ANNUAL REPORT AND ACCOUNTS 2019

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.

Annington Limited 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.

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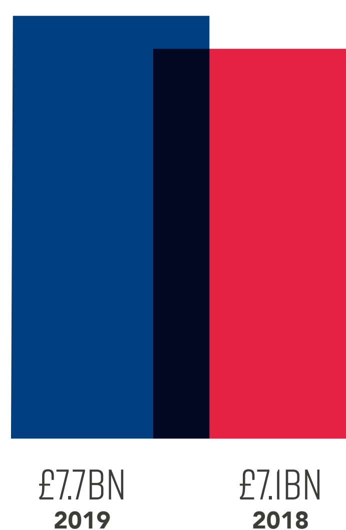
HIGHLIGHTS FINANCIAL YEAR 2019

On 7 March 2019, Annington announced that an agreement had been reached between Annington and the MoD in relation to the Service Family Accommodation Estate Site Review process.

Under this agreement, the MoD has committed to release a minimum of 3,500 properties over the next 7 years at a rate of 500 properties per annum.

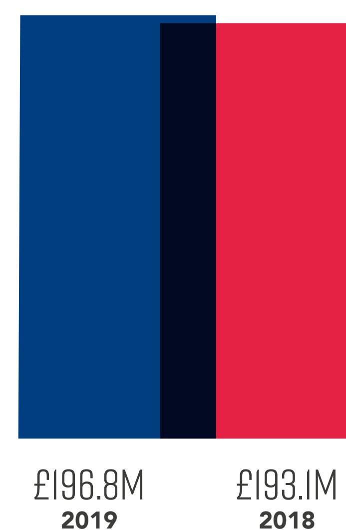
The carrying value of Group investment properties is

£7.7 BILLION



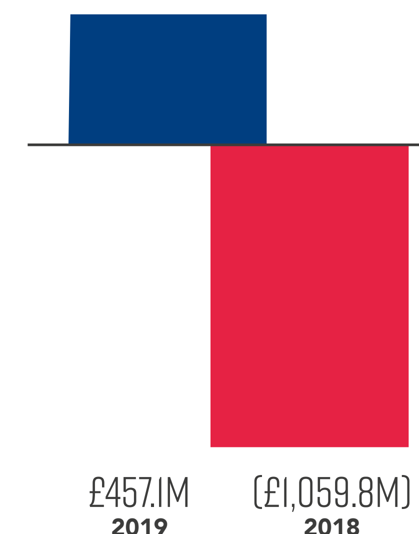
Rental income was

£196.8 MILLION

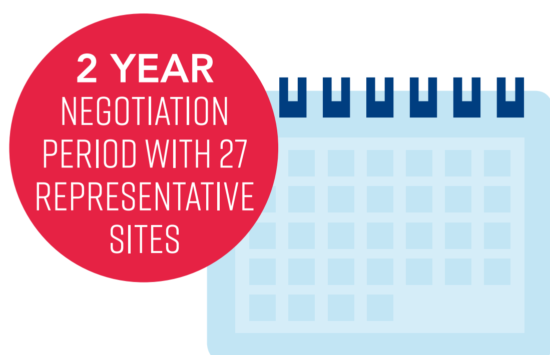


Largely driven by the revaluation, profit after taxation was

£457.1 MILLION

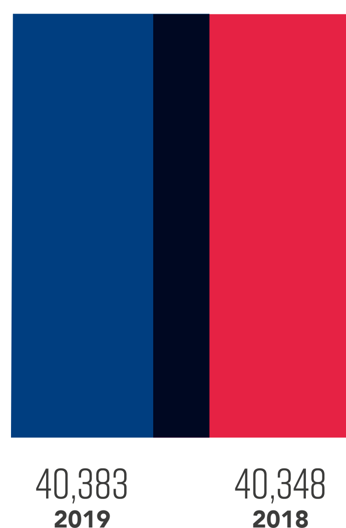


Another key element is the clarification of how the Site Review process will operate, shortening the period of negotiation to two years, through the use of 27 representative sites to settle the future adjustments to market rent to be applied after the site review.



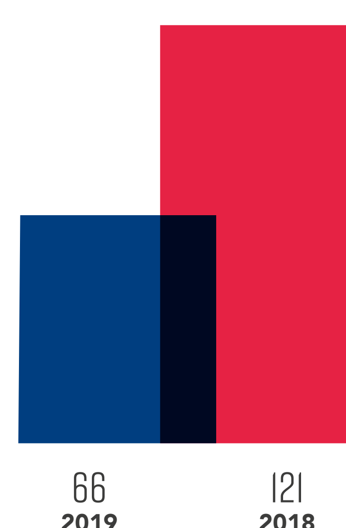
At 31 March 2019, the Group's investment properties comprised

40,383 COMPLETED UNITS



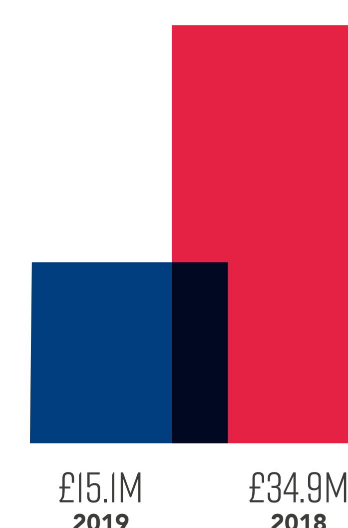
The Group sold

66 PROPERTIES



The Group recognised sales income of

£15.1 MILLION



THE BUSINESS

GROUP OVERVIEW

The Annington Group (the "Group"), headed by Annington Limited, 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 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 for 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.

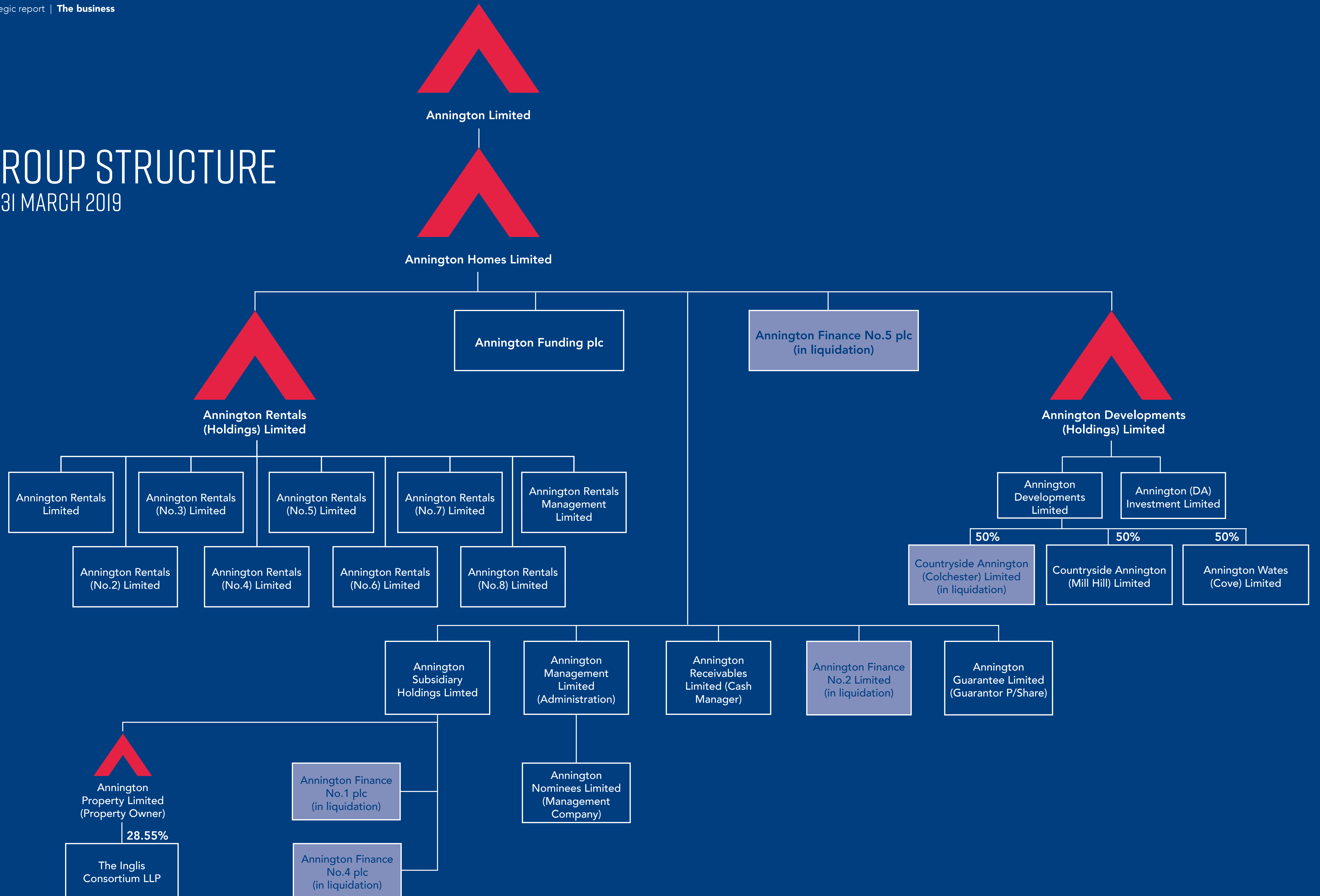
As at 31 March 2019 the Group's investment properties consisted of:

- the MQE Retained Estate, comprising 38,726 Units ("Retained Units") (2018: 38,969) and 181 Related Assets (2018: 181), representing the majority of the MoD's total Service Family Accommodation, and the MQE Surplus Estate comprising 251 Units ("Surplus Estate") (2018: 14); and
- the "Non-MQE Portfolio", a separate property portfolio of private rented sector ("PRS") accommodation which, as at 31 March 2019, consisted of 1,607 (2018: 1,365) property units let on bulk or assured shorthold tenancies.

At that date, the Group was constructing a further 256 units (2018: 378) and held 5 completed development units (2018: nil).

THE ANNINGTON GROUP IS ONE OF THE LARGEST PRIVATE OWNERS OF RESIDENTIAL PROPERTY IN THE UNITED KINGDOM.

GROUP STRUCTURE
AT 31 MARCH 2019



MQE PORTFOLIO

The MQE is the core asset of the Group. The 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 are two- and three-bedroom terraced or semi-detached properties.

As of 31 March 2019, the carrying value of the MQE Retained Estate was £7,216.0 million (2018: £6,761.7 million). Following the completion of the most recent Rent Review, annualised passing rent in respect of the MQE was £179.7 million (2018: £180.9 million). As of 31 March 2019, the fair value of the MQE Surplus Estate is £32.8 million (2018: £8.5 million).

