

Grainger Employees Limited
Financial statements
30 September 2017



Grainger Employees Limited

Financial statements

Year ended 30 September 2017

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Grainger Employees Limited

Officers and professional advisers

The board of directors

Mark J Robson
Helen C Gordon
Vanessa K Simms
Adam McGhin

Company secretary

Adam McGhin

Registered office

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Auditor

KPMG LLP
Chartered accountants & statutory auditor
15 Canada Square
Canary Wharf
London
E14 5GL

Bankers

Barclays Bank plc
5 St Ann's Street
Quayside
Newcastle upon Tyne
NE1 2BH

Solicitors

Womble Bond Dickinson (UK) LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Grainger Employees Limited

Strategic report

Year ended 30 September 2017

The directors present their strategic report for the year ended 30 September 2017.

Principal activity

The principal activity of the company during the year was the provision of management services to other group companies.

Strategy and business model

Grainger is a specialist residential property company. Our objective is to be the UK's leading private residential landlord, capitalising on the compelling Private Rented Sector ("PRS") market opportunity and delivering attractive and sustainable total shareholder returns. Our strategy is designed to grow rents, simplify and focus the business and build on the operational strength and foundations of over 100 years of renting homes.

Our key areas of focus are to grow our rents, to simplify and focus the business, and to build on our experience. 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 have been reduced by transitioning 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.

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 2017.

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 macroeconomic conditions leading to long-term flat or negative valuation movements; the inability to obtain sufficient finance 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 create increased and costly obligations; 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; a significant failure within, or by, a key third-party supplier or contractor; a significant health and safety incident as a result of inadequate or inappropriately implemented procedures; a failure to implement strategy, including failure to transact and acquire assets on acceptable terms, to integrate PRS assets efficiently in the management platform at the required scale, to reduce overheads, to convert to a rental and income model, and to maintain our position as the UK's leading landlord while managing change; the allocation of a portion of our capital to activities which carry development risk; the breach of confidential data or technology disruption, caused by an internal or external attack on our information systems and data or by internal security control failure; and the failure to fulfil our customer proposition consistently, and meet our high service standards for our diversified customer base.

Future developments

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

Grainger Employees Limited

Strategic report *(continued)*

Year ended 30 September 2017

This report was approved by the board of directors on 21 June 2018 and signed on behalf of the board by:

A handwritten signature in black ink, appearing to read 'Adam McGhin', with a stylized flourish at the end.

Adam McGhin
Company Secretary

Grainger Employees Limited

Directors' report

Year ended 30 September 2017

The directors present their report and the financial statements of the company for the year ended 30 September 2017.

Directors

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

Mark J Robson
Nicholas M F Jopling (Resigned 20 December 2017)
Helen C Gordon
Vanessa K Simms
Adam McGhin

Dividends

The directors do not recommend the payment of a dividend (2016: £nil).

Employment of disabled persons

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 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 company intranet, through regular newsletters, team meetings, presentations by senior management and quarterly all-staff conference calls hosted by the Executives.

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;

Grainger Employees Limited

Directors' report *(continued)*

Year ended 30 September 2017

- 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 21 June 2018 and signed on behalf of the board by:



Adam McGhin
Company Secretary

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

Opinion

We have audited the financial statements of Grainger Employees Limited ("the company") for the year ended 30 September 2017 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 2017 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

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

- 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 pages 4 and 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 misstatements, 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.



Bill Holland (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
22 June 2018

Grainger Employees Limited

Statement of comprehensive income

Year ended 30 September 2017

	Note	2017 £	2016 £
Turnover	4	19,127,997	21,028,000
Cost of sales		(18,207,568)	(20,004,548)
Gross profit		920,429	1,023,452
Administrative expenses		(1,241)	(1,125)
Operating profit	5	919,188	1,022,327
Interest receivable and similar income	8	1,089,629	1,107,475
Profit before taxation		2,008,817	2,129,802
Tax on profit	9	(12,619)	603,764
Profit for the financial year and total comprehensive income		1,996,198	2,733,566

All the activities of the company are from continuing operations.

The notes on pages 11 to 19 form part of these financial statements.

Grainger Employees Limited

Statement of financial position

30 September 2017

	Note	2017 £	2016 £
Current assets			
Debtors	11	38,644,884	34,052,402
Creditors: amounts falling due within one year	12	(4,979,803)	(4,436,675)
Net current assets		<u>33,665,081</u>	<u>29,615,727</u>
Total assets less current liabilities		<u>33,665,081</u>	<u>29,615,727</u>
Net assets		<u>33,665,081</u>	<u>29,615,727</u>
Capital and reserves			
Called up share capital	16	1	1
Share option reserve	17	18,998,631	16,945,475
Profit and loss account	17	<u>14,666,449</u>	<u>12,670,251</u>
Shareholders' funds		<u>33,665,081</u>	<u>29,615,727</u>

These financial statements were approved by the board of directors and authorised for issue on 21 June 2018, and are signed on behalf of the board by:



Adam McGhin
Director

Company registration number: 5019636

The notes on pages 11 to 19 form part of these financial statements.

