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.

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 companies within the Grainger plc group.

At 30 September 2022 the company held £876,885 of loans in Euros (2021: £859,476).

14. Provisions

	Deferred tax (note 15) £000
At 1 October 2021	–
Transfers	8,105
At 30 September 2022	**8,105**

15. Deferred tax

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

	2022 £000	2021 £000
Included in debtors (note 11)	–	1,035
Included in provisions (note 14)	(8,105)	–
	(8,105)	1,035

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

	2022 £000	2021 £000
Derivative financial instruments	(8,105)	1,035

16. Called up share capital

Issued, called up and fully paid

	2022		2021	
	No.	£	No.	£
Ordinary shares of £1 each	425,000,000	425,000,000	425,000,000	425,000,000

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:

	2022 £000	2021 £000
Not later than 1 year	10	11
Later than 1 year and not later than 5 years	42	42
Later than 5 years	1,367	1,369
	1,419	1,422

19. Contingent liabilities

At 30 September 2022 the company, together with certain of its fellow subsidiaries, has guaranteed the £700,000,000 (2021: £700,000,000) corporate bonds issued by Grainger plc, together with bank loans of £140,000,000 (2021: £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.

20. 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.

21. 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.