
Full year results

Year ended 30 September 2016



1. Highlights *Helen Gordon*

2. Financial review *Vanessa Simms*

3. Outlook *Helen Gordon*

4. Q&A *Helen Gordon*
Vanessa Simms
Nick Jopling

Net rental income

£37.4m **+15%**

(FY15: £32.4m)

Adjusted earnings

(Recurring profit)

£53.1m **+69%**

(FY15: £31.5m)

Dividend per share

4.5p **+64%**

(FY15: 2.75p)

EPRA NNAV

287p **+9%**

(FY15: 263p)

LTV

35.9% **-960bps**

(FY15: 45.5%)

Cost of debt

(at period end)

3.9% **-70bps**

(FY15: 4.6%)

Total return (ROSE) 10.6%, +60 bps (FY15: 10.0%)

Growing net rental income and maximising total returns

The leading listed UK PRS investment business

Grow rents

- Inject pace and improve PRS sourcing
- Accelerate transition to a more balanced, lower risk business

Simplify and focus

- Exit non-core assets
- No further focus on new third party fee mandates
- Focus development team on PRS
- Reduce overheads

Build on our heritage

- Maximise returns from our regulated tenancy portfolio
- Leverage our platform

Grow rents

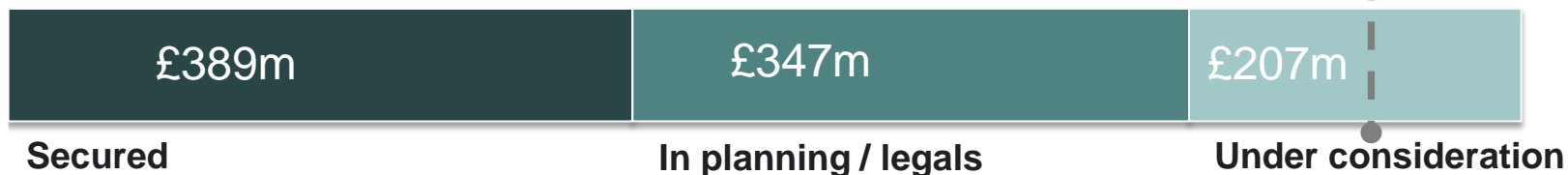
- £389m of investment in PRS assets secured
- Net rental income up by +15% to £37.4m
- Like for like PRS rental growth of 3.6%

- £52m tenanted PRS stock acquired
- Kew Bridge Court, 98 PRS homes, £57m acquisition (via GRIP)
- Clippers Quay, 614 PRS homes, £100m acquisition
- Apex House planning consent, £60m, 163 home PRS development
- Yorkshire Post, Leeds, 242 PRS homes, £40m acquisition
- Finzels Reach, Bristol, 194 PRS homes, £46m acquisition

Growing net rental income

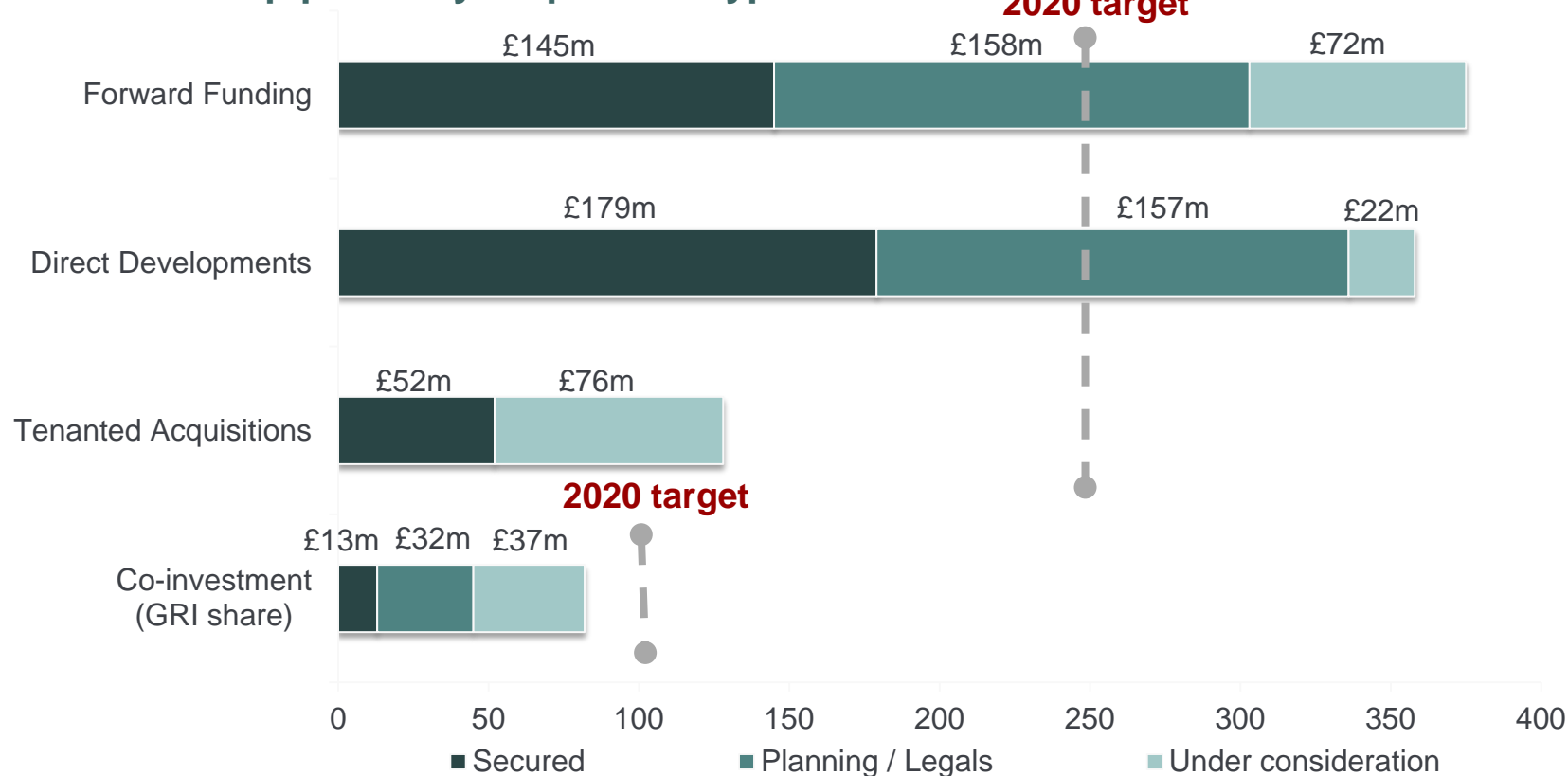
£736m of PRS investment secured or in planning / legals

£850m target



Breakdown of pipeline by acquisition type

2020 target



Simplify and focus

- Exited non-core and non-UK assets
 - Driving operational efficiencies
 - Gross to net cost down to 28% (FY15: 31%)
 - Cost of debt below 4% target
 - £12m finance cost reduction in FY16
 - Action taken to reduce overheads by 24%
-
- Sold German and Equity Release businesses, +£23m to NNNAV
 - Czech Republic land disposal, £10.7m profit
 - Disposal of strategic development land, £5.8m profit
 - Internal restructuring, from divisions into Property and Operations
 - Refinancing activity and legacy swap re-coupon

