ANNUAL REPORT & ACCOUNTS 2018

ANNINGTON

CONTENTS

NOTE ON FORWARD LOOKING STATEMENTS

This Annual Report contains various forward-looking statements. These forward-looking statements reflect current views with respect to future events and anticipated financial and operational performance. Forward-looking statements as a general matter are all statements other than statements as to historical facts or present facts or circumstances. Forward-looking statements are sometimes, but not always, identified by their use of the words "aim", "anticipate", "assume", "believe", "contemplate", "continue", "could", "estimate", "expect", "forecast", "intend", "likely", "may", "might", "plan", "positioned", "potential", "predict", "project", "remain", "should", "will" or "would", or, in each case, their negative, or similar expressions. Other forward-looking statements can be identified in the context in which the statements are made.

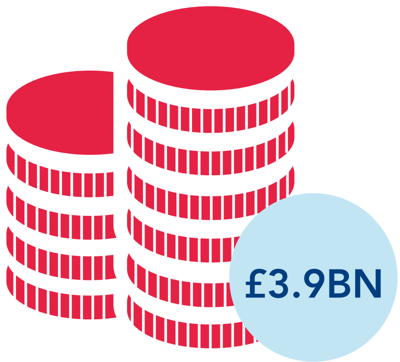
By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Many of these factors are beyond the control of the Group and are not possible to estimate precisely. Because these forward-looking statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this Report.

We expressly undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein. In addition, all subsequent written and oral forward-looking statements attributable to or made on behalf of Annington Limited are expressly qualified in their entirety.

HIGHLIGHTS FINANCIAL YEAR 2018

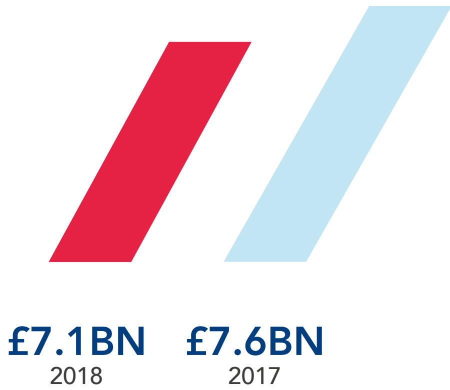
In July 2017, the Group refinanced the entirety of its previous debt through new equity, new debt and a term loan, totalling

£3.9 BILLION



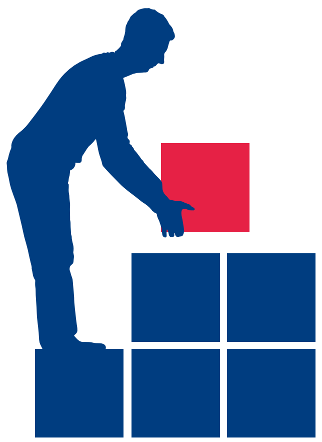
The carrying value of Group investment properties is

£7.1 BILLION



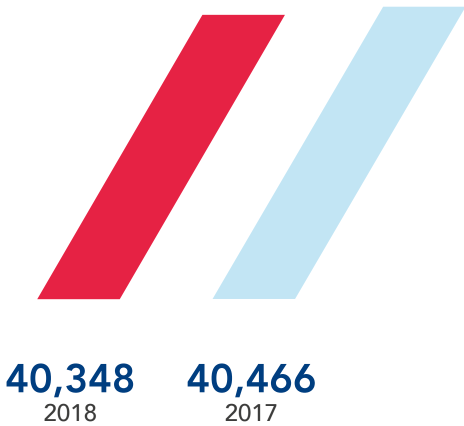
The refinancing allows the Group greater flexibility to pursue

OPPORTUNITIES FOR GROWTH



At 31 March 2018, the Group owned

40,348 UNITS

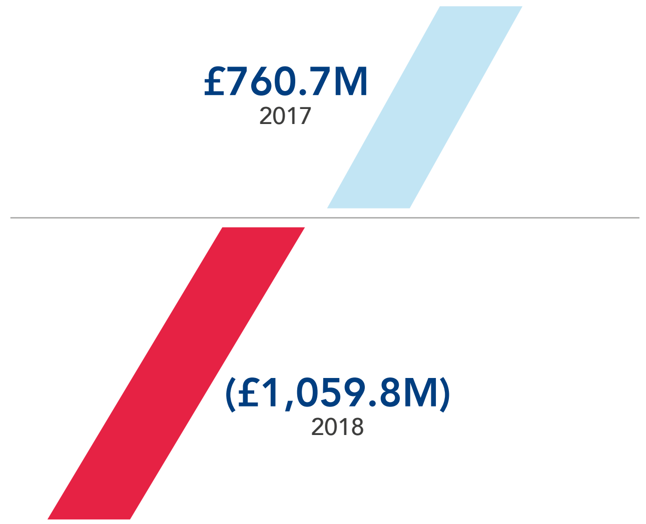


Rental income was

£193.1 MILLION

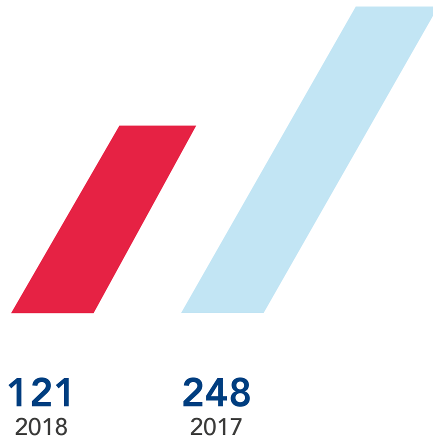
Loss after taxation was

£1,059.8 MILLION



The Group sold

121 PROPERTIES

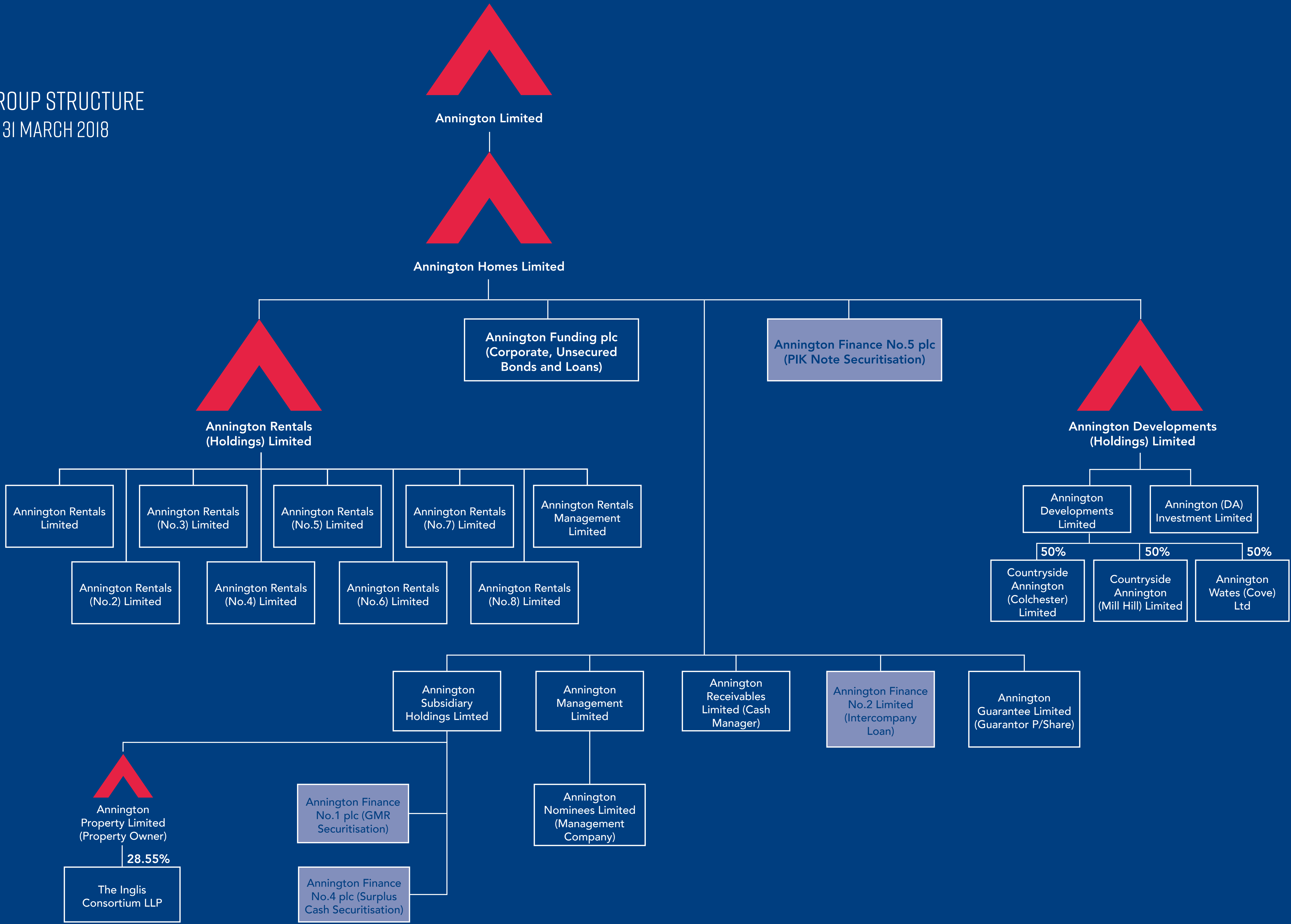


The Group recognised

£34.9 MILLION

in property sales income.

GROUP STRUCTURE
AT 31 MARCH 2018



The Companies shown shaded, all part of the old securitisation structure, entered liquidation on 21 September 2018.

THE BUSINESS

Group Overview

The Group is one of the largest private owners of residential property in the United Kingdom. The primary asset of the Group is a portfolio of residential property units ("Units") which was acquired from the Ministry of Defence of the United Kingdom (the "MoD") on 5 November 1996 for a total consideration of £1,656 billion (the "1996 Acquisition"), the largest ever acquisition of its kind in the United Kingdom. Collectively, these properties are referred to herein as the Married Quarters Estate ("MQE"). The MQE is owned by Annington Property Limited ("APL"). The MoD is responsible for the management and maintenance of the properties it leases, but when the MoD wishes to terminate its lease, the properties are released to the Group, refurbished, and made available for private rental or sale at open market prices.

On acquisition in November 1996, the Group's investments consisted of:

- 765 sites on which one or more Units were located ("Sites"), almost all on 999-year leases, comprising 55,060 Units (the "Retained Estate"), which were then leased back to the MoD for a term of 200 years to provide the majority of the MoD's subsidised accommodation ("Service Family Accommodation") for Service Families. The MoD subsequently combined various Units to create larger single properties, such that the revised total number of Units within the original Retained Estate was 55,051;
- 58 Sites comprising 2,374 Units (the "Surplus Estate"), which were no longer required by the MoD for purposes of providing Service Family Accommodation; and
- certain related assets ("Related Assets"), consisting primarily of buildings used for purposes such as housing administration and welfare offices, community centres, crèches and thrift shops, as well as playground areas, sports pitches, tennis and squash courts and undeveloped open spaces.

As at 31 March 2018 the Group's investments consisted of:

- the MQE Retained Estate comprised 38,969 Units ("Retained Units") (2017: 38,971) and 181 Related Assets (2017: 181), representing the majority of the MoD's total Service Family Accommodation and the MQE Surplus Estate comprised of 14 Units ("Surplus Units") (2017: 120); and
- the "Non-MQE Portfolio", a separate property portfolio of private rented sector ("PRS") accommodation which, as at 31 March 2018, consisted of 1,365 (2017: 1,375) property units let on bulk or assured shorthold tenancies; and
- 378 units under construction (2017: 8 units).

MQE Portfolio

The MQE, held by APL, is the core asset of the Group. APL's primary business consists of renting Retained Units to the MoD, conducting periodic rent reviews and, as needed, selling or renting Units, which are released by the MoD from the Retained Estate. The entire MQE is located in England and Wales. The major part of the Retained Estate consists of Units located in East Anglia, Greater London, the South East and the South West on sites that form part of, or are near to, military bases. While the MQE includes a broad selection of property types, the majority were two- and three-bedroom terraced or semi-detached properties.

As of 31 March 2018, the carrying value of the MQE Retained Estate was £6,761.7 million (2017: £7,246.5 million). Following the completion of the most recent Rent Review, annualised passing rent in respect of the MQE was £180.9 million (2017: £177.8 million). As of 31 March 2018, the fair value of the MQE Surplus Estate is estimated to be £8.5 million (2017: £26.5 million).

Headleases and Underleases

Headleases

On 5 November 1996, the MoD granted a headlease ("Headlease") to APL for each of the Sites within the Retained Estate for a term of 999 years (where the MoD owned the freehold of the relevant Site) or, where the MoD's interest in the Site was itself leasehold, for a term just shorter than the remaining term of the MoD's lease.

No rent is payable by APL under the Headleases and APL has an option to purchase the MoD's freehold (or leasehold) reversion in the applicable Site for a nominal sum when the Underlease (as defined below) in respect of that Site is terminated in whole or in part.

Underleases

Immediately following the grant of each Headlease, APL granted back to the MoD a corresponding underlease ("Underlease") for a term of 200 years (or less in the few cases where the MoD has a superior lease of the applicable Site of less than 200 years). Rent is payable by the MoD in the amount specified in each Underlease.

Rental payments

The Retained Units are rented to the MoD at a 58% discount to open market rent. In 1998, when it was reviewing the 1996 Acquisition, the National Audit Office detailed the component parts of this 58% rent discount as follows:

Benefit to Annington of the Guaranteed Payments	10%
Bulk nature of lettings	20%
Continuing maintenance obligations	28%
Total	**58%**

The MoD is obliged to make rental payments to the Group on all Retained Units, regardless of occupancy, meaning there is no rental void risk while the properties are leased to the MoD. Under the terms of the 1996 Acquisition, the MoD agreed to make certain guaranteed payments (the "Guaranteed Payments") to the Group until September 2021, which are payable on a quarterly basis in accordance with an agreed payment schedule that reduces over time. The Guaranteed Payments are payable irrespective of the number of Units remaining within the Retained Estate. The remaining Guaranteed Payments are shown in the following table:

Calculation date: 25 December	Amount of Guaranteed Payment for each quarter*
2018	£12,025,000
2019	£11,325,000
2020	£10,625,000
2021	£9,950,000

*In the relevant year ending on the calculation date.

APL also receives additional rent payments from the MoD on a quarterly basis to the extent necessary to make up the difference between such Guaranteed Payment and the total amount of rent due on all properties, as calculated by reference to the number of Units rented by the MoD at the applicable time.

The MoD is solely responsible for paying all rates, taxes and other outgoings and for the condition, management and maintenance of the Retained Units that it leases from APL. At lease termination, the MoD is obliged to return the premises in good tenantable repair and decorative order. To the extent that the premises are not in this state of repair, the MoD must pay damages, in lieu, for dilapidations.

Rent reviews

At the time of the 1996 Acquisition, the original Retained Estate was split into four broadly homogenous tranches, each encompassing approximately 25% of the Retained Estate ("Tranches"), for purposes of rent reviews ("Rent Reviews"). Rent Reviews are conducted on a five-year rolling basis, with a single Tranche being reviewed over each of four of the five years, with no review being carried out in the fifth year. Given the impracticality of reviewing all Retained Units within a particular Tranche, certain Units, known as "Beacon Units", located on each Site have been specified in the related underleases as being broadly representative of all of the Units on that particular Site. On the applicable review date, the rent payable on the Beacon Unit is reviewed against the open market rent as of that date, and any resulting percentage change to the Beacon Unit rent is then applied to the Site as a whole. This avoids the administrative costs and delays in respect of the MQE, which would otherwise arise out of evaluating all Retained Units located on a particular Site. Rents can increase and decrease as a result of this review process, subject to a floor, meaning rents cannot fall below the initial rent level that was set at the time of the 1996 Acquisition.

The fourth round of the fourth Rent Review cycle resulted in a 7.8% (2017: 17.9%) uplift across all reviewed Sites. This represents a £3.1 million (2017: £6.9 million) increase in rental income per annum. Over the past 20 years, substantially all Rent Reviews have resulted in rent increases at each Site, with only a small minority of Sites experiencing either no change or a decrease in rent.

The results of the previously completed Rent Reviews are summarised in the table below:

As at 25 December	Number of Retained Units	Rent receivable (£'000)	Increase in rent receivable per Unit (%)
1996	55,054	110,985	-
2002	44,987	134,427	48.2%
2007	41,393	152,040	22.9%
2012	39,952	162,603	10.9%
2017	38,969	180,857	14.0%

Site reviews

In addition to the Rent Review cycle described above, each Site will be reviewed over a five year period commencing in December 2021 ("Site Review"). When the first Site Review is conducted, the pre-determined discount of 58% to full market rent will cease to apply and the rent will be rebased for each individual Site to the fair market rental value for the Site as a whole, reflecting the various features of the underlying lease arrangements with the MoD. Similar to the Rent Review process, the Site Review is performed in four separate tranches, with approximately 25% of Sites being reviewed in each of the respective review years. The Site Review is subsequently repeated on the 15th anniversary of the initial Site Review, with the five-yearly Rent Reviews continuing between each Site Review.

Property releases

As the MoD's requirements for Service Family Accommodation change, it may choose to give up its rights to occupy Sites (or certain parts thereof) by terminating the related lease, subject to certain criteria. Upon termination of a lease, APL receives vacant possession of the applicable Units released from the Retained Estate ("Released Units") and is free to use or dispose of them as it sees fit. Subject to certain parameters, the number, location and timing of property releases are at the sole discretion of the MoD and the Group has no control over this process.

MQE Portfolio (continued)

Property releases (continued)

As part of the 1996 Acquisition, the MoD agreed to adhere to a minimum property release schedule, whereby the MoD guaranteed to release a cumulative total of 13,213 properties (in addition to the 2,374 properties in the Surplus Estate) by the end of 2021. The MoD has already satisfied this obligation and is no longer subject to any contractual requirements to release any Units from the Retained Estate.

Pursuant to a utilities agreement ("Utilities Agreement") entered into between the MoD and APL, the MoD agreed to supply certain utilities, such as the supply of potable water, electricity and the disposal of domestic sewage, to Released Units that are currently supplied with those utilities under the MoD's control (a "Base Dependency") until at least 75% of the properties located on a given Site have been released. After this threshold has been reached, the MoD could elect to continue the supply for a term of 60 years or elect not to continue after a three year notice period. In the event that the MoD releases more than 75% of the properties located on a given Site with a Base Dependency ("Base Dependent Site") and elects to terminate the supply after three years the Group will incur costs, which could be significant, to provide alternative utility supply arrangements. The Utilities Agreement has a term of 25 years, expiring on 4 November 2021, after which the MoD will not be obliged to provide the Base Dependent service when it releases any property on a Base Dependent Site.

As of 31 March 2018, the MoD had released a total of 16,091 (2017: 16,089) Units together with an additional 181 Related Assets since November 1996. Release levels for the last 5 years have been:

Year ended 31 March	Number of released units
2014	514
2015	171
2016	248
2017	43
2018	2

Historically, Released Units were refurbished and sold by APL (including to other members of the Group holding the Non-MQE Portfolio) at arm's length and on market terms, or were temporarily leased at open market value, thereby providing an immediate uplift in value given that such properties will no longer be subject to the discounted rent being paid by the MoD prior to their release.

A number of Released Units are also rented to third parties, principally where the Released Units are on or near large retained Sites where they may be held for open market rent comparisons in support of the Beacon Unit rent review process. Where the MoD has on occasion released large numbers of Units on a Site, APL has adopted a mixed disposal strategy of selling and renting, thereby benefiting from earlier occupation and increased income. APL has also rented Units, which have been designated for future redevelopment and are capable of generating short-term rental income.

Property valuation

As the MQE Retained Estate is let on a long leasehold basis to the MoD, the valuation of this portfolio is determined on a discounted cash flow basis. Due to changes in certain underlying assumptions, principally a fall in the long-term rate of rental and house price inflation, the carrying value has decreased between 31 March 2017 and 31 March 2018. This is opposite to the inflationary performance of the wider property market, but reflects changing market sentiment regarding the future performance of the housing sector.

