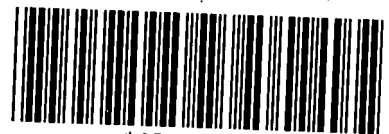


**Grainger Treasury Property (2006) Limited Liability
Partnership**

Financial statements

30 September 2017

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Grainger Treasury Property (2006) Limited Liability Partnership

Financial statements

Year ended 30 September 2017

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Grainger Treasury Property (2006) Limited Liability Partnership

Designated members and professional advisers

Designated members	Grainger Treasury Property Investments Limited Partnership Grainger Residential Management Limited Northumberland & Durham Property Trust Limited
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 Barclays House 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 Treasury Property (2006) Limited Liability Partnership

Members' report

Year ended 30 September 2017

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

Principal activities

The principal activity of the partnership during the year was the acquisition of derivative interests in properties and to manage such interests as investments.

The profit for the year was £8,827,995 (2016: £13,254,590).

Designated members

The designated members who served the LLP during the year were as follows:

Grainger Treasury Property Investments Limited Partnership
Grainger Residential Management Limited
Northumberland & Durham Property Trust Limited

Policy regarding members' drawings and the subscription and repayment of amounts subscribed or otherwise contributed by members

Members are remunerated solely out of the profits of the firm. Final allocation of profits to members is made according to the Members' Agreement drawn up on the incorporation of the Limited Liability Partnership.

The overall policy for members' drawings is to distribute any proceeds as soon as reasonably practicable after receipt by the LLP, and after payment of the expenses and liabilities of the LLP, up to the level of the members' outstanding commitments. Distributions are made pro rata to the members' respective commitments until the members have been paid their outstanding loans and capital contributions.

Any surpluses are retained by the LLP in relation to which no withdrawals may be made without the written consent of the members. Any such distributions are made in accordance with the Members' Agreement drawn up on the incorporation of the Limited Liability Partnership.

Statement as to disclosure of information to auditor

Each of the persons who is a member at the date of approval of this report confirm that:

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

Members' responsibilities statement

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

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Grainger Treasury Property (2006) Limited Liability Partnership

Members' report *(continued)*

Year ended 30 September 2017

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members 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 LLP and of its profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 LLP'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 LLP or to cease operations, or have no realistic alternative but to do so.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. 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 LLP and to prevent and detect fraud and other irregularities.

Auditor

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006 as applied to LLPs by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Signed on behalf of the members



Adam McGhin on behalf of
Grainger Residential Management Limited

Designated member

Approved by the members on 21 June 2018

**Independent auditor's report to the members of
Grainger Treasury Property (2006) Limited Liability Partnership**

Opinion

We have audited the financial statements of Grainger Treasury Property (2006) Limited Liability Partnership ("the LLP") for the year ended 30 September 2017 which comprise the Statement of comprehensive income, Statement of financial position, Reconciliation of members' interests and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the LLP as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

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 LLP 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.

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships 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
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Independent auditor's report to the members of
Grainger Treasury Property (2006) Limited Liability Partnership (continued)**

Members' responsibilities

As explained more fully in their statement set out on pages 2 to 3, the members 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 LLP'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 LLP 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 members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP'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 LLP and the LLP'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

12 June 2018

Grainger Treasury Property (2006) Limited Liability Partnership

Statement of comprehensive income

Year ended 30 September 2017

	Note	2017 £	2016 £
Income from financial assets	4	5,300,011	5,762,767
Interest receivable and similar income	5	4,482,948	4,582,815
Profit for the financial year available for discretionary division among members		9,782,959	10,345,582
Unrealised (loss)/profit on revaluation of fixed assets		(954,964)	2,909,008
Other comprehensive (loss)/income for the period		(954,964)	2,909,008
Total comprehensive income for the year		8,827,995	13,254,590

All the activities of the LLP are from continuing operations.

The notes on pages 10 to 14 form part of these financial statements.

Grainger Treasury Property (2006) Limited Liability Partnership

Statement of financial position

30 September 2017

	Note	2017 £	2016 £
Fixed assets			
Financial interest in property assets	6	86,121,580	93,149,844
Current assets			
Debtors	7	123,153,451	107,297,192
Net current assets		<u>123,153,451</u>	<u>107,297,192</u>
Total assets less current liabilities		<u>209,275,031</u>	<u>200,447,036</u>
Represented by:			
Equity			
Members' other interests – members' capital		134,462,638	134,462,638
Members' other interests – available for sale reserve		7,824,205	8,779,169
Members' other interests – profit and loss account		66,988,188	57,205,229
		<u>209,275,031</u>	<u>200,447,036</u>
Total members' interests			
Members' other interests		209,275,031	200,447,036
		<u>209,275,031</u>	<u>200,447,036</u>

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



Adam McGhin for and on behalf of
Grainger Residential Management Limited

Registered number: OC325497

The notes on pages 10 to 14 form part of these financial statements.