Headleases and Underleases

Headleases

On 5 November 1996, the MoD granted a headlease ("Headlease") to Annington Property Limited ("APL"), a subsidiary of the Group, 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 it 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 in the relevant year ending on the calculation date
2019	£11,325,000
2020	£10,625,000
2021	£9,950,000

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, for the 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.

With the 2018/19 financial year being a fallow year in the MQE rent review cycle, there has been no significant change in the average rent per unit during the financial year. Preparations for the December 2019 rent review have commenced and are progressing well, although direct negotiations with the MoD have not yet commenced. Over the four Rent Review cycles that have been completed, substantially all Sites have resulted in rent increases, 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

Under the original terms of the agreement, in addition to the Rent Review cycle described above, each Site would be reviewed over a five year period commencing in December 2021 ("Site Review"). Similar to the Rent Review process, the Site Review would be performed in four separate tranches, with approximately 25% of Sites being reviewed in each of the respective review years. The Site Review would subsequently be repeated on the 15th anniversary of the initial Site Review, with the five-yearly Rent Reviews continuing between each Site Review.

On 7 March 2019, an agreement was reached with the MoD to carry out an expedited process to complete the 2021-2024 Site Review rounds. This accelerated process is designed to produce an equivalent result to the Site Review, but in a shorter period and at a significantly lower cost for both parties. It will also give Annington and the MoD certainty in relation to the future rents payable for the MQE sooner.

In terms of the new process, the 488 sites in the MQE have been divided into 27 baskets of sites that share similar characteristics and a new rental adjustment, in place of the pre-determined discount of 58% to full market value rent, will be agreed for each of the baskets. Each basket's new rental adjustment will apply to all of the sites within that basket. It is envisaged that new rental adjustments covering the entire estate will be produced within a 24 month process. The MoD will continue to pay rent at the current rate until the dates on which new rents are payable under the terms of the Underleases, which fall between 2021 and 2024. If there is no agreement on the new rental adjustment for some or all of the baskets, they will be determined by a panel of three arbitrators with significant experience in rent reviews.

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. In the 7 March 2019 agreement with the MoD ("Arbitration Agreement"), the MoD has committed to release 500 units per year, measured on a two year rolling average, and this is incentivised by a waiver on the first £7,000 of dilapidations costs for 500 units per year.

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 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 2019, the MoD had released a total of 16,334 (2018: 16,091) 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
2015	171
2016	248
2017	43
2018	2
2019	243

MQE PORTFOLIO (CONTINUED)

Property releases (continued)

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 would 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. The current year valuation has increased as a result of changes to several assumptions. This includes a revised release profile in response to the Arbitration Agreement with the MoD and changes in market based financing assumptions.

It is important to note that the property valuation can go up as well as down. 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 the Group sells the assets, which is not its strategy. Annington's 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 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 2018 and 2019).

At 31 March 2019, the SAVPV of the MQE Retained Estate is:

	31 March 2019		31 March 2018	
Region	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**
East Anglia	3,026	542,549	3,029	540,946
East Midlands	2,496	398,774	2,496	390,369
Greater London	1,953	1,108,288	1,958	1,056,094
North	395	47,499	395	48,285
North West	509	63,870	509	61,089
South East	14,993	4,151,750	15,439	4,269,146
South West	9,787	1,939,318	9,575	1,843,534
Wales	850	135,239	851	130,929
West Midlands	1,625	254,153	1,625	252,020
Yorks & Humberside	3,092	453,143	3,092	457,096
Total	**38,726**	**9,094,583**	**38,969**	**9,049,508**

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 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 1,607 (2018: 1,365) properties owned and 78 (2018: 78) properties managed as of 31 March 2019. 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.

Additionally, there are 256 units under development as at 31 March 2019 (2018: 378) of which 135 units are at Brize Norton.

As at 31 March 2019, annual passing rent in respect of the Non-MQE Portfolio was £16.4 million (2018: £14.6 million). At the same date, the fair value of the Non-MQE Portfolio is estimated to be £410.3 million (2018: £334.7 million). The increase in valuation was largely driven by two separate transactions. During the year, Annington completed the purchases of 104 homes from Mill Group's Oak Portfolio for £23.8 million, and 73 homes from Taylor Wimpey for £23.5 million. Both portfolios reflect Annington's commitment to provide affordable family homes in the UK, with a particular focus on high quality houses with their own gardens. In line with Annington's private rental strategy, all are located in attractive areas across the south and south-west of England.

As the year progressed, it became clearer that political and economic uncertainty was increasing and that a number of sellers were yet to reflect this in their pricing. This led Annington to institute a temporary moratorium on PRS acquisitions in December 2018. Annington will continue to monitor the market and, when the risks evident in the current market have subsided, intends to look for appropriately priced opportunities in the PRS sector.

DEVELOPMENTS

The Group 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, 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 all units sold as at 31 March 2019. 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 2019, the Group's share of profits from joint ventures was £1.1 million (2018: £14.7 million).

Further development activities centre around expanding the Group's PRS portfolio. In March 2018, 207 partially built flats in Uxbridge were purchased. The construction of these properties continued during the year, with 120 units completed at 31 March 2019 and a further 87 completed in May 2019.

Furthermore, during the financial year, construction commenced on sites at Little Thetford and Allington, which will have a total of 34 properties. The sale of units at Gamlingay progressed during the year and a new development site was purchased at South Stoke, which holds planning permission for five units.

Property market overview

PROPERTY MARKET OVERVIEW

The UK housing market saw subdued, but still slightly positive, growth in the year, with Nationwide reporting an annual House Price Index ("HPI") of 0.75% (March 2018: 2.1%), Halifax showing slightly higher annual growth of 2.6% (March 2018: 2.7%), whilst Rightmove recorded an annual fall in asking prices of 0.8% for the year. Overall, this was the weakest rate of growth since 2010, but was broadly in line with market consensus of c.1% for the year. The overall subdued growth during the year demonstrates the same directional trend as the UK equity market, supporting the position that Brexit uncertainty is having an impact on market sentiment.

Regional variation across the UK continued as Northern Ireland, Scotland and Wales all saw some price growth in March 2019. The Nationwide reported that England recorded its first annual price decline since 2012 with prices down 0.7% compared with March 2018. This was driven by price declines in the South East of England, and in particular London, which showed the greatest decline, down 3.9% on the same time last year. Regionally, the most positive picture was seen in the North and Midlands, with the North West and East Midlands showing annual growth of 2.9% and 2.6% respectively. The Hometrack UK Cities Index recorded growth of 1.7% in the year to March, down from 5.5% in 2018, with significantly weaker growth rates in the southern cities with London static whilst Oxford experienced the weakest growth, a decline of 0.6%.

The total value of the UK's housing stock peaked at £7.29 trillion during 2018 despite only modest price growth during the year. The value of property in London dropped to £1.77 trillion but still accounts for c.25% of total UK housing value, up from c.20% ten years ago. The average price of a house in the UK increased from £224,144 to £226,798 according to the Office of National Statistics ("ONS").

THE RENTAL MARKET

Rental demand remains strong. The ONS reported that the number of households in the UK private rented sector has grown significantly over the past decade, with an increase of £1.7 million, from 2.8 million in 2007, to 4.5 million in 2017. According to the Ministry of Housing, Communities & Local Government's Housing Survey 2017-2018, one in five households in England are part of the private rental sector, which makes up 19% of all households in England, making it the second largest tenure behind home ownership.

The increase in PRS is also attributable to the decrease of 120,000 landlords in the UK since the introduction of George Osborne's stamp duty reforms and the gap between sales of Buy to Let properties and purchases shows that many of these houses that were previously held for rent have been bought by owner occupiers. Halifax reported that the gap between the annual costs of buying a home compared to renting are the lowest in almost a decade, although buyers are still better off than renters across all parts of the UK when all costs are considered.

There is an increase in the recognition of the need for wider tenure choices in PRS (the Draft London Plan, the new National Planning Policy Framework and Sir Oliver Letwin's Independent review of Build Out Rates). It has become clear that there needs to be diversification in housing on offer (with the majority of PRS offerings currently being in blocks of flats), with more than a quarter of renters in the UK being families with children.

According to Knight Frank, the proportion of households in the private rental sector is expected to rise to 22% by 2023. A corresponding increase in the number of build to rent homes under construction is also being seen with a year on year increase of nearly 40% being reported by the British Property Federation. At quarter 4 2018, there were 139,508 homes in prospect, of which 29,416 have been completed, 43,374 are under construction and 66,718 are in the planning stage.

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 remains 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.

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 in the past, which according to the MoD, in evidence to the Public Accounts Committee (PAC) 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 PAC hearing was prompted by the publication of an NAO report entitled 'The Ministry of Defence's Arrangement with Annington Property Limited'. Whilst reviewing the content of the report, the PAC also made recommendations on the future relationship between the MoD and Annington and on the conduct of the site review.

Subsequently, following a period of negotiation, Annington and the MoD announced the signing of an Arbitration Agreement, which confirms an expedited Site Review process. The agreed process is designed to produce an equivalent result to the Site Review as set out in the 1996 sale agreement but in a shorter period and at a significantly lower cost for both parties. The original Site Review agreed between Annington and the MoD laid out that the leases require the rents paid by the MoD in respect of the Service Family Accommodation (SFA) to be reviewed between 2021 and 2024. Under the revised agreement, new rental charges will be produced for the SFA Estate over approximately the next 24 months. The new rent charged to the MoD will apply from the same date as previously envisaged. The MoD will continue to pay rent at the current prevailing downward adjustment of 58% from open market levels until the dates on which the new rents become payable, which fall between 2021 and 2024. As part of the Arbitration Agreement the MoD has been incentivised whereby dilapidations costs of £7,000 per unit will be waived for the first 500 units released each year.

The MoD's Future Accommodation Model ("FAM") remains in development. 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. The testing of FAM in practical terms has been set out by the MoD, with confirmed pilot sites at HMNB Clyde (starting from 30 September 2019), Aldershot Garrison (starting from 31 January 2020) and RAF Wittering (starting from 31 May 2020).

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 strategically 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 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.

On 7 March 2019, and after 18 months of negotiation, an agreement was reached with the MoD to expedite the Site Review 2021-2024 process. This accelerated process, carried out over 24 months to March 2021, is designed to produce an equivalent result to the Site Review, but in a shorter time frame and at a significantly lower cost to both parties. It will also give Annington and the MoD certainty in relation to the future rents payable for the MQE, although the revised rents will not be payable until the contracted dates in the Underleases. Management is engaged in active discussions with the MoD over the expedited Site Review process. These talks are ongoing and management will continue to focus on these discussions to secure a positive outcome for all stakeholders, including military families and our shareholders.

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. Annington sees significant opportunity over the medium-to long-term; the Group is open to considering opportunities that fits its strategy to provide UK families with more affordable, quality homes. The Group will continue to monitor the market and, when the risks evident in the current market have subsided, intends to look for appropriately priced opportunities in the PRS sector.