It is important to note that the property valuation can go up and down. As stated previously, the MQE property valuation has been performed on a portfolio basis, using a discounted cash flow method. This method forecasts future cash flows which are then discounted to arrive at a fair value for the portfolio. The resultant gains or losses are not crystallised unless we sell the assets, which is not our strategy. Our strategy is to secure long term, sustainable rental income.

To take account of the change in value of the portfolio's underlying assets, the Group uses a Special Assumption of Vacant Possession Value ("SAVPV"). Additionally, this measure is used to help gauge whether the Group has been achieving reasonable value upon disposal of units released from the MQE Retained Estate and to provide management with a basis upon which to calculate an estimated value for the Retained Estate and potential value to be realised from future sales. SAVPV is defined by the Group as the value estimated for a property based on the hypothetical assumption that each such property is vacant, sold on an individual basis with no costs on disposal and introduced to the market in a phased and orderly manner, such that local markets do not become over-supplied and values are not depressed as a result.

SAVPV is calculated by the Group by indexing the SAVPV estimated at the time of the Group's initial acquisition of the portfolio in 1996 for inflation, using the average of the regional Halifax House Price Index (All House Prices) and the Nationwide House Price Index and adjusting this by a factor representing actual sales performance on disposals from the MQE Retained Estate (99.9% at both March 2017 and 2018).

At 31 March 2018, the SAVPV of the MQE Retained Estate is:

Region	31 March 2018 Number of units	31 March 2018 SAVPV £'000	31 March 2017 Number of units	31 March 2017 SAVPV £'000
East Anglia	3,029	540,946	3,029	516,217
East Midlands	2,496	390,369	2,496	368,546
Greater London	1,958	1,056,094	1,958	1,075,741
North	395	48,285	395	46,156
North West	509	61,089	509	59,968
South East*	15,439	4,269,146	15,560	4,253,773
South West*	9,575	1,843,534	9,456	1,773,274
Wales	851	130,929	851	127,664
West Midlands	1,625	252,020	1,625	240,289
Yorks & Humberside	3,092	457,096	3,092	435,203
Total	**38,969**	**9,049,508**	**38,971**	**8,896,831**

* During the period, 119 units were reclassified from the South East region to the South West.

Non-MQE Portfolio

The Non-MQE Portfolio was established in 1999 for the purpose of creating a residential investment portfolio, thereby diversifying and providing increased stability to the property portfolio of the wider Group. This strategy seeks opportunities to create value through acquisitions of residential property from third parties and by transferring Released Units to the Non-MQE Portfolio property-owning companies.

The Non-MQE Portfolio is owned by eight property-owning companies, and consisted of 1,365 (2017: 1,375) properties owned and 78 (2017: 78) properties managed as of 31 March 2018. Of these eight companies, two own properties that help generate comparison data which the Group uses in rent negotiations with the MoD during Rent Reviews, two let properties to the MoD at market value and four let properties to third parties on the open market. Annington Rentals Management Limited, from time to time, lets certain unoccupied Units within the Retained Estate on the open market on behalf of the MoD.

As at 31 March 2018, annual passing rent in respect of the Non-MQE Portfolio was £14.6 million (2017: £14.1 million). At the same date, the fair value of the Non-MQE Portfolio is estimated to be £334.7 million (2017: £297.5 million).

In seeking to expand its PRS offering, in May 2018 the Group completed the purchase of 104 homes from the Mill Group's Oak Portfolio for £23.5 million. These units were acquired pre-let, providing an income stream from the point of purchase.

Developments

The Group also has an in-house development capability, which is able to provide planning and development support. Where opportunities arise to create added value through infill development or wholesale redevelopment of landholdings, the Group may carry out development activities on its own account or enter into joint venture arrangements with other landowners and property developers where the combination of skills, assets and resources are expected to yield higher returns.

Annington Developments Limited ("ADL"), through its 50% interest in Countryside Annington (Mill Hill) Limited, is currently involved in one active joint venture arrangement with Countryside Properties plc, consisting of 395 homes (including 90 affordable homes provided to eligible households whose needs are not met by the market). Construction work started in June 2007 and is now build complete, with 388 of the units sold as at 31 March 2018. Similarly, APL, together with the London Borough of Barnet and Vinci St. Modwen, is a partner in The Inglis Consortium LLP, redeveloping 74 acres of land in Mill Hill, which, when completed, will provide new homes, a school, 10,100 square metres of retail space and 3,470 square metres of employment space. For the year ended 31 March 2018, the Group's share of profits from joint ventures was £14.7 million (2017: £4.8 million).

Further development activities centre around expanding the Group's PRS portfolio. In March 2018, 207 flats in Uxbridge were purchased. These properties are under construction with £35.9 million in costs being capitalised at year end with completion scheduled in phases between November 2018 and May 2019. In April 2018, the Group agreed to purchase 73 homes from Taylor Wimpey under a development agreement for £23.5 million. The homes will be transferred to the Group's PRS portfolio once completed.

Furthermore, during the financial year, two new sites were purchased for a combined total of £3.8 million. Once completed, the sites, Little Thetford and Allington, will have a total of 34 properties. These units, together with six that were already in build during the year at Gamlingay, are earmarked for sale.

PROPERTY MARKET OVERVIEW

Developments (continued)

High house price inflation has been a major characteristic of the UK housing market over the last 20 years. Lack of supply and high demand for residential stock has supported robust price growth. Following the Brexit referendum in mid-2016, the trend of the market has been one of softening house price inflation, which continued into 2017 and 2018. This slowdown has not been the rapid deceleration that was previously predicted by property market analysts. There is still house price growth, but it is slower than the strong growth of previous years.

In March 2018, the Land Registry announced an increase in average annual house prices in the UK of 4.2% and Hometrack 5.5% (March 2017: 6.4%) in its UK Cities Index. The Nationwide reported that UK annual house price growth in March 2018 had slowed to 2.1% (March 2017: 3.5%). The cost of an average house in the UK was £224,144 in March 2018 (2017: £215,828) based on information published by the Land Registry. In the prior year, the areas of strongest growth were the ones in which the Group has its highest concentrations of property, namely the South East, the South West, the East of England and London. In the current year, average house prices in London decreased by 0.7% in the year to March 2018, according to the ONS. London experienced negative growth across 42% of its postcodes whilst five cities (Birmingham, Edinburgh, Leicester, Liverpool and Manchester) registered House Prices Index ("HPI") in excess of 7%. Clear regional variation is evident, with strong divergence in growth rates between Southern England and regional cities.

There has been a continuing shortage of stock in the market. Supply constraints include land availability, planning, capacity in the house building sector, skilled labour shortages, and material and labour costs. Current new build starts in England totalled only 157,480 in the year to March 2018, down 8% on the previous year and annual new build completions for the same period totalled 160,470 (2017: 147,960). The UK housing market has been in a long-term position of structural undersupply for over 25 years as the number of new completions has failed to keep pace with the number of new household formations and the replacement of redundant stock. The shortfall in housing is not expected to materially change in the short- to medium-term.

In March 2018, buyer demand has fallen for the twelfth consecutive month according to The RICS UK Residential Market Survey as buyers struggle with affordability, deposits, and apprehension of rising interest rates. Buying a property has become less affordable because house price growth has exceeded average earnings growth in each of the last five years, according to the ONS. This has had a significant impact on the demographic of home ownership. In the last ten years, the proportion of 25 to 34 year olds residing in owned properties decreased from 57% to 37%.

The Rental Market

According to the English Housing Survey issued in January 2018, the state of the sales market for housing has a clear and direct impact on the rental market. The Local Government Association reveals that in 2000 the average house price was four times the average income, whereas last year a house was worth 7.7 times the average wage. According to Savills, the average size of a deposit required to obtain a mortgage is 63.7% of annual income. These trends have resulted in the PRS market expanding to encompass segments of the population who have not traditionally rented, notably families and older single individuals. Renting instead of buying has become a more affordable option to some and has become the only option for many.

The UK's PRS has expanded rapidly in recent years at the expense of home ownership and social rented housing. According to the Ministry of Housing, Communities & Local Government's Housing Survey 2016-2017, in 2017 the PRS accounted for approximately 4.7 million, or 20%, of all households, the second largest tenure behind home ownership and ahead of social and affordable rented stock (3.9 million).

Demand in the PRS market has continued to be robust and is expected to grow as house price growth is predicted to be positive, albeit slow. Knight Frank forecast that the number of UK households renting privately will rise to 5.8 million (approximately 24% of households) by 2022 from c.5 million today. Rents have not moved as dramatically as house prices. The Office of National Statistics Index of Private Housing Rental Prices in Great Britain shows that rents across Great Britain increased by 1.1% in March 2018 with only 0.1% growth in London. This compares to current inflation figures of 2.3% CPI and 3.3% RPI.

However, given the Government's move to dismantle the individual tax benefits of Buy to Let, the supply of rented accommodation is going to rely more on institutional investment and large scale professional landlords. The number of Build to Rent schemes in the UK – complete, under construction or in planning – has increased by 30% in the past year.

Service Family Accommodation

The MoD has provided subsidised accommodation for Armed Forces service personnel and their families as a condition of service throughout the post-war period. A number of factors influence the future of Service Family Accommodation ("SFA") in the United Kingdom, including basing, the cost of management and maintenance, the general condition of the housing stock, current Government policy with respect to defence, service personnel terms and conditions of employment and budgets.

The MoD is under considerable pressure to reduce costs and the financial burden of providing SFA is under review, leading to proposals for alternatives to a fully managed and maintained housing estate.

The condition of much of the MoD's estate is poor and deteriorating. Maintenance, refurbishment and renovation have been deteriorating, stretching back many years. In 2009, as a result of financial pressure, the MoD ceased to continue to improve the estate to 'target condition' and to keep it at that level through a planned maintenance programme. Service levels were reduced to those necessary to provide a safe and legal estate. The MoD's intention was to avoid investing in an estate that it was not using. However, without a clear plan regarding the future size, location and composition of the estate on which to base decisions about spending priorities, the result has been a general deterioration.

Under the terms of the contractual arrangements with the Group, the MoD has to pay compensation (dilapidations) if it does not return properties to the Group in an appropriate condition, which is defined in the Underlease as "good tenantable repair and decorative order". Poor maintenance of the MQE has resulted in higher dilapidations claims, which according to the MoD, in evidence to the Public Accounts Committee on 14 May 2018, is a factor in the slow release of properties to the Group as there are difficulties in repaying these claims.

The current moratorium on the improvement programme is likely to lead to further deterioration of SFA, greater dissatisfaction by its occupants and the potential for increased voids. All of this reinforces the MoD's view that it must find a long-term alternative to the provision of a fully maintained SFA offering. The MoD has stated that it "is looking at how it can improve the accommodation offer for service personnel, to make it fairer, and more flexible, whilst keeping it affordable for the MoD" (MoD website).

In October 2017, the MoD decided to pilot a new way of providing living accommodation to personnel and their families through the Future Accommodation Model ("FAM"). This model is a new accommodation offer to help more service personnel live in private accommodation and meet the aspirations that many have for home ownership. According to the Government, the complex project will take until late 2018 to clarify what FAM will look like and to action the key decisions. A pilot of FAM is expected to be launched in December 2018.

STRATEGIES

The Group's Strategies

The Group enjoys a unique role as the MoD's primary landlord, benefiting from stable, long-term, contracted rental income with the potential for significant capital appreciation. The key strategies of the Group are to appropriately manage the MQE portfolio and to diversify its business by actively managing and expanding the Non-MQE Portfolio, which invests in the private rented sector. The key elements of the Group's business strategies aim at creating value across all activities and are described below.

MQE Portfolio

Focus on the Site Review

The first Site Review will begin in December 2021. The purpose of each Site Review is to rebase the rent for each individual Site to the fair market rental value for the Site as a whole, reflecting the various features of the underlying lease arrangements with the MoD. Management is engaged in active discussions with the MoD over the Site Review. These talks are ongoing and management will continue to focus on these discussions through to December 2021 to secure a positive outcome for all stakeholders, including military families and our shareholders.

There are a number of factors that, together, are likely to lead to an increase in the level of rent payable by the MoD as a result of the Site Review process. These factors include the fact that each Site will be reviewed independently, so that the bulk nature of the Retained Estate, as a whole, would no longer constitute a downward pressure on rents. Guaranteed Payments will have ceased to be payable by the MoD by the time the Site Review process first commences and the MoD will continue to benefit from a right to terminate on six months' notice under its leases.

Appraisal and management of Releases

The Group appraises Released Units in accordance with strict criteria designed to optimise returns on investment and to examine all potential options on a Site-specific basis, including whether to sell the Units to third party purchasers or to members of the Group holding the Non-MQE Portfolio in order to expand its private rental sector capabilities. Management reviews and evaluates options for Released Units and pursues appropriate strategies having regard to market conditions and other circumstances existing at the time. The Group may also choose to rent certain properties prior to sale if this approach appears more likely to yield greater value due to market conditions or otherwise. In respect of Released Units which are intended to be sold to third party purchasers or rented on the open market, the Group optimises its strategy to minimise the cost and reduce the time from release to sale.

Non-MQE Portfolio

Diversify and expand private rental portfolio

Through the Non-MQE Portfolio, the Group intends thereby to continue diversifying its property portfolio, by letting at market rates to the MoD or third parties on the open market, and improve its returns through actively managing tenancies and rental levels. The Group is in a unique position to leverage its management expertise and operating platform developed through running its existing Non-MQE Portfolio to expand further into the UK PRS sector. We see significant opportunity over the medium- to long-term; we are open to considering opportunities that fit our strategy to provide UK families with more affordable, quality homes. The Group intends to continue to grow its private rental sector offering.

Proactive management of existing rental portfolio

The Group is an established provider of private rental housing, with plans to grow and provide more affordable, quality, family homes in the UK. Our target tenants are households who want to transition from small flats to affordable, good quality family houses. Our disciplined and value enhancing approach means we offer a long-term solution to help address the UK's housing crisis. Where there may be an upcoming void property, we perform a review of the local property market to determine the optimal solution for that property. This includes assessing what rental level should be achieved on re-letting and potential alternate options will be considered, including refurbishment, redevelopment and disposal. The Group intends to target locations where a particular housing demand is identified or where housing market conditions are anticipated to improve.

Seek out development opportunities

The Group will continue to pursue investment opportunities when market conditions and the terms of its financing arrangements permit, including entering into joint venture arrangements where a sharing of skills, assets and resources provides the possibility of increased returns.

The Group is an established provider of private rental housing, with plans to grow and provide more affordable, quality, family homes in the UK.

BUSINESS REVIEW

Financing

In July 2017, the Group completed a group refinancing, involving an injection of new capital into the Group, the issuance of new debt instruments and the early redemption of all the existing debt within the Group. Annington Limited issued new share capital for cash consideration of £164 million and an amount that offset the £316.4 million liability under the Zero Coupon Notes due to Annington Limited's 100% parent.

The new financing structure gives the Group significant operational flexibility to diversify the business and pursue a growth strategy in the private residential sector or other areas as it deems fit.

Debt issue

To fund the redemption and unwind of the legacy debt, Annington Funding plc ("AFP") issued five tranches totalling £3billion of corporate, unsecured bonds under an Euro Medium Term Note ("EMTN") programme (rated BBB) and drew down a term loan totalling £400 million, also unsecured, with overall borrowing costs significantly lower than the legacy financing structures. Arranged as part of the refinancing, a £300 million five-year revolving credit facility, which is currently undrawn, is available to Annington Funding plc.

The aim of the refinancing was to replace the debt structure with unsecured debt at a reduced cost and with staggered maturities, giving the Group flexibility to pursue a growth strategy outside of the MQE. The new debt had a weighted average cost of debt of 3.1% (previous debt was 8.5%) and a weighted average life of 13.9 years (previous debt was 5.5 years) at time of inception.

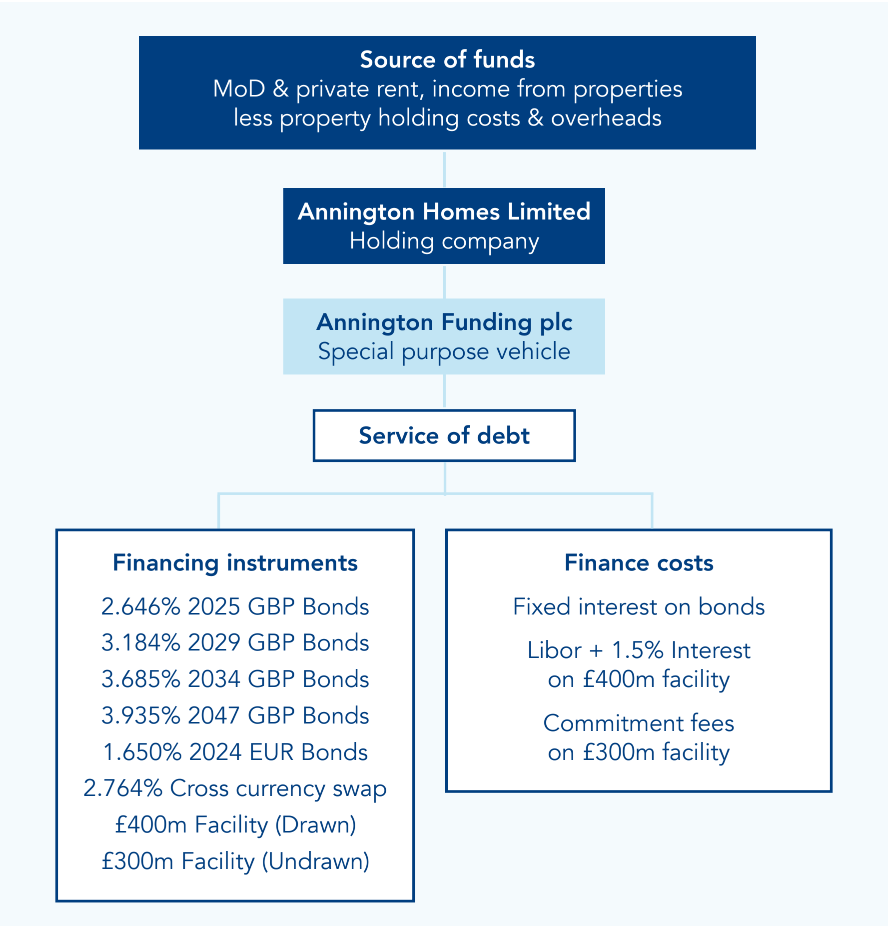
AFP issued the new bonds in the following denominations, maturities and fixed interest rates:

Currency	Pound Sterling (£)				Euro (€)
Principal Amount	625m	600m	625m	625m	600m
Final Maturity	12-Jul-25	12-Jul-29	12-Jul-34	12-Jul-47	12-Jul-24
Coupon	2.646%	3.184%	3.685%	3.935%	1.650%

Cross currency swaps are in place for the €600 million bond, converting the nominal balance to £526.3 million. These swaps also mitigate volatility of foreign currency movements in future interest and capital repayments. The function of these swaps increases the effective interest rate of the Euro Tranche debt to 2.764%, fixed for the life of the bond. The debt obligation in cash for the bonds and swaps is £97.8 million per annum and the obligation for the term loan based on LIBOR rates at 31 March 2018 is £8.8 million.

The new financing structure can be simplified using the diagram shown below.