Building on our heritage

- Resilient and highly cash generative regulated tenancy portfolio enables our PRS strategy
- £123m residential sales at 49% margin in FY16
- Prices on sale of vacant properties 8.6% above FY15 valuations
- Predictable rental income stream

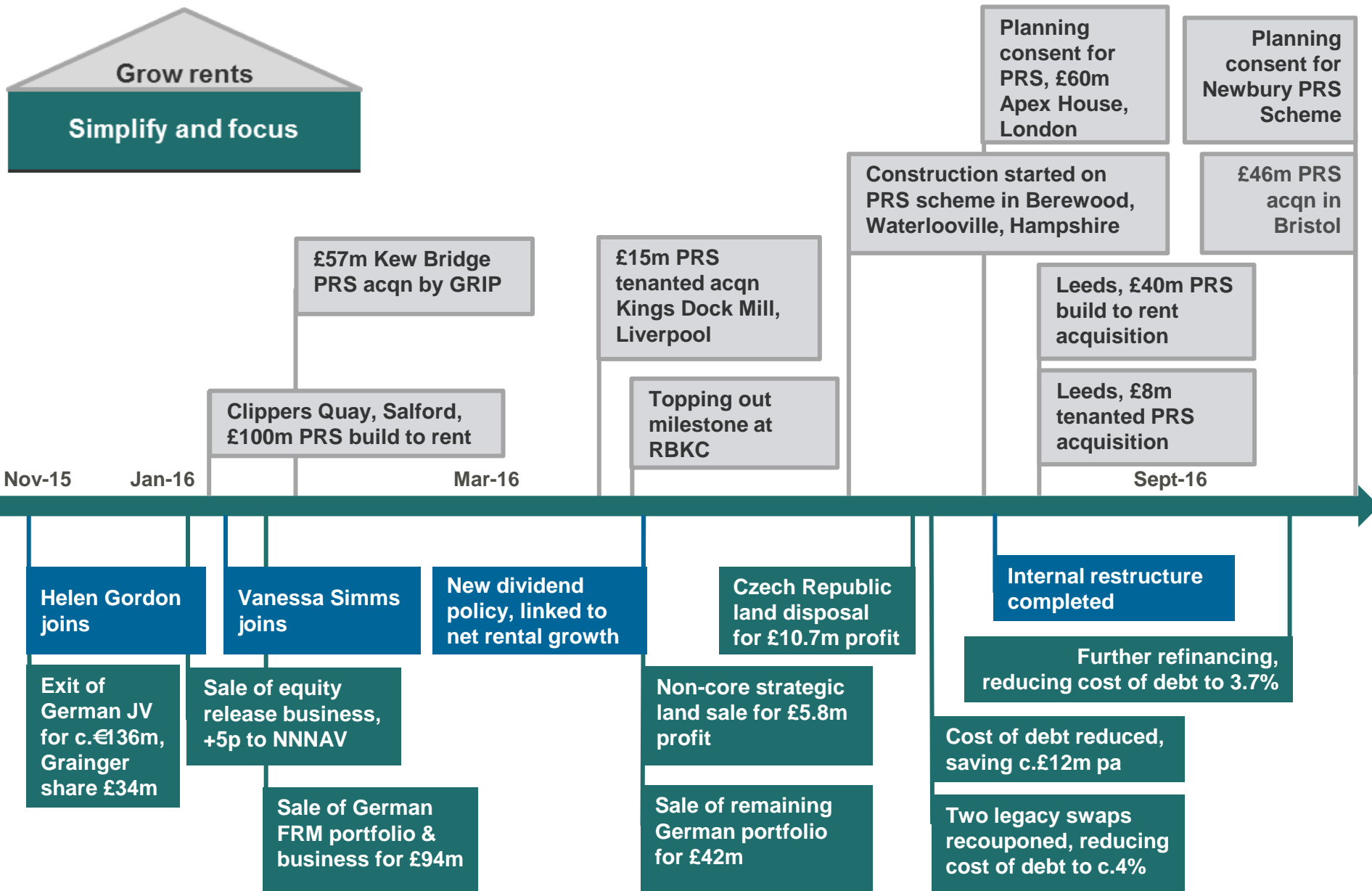
Regulated tenancies

- A historical residential asset type.
- Stable, income producing assets, acquired at a discount and sold on vacancy at full price (vacant possession value).
- Last created in 1988, c.90k-100k remaining.
- Locked-in value, realisable on vacancy ('reversionary surplus').

Stable cashflows through cycles



Timeline of strategic activity



Measuring strategic performance through our **KPIs**

Operations

Income

- Driving operational efficiency
- Creating greater scalability
- Customer service management
- Technology-led innovation

- Rental growth
- Adjusted earnings
- EPS
- Cost of debt
- Dividend

Property

Capital

- Sourcing investment opportunities
- Disciplined capital allocation
- Asset management initiatives
- Robust capital structure

