COMPANY REGISTRATION NUMBER: 5019636

# Grainger Employees Limited

# Financial statements

## 30 September 2020

# Grainger Employees Limited

**Financial statements**

**Year ended 30 September 2020**

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# Grainger Employees Limited

## Officers and professional advisers

| | |
|---|---|
| **The board of directors** | Helen C Gordon<br>Adam McGhin<br>Eliza Pattinson<br>Andrew P Saunderson<br>Michael P Keaveney |
| **Company secretary** | Adam McGhin |
| **Registered office** | Citygate<br>St James' Boulevard<br>Newcastle upon Tyne<br>NE1 4JE |
| **Auditor** | KPMG LLP<br>15 Canada Square<br>Canary Wharf<br>London<br>E14 5GL |
| **Bankers** | Barclays Bank plc<br>5 St Ann's Street<br>Quayside<br>Newcastle upon Tyne<br>NE1 2BH |
| **Solicitors** | Womble Bond Dickinson (UK) LLP<br>St Ann's Wharf<br>112 Quayside<br>Newcastle upon Tyne<br>NE1 3DX |

# Grainger Employees Limited

## Strategic report

## Year ended 30 September 2020

The directors present their strategic report for the year ended 30 September 2020.

**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 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 and designing the best possible assets and 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 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 2020.

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:

- a significant short to medium economic contraction/recession leading to flat or negative valuation movements pursuant to an external factor including the Covid-19 pandemic;
- the inability to obtain sufficient finance to fund our growth strategy and operations arising from external factors/events (including, but not limited to, the Covid-19 pandemic or Brexit) which impacts the ability to fund the delivery of the strategy and maintain a strong capital structure;
- a failure to meet current or increased regulatory obligations or anticipate and respond to changes in regulation that increase cost;

- a failure to attract, retain and develop an inclusive and diverse workforce to ensure we have the right skills in the right place at the right time to deliver our strategy, and a failure to adapt to the prevailing government guidance regarding working in offices or remotely in connection with restrictions imposed by the Covid-19 pandemic;

- a significant failure within, or by, a key third-party supplier or contractor, or supply chain disruption and the ability to service our Planned Proactive Maintenance Plan, or the liquidity of our supply chain caused by a reduction in supply as a result of lockdown;

- a significant health and safety incident or near-miss occurrence, owing to inadequate or inappropriately implemented procedures, and unsafe workspaces and homes affecting our people and customers due to the risks of the Covid-19 pandemic;.

- the allocation of a portion of our capital to development activities which may be complex and potentially bring multiple related risks;

- the loss 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;

- the failure to fulfil our customer proposition and our service standards heightened by a period of uncertainty and change caused by lockdown measures and social distancing rules; and

- the impacts of climate change on our business and operations, including an extreme weather event, changes in weather patterns, transition to a zero-carbon economy, and customer preferences for more energy efficient properties.

**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 17 May 2021 and signed on behalf of the board by:

Adam McGhin
Company Secretary

# Grainger Employees Limited

**Directors' report**

**Year ended 30 September 2020**

The directors present their report and the financial statements of the company for the year ended 30 September 2020.

**Directors**

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

| | |
|---|---|
| Helen C Gordon | |
| Vanessa K Simms | (Resigned 26 April 2021) |
| Adam McGhin | |
| Eliza Pattinson | |
| Andrew P Saunderson | (Appointed 4 May 2021) |
| Michael P Keaveney | (Appointed 4 May 2021) |

**Dividends**
The directors do not recommend the payment of a dividend (2019: £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 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;
- 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 17 May 2021 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 2020 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 2020 and of its profit for the year then ended;

- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Going concern

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

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

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

**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 pages 5 and 6, 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.

**Richard Kelly (Senior Statutory Auditor)**
**For and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
19 May 2021

# Grainger Employees Limited

**Statement of comprehensive income**

**Year ended 30 September 2020**

| | Note | 2020 £ | 2019 £ |
|---|---|---|---|
| **Turnover** | 4 | **20,662,713** | 18,745,655 |
| Cost of sales | | **(19,779,548)** | (17,869,800) |
| **Gross profit** | | **883,165** | 875,855 |
| Administrative expenses | | **(6,269)** | (5,470) |
| **Operating profit** | 5 | **876,896** | 870,385 |
| Interest receivable and similar income | 8 | **727,325** | 909,495 |
| **Profit before taxation** | | **1,604,221** | 1,779,880 |
| Tax on profit | 9 | **(115,010)** | (468,571) |
| **Profit for the financial year and total comprehensive income** | | **1,489,211** | 1,311,309 |

All the activities of the company are from continuing operations.