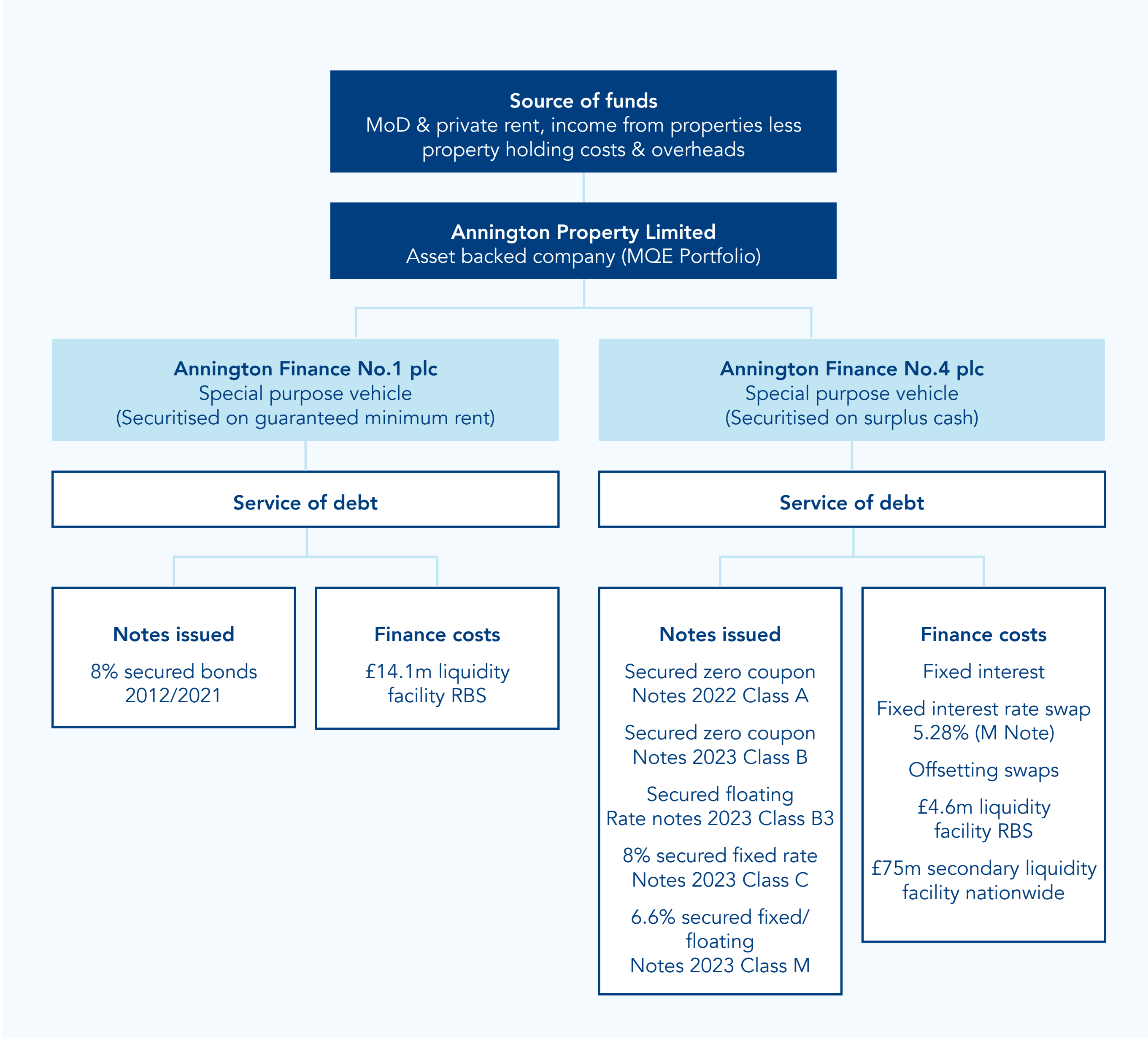
The new debt has a number of covenants to comply with under both the bonds and loan facility. These are described in detail in the Going Concern section of this report. The Group did not breach any covenants as at 31 March 2018 and have no expectation to do so in the foreseeable future.



Debt redeemed

Prior to redemption, the principal sources and application of funds for the MQE Portfolio held in APL could be simplified using the diagram shown below.

The defeasement of all legacy debt occurred on 12 July 2017, with final redemption occurring between and 12 July and 10 October 2017, along with the unwinding of the associated swaps and liquidity facilities. It resulted in the successful unwinding and de-risking of the entire legacy capital structure of the Group and associated swaps, liquidity facilities and structures.



KEY PERFORMANCE INDICATORS

The Group measures KPIs based on the controllable variable drivers of its activities. Certain overriding considerations should be noted when assessing the KPIs. For example, given the unique nature of the MQE Portfolio, the achievement of targets will be dependent upon the type of unit, the location, its condition and the timing of the release. Therefore, it is not appropriate to simply compare KPIs from one year to the next due to these variations but they are used to monitor longer-term trends.

The KPIs considered for the current and prior year were relevant under the financing structure that existed until the refinancing (see Financing section). Therefore, in future periods, the KPIs may be revisited.

The main key performance indicators for the current and prior year are:

KPI	2018[1]	2017	Basis of calculation
MQE Portfolio			
Achievement of indexed open market value	61.0%	91.9%	To compare the value realised on the sale of a property with the value expected if the property value at acquisition had increased in line with the general house price index. The value realised is calculated as sales income plus dilapidations less refurbishment costs. This is then divided by the original open market value, and indexed using an average of the Nationwide and Halifax house price indices movements from 1996 to the date of sale.
Time to sell:			From the point MoD release properties, the Group's rental income ceases. It is, therefore, important that Annington Property Limited quickly decides what action is to be taken in order to achieve maximum value. The Group, therefore, measures the time to sell a property under three separate headings.
Average weeks from MoD termination to sales release	474	67	
Average weeks from sales release to sales completion	8	18	
Average weeks from sales reservation to sales completion	4	9	
Net sales price per unit	£245,552	£342,830	Gross sales less value of incentives.
Refurbishment costs per unit net of dilapidations received	£27,183	£59,621[2]	Amount spent on the repair, refurbishment and upgrade of property less the amount received from the MoD in respect of works necessary to bring the property up to good and tenantable order.
Sales and marketing cost per unit	£2,721	£4,791	Advertising and marketing costs apportioned to each unit sold on a site.
Holding costs per unit	£2,783	£3,440	Costs incurred in securing and maintaining a site/property whilst awaiting sale.
Non-MQE Portfolio			
To manage costs within pre-defined targets	(3.29)%	(2.42)%	To compare actual expenditure levels against predetermined forecasts, to ensure adequate control over expenditure. The KPI is measured as the percentage (overspend)/underspend from forecast.
To maintain void levels below 5.0%	2.74%	0.03%	To measure the amount of potential rent lost arising from properties being void as a percentage of total potential rent.

[1] 2018 figures include sales of 71 units to the Inglis Consortium at an option value agreed historically. This has reduced the sales value achieved as a percentage of indexed open market value and refurbishment costs per unit, but increased the time from termination to sales release.

[2] The 2017 figure includes the conversion of 17 new build flats in a Grade II listed Related Asset at Aldershot and four new build houses in Bushey, thus increasing the average refurbishment cost net of dilapidations.

Built within the original walls of RAF Uxbridge, Uxbridge Southside is now a private gated development of 8 new build homes with the latest SMART technology

FINANCIAL PERFORMANCE

The Group generated rental income of £193.1 million (2017: £188.2 million). The majority of this was through APL, where the MQE Portfolio (including Surplus Estate) generated rental income of £178.6 million (2017: £173.9 million) in the year to March 2018. The increase in rental income is driven by the Rent Review concluded in December 2016, which resulted in a rental uplift. In the Non-MQE Portfolio, gross rents for the year to March 2018 have remained stable at £14.3 million (2017: £14.3 million).

During the year, 121 properties were sold by the Group (2017: 248 properties). APL generated income of £27.4 million (2017: £46.6 million) through the external sale of 111 units (2017: 136 units). A further 10 properties (2017: 112 properties) in the Non-MQE Portfolio were sold, resulting in income of £2.3 million (2017: £23.1 million). Also, as the result of the sales achieved by the Countryside Annington (Mill Hill) Limited joint venture, the Group recognised sales income of £5.2 million relating to the initial land disposal to the joint venture in 2007.

The Group has again benefited from its ability to manage the mix of rentals and sales strategies to meet the variable demand for properties on its sites across the country. The short-term rentals strategy continues to be used for stock that is not ready for sale or where sales rates are slow due to the current market conditions.

The results discussed above are reflective of not only the market, but also the nature and number of units released by the MoD and subsequently made available for sale. Recent years have seen relatively low levels of releases, which effectively caps the number of units available for sale, introducing volatility in the reported performance.

The Group has again benefited from its ability to manage the mix of rentals and sales strategies to meet the variable demand for properties on its sites across the country.

The Group incurred significant costs during the year to redeem the legacy bonds and to issue the new debt during the refinancing. The loss on the bonds redeemed amounted to £838.0 million and the cost related to the issuance of the bonds and the term loan facilities were £33.6 million, with £25.1 million being capitalised as unamortised costs. Unrealised investment property losses of £481.9 million were also recognised in the current financial year (2017: £911.5 million gain). The lower valuation is driven by a reduction in the value of the MQE following changes to three key inputs to the cash flow forecast model, which are a lower HPI forecast, higher anticipated investment returns and lower rent expectations when compared to the prior year.

Overheads were closely monitored during the year. The number of staff employed at 31 March 2018 stood at 38 (2017: 37). This continues to represent an optimum number with which to operate, given the current release profile, although still historically low. Whilst the continued reduced level of staff is recognised as a business risk if release levels suddenly pick up, management remain confident this risk can be controlled and the business managed effectively through a combination of recruitment and outsourcing.

FINANCIAL REVIEW

The Group's significant accounting policies are set out in the notes to the financial statements. A summary of the Group's financial position at 31 March 2018 and the cash flows of the Group for the year is below.

The Group's total assets amounted to £7,285.9 million (2017: £7,750.8 million). All the Group's investment properties are located in England and Wales. The fair value of these properties is reassessed annually, with the Group's total investment properties carried at £7,104.9 million at 31 March 2018 (2017: £7,570.5 million). The Group's share of its joint ventures totalled £14.2 million (2017: £25.3 million) and the Group held £162.9 million (2017: £154.9 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

The Group's combined liabilities totalled £4,065.7 million (2017: £3,951.7 million), comprising a mixture of long-term debt and exposure to deferred tax, mostly arising on the revaluation of investment properties. The Group's long-term funding is arranged through AFP in the form of bonds and a term loan.

The Group benefitted from an equity injection of £480.4 million as part of the refinancing that took place in July 2017.

The major cash flows during the year relate to the refinancing. £3.4 billion was received through the bond issue with the legacy debt repayment amounting to £3.3 billion. Due to the decrease in sales, the cash inflow from property sales decreased to £37.5 million (2017: £90.2 million).

The Group's share of its joint ventures totalled
£14.2m

The Group's total assets amounted to
£7,285.9m

The Group benefitted from an equity injection of
£480.4m

The Group's total investment properties carried at
£7,104.9m

Early 20th century former farm workers cottages located on the edge of Gamlingay village, Bedfordshire are now fully refurbished and extended to provide modern open plan living downstairs and a master suite on the top floor.

PRINCIPAL RISKS AND UNCERTAINTIES

The table below outlines the principal risks and uncertainties:

Area of Potential Uncertainty	Risk	Strategy
The Group is dependent on rental income from leases entered into with the MoD for a substantial proportion of the Group's revenue.	The revenue from rent payments by the MoD for the MQE accounts for 92.5% (2017: 92.0%) of the Group's rental income. Anticipated rental income is a significant factor in the calculation of the Group's projected revenue and the estimated fair value of the Group's properties is dependent on the Rent Review process. The five-year gap between each Tranche's successive Rent Reviews may prevent the Group from capturing and benefitting from interim rental market improvements but also protects the Group from interim market detriment. The Group expects to continue to rely primarily on the MoD, the Group's sole tenant in respect of the Retained Estate, however, there can be no assurance that circumstances will remain unchanged. The Rent Review could be unfavourable, and the MoD could fail to pay rent on time, all which could adversely affect the Group's business and create the risk that the debt service obligations would not be able to be met.	The refinancing that took place gives the Group significant operational flexibility to diversify the business and pursue a growth strategy in the private residential sector or other areas to mitigate the risk of the negative potential outcomes. The Group has entered into a revolving credit facility, with £300m available and currently undrawn, that provides liquidity to the Group were any rental income to be received after its due date.
The UK housing market may be significantly affected by changes in general and local economic conditions, including "Brexit".	The property market has a history of experiencing periods of rising values followed by a slowdown in growth rates and even falling values. The realisable value of the Group's property portfolio at any given time can be affected by many factors outside the Group's control. During periods of low demand, low prices and poor sales rates, land and properties may become particularly illiquid, which could lead the Group to experience difficulty in successfully disposing of properties in a timely fashion, without extensive marketing efforts, or without reducing the price of the properties.	The Board reviews the capital values and rental levels achieved and considers any changes that have occurred to the expected levels alongside prevailing market conditions. Where deviations are noted, these will be incorporated into future appraisals to ensure realistic and rational forecasting which forms the basis for all business decisions. In unfavourable conditions where chosen sales strategies may be difficult to execute, the Group could implement alternative strategies, including renting units on a short-term basis until market conditions become more favourable.

Area of Potential Uncertainty	Risk	Strategy
The Group has no control over the quantity, location and timing of property releases by the MoD.	If the MoD releases a significant number of properties undesirable in quality or location, or if properties are released over a short period of time, the Group may be unable to sell all, or any, such properties if the market is depressed. The loss of the rent from the MoD, combined with the poor sales of the released properties could have an adverse impact on the Group's business. It is also possible for the MoD to opt not to release any further properties to the Group. The MoD has already satisfied their obligation of 13,213 minimum releases and is no longer subject to any contractual requirements to release any Units from the Retained Estate. In recent years, the MoD has released a relatively low number of Units, resulting in reduced property stock being available for sale. Historically, there has been no trend or consistency in the release profile of surplus properties.	The Board recognises this and has maintained a policy of keeping internal resources at low levels. All principal activities are outsourced to third parties, which can provide the necessary skills in the right mix and location. This enables the Group to flex outsourcing to meet its operational needs according to stock levels and the prevailing market conditions. The Board is of the view that the long-term demand for housing in the UK will continue to outstrip supply and that demand for market renting will be stronger during poor selling periods, reducing the overall impact on the Group's position. The Board recognises that the decision regarding the future rate of property releases rests entirely with the MoD and, when reviewing employee resourcing, the Board recognises the possibility that activity levels and market conditions may vary. The business will continue to examine and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate.
The Group's operational and financial performance could be affected by failures within or by a key third party supplier, service provider or stakeholder.	Performance of key entities, for instance, The Defence Infrastructure Organisation ("DIO"), Touchstone, FTI Treasury and the MoD could have an adverse effect on the Group. Internal issues may impact its ability to work with the Group efficiently and knowledgeably and to perform to an acceptable level.	The Group maintains interaction with members of key third parties. Considerable effort continues to be made to develop and nurture relationships to maintain operational efficiency. The Group will continue, as it always has done, to encourage more co-operation and partnership.

Area of Potential Uncertainty	Risk	Strategy
The pursuit of a PRS growth strategy increases the Group's exposure to this market.	The PRS sector in the UK is in its infancy and there are few external benchmarks against which the Group can measure its performance. To grow this business, the Group will have to acquire assets on acceptable terms, gather quality information to support decision making and manage the PRS expansion in the Group. The Group will be exposed to increased market forces and competitive pressures, which may impact returns and/or decrease asset values.	The Group scrutinizes potential opportunities and project plans utilising the 20+ years of experience gained in the residential rental market, meaning we have in-depth knowledge of local market dynamics, including rents, valuations and occupancy rates. Multiple courses of action are considered and investment appraisals are carried out before new property is purchased to ensure that there are sufficient returns or that a strategic advantage can be gained. The Group limits its exposure to market forces by expanding its portfolio incrementally so that negative effects are limited.
Property valuation is inherently subjective and uncertain.	Valuations are inherently subjective due to the individual nature of each property and are based on assumptions that may not prove to be accurate. There is a risk that the valuations of the Group's properties will not be reflected in any actual transaction prices, even where any such transactions occur shortly after the relevant valuation date. Failure to achieve successful sales of properties in the future at commercially acceptable prices could have an adverse effect on the Group's business, results of operations and financial condition. Unsound valuations could also undermine the Group's ability to negotiate favourable rent increases during the Group's five-yearly Rent Reviews with the MoD.	The Group manages this risk by ensuring that regular valuations of the Group's properties are performed by external, independent, third party professional valuers, registered with the Royal Institute of Chartered Surveyors.

Area of Potential Uncertainty	Risk	Strategy
The Group may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.	The Group may become exposed to potentially significant litigation, arbitration proceedings and other claims in connection with the Group's business. Disputes could arise in connection with the Group's contracts for the provision of property management services or otherwise. Due to the uncertainty inherent in litigation, there can be no assurance that the ultimate outcome of any legal proceedings will not result in an award of substantial damages against the Group, including one beyond its financial resources. Further, should an issue arise in connection with a large proportion of the Group's properties, plaintiffs may seek class action status. The Group's insurance policies may not be available or adequate to cover any liability for damages, the cost of repairs, or the expense of litigation surrounding future claims. This may have a material adverse effect on the Group's business, results of operations and financial condition.	The Group maintains policies and procedures to ensure it is compliant with laws and ethical standards to minimise the risk of significant litigation. In addition, the Group employs respected companies to advise on transactions and other legal matters.
The Group's senior management team is critical to the Group's continued performance.	The Group relies to a significant extent on the discretion and judgment of the management team. The Group's performance and success is dependent, in part, upon the members of the Group's senior management team and, in particular, their relationships with and their understanding of the requirements of the MoD, other relevant public and regulatory authorities in the industry and other persons with whom the Group regularly deals in the conduct of the Group's business. While the Group has put in place policies and remuneration packages that are designed to retain and properly incentivise management, should senior management leave in significant numbers, or if a critical member of senior management were to leave unexpectedly, the Group's business, results of operations and financial condition could be adversely affected.	The Group has devised remuneration packages that are designed to retain and properly incentivise management. Knowledge is shared between senior staff members at formal and informal meetings. Additionally, if there is sudden increased activity within the business, it can managed effectively through a combination of recruitment and outsourcing to provide the resource needed.
The Group's business could be disrupted if its information systems fail or if its databases are destroyed or damaged.	The Group uses several information technology tools, platforms and systems to support, among other things, its operations, billing, expenses and financial information and reporting processes. The Group's business and operations could be adversely impacted if these information systems or databases and any back-up systems were to fail, or if the databases were to be destroyed or damaged.	The Group has taken measures to mitigate potential information technology security risks and information technology failures. The Group takes regular back ups and tests its IT disaster recovery plan on an annual basis.

PRINCIPAL STAKEHOLDER

MoD relationship

The unique nature of the original sale and leaseback transaction means that properties released by the MoD provided the majority of the property supply to the Group. As a result, the level of Released Units directly impacts on the activity levels and the number of properties available for sale. The MoD has absolute discretion over what units will be released and when. As such, it is necessary to maintain good working relationships at all levels to ensure efficient processes in handling releases for both parties. It is also important for the Group to understand some of the operational issues affecting the MoD's use of housing, in order to plan its resources.

This understanding also enables the Group to help promote and implement solutions to some of MoD's housing issues. For example, there are instances where the MoD does not have specific housing in certain areas. Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited have been able to assist by purchasing property in some of these areas and entering into leases with the MoD, with the flexibility that they have sought.

There have been many changes in this relationship following the introduction of the DIO on 1 April 2011 and the introduction of the DIO's Strategic Business Partner, Capita, as the MoD continues to implement the Strategic Defence and Security Review. Throughout this time, the Group has been available for open communication to ensure continued assistance is able to be provided wherever possible and to maintain the good working relationships developed over the last 20 years. Capita has been informed by the MoD that its contract will not be renewed at the review date in September 2019.

In January 2018, the National Audit Office ("NAO") published a study into the MoD's arrangements with the Group. The key headline was that the MoD was estimated to be between £2.2 billion and £4.2 billion worse off having sold the estate, due to the increase in the property value from 1996 when the deal was concluded. It is important to note that the property valuation can go up and down and any gains are not crystallised unless we sell the assets, which is not our strategy.

Other findings were that the vacancy rate on the MQE Retained Estate was 19%, with the MoD attributing an average of £11,369 per unit of dilapidation costs as a reason for not releasing units to Annington. The NAO observed that this void percentage is almost twice the MoD's target and similar to the rate before the sale of the estate to Annington. The sale was intended to provide an incentive for the MoD to dispose of surplus properties sooner than would otherwise have been the case. It was observed at the Public Accounts Committee hearing of 14 May 2018, that, if the MoD reduced the void rate by 5%, the rent and maintenance savings on those Released Units would pay back the dilapidation costs within four years.

The Group reiterated its commitment to working with the MoD going forward in order to maintain a positive and mutually beneficial relationship.