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. Its target tenants are households who want to transition from small flats to family houses. The Group's disciplined and value enhancing approach means it offers a long-term solution to help address the UK's housing crisis. Where there may be an upcoming void property, Annington performs 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.

BUSINESS REVIEW

FINANCING

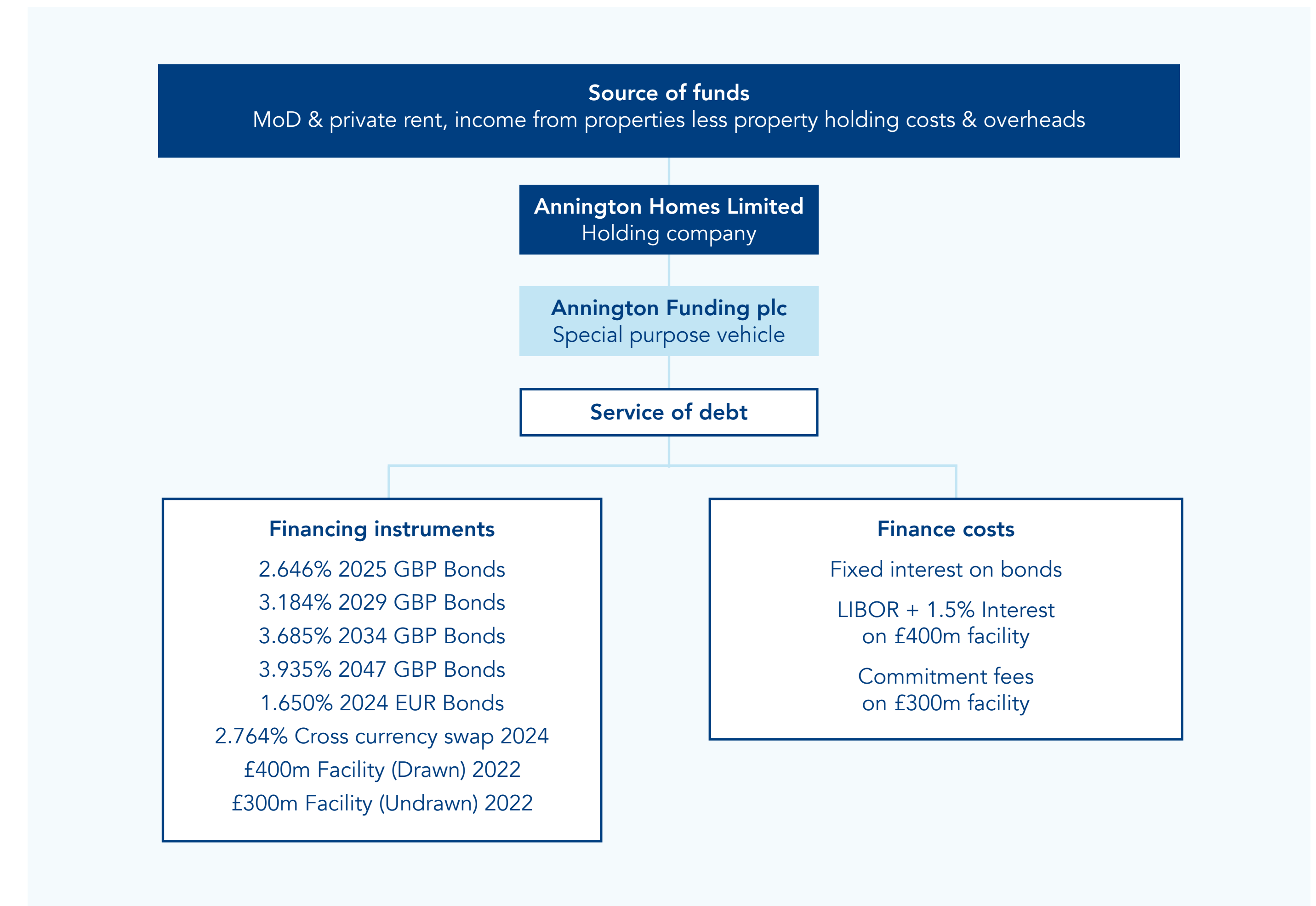
The Group is financed by shareholder's equity, external bonds and a term loan. In July 2017, Annington Funding plc ("AFP") issued five tranches totalling £3 billion of corporate, unsecured bonds under an Euro Medium Term Note ("EMTN") programme (rated BBB) and drew down a term loan totalling £400 million, also unsecured. Arranged as part of the refinancing, a £300 million five-year revolving credit facility, which is currently undrawn, is available to Annington Funding plc.

AFP has issued 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 its initial 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 2019, is £9.2 million (2018: £8.8 million).

The financing structure can be simplified using the diagram shown below:



The 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 2019 and have no expectation to do so in the foreseeable future.

KEY PERFORMANCE INDICATORS

The Group measures KPIs based on the controllable variable drivers of its activities.

The KPIs were revised for the current year and prior year figures are provided for comparison. These are:

KPI	2019 £ millions	2018 £ millions	Basis of calculation
Net rental income	192.8	188.9	Net rental income is calculated as property rental income less property operating expenses. Property operating expenses are incurred and not recharged to the tenant. These exclude site review costs.
This measure is used as an indicator of the returns the Group is achieving. Net rental income has increased £3.9 million or 2% in 2019 and is mainly due to rental income from the MQE which has increased due to the rent uplift from the Site Review conclusion in December 2017 as well as the addition of the Group's PRS portfolio.			
Property operating expenses	4.0	4.2	Property operating expenses are incurred and not recharged to the tenant.
Property operating expenses are measured to track the operating costs of the portfolio. Property operating expenses have remained consistent year on year.			
Adjusted EBITDA	179.2	178.2	Adjusted EBITDA is calculated by adjusting the accounting operating profit/(loss) before financing and tax for: - amortisation, depreciation or impairment (including other non-cash write downs) of assets (Note 5) - revaluation gains/losses on investment properties in the income statement - profits, losses or impairment items attributable to joint ventures in the income statement - charges/credits to the income statement arising from changes to the utilities provision (Note 18) - one-off items (the site review costs shown in the income statement)
Adjusted EBITDA is used as a proxy for the normalised earnings of the business. This measure is prepared for management accounts, separate from similar measures that are prepared for covenant compliance. It has remained consistent year on year.			
Free cash flow	92.7	64.6	Free cash flow is calculated as the net increase in cash and cash equivalents but adding back cash spent on the purchase of investment properties, as shown in the Investing cash flows and any dividends (none to date).
This measure is used to assess the cash generated and available to be utilised on discretionary purchases or dividends. Free cash flow has increased by £28.1 million, being the resultant net effect of the lower cost of borrowing, the prior year having a significant cash flow effect from the refinancing, changes in working capital balances, lower cash receipts from joint ventures and lower cash receipts from sales of investment properties.			
Net rental yield	2.5%	2.7%	Net rental yield is calculated as net rental income divided by the investment properties carrying value.
This measure is used to measure rental yields and, pre-Site Review, is most relevant to the non-MQE portfolio. In 2019 the net rental yield decreased by 0.2% due to the uplift in the value of the MQE not being matched by a similar uplift in rents (noting 2018 was a fallow year for the rent review) and the timing of when investment properties are available for letting i.e. under construction or recently finished development.			

FINANCIAL PERFORMANCE

The Group generated rental income of £196.8 million (2018: £193.1 million). The majority of this was through APL, where the MQE Portfolio (including Surplus Estate) generated rental income of £180.9 million (2018: £178.6 million) in the year to March 2019. The increase in rental income is driven largely by the Rent Review concluded in December 2017, which resulted in a rental uplift. In the Non-MQE Portfolio, gross rents for the year to March 2019 have increased to £15.9 million (2018: £14.3 million), following the expansion of the Group's PRS portfolio.

During the year, 65 investment properties were sold by the Group (2018: 121 properties). APL generated income of £6.2 million (2018: £27.4 million) through the external sale of 10 units (2018: 111 units). A further 55 properties (2018: 10 properties) in the Non-MQE Portfolio were sold, resulting in income of £8.9 million (2018: £2.3 million). In addition, one development property was sold from inventory for £0.3 million (2018: £nil).

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.

Unrealised investment property revaluation gains of £481.2 million were also recognised in the current financial year (2018: £481.9 million loss). The higher valuation is driven by an increase in the value of the MQE following changes to inputs to the cash flow forecast model, which include a revised release profile following the signing of the Arbitration Agreement with the MoD.

Overheads were closely monitored during the year. The number of staff employed at 31 March 2019 stood at 42 (2018: 38). The increase is reflective of the expansion of the PRS portfolio, including the Group's work on development sites. Now that the Group is confident of a steady level of releases in the next few years, the level of future staffing will be maintained to ensure that the Group can continue its operations effectively and will ensure that objectives are met 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 2019 and the cash flows of the Group for the year is set out below.

The Group's total assets amounted to £7,840.7 million (2018: £7,285.9 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 £7,659.1 million at 31 March 2019 (2018: £7,104.9 million). The Group's share of its joint ventures totalled £6.0 million (2018: £14.2 million) and the Group held £175.0 million (2018: £162.9 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

The Group's combined liabilities totalled £4,162.9 million (2018: £4,065.7 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.

Aside from debt service costs of £108.3 million (2018: £171.0 million), the major cash outflow during the year related to the Group's expansion into PRS. Payments for acquisitions totalled £86.5 million, on top of the £39.4 million spent in 2018. Due to the decrease in sales, the cash inflow from property sales decreased to £14.3 million (2018: £37.5 million).

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 91.9% (2018: 92.5%) 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 of 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 in July 2017 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. The MoD has already satisfied their obligation of 13,213 minimum releases as part of the 1996 Acquisition. In recent years, the MoD has released a relatively low number of Units, resulting in reduced property stock being available for sale. However as part of the Arbitration Agreement, the MoD are committed to releasing a total of 3,500 units, with a target of 500 units per year measured on a two year rolling average. Additionally, Annington will provide a dilapidations waiver of £7,000 on 500 units per year.	The Board recognises this and has maintained a policy of keeping internal resources at minimum 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. However, given the incentive of dilapidations relief, it is expected that the MoD will provide a minimum of 500 units a year. 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, LSL, 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 it has 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 its 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 be 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.

Former farm workers cottages in Gamlingay, Bedfordshire have been fully refurbished and extended to provide modern, contemporary homes.

PRINCIPAL STAKEHOLDER

MOD RELATIONSHIP

Annington's main contact with the MoD is via the Defence Infrastructure Organisation ("DIO"). During the year, the DIO has seen many changes as the outsourcing contract with Capita MoD is wound down. However, over the same period, Annington's engagement with the MoD has increased. Negotiations occurred throughout the year on how the Site Review would be completed, the result being the signing of the Arbitration Agreement and associated commercial terms. Under the Arbitration Agreement, Annington and the MoD have agreed to an expedited Site Review process, as set out previously. Additionally, the MoD has agreed to release a total of 3,500 units over a seven year period, with a target of 500 per year, on a two year rolling average basis.