Grainger Treasury Property (2006) Limited Liability Partnership

Reconciliation of members' interests

Year ended 30 September 2017

	Members' capital (classified as equity)	Members' other interests Available for sale reserve	Profit and loss account	Total
	£	£	£	£
Balance at 1 October 2016	134,462,638	8,779,169	57,205,229	200,447,036
Profit for the financial year available for discretionary division among members	—	—	9,782,959	9,782,959
Members' interests after profit for the year	134,462,638	8,779,169	66,988,188	210,229,995
Unrealised loss on revaluation of fixed assets	—	(954,964)	—	(954,964)
Balance at 30 September 2017	<u>134,462,638</u>	<u>7,824,205</u>	<u>66,988,188</u>	<u>209,275,031</u>

The reconciliation of members' interests continues on the following page.

The notes on pages 10 to 14 form part of these financial statements.

Grainger Treasury Property (2006) Limited Liability Partnership

Reconciliation of members' interests *(continued)*

Year ended 30 September 2017

	Members' capital (classified as equity)	Members' other interests Available for sale reserve	Profit and loss account	Total
	£	£	£	£
Balance at 1 October 2015	134,462,638	5,870,161	46,859,647	187,192,446
Profit for the financial year available for discretionary division among members	—	—	10,345,582	10,345,582
Members' interests after profit for the year	134,462,638	5,870,161	57,205,229	197,538,028
Unrealised profit on revaluation of fixed assets	—	2,909,008	—	2,909,008
Balance at 30 September 2016	<u>134,462,638</u>	<u>8,779,169</u>	<u>57,205,229</u>	<u>200,447,036</u>

The notes on pages 10 to 14 form part of these financial statements.

Grainger Treasury Property (2006) Limited Liability Partnership

Notes to the financial statements

Year ended 30 September 2017

1. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

The entity is a limited liability partnership incorporated in the UK. The registered office is:

Citygate
St James' Boulevard
Newcastle Upon Tyne
NE1 4JE

The results of Grainger Treasury Property (2006) Limited Liability Partnership are included in the consolidated financial statements of Grainger plc which are available from Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

2. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain financial instruments, and in accordance with applicable UK accounting standards and the requirements of the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' issued in July 2014 (SORP 2014).

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

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of Grainger plc which can be obtained from The Secretary, Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

- (a) No cash flow statement has been presented for the LLP.
- (b) Disclosures in respect of financial instruments have not been presented.
- (c) No disclosure has been given for the aggregate remuneration of key management personnel.

Members' participation rights

Members' participation rights are the rights of a member against the LLP that arise under the members' agreement (for example, in respect of amounts subscribed or otherwise contributed, remuneration and profits).

Members' participation rights in the earnings or assets of the LLP are analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with Section 22 of FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland', and the requirements of the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships'. A member's participation right results in a liability unless the right to any payment is discretionary on the part of the LLP.

Grainger Treasury Property (2006) Limited Liability Partnership

Notes to the financial statements *(continued)*

Year ended 30 September 2017

2. Accounting policies *(continued)*

Members' participation rights *(continued)*

Amounts subscribed or otherwise contributed by members, for example members' capital, are classed as equity if the LLP has an unconditional right to refuse payment to members. If the LLP does not have such an unconditional right, such amounts are classified as liabilities.

Where profits are automatically divided as they arise, so the LLP does not have an unconditional right to refuse payment, the amounts arising that are due to members are in the nature of liabilities. They are therefore treated as an expense in the statement of comprehensive income in the relevant year. To the extent that they remain unpaid at the year end, they are shown as liabilities in the statement of financial position.

Conversely, where profits are divided only after a decision by the LLP or its representative, so that the LLP has an unconditional right to refuse payment, such profits are classed as an appropriation of equity rather than as an expense. They are therefore shown as a residual amount available for discretionary division among members in the statement of comprehensive income and are equity appropriations in the statement of financial position.

Other amounts applied to members, for example remuneration paid under an employment contract and interest on capital balances, are treated in the same way as all other divisions of profits, as described above, according to whether the LLP has, in each case, an unconditional right to refuse payment.

All amounts due to members that are classified as liabilities are presented in the statement of financial position within 'Loans and other debts due to members'. In the event of a winding up, such amounts shall be distributed to members after payment and discharge of all other liabilities of the LLP. Amounts due to members that are classified as equity are shown in the statement of financial position within 'Members' other interests'.

