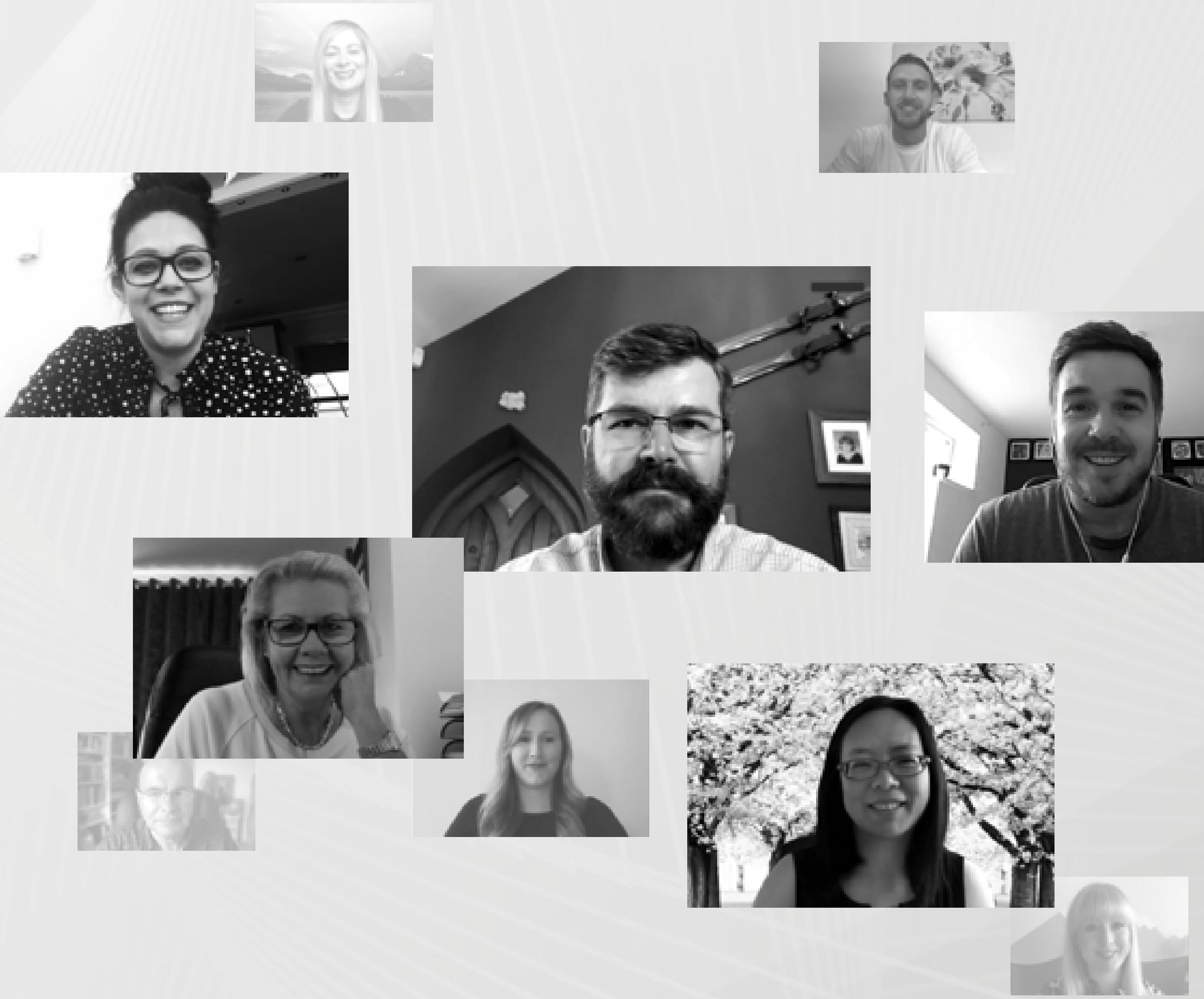
ANNUAL REPORT AND ACCOUNTS **2020**



ANNINGTON

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.

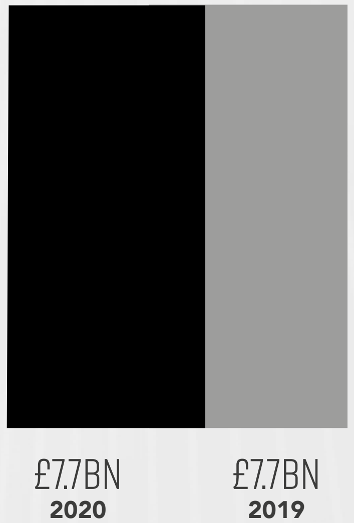
Annington Limited expressly undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance 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.

CONTENTS

HIGHLIGHTS FINANCIAL YEAR 2020

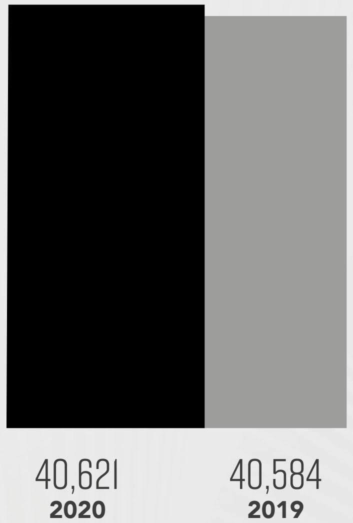
The carrying value of Group investment properties is stable at

£7.7 BILLION



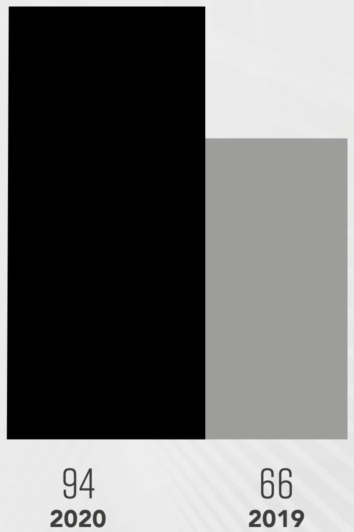
At 31 March 2020,
the Group's investment properties comprised

40,621 COMPLETED UNITS



The Group sold

94 PROPERTIES

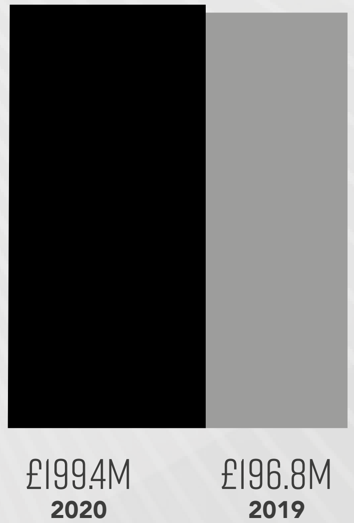


The Group recognised sales income of

£32.1 MILLION

Rental income was

£199.4 MILLION

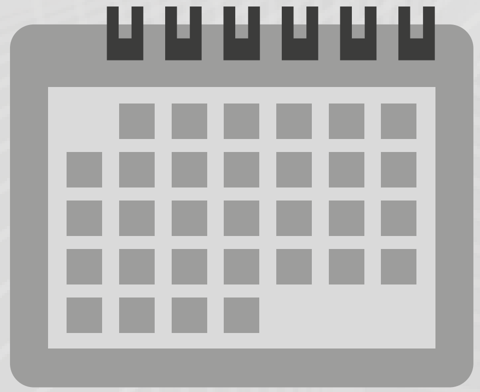


Profit after taxation was

£770.2 MILLION

The Group negotiated an amendment (effective 1 April 2020) to the Term Loan agreement that extends this debt from 2022 to 2025.

The expedited site review process has been a significant area of focus of the business during the year and this is expected to continue as a key focus in the year ahead.



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 on certain units, 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.