Annington has committed to providing dilapidations relief on 500 units per year up to £7,000 per unit and has permitted the MoD to sub-let units on revised terms. Annington believes that the outcomes of the Arbitration Agreement, including the negotiation of the Site Review will be mutually beneficial to both parties.

Subsequent to year-end, both Annington and the MoD have progressed on the revised Site Review work streams. Given the early stages of this process and the ongoing work being performed, it is too soon to estimate the prospective outcome.

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 its business priorities, management have captured these activities within a strategic framework, the Building Opportunities Corporate Responsibility Plan. The four cornerstones of this framework are its people, the environment, its customers and partners, and its communities.

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. Annington's 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 £2,568 (2018: £1,933) 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 2019, there were 42 employees (2018: 38) with employee turnover at 5.3% (2018: 18.6%) 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	21	21	42

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 good practice tips on reducing sedentary issues in the office environment.

A strong health and safety record continued with no reported employee work incidents (2018: nil), no reportable contractor incidents (2018: nil) and no incidents reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (2018: nil).

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.

Concrete is one of the predominant materials found on the MOD estate and 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 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. Since construction began approximately 120 tonnes of waste was produced, of which 97% has been recycled, with some of the resultant material being reused directly on site without the need for transportation.

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, assuming their technical performance meets the required standards and they are economically viable. Over the past two years, Annington has further developed its supply chain, enabling far more visibility and control over the materials sourced for use in current and future projects. The Group has worked closely with a major national supplier when compiling material specifications for its projects at Little Thetford, Allington and Bordon. At Brize Norton, construction continues on the 135 units being built utilising a timber frame system, which is considered inherently more sustainable than conventional construction methods.

In addition to these measures, at Brize Norton, the Group is adding 8 bat boxes and 34 bird boxes to ensure that wildlife displaced by the demolition and construction work have a suitable habitat in which to roost. The rehoming of wildlife that are affected by demolition of properties has been a feature of previous developments, most recently the refurbishment of units at Gamlingay.

VALUING CUSTOMERS AND PARTNERS

The Group takes its responsibilities to the communities and environments in which it operates seriously. The Group seeks to work with partners and suppliers that subscribe to its 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. Where appropriate, buyers are offered the Seal of Approval incentive, providing the buyer with the comfort that the 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 79% (2018: 89%) of cases.

This year Annington had its first Help to Buy sale. This government backed scheme aims to help first time buyers, and those looking to move home, purchase residential property in the UK. The government lends buyers of new build homes up to 20% of the cost of a newly built home, leaving the purchaser to find a 5% cash deposit and a 75% mortgage to make up the balance of the purchase price.

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 and during the year one of its Main Contractors achieved certification of "Performance Beyond Compliance" which indicates this contractor demonstrated a higher level of consideration, beyond statutory requirements, to its neighbours, its workforce, and the environment.

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.

INVESTING IN COMMUNITIES

During the year, as an articulation of Annington's historic and ongoing support of Armed Forces personnel, the Group formalised its commitment by signing the Armed Forces Covenant. The Group's pledges include a range of financial incentives to Service and ex-Service personnel wishing to buy or rent an Annington property, taking into account each individual's length of service. Furthermore, as an organisation with a commitment to charitable giving, Annington pledged to:

- continue to support Service personnel and their families living in Services' communities and ex-service personnel in the community;
- provide for the recreation and general needs of members of the Services who live in Services' communities and in particular for the improvement of the recreational facilities in the interests of social welfare and with the object of improving conditions for such families;
- provide support for activities and organisations with a connection to the Armed Forces; and
- maintain a close relationship with the Services by engaging representatives from the Forces' Federations.

CHARITABLE CONTRIBUTIONS

This year has seen significant progress in Annington's Corporate Responsibility programme, particularly for its charitable activities. In May 2018, a significant increase in the overall charitable budget from £200,000 to £500,000 per year was approved by the Board and the General Partner. An additional, one-off budget of £440,000 over 4 years to support the "Eyes On, Hands On" project with the Commonwealth War Graves Commission (CWGC) was also approved; this is notable for being the first time the CWGC has partnered with a corporate entity.

With budget certainty in place and Annington's existing charitable giving obligations with Reading Force, Bag Books, The Connection at St-Martin-in-the-Fields, Blind Veterans UK and the Ripple Pond reaching the end of their three year commitments, a review of Annington's charitable objectives was undertaken in consultation with its staff. The outcome of this review was that several new charities were identified. These charities were selected on the basis that their objectives aligned with Annington's goal of making an impact with its charitable giving and reflect Annington's corporate values. Along with the Group's commitment to the CWGC, Annington has commenced working with:

Royal British Legion Industries (RBLI) – a national charity supporting the Armed Forces, people with disabilities and the unemployed. It aims to improve lives by inspiring those they help and supporting them to find work and lead independent lives.

The Silver Line – a free confidential helpline providing information, friendship and advice to older people, open 24 hours a day, every day of the year.

Scotty's Little Soldiers – aims to provide relief from the effects of bereavement to young people suffering the loss of a parent serving with the British Armed Forces.

FirstLight Trust – a charity for veterans, veterans-to-be and those going through transition. It supports former members of the Armed Forces and Emergency Services so that they and their families get the help they need.

The Winch – a local charity based in Camden which aims to help each child succeed, regardless of their circumstances, by giving them the opportunities and support they need.

TOTS (Turn on the Subtitles) – a partnership with the National Literacy Trust that aims to encourage all broadcasters of children's programming to make same language subtitles the default in order to decrease rates of illiteracy.

In addition to cash donations, which in 2019 totalled £535,517 (2018: £197,650), the Group allows each employee to take up to three days paid leave to undertake volunteering work.

ANNUAL SLAVERY AND HUMAN TRAFFICKING STATEMENT

This statement is made pursuant to Part 6 of the 2015 Modern Slavery Act ('the Act') and sets out the steps Annington Limited ('the Company') and its subsidiaries have taken to ensure that slavery and human trafficking is not taking place in its 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.

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

Within Annington'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 Annington 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 to Annington is entirely at the discretion of the MoD, Annington 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 2018 to March 2019 saw the MoD hand a significant number of properties back to Annington.

During the year Annington ensured that it remained compliant with the legislation by ensuring all new contractors completed the 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 Annington Supplier Code of Conduct.

Annington 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 Company'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.

Annington 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 the Group's 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 the supplier due diligence process to ensure that the Group engages appropriately with any new suppliers and contractors.

Annington strictly prohibits the use of modern slavery and human trafficking in its 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 its Slavery and Human Trafficking policy. The Commercial Director has responsibility to the Annington board for oversight of the Act across the Group.

This statement represents Annington's statement in accordance with Section 54 of the Modern Slavery Act 2015 for the financial year 1 April 2018 to 31 March 2019 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 32 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 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

Clearly, the main focus in the year ahead will be on progressing the Site Review negotiations under the terms of the Arbitration Agreement. This commenced with the first site inspections on 2 April 2019, with inspections running through into July. The legal and arbitral phases will follow, with key elements commencing from September. Significant resources are already deployed, with Annington appointing several external advisors to prepare and assist with this process over the next two years. In addition to all this, 2019 is a Rent Review year and that will be taking place in parallel with the larger Site Review process and is in itself an important piece of work.

The moratorium on PRS acquisition has put this work stream on hold until a clearer picture of future funding and market forces is available. Integration of the units already purchased has gone well and will be complete for the most part by autumn 2019. However, with the increased number of releases, the Group will focus on the refurbishment of the units handed back, particularly 232 properties at Bordon and Canterbury, which require extensive reinstatement works.

The outlook for house prices in 2019 is a continuation of the trends seen in 2017 and 2018; subdued growth and regional divergence where London and the South East lag while other parts of the country show more robust growth.

Brexit is the most cited cause (RICS survey) for reduced activity, and housing market uncertainty is likely to continue until some clarity emerges. Until then, transaction volumes are likely to remain low but the continuing increase in the number of people in work, rising wage inflation and expectations that the Bank of England will hold interest rates steady at 0.75% could lead to a modest 'bounce back' in the market. This assumes that some clarity emerges on Brexit which is by no means a given.

The average price of a house in the UK rose from £211,304 in February to £213,012 in March (Nationwide). Whilst housing affordability in England and Wales was for the most part unchanged in 2018 versus 2017 (following five years of declining affordability) at 7.8 times salary to purchase a home (ONS), the number of mortgages approved remains 40% below where it was prior to the financial crisis and first time buyers are finding it more difficult to raise a deposit (Halifax). Although demand from buyers remains in negative territory, and sales and new property coming on to the market continue to decline, respondents still envisage a modest improvement in activity twelve months ahead. Positive wage growth and high employment levels are expected to help first time buyers in particular to bridge the affordability gap.

Subdued growth is expected for 2019 as a whole, although London is unlikely to see any growth in the year. Transaction volumes remain low and whilst some commentators believe that pent up demand will result in a stronger rally in prices once there is clarity on Brexit, it remains to be seen whether this will be the case. The Office for Budgetary Responsibility is forecasting a house price drop in the fourth quarter of 2019 with a return to growth during the second quarter of 2020.

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

A P Chadd
Director
16 August 2019

REGISTERED OFFICE

1 James Street
London,
United Kingdom
W1U 1DR

Directors' report

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 2019.

DIRECTORS

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

Baroness Helen L Liddell (Chairman)
Independent Non-Executive Director
Appointed 1 April 2017

Helen was appointed Chairman 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.

Vivek G Ahuja
Non-Executive Director
Appointed 23 October 2018

Vivek joined Terra Firma as a Partner and Group Chief Financial Officer in January 2018. Subsequently, Vivek joined the board of Annington Limited in October 2018 through Terra Firma's appointment. Vivek has three decades of experience in global finance and over 20 years in senior finance roles.

Fraser S Duncan
Independent Non-Executive Director
Appointed 17 December 2012
Resigned 31 March 2019

Fraser is a Chartered Management Accountant and has a degree in Economics and Statistics from York University. Fraser's early career included time at Unilever, five years in strategy consulting with Cameron Consultants, and a number of senior roles within the BET Group. He chaired the Audit and Finance committees until early 2019 and resigned from the Board effective 31 March 2019.

Patrick R Finan
Non-Executive Director
Appointed 31 January 2018
Resigned 12 November 2018

Patrick joined Terra Firma in 2010 and was the previous Head of Finance at Terra Firma. He was appointed to the Board of Annington by Terra Firma. Patrick resigned from the Board effective 12 November 2018.

Justin M King
Non-Executive Director
Appointed 3 March 2016

Justin 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 in a thirty year career in fast moving consumer goods and grocery retailing. He was CEO of Sainsbury's between 2004 and 2014, and sits on the board of Marks and Spencer and the Public Interest Body of PwC.