- NAV growth
- Investment pipeline
- Valuations
- Rental growth

Aligned to driving **Total Returns** for shareholders

Financial review

Vanessa Simms, Chief Financial Officer



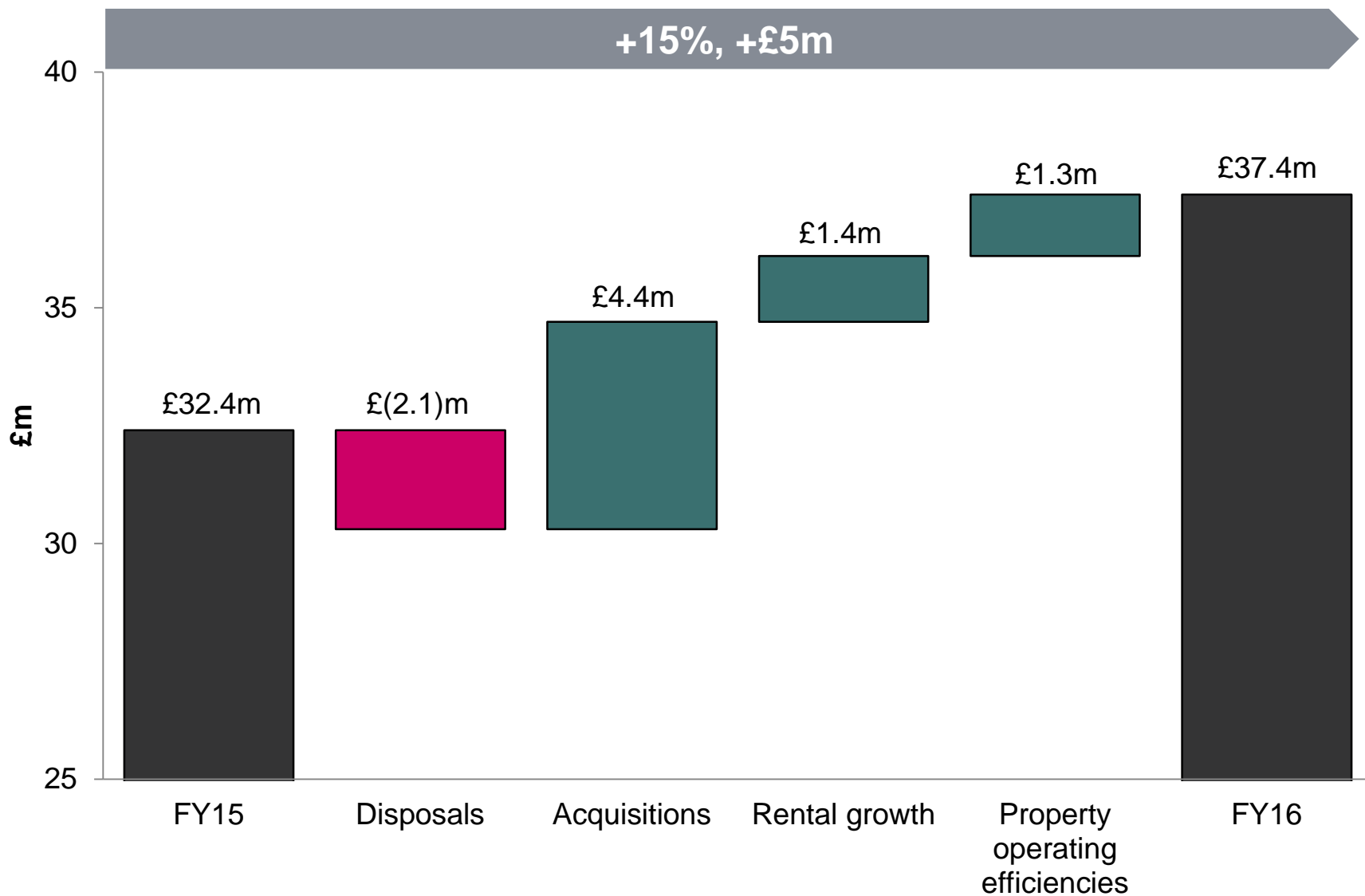
Financial highlights

Income	FY15	FY16		Change
PRS rental growth (like for like)	3.4%	3.6%	↑	20 bps
Net rental income	£32.4m	£37.4m	↑	+15%
Adjusted earnings (recurring profit)	£31.5m	£53.1m	↑	+69%
Adjusted EPS (after tax)	6.0p	10.2p	↑	+70%
PBT	£51.4m	£84.2m	↑	+64%
Dividend per share	2.75p	4.5p	↑	+64%
Capital	FY15	FY16		Change
EPRA NAV per share	319p	330p	↑	+3%
EPRA NNAV per share	263p	287p	↑	+9%
Net debt	£1,138m	£764m	↓	-33%
Group LTV	45.5%	35.9%	↓	-960 bps
Cost of debt (average)	5.3%	4.4%	↓	-90 bps
Cost of debt (period end)	4.6%	3.9%	↓	-70 bps
Reversionary surplus	£329m	£327m	↓	-1%
Total return [^]	10.0%	10.6%	↑	+60bps

Income financials and reversionary surplus on a continuing operations basis.

	FY15	FY16	Change %
Net rental income	£32.4m	£37.4m	+15%
Profit from sales	£70.6m	£71.5m	+1%
Mortgage income (CHARM)	£6.5m	£6.5m	0%
Management fees	£5.6m	£6.2m	+11%
Overheads	£(32.4)m	£(31.8)m	-2%
Other expenses	£(3.2)m	£(1.1)m	-66%
JVs	£0.9m	£1.5m	+67%
Finance cost	£(48.9)m	£(37.1)m	-24%
Adjusted earnings (recurring profit)	£31.5m	£53.1m	+69%
Adjusted EPS (diluted after tax)	6.0p	10.2p	+70%
Profit before tax	£51.4m	£84.2m	+64%
Earnings per share (diluted)	10.6p	17.9p	+69%

Net rental growth



- Revised dividend policy to distribute the equivalent of 50% of net rental income during Grainger's strategic transition
- Aligned with our strategy to grow net rental income
- 2016 total proposed dividend of 4.50p, 64% YoY growth
- Earnings covers dividend c.4 times, leaving capacity for PRS investment

Dividend Distribution

FY16 net rental income	£37.4m
50% pay-out	£18.7m
FY16 Interim dividend per share	1.45p
FY16 Final dividend per share*	3.05p
FY16 total dividend per share	4.50p
FY15 total dividend per share	2.75p
FY16 vs. FY15 growth	64%

* Subject to approval at AGM.

Net rental income progression

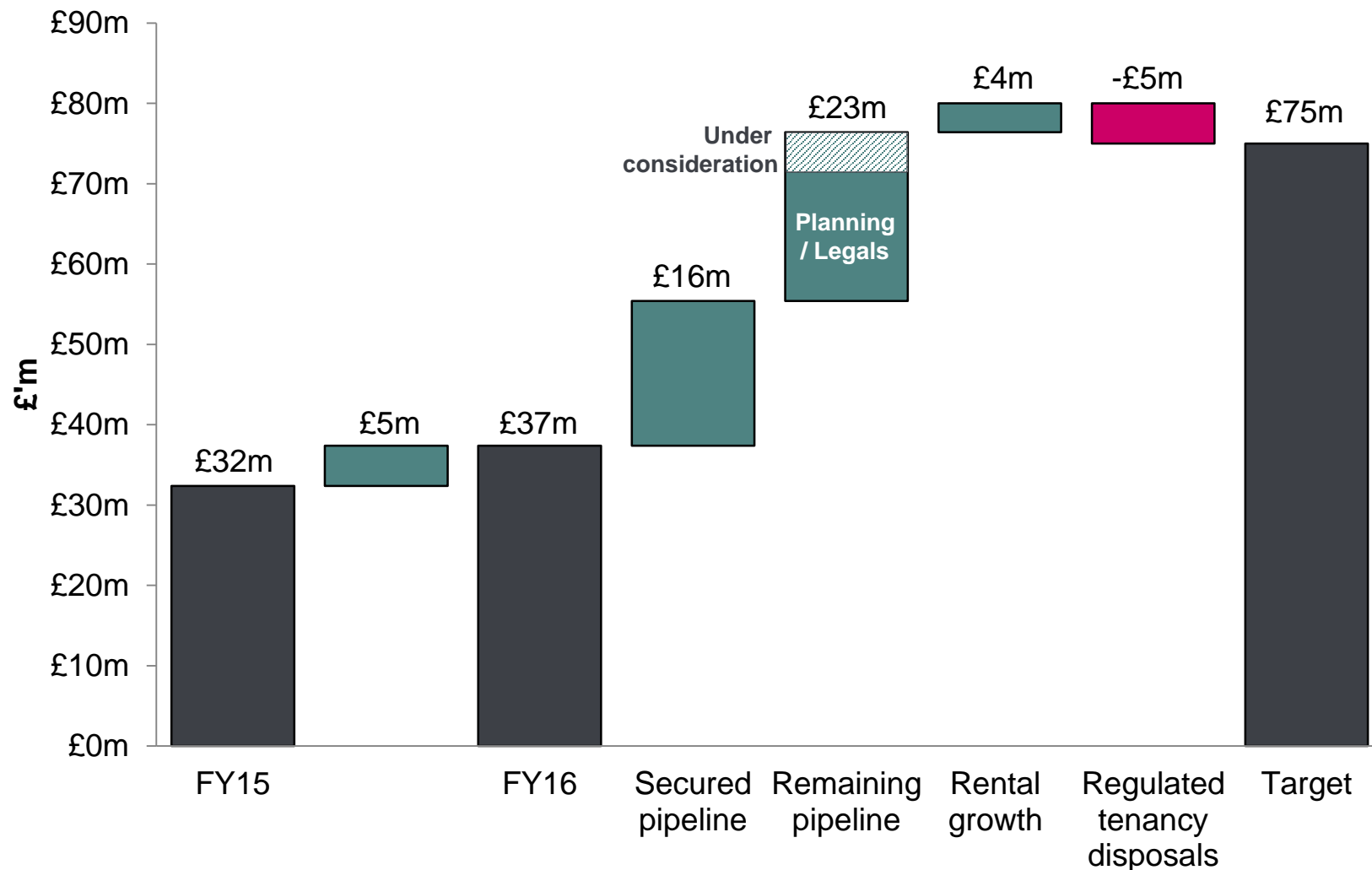


Illustration based on pipeline targets, typically 6.5-7.5% gross yield and 25-30% property operating costs. Includes share of GRIP net rental income.