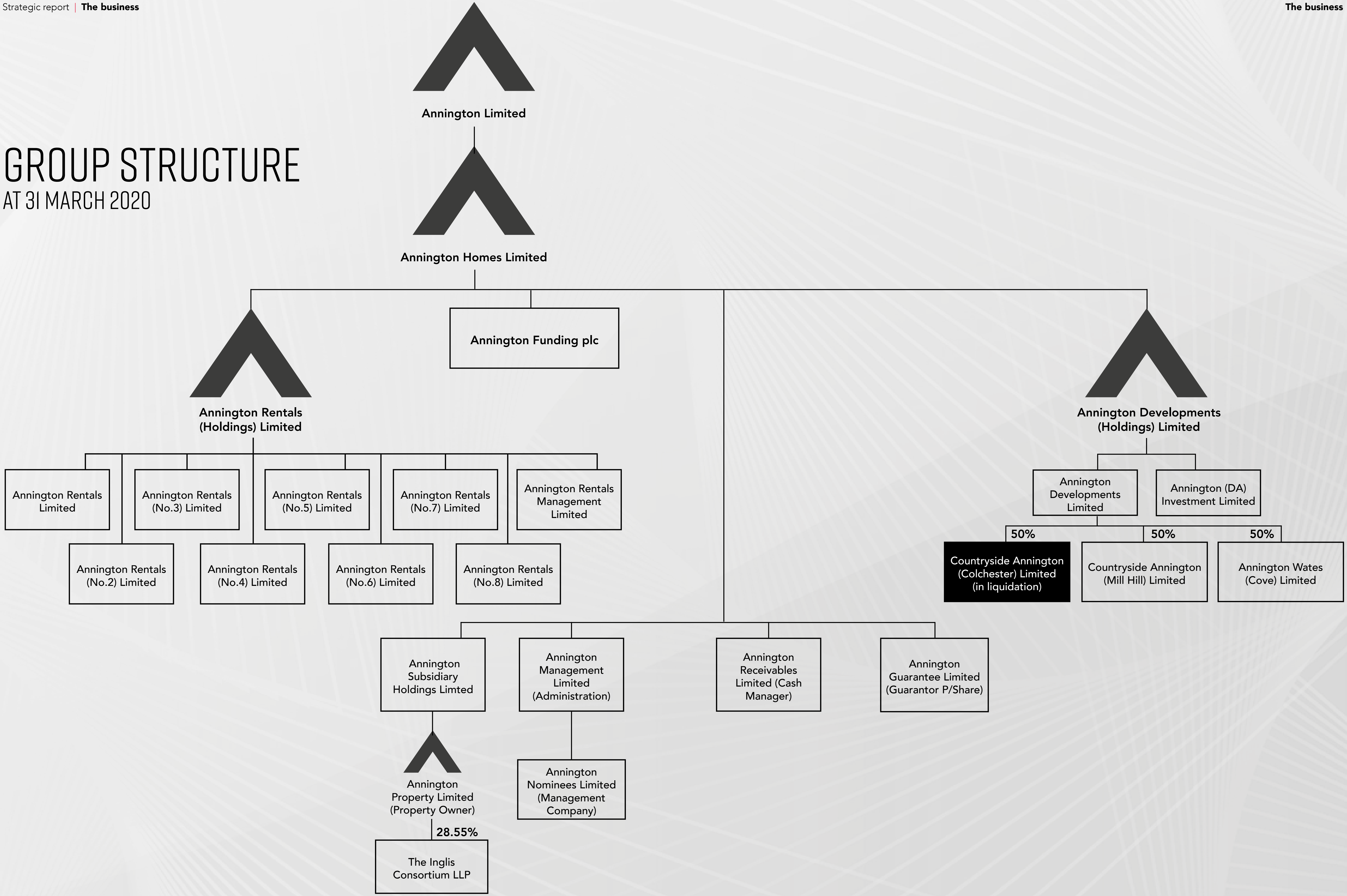
As at 31 March 2020 the Group's investment properties consisted of:

- the MQE Retained Estate, comprising 38,460 Units ("Retained Units") (2019: 38,726) and 181 Related Assets (2019: 181), representing the majority of the MoD's total Service Family Accommodation and the MQE Surplus Estate comprising 445 Units ("Surplus Estate") (2019: 251); and
- the "Non-MQE Portfolio", a separate property portfolio of private rented sector ("PRS") accommodation which, as at 31 March 2020, consisted of 1,716 (2019: 1,607) property units let on bulk or assured shorthold tenancies.

At that date, the Group was constructing a further 117 units (2019: 256) and held three completed development units (2019: five).

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

GROUP STRUCTURE
AT 31 MARCH 2020



The business

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 the East of England, 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 2020, the carrying value of the MQE Retained Estate was £7,215.9 million (2019: £7,216.0 million). At the current stage of completion of the most recent Rent Review, annualised passing rent in respect of the MQE was £180.2 million (2019: £179.7 million). As of 31 March 2020, the fair value of the MQE Surplus Estate is £53.4 million (2019: £32.8 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/MOD Covenant	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
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.

The MQE rent review cycle overlaps with the timeframe for negotiations of the Site Review (see below). Certain elements relating to passing rent are in dispute for both the Rent Review and Site Review negotiations. The negotiation of the rent review uplifts for December 2019 for affected sites are expected to be settled in alignment with the Site Review over the next twelve months, with rent uplifts backdated to December 2019. This means that the current partial Rent Review outcome, as it stands at the time of writing, is not comparable to previous years' uplifts. Reflected in the outcomes to date are market conditions and a downward trend in rents as costs associated with items specifically excluded under the terms of the leases with the MOD have been agreed to be handled differently going forward. This follows the downward trend experienced in the December 2017 rent review, which resulted in a 7.8% uplift, down from 17.9% in December 2016. On the basis of these factors, the first round of the fifth Rent Review cycle is expected to result in an uplift of approximately 4% uplift across all reviewed Sites.

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 four-year period commencing in December 2021 (the "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 alongside and 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 then 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.

During the current year, the first six months were largely focused on completing the unit inspections across the 27 representative sites, involving some 1,200 properties. Completion of the inspection phase triggered work leading to the exchange of without prejudice opening bids with the MoD in October 2019 for Beacon Unit Rents, Site Rents and Site Adjustment Factors for all 27 sites. The following five week period for meaningful negotiations passed without any progress. In accordance with the Arbitration Agreement, both the MoD and Annington selected two sites each for the first batch of four to be the subject of Panel adjudication.

The second half of the year was utilised preparing for two Panel hearings, the first addressing legal matters in November and the second on condition issues in January. At the same time, preparations for the hearings on the first four sites continued, with the Group seeking expert witness reports and preparing and briefing lawyers to appear at the hearing.

Drafting of submissions continued right up to the actual hearings which were postponed from May to June/July due to one of the lead QCs being seriously ill with COVID-19. Significant efforts are being made by both Annington and the MoD to keep the programme on track. The impact of delaying the first hearing to June/July is that the outcome of this hearing is not expected until later this year. The hearing for the second batch of eight sites will not now be until February/March 2021, with a subsequent knock-on for all future phases.

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.

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 under the 1996 lease arrangements. In the 7 March 2019 agreement with the MoD ("Arbitration Agreement"), the MoD 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 up to 500 units per year. It was agreed the first year for this purpose would be extended to include certain units released at Bordon and Canterbury during March 2019 and end on 31 March 2020. On this basis, the MoD released 501 units in the first year of this agreement.

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. A provision for these costs has been recognised (see Note 20 for further details). At present, there are 4,500 units within the MQE Retained Estate which are covered by at least one base dependent utility supply. The utilities agreement has a term of 25 years, expiring on 4 November 2021, though this may be extended in certain circumstances to 2028 under the terms of the Arbitration Agreement, 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 2020, the MoD had released a total of 16,600 (2019: 16,334) Units together with an additional 181 Related Assets since November 1996. Release levels for the last five years have been:

Year ended 31 March	**Number of released units**
2016	248
2017	43
2018	2
2019	243
2020	266

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 slightly as a result of changes to several assumptions, including downward revisions to rental inflation assumptions.

The outbreak of COVID-19 was declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020. It impacted global financial markets and travel restrictions were implemented by many countries. The escalation of infections in the UK led to the introduction of lockdown measures on 23 March, and the rise in the death toll caused widespread concern. At year-end, business and economic activity was much reduced and a period of recession expected globally, and for the UK economy, which was confirmed in August 2020 with the release statistics for the quarter to June by the Office Of National Statistics. As at the valuation date of 31 March 2020, the Group's valuer, Allsop Valuation Limited ("AVL"), could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that AVL was faced with an unprecedented set of circumstances on which to base a judgement. AVL's valuation, as adopted by the Group, is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to this valuation than would normally be the case.

It is important to note that the property valuation can go down as well as up. As stated previously, the MQE property valuation has been performed on a portfolio basis, using a discounted cash flow method. This method forecasts future cash flows which are then discounted to arrive at a fair value for the portfolio. The resultant gains or losses are not crystallised unless 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.

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

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. The methodology for calculating the Halifax House Price Index was changed during the year by IHS Markit, a leading global information provider. The update intends to address changes in the structure of the UK housing market over the past 35 years and provide a more robust measure. Some of these changes include improving the granularity of location characteristics and aligning the regions to those of UK official statistics, as well as updating weighting systems to those more widely used by global statistical agencies. Consequently, the Group has incorporated this new methodology for calculating the index and adopted the reported regions to align with the changes implemented by IHS Markit.