Jonathan O Short
Independent Non-Executive Director
Appointed 1 April 2017

Jonathan 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 and from 1 April 2019 chairs the Audit Committee.

Steven K Webber
Non-Executive Director
Appointed 17 December 2012
Resigned 31 March 2019

Steve has an MSc in International Securities, Investment and Banking from the University of Reading. Steve joined Nomura's Principal Finance Group, the forerunner to Terra Firma, in 1996 and was a Managing Director at Terra Firma until 2016. Steve resigned from the board effective 31 March 2019.

James C Hopkins
Chief Executive
Appointed 29 October 2012

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.

Andrew P Chadd
Chief Financial Officer
Appointed 29 October 2012

Andrew 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.

Nicholas P Vaughan
Commercial Director
Appointed 29 October 2012

Nick 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.

BOARD AND COMMITTEES ATTENDANCE

The number of board and committee meetings attended by each Director during the 2019 financial year was as follows:

	Board	Audit Committee	Nomination and Remuneration Committee	Investment Committee	Overall Attendance
Total number of meetings	**4**	**2**	**3**	**7**	
Baroness Helen L Liddell	4	2	3	*	100%
Vivek G Ahuja[3]	2/2	1/1	1/1	*	100%
Fraser S Duncan[1]	4	1/1	2/2	*	100%
Patrick R Finan[2]	2/3	1/1	*	*	75%
Justin M King	4	*	3	*	100%
Jonathan O Short	4	2	3	*	100%
Steven K Webber[1]	4	1/1	2/2	*	100%
James C Hopkins	4	2*	3*	7	100%
Andrew P Chadd	4	2*	3*	7	100%
Nicholas P Vaughan	4	*	*	7	100%

* Director was not a member of the committee therefore attendance was not required.

[1] Fraser S Duncan and Steven K Webber resigned as directors, effective 31 March 2019, and as committee members, effective 31 January 2019. The attendance table covers their period in office.

[2] Patrick R Finan stood down from the Board 12 November 2018, the attendance table covers the period in office.

[3] Vivek G Ahuja joined the Board 23 October 2018, the attendance table covers the period in office.

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 objectives. 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. The Board meets formally each quarter to review issues, progress being made and performance against budget.

The Board gathers quarterly, typically halfway between formal Board meetings for updates on performance and to discuss any issues which may require resolution prior to the next formal Board meeting. These sessions are attended by the non-executive directors and senior management, including the executive directors. Senior management is invited to bring matters to the Board's attention so that the Board is provided with a greater understanding of the business's operations and in depth focus can be placed on areas not normally covered by formal Board meetings.

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. During the year, no meetings were held.

Directors' 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.

Directors' report

DETAILS OF THE BOARD AND COMMITTEE COMPOSITION, REMIT AND FREQUENCY OF MEETING (CONTINUED)

A summary of board composition and its diversity as at 31 March 2019 is depicted in the tables below:

Board composition

Independent Non-Executive Chairman and Director	1
Independent Non-Executive Directors	2
Non-Executive Directors	3
Executive Directors	3
Total number of Directors	**9**

Non-Executive Director tenure (including the Chairman and excluding Executive Directors)

Under 3 years	3
3 – 6 years	1
Over 6 years	2

Gender diversity (including the Chairman)

Female	1
Male	8
Total	**9**

REMUNERATION REPORT

The Nomination and Remuneration Committee meets as required but at least annually to review all salary, bonus, any 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 staff 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 Terra Firma Special Opportunities Fund I ("TFSOFI"), with a further ownership interest held by the Terra Firma Special Opportunities Fund II ("TFSOFII"). TFSOFI and TFSOFII are managed by General Partners that are ultimately owned by Terra Firma Holdings Limited (Guernsey), a company registered in Guernsey, which the Directors regard as the ultimate parent entity. The ultimate controlling party is Guy Hands.

TFSOFI was established as a single asset fund with the purpose of acquiring Annington from Nomura. Terra Firma had previously managed Nomura's investment in Annington. Having raised funds from investors around the world, both institutional and private, TFSOFI closed in December 2012. In 2017, to further support Annington's growth strategy, Terra Firma raised TFSOFII, as a parallel investor in Annington. Terra Firma appoints two directors to the Board of Annington Limited.

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 £535,517 (2018: £197,650), principally to local charities serving the communities in which the Group operates. The Group made no political donations during the year (2018: £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 (2018: £nil).

The directors have considered the £157.3 million of free cash flow of the business over the last two years. The Group has invested from this into the expansion of the Group's PRS portfolio. However, with further investment in PRS being on hold at the current time, the Group is holding a cash balance of £162.8 million as at 31 March 2019. The directors are considering an interim dividend for the 2020 financial year, were sufficient funds to be made available from the Company's immediate subsidiary, Annington Homes Limited, subject to reviewing the position of the Group and Company.

POST BALANCE SHEET EVENTS

Post balance sheet events are referred to in the Strategic Report and Note 32 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
16 August 2019

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

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 of Annington Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit 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 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 33 and a to j.

The financial reporting framework that has been applied in their preparation is applicable law and 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 Financial Reporting Council's (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 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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.

Richard Howe FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 August 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Property rental income	4	196,793	193,067
Property operating expenses		(4,009)	(4,160)
Net rental income	4	**192,784**	**188,907**
Other operating income		4,198	51
Other operating expenses		(666)	-
Administrative expenses		(13,868)	(17,188)
Site review costs	5	(5,636)	(1,505)
Utilities provision (expense)/release	18	(431)	4,069
Profit on disposal of investment properties	7	726	6,434
Unrealised property revaluation gains/(losses)	10	481,246	(481,858)
Share of results of joint ventures after taxation	12	1,120	14,748
Reversal of impairment/(impairment) of joint ventures	12	3,306	(3,306)
Operating profit/(loss)	5	**662,779**	**(289,648)**
Finance income	8	638	2,796
Finance costs	8	(111,586)	(1,004,793)
Profit/(loss) before taxation		**551,831**	**(1,291,645)**
Taxation	9	(94,724)	231,843
Profit/(loss) for the year after taxation		**457,107**	**(1,059,802)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Profit/(loss) for the year		457,107	(1,059,802)
Items that may subsequently be recycled through the income statement			
Cash flow hedge:			
Fair value (losses)/gains on cash flow hedge	19	(8,206)	3,559
Reclassification of fair value gains/(losses) included in profit and loss		8,834	(3,060)
Total other comprehensive income		**628**	**499**
Total comprehensive profit/(loss) for the year		**457,735**	**(1,059,303)**
Total comprehensive profit/(loss) attributable to shareholder		**457,735**	**(1,059,303)**

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investment properties	10	7,656,911	7,102,224
Plant and equipment	11	572	217
Investment in joint ventures	12	6,039	14,198
Derivate financial instruments	19	-	3,559
		7,663,522	7,120,198
Current assets			
Inventory	13	8,576	5,732
Trade and other receivables	14	3,636	607
Cash and cash equivalents	15	162,783	156,607
		174,995	162,946
Investment properties held for sale	10	2,225	2,711
Total assets		**7,840,742**	**7,285,855**
Current liabilities			
Trade and other payables	16	(83,448)	(73,773)
Loans and borrowings	17	(117)	-
Provisions	18	(6,865)	(3,635)
		(90,430)	(77,408)
Non-current liabilities			
Other payables	16	(127)	(202)
Loans and borrowings	17	(3,371,196)	(3,377,499)
Deferred tax liabilities	9	(663,306)	(574,561)
Provisions	18	(33,144)	(36,028)
Derivative financial instruments	19	(4,647)	-
		(4,072,420)	(3,988,290)
Total liabilities		**(4,162,850)**	**(4,065,698)**
Net assets		**3,677,892**	**3,220,157**
Capital and reserves			
Share capital	21	84,756	84,756
Share premium	22	480,401	480,401
Merger reserve	23	(10,000)	(10,000)
Hedging reserve	24	1,127	499
Retained earnings	25	3,121,608	2,664,501
Total equity		**3,677,892**	**3,220,157**

The accompanying notes (1 to 33) 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 16 August 2019.

Signed on behalf of the Board of Directors

A P Chadd
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 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**
Total comprehensive income for the year	-	-	-	628	457,107	457,735
Balance at 31 March 2019	**84,756**	**480,401**	**(10,000)**	**1,127**	**3,121,608**	**3,677,892**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Net cash from operating activities	26	**173,425**	**157,518**
Tax paid		(3,892)	(152)
Net cash inflow from operating activities		**169,533**	**157,366**
Investing activities			
Proceeds from sale of investment properties		14,310	37,487
Purchase of investment properties	10	(86,539)	(39,438)
Purchase of plant and equipment	11	(156)	(106)
Receipts from joint ventures	5, 12	12,777	28,978
Loan repayments from joint ventures	12	3,925	7,775
Interest received		638	844
Net cash (outflow)/inflow from investing activities		**(55,045)**	**35,540**
Financing activities			
Issue of shares		-	164,000
Proceeds from borrowings		-	3,401,260
Debt issuance costs		-	(25,071)
Repayment of borrowings		-	(3,512,364)
Purchase of offsetting swaps		-	(24,578)
Finance charges		(108,312)	(170,967)
Net cash outflow from financing activities		**(108,312)**	**(167,720)**
Net increase in cash and cash equivalents		**6,176**	**25,186**
Cash and cash equivalents at the beginning of the year		156,607	131,421
Cash and cash equivalents at the end of the year	15	**162,783**	**156,607**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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 33.

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.

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 Going Concern section of the Strategic Report.

Fair value measurement

Certain of the Group's accounting policies and disclosures require the measurement of fair values. Fair values are categorised into three different levels in a fair value hierarchy, in accordance with IFRS 13 Fair Value Measurement, and is based on the inputs used in the valuation techniques as follows:

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).

Further information regarding the assumptions made in measuring fair values is included in Note 10 and Note 20.

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 determined 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and key sources of estimation uncertainty (continued)

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 in fair value being included in the income statement, unless the derivate is designated and effective as a hedging instrument.

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.

New Standards, interpretations and amendments effective from 1 April 2018

The Group has adopted all the new accounting standards, interpretations and amendments, which have become effective for the year ended 31 March 2019. Those that have impacted the Group's current accounting policies are described below:

IFRS 9 Financial Instruments

The Group elected to early adopt IFRS 9 Financial Instruments (as revised in July 2014) for the year ended 31 March 2018, applying a full retrospective adoption. There are therefore no transition adjustments in the current year relating to this standard.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) as of 1 April 2018. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 introduces a five step approach to determining the amount and timing of revenue to be recognised in respect of contracts with customers.

The application of this standard has had no impact on revenue recognition for the current or prior year.

IAS 40 Amendments – Transfers to Investment Property

The Group has applied these amendments for the first time in the current year. The amendments clarify that a transfer to, or from, an investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify change in use situations including change in use for properties under construction (i.e. a change in use is not limited to completed properties).