Improving metrics

Net rental income – property operating costs

- Improving efficiency & scalability of our platform
- 270 bps gross to net cost reduction

Overheads

- Restructuring complete (c.£3m one-off cost)
- On track to deliver £27.5m target for FY17
- 24% saving compared to FY15

Other expenses

- Pre-contract & transactional costs effectively managed
- £2.1m improvement seen in FY16

Total operating expenses

- £27.0m net of overhead recovery fees (FY15: £30.6m)

Property operating costs

FY15 [^] property operating cost	30.7%
FY16 property operating cost	28.0%
YoY improvement	270bps

Overheads

FY15 ^{^^}	£36.1m
FY16	£31.8m
FY17 Target	£27.5m

Other expenses

FY15 [^]	£3.2m
FY16	£1.1m

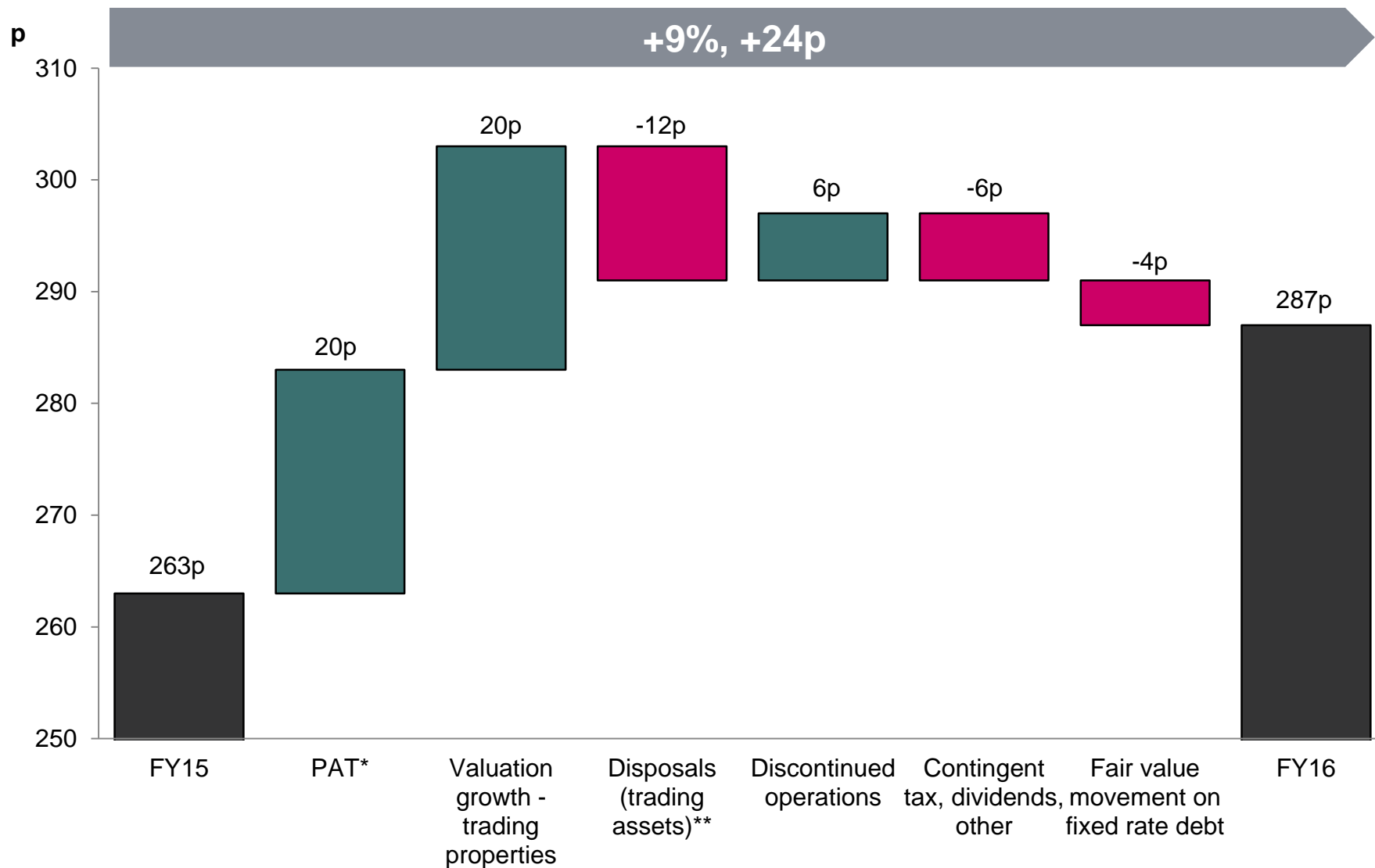
FY16 total operating expenses

Overheads	£31.8m
Fees (overhead recovery)	£(5.9)m
Net overheads	£25.9m
Other expenses	£1.1m
Operating expenses	£27.0m

[^] Continuing operations

^{^^} Continuing and discontinued operations

Growth in EPRA NNAV



*Before discontinued operations & derivatives. ** Difference between the book value and market value sold.