The impact of these changes has been to increase the indexed bid SAVPV, but it has also affected the adjustment factor determined by comparing this to historical sales values achieved. The adjustment factor was reported as 99.9% at March 2019 under the previous Halifax methodology. This result adjusts to 95.7% when using the revised Halifax methodology and is 97.25% on the same basis for March 2020. The table below sets out the SAVPV of the MQE Retained Estate:

	31 March 2020 (new method)		31 March 2019 (new method)		31 March 2019 (old method)	
Region	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**
East of England	4,850	1,022,393	5,034	1,018,467	3,026	542,549
East Midlands	2,456	453,383	2,496	443,907	2,496	398,774
Greater London	1,837	1,059,921	1,838	1,025,591	1,953	1,108,288
North East	503	60,182	503	58,350	395	47,499
North West	526	69,469	545	67,892	509	63,870
South East	12,903	3,649,095	12,917	3,519,345	14,993	4,151,750
South West	9,775	2,032,583	9,775	1,967,345	9,787	1,939,318
Wales	1,045	171,061	1,045	160,051	850	135,239
West Midlands	1,625	267,092	1,625	253,909	1,625	254,153
Yorks & Humberside	2,940	467,832	2,948	444,081	3,092	453,143
Total	**38,460**	**9,253,011**	**38,726**	**8,958,938**	**38,726**	**9,094,583**

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 1,716 (2019: 1,607) properties owned and 44 (2019: 78) properties managed as of 31 March 2020. 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 91 units under development as at 31 March 2020 (2019: 256) all of which are at Brize Norton (2019: 135).

As at 31 March 2020, annual passing rent in respect of the Non-MQE Portfolio was £19.4 million (2019: £16.4 million). At the same date, the fair value of the Non-MQE Portfolio is estimated to be £405.9 million (2019: £410.3 million). The decrease in valuation was reflective of the fall in the property market, offset by the effects of the expansion in the portfolio during the year.

Due to uncertain market conditions, Annington has continued its moratorium on PRS acquisitions instituted 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 has moved further into the development of new build properties in its own right. During the year, that company's first site at Gamlingay was fully sold, with strong progress in build and sales at the site at Little Thetford. The site at Allington is progressing through the build phase and is expected to be available for sales in the second half of 2020. The 50% investment in Countryside Annington (Mill Hill) Limited represents a legacy interest, with the entity entering a phase of winding down.

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 2020, the Group's share of profits from joint ventures was £1.0 million (2019: £1.1 million).

Further development activities aid the expansion of the Group's PRS portfolio. Having brought all the units at Uxbridge PinnPoint into the rental market during the year, activity remains on the site at Brize Norton.

PROPERTY MARKET OVERVIEW

The 2019/2020 financial year began with annual house prices on the same flat to slightly downward trajectory which had been in evidence since January 2018. The market up to December 2019 remained in a state that might best be described as 'lacklustre'. Total price growth in 2019 was 1.4% according to Nationwide, broadly in line with market expectations, and an improvement on the 0.5% growth in 2018. The headline numbers again obscured significant regional variations with Wales and the North outperforming – the North East, West Midlands and Scotland were all up c.2.7% over the year – and London and the South East the primary drag, down 1.8% and 1.0% respectively.

It is worth noting that in real terms, the average UK home was worth the same at the end of the decade as it was at the beginning (December 2009 to December 2019) – in fact, average values fell by 0.8% when adjusted for inflation (Savills). This is in stark contrast to the previous decade (2000 – 2010) during which prices rose by 67% in real terms, and the decade preceding that (1990 – 2000) where prices fell by 14%.

Brexit uncertainty weighed heavily on market sentiment and transactions were subdued, in spite of a supportive employment and mortgage environment. It was clear that greater clarity would be needed in order for the housing market to break out of this trend. The certainty resulting from the decisive Conservative Party majority which emerged from the December General Election lived up to these expectations and appeared, briefly, to be the encouragement both buyers and sellers needed with stronger price gains and increasing momentum in the market during the fourth quarter of 2019 and into the first quarter of 2020.

Expectations at the start of the calendar year were that house price growth would be marginally stronger in 2020. Rightmove expected a modest increase in house prices of 2% during the year on the basis of greater certainty following the General Election, the continuing trend of demand outstripping supply, and the continuation of a supportive economic backdrop (low interest rates, willing mortgage lenders, wage growth and high employment). This was mirrored by other commentators with house prices rising in Q1 2020 at their strongest for some time. Both Halifax and Nationwide reported annual house price growth of 3% to the end of March. Rightmove ended the financial year with even higher numbers, recording house price growth of 3.5%, the highest annual rate of house price growth for its dataset since December 2016. Activity levels were up too with Rightmove reporting that the number of sales agreed has increased 17.8%, that properties were selling an average of 6% faster nationally and 18% more quickly in London.

Rents also performed well, increasing nearly twice as fast over the 2019/2020 year as they did in 2018 (Hamptons International), with the average monthly rent now £989, 2.1% up over the year. In direct contrast to house price inflation, rent inflation has been greatest in the Greater South (London, East Anglia and the South East) at c.4%, while in the North rents have increased by just 0.2%. Savills reports 1.4% annual rental growth across the UK with the same regional divergence and notes that this is the strongest performance since 2017.

With the onset of the COVID-19 pandemic, and as a result of lockdown, including recommendations by the Minister for the Cabinet Office that people should avoid selling their homes or renting somewhere new while the crisis continues, business activity levels across the country fell dramatically. The March RICS survey shows that 87% of surveyors had seen falls in new enquiries and 86% had seen falls in new instructions to sell, rising to 93% and 96% respectively in April and not much changed in May 2020 either, reflecting the effect of lockdown on the simple practicalities of selling a house (this is significantly changed in June and July with 61% seeing a definite increase in new enquiries and 42% in new instructions). Interestingly, the March RICS survey recorded more surveyors seeing price rises than falls and recent evidence is that pricing might be under a bit of pressure but activity levels are strong.

COVID-19 cut away any gains the market enjoyed in the first quarter of the 2020 calendar year and while there is a recovery, it is far too early to speculate on the impact of the COVID-19 pandemic on the economy as a whole and the residential property market in particular. Any full recovery will depend on many factors, from Government policy to the policies lenders adopt toward debt and mortgage lending. House prices fell by 1.4% in June, according to Nationwide, which drags annual growth down into negative territory, with values 0.1% lower than they were in 2019, the first fall on an annual basis since December 2012. In the rental markets whilst voids may remain low – due to Government intervention to prevent evictions – rental arrears are likely to increase the longer this goes on.

Operationally, 2019 marked a turning point for Annington. Under the terms of the Arbitration Agreement signed in March 2019, the MoD undertook to release 500 units per annum for seven years. Release levels have not consistently hit that mark for more than 15 years. While providing significant certainty on property numbers, the releases received provided a welcome challenge to the build team with substantial refurbishment projects at Bordon and Canterbury to add to existing new build projects, e.g.135 homes at Brize Norton and 10 at Little Thetford.

Like everyone in the industry, Annington was affected by the COVID-19 pandemic and lockdown. All operational sites were closed with immediate effect. Sales offices and rental outlets were closed but we continued to provide an emergency repair response throughout the period. All our contractors returned to site five to six weeks after lockdown commenced, thereby minimising the impact. All sites are now back up to 100% capacity in terms of output; build and sales rates are encouraging with good viewing and reservation data across a geographically diverse portfolio.

The recovery the housing market is currently seeing may be an immediate and knee-jerk response to the period of lockdown. While it may give hope that the underlying demand supply imbalance will underpin long-term pricing and not result in any substantial movement in house prices or rental values, uncertainty remains amid an economic backdrop of the recession which the United Kingdom formally announced in August.

MOD RELATIONSHIP

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.

At 31 March 2020 there were 49,400 SFA properties in the UK, of which 91.3% of properties are located within England & Wales, 6.4% in Scotland, and 2.3% in Northern Ireland. This number has hardly changed over the last 10 years. 10,500 of these properties were vacant.

Annington only holds SFA properties in England and Wales and here there were 45,100, which is an increase of 100 compared to the previous year. 9,000 of these properties were vacant (20.0% of the total), a decrease from the 9,600 properties (21.3%) reported in 2019 but significantly higher than the MoD's 10% management margin. The increase in the vacancy rate since 2011 is explained by the MoD by reference to an overall reduction in demand, the success of the Forces Help to Buy scheme, the retention of SFA to support the Army Basing Programme and the development of the Defence Estate Optimisation Programme. The Defence Estate Optimisation Programme is intended to rationalise property holdings, mostly technical, but this latest project is still under development and it is too early to tell what impact it might have on bases and void properties and, consequently, releases.

