COMPANY REGISTRATION NUMBER 5019636

Grainger Employees Limited

Financial statements

30 September 2012

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Grainger Employees Limited

Financial statements

Year ended 30 September 2012

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Grainger Employees Limited

The directors' report

Year ended 30 September 2012

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 30 September 2012

Principal activities and business review
The principal activity of the company during the year was the provision of management services to other group companies

Results and dividends
The profit for the year, after taxation, amounted to £702,448 The directors have not recommended a dividend

Principal risks and uncertainties
The directors of Grainger plc manage the group's risks at a group level, rather than at an individual business unit level For this reason, the company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of Grainger Employees Limited's business The principal risks and uncertainties of the Grainger plc group, which include those of the company, are discussed in the group's annual report, which does not form part of this report

Key performance indicators
Given the straight forward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of Grainger Employees Limited's business

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

Andrew R Cunningham
Mark J Robson
Nick P On
Mark Greenwood
Nicholas M F Jopling
Peter Q P Couch

Policy on the payment of creditors
It is the company's policy to pay all of its suppliers in accordance with their normal trading terms and conditions for both the current year and the following financial year Trade creditor days relating to trade creditors of the Company were calculated as 22 days (2011 22 days)

Directors' responsibilities
The directors are responsible for preparing the 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) 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 of the profit or loss of the company for that year

In preparing those 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Disabled employees
The company gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities In the event of an employee becoming disabled every effort is made to ensure that their employment within the company continues and that appropriate training is arranged where necessary It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of of other employees

Employee involvement
The group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees, for example, eligibility to join company share schemes, and on the various factors affecting the performance of the group Communication is made using the intranet, and through regular meetings with, and presentations by, senior management

Grainger Employees Limited

The directors' report ***(continued)***

Year ended 30 September 2012

Auditor
PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Signed by order of the directors

Michael P Windle
Company Secretary

Approved by the directors on 21 June 2013

Grainger Employees Limited

Independent auditor's report to the shareholders of Grainger Employees Limited

Year ended 30 September 2012

We have audited the financial statements of Grainger Employees Limited for the year ended 30 September 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out in the directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006

Grainger Employees Limited

Independent auditor's report to the shareholders of Grainger Employees Limited ***(continued)***

Year ended 30 September 2012

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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

JONATHAN GREENAWAY (Senior Statutory Auditor)
For and on behalf of
PRICEWATERHOUSECOOPERS LLP
Chartered Accountants & Statutory Auditor

89 Sandyford Road
Newcastle Upon Tyne
NE1 8HW

21 June 2013

Grainger Employees Limited

Profit and loss account

Year ended 30 September 2012

	Note	2012 £	2011 £
Turnover	**2**	**17,439,000**	20,834,984
Administrative expenses		**(16,859,157)**	(17,574,089)
Operating profit	**3**	**579,843**	3,260,895
Interest receivable	**6**	**368,831**	143,971
Interest payable and similar charges	**7**	**–**	(34,139)
Profit on ordinary activities before taxation		**948,674**	3,370,727
Tax on profit on ordinary activities	**8**	**(246,226)**	(912,533)
Profit for the financial year		**702,448**	2,458,194
Balance brought forward		**5,489,013**	3,030,819
Balance carried forward		**6,191,461**	5,489,013

All of the activities of the company are classed as continuing

The notes on pages 9 to 15 form part of these financial statements.

Grainger Employees Limited

Statement of total recognised gains and losses

Year ended 30 September 2012

	2012	2011
	£	£
Profit for the financial year attributable to the shareholders	**702,448**	2,458,194
Recognition of equity-settled share-based payments in the year	**2,089,281**	1,967,960
Total gains and losses recognised since the last annual report	**2,791,729**	4,426,154

The notes on pages 9 to 15 form part of these financial statements

Grainger Employees Limited

Balance sheet

30 September 2012

	Note	2012 £	2012 £	2011 £
Fixed assets				
Tangible assets	9		–	18,677
Current assets				
Debtors	10	18,470,417		22,050,735
Creditors Amounts falling due within one year	12	(3,457,489)		(9,848,213)
Net current assets			15,012,928	12,202,522
Total assets less current liabilities			15,012,928	12,221,199
Capital and reserves				
Called-up equity share capital	15		1	1
Share options reserve	16		8,821,466	6,732,185
Profit and loss account			6,191,461	5,489,013
Shareholders' funds	17		15,012,928	12,221,199

These financial statements were approved by the directors and authorised for issue on 21 June 2013, and are signed on their behalf by