EPRA NAV to NNNAV

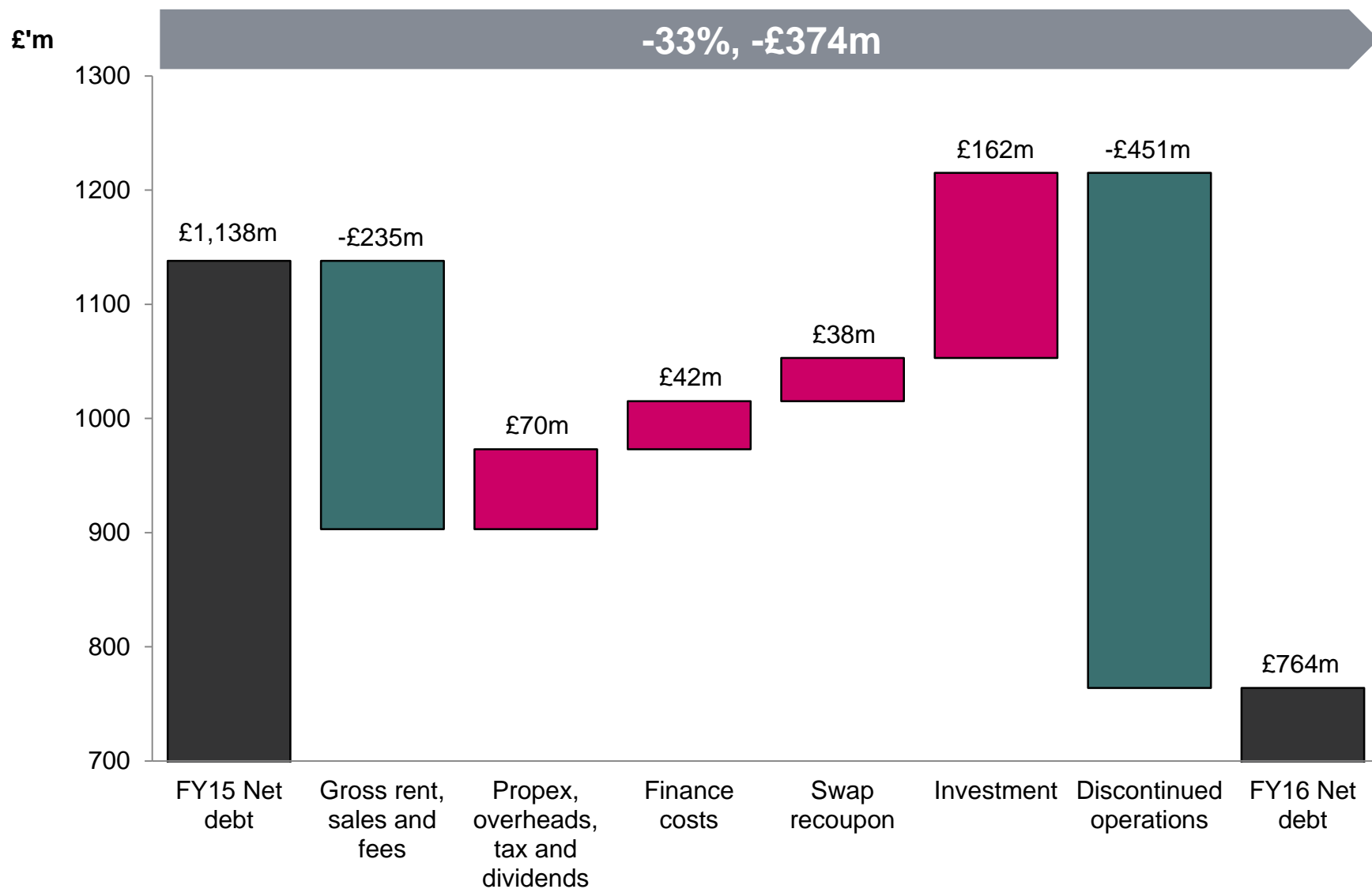
	£'m	pps
Property assets/investments	2,163	518
Net liabilities	(783)	(188)
EPRA NAV	1,380	330
Tax – deferred & contingent	(146)	(35)
Fair value adjs. for fixed rate debt	(34)	(8)
EPRA NNNAV	1,200	287
Reversionary surplus (not included in EPRA NAV or EPRA NNNAV)	327	78

EPRA NAV reflects the market value of assets and liabilities at the balance sheet date

EPRA NNNAV adjusts for:

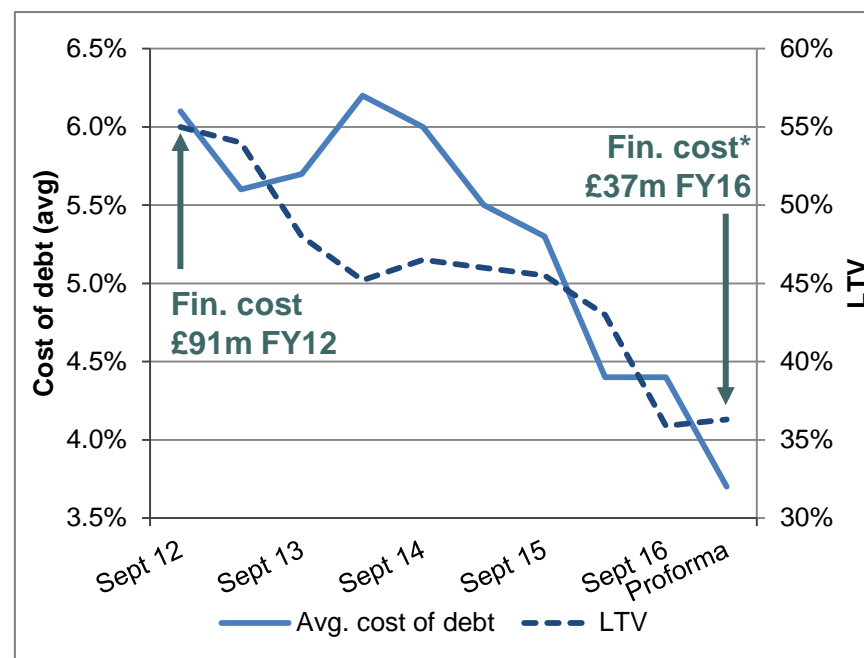
- Deferred and contingent tax on property assets, primarily linked to valuation gains
- Fair value movements on fixed rate debt, associated with Grainger's corporate bond

Reducing net debt



More efficient capital structure and reducing cost of debt

	FY16	FY15
Net debt	£764m	£1,138m
Loan to value	35.9%	45.5%
Headroom	£321m	£142m
Cost of debt (average)	4.4%	5.3%
Cost of debt (period end)	3.9%	4.6%

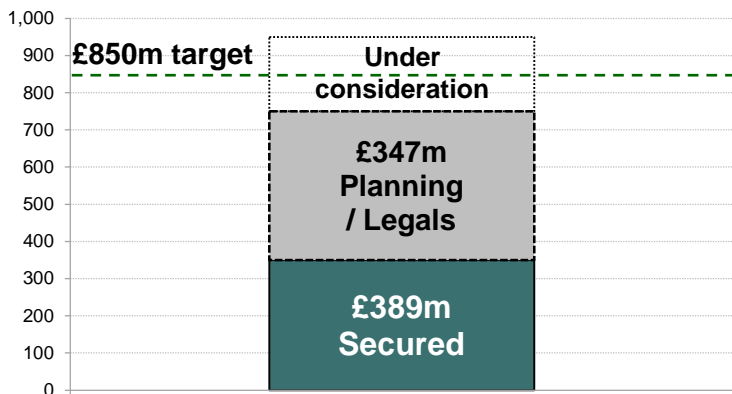


- 4.0% cost of debt target achieved ahead of plan
- Further 20bps reduction anticipated following refinancing (c.3.7%)
- £12m finance cost saving in FY16
- Incremental cost of debt < 2%
- Gearing target: 40-45%
- 87% hedged