The MoD remains under considerable pressure to reduce costs and the financial burden of providing SFA. Its Void Reduction Plan aims to reduce the number of voids to the required 'management margin' of 10% by 2022 through a combination of selected disposals, lease terminations, demolitions, widening of entitlement to cohabitating families and veterans, and subletting.

The MoD's Future Accommodation Model ("FAM") is the latest iteration in a long list of accommodation strategies and is intended to reduce void levels and dependency on subsidised living accommodation. This model is a new accommodation offering providing options to help more service personnel live in private accommodation through private ownership and private rental. Three pilot schemes are underway, one in each of the Services, with the Navy's at HMNB Clyde (from 30 September 2019), the Army's at Aldershot (from 31 January 2020) and the RAF's at Wittering (from 31 May 2020). Like the Defence Estate Optimisation Programme, it is too early to tell whether this initiative will have a major impact on the demand for SFA.

While this would suggest a reduced demand on SFA, supported by the fact that all three services are under-resourced, this may well be offset by the MoD's relaxation of eligibility criteria for SFA during the year when, subject to certain conditions, it adopted new policies allowing unmarried couples to apply for SFA.

Communication with the MoD

Annington's main contact on all estate matters with the MoD is via the Defence Infrastructure Organisation ("DIO"). Primary co-ordination operates through the Joint Working Board (Annington and DIO), which meets quarterly and is chaired by the Head of Accommodation at DIO. The majority of the issues relate to the day-to-day running of the estate rather than strategic direction and decision making, however, this forum is almost the only opportunity to discuss accommodation strategy with the MoD.

Following the signing of the Arbitration Agreement in March 2019, UK Government Investments (UKGI) took the lead on the Site Review process and the other commercial interests detailed in the Arbitration Agreement. Besides agreeing a mechanism for an expedited Site Review process, the Arbitration Agreement provides for a joint effort to find a solution to the ending of the Utilities Agreement in 2021, exploring partnership development and marriage value potential on adjacent sites and agreement to working more closely on sub-letting of properties in the MQE, bulk letting and estate planning. All these initiatives are intended to lead to a more collaborative working relationship.

Clearly, the Site Review process has been the primary focus of this relationship, with both Annington and the MoD devoting significant resources. Due to this, little progress has been made on these other areas. Latterly, the COVID-19 pandemic, the lockdown and the subsequent effects of that have been an obvious brake on progressing work streams.

After the Site Review, the primary focus of attention for the MoD is on selecting the 500 units per annum release which it committed to in the Arbitration Agreement. At this point in time, there are 255 units on 6 sites for which we have received termination notices but the strategy or plan for releases in the future is not yet clear. The MoD has an obvious incentive to adhere to the 500 property release target because of the £7,000 per property dilapidation credit as well as the fact that there remains some 10,500 voids (21.3%) in the UK SFA estate.

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

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 impact of COVID-19 has been considered and is not seen as a material factor in the strategic plan. 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, planned for a 24 month period 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 has spent time over the last year preparing for the negotiations on each of the 27 representative sites, with areas of focus being reports on condition, agreement of legal issues upon which the negotiations rest, a period of unsuccessful negotiation and finally, preparation for the arbitration of the first four sites. Work will continue on a slightly delayed timetable into 2021.

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 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 fit 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. Our 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, arising from releases from the MQE, when market conditions and the terms of its financing arrangements permit. This may include in-house development or 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 shareholders 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 a Euro Medium Term Note ("EMTN") programme (rated BBB) and drew down an unsecured term loan of £400 million. Alongside this term loan Annington Funding plc negotiated a £300 million five-year revolving credit facility.

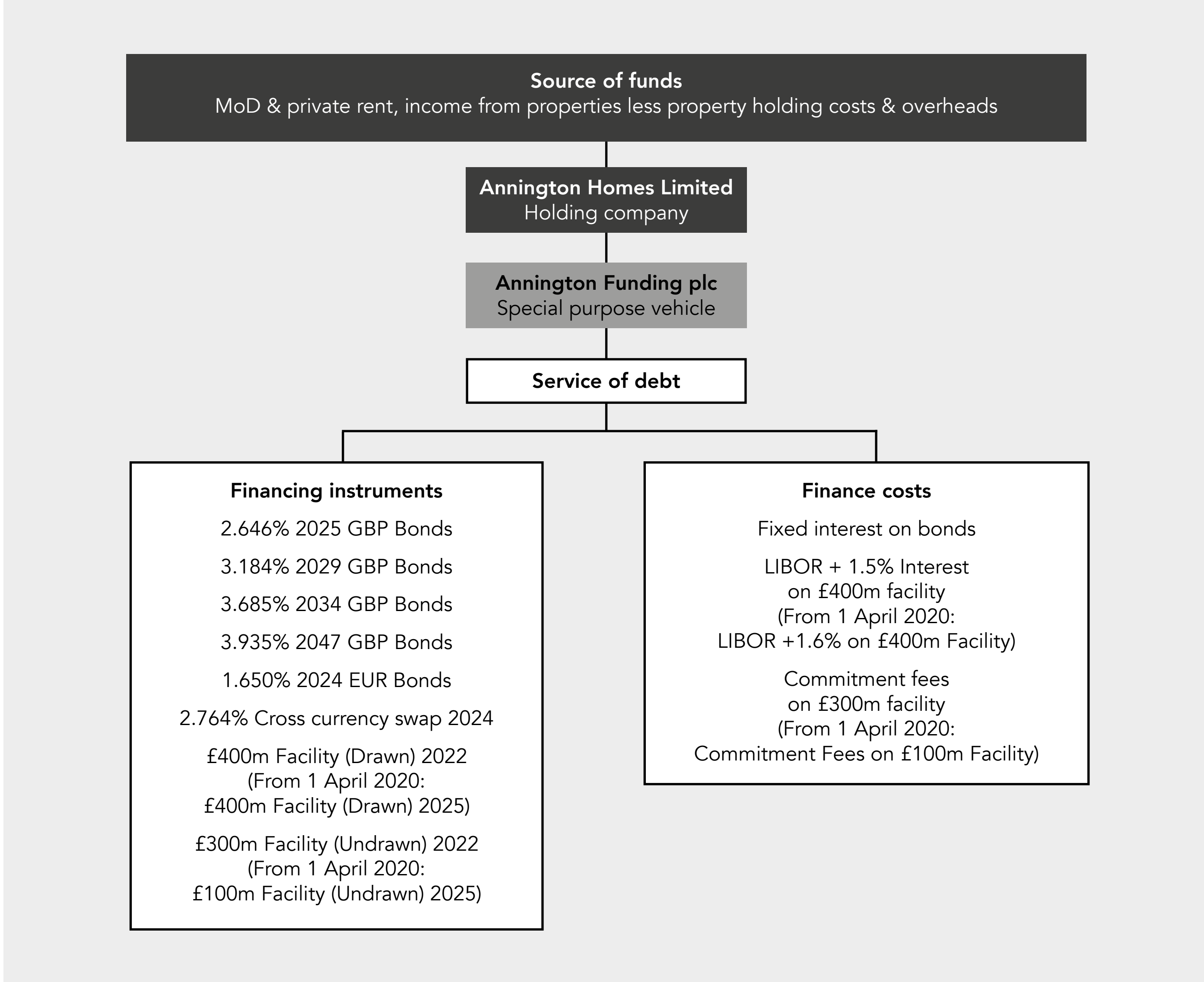
On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date.

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. Following the agreement to amend the terms of the £400 million unsecured term loan and the revolving credit facility, the cash obligation for the next financial year, based on contractual rates at 31 March 2020, is £8.2 million for the term loan (2019: £9.2 million) and £0.7 million (2019: £1.2 million) for the revolving credit facility.

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



The Group must comply with a number of covenants attaching to the debt 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 2020 and has no expectation of doing so in the foreseeable future.