**The notes on pages 13 to 23 form part of these financial statements.**

# Grainger Employees Limited

## Statement of financial position

### 30 September 2020

| | Note | 2020 £ | 2019 £ |
|---|---|---|---|
| **Current assets** | | | |
| Debtors | 11 | **33,137,443** | 29,978,762 |
| **Creditors: amounts falling due within one year** | 12 | **(5,491,960)** | (4,938,273) |
| **Net current assets** | | **27,645,483** | 25,040,489 |
| **Total assets less current liabilities** | | **27,645,483** | 25,040,489 |
| **Net assets** | | **27,645,483** | 25,040,489 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **1** | 1 |
| Share option reserve | 17 | **22,868,040** | 21,752,257 |
| Profit and loss account | 17 | **4,777,442** | 3,288,231 |
| **Shareholders' funds** | | **27,645,483** | 25,040,489 |

These financial statements were approved by the board of directors and authorised for issue on 17 May 2021, and are signed on behalf of the board by:

Adam McGhin
Director

Company registration number: 5019636

**The notes on pages 13 to 23 form part of these financial statements.**

# Grainger Employees Limited

## Statement of changes in equity

## Year ended 30 September 2020

| | Called up share capital £ | Share option reserve £ | Profit and loss account £ | **Total £** |
|---|---|---|---|---|
| **At 1 October 2018** | 1 | 20,120,064 | 1,976,922 | 22,096,987 |
| Profit for the year | – | – | 1,311,309 | 1,311,309 |
| **Total comprehensive income for the year** | – | – | 1,311,309 | 1,311,309 |
| Equity-settled share-based payments | – | 1,632,193 | – | 1,632,193 |
| **Transactions with owners, recorded directly in equity** | – | 1,632,193 | – | 1,632,193 |
| **At 30 September 2019** | 1 | 21,752,257 | 3,288,231 | **25,040,489** |
| Profit for the year | – | – | 1,489,211 | **1,489,211** |
| **Total comprehensive income for the year** | – | – | 1,489,211 | **1,489,211** |
| Equity-settled share-based payments | – | 1,115,783 | – | **1,115,783** |
| **Transactions with owners, recorded directly in equity** | – | 1,115,783 | – | **1,115,783** |
| **At 30 September 2020** | 1 | 22,868,040 | 4,777,442 | **27,645,483** |

**The notes on pages 13 to 23 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 Employees Limited ("the company") for the year ended 30 September 2020 were authorised for issue by the board of directors on 17 May 2021 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.

## 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 £27,645,483 at 30 September 2020 and has generated a profit for the period then ended of £1,489,211. The company is a subsidiary of Grainger plc. The directors of Grainger plc, the ultimate parent undertaking, manage the group's strategy and risks on a consolidated basis, rather than at an individual entity level. Similarly, the financial and operating performance of the business is assessed at a Grainger plc operating segment level. For these reasons, the directors do not prepare cash flow forecasts at an individual entity level.

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

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

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

## 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 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.

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 2019. There has been no material impact on the company following the adoption of these standards.

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

**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.

## 3. Accounting policies *(continued)*

**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

**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.

**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:

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Intercompany management charges | **20,662,713** | 18,745,655 |

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

## 5. Operating profit

Operating profit or loss is stated after charging:

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Equity-settled share-based payments expense | **1,115,783** | 1,632,193 |

Audit fees of £3,700 (2019: £3,300) 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:

| | 2020 | 2019 |
|---|---|---|
| | No. | No. |
| Operations | **142** | 149 |
| Shared services | **86** | 74 |
| Group | **12** | 11 |
| | **240** | 234 |

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

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Wages and salaries | **16,932,635** | 15,443,320 |
| Social security costs | **1,766,669** | 1,436,965 |
| Other pension costs | **1,080,244** | 989,515 |
| | **19,779,548** | 17,869,800 |

## 7. Directors' remuneration

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

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Remuneration | **1,548,999** | 1,941,920 |
| Amount received under long term incentive schemes | **611,521** | 218,820 |
| Company contributions to defined contribution pension plans | **28,372** | 20,348 |
| | **2,188,892** | 2,181,088 |

## 7. Directors' remuneration *(continued)*

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

| | **2020** | 2019 |
|---|---|---|
| | **No.** | No. |
| Defined contribution plans | **2** | 2 |

The highest paid director was Helen Gordon who was also a director of Grainger plc. Full details of her remuneration and her 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 £1,028,119 (2019: £918,731) and company pension contributions of £73,636 (2019: £71,840) were made to a money purchase scheme on her behalf.

## 8. Interest receivable and similar income

| | **2020** | 2019 |
|---|---|---|
| | **£** | £ |
| Interest from group undertakings | **727,325** | 909,495 |

## 9. Tax on profit

### Major components of tax expense

| | **2020** | 2019 |
|---|---|---|
| | **£** | £ |
| **Current tax:** | | |
| UK current tax expense | **348,814** | 287,950 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **(233,804)** | 180,621 |
| **Tax on profit** | **115,010** | 468,571 |

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

### Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%).

| | **2020** | 2019 |
|---|---|---|
| | **£** | £ |
| Profit on ordinary activities before taxation | **1,604,221** | 1,779,880 |
| Profit on ordinary activities by rate of tax | **304,802** | 338,177 |
| Effect of capital allowances and depreciation | **(630)** | (138) |
| Tax effect of unpaid remuneration | **(32,199)** | (21,699) |
| Adjustments in respect of share-based payments | **(156,963)** | 152,231 |
| Tax on profit | **115,010** | 468,571 |

## 9. Tax on profit *(continued)*

### Factors that may affect future tax income

At the date of approval of these financial statements, the government has announced that it intends to increase the UK corporation tax rate from 19% to 25% (effective 1 April 2023), but has not yet legislated for this change. Any changes in corporation tax rates, once enacted, will impact the company's future current tax charge and any deferred tax balances accordingly. Deferred tax at 30 September 2020 has been measured at 19% (2019: 17%).