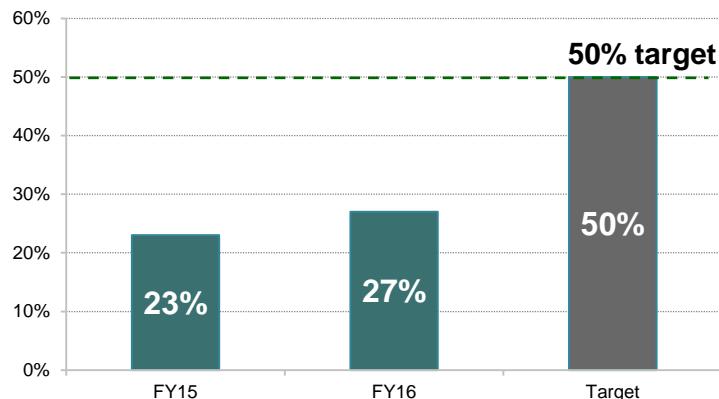
* Continuing operations

Progress against our 2020 Targets

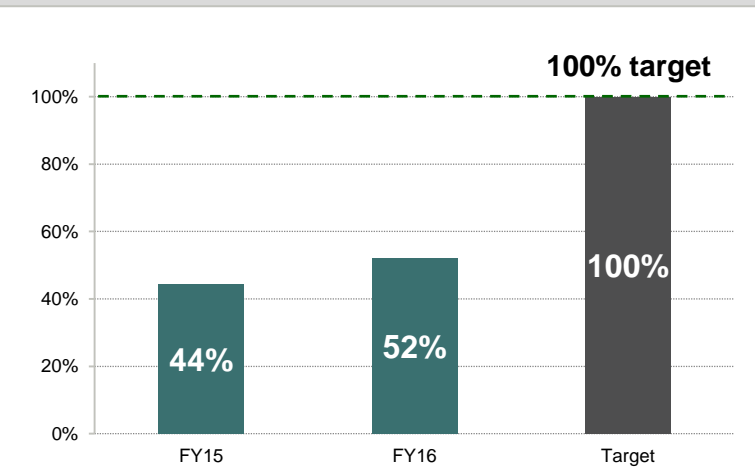
1. Investing £850m into PRS assets



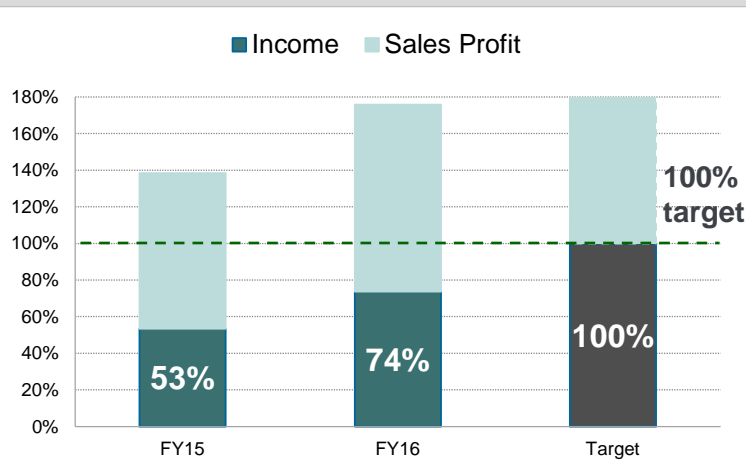
2. More than half of our portfolio PRS assets



3. Net rental income to exceed profit from sales



4. Reducing reliance on sales (cost coverage)



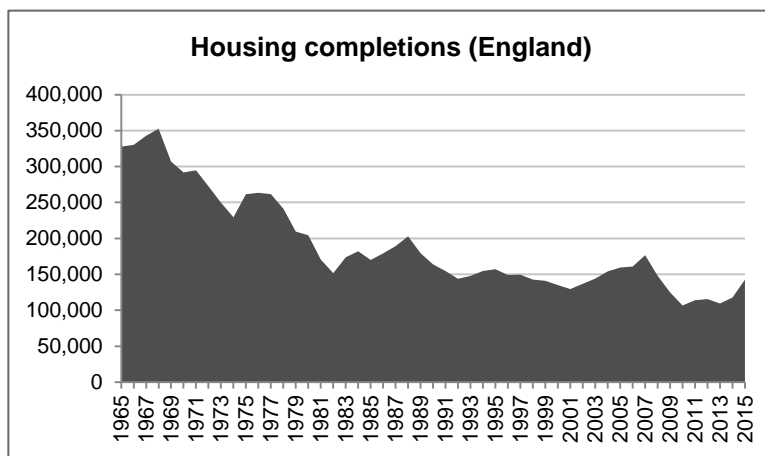
1. Growing net rental income
2. Building the PRS pipeline
3. Developing out our secured investments
4. Improving operational and financial efficiencies
5. Transitioning to an increasingly income focused model

Growing net rental income

Helen Gordon, Chief Executive Officer



1. The need for more homes



Source: ONS

2. Differentiation from Buy to Let

98% of landlords own less than 10 properties.

Broad political support for Institutional Investment in PRS, with waning support for Buy to Let landlords

Source: DCLG, Landlord Survey

3. Growing demand

1 in 5 households rent today (4m), compared to 1 in 10 a decade ago.

1.8m more rental homes required by 2025

Source: English Housing Survey 2014-15 (published Feb 2016), PwC

4. The rise of Generation Rent

Financial drivers

- Affordability
- Lower savings rates
- High mortgage deposit requirements
- Higher stamp duty

Lifestyle drivers

- Later family formation
- Greater job mobility
- Preference for more flexibility
- Changing spending patterns

House prices

House price growth in the year
+3.7% (LSL)
+5.3% (Grainger)
+5.5% (Nationwide & Halifax)
+7.7% (ONS)

£359,000
Grainger's average house price

Rental market

**Private rental prices rose by 2.3%,
compared to Grainger's 3.6%**

**All English regions saw rental
inflation over the period**

Source: ONS, [Index of private housing rental prices \(IPHRP\) in Great Britain: Sept 2016](#)

Government policy and the Autumn Statement

- **Ban on lettings fees welcome**
- **Wider approach to housing, not just focused on home ownership**
- **Forthcoming Housing White Paper**



Chancellor of the Exchequer:

"The government expects to more than double, in real terms, annual capital spending on housing... This commitment to housing delivery represents a step-change in our ambition to increase the supply of homes for sale **and for rent**, to deliver a housing market that works for everyone."



Communities Secretary:

"Tackling the housing shortfall isn't about political expediency. It's a moral duty. And it's one that falls on all of us... So my message today is clear: it's time to get building."

Figures above refer to the twelve month period to end of September 2016

(1) National reach

We have presence across the UK

(2) Local knowledge

Our local team's market knowledge provides a competitive advantage

(3) A well established network

Our scale and strong industry contacts ensure we see the best investment opportunities in the market

(4) Flexible approach

We can invest across the full spectrum of opportunities, from developments to tenanted assets

(5) Leading operational platform

Unparalleled scale and expertise

- Transactions
- Development
 - Sourcing
- Lettings and marketing
- Property and asset management

(6) Strong future cashflows

Our regulated tenancies will generate >£100m pa

(7) Strong balance sheet

We have the capacity to deliver our £850m investment plan by 2020



Apex House, London

- **Direct development**
- **Secured**
- 163 new homes
- c.6.5% gross yield
- Planning consent received
- Construction to commence in 2017
- Completion expected 2020



Yorkshire Post, Leeds

- **Forward funding**
- **In planning**
- 242 new homes
- c.7% gross yield
- Planning application submitted



Finzels Reach, Bristol

- **Forward funding**
- **Secured**
- 194 new homes
- c.7% gross yield
- Construction due to start 2017
- Completion expected 2019



Newbury, W. Berkshire, SE England

- **Direct development**
- **In planning**
- 232 new homes
- Planning consent received
- Completion expected 2020