KEY PERFORMANCE INDICATORS

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

KPI	2020 £ millions	2019 £ millions	Basis of calculation
Net rental income	190.0	192.8	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 decreased by £2.8 million or 1.4% in 2020 and is mainly due to increased refurbishment costs on new site releases offset with increased rental income from the PRS portfolio which has increased due to the development projects at Taylor Wimpey, Uxbridge, and Brize Norton progressing/completing, resulting in a higher volume of let units.			
Property operating expenses	9.4	4.0	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 increased as a result of increased refurbishment costs due to a higher volume of MQE releases following the conclusion of the 2019 Arbitration Agreement which stipulated 500 property releases to occur for the next seven years.			
Adjusted EBITDA	187.0	179.2	**Adjusted EBITDA is calculated as:** ◆ 205.5 m - accounting operating profit/(loss) before financing and tax, adjusted for ◆ 0.9 m - amortisation, depreciation or impairment (including other non-cash write downs) of assets (Note 5) ◆ (17.0)m - revaluation gains/losses on investment properties in the income statement ◆ (1.0)m - profits, losses or impairment items attributable to joint ventures in the income statement ◆ (21.6)m - charges/credits to the income statement, arising from changes to the utilities provision (Note 20) ◆ 20.2 m - one-off items (the site review costs shown in the income statement).
Adjusted EBITDA is used to measure the normalised earnings of the business. This metric makes comparisons more meaningful across different periods. Adjusted EBITDA has increased mainly due to higher profits from investment property disposals.			
Free cash flow	61.6	92.7	**Free cash flow is calculated as:** ◆ (59.0)m - the net increase or decrease in cash and cash equivalents but adding back cash spent on: ◆ 20.6m - the purchase of investment properties, as shown in the Investing cash flows, and ◆ 100.0m - any dividends.
This measure is utilised to assess the cash generated to be utilised on discretionary purchases or dividends. Free cash flow has decreased by £31.1 million, with the higher proceeds from sale of investment properties being offset by increased rent review costs, lower cash receipts from joint ventures and a higher investment in working capital.			
Net rental yield	2.5%	2.5%	**Net rental yield is calculated as:** ◆ 190.0m - net rental income, divided by ◆ 7,675.1m - the carrying value of investment properties.
This measure is used to measure rental yields and has remained consistent year on year.			

INCOME STATEMENT

The Group generated rental income of £199.4 million (2019: £196.8 million). The majority of this was through APL, where the MQE Portfolio (including Surplus Estate) generated rental income of £180.3 million (2019: £180.9 million) in the year to March 2020. The increase in rental income is driven largely by the Non-MQE Portfolio, where gross rents for the year to March 2020 have increased to £19.1 million (2019: £15.9 million), following the expansion of the Group's PRS portfolio. There having been no MQE rent review in December 2018, as this was a fallow year, the uplifts on the December 2019 review have been offset by the effects of releases of units received at March 2019 and during the current year.

During the year, 94 investment properties were sold by the Group (2019: 65 properties). APL generated income of £18.6 million (2019: £6.2 million) through the external sale of 31 units (2019: 10 units). A further 63 properties (2019: 55 properties) in the Non-MQE Portfolio were sold, resulting in income of £13.5 million (2019: £8.9 million). In addition, ten development properties were sold from inventory for £3.9 million (2019: 1 property for £0.3 million). These results are reflective of the nature (condition, location and size) and number of units released by the MoD and subsequently made available for sale. The larger volume of releases in March 2019 provided a greater stock of properties available during the financial year, compared to recent years where relatively low levels of releases have effectively capped the number of units available for sale, reflected by volatility in the reported performance.

With market conditions suffering from uncertainty during the year, 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.

Unrealised investment property revaluation gains of £17.0 million were recognised in the current financial year (2019: £481.2 million). The higher valuation is driven by a slight increase in the value of the retained MQE and greater units within the MQE Surplus Estate. A slight (£4.5 million) decrease in the valuation of the Non-MQE Portfolio reflects market conditions at year-end with house price inflation remaining soft and rental yields pushing out.

Overheads were closely monitored during the year. The substantial amount of work being performed on the site review has again resulted in significant costs, which are reported as exceptional items. This site review will be the largest and most complex, as there are precedents to be set out of the issues arising, leading to significant one-off costs being incurred. The number of staff employed at 31 March 2020 stood at 44 (2019: 42). The increase is reflective of staffing to ensure our ability to handle a steady level of releases in the next few years is maintained.

BALANCE SHEET

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 2020 and the cash flows of the Group for the year is set out below.

The Group's total assets amounted to £7,831.5 million (2019: £7,840.7 million). All of 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 £7,675.1 million at 31 March 2020 (2019: £7,659.1 million).

The Group's share of its joint ventures totalled £2.7 million (2019: £6.0 million) and it reported right-of-use assets of £2.3 million following adoption of IFRS 16 Leases. The Group held £126.5 million (2019: £175.0 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

During the year, Annington Limited's immediate parent entity, Annington Holdings (Guernsey) Limited ("AHGL"), informed the Group that AHGL qualifies as a Collective Investment Vehicle for the purposes of Non-Resident Capital Gains Tax rules and that it made an exemption election under this legislation. The exemption election under this legislation is designed to prevent multiple layers of taxation within a structure which would otherwise be borne by all investors and operates by centralising responsibility for Capital Gains Tax upon the investors in the Collective Investment Vehicle. A consequence of this is that responsibility for Capital Gains Tax is removed from subsidiary group entities, meaning that the Annington Limited Group has derecognised the previously recorded deferred tax liability related to capital gains. Such unrealised gains arose on the property value uplifts over time and would have been realised only in the event of a disposal of those properties. The Group now recognises a deferred tax asset of £19.9 million based on the foreseeable use of tax losses accrued in previous years. A further £209.5 million of deferred tax asset arising from unused tax losses remains unrecognised, with future recognition of this asset being contingent upon there being sufficient future taxable profits against which it can be utilised.

The Group's combined liabilities totalled £3,487.8 million (2019: £4,162.9 million), the vast majority of which relate to the Group's long-term debt. The Group's long-term funding is discussed in the financing section of this report. The next largest liability item relates to deferred income arising from our tenants' rental prepayments.

CASH FLOWS

Cash generated from operations before tax totalled £146.7 million (2019: £173.4 million). The key cause of the reduction in this balance is a £14.6 million increase in site review expenses during the year, to fund the Group's preparation for negotiations and arbitrations to determine the correct level of rents to be paid in future years. The next largest contributor is movements in working capital balances, which caused £11.1 million of increased payments/reduced receipts. Tax payments increased to £6.5 million, up from £3.9 million in 2019.

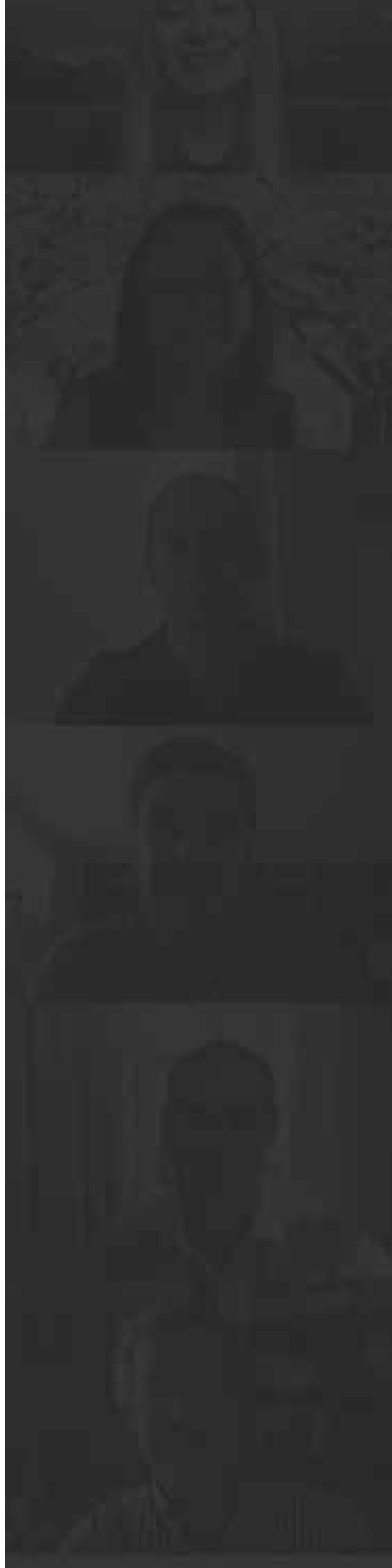
The Group generated £10.5 million of cash from investing activities (2019: outflows of £55.0 million). The increased volume of investment property disposals and a decrease in investment property acquisitions has driven this movement. The Group's joint venture investments generated reduced cash flows of £4.3 million (2019: £16.7 million) as these enterprises have reached maturity.

Debt service costs remained stable at £108.8 million (2019: £108.3 million). As the Group is predominantly a lessor, there were no major impacts of introducing IFRS 16 (see note 2 to the financial statements), however, there have been some minor reclassifications in the way transactions are presented, with lease costs being reclassified as financing activities for the current year. £1.0 million was recorded within the cash flow statement in relation to this.

DIVIDENDS

During the year, the Group declared and paid a dividend of £100.0 million (2019: £nil). The dividend was determined with reference to the Group's ability to distribute cash, subject to restrictions within the debt covenant. The dividend during the year represented less than 50% of the free cash flow generated by the Group since the refinancing in July 2017.