The Group reiterated its commitment to working with the MoD going forward in order to maintain a positive and mutually beneficial relationship

CORPORATE RESPONSIBILITY

BUILDING OPPORTUNITIES CORPORATE RESPONSIBILITY PLAN

For the Group, acting responsibly and being successful commercially go hand in hand. To be a sustainable business, how business is done is as important as what is delivered.

The Group's commitment to corporate responsibility is based on a firm belief that it will help maintain a commercial advantage, manage risks within operations, increase efficiency and enhance the Group's reputation with key stakeholders.

Having recognised the changing demands of society, regulations and the need for companies to reduce their environmental impact, the Group monitors the approach to sustainability, to ensure it is aligned with the views of key stakeholders. To help manage the various social and environmental initiatives that take place across the Group and to align them with the Group's business priorities, management have captured these activities within a strategic framework, the Building Opportunities Corporate Responsibility Plan. The four cornerstones of this framework are our people, the environment, our customers and partners, and our communities.

To be a sustainable business, how business is done is as important as what is delivered.

CARING FOR PEOPLE

Management values employees' commitment and in return provides excellent opportunities for personal and professional development. Employees are encouraged to develop personally and professionally and invest in their development through formal training programmes, challenging work assignments and having all employees participate in annual appraisal and development reviews. Our employees have a wide range of professional skill sets so training is assessed and tailored to meet specific individual needs. The nature of the training is, therefore, very broad and includes both technical and soft skill based training. In the financial year, the Group invested an average of £1,933 (2017: £2,118) per employee with 100% attending training programmes.

Management is committed to encouraging and achieving a working environment where equality and diversity are recognised, encouraged and valued. At 31 March 2018, there were 38 employees (2017: 37) with employee turnover at 18.6% (2017: 12.2%) and the overall gender split of the workforce is as follows:

	Male	Female	Total
The Board	8	1	9
Senior executive team	2	1	3
All employees	19	19	38

The health and welfare of employees are taken seriously. Employees are supported by being offered flexible and remote working to anyone experiencing personal difficulties. To help ensure the wellbeing and safety of employees, there are a number of initiatives including encouraging employees to take regular BUPA medical checks; providing safety guidelines around winter driving and an annual first aid refresher. In the current year, in light of the security threat level in the UK, employees attended a one-day Terrorism Awareness training session.

A strong health and safety record continued with no reported employee work incidents (2017: Nil), no reportable contractor incidents (2017:five) and no incidents reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (2017:Nil).

Our employees have a wide range of professional skills sets so training is assessed and tailored to meet specific individual needs.

RESPECTING THE ENVIRONMENT

The Group recognises that the nature of the business has environmental and social impacts and that it has a responsibility to consider and minimise these impacts where possible. There is guidance as to how the Group, its suppliers and its contractors should operate to achieve this.

Given the geographic spread of the Group's portfolio and proximity to MoD bases, there may be some concern about contamination resulting from previous uses. However, historically, only two sites released by the MoD have been found to have any traces of contamination. In both instances, remediation strategies were implemented resulting in the removal of any contaminants and the affected areas being signed off as 'clean and inert'. The Group complies with all legislation and Health and Safety regulations with regards to the handling of hazardous/contaminated material. Given the age of some of the properties, there have been instances where asbestos has been found. Any such materials have been, and will continue to be, professionally removed and disposed of or, where advised to do so, left in situ but appropriately treated, recorded and labelled.

Following the demolition of six blocks of apartments at Brize Norton, constructed largely from reinforced concrete panels, the decision was taken to separate the reinforcement from the concrete and to crush the arisings to achieve a certified type 1 material. This will be used in the construction of footpaths and non-adoptable highways and can also be utilised as a bed and backfill for drainage and services. Approximately 2,500 tonnes of material was generated for re-use and the crushing on-site saved a total of 250 journeys with an eight wheeler lorry.

In line with the Sustainable Procurement Policy, management has a preference for using materials and products that can be ethically sourced and have a low environmental impact, if their technical performance meets the required standards and they are economically viable for refurbished properties. At Brize Norton, the 135 units being built will utilise a timber frame system, which is inherently more sustainable than conventional construction methods.

At the Uxbridge Southside site, all units have been fitted with Air Source Heat Pumps; the most efficient alternative to fuel, oil and electric systems in regards to both heating and cooling. Latent heat is present in air temperatures as low as -20 degrees so the UK climate is suitable for an Air Source Heat Pump to heat a home, even on the coldest days. Heat pumps supply more heating and cooling capacity than the amount of electricity used to run them. Properly designed and installed heat pumps regularly attain more than 300% efficiency and can provide all the hot water and heating a property requires for 365 days a year.

Approximately 2,500 tonnes of material was generated for re-use and the crushing on-site saved a total of 250 journeys with an eight wheeler lorry.

Wildlife expert, Carrie Cort gave a presentation to a group of children at Gamlingay First School followed by "Wildlife Eco Warriors" workshops to years 5 and 6. The fun, informative and practical sessions included hands-on creative upcycling for the garden using materials such as butterfly hibernation boxes from used food packaging, owl boxes from old wellington boots and bird feeders out of plastic milk bottles.

"I was living nearby in Uxbridge already, but wanted to upsize from my two-bedroom apartment to a house with a garden. In Uxbridge, there aren't many mid-sized houses that come on the market at a reasonable price, but Southside Close offered the right size properties with a modern design and all the latest gadgets, within my budget."

Stuart Murdoch, purchaser at Southside Close, Uxbridge.

VALUING CUSTOMERS AND PARTNERS

The Group takes its responsibilities, and those of its customers and partners, to the communities and environments in which it operates seriously. The Group seeks to work with partners and suppliers that subscribe to the Group's business standards and values.

Where possible, effort is concentrated on improving the 'street scene' to make the communities in which houses are situated more desirable places to live. This can include landscaping, installing off-road parking and upgrading the external appearance of properties. Thorough checks are performed on the electrical, plumbing and heating systems and any defects or issues that might affect a mortgage are rectified.

The Group strives to make home buying as trouble-free as possible by managing the sale process for their properties, through regular engagement with agents and solicitors, aiming to ensure all buyers receive a consistent, fair and timely process. Over the past year, the period from reservation to exchange took 27 days (2017: 61 days). Where appropriate, buyers are offered the Seal of Approval incentive, providing the buyer with the comfort that the gas, electrical, heating and internal water systems have been professionally checked and serviced and that, should they fail within the 28 day period from legal completion, the Group will repair them free of charge. The Group has set a target of responding and dealing with any issues arising within 14 days and have achieved this in 89% (2017: 94%) of cases.

The Group operates under The Consumer Code for Home Builders which applies to all home builders registered with the UK's main new home warranty bodies: NHBC, Premier Guarantee and LABC Warranty. The Code consists of 19 requirements and principles that home builders must meet in their marketing and selling of homes and their after-sales customer service. In addition, the Group offers a two year warranty alongside a Customer Care Charter.

Many of the Group's suppliers and contractors have been partners for years. The partners are an extension of the business and the Group is committed to treating them fairly. The right partners are selected who have years of experience in the industry so they deliver the best result for the Group and its customers.

Suppliers and contractors are required to share the Group's commitment to quality, health and safety, environmental issues and promote sustainable practices. The Group is committed to providing a safe working environment both in its offices and at the sites where contract partners are refurbishing homes. Both the Group and its contractors' safety management systems comply with UK Health and Safety. The Group is registered with the Considerate Constructors scheme.

The Group strives to make home buying as trouble-free as possible by managing the sale process for their properties, through regular engagement with agents and solicitors, aiming to ensure all buyers receive a consistent, fair and timely process.

INVESTING IN COMMUNITIES

The Group is passionate about strengthening local communities by supporting charities and making charitable donations to a diverse range of good causes. This can involve funding a variety of activities – from supporting local schools by donating equipment to providing funding to support specific projects or initiatives.

Charitable Contributions

The Group allows each employee to take up to three days paid leave to undertake volunteering work. In 2018, the Group donated £197,650 to charities. The majority of this was used to support five key charity partners:

Reading Force, the tri-service reading charity which aims to support family cohesion through the power of shared reading. In July, the Group entered into a new three year funding agreement with the charity, which provides children's books and special scrapbooks to families. They choose a book and share it, reading it together at home or over Skype or FaceTime if a loved one is deployed or away on training. While reading the book families can complete the scrapbook, filling it with their thoughts about the book, photos and drawings. The Group's committed funding of £25,000 per annum for the next three years has enabled the charity to recruit an Ambassador for Scotland, an important element of their long-term development strategy.

Bag Books is a UK-wide charity making multi-sensory books for people with severe learning disabilities. The Group's funding of £25,000 enabled the charity to send their Storytellers to 30 Special Schools situated near military bases for a demonstration day of storytelling. The Group also made an additional donation to fund the creation of a new book entitled 'Home For Christmas' and in September 2017, four staff spent the day helping the charity build the book.

The Connection at St-Martin-in-the-Fields is a charity with over 60 years' experience providing advice and services that helps people experiencing homelessness in central London to avoid, move away from, and stay off the streets. The Group's funding of £25,000 helped fund the salary of the Day Centre Manager, a key individual who manages the Centre's team of 14 staff. In addition, the Group's staff gave their time to help out. Four employees escorted a group on a day out to Kew Gardens in August 2017, which was funded by the Group. Three staff helped with The Connection's Annual Client survey, which aims to give clients the opportunity to feed back on the services provided by the charity and in December, funds were raised to buy much needed 'Moving In Packs' for clients moving into permanent accommodation.

The Group is passionate about strengthening local communities by supporting charities and making charitable donations to a diverse range of good causes.

Blind Veterans UK supports vision-impaired veterans, regardless of when they served in the Armed Forces or how they lost their sight. The charity cares for blind veterans at its training and rehabilitation centres and employs trained nurses to help those with complex health needs. During the current year, the Group continued its support of the charity with the third of three agreed donations of £25,000. The donation has been used by Blind Veterans UK to assist with the running costs of the Life Skills for Independent Living project based at the charity's centre in Llandudno.

The Ripple Pond was established in 2012 by two mothers of seriously wounded servicemen who identified that no service existed for adult family members, and who had found strength and comfort by sharing and supporting each other through such a unique challenge. In the current year, the Group made the third of three payments of £25,000 and continued to provide professional advice and guidance.

Children's author Vivian French MBE and a young friend from Colinton Primary School celebrate the launch of Reading Force, Annington's new charity partner, in Scotland.

ANNUAL SLAVERY AND HUMAN TRAFFICKING STATEMENT

The 2015 Modern Slavery Act ("the Act") came into force on 29 October 2015. This statement is made pursuant to Part 6 of the Act and sets out the steps Annington Limited ("the Group") and its subsidiaries have taken to ensure that slavery and human trafficking is not taking place in our supply chains or in any part of the business.

Modern slavery is a term used to encompass slavery, servitude, forced and compulsory labour, bonded and child labour and human trafficking. Victims are coerced, deceived and forced against their free will into providing work or services. Human trafficking is where a person arranges or facilitates the travel of another person with a view to that person being exploited. Modern slavery is a crime and a violation of fundamental human rights.

The Group conducts an annual review of its business and operations including risks associated with modern slavery. This work identified that it remains a low risk business but that the areas of highest risk exists around our contracting activities and the possible use of slave / trafficked labour on site or within the Group's supply chain. When considering the risks associated with the various areas of the business the Group's established policies covering Slavery and Human Trafficking, Whistle-Blowing, Supplier Code of Conduct and Sustainable Procurement form the backbone of the review.

Within the Group's core refurbishment and new build operations, the scale of work carried out each year varies considerably due to two factors. Firstly, the numbers of sites and homes returned to the Group by the MoD and secondly, the condition in which they are handed back. In order to manage this and the fact that the release of properties is entirely at the discretion of the MoD, the Group has determined that the most effective and efficient method of procuring the refurbishment work is to outsource it to pre-selected contractors and suppliers. The year April 2017 to March 2018 saw the MoD hand the lowest number of properties back to the Group since 1996.

During the year the Group ensured that it remained compliant with the legislation by ensuring all new contractors completed the updated pre-qualification questionnaire which covers modern slavery legislation and that all engaged contractors certify that they have the relevant policies and procedures in place and that they will abide by the Group's Supplier Code of Conduct.

The Group continues to raise awareness of slavery and trafficking issues amongst its staff and contractors through training. Training on slavery and human trafficking for all staff is delivered as part of the Group's annual training programme, so that they can understand the risks involved and know how to make the organisation aware of issues so they can be addressed.

The Group will continue to monitor and assess its performance in this area through the following measures:

- Engagement with contractors to raise awareness of the Modern Slavery Act and our Supplier Code of Conduct. This is done continuously through pre-commencement meetings with contractors to ensure they are aware of our policies and are abiding by their own policies.
- Continuing to focus on our supplier due diligence process to ensure that we engage appropriately with any new suppliers and contractors.

The Group strictly prohibits the use of modern slavery and human trafficking in our operations and supply chain and is committed to implementing systems and controls and delivering training aimed at ensuring that modern slavery is not taking place anywhere within its organisation or in any of its supply chains. The Property Director has responsibility for ensuring that the contractors and suppliers used in the refurbishment of properties comply with the Group's policies, including our Slavery and Human Trafficking policy. The Commercial Director has responsibility to the Board for oversight of the Act across the Group.

This statement represents the Company's statement in accordance with Section 54 of the Modern Slavery Act 2015 for the financial year 1 April 2017 to 31 March 2018 and has been approved by the Board of Directors.

GOING CONCERN

The Company's and the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review, Financial review, Financial performance and this section. Full details of post balance sheet events are set out in Note 31 to the Consolidated Financial Statements.

Critical to the Group's future as a going concern is the ability to service and repay its debt. For the foreseeable future, at least until the maturity of the term loan in 2022, the Group only needs to pay the interest on the debt. The new debt has a number of covenants to comply with under both the bonds and loan facility. The covenants attaching to the debt are:

Covenant	Test	Limit for Bonds	Limit for Loans
Limitation on Debt	Total debt / Total assets	<65%	<65%
Limitation on Secured Debt	Secured debt / Total assets	<40%	<40%
Interest Cover Ratio	EBITDA / Interest	1.0x (dividend lockup at 1.3x)	1.15x (dividend lockup at 1.3x)
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%

The Group's forecasts do not indicate any of these covenants will be breached in the foreseeable future. Further, the Group's forecasts do indicate that sufficient cash flow will be generated to cover payments of interest on its debt and generate significant additional free cash flows to allow for reinvestment or potential dividends to shareholders. Further, were this not possible, the undrawn revolving credit facility provides additional liquidity to the Group to allow the continued operation for the foreseeable future.

The Group meets its day-to-day working capital requirements from both rental income and property sales. In uncertain economic environments, such that there is uncertainty over the level of demand for properties, comfort is gained that the rental income is sufficient to meet debt service requirements without the need for sales. A significant number of units could become void and the Group would still be able to service its debt obligations from the remaining rental income.

It should be noted that the Group receives cash on a quarterly basis in relation to its long-term rental of investment properties.
The forecast receipts of rent in the year ahead will be sufficient to meet short-term cash requirements.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

OUTLOOK

The housing market trends of the last 12 to 18 months is characterised by continued, if slowing, house price growth with regional price divergence continuing. In most areas, we expect house price growth to remain resilient, outstripping wage growth and the perennial problems of affordability will continue to be features of the market. The persistent lack of supply is expected to continue, adding upward pressure on prices but this is expected to be moderated by the minimal decrease in demand due to unaffordability, uncertainty in the economy and expectation of interest rate rises. The recent interest rate rises are a greater risk to short-term price stability, as previously transaction volume in the market has been underpinned by favourable lending rates. The construction industry will mirror the housing market and most likely remain subdued.

Buying a property has become less affordable because house price growth has exceeded average earnings growth in each of the last five years, according to the ONS. This has had a significant impact on the demographic of home ownership. In the last ten years, the proportion of 25 to 34 year olds residing in owned properties decreased from 57% to 37%. This unaffordability of housing has driven growth in demand for renting.

At a time when demand for private rented housing is growing, we believe we can play a positive role in helping the UK address its housing crisis. There are very few companies in PRS with our scale and experience and the Group intends to use this experience to provide affordable, good quality housing to households who want to transition from small flats to family homes.

The refinancing undertaken in July 2017 means the Group now benefits from lower interest payments, with longer and staggered debt maturities. These benefits allow the Group to expand its footprint in the private rented sector and diversify its activities alongside the core business of providing rented accommodation to the MoD.

The Group's expansion into PRS has continued at a steady pace up to the date of this report. In May 2018, the Group completed the purchase of 104 homes from the Mill Group's Oak Portfolio for £23.5 million and in April 2018 agreed to purchase 73 homes from Taylor Wimpey under a development agreement for £23.5 million. This acquisition will be phased based on completion of development between May 2018 and December 2018. The Group is maintaining a watching brief for further opportunities to expand into this sector.

With respect to the MQE Portfolio, the Group seeks to work closely with the MoD to find innovative and practical solutions to issues as they arise. The Group remains committed to quarterly joint working board committee meetings where these matters can be freely discussed, and to maintaining good day-to-day working relationships at all levels to ensure efficient handling of issues.

We continue to prepare for the Site Review and are currently in talks with the MoD around the practical aspects of conducting this exercise. Throughout this process, we remain focused on securing a positive outcome in December 2021 for all stakeholders, including military families and our shareholders.

This Strategic Report is approved by the Board of Directors and signed on behalf of the Board.

A P Chadd
Director
30 August 2018

REGISTERED OFFICE
1 James Street
London,
United Kingdom
W1U 1DR

There are very few companies in PRS with our scale and experience and the Group intends to use this experience to provide affordable, good quality housing to households who want to transition from small flats to family homes.

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 March 2018.

Directors

The directors who served throughout the year, except as noted, were as follows:

Non-executive:

H L Liddell (Chairman)
Baroness Helen Liddell was appointed as an independent non-executive Director of Annington Limited on 1 April 2017, and as Chairman of the Board on 1 May 2017. She was a member of Parliament from 1994 to 2005 and a Government Minister from 1997 to 2003. She served as British High Commissioner to Australia between 2005 and 2009. A former BBC Economics correspondent, she was previously a Director of the Scottish Daily Record and the Sunday Mail and CEO of Business Ventures.

F S Duncan
Fraser Duncan was appointed as an independent non-executive Director on 17 December 2012. He also chairs the Audit and Finance committees.

E J Filkin
Elizabeth Filkin was appointed as an independent non-executive Director and Chairman of the Annington Board in 2008, stepping down as Chairman at the end of April 2017 and retiring from the Board on 31 May 2017. In addition, she sat on the Audit, Finance and Nomination and Remuneration Committees.

P R Finan
Patrick Finan was appointed as an independent non-executive Director on 31 January 2018. He is currently the Head of Finance at Terra Firma.

J M King
Justin King joined Terra Firma as Vice Chairman and Head of Portfolio Businesses in September 2015. Subsequently, Justin joined the board of Annington Limited in March 2016, as a representative of Terra Firma. Justin has a wealth of business experience, including as CEO of Sainsbury's between 2004 and 2014.

J O Short
Jonathan Short joined the board on 1 April 2017. He has a background predominately in banking and finance, having worked for American National Bank and Trust Company, S.G.Warburg, Baring Brothers, Lazard and Pramerica Real Estate Investors before setting up his own fund, Internos Global Investors, in 2007 where he is the Chairman. Jonathan chairs the Nomination and Remuneration Committee.

D L Spiri
Dominic Spiri joined the board on 1 August 2016 as a representative of Terra Firma. He joined Terra Firma's Finance team in 2005 as a tax and structuring specialist. Before that, he worked in Deloitte's Private Equity Transaction Services Group. He resigned from the board 31 January 2018.

S K Webber
Steve Webber joined the board in 2012. He currently serves as a member of the Finance, Audit and the Nomination and Remuneration Committees.

Executive:

J C Hopkins (Chief Executive)
James Hopkins joined Annington as Chief Executive in July 1998. He is also a Trustee of the Annington Trust. He was previously the Managing Director of Hanson Land Limited. Before joining Hanson plc in 1987, he spent six years in the Army where he served in a variety of roles with his regiment, The Life Guards. James graduated from Oxford University in 1981.