Indigo Blu, Leeds

- **Tenanted acquisition**
- **Secured**
- 46 homes
- c.7% gross yield
- Tenanted asset
- Immediately income producing

A growth market

1.8m new PRS households
by 2025

High quality pipeline

£389m investment secured

Market leader

Expertise with a national
presence

Scalable operating platform

Gross to net property
operating costs down to 28%

Capacity for growth

Enabled by our cash
generative regulated tenancy
portfolio

Resilient portfolio

Robust valuations,
reversionary surplus
£327m

Track record of delivery

Excellent strategic progress in FY16, increasing focus on
income and reduced costs

Thank you



Appendices



FY17 reporting dates

Trading update

9 February 2017

Interim results

18 May 2017

Trading update

10 August 2017

Full year results

30 November 2017

2017

January

M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

February

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27	28					

March

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27	28	29	30	31		

April

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May

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29	30	31				

June

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July

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August

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September

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October

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November

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20	21	22	23	24	25	26
27	28	29	30			

December

M	T	W	T	F	S	S
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4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Secured pipeline schedule

Name	Status	No. units	Forecast GRI investment	Gross yield target	Expected completion
Forward funding					
Clippers Quay, Salford	On site	614	£99m	c.8%	First completions FY18
Finzels Reach, Bristol	Construction to commence in 2017	194	£46m	c.7%	FY19
Total secured (target £250m)		808	£145m		
Direct development					
Berewood, Hampshire	On site	104	£17m	7.5-8%	FY17
Apex House, London	Consent granted	163	£60m	c.6.5%	FY19
Seven Sisters, London	Consent granted, CPO underway	196	£80m	c.7%	FY20
Gun Hill, Wellesley	Consent granted	107	£22m	6.5% + fees	First completions FY18
Total secured (target £250m)		570	£179m		
Tenanted acquisitions					
Kings Dock Mill, Liverpool	Acquired	120	£15m	c.7%	FY16
Indigo Blu, Leeds	Acquired	46	£8m	c.7%	FY17
Other	Acquired	327	£29m	6.5%-7%	FY16
Total secured (target £250m)		493	£52m		
Co-investment (Grainger's share)					
Canning Town, London (GRIP)	On site	134	£6m	7.5% + fees	FY17
Kew Bridge Court, London (GRIP)	Acquired	98	£7m	4.5-5% + fees	FY16
Total secured (target £100m)		232	£13m		
TOTAL SECURED (target £850m)		2,103	£389m		

Supplementary to the secured pipeline, in planning or legals includes two notable schemes; a c.£40m, 242 unit build to rent development in Leeds (former Yorkshire Post site) and a 232 mixed unit scheme in Newbury.

FY16	No. units	Market value £'m	Vacant possession value £'m	Reversionary surplus £'m
Residential - PRS (market rented)	2,092	461	500	39
Residential - regulated tenancies	3,652	1,249	1,507	258
Residential – Mortgages	704	93	91	(2)
Development work in progress	-	105	105	-
Wholly-owned assets	6,448	1,908	2,203	295
Investment in JVs/associates - Grainger share	676	252	284	32
Total Investments	7,124	2,160	2,487	327
Held-for-sale	3	3	3	-
FY16 total	7,127	2,163	2,490	327
Assets under management	1,486	569	644	
Total assets under management	8,612	2,732	3,134	

Geographic breakdown of our portfolio

Region	Homes under management (units)	Market value (£m)	Grainger's share of market value (£m)	Average house price (avg VPV per unit) (£'000)
Central London	1,020	691	524	798
Inner London	2,358	959	634	471
Outer London	542	183	177	400
South East	665	159	147	305
South West	914	250	197	305
East	424	68	64	211
East Midlands	276	24	24	112
West Midlands	500	83	82	202
Wales	12	1	1	173
Yorkshire	329	37	37	144
North West	1,263	137	136	125
North East	285	28	28	119
Scotland	21	3	3	141
Total	8,609	2,624	2,055	359

Excludes development work in progress and discontinued operations.