## 10. Tangible assets

| | Fixtures and fittings £ | **Total £** |
|---|---|---|
| **Cost** | | |
| **At 1 October 2019 and 30 September 2020** | 428,593 | **428,593** |
| **Depreciation** | | |
| **At 1 October 2019 and 30 September 2020** | 428,593 | **428,593** |
| **Carrying amount** | | |
| **At 30 September 2020** | – | – |

## 11. Debtors

| | **2020 £** | 2019 £ |
|---|---|---|
| Amounts owed by group undertakings | **31,551,257** | 28,577,914 |
| Deferred tax asset | **1,503,861** | 1,270,057 |
| Other debtors | **82,325** | 130,791 |
| | **33,137,443** | 29,978,762 |

Included within amounts owed by group undertakings is an unsecured loan with a year end balance of £13,800,577 (2019: £15,058,252). The loan bears interest at a weighted rate of 4.22% (2019: 4.38%) in the year and is repayable on demand. Interest receivable for the year amounted to £727,325 (2019: £909,495). All other amounts owed by group undertakings are unsecured, bear no interest and are repayable on demand.

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

| | **2020 £** | 2019 £ |
|---|---|---|
| Trade creditors | **812** | 2,091 |
| Accruals and deferred income | **4,608,045** | 4,207,424 |
| Social security and other taxes | **488,185** | 446,531 |
| Other creditors | **394,918** | 282,227 |
| | **5,491,960** | 4,938,273 |

## 13. Deferred tax

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

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Included in debtors (note 11) | **1,503,861** | 1,270,057 |

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

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| Accelerated capital allowances | **(4,909)** | (5,356) |
| Provision deferred tax - unpaid remuneration | **(1,498,952)** | (1,264,701) |
| | **(1,503,861)** | (1,270,057) |

## 14. Employee benefits

### Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £1,080,244 (2019: £989,515).

## 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 2020, 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 | 2020 number | 2019 number |
|---|---|---|---|---|
| **SAYE share options** | | | | |
| 2014(A) | 156.4 | 2017-20 | - | 2,876 |
| 2014(B) | 136.7 | 2018-20 | - | 154,230 |
| 2015 | 156.6 | 2018-21 | **5,746** | 26,621 |
| 2016 | 150.7 | 2019-22 | **59,897** | 80,191 |
| 2017 | 189.9 | 2020-23 | **53,498** | 169,338 |
| 2018 | 228.6 | 2021-24 | **62,362** | 72,512 |
| 2019 | 193.0 | 2022-25 | **335,962** | 351,813 |
| 2020 | 245.0 | 2023-26 | **275,065** | - |
| Total SAYE share options | | | **792,530** | 857,581 |

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

| | Opening position | Exercised | Granted | Lapsed | Closing position |
|---|---|---|---|---|---|
| **SAYE scheme** | | | | | |
| 2014(A) | 2,876 | (2,876) | - | - | **-** |
| 2014(B) | 154,230 | (154,230) | - | - | **-** |
| 2015 | 26,621 | (20,875) | - | - | **5,746** |
| 2016 | 80,191 | (20,294) | - | - | **59,897** |
| 2017 | 169,338 | (97,840) | - | (18,000) | **53,498** |
| 2018 | 72,512 | - | - | (10,150) | **62,362** |
| 2019 | 351,813 | - | - | (15,851) | **335,962** |
| 2020 | - | - | 285,349 | (10,284) | **275,065** |
| | 857,581 | (296,115) | 285,349 | (54,285) | **792,530** |

For those share options exercised during the year, the weighted average share price at the date of exercise was 302.4p (2019: 247.8p). For share options outstanding at the end of the year, the weighted average remaining contractual life was 2.3 years (2019: 1.9 years). There were 21,186 (2019: 21,380) share options exercisable at the year end with a weighted average exercise price of 180.9p (2019: 151.5p).

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 granted in February 2020, 50% of the awards under the LTIP scheme are subject to an absolute Total Shareholder Return performance condition measured over three years from the date of grant, 25% are subject to annual growth in Total Property Return measured over three years from the date of grant, and the final 25% are subject to achieving Secured PRS Investment targets measured over three years from the date of grant.

For previous LTIP grants, 50% of the awards are subject to an absolute total shareholder return performance condition and 50% are subject to annual growth in Total Property Return, both measured over three years from the date of grant.

Awards granted under the DBP scheme have no specific performance conditions other than 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 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**

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **No.** | **£** | No. | £ |
| Ordinary shares of £1 each | **1** | **1** | 1 | 1 |

## 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.

## 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 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.