A P Chadd (Chief Financial Officer)
Andrew Chadd joined the Board of Annington in 2010. Until 30 June 2012, he acted as a representative of Terra Firma on the board and held the roles of Secretary for the Audit, Finance and Nomination & Remuneration Committees. On 1 October 2012, Andrew was appointed the Group Chief Financial Officer ("CFO"), having acted as CFO Designate since 1 July 2012. Andrew joined Nomura's PFG, the predecessor of Terra Firma, in 1999. Since then, he has been involved in a number of Terra Firma's portfolio businesses.

N P Vaughan (Commercial Director)
Nick Vaughan joined Annington in December 1998 as Financial Analyst, Strategy and Programme Manager. He was appointed Commercial Director in January 2001 and joined the Annington Board in April 2001. Nick came to Annington from The British Land Company plc where he worked on a number of strategic property projects and acquisitions. He was previously Financial Director of a number of Rosehaugh plc group companies.

Directors' indemnities

Qualifying third party indemnity provisions were in place for all directors of the Company for the current and preceding year.

The role of the board

The board is responsible for the long-term success, strategic direction and delivery of operational objective. The Board provides leadership of the Group within the framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for it to meet its objectives and reviews management performance. The board sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Details of the Board and committee composition, remit and frequency of meeting

Board of Directors
The Board of Directors comprises at least two independent, non-executive directors, two further non-executive directors employed by Terra Firma Capital Partners Limited and at least three executive directors. The Chairman is drawn from the non-executive directors. E J Filkin served in this role until 30 April 2017 and H L Liddell assumed the Chair on 1 May 2017. The Board meets formally each quarter to review issues, progress being made and performance against budget. 'Executive Review Meetings', attended by the same individuals, are held as required for updates on performance and to discuss any issues which may require resolution prior to the next formal Board meeting.

Audit Committee
The Audit Committee includes independent, non-executive directors and one non-executive director employed by Terra Firma Capital Partners Limited. Alongside other responsibilities, the Committee considers the ongoing effectiveness of controls and procedures operated by the executive team. The Committee receives a report presenting the audit plan and a report from the Auditor following substantial completion of their audit work. The Committee has specifically considered the appropriateness of preparing financial statements on the 'going concern' basis.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee includes the independent, non-executive directors and one non-executive director employed by Terra Firma Capital Partners Limited. The Committee meets as required, but at least once per annum, to consider the overall remuneration packages of all staff and to review the staff appraisal process, which provides evidence for salary reviews and/or award of discretionary bonuses. The appraisal process seeks to identify individual development and training potential as well as assessing historical performance.

Investment Committee
The Investment Committee includes the three executive directors and one senior executive and meets as required to discuss and consider appraised project strategies. Any major projects or significant investments will be referred to the Finance Committee or Board for ultimate approval.

Finance Committee
The Finance Committee includes the independent, non-executive directors, two non-executive directors employed by Terra Firma Capital Partners Limited and two executive directors. The Committee meets as required to discuss and consider appraised project strategies and to consider financing strategy. Any major projects or significant investments will be referred to the Board for ultimate approval.

Directors' and Senior Managers' Meetings
The executive directors, along with senior executives, meet every Monday morning in order to consider results from the previous week, provide an update on short-term issues and to prioritise work for the coming week. This meeting forms the basis for compiling a weekly report which is subsequently sent to Terra Firma Capital Partners. A further report is circulated to all staff.

A meeting of all senior managers is held on the first Monday of each calendar month. This ensures that all those present are kept up to date with the Group's progress and any issues affecting the operations of the Group. Those present are charged with disseminating the information to their teams. Each senior manager also produces a monthly progress report and has monthly progress meetings with the Chief Executive, on a one-to-one basis.

Remuneration report

The Nomination and Remuneration Committee meets as required but at least annually to review all salary, bonus, Long Term Incentive Plans ("LTIP"s) and other benefits available to directors and staff, to ensure remuneration packages continue to be competitive in order to attract, retain and motivate experienced individuals and to drive the Group forward in achieving its objectives. During the year, a salary review exercise was carried out in order to ensure remuneration levels remain competitive.

All employees are employed by the Group through Annington Management Limited as lead employer. It has always been the Group's policy to maintain a small core team to manage the activities of the Group and to outsource certain operational activities to other organisations. This has allowed Annington to access professional services as required, enabling the Group to more efficiently manage the fluctuating activity levels in the portfolio across England and Wales. Where employee turnover has occurred, the Group has adapted its structure to meet current and expected future requirements.

The Group operates an annual staff appraisal process, requiring managers and their staff to discuss the year completed, to address any issues arising and to provide staff development where appropriate. These meetings are also used to set objectives for the coming year. The appraisal form is reviewed by the relevant director and each individual is 'scored' across a series of headings. The appraisal process has been developed during the year to ensure alignment with the requirements of the annual bonus and long-term incentive processes. As in previous years, all staff appraisals are subject to review by the Remuneration Committee.

Details of the directors' remuneration are included in Note 6.

Guidelines for Disclosure and Transparency in Private Equity

The Group is defined as a portfolio company for the purposes of the "Guidelines for Disclosure and Transparency in Private Equity" issued by the Guidelines Monitoring Group. This Annual Report and Financial Statements, comprising the Strategic Report, the Directors' Report, the Financial Statements and the Notes to the Financial Statements has been prepared in accordance with Part V of that document "Guidelines for Enhanced Disclosure by Portfolio Companies and Private Equity Firms".

Ownership structure and economic benefit

Annington Holdings (Guernsey) Limited, a company registered in Guernsey, is the immediate parent of Annington Limited. Annington Holdings (Guernsey) Limited is a subsidiary of the TFSOF1. The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Further details regarding the adoption of the going concern basis can be found within the Post Balance Sheet Events and Going Concern section of the Strategic Report.

Charitable and political donations

During the year the Group made charitable donations of £197,650 (2017: £160,000), principally to local charities serving the communities in which the Group operates. The Group made no political donations during the year (2017: £nil).

Further information on the charitable activities of the Group is provided in the Strategic Report.

Financial instruments and risk management policies

Financial instruments and risk management policies are addressed in Note 20.

Strategic Report

The areas of potential risks and uncertainty which face the business, details of its financing and its future outlook are addressed in the Strategic Report. An indication of likely future developments in the business and development activities are included in the Strategic Report.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Dividends

No dividends have been paid or proposed during the year (2017: £nil).

Post balance sheet events

Post balance sheet events are referred to in the Strategic Report and Note 31 to the consolidated financial statements.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and arrangements have been put in place for them to be re-appointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

A P Chadd
Director
30 August 2018

REGISTERED OFFICE
1 James Street
London, United Kingdom
W1U 1DR

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ANNINGTON LIMITED

Report on the audit of the financial statements

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Annington Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent cash flow statement; and
- the related notes 1 to 32 and a to l.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions 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 under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
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 auditor's 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 respect of these matters.

Richard Howe FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom
30 August 2018

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £'000	2017 £'000
Property rental income	4	193,067	188,164
Property operating expenses		(5,665)	(7,442)
Net rental income	4	**187,402**	**180,722**
Other operating income		51	79
Administrative expenses		(17,188)	(14,626)
Utilities provision release	18	4,069	2,449
Profit on disposal of investment properties	7	6,434	13,727
Unrealised property revaluation (loss)/gains	10	(481,858)	911,544
Share of results of joint ventures after taxation	12	14,748	4,816
Impairment of joint ventures	12	(3,306)	-
Operating (loss)/profit	5	**(289,648)**	**1,098,711**
Finance income	8	2,796	6,191
Finance costs	8	(1,004,793)	(268,129)
(Loss)/profit before taxation		**(1,291,645)**	**836,773**
Taxation	9	231,843	(76,078)
(Loss)/profit for the year after taxation		**(1,059,802)**	**760,695**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £'000	2017 £'000
(Loss)/profit for the year		(1,059,802)	760,695
Items that may subsequently be recycled through the income statement			
Cash flow hedge:			
Fair value gains on cash flow hedge	19	3,559	-
Reclassification of fair value gains included in profit and loss		(3,060)	-
Total other comprehensive income		**499**	**-**
Total comprehensive (loss)/profit for the year		**(1,059,303)**	**760,695**
Total comprehensive (loss)/profit attributable to shareholder		**(1,059,303)**	**760,695**

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Investment properties	10	7,102,224	7,563,065
Plant and equipment	11	217	142
Investment in joint ventures	12	14,198	25,284
Derivate financial instruments	19	3,559	-
		7,120,198	**7,588,491**
Current assets			
Inventory	13	5,732	890
Trade and other receivables	14	607	22,560
Cash, cash equivalents and restricted cash	15	156,607	131,421
		162,946	**154,871**
Investment properties held for sale	10	2,711	7,428
Total assets		**7,285,855**	**7,750,790**
Current liabilities			
Trade and other payables	16	(73,773)	(67,590)
Loans and borrowings	17	-	(56,352)
Provisions	18	(3,635)	(3,412)
		(77,408)	**(127,354)**
Non-current liabilities			
Other payables	16	(202)	(22)
Loans and borrowings	17	(3,377,499)	(2,955,618)
Deferred tax liabilities	9	(574,561)	(806,556)
Provisions	18	(36,028)	(36,107)
Derivative financial instruments	19	-	(26,074)
		(3,988,290)	**(3,824,377)**
Total liabilities		**(4,065,698)**	**(3,951,731)**
Net assets		**3,220,157**	**3,799,059**
Capital and reserves			
Share capital	21	84,756	84,756
Share premium	22	480,401	-
Merger reserve	23	(10,000)	(10,000)
Hedging reserve	24	499	-
Retained earnings	25	2,664,501	3,724,303
Total equity		**3,220,157**	**3,799,059**

The accompanying notes (1 to 32) should be read in conjunction with these financial statements.

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 30 August 2018.

Signed on behalf of the Board of Directors

A P Chadd
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2016	**84,756**	**-**	**(10,000)**	**-**	**2,963,608**	**3,038,364**
Total comprehensive profit for the year	-	-	-	-	760,695	760,695
Balance at 31 March 2017	**84,756**	**-**	**(10,000)**	**-**	**3,724,303**	**3,799,059**
Total comprehensive income/ (loss) for the year	-	-	-	499	(1,059,802)	(1,059,303)
Share premium	-	480,401	-	-	-	480,401
Balance at 31 March 2018	**84,756**	**480,401**	**(10,000)**	**499**	**2,664,501**	**3,220,157**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £'000	2017 £'000
Net cash from operating activities	26	**157,518**	**166,042**
Tax paid		(152)	-
Net cash inflow from operating activities		**157,366**	**166,042**
Investing activities			
Proceeds from sale of investment properties		37,487	90,200
Purchase of investment properties	10	(39,438)	(3,049)
Proceeds from sale of plant and equipment	5	-	2
Purchase of plant and equipment	11	(106)	(125)
Loans to joint ventures	12	-	(4,018)
Distributions from joint ventures	12	28,978	10,820
Loan repayments from joint ventures	12	7,775	6,133
Interest received		844	135
Net cash inflow from investing activities		**35,540**	**100,098**
Financing activities			
Issue of shares		164,000	-
Proceeds from borrowings	17	3,401,260	106,705
Debt issuance costs		(25,071)	-
Repayment of borrowings	17	(3,512,364)	(199,842)
Purchase of offsetting swaps		(24,578)	(34,130)
Finance charges		(170,967)	(123,445)
Net cash outflow from financing activities		**(167,720)**	**(250,712)**
Net increase in cash, cash equivalents and restricted cash		**25,186**	**15,428**
Cash, cash equivalents and restricted cash at the beginning of the year		131,421	115,993
Cash, cash equivalents and restricted cash at the end of the year	15	**156,607**	**131,421**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

1. CORPORATE INFORMATION

Annington Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006.

The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London W1U 1DR. Information on the Group's ultimate parent is presented in Note 32.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations as adopted by the European Union. They have also been prepared in accordance with the Companies Act 2006, except as described below in the basis of consolidation.

These financial statements are presented in pound sterling, which is the functional currency of the parent company and the Group. All values are rounded to the nearest thousand (£'000), except where otherwise indicated. They have been prepared on the historical cost basis, except for property revaluation gains and losses, investment in subsidiary companies and derivative financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of consolidation
Subsidiaries are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity, to benefit from its activities. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Going concern
The financial statements are prepared on a going concern basis as explained in the Post Balance Sheet Events and Going Concern section of the Strategic Report.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

Valuation of investment properties
The property portfolio is carried in the balance sheet at fair value adjusted for related provisions that are disclosed separately on the balance sheet. The fair value is valued annually by professionally qualified external valuers. The valuation of the investment properties portfolio is inherently subjective as it utilises, among other factors, comparable sales data and the expected future rental revenues. The valuer exercises professional judgement when determining what market observations are used in the assessment of fair value. If any assumptions made in the valuation prove to be inaccurate, this may mean that the value of the investment properties portfolio differs from the valuation, which could have a material effect on the financial position of the Group. Investment Property valuations are a key source of estimation uncertainty for the Group.

Information about the valuation techniques and inputs used in determining the fair value of investment properties is disclosed in Note 10.

Provision for utilities
When determining the provision for utilities, the estimation technique requires an assumption be made of the future cost and the timing of works to connect sites to public utilities. These estimated cash flows are then discounted at an appropriate rate that reflects current assessments of the risks associated with the liability. These inputs, i.e. discount rate and estimates of future costs, if not accurate, could have a material effect on the provision balance. As an example, if the discount rate assumption increased/decreased by 0.5%, the provision would decrease by £0.9 million/increase by £1.0 million respectively.

Cross currency swap valuations
The Group uses derivative financial instruments to hedge its exposure to foreign currency movements. The cross currency swaps are carried in the balance sheet at fair value with changes to fair value being included in the income statement, unless the derivate is designated and effective as a hedging instrument. See Note 19.

The derivative financial instruments are not actively traded and the fair value of these derivative contracts are based on assumptions and information derived from directly observable markets.

Changes in assumptions and observable market information could materially affect the computed fair value of the derivatives. This change may affect the profit or loss in the income statement and/or the gain or loss in other comprehensive income.

Details of the derivative financial instruments are set out in Note 19.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following new and revised IFRSs have been issued but are not effective and in some cases have not yet been adopted by the EU:

New and amended standards		Effective date (annual periods beginning on or after)
IFRS 7	Additional disclosures (and consequential amendments) resulting from IFRS 9	Concurrent with adoption of IFRS 9
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(*)
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

(*) The IASB decided in December 2015 to defer the effective date indefinitely; nevertheless, the amendments are available for earlier adoption.

These standards and interpretations have not been early adopted by the Group, apart from IFRS 7 and 9.

The Group has assessed the impact of IFRS 15 and 16 and have concluded that there will be no significant impact on the income statement or balance sheet upon adoption of the two standards.The Group is in the process of assessing the impact of all other new standards and interpretations on its financial reporting.

Early adoption of IFRS 9
The Group has early adopted IFRS 9 Financial Instruments as of 1 April 2017. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. As a result of the early adoption of IFRS 9, the Group has changed its accounting policy for financial assets retrospectively, in line with the transitional provisions of the standard. The applicable changes are:

Classification and measurement of financial assets – The Group determines the classification of financial assets at initial recognition based on its business model for managing the financial assets and their contractual cash flow characteristics. Previously, the classification was based on the characteristics of the financial assets. Management have performed an assessment of its financial assets at transition date and have concluded that there is no change in the classification of its financial assets, and that they will continue being accounted for under the amortised cost model. Details on the recognition and measurement of financial assets can be found in the individual notes of each category of financial asset.

Impairment – The standard introduces a forward-looking expected credit loss model for determining impairments of financial assets. The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses. Previously, the Group used a specific identification method in order to estimate impairments of trade receivables. The Group has taken advantage of the transitional provisions in IFRS 9 and has opted not to restate prior periods and recognise the effects of retrospective application to opening retained earnings for the year ended 31 March 2018. The change in policy resulted in insignificant changes to the balance sheet and income statement. The impact on opening retained earnings is assessed as £nil.

Hedge Accounting - The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 April 2017. During the year, the Group entered into arrangements that qualified for hedge accounting in accordance with IFRS 9 and designated the derivative instruments as cash flow hedges. A fair value gain of £0.5 million has been recognised in other comprehensive income as a result. Swaps existing at 1 April 2017 had not been designated as cash flow hedges and the adoption of IFRS 9 had no effect on the income statement or the balance sheet in respect of these derivatives in the current or prior year.

4. PROPERTY AND NET RENTAL INCOME

ACCOUNTING POLICY

Property rental income – Revenue recognition
Property rental income from investment properties is accounted for on an accruals basis and recognised on a straight-line basis over the operating lease term. Rent increases arising from rent reviews not able to be determined at the outset of the lease are taken into account when such reviews have been settled with the tenants. Lease incentives and costs associated with entering into tenant leases are amortised over the lease term.

	2018 £'000	2017 £'000
Property rental income	193,067	188,164

4. PROPERTY AND NET RENTAL INCOME (CONTINUED)

Net rental income
Net rental income comprises property rental income less property operating expenses. Property operating expenses are expensed as incurred and property operating expenditure not recovered from tenants is charged to the income statement.

The Group generates substantially all of its net rental income, profits before taxation and net assets from residential property investment in England and Wales.

5. OPERATING (LOSS)/PROFIT

ACCOUNTING POLICY

Operating (loss)/profit is stated after charging depreciation, operating lease payments and auditor remuneration, and before finance income and finance costs.

	2018 £'000	2017 £'000
Operating lease payments		
Machinery and motor vehicles	210	202
Land and buildings	431	458
Depreciation of plant and equipment	31	81
Gain on sale of equipment	-	(2)
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company	52	45
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	190	211
Total audit fee	**242**	**256**
Non-audit remuneration		
Taxation compliance service	63	58
Other taxation advisory services	17	32
Other assurance services	291	62
All other services to the Group	410	25
Total non-audit fee	**781**	**177**

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

ACCOUNTING POLICY

Employee Benefits
The Group provides a range of benefits to employees, including annual bonuses, long-term incentives, paid holiday arrangements and defined contribution plans.

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the year in which the service is rendered. Outstanding balances due to employees are shown as a liability.

The cost of providing contributions to employees' personal defined contribution schemes is charged to the income statement as contributions are made. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

	2018 £'000	2017 £'000
Directors' emoluments		
Aggregate emoluments representing short-term employee benefits	2,709	2,060
Amounts receivable under the Long-Term Incentive Plan	-	1,150
	2,709	**3,210**

No retirement benefits are accruing to directors. Emoluments, including those paid under the Long-Term Incentive Plan, for the highest paid director amounted to £0.9 million (2017: £1.4 million). No directors' emoluments were paid to those directors who are employed by Terra Firma Capital Partners Limited.

	2018	2017
Average monthly number of persons employed (including directors)		
Administrative	23	22
Operations	15	16
	38	**38**

	2018 £'000	2017 £'000
Staff costs incurred during the year		
Wages and salaries including directors' emoluments	5,925	7,203
Social security costs	640	460
Other pension costs	248	351
	6,813	**8,014**

The Company has no direct employees. All staff are employed by the subsidiary, Annington Management Limited, on behalf of the Group.

In the prior year, wages and salaries include an accrual for the future potential payments of the discretionary Long-Term Incentive Plan. This scheme was established for the period 1 April 2012 to 31 March 2017 and was settled in April 2017.

The other pension costs disclosed above represents the Group's contributions to employees' personal defined contribution pension schemes.

7. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

ACCOUNTING POLICY

Gains or losses on the sale of properties are accounted for on a legal completion of contract basis. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

	2018 £'000	2017 £'000
Sales proceeds	34,918	69,759
Selling costs	(422)	(1,655)
Net disposal proceeds	34,496	68,104
Carrying value of properties disposed	(28,062)	(54,377)
	6,434	**13,727**

During the year, disposals of 121 properties (2017: 248 properties) were completed.

8. FINANCE INCOME AND COSTS

ACCOUNTING POLICY

Interest income is recognised over time, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs, including any transaction costs, are charged to the income statement using the effective interest rate method.