Mark Greenwood
Director

Company Registration Number 5019636

The notes on pages 9 to 15 form part of these financial statements

Grainger Employees Limited

Notes to the financial statements

Year ended 30 September 2012

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable 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

Cash flow statement

The company is a wholly owned subsidiary of Grainger plc and the cash flows of the company are included in the consolidated cash flow statement of Grainger plc Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 (Revised 1996) from preparing a cash flow statement

Turnover

Turnover comprises management fees and sundry other income, exclusive of VAT

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Fixtures & Fittings - 20% straight line

Pension costs

The pension costs charged in the financial statements represent the contributions payable by the company during the year

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

1 Accounting policies *(continued)*

Share-based payments

The group operates a number of equity-settled, share based compensation plans comprising awards under a long-term incentive scheme ('LTIS'), a deferred bonus plan ('DBP'), a share incentive plan ('SIP'), and a save as you earn ('SAYE') scheme The fair value of the employee services received in exchange for the grant of shares and options is recognised as an employee expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted Non-market vesting conditions are included in assumptions about the number of options that are expected to vest At each balance sheet date, the group revises its estimates of the number of options that are expected to vest It recognises the impact of the revision to the original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity Awards that are subject to market-based performance conditions are valued at fair value using the Monte Carlo simulation model Awards not subject to market based conditions are valued at fair value using the Black-Scholes valuation model

When options are exercised the proceeds received net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium in the parent company

2 Turnover

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

3 Operating profit

Operating profit is stated after charging

	2012	2011
	£	£
Depreciation of owned fixed assets	**18,677**	19,830
Auditor's remuneration		
- as auditor	**–**	400

Audit fees are statutory audit fees only and are borne by another Group company

Grainger Employees Limited

Notes to the financial statements

Year ended 30 September 2012

4. Particulars of employees

The average number of staff employed by the company during the financial year amounted to

	2012	2011
	No	No
Employees	**275**	264

The aggregate payroll costs of the above were

	2012	2011
	£	£
Wages and salaries	**12,350,169**	13,467,737
Social security costs	**1,436,884**	1,171,376
Other pension costs	**886,489**	847,285
Equity-settled share-based payments	**2,089,281**	1,967,960
	16,762,823	17,454,358

Included within wages and salaries are redundancy costs totalling £84,279 (2011 £222,114)

Details of the company's pension scheme arrangements can be found in the financial statements of the ultimate holding company, Grainger plc

5 Directors' remuneration

The directors' aggregate remuneration and other payments in respect of qualifying services were

	2012	2011
	£	£
Remuneration receivable	**3,110,567**	2,836,963
Value of company pension contributions to money purchase schemes	**195,959**	224,948
Compensation for loss of directorship	–	131,692
	3,306,526	3,193,603

The number of directors who accrued benefits under company pension schemes was as follows

	2012	2011
	No	No
Money purchase schemes	**6**	7

The highest paid director was Andrew R Cunningham who is also a director of Grainger plc Full details of his remuneration and his interests in Grainger plc shares and options are disclosed in the annual report of Grainger plc

6. Interest receivable

	2012	2011
	£	£
Other interest	–	595
Interest from group undertakings	**368,831**	143,376
	368,831	143,971

7 Interest payable and similar charges

	2012 £	2011 £
Interest payable to group undertakings	-	34,139

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2012 £	2012 £	2011 £
Current tax			
In respect of the year			
UK Corporation tax based on the results for the year at 25% (2011 - 27%)		**316,044**	904,607
Total current tax		**316,044**	904,607
Deferred tax			
Origination and reversal of timing differences (note 11)			
Capital allowances	**5,270**		7,926
Provision deferred tax, unpaid remuneration	**(75,088)**		-
Total deferred tax (note 11)		**(69,818)**	7,926
Tax on profit on ordinary activities		**246,226**	912,533

There is no unprovided deferred tax liability or unrecognised deferred tax asset in these financial statements

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 25% (2011 - 27%)

	2012 £	2011 £
Profit on ordinary activities before taxation	**948,674**	3,370,727
Profit on ordinary activities by rate of tax	**237,168**	910,097
Capital allowances for period in excess of depreciation	**(2,742)**	(5,490)
Deferred tax arising on unpaid remuneration	**81,618**	-
Total current tax (note 8(a))	**316,044**	904,607

(c) Factors that may affect future tax charges

There are no factors that are expected to significantly affect the taxation charge in future years

Grainger Employees Limited

Notes to the financial statements

Year ended 30 September 2012

9 Tangible fixed assets

	Fixtures & Fittings
	£
Cost	
At 1 October 2011 and 30 September 2012	**428,595**
Depreciation	
At 1 October 2011	**409,918**
Charge for the year	**18,677**
At 30 September 2012	**428,595**
Net book value	
At 30 September 2012	**-**
At 30 September 2011	18,677