Whilst the level and timing of future dividends remain uncertain, the Group has finished the 2019/20 financial year with cash reserves of £103.7 million (2019: £162.8 million). Having reviewed the Group's budget, the Board expects that it will be in a position to consider a dividend during the 2020/21 financial year, subject to considerations around the appropriate level of cash reserves to be held and potential operating volatility during the current pandemic. Based on forecasts, the level of such dividends during the 2020/21 financial year may be similar to that of the current year.



Principal risks and uncertainties

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 its revenue.	The revenue from rent payments by the MoD for the MQE accounts for 90.4% (2019: 91.9%) 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 outcome of the site review process is determined on a negotiated or arbitrated basis, to reflect an appropriate market rent for each site. Taking into account relevant market elements, this rate is expected to result in a discount to comparable open market rents for the units on an individual basis, which may be higher or lower than the current 58% discount. 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, the MoD could release a large number of units, and it 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.	Where the MoD has 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. This strategy is available to best manage any reduction in rental receipts from the MoD in the event of significant releases. Through the Arbitration Agreement, the Site review process is being determined for 27 baskets of sites. Annington has retained specialist advisors to assist with this process. 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 £300 million (reduced to £100 million on 1 April 2020) available and undrawn, that provides liquidity to the Group were any rental income to be received after its due date or to bridge any financing gap, were significant numbers of units released on short notice.

Area of potential uncertainty	Risk	Strategy
The UK housing market may be significantly affected by changes in general and local economic conditions, including the finalisation of the "Brexit" trade agreements and the impacts of COVID-19.	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. Similarly, rental income may be delayed or reduced.	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.
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 up to 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.

Area of potential uncertainty	Risk	Strategy
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.
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 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.

STAKEHOLDERS

Statement on s172 of the Companies Act 2006

s172(1) of the Companies Act requires a director of a company to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

In meeting this requirement, the Group engages with various stakeholders in many ways:

Stakeholder	How we consult and consider stakeholder interests	More information
Customers	Our largest customer is the MoD. While there is access at high level within the DIO on strategic issues, most day to day business is dealt with through the Joint Working Board (Annington and DIO), which meets quarterly and is chaired by the Head of Accommodation at DIO. The majority of the issues relate to the day to day running of the estate rather than strategic direction and decision making but this forum is almost the only opportunity to discuss accommodation strategy with the MoD.	See the MoD relationship section of this report.
	For individual customers, we maintain regular engagement with solicitors and agents and make available a customer helpline to facilitate feedback.	See the Valuing Our Customers and partners section of our Corporate Responsibility Plan, later in this report.
Shareholders	The Board comprises independent non-executive Directors, Terra Firma Directors and Executive Directors. This enables the Board to consult with Shareholders in real time. Further to this, members of the Board are in regular contact with Terra Firma representatives through informal meetings and formal events such as conferences and scheduled management meetings.	See the Directors' report disclosures on Board Composition and Ownership Structure.

Stakeholder	How we consult and consider stakeholder interests	More information
Suppliers	Via the management team's regular contact with suppliers, we maintain strong relationships and open lines of communication. Information from this is available to the Board via the executive directors and department heads who are welcomed at board meetings in an ex officio capacity. We consider the interest of suppliers in many ways and this is evidenced by the Group's commitment to health and safety and the Considerate Contractors scheme.	See the Valuing Our Customers and partners section of our Corporate Responsibility Plan, later in this report.
Employees	Annington has a small number of employees and goes to great lengths to ensure the welfare and concerns of staff are taken into account when making decisions impacting on them. Annington communicates with employees through a weekly report detailing all relevant business, market and staff news. Directors meet weekly and regular feedback is passed through a monthly managers' meeting. We also hold a quarterly Staff Forum where all staff are invited to attend and participate. Employees are anonymously surveyed on a bi-annual basis to gauge attitudes and sentiments to a range of factors, issues, and concerns. Regular contact and communication with employees has been a particular priority during the COVID-19 lockdown.	See the Caring for People section of our Corporate Responsibility Plan, later in this report.
The community	The majority of our portfolio is located on or near to MoD bases. When these houses are released to Annington, we make efforts to support the communities in which they are located. Annington has also committed to the Armed Forces Covenant, providing a number of benefits to service personnel. We seek feedback from the individual forces Families Federations and are in contact with the leadership of these organisations on a regular basis.	See the Investing in Communities and Charitable Contributions sections of our Corporate Responsibility Plan, later in this report.
The environment	We consider the impact on the environment based not only on safety but also on benefit to the community. Decisions are taken in line with our Sustainable Procurement Policy to reduce our impact on the environment.	See the section on Respecting the Environment within our Corporate Responsibility Plan, later in this report.

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 we do business 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 its approach to sustainability to ensure it is aligned with the views of key stakeholders. To help manage the various social and environmental initiatives that take place across the Group and to align them with the Group's business priorities, management has 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 invest in their development through formal training programmes, challenging work assignments and participating 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 with individual development plans. The nature of the training is, therefore, very broad and includes both technical and soft skill based training as well as continuing professional development (CPD). In the financial year, the Group invested an average of £1,061 (2019: £2,442) per employee with 100% attending training programmes. During the year, there was a move to provide more training courses online in order to make it more convenient for employees to complete courses. This was used extensively during the COVID-19 lockdown.

Management is committed to encouraging and achieving a working environment where equality and diversity are recognised, encouraged and valued. At 31 March 2020, there were 44 employees (2019: 42) with employee turnover at 11.6% (2019: 5.3%) and the overall gender split of the workforce is as follows:

	Male	Female	Total
The Board	6	1	7
Senior executive team	2	2	4
All employees	25	19	44

The health and welfare of employees are taken seriously. Annington has a policy of flexible and remote working for anyone experiencing personal difficulties but following the COVID-19 pandemic, it is likely that more people will make use of this. 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 a range of issues such as healthy eating and fitness.

Prior to the COVID-19 lockdown, Annington anticipated issues that might arise. Annington ensured that all employees were provided with equipment to do their jobs safely and securely from home, whether they be mobile phones, laptops, scanners or printers and, in some cases, even furniture. If employees needed any other support during lockdown it was provided. Daily bulletins and updates on the business were produced as well as consolidated news reports. Regular contact with all employees was available through a variety of zoom meetings and events as well as the opportunity to learn about a diverse range of subjects through a weekly programme of Lunch and Learn events.

Following the increased number of releases from the MoD and the consequent increased activity on-site, there has been an increase in reportable incidents with 10 reportable contractor incidents (2019: Nil) occurring in the year. These incidents may not have been severe, however we ensure that they are recorded as part of our commitment to ensuring health and safety standards are maintained. Despite the policies and procedures in place, unfortunately, this year we experienced two incidents reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (2019: Nil). These incidents were investigated so that we can avoid a recurrence of similar incidents in the future. There were no reported employee work incidents during the year (2019: Nil).

Respecting the environment

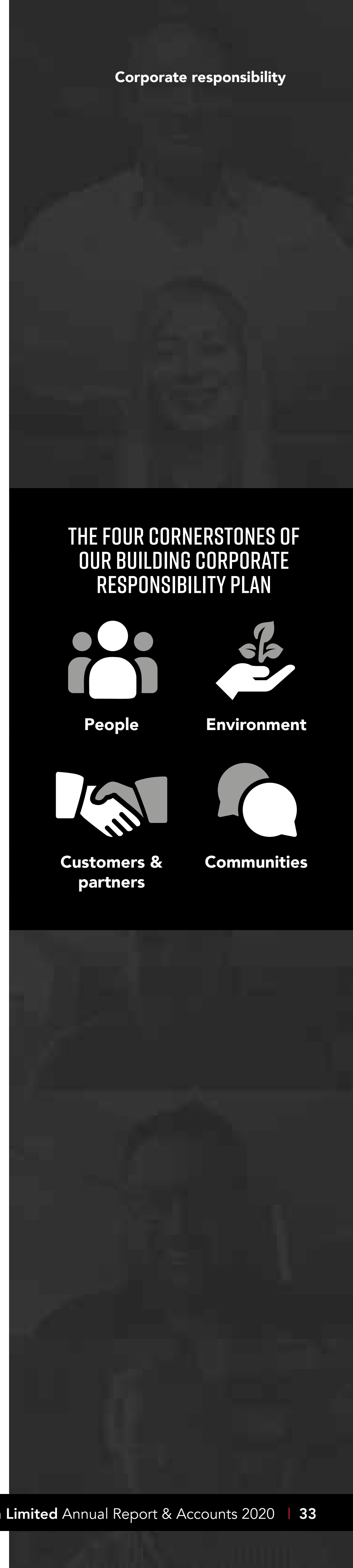
The Group and the Board of Directors recognises and understands that the nature of the business has environmental and social impacts and that it has a responsibility to consider and minimise these impacts where possible. There is guidance as to how the Group, its suppliers and its contractors should operate to achieve this. All of our environmental policies have been adopted by the Board, reviewed regularly, and updated as new circumstances arise.