The application of this amendment has had no impact on the Group's consolidated financial statements in the current or prior year.

3. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

New/Amended Standards and Interpretations		Effective date (annual periods beginning on or after)
IFRS 16	Leases	1 January 2019
IAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC 23	Uncertainty over Income Tax Positions	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs	1 January 2019

These standards and interpretations have not been early adopted by the Group, however, it has assessed the likely impact of adoption in future years as follows:

IFRS16 Leases

Under current accounting requirements (IAS 17), arrangements classified as operating leases result in lease payments being expensed on a straight-line basis over the lease term and disclosing in the annual financial statements the total commitment for future years. No lease asset or liability is recognised.

For lessees, the adoption of IFRS 16 will result in operating leases being recognised on the balance sheet, resulting in an asset for the right to use the leased item and a financial liability for future lease payments discounted to present value. The only exceptions are short-term and low-value assets which will be expensed on a straight-line basis over the lease term.

In contrast, the IFRS 16 accounting treatment for lessors is largely unchanged from IAS 17, which require the lessor to continue to classify the lease as either an operating or a finance lease.

As lessor, the Group leases properties which are currently recognised as operating leases and under IFRS 16 they will continue to be classified as operating leases with no change to the accounting treatment.

As lessee, the Group intends to apply the modified retrospective adoption method permitted by IFRS 16 and therefore will only recognise leases on the balance sheet as at 1 April 2019. Furthermore, the Group expects to measure the right-of-use assets by reference to the measurement of the lease liability on that date.

The Group anticipates that additional liabilities and right-of-use assets of between £2.4 million and £3.0 million will be recognised on the balance sheet at 1 April 2019. Instead of expensing operating lease payments, the Group will instead recognise interest on its lease liabilities and depreciation on its right-of-use assets. This is expected to increase administration expenses and finance charges by approximately £0.6 million to £1.0 million for the year ended 31 March 2020 when compared to the current accounting treatment under IAS 17.

Operating cash outflows are expected to decrease and financing cash outflows increase between approximately £0.7 million and £1.1 million as the repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from its mandatory adoption date for reporting periods beginning after 1 January 2019, this being 1 April 2019.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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.

	2019 £'000	2018 £'000
Property rental income	196,793	193,067

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 PROFIT/(LOSS)

ACCOUNTING POLICY

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

	2019 £'000	2018 £'000
Receipts from joint ventures accounted through other operating income	4,117	-
Operating lease payments		
Machinery and motor vehicles	206	210
Land and buildings	509	431
Depreciation of plant and equipment	58	31
Write downs of inventory to net realisable value	68	-
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company	53	52
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	197	190
Total audit fee	**250**	**242**
Non-audit remuneration		
Taxation compliance services	57	63
Other taxation advisory services	12	17
Other assurance services	-	291
All other services to the Group	60	410
Total non-audit fee	**129**	**781**

Site Review costs

Included in operating profit are costs relating to the Site Review, which are considered exceptional in nature, due to the size and infrequent occurrence of Site Reviews. Site Reviews will reset rent on the MQE Retained Estate to the relevant open market rate. The first applies in four annual tranches starting in December 2021, marking the 25th anniversary of the initial sale and leaseback agreement of the MQE. The Site Review will then be performed on a 15 year rolling basis for the remainder of the lease back to the MoD.

The Arbitration Agreement with the MoD sets out a two year process for reaching agreement on the future discount to be applied to sites following the 2021-2024 site review adjustments. Having entered into this agreement and confirming the mechanisms to be applied in determining the uplifts, Annington has determined that a significant sum will need to be spent in this round of negotiations, as precedents will need to be developed between the parties as to the way in which a site review will operate. The Group estimates that the costs associated with this are of such a material nature as to require separate disclosure on the face of the Consolidated Income Statement. The £5.6 million of site review costs incurred in the 2019 financial year have been disclosed separately in the income statement. As required by IAS 1 Presentation of Financial Statements, comparative figures for 2018 have been reclassified, with £1.5 million of cost being re-presented separately as Site Review costs. These were previously classified under Property operating expenses.

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

ACCOUNTING POLICY

Employee benefits

The Group provides a range of benefits to employees, including annual bonuses, any 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.

	2019 £'000	2018 £'000
Directors' emoluments		
Aggregate emoluments representing short-term employee benefits	2,605	2,709

No retirement benefits are accruing to directors. Emoluments, for the highest paid director amounted to £0.9 million (2018: £0.9 million). No directors' emoluments were paid to those directors who are employed by Terra Firma Capital Partners Limited.

	2019 Number	2018 Number
Average monthly number of persons employed (including directors)		
Administrative	24	23
Operations	17	15
	41	**38**

	2019 £'000	2018 £'000
Staff costs incurred during the year		
Wages and salaries including directors' emoluments	6,179	5,925
Social security costs	612	640
Other pension costs	202	248
	6,993	**6,813**

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

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.

	2019 £'000	2018 £'000
Sales proceeds	15,138	34,918
Selling costs	(828)	(422)
Net disposal proceeds	14,310	34,496
Carrying value of properties disposed	(13,584)	(28,062)
	726	**6,434**

During the year, disposals of 65 properties (2018: 121 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.

	2019 £'000	2018 £'000
Finance income		
Interest receivable	638	1,266
Fair value gain on interest rate swaps	-	1,530
Total finance income	**638**	**2,796**
Finance costs		
Interest payable on secured floating and fixed rate notes	97,811	112,288
Amortisation of discount and issue costs and finance expenses	2,414	35,511
Interest payable on bank loans	9,193	7,150
Foreign exchange gains on financing	(8,836)	(405)
Transfer to equity for cash flow hedge	8,834	(3,060)
Unwinding of discount	2,384	4,958
Effect of change in discount rate on provision	(1,789)	-
Bond redemption costs	-	838,372
Debt issue costs	-	8,490
Other finance expenses	1,572	1,489
Finance lease costs	3	-
Total finance costs	**111,586**	**1,004,793**

Bond redemption costs incurred in 2018 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.

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax at 19% (2018: 19%)	(5,979)	(152)
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	(88,745)	231,995
Total taxation for the year	**(94,724)**	**231,843**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2018: 19%). The tax for the current and preceding year differ from the standard tax rates for the reasons set out in the following reconciliation:

	2019 £'000	2018 £'000
Profit/(loss) before taxation	551,831	(1,291,645)
Tax (charge)/credit at the standard rate	(104,848)	245,413
Factors affecting the current tax for the year:		
Expenses not deductible for tax purposes	(358)	(1,132)
Non-taxable income	1,137	1,672
Disposal of investments	(148)	(606)
Effect of tax rate differential between current and deferred tax	9,808	(26,131)
Impact of indexation	(315)	12,082
Deferred profit taxed under securitisation regime	-	545
Taxation for the year	**(94,724)**	**231,843**

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 2017	**4**	**1,918**	**(886,163)**	**(68)**	**5,853**	**71,900**	**(806,556)**
(Charge)/credit 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)**
(Charge)/credit to profit or loss	(5)	-	(82,341)	-	(6,607)	208	(88,745)
At 31 March 2019	**(36)**	**-**	**(873,165)**	**-**	**520**	**209,375**	**(663,306)**

9. TAXATION (CONTINUED)

Deferred tax (continued)

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:

	2019 £'000	2018 £'000
Deferred tax assets	211,575	217,385
Deferred tax liabilities	(874,881)	(791,946)
Net deferred tax liabilities	**(663,306)**	**(574,561)**

At the balance sheet date, the Group has unused tax losses of £1,231.8 million (2018: £1,272.3 million) available for offset against future profits. A deferred tax asset of £209.9 million has been recognised in respect of these losses (2018: £216.3 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 2019 are measured at 17% (2018: 17%).

10. INVESTMENT PROPERTIES

ACCOUNTING POLICY

Investment properties comprise 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.

2019	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Valuation			
Carrying value at 1 April	7,102,224	2,711	7,104,935
Additions - capital expenditure	86,539	-	86,539
Disposals	(10,873)	(2,711)	(13,584)
Transfer to investment properties held for sale	(2,357)	2,357	-
Unrealised property revaluation gains/(losses)	481,378	(132)	481,246
Total carrying value at 31 March	**7,656,911**	**2,225**	**7,659,136**

2018	Investment properties £'000	Investment properties held for sale £'000	Total £'000
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**

Properties would have been included on an historical cost basis at £1,491.2 million (2018: £1,421.0 million).

As at 31 March 2019 there were 6 (2018: 11) investment properties classified as held for sale, with disposal expected within the next 12 months.

	2019 £'000	2018 £'000
The carrying value of investment properties and investment properties held for sale comprises:		
Freehold	350,809	335,915
Long leaseholds	92,318	7,357
Very long leaseholds (over 900 years)	7,216,009	6,761,663
	7,659,136	**7,104,935**

	2019 £'000	2018 £'000
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	7,619,127	7,065,272
Add: amounts included in utilities provision (Note 18)	40,009	39,663
Carrying value for financial reporting purposes	**7,659,136**	**7,104,935**

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.

	2019 £'000	2018 £'000
Property rental income from investment properties:	**196,793**	**193,067**
Property rental expenses:		
Refurbishment costs	(1,178)	(1,838)
Dilapidations recovered from tenants	-	1,379
Rental running expenses	(2,831)	(3,701)
	(4,009)	**(4,160)**

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.

In the previous year Site Review costs were included within rental running costs. These have since been reclassified to be disclosed separately within the financial statements, reducing rental running expenses for 2018 by £1.5 million, from £5.2 million to £3.7 million. Refer to Note 5 for information on the reclassification of Site Review 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 that are held for future development.

The Group's freehold and long leasehold interests in its investment properties were valued as at 31st March 2019 by an External Valuer, Martin Angel FRICS of Allsop Valuations Limited ("AVL"), a subsidiary of Allsop LLP ("Allsop"). The valuation, which was prepared on a portfolio basis, was subject to the existing leases, underleases and tenancies as advised but otherwise with vacant possession.

The valuer's opinion in relation to the Retained Estate was derived primarily using a discounted cash flow approach, supplemented by comparable recent market transactions on arm's length terms in relation to the Surplus Estate. The valuer's opinion in relation to the assured short-hold and other bulk tenancies in the Group was derived with reference to recent market transactions on arm's length terms. Both of these were undertaken in accordance with the requirements of IFRS 13, Fair Value Measurement and the requirements of the RICS Valuation - Global Standards 2017, as amended, except where it was not, in practical terms, feasible to comply due to the large number of properties involved.

10. INVESTMENT PROPERTIES (CONTINUED)

This is a 'Regulated Purpose Valuation'. Allsop and latterly AVL have provided annual valuations of the portfolio since 1999. Both have a policy of rotating the valuer not less frequently than every seven years. In accordance with that policy this is the first year in which Martin Angel has resumed responsibility for the valuation. AVL have confirmed that, in relation to their most recent financial year, the proportion of Allsop's total fee income arising from the Annington Group was less than 5%, which may be regarded as minimal.