10 Debtors

	2012	2011
	£	£
Amounts owed by group undertakings	**18,314,986**	21,967,951
Other debtors	**51,273**	48,444
Deferred taxation (note 11)	**104,158**	34,340
	18,470,417	22,050,735

11 Deferred taxation

The deferred tax included in the Balance sheet is as follows

	2012	2011
	£	£
Included in debtors (note 10)	**104,158**	34,340

The movement in the deferred taxation account during the year was

	2012	2011
	£	£
Balance brought forward	**34,340**	42,266
Profit and loss account movement arising during the year	**69,818**	(7,926)
Balance carried forward	**104,158**	34,340

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

	2012	2011
	£	£
Excess of depreciation over taxation allowances	**29,070**	34,340
Provision deferred tax, unpaid remuneration	**75,088**	-
	104,158	34,340

12 Creditors Amounts falling due within one year

	2012	2011
	£	£
Trade creditors	**6,479**	5,343
Amounts owed to group undertakings	**–**	4,956,882
PAYE and social security	**452,410**	456,453
Other creditors	**106,171**	85,657
Accruals and deferred income	**2,892,429**	4,343,878
	3,457,489	9,848,213

13. Share-based payments

Equity-settled share-based payments

The Grainger plc group operates an equity-settled, share-based compensation plan comprising awards under a long-term incentive scheme ('LTIS'), a deferred bonus plan ('DBP'), a share incentive plan ('SIP') and a save as you earn ('SAYE') scheme

For LTIS awards granted before September 2010, one third are subject to an absolute Grainger plc total shareholder return performance condition measured over three years from the date of grant and two thirds are subject to Grainger plc annual growth in Net Net Net Asset Value ('NNNAV') measured over three years from the date of grant For LTIS awards granted after 30 September 2010 one half are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and one half are subject to annual growth in NNNAV compared to the growth in the Halifax and Nationwide House Price indices all measured over three years from the date of grant Awards subject to an absolute total shareholder return performance, which is a market-based performance condition, have been valued at fair value using a Monte Carlo simulation valuation model Awards subject to growth in NNNAV, which is a non-market based performance condition, have been valued at fair value using a a Black Scholes valuation model

Awards granted under the DBP have no specific performance conditions other than the group meeting its target for operating profit before valuation movements and non-recurring items (OPBVM) and continued employment by the group There is a three year vesting period from the date of grant One-third of the awards vest at the end of each year Participants can choose to exercise their awards on vesting or to retain their awards within the plan until the end of the third year at which point a 50% matching element is added to their award entitlement There were three schemes in operation during the financial year commencing on 3 February 2010, 6 December 2010 and 16 December 2011 respectively

Awards under the DBP have been valued based on the share price at the date of the award less the dividend yield at the award date as there is no entitlement to dividends during the vesting period

Awards under the SAYE scheme have been valued at fair value using a Black Scholes valuation model

Awards under the SIP scheme have been based on the share price at the date of the award

Shares were awarded, subject to any vesting conditions set out above, to executive directors and selected employees during the year under the LTIS and the DBP Employees are eligible to join the SIP scheme after they have been employed 18 months by the company Share options were granted to employees of the group during the year under the SAYE scheme

The company recognised total expenses of £2,089,281 (2011 - £1,967,960) related to equity-settled share-based payment transactions during the year

14 Related party transactions

The company has taken advantage of the exemption available under Financial Reporting Standard No 8 and has not disclosed transactions with companies that are part of the Grainger plc group

15. Share capital

Authorised share capital:

	2012	2011
	£	£
100 Ordinary shares of £1 each	**100**	100

Allotted, called up and fully paid·

	2012		2011	
	No	£	No	£
1 Ordinary shares of £1 each	**1**	**1**	1	1

16 Share options reserve

	2012	2011
	£	£
Balance brought forward	**6,732,185**	4,764,225
Recognition of equity-settled share-based payments in the year	**2,089,281**	1,967,960
Balance carried forward	**8,821,466**	6,732,185

17. Reconciliation of movements in shareholders' funds

	2012	2011
	£	£
Profit for the financial year	**702,448**	2,458,194
Recognition of equity-settled share-based payments in the year	**2,089,281**	1,967,960
Net addition to shareholders' funds	**2,791,729**	4,426,154
Opening shareholders' funds	**12,221,199**	7,795,045
Closing shareholders' funds	**15,012,928**	12,221,199

18. 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