Financial interest in property assets

Financial interest in property assets is initially recognised at fair value plus transaction costs and is subsequently carried at fair value. Subsequent to initial recognition, the net change in value is recorded through the statement of comprehensive income as follows: i) the carrying value of the asset is increased by the effective interest rate and ii) the carrying value of the asset is revised to the net present value of the revised cashflows arising from the instrument using the effective interest rate applicable at acquisition. The change in value recorded through the statement of comprehensive income is shown on the line 'Income from financial assets'. Cash received from the instrument during the year is deducted from the carrying value of the asset.

Differences between revised cashflows using the effective interest rate applicable at acquisition compared to revised cashflows using a year end effective interest rate, assessed as the rate available in the market for an instrument with a similar maturity and credit risk, are taken through equity. When gains or losses in the assets are realised, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from financial interest in property assets.

Taxation

No provision is made in the accounts of the partnership for tax liabilities (if any) arising on the partners' shares of net income or capital gains.

Non-derivative financial instruments

Non-derivative financial instruments comprise other debtors and loans and borrowings

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

Grainger Treasury Property (2006) Limited Liability Partnership

Notes to the financial statements *(continued)*

Year ended 30 September 2017

2. Accounting policies *(continued)*

Non-derivative financial instruments *(continued)*

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 judgements, estimates and assumptions that the members consider to be most significant to the financial statements relate to the valuation of fixed assets and are detailed at note 6.

3. Operating profit

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

No remuneration was paid to the designated members' directors in respect of their services to the partnership during the year (2016: nil). The partnership had no employees during the current or preceding financial years.

4. Income from financial assets

	2017 £	2016 £
Interest income from financial assets	<u>5,300,011</u>	<u>5,762,767</u>

5. Interest receivable and similar income

	2017 £	2016 £
Interest from group undertakings	<u>4,482,948</u>	<u>4,582,815</u>

Grainger Treasury Property (2006) Limited Liability Partnership

Notes to the financial statements (continued)

Year ended 30 September 2017

6. Fixed assets

	Financial interest in property assets £
Cost or valuation	
At 1 October 2016	93,149,844
Disposals	(11,373,311)
Amounts taken to profit or loss	5,300,011
Amounts taken to other comprehensive income	(954,964)
At 30 September 2017	86,121,580
Net book value	
At 30 September 2017	86,121,580
At 30 September 2016	93,149,844

Financial interest in property assets relates to the CHARM portfolio, which is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee.

The above valuation is based on an assessment of the future cash flows that will arise from the partnership's financial interest and on the effective interest rate used to discount those cash flows. The key assumptions affecting the carrying value are house price inflation and the discount rate. The assumptions used to value the asset adopt an increase in house prices of between 2.5% and 4.0% per annum.

A discount rate of 3.5% has been applied to the interest income and a rate of 6.5% has been applied to the projected proceeds from sales of the underlying properties, reflecting the risk profile of each individual stream.

The fair value of the interest changes as cash flows are realised and a decrease of £1.0m (2016: increase of £2.9m) in the fair value has been recognised in the statement of comprehensive income and the available-for-sale reserve.

Credit risk arises from the credit exposure relating to cash receipts from the financial instrument. All of the cash receipts are payable by the Church Commissioners, a counterparty considered to be low risk as they have no history of past due or impaired amounts and there are no past due amounts outstanding at the year end.

7. Debtors

	2017 £	2016 £
Amounts owed by group undertakings	121,704,685	106,640,310
Other debtors	1,448,766	656,882
	123,153,451	107,297,192

Grainger Treasury Property (2006) Limited Liability Partnership

Notes to the financial statements *(continued)*

Year ended 30 September 2017

8. Contingencies

At 30 September 2017 the partnership, together with certain of its fellow subsidiaries, has guaranteed the £275,000,000 (2016: £275,000,000) corporate bond issued by Grainger plc together with bank loans of £501,167,944 (2016: £302,113,000) and a loan from a non-bank financial institution of £nil (2016: £100,000,000) of certain fellow subsidiaries by means of a legal charge over its assets and book debts. Details of the debt repayment profile are shown in the statutory financial statements of the ultimate parent undertaking, Grainger plc.

9. Events after the end of the reporting period

A new £350,000,000 corporate bond was issued by Grainger plc on 24 April 2018, with the existing £275,000,000 bond that was due to mature in 2020 being subsequently redeemed on 3 May 2018. The partnership, together with certain of its fellow subsidiaries, acts as a guarantor to the new bond.

10. Related party transactions

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