Grainger Employees Limited

Statement of changes in equity

Year ended 30 September 2017

	Called up share capital £	Share option reserve £	Profit and loss account £	Total £
At 1 October 2015	1	15,091,208	9,936,685	25,027,894
Profit for the year	—	—	2,733,566	2,733,566
Total comprehensive income for the year	—	—	2,733,566	2,733,566
Equity-settled share-based payments	—	1,854,267	—	1,854,267
Total investments by and distributions to owners	—	1,854,267	—	1,854,267
At 30 September 2016	1	16,945,475	12,670,251	29,615,727
Profit for the year	—	—	1,996,198	1,996,198
Total comprehensive income for the year	—	—	1,996,198	1,996,198
Equity-settled share-based payments	—	2,053,156	—	2,053,156
Total investments by and distributions to owners	—	2,053,156	—	2,053,156
At 30 September 2017	1	18,998,631	14,666,449	33,665,081

The notes on pages 11 to 19 form part of these financial statements.

Grainger Employees Limited

Notes to the financial statements

Year ended 30 September 2017

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 Employees Limited ("the company") for the year ended 30 September 2017 were authorised for issue by the board of directors on 21 June 2018 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, 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.

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 capital management;
- (d) The effects of new but not yet effective IFRSs;
- (e) 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.

Revenue recognition

Turnover comprises management fees, exclusive of VAT. Management fees are recognised when they become receivable.

Grainger Employees Limited

Notes to the financial statements *(continued)*

Year ended 30 September 2017

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.

Tangible assets

All fixed assets are initially recorded at cost.

Depreciation

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

Fixtures & Fittings	- 20% straight line
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Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension costs charged in the financial statements represent the contributions payable by the company during the year.

Grainger Employees Limited

Notes to the financial statements (continued)

Year ended 30 September 2017

3. 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 Plan ('LTIP'), a Deferred Bonus Plan ('DBP'), a Share Incentive Plan ('SIP') and a Save As You Earn ('SAYE') scheme. Where the company's parent grants rights to its equity instruments to the company's employees which are accounted for as equity-settled in the consolidated accounts of the parent, the company accounts for these share-based payments as equity-settled. 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. For market-based conditions, the probability of vesting is taken into account in the fair value calculation and no revision is made to the number of shares or options expected to vest. For non-market conditions, each year the group revises its estimate of the number of options or shares that are expected to vest. It recognises the impact of the revision to the original estimates, if any, in the statement of comprehensive income with a corresponding adjustment to equity.

Awards that are subject to a market-based performance condition are valued at fair value using the Monte Carlo simulation model. Awards not subject to a market-based performance condition 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.

Non-derivative financial instruments

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

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.

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 directors have considered whether there are any such sources of estimation or critical accounting judgements in preparing the financial statements and do not consider there to be any for the purposes of disclosure.

4. Turnover

Turnover arises from:

	2017 £	2016 £
Intercompany management charges	<u>19,127,997</u>	<u>21,028,000</u>

The whole of the turnover is attributable to the principal activity of the company wholly undertaken in the United Kingdom.

Grainger Employees Limited

Notes to the financial statements (continued)

Year ended 30 September 2017

5. Operating profit

Operating profit or loss is stated after charging:

	2017 £	2016 £
Equity-settled share-based payments expense	<u>2,053,156</u>	<u>1,854,267</u>

Audit fees of £2,100 (2016: £2,600) are statutory audit fees only and are borne by another group company.

6. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

	2017 No.	2016 No.
Residential	121	106
Development	8	12
Shared services	75	111
Group	11	17
Retirement Solutions	—	7
	<u>215</u>	<u>253</u>

The aggregate payroll costs incurred during the year, relating to the above, were:

	2017 £	2016 £
Wages and salaries	15,609,189	17,216,564
Social security costs	1,706,538	1,730,145
Other pension costs	891,841	1,057,839
	<u>18,207,568</u>	<u>20,004,548</u>

7. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2017 £	2016 £
Remuneration	2,311,541	2,001,562
Amount received under long term incentive schemes	228,843	3,409,415
Company contributions to defined contribution pension plans	17,568	224,385
	<u>2,557,952</u>	<u>5,635,362</u>

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

	2017 No.	2016 No.
Defined contribution plans	<u>1</u>	<u>7</u>

Grainger Employees Limited

Notes to the financial statements (continued)

Year ended 30 September 2017

7. Directors' remuneration (continued)

The highest paid director was Helen Gordon (2016: Andrew R Cunningham) who was also a director of Grainger plc. Full details of their remuneration and their interests in Grainger plc shares and options are disclosed in the annual report of Grainger plc. The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid director was £899,399 (2016: £1,684,033) and company pension contributions of £69,000 (2016: £22,386) were made to a money purchase scheme on their behalf.

8. Other interest receivable and similar income

	2017 £	2016 £
Interest from group undertakings	<u>1,089,629</u>	<u>1,107,475</u>

9. Tax on profit

Major components of tax income

	2017 £	2016 £
Current tax:		
UK current tax income	564,542	(352,890)
Deferred tax:		
Origination and reversal of timing differences	(551,923)	(250,874)
Tax on profit	<u>12,619</u>	<u>(603,764)</u>

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

Reconciliation of tax income

The tax assessed on the profit on ordinary activities for the year is the lower than (2016: lower than) the standard rate of corporation tax in the UK of 19.50% (2016: 20%).