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

The fair value measurement hierarchy level for all investment properties as at 31 March 2019 was Level 3 significant unobservable inputs (2018: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

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

2019	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	7,176,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	179,747
		Estimated future rent increase (20 year average - %)	2.75% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	7.52%
Surplus estate			
Fair value	32,813		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	15.0%
Assured shorthold and other bulk tenancies			
Fair value	410,314		
Valuation technique		Vacant possession market comparison	
		Blended House Price Index (%)	(1.6)% - 5.2%
		Rental discount rates (%)	0.0% - 12.2%
Fair value at 31 March 2019	**7,619,127**		

The 2018 valuation of the assured shorthold and other bulk tenancies was derived from applying the valuation movements of a sample of properties across the remainder of the portfolio. Key assumptions used in that valuation were:

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**		

All other factors remaining constant, the valuation would increase with an increase in gross rent, estimated future rent increase and long-term House Price Index ("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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as the owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The following useful lives are applied:

Plant and equipment 2-10 years
Plant and equipment under finance lease 5 years

Finance lease liabilities are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The Group has disclosed these within its minimum lease payments in Note 28.

2019	Plant and equipment £'000	Plant and equipment under finance lease at cost £'000	Total 2019 £'000
Cost			
At 1 April	1,460	-	1,460
Additions	156	257	413
Disposals	(5)	-	(5)
At 31 March	1,611	257	1,868
Accumulated depreciation			
At 1 April	1,243	-	1,243
Depreciation charge for the year	49	9	58
Disposals	(5)	-	(5)
At 31 March	1,287	9	1,296
Net book value			
At 31 March	**324**	**248**	**572**

2018	Plant and equipment £'000	Total 2018 £'000
Cost		
At 1 April	1,387	1,387
Additions	106	106
Disposals	(33)	(33)
At 31 March	1,460	1,460
Accumulated depreciation		
At 1 April	1,245	1,245
Depreciation charge for the year	31	31
Disposals	(33)	(33)
At 31 March	1,243	1,243
Net book value		
At 31 March	**217**	**217**

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 2019 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 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**
Repayments	-	(3,925)	(3,925)
Distributions	(8,660)	-	(8,660)
Share of profit for the year	1,120	-	1,120
Impairment reversal for the year	3,306	-	3,306
At 31 March 2019	**5,039**	**1,000**	**6,039**

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.

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.

	2019 £'000	2018 £'000
Work in progress	8,576	5,732

The cost of inventories recognised as an expense and included in cost of sales amounted to £286,048 (2018: £nil).

Inventory has been written down to its net realisable value during the year by £67,535 (2018: £nil).

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 provision for impairment.

Impairment provisions for receivables are recognised based on a forward looking expected credit loss model.

Trade receivables and contract assets

The Group applies the simplified approach in measuring expected credit losses for its trade receivables and contract assets. A provision matrix is used to measure expected credit losses whereby trade receivables are grouped on similar credit risk and aging, with credit loss percentages applied based on historical performance.

	2019 £'000	2018 £'000
Amounts falling due within one year		
Trade receivables	23	19
Sundry receivables	3,084	36
Other taxation and social security	86	41
Prepayments and accrued income	443	511
	3,636	**607**

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

Trade receivables are stated after provisions for impairment of £10,623 (2018: £17,809).

15. CASH AND CASH EQUIVALENTS

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.

	2019 £'000	2018 £'000
Cash at bank	46,218	12,816
Short-term deposits	29,084	43,338
Short-term investments	87,481	100,453
Cash and cash equivalents	**162,783**	**156,607**

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.

	2019 £'000	2018 £'000
Amounts falling due within one year		
Trade payables	2,080	415
Accruals	34,120	32,032
Corporation tax	2,087	-
Taxes and social security	192	728
Deferred income	43,934	40,598
Retention creditors	983	-
Other	52	-
	83,448	**73,773**
Amounts falling due after one year		
Accruals	-	202
Retention creditors	127	-
	127	**202**

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.

	2019 £'000	2018 £'000
Amounts falling due within one year		
Finance lease liability	117	-
Total current loans and borrowings	**117**	**-**
Amounts falling due between one and five years		
Unsecured bank loans	396,904	396,010
Finance lease liability	119	-
	397,023	**396,010**
Amounts falling due after five years		
Unsecured notes	2,974,173	2,981,489
	2,974,173	2,981,489
Total non-current loans and borrowings	**3,371,196**	**3,377,499**
Total loans and borrowings	**3,371,313**	**3,377,499**

A reconciliation of debt movement is provided in Note 27.

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).

18. PROVISIONS (CONTINUED)

	2019 £'000	2018 £'000
Utilities provision		
At 1 April	39,663	39,519
Unwinding of discount	2,384	4,958
Effect of change in discount rate	(1,789)	-
Amount charged/(credited) to income statement	431	(4,069)
Utilised	(680)	(745)
At 31 March	**40,009**	**39,663**
Current provision	6,865	3,635
Non-current provision	33,144	36,028
	40,009	**39,663**

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 29) 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.

	2019 £'000	2018 £'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 OCI		
Cross currency swaps that are in designated hedge accounting relationships	4,647	-

Reconciliation of movements in derivative financial (liabilities)/assets:

	2019 £'000	Revaluation adjustment £'000	2018 £'000
Annington Funding Plc			
Cross currency swaps	(4,647)	(8,206)	3,559
Total derivative financial (liabilities)/ assets	**(4,647)**	**(8,206)**	**3,559**

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 expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition.

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	2019 £'000	2018 £'000
Financial assets			
Cash and receivables:			
Trade and other receivables	14	3,107	55
Cash and cash equivalents	15	162,783	156,607
Assets measured at fair value through OCI:			
Cross currency swaps	19	-	3,559
Total financial assets		**165,890**	**160,221**
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	16	37,310	32,649
Loans and borrowings	17	3,371,313	3,377,499
Liabilities measured at fair value through OCI:			
Cross currency swaps	19	4,647	-
Total financial liabilities		**3,413,270**	**3,410,148**

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.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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 amounts 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 Banco Santander SA (London Branch). The swap with Banco Santander SA was novated by Santander UK plc on 14 May 2018. 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 reviewed on a monthly basis.

Capital risk management

Capital is managed so 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. Net debt includes loans and borrowings (Note 17) offset by cash and cash equivalents, while equity comprises equity attributable to equity holders of the Company, being issued share capital, reserves and retained earnings (Notes 21 - 25).

The 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 £50 million in aggregate.

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
2019	-	(5,525)	-	5,644
2018	(3,465)	(1,967)	(3,465)	10,104

Interest rate management

In the previous 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 the 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/(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
2019	(872)	-	947	-
2018	(2,445)	-	2,062	-

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 remains undrawn as at 31 March 2019.

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 below 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.

2019	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	37,310	37,310	-	-
Loans and borrowings	4,842,892	101,444	791,239	3,950,209
Finance lease liabilities	265	128	137	-
Total non-derivative financial liabilities	**4,880,467**	**138,882**	**791,376**	**3,950,209**
Derivative financial instruments				
Cross currency swap	37,989	6,013	24,053	7,923
Total financial liabilities	**4,918,456**	**144,895**	**815,429**	**3,958,132**

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**

Fair values

The fair values of the Group's borrowings, cross currency swap and offsetting swaps are determined by a Level 2 valuation technique.

2019	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 Non-derivative financial liabilities			
Unsecured bonds	3,001,260	2,974,173	3,029,517
Unsecured term loan	400,000	396,904	400,000
	3,401,260	**3,371,077**	**3,429,517**
Derivative financial liability			
Cross currency swap	-	4,647	4,647
	3,401,260	**3,375,724**	**3,434,164**

2018	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 Non-derivative financial liabilities			
Unsecured bonds	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**

Unsecured bonds

The volume of market trades of the Group's bonds is not considered sufficient to be an active market. Therefore, listed bonds have been fair valued by a third party valuer using a spread to a reference gilt curve. The reference gilt curve is based upon observable market data. The spread is determined with reference to comparable sector bond pricing. This represents a Level 2 fair value measurement. Further details, including covenant information have been mentioned previously in this note.

Cross currency swaps

The fair value of derivative financial instruments is based on valuations by an independent valuer 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 2019.

Unsecured term loan

This loan relates to a £400 million term loan ending in July 2022 that is unsecured. Further details, including covenant information have been mentioned previously in this note.

21. SHARE CAPITAL

	2019 £'000	2018 £'000
Called up, allotted and fully paid		
8,475,620,200 ordinary shares of £0.01 each	84,756	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 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

	2019 £'000	2018 £'000
Share Premium	480,401	480,401

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

23. MERGER RESERVE

	2019 £'000	2018 £'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

	2019 £'000	2018 £'000
At 1 April	**499**	**-**
Fair value (losses)/gains on cash flow hedge	(8,206)	3,559
Reclassification of fair value gains/(losses) included in profit and loss	8,834	(3,060)
At 31 March	**1,127**	**499**

25. RETAINED EARNINGS

	£'000
At 1 April 2017	**3,724,303**
Total comprehensive loss for the year	(1,059,802)
Balance at 31 March 2018	**2,664,501**
Total comprehensive profit for the year	457,107
Balance at 31 March 2019	**3,121,608**

26. NOTE TO THE CASH FLOW STATEMENT

	2019 £'000	2018 £'000
Profit/(loss) after taxation	**457,107**	**(1,059,802)**
Adjustment for:		
Taxation	94,724	(231,843)
Finance costs	111,586	1,004,793
Finance income	(638)	(2,796)
Share of results of joint ventures after taxation	(1,120)	(14,748)
Receipts from joint ventures accounted for through other operating income	(4,117)	-
(Reversal of impairment)/impairment of joint ventures	(3,306)	3,559
Profit on disposal of investment properties	(726)	(6,434)
Unrealised property revaluation (gains)/losses	(481,246)	481,858
Utilities provision expense/(release)	431	(4,069)
Depreciation expense	58	31
Write down of inventory to net realisable value	68	-
Movements in working capital:		
Increase in inventory	(2,912)	(4,842)
(Increase)/decrease in debtors	(30)	899
Increase/(decrease) in creditors	4,226	(8,090)
Decrease in provisions	(680)	(745)
Net cash inflow from operating activities	**173,425**	**157,518**

27. ANALYSIS OF CHANGES IN NET DEBT

	2019 £'000	Cashflow £'000	Non-cash items: Amortisation of bond issue costs and interest accrued £'000	Non-cash items: Revaluation adjustment £'000	Non-cash items: Finance lease liability additions £'000	2018 £'000
Cash and cash equivalents	**162,783**	**6,176**	**-**	**-**	**-**	**156,607**
Debts falling due within one year						
Finance lease liabilities	(117)	-	(3)	-	(114)	-
Debts falling due after one year						
Unsecured notes	(2,974,173)	-	(1,520)	8,836	-	(2,981,489)
Unsecured term loan	(396,904)	-	(894)	-	-	(396,010)
Finance lease liabilities	(119)	-	-	-	(119)	-
Total loans and borrowings	**(3,371,313)**	**-**	**(2,417)**	**8,836**	**(233)**	**(3,377,499)**
Net debt	**(3,208,530)**	**6,176**	**(2,417)**	**8,836**	**(233)**	**(3,220,892)**

28. LEASE COMMITMENTS
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.

Operating lease commitments - 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.