	2018 £'000	2017 £'000
Finance income		
Interest receivable	1,266	2,743
Fair value gain on interest rate swaps	1,530	3,448
Total finance income	**2,796**	**6,191**
Finance costs		
Interest payable on secured floating and fixed rate notes	112,288	142,312
Amortisation of discount and issue costs and finance expenses	35,511	112,992
Interest payable on bank loans	7,150	6,020
Foreign exchange gains on financing	(405)	-
Transfer from equity for cash flow hedge	(3,060)	-
Unwinding of discount of provision	4,958	2,894
Bond redemption costs	838,372	1,617
Debt issue costs	8,490	-
Other finance expenses	1,489	2,294
Total finance costs	**1,004,793**	**268,129**

Bond redemption costs include make-whole costs on early redemption of notes, write offs of unamortised discounts and issue costs and professional fees directly related to the redemption.

9. TAXATION

ACCOUNTING POLICY

Taxation for the year comprises current and deferred tax, which is recognised in the income statement.

Current tax
Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the balance sheet date. Taxable profit differs from profit before tax as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The Group has elected to offset the deferred tax assets and liabilities as:

- the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

	2018 £'000	2017 £'000
Current tax		
United Kingdom corporation tax at 19% (2017: 20%)	(152)	-
Total current tax	**(152)**	**-**
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	231,995	(116,653)
Profits taxable in the future under the Securitisation Regime at 17% (2017: 17%)	-	(7)
Impact of change in tax rate	-	40,582
Total deferred tax	**231,995**	**(76,078)**
Total taxation for the year	**231,843**	**(76,078)**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2017: 20%). The tax for the current and preceding year differ from the standard tax rates for the reasons set out in the following reconciliation:

	2018 £'000	2017 £'000
(Loss)/profit before taxation	(1,291,645)	836,773
Tax on (loss)/profit at the standard rate	245,413	(167,355)
Factors affecting the current tax for the year:		
Expenses not deductible for tax purposes	(1,132)	(5,457)
Non-taxable income	1,672	1,972
Disposal of investments	(606)	4,630
Change in tax rate	-	40,582
Effect of tax rate differential between current and deferred tax	(26,131)	30,112
Impact of indexation	12,082	12,808
Deferred profit taxed under securitisation regime	545	6,630
Taxation for the year	**231,843**	**(76,078)**

From 1 April 2017, the headline rate of corporation tax was reduced from 20% to 19% and it will be reduced to 17% from 1 April 2020, with these rates substantively enacted at the current balance sheet date.

Deferred tax
The movement in deferred tax is as set out below:

	Accelerated tax depreciation £'000	Employment benefits £'000	Investment properties £'000	Profits under securitisation regime £'000	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 2016	**19**	**1,639**	**(798,370)**	**(65)**	**2,307**	**63,992**	**(730,478)**
(Charge)/credit to profit or loss	(14)	370	(132,146)	(7)	3,674	11,463	(116,660)
Effect of change in tax rate	(1)	(91)	44,353	4	(128)	(3,555)	40,582
At 31 March 2017	**4**	**1,918**	**(886,163)**	**(68)**	**5,853**	**71,900**	**(806,556)**
Credit/(charge) to profit or loss	(35)	(1,918)	95,339	68	1,274	137,267	231,995
At 31 March 2018	**(31)**	**-**	**(790,824)**	**-**	**7,127**	**209,167**	**(574,561)**

Deferred tax assets and liabilities are offset where the Group is permitted to do so. The following is an analysis of the deferred tax balances:

	2018 £'000	2017 £'000
Deferred tax liabilities	(791,946)	(887,226)
Deferred tax assets	217,385	80,670
Net deferred tax liabilities	**(574,561)**	**(806,556)**

At the balance sheet date, the Group has unused tax losses of £1,272.3 million (2017: £422.9 million) available for offset against future profits. A deferred tax asset of £216.3 million has been recognised in respect of these losses (2017: £71.9 million).

No deferred tax liabilities are recognised on temporary differences associated with investments in subsidiaries and interests in joint ventures for the current and preceding year in accordance with the accounting policy. Deferred tax balances at 31 March 2018 are measured at 17% (2017: 17%).

10. INVESTMENT PROPERTIES

ACCOUNTING POLICY

Investment properties comprise of property that is held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes and other professional fees. Subsequent to initial recognition, investment properties are recognised at the carrying value at balance sheet date, which is the fair value, adjusted for related provisions that are disclosed separately on the balance sheet. The fair value is determined annually by professionally qualified external valuers on a portfolio basis such that individual property calculations are not performed. Changes in the carrying value are included in the income statement in the period in which they arise. No depreciation is provided in respect of investment properties.

Where specific investment properties are expected to sell within the next 12 months, their carrying value is classified as held for sale within current assets.

Investment properties are transferred to investment properties held for sale if their carrying amount is intended to be recovered through a sales transaction rather than continuing use. This condition is regarded as met if the sale is highly probable, the property is available for immediate sale in its present condition, the property is being actively marketed, and management is committed to the sale, which is expected to qualify as a completed sale within 12 months from the date of classification.

Investment properties held for sale continue to be measured in accordance with the accounting policy for investment properties.

10. INVESTMENT PROPERTIES (CONTINUED)

	Investment properties £'000	Investment properties held for sale £'000	Total £'000
2018 Valuation			
Carrying value at 1 April	7,563,065	7,428	7,570,493
Additions - capital expenditure	39,438	-	39,438
Disposals	(15,710)	(7,428)	(23,138)
Transfer to investment properties held for sale	(2,567)	2,567	-
Unrealised property revaluation (losses)/ gains	(482,002)	144	(481,858)
Total carrying value at 31 March	**7,102,224**	**2,711**	**7,104,935**
2017 Valuation			
Carrying value at 1 April	6,699,590	10,686	6,710,276
Additions - capital expenditure	3,049	-	3,049
Disposals	(43,690)	(10,686)	(54,376)
Transfer to investment properties held for sale	(6,146)	6,146	-
Unrealised property revaluation gains	910,262	1,282	911,544
Total carrying value at 31 March	**7,563,065**	**7,428**	**7,570,493**

Properties would have been included on an historical cost basis at £1,421.0 million (2017: £1,390.6 million).

As at 31 March 2018 there were 11 (2017: 29) investment properties classified as held for sale, with disposal expected within the next 12 months.

	2018 £'000	2017 £'000
The carrying value of investment properties and investment properties held for sale comprises:		
Freehold	335,915	315,175
Long leaseholds	7,357	8,799
Very long leaseholds (over 900 years)	6,761,663	7,246,519
	7,104,935	**7,570,493**
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	7,065,272	7,530,974
Add: amounts included in utilities provision (Note 18)	39,663	39,519
Carrying value for financial reporting purposes	**7,104,935**	**7,570,493**

IFRS requires the market value of investment properties be adjusted for assets or liabilities recognised separately on the balance sheet. Due to the method used by the external valuer in calculating market value, when arriving at carrying value, the Group has adjusted the market valuation of investment properties to exclude the utilities provision (Note 18).

All leasehold properties leased by the MoD are maintained by and remain entirely under their control. The identification of surplus properties and the timing of their release to the Group is entirely at the discretion of the MoD and, upon receiving not less than six months' notice, the Group is obliged to accept any properties declared surplus.

Future minimum rents receivable under non-cancellable operating leases are disclosed in Note 28.

	2018 £'000	2017 £'000
Property rental income from investment properties:	**193,067**	**188,164**
Property rental expenses:		
Refurbishment costs	(1,838)	(5,088)
Dilapidations recovered from tenants	1,379	1,814
Rental running expenses	(5,206)	(4,168)
	(5,665)	**(7,442)**

Refurbishment costs are incurred where significant repairs are required to bring vacated properties back up to tenantable standard. Dilapidations recovered from tenants are used to defray these costs.

All of the Group's investment properties generated rental income in the current and prior year, with the exception of the plots and infill areas held in the surplus estate that have future long-termdevelopment potential.

Allsop LLP ("Allsop") has prepared a market valuation of the investment properties held by Annington Property Limited in alignment with the requirements of IFRS 13, Fair Value Measurement. This is a 'Regulated Purpose Valuation'. Allsop has provided strategic advice and agency services to Annington Property Limited since 1997 and has provided annual valuations of the portfolio since 1999.

The valuer's opinion was derived on a portfolio basis, primarily using comparable recent market transactions on arm's length terms. The valuation was carried out by an independent valuer in accordance with the requirements of the RICS Valuation Standards (sixth edition, as subsequently amended), except where it is not, in practical terms, feasible to comply due to the large number of properties involved. Allsop has confirmed that in relation to their most recent financial year, the proportion of their total fee income arising from Annington Property Limited was less than 5%, which may be regarded as minimal.

The valuation techniques which have been applied to the Retained Estate (units leased by the MoD under the original MQE that have not yet been released), the Surplus Estate (units released from the Retained Estate but not yet disposed of by the Group) and properties let under other tenancy agreements are set out in the table following.

Under the discounted cash flow method, forecast cash flows are discounted using an appropriate rate to arrive at a fair value for the portfolio. These forecasts are based on data including current rents, rental growth rates, vacancy rates, operating costs, terms and conditions of leases agreements and capital expenditure.

For other units in the Group, a vacant possession market comparison valuation technique was used. The valuer was given a representative sample of properties under assured shorthold and other bulk tenancies to value thus ensuring the whole portfolio is externally valued every five years. The valuer was instructed to value such similar properties. The valuation of these properties was then extrapolated to provide the movement for the whole short-term rentals portfolio. The basis of the extrapolation technique is the movement of the market value of the externally sampled properties, blended with recent comparable vacant possession values split by geographic region. Where no such evidence is available, due to the lack of recent comparable transactions, the value has been determined with consideration for the relevant Halifax and Nationwide regional indices and historical performance in relation to these indices in the current period.

Assumptions and valuation models used by the valuers are typically market related, such as yield and discount rates. These are based on their professional judgement and market observation.

The fair value measurement hierarchy level for all investment properties as at 31 March 2018 was Level 3 significant unobservable inputs (2017: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

This fair value measurement hierarchy level is specified in accordance with IFRS 13 'Fair Value Measurement'. The levels are defined below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

10. INVESTMENT PROPERTIES (CONTINUED)

Investment property valuations are inherently subjective, depending on many factors, including property location, expected future net rental value and market yields. In valuing the properties, the following assumptions have been adopted and incorporated into the valuation model:

2018	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	6,722,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	180,867
		Estimated future rent increase (20 year average - %)	2.75% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	8.1%
Surplus estate			
Fair value	8,535		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	15.0%
Assured shorthold and other bulk tenancies			
Fair value	334,737		
Valuation technique		Vacant possession market comparison	
		Blended House Price Index (%)	(1.8)%- 5.9%
		Rental (premium)/discount rates (%)	(2.4)% - 12.1%
Fair value at 31 March 2018	**7,065,272**		

2017	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	7,207,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	177,757
		Estimated future rent increase (20 year average - %)	3.1% p.a.
		Long-term House Price Index (%)	3.0% p.a.
		IRR (%)	6.0%
Surplus estate			
Fair value	26,476		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	12.5%
Assured shorthold and other bulk tenancies			
Fair value	297,498		
Valuation technique		Vacant possession market comparison	
		Blended House Price Index (%)	1.1% - 7.6%
		Rental (premium)/discount rates (%)	(2.5)% - 12.5%
Fair value at 31 March 2017	**7,530,974**		

All other factors remaining constant, the valuation would increase with an increase in gross rent, estimated future rent increase, long-term HPI and blended HPI, while increases in discount rates would result in a fall in the valuation and vice versa. There are interrelationships between unobservable inputs as they are determined by market conditions, and so the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions, (i.e. gross rents increase and discount rates decrease), valuation movements can be amplified whereas if they move in the same direction they may offset reducing the overall net valuation movement.

11. PLANT AND EQUIPMENT

ACCOUNTING POLICY

Plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life, which is determined for each asset. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	2018 £'000	2017 £'000
Cost		
At 1 April	1,387	1,267
Additions	106	125
Disposals	(33)	(5)
At 31 March	**1,460**	**1,387**
Accumulated depreciation		
At 1 April	1,245	1,169
Depreciation charge for the year	31	81
Disposals	(33)	(5)
At 31 March	1,243	1,245
Net book value		
At 31 March	**217**	**142**

12. INVESTMENT IN JOINT VENTURES

ACCOUNTING POLICY

The results, assets and liabilities of joint ventures are accounted for using the equity method. Investments in joint ventures are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment. Losses in a joint venture in excess of the Group's interest in that entity are recognised only to the extent that the Group has incurred legal or constructive obligations on behalf of the joint venture.

The Group's joint venture undertakings at 31 March 2018 are shown below:

Name of joint venture	Principal activity	Holding
Annington Wates (Cove) Limited	Property development	50.00%
Countryside Annington (Colchester) Limited	Property development	50.00%
Countryside Annington (Mill Hill) Limited	Property development	50.00%
The Inglis Consortium LLP	Property development	28.55%

Each of these entities operates within the United Kingdom.

The group has held these investments since the following dates:

Held through Annington Developments Limited as 100% interest in "X" Ordinary shares:

22 July 2004	Annington Wates (Cove) Limited
17 March 2005	Countryside Annington (Colchester) Limited
8 December 2006	Countryside Annington (Mill Hill) Limited

Each of the above entities has issued 500 "X" Ordinary and 500 "Y" Ordinary shares. The rights of the holders of the "X" Ordinary shares and "Y" Ordinary shares are identical and rank in pari passu.

Held through Annington Property Limited:

4 April 2011	The Inglis Consortium LLP

The Group's rights and obligations with respect to The Inglis Consortium LLP are set out in the Co-operation agreement and Limited Liability Partnership Deed dated 4 April 2011. Under this agreement the Group benefits from an interest in the partnership's operations and profits set at 28.55%, but has one third of the voting rights. All partnership decisions must be formed by unanimous agreement.

The Group's investment in joint ventures is presented in aggregate in the table below:

	Share of net assets £'000	Loans £'000	Total £'000
At 1 April 2016	**18,588**	**14,815**	**33,403**
Additions	-	4,018	4,018
Interest on loans	-	856	856
Repayments	-	(6,133)	(6,133)
Distributions	(10,820)	-	(10,820)
Share of profit for the year	3,960	-	3,960
Capital contribution	856	(856)	-
At 31 March 2017	**12,584**	**12,700**	**25,284**
Additions	13,920	-	13,920
Repayments	-	(7,775)	(7,775)
Distributions	(28,978)	-	(28,978)
Share of profit for the year	15,053	-	15,053
Impairment for the year	(3,306)	-	(3,306)
At 31 March 2018	**9,273**	**4,925**	**14,198**

The Group's share of profits from joint ventures represents profits from continued operations. There are no discontinued operations within the joint ventures. The joint ventures have not recorded any other comprehensive income and the share of profits disclosed in the above table also represents the Group's share of total comprehensive income.

During the prior year, the shareholders of Countryside Annington (Mill Hill) Limited elected to waive their right to collect interest on the outstanding loan balances owed by the Company. This has been accounted for as a capital contribution to be reflected as an additional investment.

13. INVENTORY

ACCOUNTING POLICY

Inventory consists of land and buildings held for development and is valued at the lower of cost and net realisable value. Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development costs net of amounts transferred to costs of sale. Net realisable value is the expected sale proceeds that the Group expects on sale of a property or current market value net of associated selling costs.

	2018 £'000	2017 £'000
Work in progress	5,732	890

Inventory is expected to be sold within the next operating cycle.

14. TRADE AND OTHER RECEIVABLES

ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value, subsequently measured at amortised cost using the effective interest method and less any impairment.

	2018 £'000	2017 £'000
Amounts falling due within one year		
Trade receivables	19	13
Sundry receivables	36	1,160
Deferred consideration on property sales	-	21,042
Other taxation and social security	41	13
Prepayments and accrued income	511	332
	607	**22,560**

The carrying value of trade and other receivables approximates the fair value. Trade receivables are stated after provisions for impairment of £17,809 (2017: £12,924).

15. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

ACCOUNTING POLICY

Cash and cash equivalents comprise cash at bank, short-term deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Short-term investments relate to shares held in an investment company that holds highly liquid cash funds. The fair value of the short-term investments has been determined based on the redemption rules as set out in the product's prospectus. Redemption requests can be made at any time on a dealing day as set out in the product's prospectus.

Cash and cash equivalents are limited to instruments with a maturity of less than three months.

	2018 £'000	2017 £'000
Cash at bank	12,816	13,784
Short-term deposits	43,338	35,908
Short-term investments	100,453	38,000
Cash and cash equivalents	156,607	87,692
HSBC deposits	-	19,790
Holdback custodian account	-	9,253
RBS deposits	-	14,686
Restricted cash	-	43,729
Cash, cash equivalents and restricted cash	**156,607**	**131,421**

Restricted cash

HSBC deposits
In the prior year, the Group held primary standby deposit accounts with HSBC. The balance reported in the prior year included £19.8 million that related to the drawn liquidity facilities from RBS and associated interest (refer Note 17). These deposits were cleared in the current year during the refinancing.

Holdback custodian account
On behalf of Annington Finance No.4 plc, the RBS administered a custodian bank account until July 2017. A holdback mechanism was required to maintain security for the Class A Zero Coupon and Class B Zero Coupon Notes. This mechanism calculates holdback amounts with reference to property disposals and was held in a custody account. These funds were restricted as they were held on behalf of the Class A Zero Coupon and Class B Zero Coupon Noteholders, in accordance with the holdback custody agreement. This account was no longer needed as the notes were redeemed in July 2017.

RBS deposits
In compliance with the RBS funding, bank accounts were held to cover various aspects of operations. These were in the name of each company and administered by RBS. These funds were released in the current year when the RBS funding was settled (refer Note 17).

16. TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2018 £'000	2017 £'000
Amounts falling due within one year		
Trade payables	415	297
Accruals	32,032	26,087
Taxes and social security	728	164
Deferred income	40,598	41,042
	73,773	**67,590**
Amounts falling due after one year		
Accruals	**202**	**22**

The carrying value of trade and other payables approximates the fair value.

17. LOANS AND BORROWINGS

ACCOUNTING POLICY

Loans and borrowings are initially recognised at fair value less the transaction costs directly attributable to their issue. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method, such that discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability. The debt and associated accrued interest is classified as current and non-current based on the contractual payments required within 12 months of the balance sheet date.

	2018 £'000	2017 £'000
Amounts falling due within one year		
Secured notes	-	36,571
Drawn liquidity facility	-	19,781
	-	**56,352**
Amounts falling due between one and five years		
Secured notes	-	140,320
Bank loans	396,010	140,919
	396,010	**281,239**
Amounts falling due after five years		
Secured notes	-	2,367,293
Unsecured notes	2,981,489	307,086
	2,981,489	2,674,379
	3,377,499	2,955,618
Total loans and borrowings	**3,377,499**	**3,011,970**

17. LOANS AND BORROWINGS (CONTINUED)

Reconciliation of movement

	2018 £'000	Amortisation bond issue costs and write offs £'000	Revaluation adjustment £'000	Issue costs £'000	Issued/ Drawn/ (Repaid) £'000	2017 £'000
Annington Limited						
11% Unsecured Zero Coupon Notes 2024	-	9,315	-	-	(316,401)	307,086
Annington Finance No. 1 plc						
8% Secured Bonds 2012/2021	-	1,109	-	-	(177,999)	176,890
Drawn liquidity facility	-	-	-	-	(14,100)	14,100
	-	1,109	-	-	(192,099)	190,990
Annington Finance No. 4 plc						
Zero Coupon Notes 2022 Class A	-	447,028	-	-	(1,391,100)	944,072
Zero Coupon Notes 2023 Class B	-	337,855	-	-	(936,930)	599,075
Floating Rate Notes 2023 Class B3	-	273	-	-	(3,811)	3,538
Fixed Rate Notes 2023 Class C	-	1,164	-	-	(150,000)	148,836
Fixed Rate/FRN 2023 Class M	-	2,540	-	-	(94,256)	91,716
Drawn liquidity facility	-	-	-	-	(5,681)	5,681
	-	788,860	-	-	(2,581,778)	1,792,918
Annington Finance No. 5 plc						
PIK Notes 2023	-	16,742	-	-	(596,799)	580,057
Annington Rentals (Holdings) Limited						
Royal Bank of Scotland – 5yr	-	769	-	-	(141,688)	140,919
Annington Funding plc						
Fixed Rate Euro Notes 2024	522,917	318	(405)	(3,256)	526,260	-
Fixed Rate GBP Notes 2025	620,949	358	-	(4,409)	625,000	-
Fixed Rate GBP Notes 2029	596,064	206	-	(4,142)	600,000	-
Fixed Rate GBP Notes 2034	620,819	133	-	(4,314)	625,000	-
Fixed Rate GBP Notes 2047	620,741	55	-	(4,314)	625,000	-
Term Loan 2022	396,009	645	-	(4,636)	400,000	-
	3,377,499	1,715	(405)	(25,071)	3,401,260	-
Total loans and borrowings	**3,377,499**	**818,510**	**(405)**	**(25,071)**	**(427,505)**	**3,011,970**

18. PROVISIONS

ACCOUNTING POLICY

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

	2018 £'000	2017 £'000
Utilities provision		
At 1 April	39,519	39,227
Unwinding of discount	4,958	2,894
Amounts credited to income statement	(4,069)	(2,449)
Utilised	(745)	(153)
At 31 March	**39,663**	**39,519**
Current provision	3,635	3,412
Non-current provision	36,028	36,107
	39,663	**39,519**

There is a legal agreement to provide for the adoption of private utilities on sites where there have been releases of property that are currently dependent, for the supply of water and/or certain sewage treatment, on adjacent MoD bases. In addition, there is a constructive obligation to provide for the adoption of certain utilities on certain sites which are not base dependent. Full provision has been made on the base dependent sites in accordance with the legal agreement and for all obligations which have crystallised on non-base dependent sites. The provision has been discounted in accordance with the relevant borrowing costs of the Group. There is a contingent liability (refer Note 28) in respect of base dependent sites where properties have not been released.

19. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The Group uses derivative financial instruments to reduce exposure to foreign exchange rate risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Changes in the fair value are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

Hedges of foreign currency exchange risk on firm commitments are accounted for as cash flow hedges. The relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking hedge transactions, is documented at the inception of the hedge relationship. Additionally, on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributed to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives, that are designated and qualify as cash flow hedges, is recognised in other comprehensive income ("OCI") and accumulated in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria.

19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	2018 £'000	2017 £'000
Financial assets carried at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	3,559	-
Financial liabilities carried at fair value through profit or loss (FVTPL)		
Interest rate swaps that are not in designated hedge accounting relationships	-	(26,074)

Reconciliation of movements in derivative financial assets:

	2018 £'000	Revaluation adjustment £'000	Issued /Drawn /(Repaid) £'000	2017 £'000
Annington Funding plc				
Cross currency swaps	3,559	3,559	-	-
Total derivative financial asset	**3,559**	**3,559**	**-**	**-**

Reconciliation of movements in derivative financial liabilities:

	2018 £'000	Revaluation adjustment £'000	Issued /Drawn /(Repaid) £'000	2017 £'000
Annington Finance No. 4 plc				
Interest rate swaps	-	(847)	(21,403)	22,250
Annington Rentals (Holdings) Limited				
Interest rate swaps	-	(649)	(3,175)	3,824
Total derivative financial liability	**-**	**(1,496)**	**(24,578)**	**26,074**

Further details of derivative financial instruments are provided in Note 20.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICY

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value and net of directly attributable transaction costs as appropriate.

Financial assets
Impairment of financial assets
The Group's financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial liabilities
The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

The Group has the following financial instruments:

	Note	2018 £'000	2017 £'000
Financial assets			
Cash and receivables:			
Trade and other receivables	14	55	22,215
Cash, cash equivalents and restricted cash	15	156,607	131,421
Assets measured at fair value through OCI:			
Cross currency swaps	19	3,559	-
Total financial assets		**160,221**	**153,636**
Financial liabilities			
Liabilities measured at fair value through profit and loss:			
Interest rate swaps	19	-	26,074
Liabilities measured at amortised cost:			
Trade and other payables	16	32,649	26,406
Loans and borrowings	17	3,377,499	3,011,970
		3,410,148	3,038,376
Total financial liabilities		**3,410,148**	**3,064,450**

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Group's business activities. Derivative financial instruments are in place to manage exposure to fluctuations in exchange rates but are not employed for speculative purposes.

Credit Risk
The Group's principal financial assets are cash and cash equivalents, and trade and other receivables.

The Group has an agreement with FTI Finance Limited, trading as FTI Treasury, to manage and optimise the liquidity resources and requirements of the Group. Credit risk on cash and deposits is minimised by using a revolving panel of banks, which have all been identified as low risk according to Credit Agency ratings. The maximum amount of funds that can be placed with any one institution is also limited. The banks and criteria are reviewed and updated periodically to ensure they reflect the prevailing market conditions.

The Group has a low credit risk as the Retained Estate portfolio is leased on a 200-year underlease to the MoD. All properties under these arrangements continue to be maintained by, and remain entirely under the control of, the MoD dependent upon their operational needs. The rent is payable quarterly in advance and, to date, has always been received by the due date.

The Group's credit risk is attributed primarily to its trade and other receivables, which consists principally of instalments due under property disposals, agreed dilapidations claims outstanding and rents due from tenants. The balance is low compared to the scale of the balance sheet.

Tenant receivables relate to properties let to third parties. Let properties include those released and returned from the MoD (where a rental strategy is being pursued), and properties that are rented to residential tenants. The Group employs a managing agent to actively pursue arrears and this policy has resulted in minimal bad debts to date.

The Group also holds cross currency swaps with Barclays Bank plc, JP Morgan Securities plc, Goldman Sachs Bank USA and Santander UK plc. The Group's exposure to counter party credit risk with respect to these derivatives is assessed as low, as each of the counterparties holds at least an upper medium grade rating.

Other than amounts due from the joint venture companies and dilapidations claims outstanding, the Group has no other significant concentration of credit risk. Trade receivables are presented net of allowances for impairment are made where appropriate, as set out in Note 14.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Debt Management
The Group's borrowings are through the issue of various classes of unsecured corporate bonds as well as an unsecured term loan.

There is a £300 million five year revolving borrowing facility in place to ensure that there is no default in the repayment of the borrowings and interest to the bondholders. This facility to date has never been called upon.

The Group has no overdraft arrangements in place as it has adequate funds invested on the money market in short-term to medium-term deposits to maintain its short-term liquidity. In addition, the Group also forecasts its liquidity requirements using five-year rolling cash forecasts, which are updated on a monthly basis.

Capital Risk Management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while leveraging the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt and equity. Debt includes loans and borrowings (Note 17) and cash, cash equivalents and restricted cash, and equity comprises equity attributable to equity holders of the Company, being issued share capital, reserves and retained earnings (Notes 21 - 25).

The new debt has a number of covenants to comply with under both the bonds and loan facility. The covenants attaching to the debt are:

Covenant	Test	Limit for Bonds	Limit for Loans
Limitation on Debt	Total debt / total assets	<65%	<65%
Limitation on Secured Debt	Secured debt / Total assets	<40%	<40%
Interest Cover Ratio	EBITDA / Interest	1.0x (dividend lockup at 1.3x)	1.15x (dividend lockup at 1.3x)
Unencumbered Assets	Unencumbered assets / unsecured debt	>125%	>125%

:

Currency risk
In July 2017, the Group issued a 7 year unsecured euro bond of €600 million expiring July 2024. To hedge against fluctuations in the Euro to Pound Sterling exchange rate, the Group entered into a cross currency swap of €600 million, converting the nominal balance to £526.26 million. These swaps mitigate the volatility of foreign currency movements in future interest and capital payments. The function of this swap increases the effective interest rate of Euro Tranche debt to 2.764%. The hedge is in line with the Group Treasury Policy whereby the Group should look to put in place hedges covering 50-100% of the FX risk arising from foreign currency debt, to the extent that foreign currency debt exceeds £50m in aggregate.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Currency risk sensitivity analysis

The impact of a hypothetical strengthening/weakening of pound sterling against the Euro for the cross currency swap, with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown below:

	Strengthening 10%		Weakening 10%	
	Gains/(Losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)	Gains/(Losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)
2018	(3,465)	(1,967)	(3,465)	10,104
2017	-	-	-	-

Interest rate management

In the previous and current year until the point of the refinancing, the Group was exposed to floating interest rates. There were a number of interest rate swaps in place to fix exposure the Group had to fluctuations in interest rates.

After the refinancing, the Group has a relatively low interest rate risk as the majority of the Group's borrowings are at fixed interest rates. The term loan (principal of £400 million maturing in 2022) is the only instrument that has a floating interest rate of LIBOR + 1.5%. The Group has assessed that this is a tolerable level of interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The impact of a hypothetical increase/decrease in interest rates with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown in the following table:

	50 bps increase		50 bps decrease	
	Gains/(Loss) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)	Gains/(Loss) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)
2018	(2,445)	-	2,062	-
2017	(2,409)	-	4,452	-

Cash Management and Liquidity

Cash levels are monitored to ensure sufficient resources are available to meet the Group's current and projected operational commitments. Annington Funding plc provides funding to Annington Homes Limited who in turn provides intercompany loans at fixed interest rates to other entities in the Group.

AFP holds a £300 million liquidity facility that was undrawn as at 31 March 2018.

Cash balances are invested in short-term to medium-term money market deposits and are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk. Longer-term liquidity requirements are forecast to be met out of future operational cash and income streams.

Liquidity risk and financial maturity analysis

In respect of the net non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay or receive monies. The table includes both interest and principal cash flows. In respect of derivative financial instruments, the fair values have been calculated using appropriate market discount rates to arrive at the future cash flows.

2018	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	32,649	32,447	202	-
Loans and borrowings	4,922,351	102,656	804,550	4,015,145
Total non-derivative financial liabilities	**4,955,000**	**135,103**	**804,752**	**4,015,145**
Derivative financial instruments				
Cross currency swap	25,176	4,644	18,576	1,956
Total financial liabilities	**4,980,176**	**139,747**	**823,328**	**4,017,101**

2017	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	26,406	26,384	22	-
Loans and borrowings	4,719,067	86,749	350,735	4,281,583
Total non-derivative financial liabilities	**4,745,473**	**113,133**	**350,757**	**4,281,583**
Derivative financial instruments				
Interest rate swaps	16,965	8,714	8,251	-
Total financial liabilities	**4,762,438**	**121,847**	**359,008**	**4,281,583**

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair values

The fair values of the Group's borrowings, interest rate swaps and offsetting swaps are determined by a Level 2 valuation technique. The fair value measurement hierarchy levels have been defined in Note 10.

2018	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	3,001,260	2,981,489	3,020,152
Unsecured term loan	400,000	396,010	400,000
	3,401,260	**3,377,499**	**3,420,152**
Derivative financial asset			
Cross currency swap	-	(3,599)	(3,599)
	3,401,260	**3,373,900**	**3,416,553**

2017	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	277,580	307,086	333,133
Secured notes	3,303,816	2,544,184	3,226,979
Drawn liquidity facility	19,781	19,781	19,781
Secured bank loan	141,688	140,919	141,688
	3,742,865	**3,011,970**	**3,721,581**
Derivative financial liabilities			
Interest rate swaps	-	26,074	26,074
	3,742,865	**3,038,044**	**3,747,655**

Unsecured and secured notes

Listed Notes have been fair valued using indicative pricing at the balance sheet date. This represents a Level 2 fair value measurement. The fair value hierarchy is included in Note 10. Details about covenant information have been mentioned previously in this Note.

Cross currency swaps

The fair value of derivative financial instruments is based on counterparty valuations using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 31 March 2018.

Bank loans

The prior year loan relates to a £165.0 million Five Year Term and Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc, secured against residential properties held by all of Annington Rentals (Holdings) Limited's subsidiaries. The loan was subject to covenants and accrued interest at a floating rate which was fixed by interest rate swaps. This loan was repaid during the year.

A five year term loan was entered into on 12 July 2017 and was for £400.0 million. The loan accrues interest at three month LIBOR + 1.5%. This facility, and the unsecured notes, requires certain covenants to be maintained.

21. SHARE CAPITAL

	2018 £'000	2017 £'000
Called up, allotted and fully paid		
8,475,620,000 ordinary shares of £0.01 each	-	84,756
8,475,620,200 ordinary shares of £0.01 each	84,756	-

On inception, the Company allotted one fully paid ordinary share with a nominal value of £1. On 3 December 2012, this share was subdivided into 100 equal fully paid ordinary shares with a nominal value of £0.01 each.

On 10 December 2012, the Company allotted 999,999,900 ordinary shares of £0.01 each nominal value in consideration for the purchase of Annington Homes Limited from Annington Holdings (Guernsey) Limited as part of the Group restructure. As merger accounting has been applied, no share premium was recognised on issue.

On 13 December 2012, the Company allotted 7,475,620,000 fully paid ordinary shares with a nominal value of £0.01 each.

On 12 July 2017, the Company allotted 200 fully paid ordinary shares with a nominal value of £0.01 each.

22. SHARE PREMIUM

	2018 £'000	2017 £'000
Share Premium	480,401	-

On 12 July 2017, the Company allotted 200 ordinary shares with a share premium of £480.4 million.

23. MERGER RESERVE

	2018 £'000	2017 £'000
Merger reserve	10,000	10,000

The Group reconstruction effected in December 2012 was accounted for using merger accounting principles. On transition to IFRS, the business combination has not been restated, with the merger reserve at transition being calculated by reference to the previous carrying value.

24. HEDGING RESERVE

	2018 £'000	2017 £'000
At 1 April	-	-
Fair value gains on cash flow hedge	3,559	-
Reclassification of fair value gains included in profit and loss	(3,060)	-
At 31 March	499	-

25. RETAINED EARNINGS

	Retained earnings £'000
At 1 April 2016	2,963,608
Total comprehensive profit for the year	760,695
Balance at 31 March 2017	**3,724,303**
Total comprehensive loss for the year	(1,059,802)
Balance at 31 March 2018	**2,664,501**

26. NOTE TO THE CASH FLOW STATEMENT

	2018 £'000	2017 £'000
(Loss)/profit after taxation	(1,059,802)	760,695
Adjustment for:		
Taxation	(231,843)	76,078
Finance costs	1,004,793	268,129
Finance income	(2,796)	(6,191)
Share of results of joint ventures after taxation	(14,748)	(4,816)
Impairment of joint ventures	3,306	-
Profit on disposal of investment properties	(6,434)	(13,727)
Unrealised property revaluation losses/(gains)	481,858	(911,544)
Utilities provision release	(4,069)	(2,449)
Depreciation expense	31	81
Gain on sale of plant and equipment	-	(2)
Movements in working capital:		
Increase in inventory	(4,842)	(890)
Decrease/(increase) in debtors	899	(626)
(Decrease)/increase in creditors	(8,090)	1,457
Decrease in provisions	(745)	(153)
Net cash inflow from operating activities	**157,518**	**166,042**

27. ANALYSIS OF CHANGES IN NET DEBT

Non-cash changes include the repayment of debt being offset against consideration for share premium, as well as the amortisation of discounts and issue costs.

	2018 £'000	Cash flow £'000	Other non-cash changes £'000	2017 £'000
Cash, cash equivalents and restricted cash	156,607	25,186	-	131,421
Debts falling due within one year	-	60,119	(3,768)	(56,351)
Debts falling due after more than one year	(3,377,499)	100,634	(496,440)	(2,981,693)
	(3,377,499)	**160,753**	**(500,208)**	**(3,038,044)**
Net debt	**(3,220,892)**	**185,939**	**(500,208)**	**(2,906,623)**

28. COMMITMENTS AND CONTINGENCIES

ACCOUNTING POLICY

The determination of whether an arrangement is, or contains, a lease is based on the substance thereof at the inception date. The arrangement is assessed for whether its fulfilment is dependent on the use of a specific asset or assets or it conveys a right to use the asset or assets, even if that right is not explicitly specified.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Management has exercised judgement in considering the potential transfer of the risks and rewards of ownership, in accordance with IAS 17 Leases, for properties leased to tenants and has determined that such leases are operating leases.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessee
Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Contingent liabilities
Contingent liabilities comprise either a possible obligation depending on whether some uncertain future event occurs, or a present obligation where payment is not probable or the amount cannot be measured reliably. Any such possible obligations are disclosed but not recognised on the face of the balance sheet.

Operating lease commitments – Group as lessor
The Group has entered into property lease agreements on its investment properties portfolio and has performed an evaluation of the terms and conditions of the arrangements of these leases. This includes factors such as the lease term not constituting a substantial portion of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the property. The Group also retains all the significant risks and rewards of ownership of these properties. As such, all of these leases are accounted for as operating leases.

At 31 March 2018, the Group had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2018 £'000	2017 £'000
Within one year	99,581	98,196
In two to five years	25,217	12,755
After five years	47,221	33,471
	172,019	**144,422**

Operating lease commitments – Group as lessee
The Group has entered into property leases on land and buildings, machinery and motor vehicles. The lease terms are between one to five years but the Group has the option, under some of its leases, to lease the assets for additional terms of up to 12 months.

Future minimum rentals payable under non-cancellable operating leases are, as follows:

	Land and buildings		Machinery and motor vehicles	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within one year	182	477	177	152
Between one and five years	2,020	55	162	105
	2,202	**532**	**339**	**257**

Contingent liabilities
As stated in Note 18, there is a contingent liability to allow for the adoption of private utilities on sites that are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment and where there have been no releases of property from the MoD. This amounts to £132.1 million (2017: £126.7 million).

29. RELATED PARTY DISCLOSURES

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

On 12 July 2017, Annington Limited redeemed the Zero Coupon Subordinated and Unsecured Loan Notes entered into with its parent company Annington Holdings (Guernsey) Limited as part of the Group's refinancing of its debt. The book value of the debt was £316.4 million at the date of redemption, this included accreted interest totalling £9.3 million accrued during the period.

In addition, on this date, Annington Holdings (Guernsey) Limited acquired two parcels of shares. The first, 100 new shares for £1.00 issued by Annington Limited for total cash consideration of £164,000,000, generating a share premium of £163,999,999. The second, 100 new shares for £1.00 issued by Annington Limited for a total consideration of £316,401,137, generating a further share premium of £316,401,136, with the consideration for this being offset against the liability under the Zero Coupon Notes due by Annington Limited to Annington Holdings (Guernsey) Limited.

During the current year, the Group has had transactions with joint ventures that include distributions and loans. In addition, during the year ended 31 March 2018 Annington Property Limited sold land to the Inglis Consortium LLP for £13.9 million. These transactions form the basis for the movements disclosed in Note 12.

Information regarding key management personnel
Details of payments to key management personnel are disclosed in Note 6.

30. SUBSIDIARIES AND RELATED UNDERTAKINGS

ACCOUNTING POLICY

Subsidiaries are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity, to benefit from its activities. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

The subsidiary undertakings of Annington Limited at 31 March 2018, which are wholly owned, incorporated in the United Kingdom and included in the consolidated financial statements, are shown below. The address of the registered office for all subsidiary undertakings, with the exception of Annington Nominees Limited and its undertakings, is 1 James Street, London W1U 1DR.

Name of subsidiary undertakings	Principal activity
Annington Homes Limited[a]	Intermediate group holding company
Annington Subsidiary Holdings Limited	Intermediate group holding company
Annington Property Limited	Property investment
Annington Management Limited	Management
Annington Receivables Limited	Income management
Annington Guarantee Limited	Dormant
Annington Nominees Limited[b]	Residents property management
Annington Finance No. 1 plc	Finance
Annington Finance No. 2 Limited	Finance
Annington Finance No. 4 plc	Finance
Annington Finance No. 5 plc	Finance
Annington Funding plc	Finance
Annington Developments (Holdings) Limited	Intermediate group holding company
Annington Developments Limited	Property investment
Annington (DA) Investment Limited	Property investment
Annington Rentals (Holdings) Limited[c]	Intermediate group holding company
Annington Rentals Limited	Property investment
Annington Rentals (No.2) Limited	Property investment
Annington Rentals (No.3) Limited	Property investment
Annington Rentals (No.4) Limited	Property investment
Annington Rentals (No. 5) Limited	Property investment
Annington Rentals (No. 6) Limited	Property investment
Annington Rentals (No. 7) Limited	Property investment
Annington Rentals (No. 8) Limited	Property investment
Annington Rentals Management Limited	Property investment

[a] The ordinary shares in this undertaking are directly owned by the Company.