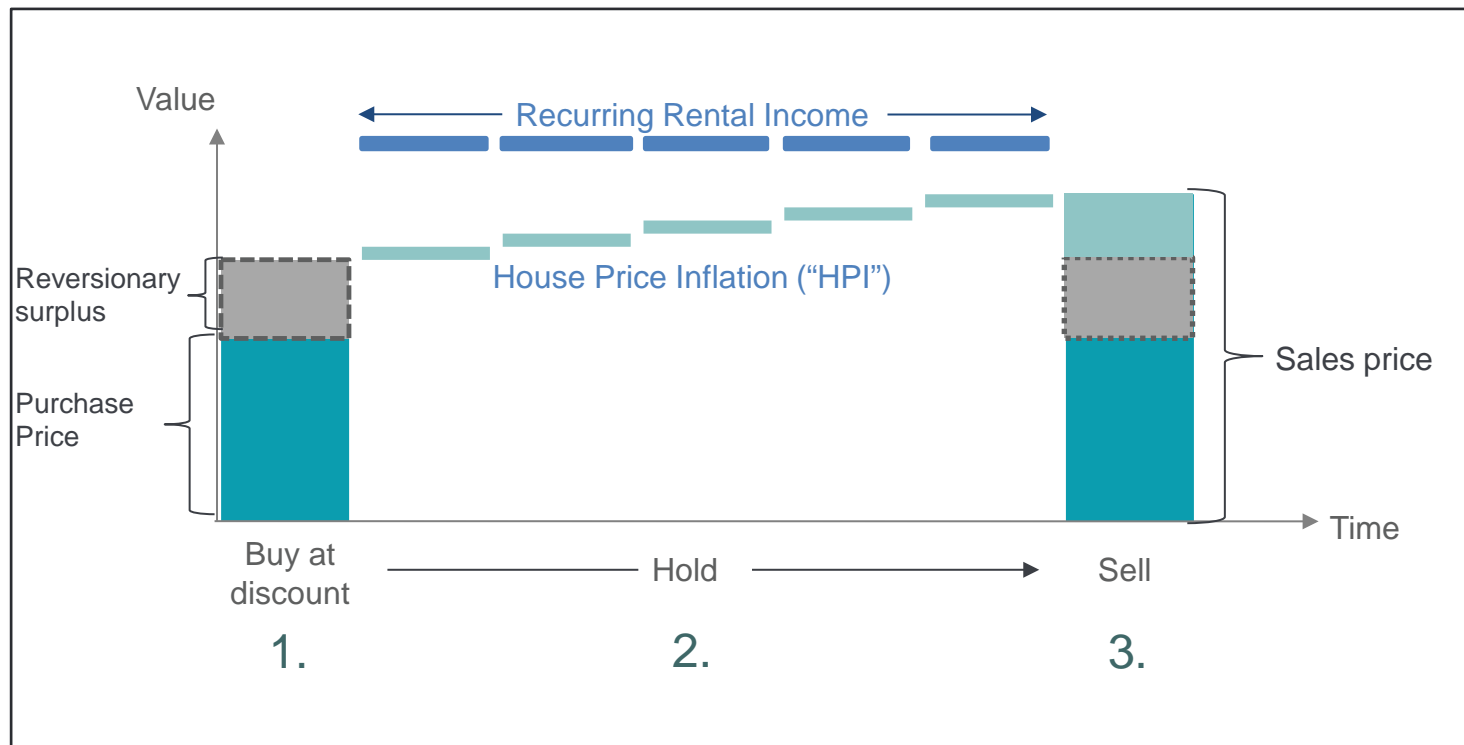
1. Buy at a discount

2. Hold and receive rental income

- Biennial rent reviews, achieving rental growth of up to 5% + RPI

3. Sell and capture house price inflation and reversionary surplus

- Reversionary surplus relating to regulated tenancies of £258m



Balance Sheet

	FY16 £m	FY15 £m
Residential - Market Rented	461	399
Residential - Reversionary	1,342	1,317
Development Work In Progress	105	95
Investment in JVs/Associates	193	166
Total Investments	2,101	1,977
Net Debt	(764)	(1,138)
Other Assets/Liabilities	32	18
Discontinued (excluding loans)	11	477
EPRA Net Asset Value (NAV)	1,380	1,334
Deferred & Contingent Tax	(146)	(158)
Derivatives	(34)	(34)
Discontinued	0	(41)
EPRA Triple Net Asset Value (NNNAV)	1,200	1,101
EPRA NAV (pence per share)	330	319
EPRA NNNAV (pence per share)	287	263
LTV	35.9%	45.5%
Total Return (return on shareholder equity)	10.6%	10.0%

FY16 (£m)	GRIP	Walworth	Other	Total
Property assets	621	193	49	863
Other assets	26	10	2	38
Total assets	647	203	51	901
External debt	(215)	(60)	-	(275)
Loans to/(from) equity participants	(80)	(13)	(35)	(128)
Other liabilities	(9)	(16)	(20)	(45)
Total liabilities	(305)	(89)	(55)	(449)
Net assets	342	114	(4)	452
Grainger share	24.9%	50%	15-50%	
Grainger share £m	85	57	(2)	140
Loans net of provisions	20	7	17	44
Total Grainger investment	105	64	15	184
Vacant possession value	705	215	-	920
Reversionary surplus	82	22	-	104
Grainger share of reversionary surplus	21	11	-	32
Grainger share of property assets*	156	96	-	252

*The Grainger share of property assets shown as other is reported within Development within the portfolio summary.

	FY16			FY15		
	Units sold	Sales £m	Profit £m	Units sold	Sales £m	Profit £m
UK residential	307	103.1	52.0	310	92.0	52.8
Charm sales	54	6.9	0.2	61	7.5	0.4
Sales on vacancy	361	110.0	52.2	371	99.5	53.2
Tenanted and other	59	12.5	7.7	130	23.5	8.0
Residential sales total	420	122.5	59.9	501	123.0	61.2
Development	-	25.1	11.8	-	33.8	9.8
Construction contract	-	24.1		-	-	-
Continuing Operations	420	171.7	71.7	501	156.8	71.0
<i>Reconciliation to statutory numbers</i>						
<i>Less Charm portfolio</i>	<i>(54)</i>	<i>(6.9)</i>	<i>(0.2)</i>	<i>(61)</i>	<i>(7.5)</i>	<i>(0.4)</i>
Statutory sales and profit	366	164.8	71.5	440	149.3	70.6

* Restated for continuing operations

Net asset reconciliation

FY16 (£m)

	Statutory Balance Sheet	Market Value Adjustments	Market value Balance Sheet	Add back Def Tax on property	Add back Fair value of derivative financial instruments	Gross NAV	Adj IAS 39 re fixed rate loan and derivative financial instruments	Deferred and Contingent Tax	NNNAV Balance Sheet
Investment Property	261	-	261	-	-	261	-	-	261
CHARM	93	-	93	-	-	93	-	-	93
Trading stock	904	649	1,553	-	-	1,553	-	-	1,553
JV/Associates	184	-	184	7	2	193	(2)	(7)	184
Cash	91	-	91	-	-	91	-	-	91
Deferred tax	-	-	-	-	(3)	(3)	7	-	4
Other assets	77	8	85	-	-	85	-	-	88
Assets classified as held-for-sale	3	-	3	-	-	3	-	-	3
Total assets	1,613	657	2,270	7	(1)	2,276	5	(7)	2,274
External debt	(844)	-	(844)	-	-	(844)	(26)	-	(870)
Derivatives	(13)	-	(13)	-	13	-	(13)	-	(13)
Deferred tax	(30)	-	(30)	28	-	(2)	-	(139)	(141)
Other liabilities	(50)	-	(50)	-	-	(50)	-	-	(50)
Total liabilities	(937)	-	(937)	35	13	(896)	(39)	(139)	(1,074)
Net assets	676	657	1,333	35	12	1,380	(34)	(146)	1,200
Net assets per share pence	161	157	318	9	3	330	(8)	(35)	287

Shares 418,374,535

Treasury/ EBT Shares 3,239,427

Look through debt

Counterparty	Group (£m)	WIP 50%	GRIP 25%	Total JVs (£m)	Grainger Share JVs
Syndicate	302				
Corporate Bond	275				
M&G	100				
Core Total	677				
Bilateral	150				
HCA funding	25				
Joint Ventures and associates		60	217	277	84
Total Group Gross Debt	852	60	217	277	84
Cash	(80)				
Finance Costs	(8)				
Total Group Net Debt	764	60	217	277	84
Group Property and investment assets (IV)	2,129	191	598	789	244
Group LTV *	35.9%	31.5%	36.3%	35.1%	34.4%

Core Property and investment assets (IV)	2,024
Core facility LTV (at IV)	33.0%
Core Property and investment assets (VP)	2,321
Core facility LTV (at VP)	28.8%

* Excludes £8.0m Fair Value Adjustment on acquired debt for purposes of Group LTV

PROPERTY

Assured periodic tenancy ('APT')

Market-rented tenancy arising from succession from a regulated tenancy. Tenant has security of tenure.

Assured shorthold tenancy ('AST')

Market-rented tenancy where landlord may obtain possession if appropriate notice is served.

Assured tenancy ('AT')

Market-rented tenancy where tenant has the right to renew.

Investment value ('IV') or market value

Open market value of a property subject to relevant tenancy in place.

PRS

Private rented sector.

Regulated tenancy

Tenancy regulated under the 1977 Rent Act. Rent (usually sub-market) is set by the rent officer and the tenant has security of tenure.

Vacant possession value ('VP' or 'VPV')

Open market value of a property free from any tenancy.

FINANCIAL

Contingent tax

The amount of tax that would be payable should trading property be sold at the market value shown in the market value balance sheet.

Dividend cover

Earnings per share divided by dividends per share.

Earnings per share ('EPS')

Profit after tax attributable to shareholders divided by the weighted average number of shares in issue in the year.

EPRA NAV

Shareholders' funds adjusted for the market value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives.

Loan to value ('LTV')

Ratio of net debt to the market value of properties.

EPRA NNAV

EPRA NAV adjusted for deferred tax and those contingent tax liabilities which would accrue if assets were sold at market value and for the fair value of long-term debt and derivatives.

Adjusted earnings

Adjusted earnings, previously called recurring profit, is profit before tax, less valuation movements and non-recurring items.

Total Return / Return on shareholders' equity

Growth in NNAV in the year plus the dividend per share relating to each year as a percentage of opening NNAV.

Weighted average cost of capital ('WACC')

The weighted average cost of funding the Group's activities through a combination of shareholders' funds and debt.