Operating lease commitments - 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.

Finance lease commitments - Group as a lessee

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases.

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 2019, the Group had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2019 £'000	2018 £'000
Within one year	99,014	99,581
In two to five years	6,509	25,217
After five years	-	47,221
	105,523	**172,019**

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 2019 £'000	Land and buildings 2018 £'000	Machinery and motor vehicles 2019 £'000	Machinery and motor vehicles 2018 £'000
Within one year	565	182	189	177
In two to five years	1,663	2,020	261	162
	2,228	**2,202**	**450**	**339**

Finance lease commitments – Group as lessee

The Company has entered into computer equipment leases. These leases are capitalised within plant and equipment Note 11.

Commitments in relation to finance leases are payable as follows:

	Minimum lease payments 2019 £'000	Minimum lease payments 2018 £'000	Present value of minimum lease payments 2019 £'000	Present value of minimum lease payments 2018 £'000
Within one year	127	-	117	-
In two to five years	137	-	119	-
After five years	-	-	-	-
	264	-	236	-
Less: future finance charges	(28)	-	-	-
Present value of lease obligations	**236**	**-**	**236**	**-**

The present value lease obligations spilt between current and non-current is disclosed within Note 17.

29. CAPITAL COMMITMENTS AND CONTINGENCIES
ACCOUNTING POLICY

Capital commitments

Contractual obligations comprise obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

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.

Capital commitments

The Group has entered into construction contracts for the development of its investment properties and has agreed to make contributions to community infrastructure projects as part of these developments. The total of the contracted costs to be incurred in the future amounts to £27.0 million.

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 £134.4 million (2018: £132.1 million).

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. A premium of 1.25% per annum is payable on the face value of the surety provided. In July 2018, a £0.6 million bond was issued against this facility.

30. 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.

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 2019 Annington Developments Limited received £7.4 million for an overage payment from Countryside Annington (Mill Hill) Limited.

Information regarding key management personnel

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

31. 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 2019, 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[c]	Finance
Annington Finance No. 2 Limited[c]	Finance
Annington Finance No. 4 plc[c]	Finance
Annington Finance No. 5 plc[c]	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[d]	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 shall 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.

[c] These companies are part of the old securitisation structure and entered into liquidation on 21 September 2018.

[d] 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 %	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. 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 residence 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
Canterbury Place Residents Company Limited	3.23	Ringwood Crescent Residents Company Limited	11.11
Cardiff Place Residents Company Limited	2.56	Riverside Rise (Allington) Residents Company Limited	100.00
Catterick Anzio Residents Company Limited	100.00	Salerno Residents Company Limited	100.00
Chester (Dale Camp) Residents Company Limited	2.00	Scampton Residents Company Limited	0.61
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	1.67
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	2.86	Stanmore Crescent Residents Company Limited	100.00
Dale Road Residents Company Limited	0.78	Stokesay Road Residents Company Limited	1.89
Dishforth Residents Company Limited	3.23	Strensall Residents Company Limited	2.86
Donnington Residents Company Limited	1.25	The Elstons Residents Association Ltd	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	79.96
Exmouth (York Close) Residents Company Limited	10.00	Uxbridge Jupiter Heights Residents Company Limited	4.00
Foulkes Terrace (Aldershot) Residents Company Limited	25.00	Waterbeach (Abbey Place) Residents Company Limited	100.00
Gamlingay Residents Company Limited	50.00	Waterbeach Residents Company Limited	0.56
Garats Hay Residents Company Limited	7.69	Watton Residents Company Limited	3.70
Graham Road (Redruth) Residents Company Limited	1.49	West Moors Residents Company Limited	5.00
Greenmill Residents Company Limited	3.13	West Vale Residents Company Limited	0.52
Henlow Residents Company Limited	1.28	Whetstone Millson Close Residents Company Limited	1.09
High Wycombe (Woodcock) Residents Company Limited	1.12	White Waltham Residents Company Limited	12.50
Hilsea (Farmside Gardens) Residents Company Limited	100.00	Wimbish Residents Company Limited	3.85
Honington (Poplar Close) Residents Company Limited	3.03	Wittering Residents Company Limited	0.29
Innsworth Residents Company Limited	1.27	Woodbridge West Residents Company Limited	2.44
Keith Park Road Residents Company Limited	0.60	Wyton Residents Company Limited	0.56
Kirton (York Road) Residents Company Limited	6.25		

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.

32. POST BALANCE SHEET EVENTS

On 5 April 2019, Annington Limited's immediate parent entity, Annington Holdings (Guernsey) Limited (AHGL), restructured itself to become an Open Ended Investment Company (OEIC). This will permit new classes of shareholders to invest in the Annington Group. As a result of its conversion to an OEIC, AHGL is advised that it will qualify as a Collective Investment Vehicle (CIV) under the Non Resident Capital Gains Tax (NRCGT) legislation. Groups headed by a CIV which have a genuine diversity of ownership (GDO) pursuant to the Authorised Investment Funds (Tax) Regulations 2006 may apply for an exemption under the NRCGT rules from paying capital gains tax on property disposals, electing instead to pay capital gains tax on distributions by the CIV (an Exemption Election). AHGL has confirmed to the Board of Annington Limited that it is an OEIC and qualifies as a CIV under the NRCGT legislation. AHGL has also confirmed that it is anticipated that it will meet the GDO condition in the near term. Once the GDO condition has been met, AHGL has confirmed that it is intended that an exemption election will be made. Following the election, Annington Limited and its subsidiaries will be exempt from capital gains tax on property disposals. A consequence of this will be the deferred tax liability, being £873 million at 31 March 2019, will be derecognised. Removing the deferred tax liability would have the additional effect of removing the deferred tax asset to the extent that it is not recoverable in the foreseeable future.

33. 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 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investment in subsidiary companies	c	3,362,800	2,530,400
Deferred tax asset	d	6,599	6,599
		3,369,399	2,536,999
Current assets			
Receivables	e	-	36
Total assets		**3,369,399**	**2,537,035**
Current liabilities			
Payables	f	(27)	(63)
Total liabilities		**(27)**	**(63)**
Net assets		**3,369,372**	**2,536,972**
Capital and reserves			
Share capital	21	84,756	84,756
Share premium	22	480,401	480,401
Revaluation reserve		2,797,543	1,965,143
Retained earnings		6,672	6,672
Total equity		**3,369,372**	**2,536,972**

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

The Company reported a profit of £nil for the year ended 31 March 2019 (2018: profit of £1.5 million).

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 16 August 2019.

Signed on behalf of the Board of Directors

A P Chadd
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Note	Share capital £'000	Share Premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 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**
Change in fair value of investment in subsidiary companies	c	-	-	832,400	-	832,400
Balance at 31 March 2019		**84,756**	**480,401**	**2,797,543**	**6,672**	**3,369,372**

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Net cash from operating activities	h	**-**	**-**
Investing activities			
Investment in subsidiary		-	164,000
Net cash inflow from investing activities		**-**	**164,000**
Financing activities			
Share issue		-	(164,000)
Net cash outflow from financing activities		**-**	**(164,000)**
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 2019

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.

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 is determined by a Level 2 valuation technique, as described below.

	2019 £'000	2018 £'000
At 1 April	**2,530,400**	**2,516,500**
Additional investment	-	480,501
Increase/(decrease) in fair value during the year	832,400	(466,601)
At 31 March	**3,362,800**	**2,530,400**

The historical cost of the investment in subsidiaries was £565,256,967 (2018: £565,256,967).

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 7% discount (2018: 22% 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.

The fair value gain of £832.4 million (2018: loss of £466.6 million) was recognised through other comprehensive income.

Details of all subsidiaries as at 31 March 2019 are shown in Note 31 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 profit 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.

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax at 19% (2018: 19%)	-	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	-	(1,583)
Total taxation for the year	**-**	**(1,583)**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2018: 19%). The tax for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2019 £'000	2018 £'000
Loss before taxation	-	(81)
Tax on loss at the standard rate	-	15
Factors affecting the current tax for the year:		
Effect of tax rate differential between current and deferred tax	-	(186)
Transfer pricing adjustment	-	1,754
Total taxation for the year	**-**	**1,583**

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:

	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 2017	**5,016**	**-**	**5,016**
Credit to profit or loss	1,583	-	1,583
At 31 March 2018	**6,599**	**-**	**6,599**
(Charge)/credit to profit or loss	(6,599)	6,599	-
At 31 March 2019	**-**	**6,599**	**6,599**

	2019 £'000	2018 £'000
Deferred tax assets	6,599	6,599
Net deferred tax assets	**6,599**	**6,599**

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 £488.4 million (2018: £346.9 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.

	2019 £'000	2018 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	-	36

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.

	2019 £'000	2018 £'000
Amounts owed to group undertakings	27	63

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

G. 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 Group's expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition.

Financial liabilities

The Company's financial liabilities consists of intercompany borrowings.

The Company has the following financial instruments:

	Note	2019 £'000	2018 £'000
Financial assets			
Receivables	e	-	36
Investment in subsidiary companies	c	3,362,800	2,530,400
Total financial assets		**3,362,800**	**2,530,436**
Financial liabilities			
Liabilities measured at amortised cost:			
Payables	f	27	63
Total financial liabilities		**27**	**63**

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

G. 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 2 to the Consolidated Financial Statements where the fair value measurement hierarchy levels have been defined.

2019	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 **Non-derivative financial assets**			
Investment in subsidiaries	-	3,362,800	3,362,800

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

H. NOTE TO THE CASH FLOW STATEMENT

	2019 £'000	2018 £'000
Profit after tax	-	1,503
Adjustment for:		
Tax	-	(1,583)
Finance income	-	(9,234)
Finance costs	-	9,314
Net cash from operating activities	**-**	**-**

I. 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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Annington Homes Limited	-	9,234	-	-
	-	**9,234**	**-**	**-**

	Amounts owed by related parties		Amounts owed to related parties	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Annington Homes Limited	-	36	(27)	-
Annington Management Limited	-	-	-	(63)
	-	**36**	**(27)**	**(63)**

Information regarding key management personnel

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

J. COMMITMENTS AND CONTINGENCIES

The Company had no capital or other commitments at 31 March 2019 (2018: £nil).

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