[b] The address of Annington Nominees Limited's registered office is 1 Callaghan Square, Cardiff CF10 5BT. Annington Nominees Limited owns one Class "A" share in each of the companies listed overleaf, all of which are property management companies. Each company in the table below has issued one Class "A" share. Class "B" shares are allotted to homeowners on the relevant sites. Class "A" shareholders are entitled to receive notices of, attend, speak and vote at general meetings of the company. The Class "A" shareholder can transfer its share to the purchaser of the last house on the site. Class "B" shareholders are not entitled to receive notices of, attend, speak or vote at general meetings of the company until the Class "A" share is redesignated as a Class "B" share. Where all Class "B" shares have been issued, the Class "A" share is converted to a Class "C" share, on 'handover of the company to resident control'. Class "C" shareholder is not entitled to receive notices of, attend, speak or vote at general meetings of the company.

The results for each of these undertakings are not consolidated into these financial statements of Annington Limited as they are not considered material for the purposes of giving a true and fair view to the consolidated results.

30. SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Name of subsidiary undertaking	Holding %	Name of subsidiary undertaking	Holding %
Arborfield East Residents Company Limited	3.03	Kirton in Lindsey Residents Company Limited	1.23
Ashchurch (St. David's) Residents Company Limited	5.26	Lancaster Square Residents Company Limited	1.75
Beaconside Residents Company Limited	1.75	Longtown Rosetrees Residents Company Limited	7.14
Biggin Hill Residents Company Limited	3.33	Marham Residents Company Limited	4.76
Bordon Residents Company Limited	0.95	Mayne Avenue Residents Company Limited	1.10
Boulmer Residents Company Limited	1.79	Mostyn Road Bushey Residents Company Limited	3.45
Britannia Crescent Residents Company Limited	1.10	North Luffenham Residents Company Limited	1.59
Bulford Residents Company Limited	2.13	Northwood Residents Company Limited	12.50
Burgoyne Heights Residents Company Limited	0.75	Nottingham Road Residents Company Limited	3.23
Butlers Meadow Residents Company Limited	1.32	Petersfield (Kings Road) Residents Company Limited	10.00
Cardiff Place Residents Company Limited	2.56	Ringwood Crescent Residents Company Limited	11.11
Canterbury Place Residents Company Limited	3.23	Scampton Residents Company Limited	0.61
Catterick Anzio Residents Company Limited	100.00	Shorncliffe Drive Residents Company Limited	2.33
Chester (Dale Camp) Residents Company Limited	2.00	Salerno Residents Company Limited	100.00
Chicksands Residents Company Limited	0.85	South Wigston Residents Company Limited	1.67
Chivenor Residents Company Limited	2.94	St. Columb Minor Residents Company Limited	1.69
Coningsby (West Drive) Residents Company Limited	1.35	St. Eval Parc Residents Company Limited	0.34
Cove Residents Company Limited	100.00	Stanbridge Residents Company Limited	10.00
Cranwell Residents Company Limited	3.13	Stokesay Road Residents Company Limited	1.89
Dale Road Residents Company Limited	0.78	Strensall Residents Company Limited	2.86
Dishforth Residents Company Limited	3.23	Stanmore Crescent Residents Company Limited	100.00
Donnington Residents Company Limited	1.25	The Elstons Residents Association Limited	78.26
Donnington (Richards Road) Residents Company Limited	1.59	Thirsk Residents Company Limited	2.86
Driffield Ramsden Residents Company Limited	7.14	Union Building (Aldershot) Residents Company Limited	5.56
East Vale Residents Company Limited	0.31	Uxbridge (Buchan) Residents Company Limited	80.39
Exmouth (York Close) Residents Company Limited	10.00	Uxbridge (Southside) Residents Company Limited	100.00
Foulkes Terrace (Aldershot) Residents Company Limited	25.00	Uxbridge Jupiter Heights Residents Company Limited	4.00
Garats Hay Residents Company Limited	7.69	Waterbeach (Abbey Place) Residents Company Limited	100.00
Graham Road (Redruth) Residents Company Limited	1.49	Waterbeach Residents Company Limited	0.56
Greenmill Residents Company Limited	3.13	Watton Residents Company Limited	3.70
Henlow Residents Company Limited	1.28	West Moors Residents Company Limited	5.00
High Wycombe (Woodcock) Residents Company Limited	1.16	West Vale Residents Company Limited	0.52
Hilsea (Farmside Gardens) Residents Company Limited	100.00	Whetstone Milson Close Residents Company Limited	1.09
Honington (Poplar Close) Residents Company Limited	3.03	White Waltham Residents Company Limited	12.50
Innsworth Residents Company Limited	1.27	Wimbish Residents Company Limited	3.85
Keith Park Road (Uxbridge) Residents Company Limited	0.60	Wittering Residents Company Limited	0.29
Kirton (York Road) Residents Company Limited	6.25	Woodbridge West Residents Company Limited	2.44
		Wyton Residents Company Limited	1.39

Each company in the above table is incorporated in the United Kingdom and the address of their registered office is Unit 8 Minerva Business Park, Lynch Wood, Peterborough PE2 6FT. The holding percentage includes B Class shares held by subsidiaries of Annington Rentals (Holdings) Limited.

[c] Through subsidiaries of Annington Rentals (Holdings) Limited, the Group holds a shareholding in two further companies, the results of which are not consolidated into these financial statements of Annington Limited as they are not considered material for the purposes of giving a true and fair view to the consolidated results.

Name of subsidiary undertaking	Holding %
Beaumont Place Management Limited Registered address: Vantage Point, 23 Mark Road, Hemel Hempstead, Hertfordshire, HP2 7DN	70.00
Elliott Place Management Company Ltd Registered address: 31/33 College Road, Harrow, England, HA1 2EJ	25.00

31. POST BALANCE SHEET EVENTS

In April 2018 the Group agreed to purchase 73 homes from Taylor Wimpey under a development agreement for £23.5 million. The acquisition will be phased based on completion of development between May 2018 and December 2018. £7.7 million was paid to Taylor Wimpey upon entering the agreement and further costs of £4.1 million have since been incurred. Three completed homes were transferred into the Group's PRS portfolio.

Further, in May 2018, the Group completed the purchase of 104 homes from the Mill Group's Oak Portfolio for £23.5 million, including transaction costs. These units were acquired pre-let, providing an income stream from the point of purchase.

In June 2018, Annington Limited, Annington Homes Limited, Annington Rentals (Holdings) Limited and Annington Rentals (No.4) Limited entered into an agreement with QBE Insurance (Europe) Limited through which surety bonding facilities to the value of £5.0 million are made available to the Group. Under this agreement, the aforementioned entities act as guarantors in respect of performance bonds given. Interest of 1.25% per annum is payable on the face value of the bonds issued. In July 2018, a £0.6 million bond was issued against this facility.

32. ENTITY INFORMATION AND CONTROLLING PARTY

The company is incorporated in the United Kingdom and the address of its registered office is 1 James Street, London W1U 1DR.

Annington Holdings (Guernsey) Limited, a company registered in Guernsey, is the immediate parent of Annington Limited. Annington Holdings (Guernsey) Limited is a subsidiary of the Terra Firma Special Opportunities Fund 1 LP. The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.

The smallest and largest group in which the Company's results are consolidated is shown within these financial statements. Group financial statements for the Company are available on request from the registered office at 1 James Street, London W1U 1DR.

COMPANY BALANCE SHEET
AT 31 MARCH 2018

	Note	31 March 2018 £'000	31 March 2017 £,000
Non-current assets			
Investment in subsidiary companies	c	2,530,400	2,516,500
Deferred tax asset	d	6,599	5,016
Receivables	e	-	307,267
		2,536,999	**2,828,783**
Current assets			
Receivables	e	36	-
Total assets		**2,537,035**	**2,828,783**
Current liabilities			
Payables	f	(63)	(28)
Non-current liabilities			
Borrowings	g	-	(307,086)
Total liabilities		**(63)**	**(307,114)**
Net assets		**2,536,972**	**2,521,669**
Capital and reserves			
Share capital	21	84,756	84,756
Share premium	22	480,401	-
Revaluation reserve		1,965,143	2,431,744
Retained earnings		6,672	5,169
Total equity		**2,536,972**	**2,521,669**

The accompanying notes (a to l) should be read in conjunction with these financial statements.

The Company reported a profit of £1.5 million for the year ended 31 March 2018 (2017: profit of £4.7 million).

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 30 August 2018.

Signed on behalf of the Board of Directors

A P Chadd
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2016		**84,756**	**-**	**2,072,044**	**485**	**2,157,285**
Profit attributable to shareholder		-	-	-	4,684	4,684
Change in fair value of investment in subsidiary companies	c	-	-	359,700	-	359,700
Balance at 31 March 2017		**84,756**	**-**	**2,431,744**	**5,169**	**2,521,669**
Profit attributable to shareholder		-	-	-	1,503	1,503
Change in fair value of investment in subsidiary companies	c	-	-	(466,601)	-	(466,601)
Share issue		-	480,401	-	-	480,401
Balance at 31 March 2018		**84,756**	**480,401**	**1,965,143**	**6,672**	**2,536,972**

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £'000	2017 £,000
Net cash from operating activities	i	**-**	**-**
Investing activities			
Investment in subsidiary		164,000	(106,705)
Net cash outflow from investing activities		**164,000**	**(106,705)**
Financing activities			
Share issue		(164,000)	106,705
Net cash inflow from financing activities		**(164,000)**	**106,705**
Net decrease in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		**-**	**-**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

a. SIGNIFICANT ACCOUNTING POLICIES AND CORPORATE INFORMATION

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations as adopted by the European Union. They have also been prepared in accordance with the Companies Act 2006.

The corporate information and significant accounting policies of the Company are consistent with those of the Group, which can be found in the Notes to the Consolidated Financial Statements.

Significant judgements and key estimation uncertainties
Investment in subsidiary companies' valuations
In calculating the fair value of investment in subsidiaries, the selection of comparable companies is made subjectively by reviewing publicly available information. Further, the underlying asset values within the Group are subject to judgements and estimates, changes in which could change the valuation base.

Early adoption of IFRS 9
The Company has early adopted IFRS 9 Financial Instruments as of 1 April 2017. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. As a result of the early adoption of IFRS 9, the Company has changed its accounting policy for financial assets retrospectively, in line with the transitional provisions of the standard. The applicable changes are:

Classification and measurement of financial assets – The Company determines the classification of financial assets at initial recognition based on its business model for managing the financial assets and their contractual cash flow characteristics. Previously, the classification was based on the characteristics of the financial assets. Management have performed an assessment of its financial assets at transition date. The following table shows the original classification under IAS 39 and the new classification under IFRS 9.

Financial asset	Classification under IAS 39	Classification under IFRS 9
Receivables	Amortised cost	Amortised cost
Investment in subsidiaries	Fair value through other comprehensive income	Fair value through other comprehensive income

Upon adoption of IFRS 9, the Company made an irrevocable election to classify its investments in subsidiaries as fair value through other comprehensive income, as they are held as strategic investments. Under this option, all changes in fair value are recognised in other comprehensive income and are never reclassified to the income statement, even on derecognition. Previously, under IAS 39, decreases in fair value below cost were recognised as an expense in the income statement. The Company has taken advantage of the transitional provisions in IFRS 9 and has opted not to restate prior periods and recognise the effects of retrospective application to opening retained earnings for the year ended 31 March 2018. The change in accounting policy has no effect on opening retained earnings. Details on the recognition and measurement of financial assets can be found in the individual notes of each category of financial asset.

b. PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own income statement or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in Note 5 to the Consolidated Financial Statements.

c. INVESTMENT IN SUBSIDIARY COMPANIES

ACCOUNTING POLICY

The Company has elected to account for its investments in subsidiaries at fair value. Fair value is determined by reference to the discount or premium to net asset value of similar investments listed on the London Stock Exchange. If the carrying amount is increased or decreased as a result of a revaluation, the change is recognised in other comprehensive income and accumulated in equity.

The fair value of the investment in subsidiaries are determined by a Level 2 valuation technique, as described below. The fair value measurement hierarchy levels have been defined in Note 10 to the Consolidated Financial Statements.

	2018 £'000	2017 £'000
At 1 April	2,516,500	2,156,800
Additional investment	480,501	-
(Decrease)/increase in fair value during the year	(466,601)	359,700
At 31 March	**2,530,400**	**2,516,500**

The historical cost of the investment in subsidiaries was £565,256,967 (2017: £84,756,199).

Fair value is measured by applying to the net asset value of investees an estimated discount or premium determined through an analysis of comparable FTSE 100 and FTSE 250 companies. The selection criteria for comparable companies was applied to entities operating within the property sector and took into account factors including the size of the company and the presence of residential operations within the company. The discount or premium was determined based on market capitalisation and the resultant discount to/premium over the net asset value. The result, a 22% discount (2017: 19% discount), was applied to the net asset values (adjusted to bring book values to fair values for classes of assets and liabilities carried at book value) of each of the Company's subsidiaries to arrive at fair value.

Of the fair value movement, a loss of £466.6 million (2017: gain of £359.7 million) was recognised through other comprehensive income.

Details of all subsidiaries as at 31 March 2018 are shown in Note 30 to the Consolidated Financial Statements.

d. TAXATION

ACCOUNTING POLICY

Taxation for the year comprises current and deferred tax, which is recognised in the income statement.

Current tax
Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the balance sheet date. Taxable profit differs from profit before tax as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- in respect of taxable temporary differences associated with investments in joint arrangements, when the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if:

- the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

	2018 £'000	2017 £'000
Current tax		
United Kingdom corporation tax at 19% (2017: 20%)	-	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	(1,583)	(4,291)
Total deferred tax	(1,583)	(4,291)
Total taxation for the year	**(1,583)**	**(4,291)**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2017: 20%). The tax for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2018 £'000	2017 £'000
(Loss)/profit before taxation	(81)	394
Tax on (loss)/profit at the standard rate	15	(79)
Factors affecting the current tax for the year:		
Group relief claimed	-	47
Change in tax rate	-	(40)
Effect of tax rate differential between current and deferred tax	(186)	(764)
Transfer pricing adjustment	1,754	5,127
Taxation for the year	**1,583**	**4,291**

From 1 April 2017, the headline rate of corporation tax was reduced from 20% to 19% and it will be reduced to 17% from 1 April 2020, with these rates substantively enacted at the current balance sheet date.

d. TAXATION (CONTINUED)

Deferred tax

The movement in deferred tax is as set out below:

	Deferred finance costs £'000	Total £'000
At 1 April 2016	725	725
Credit to profit or loss	4,291	4,291
At 31 March 2017	5,016	5,016
Credit to profit or loss	1,583	1,583
At 31 March 2018	**6,599**	**6,599**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £'000	2017 £'000
Deferred tax assets	6,599	5,016
Net deferred tax assets	**6,599**	**5,016**

No deferred tax liabilities are recognised on temporary differences associated with the investment in the Company's subsidiary for the current year and preceding year in accordance with the accounting policy. At the balance sheet date, the Company has unrecognised deferred tax liabilities relating to the investment in the subsidiary of £346.9 million (2017: £427.8 million).

e. RECEIVABLES

ACCOUNTING POLICY

Receivables are initially recognised at fair value, subsequently measured at amortised cost using the effective interest method, and less any impairment.

	2018 £'000	2017 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	36	-
Amounts falling due after one year		
Amounts owed by group undertakings	-	307,267

In the prior year, amounts owed by group undertakings to the Company were unsecured, interest bearing at 11.0% and had a fixed date of repayment in 2024. In the current year, amounts owed by group undertakings are interest free and have no fixed date of repayment.

The recoverable amount of loans receivable from subsidiaries is reviewed annually by reference to the subsidiary balance sheet and expected future activities, with a provision recorded to the extent the loan is not considered recoverable. No provision has been deemed necessary.

The carrying value of receivables approximates the fair value.

f. PAYABLES

ACCOUNTING POLICY

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2018 £'000	2017 £'000
Amounts owed to group undertakings	63	28

Amounts owed to group undertakings by the Company are unsecured, interest free and have no fixed date of repayment.

g. BORROWINGS

ACCOUNTING POLICY

Loans and borrowings are initially recognised at fair value less the transaction costs directly attributable to their issue. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method, such that discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability. The debt and associated accrued interest is classified as current and non-current based on the contractual payments required within 12 months of the balance sheet date.

	2018 £'000	2017 £'000
Amounts falling due after more than five years		
Unsecured notes	-	307,086

	2018 £'000	Amortisation of bond issue costs and finance charges £'000	Issued/ Drawn /(Repaid) £'000	2017 £'000
Reconciliation of movements				
11% Unsecured Zero Coupon Notes 2024	-	9,315	(316,401)	307,086

	2017 £'000	Amortisation of bond issue costs and finance charges £'000	Issued/ Drawn /(Repaid) £'000	2016 £'000
Reconciliation of movements				
11% Unsecured Zero Coupon Notes 2024	307,086	25,477	106,705	174,904

h. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICY

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value and net of directly attributable transaction costs as appropriate.

Financial assets

Impairment of financial assets

The Company's financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial liabilities

The Company's financial liabilities consists of intercompany borrowings.The Company has the following financial instruments:

	Note	2018 £'000	2017 £'000
Financial assets			
Receivables	e	36	307,267
Investment in subsidiary companies	c	2,530,400	2,516,500
Total financial assets		**2,530,436**	**2,823,767**
Financial liabilities			
Liabilities measured at amortised cost:			
Payables	f	63	28
Borrowings	g	-	307,086
Total financial liabilities		**63**	**307,114**

Details of risk management of the Company are shown in Note 20 to the Consolidated financial statements.

h. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair values
The fair values of the Company's borrowings are determined by a Level 2 valuation technique. Refer Note 10 to the Consolidated Financial Statements where the fair value measurement hierarchy levels have been defined.

2018	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 Non-derivative financial assets			
Investment in subsidiaries	-	2,530,400	2,530,400

2017	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 Non-derivative financial liabilities			
Unsecured notes	277,580	307,086	333,133
Level 2 Non-derivative financial assets			
Investment in subsidiaries	-	2,516,500	2,516,500

i. NOTE TO THE CASH FLOW STATEMENT

	2018 £'000	2017 £'000
Profit after tax	1,502	4,685
Adjustment for:		
Tax	(1,583)	(4,291)
Administration expenses	-	(234)
Finance income	(9,234)	(25,637)
Finance costs	9,315	25,477
Net cash from operating activities	**-**	**-**

j. ANALYSIS OF CHANGE IN NET DEBT

	2018 £'000	Cash flow £'000	Other non-cash changes £'000	2017 £'000
Cash and cash equivalents	-	-	-	-
Debts falling due after more than one year	-	-	(307,086)	(307,086)
Net debt	**-**	**-**	**(307,086)**	**(307,086)**

Non-cash changes include repayment of debt being offset against consideration for share premium, as well as amortisation of debt issue costs.

k. RELATED PARTY DISCLOSURES

Subsidiaries

During the year, the Company entered into transactions, in the normal course of business, with other related parties as follows:

	Finance income		Finance costs	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Annington Homes Limited	9,234	25,637	-	-
Annington Management Limited	-	-	-	-
	9,234	**25,637**	**-**	**-**

	Amounts owed by related parties		Amounts owed to related parties	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Annington Homes Limited	36	307,267	-	-
Annington Management Limited	-	-	(63)	(28)
	36	**307,267**	**(63)**	**(28)**

On 18 December 2015, the Company entered into an agreement with its parent company Annington Holdings (Guernsey) Limited permitting it to issue Zero Coupon Subordinated and Unsecured Loan Notes in an aggregate principal amount of up to £290.7 million due in 2024. During the year, the debt was settled. Accreted interest on this borrowing brought the book value of the debt to £316.4 million prior to settlement on 12 July 2017 (31 March 2017: £307.1 million).

In addition, on 12 July, the Company acquired one new £1.00 share issued by Annington Homes Limited for total cash consideration of £164,000,000, generating a share premium of £163,999,999. On the same day, the Company acquired one new £1.00 share issued by Annington Homes Limited for a total consideration of £316,500,768, generating a further share premium of £316,500,767, with the consideration for this being offset against the amount due by Annington Homes Limited to Annington Limited under the loan agreement dated 18 December 2015.

Information regarding key management personnel
Details of payments to key management personnel are disclosed in Note 6.

l. COMMITMENTS AND CONTINGENCIES

The Company had no capital or other commitments at 31 March 2018 (2017: £nil).

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