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 regard 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.

Where possible, Annington will recycle material on site. Concrete is one of the predominant materials found on the MQE estate and following the demolition of six blocks of apartments at Brize Norton, constructed largely from reinforced concrete panels, the steel reinforcement was separated from the concrete and the arisings crushed to achieve a certified type 1 material. This has been used in the construction of footpaths and non-adoptable highways and can also be utilised as a bed and backfill for drainage and services. Approximately 2,500 tonnes of material has been generated for re-use. Through crushing this material and reusing it on-site, a total of 250 lorry journeys have been saved. At Allington, a steeply graded site in Wiltshire, the cut and fill exercise to create level building plots was managed in such a way that it utilised only soil on site with no excess material generated, thus avoiding the need to transport soil on or off site.

The Group has enacted policies over the supply of materials and development practices; our Sustainable Procurement Policy outlines that materials and products are to be ethically sourced and have a low environmental impact while also maintaining our technical standards. Management has developed the supply chain, allowing for more visibility and control over the materials sourced for current and future projects. In addition, our Environmental Policy guides management and our employees on reducing the consumption of utilities and materials as well as minimising the amount of waste produced on site that cannot be recycled. 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.



THE FOUR CORNERSTONES OF OUR BUILDING CORPORATE RESPONSIBILITY PLAN

People

Environment

Customers & partners

Communities

Annington incorporates sustainable design principles in all its projects in order to reduce the negative impacts on the environment, minimising waste and reducing the consumption of non-renewable resources and creating healthy, productive environments. In doing so we have taken the performance of the properties - whether new or refurbished - well beyond the requirements enforced through Building Regulations or Planning Control. We installed air source heat pumps at our new development at Little Thetford, following on from the success of a similar scheme at Uxbridge Southside. Rainwater harvesting and on-site storm water distribution have been designed into our schemes at Little Thetford and Allington.

In addition to these measures, at Brize Norton, the Group is adding eight 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 regular feature of Annington's developments.

The Group's use of energy and resources are monitored. Within the Group, Annington Property Limited has an obligation to report carbon usage under the Streamlined Energy & Carbon Reporting regulations. Whilst the Group is not individually required to report, we summarise here our policies in this area. The metrics used to monitor our energy consumption and GHG emissions has been included within our Directors' Report. The risks and opportunities identified by the Group with respect to our environment are:

Opportunity /risk:	Impact and strategy:
Some houses handed back from the MoD require a complete demolition and rebuild. While this has a higher environmental impact than refurbishment, there is an opportunity for recycling materials from the demolition.	The use of recycled material has short- and long-term cost savings, concrete can be crushed and used for footpaths and non-adoptable highways as well as bed and backfill for drainage purposes. Often, recycled material can be used directly on the rebuilt site allowing for transportation charges to be saved. Our Sustainable Procurement Policy guides our purchasing to ensure we are sourcing low impact materials. As new development or dilapidation work is undertaken, we will investigate opportunities for the use of recycled materials and products.
Given the geographic spread of the Group's portfolio and proximity to MoD bases, there is a risk of site contamination from previous uses.	Failure to identify and clean past contaminates could result in health regulatory charges and increased remediation costs. While there is a potential for high costs, the likelihood of this risk is relatively low. Over 24 years, only two released sites have been found to have traces of contamination and both were appropriately remediated. We will always inspect sites and undertake remediation work where necessary removing contaminated material and securing a 'clean and inert' status. In relation to this, the Group complies with all legislation and Health and Safety regulations with regards to the handling of hazardous/contaminated material.

Valuing our customers and partners

The Group takes its responsibilities to the communities and environments in which it operates seriously and seeks to work only 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 for home buyers 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 Annington 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 customer service issues arising within 14 days and have achieved this in 77% (2019: 79%) of cases.

THE GROUP TAKES ITS RESPONSIBILITIES TO THE COMMUNITIES AND ENVIRONMENTS IN WHICH IT OPERATES SERIOUSLY

Annington continues to assist our customers by participating in the Help to Buy scheme. 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.

Although the majority of our activity is refurbishing homes, when we do build new homes, we act as a responsible developer, abiding by the Consumer Code for Home Builders to make the home buying process fairer and more transparent for buyers. Where possible, Annington also looks to achieve "Secured by Design" accreditation.

Many of the Group's suppliers and contractors have been our partners for years. We believe that our partners are an extension of who we are as a Group and we are committed to treating them fairly. We select the right partners who have years of experience in the industry so they deliver the best results for our customers and our business.

We require suppliers and contractors to share our commitment to quality, health and safety and environmental issues. We are committed to providing a safe working environment, with both our and our contractors' safety management systems complying with UK Health and Safety legislation. We monitor and assess how well our policies and systems are being implemented through commissioning monthly independent third party health and safety checks on active sites, in addition to requiring contractors to undertake their own regular health and safety checks, as part of their contractual obligations.

Investing in communities

The Group is passionate about strengthening local communities by supporting charities and over the past 24 years the Group has made charitable donations and provided funding in support of a diverse range of good causes both in cash and in kind.

Since 1996, Annington has provided discounts to Armed Forces personnel wishing to buy a former MoD property. Furthermore, support to this important group of stakeholders has also been provided in the form of numerous charitable donations to a variety of military charities. In October 2018, as an articulation of Annington's historic and ongoing support to this important group, the Group formalised its commitment to the Armed Forces community by signing the Armed Forces Covenant. Importantly, Annington's Covenant pledges include a range of incentives to Service and ex-Service personnel wishing to buy or rent an Annington property, as well as the following:

- 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

All charity partners and projects are assessed against four key principles and are aligned with our corporate identity and culture – we seek out focused, approachable, caring and experienced partners. It is our intention that our charitable support will:

- Make a tangible and measurable difference to those receiving our help.
- Work to alleviate disadvantage; we will focus on those groups with inherent disadvantages be it through disability, poverty, diminished circumstance or fractured family life.
- Create a sense of community; we will fund sectors or issues identified by our staff with the aim of engaging their interest and involvement.
- Create opportunities for beneficiaries aimed at improving their lives.

During the year, Annington has continued to support the "Eyes On, Hands On" project with the Commonwealth War Graves Commission (CWGC) for which a total of four years of funding has been committed; this is notable for being the first time the CWGC has partnered with a corporate entity. This involves the creation of a nationwide army of volunteers maintaining some 300 war memorials and plaques throughout the UK. Unfortunately, the project had to be temporarily suspended due to the COVID-19 pandemic.

It is worth noting that many of the charities Annington supports have been badly affected by the COVID-19 pandemic, largely because of limitations on their ability to raise funds and how they can operate in the communities they serve at this time. Annington made a decision at the outset that we would continue to support our existing charity partners.

During the year, Annington has worked with:

- **Reading Force –** A charity for Service families that was inspired by one military family's experience of the lasting power of shared reading, and which was shorlisted in 2019 for the prestigious Soldiering On Awards. The service that the charity offers has experienced increased demand during the lockdown.
- **Waterloo Uncovered –** Annington agreed to sponsor the charity's 2019 and 2020 Digs and sent a team to visit the Dig in July 2019 where a number of very significant finds were made. As the 2020 Dig has now been cancelled, Annington has agreed that the sponsorship will be derestricted to allow Waterloo Uncovered to develop an online training and personal development offering.
- **The Outward Bound Trust –** To allow for continuity of funding, Annington has taken over the sponsorship of the Annington Challenge from the Annington Trust. In 2019, a record of 65 youngsters tackled one of the testing outdoor adventure courses which make up the Annington Challenge, a member of staff joined as an Ambassador. To recognise our contribution, Annington was awarded the Outstanding Contribution Award from the Outward Bound Trust's Trustee, HRH Princess Beatrice. The Outward Bound Trust has been hit harder than most with the COVID-19 pandemic and closed all its centres and programmes. As a result, the Annington Challenge has not gone ahead in summer 2020 but Annington has agreed that our donation funding the event will be derestricted to support the organisation's broader operations.
- **TOTS (Turn on the Subtitles) –** TOTS is partnering with the National Literacy Fund to get all broadcasters of children's programming to make same language subtitles the default in order to decrease rates of illiteracy.
- **The Winch –** A charity based in Camden which aims to help each child succeed, regardless of their circumstances, by giving them the opportunities and support they need.
- **Scotty's Little Soldiers –** 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. Annington's support effectively funds the costs of a Head of Support which the CEO of Scotty's Little Soldiers has described as "the single most impactful activity since the charity started". The charity has faced increased demand for its services during lockdown.
- **The Silver Line –** The Silver Line, now part of Age UK, is a free confidential helpline providing information, friendship and advice to older people, open 24 hours a day, every day of the year. The effects of the current pandemic have increased demand for this service by 40%.
- **Royal British Legion Industries (RBLI) –** RBLI is a national charity supporting the Armed Forces, people with disabilities and people who are unemployed. It aims to improve lives by inspiring those they help and supporting them to find work and lead independent lives. Annington has contributed to the creation of a veterans village which HM The Queen opened in November 2019.