	2017 £	2016 £
Profit on ordinary activities before taxation	<u>2,008,817</u>	<u>2,129,802</u>
Profit on ordinary activities by rate of tax	391,719	425,960
Effect of capital allowances and depreciation	(258)	1,715
Tax effect of unpaid remuneration	15,141	(360,784)
Deduction in respect of share-based payments	(393,983)	(670,655)
Tax on profit	<u>12,619</u>	<u>(603,764)</u>

Factors that may affect future tax income

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) are in effect or have been substantively enacted. These will reduce the company's future current tax charge accordingly.

Grainger Employees Limited

Notes to the financial statements (continued)

Year ended 30 September 2017

10. Tangible assets

	Fixtures and fittings £	Total £
Cost		
At 1 October 2016 and 30 September 2017	428,593	428,593
Depreciation		
At 1 October 2016 and 30 September 2017	428,593	428,593
Carrying amount		
At 30 September 2017	—	—

11. Debtors

	2017 £	2016 £
Amounts owed by group undertakings	37,498,882	33,453,005
Deferred tax asset	1,115,714	563,791
Other debtors	30,288	35,606
	<u>38,644,884</u>	<u>34,052,402</u>

12. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	1,885	7,385
Accruals and deferred income	4,466,421	3,625,911
Social security and other taxes	451,378	738,810
Other creditors	60,119	64,569
	<u>4,979,803</u>	<u>4,436,675</u>

13. Deferred tax

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

	2017 £	2016 £
Included in debtors (note 11)	<u>1,115,714</u>	<u>563,791</u>

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

	2017 £	2016 £
Accelerated capital allowances	(7,966)	(9,714)
Provision deferred tax - unpaid remuneration	<u>(1,107,748)</u>	<u>(554,077)</u>
	<u>(1,115,714)</u>	<u>(563,791)</u>

Grainger Employees Limited

Notes to the financial statements (continued)

Year ended 30 September 2017

14. Employee benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £891,841 (2016: £1,057,839).

15. Share-based payments

The Grainger plc group operates a save as you earn ('SAYE') share option scheme available to employees. The number of shares subject to options as at 30 September 2017, the periods in which they were granted and the periods in which they may be exercised, are given below.

Year of grant	Exercise price (pence)	Exercise period	2017 number	2016 number
SAYE share options				
2012	68.9	2015-18	4,354	74,018
2013	115.1	2016-19	6,515	44,561
2014(A)	173.1	2017-20	61,867	163,578
2014(B)	151.3	2018-20	331,511	474,352
2015	173.3	2018-21	134,555	199,320
2016	166.8	2019-22	221,840	291,834
2017	210.2	2020-23	224,145	-
Total SAYE share options			984,787	1,247,663

The movement on the share options schemes during the year is as follows:

	Opening position	Exercised	Granted	Lapsed	Closing position
SAYE scheme					
2012	74,018	(69,664)	-	-	4,354
2013	44,561	(32,817)	-	(5,229)	6,515
2014(A)	163,578	(74,030)	-	(27,681)	61,867
2014(B)	474,352	(42,700)	-	(100,141)	331,511
2015	199,320	(12,759)	-	(52,006)	134,555
2016	291,834	(5,180)	-	(64,814)	221,840
2017	-	-	224,573	(428)	224,145
	1,247,663	(237,150)	224,573	(250,299)	984,787

Grainger Employees Limited

Notes to the financial statements (continued)

Year ended 30 September 2017

For those share options exercised during the year, the weighted average share price at the date of exercise was 251.6p (2016: 225.1p). For share options outstanding at the end of the year, the weighted average remaining contractual life was 2.1 years (2016: 2.8 years). There were 11,631 (2016: 25,014) share options exercisable at the year end with a weighted average exercise price of 134.1p (2016: 115.1p).

The Grainger plc group operates an equity-settled, share-based compensation plan comprising awards under a long-term incentive plan ('LTIP'), a deferred bonus plan ('DBP'), a share incentive plan ('SIP') and a save as you earn ('SAYE') scheme. For the LTIP awards, 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 average growth in the Halifax and Nationwide House Price indices all measured over three years from the date of grant.

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 employees in the scheme continuing to be employed. 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. In addition to the normal DBP scheme, an enhanced DBP scheme (EDBP) is also provided. The enhanced scheme operates in exactly the same way as the normal DBP scheme except that if participants retain their awards within the plan until the end of the fifth year, a further additional 50% matching award is added to their award entitlement. Awards under the DBP/EDBP 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 LTIP. Share options were granted to employees of the group during the year under the SAYE scheme.

16. Called up share capital

Issued, called up and fully paid

	2017		2016	
	No.	£	No.	£
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

17. Reserves

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

Share option reserve - This reserve records equity-settled share based payments.

Grainger Employees Limited

Notes to the financial statements *(continued)*

Year ended 30 September 2017

18. 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.

19. Ultimate controlling and parent company

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.