In addition to cash donations, which in 2020 totalled £507,693 (2019: £535,517), the Group allows each employee to take up to three days paid leave to undertake volunteering work. Annington actively encourages employees to get involved in supporting and raising funds for charity. In the year, six employees completed the 100km Frontline Walk in aid of ABF The Soldiers Charity, raising more than £43,000. Others provided practical assistance decorating the The Winch's property in Camden, helping with groundworks at the Caenhill Countryside Centre in Devizes, volunteering to be Silver Line Phone Friends with an elderly person.

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 our supply chains or in any part of the business.

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

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 our 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 2019 to March 2020 saw the MoD hand a 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 our operations and supply chain and is committed to implementing systems and controls and delivering training aimed at ensuring that modern slavery is not taking place anywhere within its organisation or in any of its supply chains. The Property Director has responsibility for ensuring that the contractors and suppliers used in the refurbishment of properties comply with Annington's policies, including our 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 2019 to 31 March 2020 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.

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 Euro denominated tranche of Notes in 2024, 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%

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date.

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, cash reserves and the undrawn revolving credit facility provides additional liquidity to the Group to allow the continued operation for the foreseeable future. The Group is satisfied that sufficient actions are available to mitigate any potential adverse impact on covenant compliance in the event of any reasonably foreseeable unfavourable outcome to the ongoing site review process.

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.

The Group receives cash on a quarterly basis in relation to its long-term rental of investment properties. The lengthy timeframes for the rent review and site review processes mean that the effects of market movements are averaged over these cycles and significant movements will take a while to impact the results of the Group. For example, the effect of the Site Review on rent will become effective for the first tranche in December 2021 with one further tranche per year until December 2024. The forecast receipts of rent in the year ahead will be sufficient to meet short-term cash requirements. In making these forecasts and considering the issue of going concern, the Board has taken into account the effects of the UK's exit from the European Union and of COVID-19. Possible downside effects considered included falling house prices, falling rental values, increased arrears from tenants. In all circumstances, cash reserves and rental receipts from the MoD were sufficient to fund the ongoing operations of the Group.

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

Annington is, like the rest of the UK, emerging from lockdown to a very different economic and social landscape; one where some of the short-term challenges that we have encountered – interruptions in the construction sector, change to personal and corporate risk appetite, impact on employment – are likely to have long-term effects and influences on the way we operate. However, Annington is better positioned than most with more than 95% of its income coming from Government. To all intents and purposes, business continuity has been maintained with limited interruption and all employees have been able to work from home effectively. This remains a priority whatever the circumstances over the coming months, in order that Annington remains able and continues to fulfil its existing obligations.

Annington's staff demonstrated dedication and flexibility in embracing the changes required of them over the last quarter and are continuing to deliver their best, in spite of the difficult circumstances. The Group was not forced to lay off or 'furlough' any staff; the key concern now is looking after our employees and ensuring whatever we do is done safely – their health and safety is paramount. Ensuring that the business gets back up to full operational tempo in a safe way whilst adhering to all Government and industry guidelines will remain our priority.

Over the coming year, the Site Review will remain a key focus. The preparation for the hearings of the Arbitration Panel are expected to be a significant work stream through to early/mid 2021. Cost, oversight and opportunities to streamline the process will be a key focus for the team for future stages of the Site Review.

The eventual awards of the Panel will be key to the path Annington takes in the future. Following the restructuring of the group debt, knowing the outcome of the Site Review will remove the last significant uncertainty for investors. We understand that the General Partner to the Terra Firma funds that form a majority of the Group's equity investor base is beginning to consider exit options, with the end life of these funds drawing nearer. Annington management has already started to consider what it needs to do to make itself ready for all exit eventualities and this will become an increasing focus.

We aim to progress other commercial elements of the Arbitration Agreement, including the Utilities Agreement and the release programme. The latter is significant because, under the terms of the Arbitration Agreement, the MoD undertook to release 500 units per year, and if achieved, it will be the first time that release levels have consistently hit that mark for more than 15 years. For the first time in many years we have a high level of confidence on the number of properties that will be returned to us. In turn, this gives us greater certainty on work streams and cash flows. We will, of course, continue to engage with the MoD where possible in order to maintain a positive, constructive and mutually beneficial working relationship.

On that note, it is important that we conclude the 2019 Beacon Unit Rent Review with the MoD, some sites of which remain unsettled and we deploy the same level of resource and commitment to getting the 2020 Review agreed on time.

The property market officially reopened on 13 May but market commentators consider that eight weeks of construction and sales activity was lost. Nevertheless, Knight Frank forecasts a loss of 526,000 sales in 2020 as the economic impact of the COVID-19 pandemic plays out. However, in the first few days following the Government's announcement that transactions could resume, Knight Frank reported that the number of new buyer registrations reached the highest level since the second week of March and the housing market had its best ever week outside London, with prices in June higher than before the lockdown. Demand has continued to rebound strongly, but with a shift in preference away from city locations as buyers are keen for more space. In spite of this, the City consensus says that, once that demand is met, prices will fall but the Chancellor of the Exchequer's announcement of an SDLT holiday until 31 March 2021 has caused some commentators to reconsider.

Whilst Rightmove reported an increase in average asking prices of £6,266 or 1.9% between March and May 2020, the Nationwide's HPI report for June 2020 suggests greater caution in considering the longer term prospects for the market. Nationwide reported that annual price growth stopped in June with prices down 0.1% from 1.8% in May. Prices fell 1.4% month-on-month following a 1.7% fall in May, the first negative return since December 2012. While latest data from HMRC showed a slight pick-up in residential property transactions from April's low, in May they were still 50% lower than the same month in 2019. Mortgage activity saw an even more dramatic slowdown – there were only 9,300 approvals for house purchases in May, down from 73,700 in February and 86% lower than in May 2019. The medium-term outlook for the housing market remains highly uncertain. Much will depend on the performance of the wider economy.

There has been strong demand in the rental market since May, when many renters took the first opportunity to move and where possible obtain more space. This has been tempered by an increase in rental arrears. The Government introduced a moratorium on rental evictions, initially until 23 June, but subsequently extended to 23 August. However, Annington is not heavily exposed to the private rental market.

The future of the property market remains hard to predict and additional Government stimulus is possible in the coming months. Annington will remain focused on ensuring that the Group's core investments are managed in a responsible manner during this time.

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

A P Chadd
Director
18 August 2020

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 2020.

DIRECTORS

The directors who served throughout the year and up to the date of approval of the financial statements 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.

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 chairs the Audit Committee.

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.

Nick 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, EXECUTIVE REVIEW AND COMMITTEES ATTENDANCE

The number of board and committee meetings attended by each Director during the 2020 financial year was as follows:

	Board	Audit Committee	Nomination and Remuneration Committee	Investment Committee	Finance Committee	Overall Attendance
Total number of meetings	4	2	2	8	1	
Baroness Helen L Liddell	4	2	2	*	1	100%
Vivek G Ahuja	4	2	2	*	1	100%
Justin M King	4	2	2	*	1	100%
Jonathan O Short	4	2	2	*	1	100%
James C Hopkins	4	2*	2*	8	1	100%
Andrew P Chadd	4	2*	2*	8	1	100%
Nick P Vaughan	4	*	*	8	*	100%

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

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.

Directors' report

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 there was one Finance Committee meeting.

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.

A summary of board composition and its diversity as at 31 March 2020 is depicted in the tables below:

Board composition

Independent Non-executive Chairman and Director	1
Independent Non-executive Director	1
Non-executive Director	2
Executive Director	3
Total number of Directors	**7**

Non-executive Director tenure (including the chairman and excluding executive directors)

Under 3 years	3
3 – 6 years	1

Gender diversity (including the Chairman)

Female	1
Male	6
Total	**7**

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.

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 manage the fluctuating activity levels in the portfolio across England and Wales more efficiently. 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.

GREENHOUSE GAS REPORTING

The below figures detail the Group's total emissions by activity and scope in the year:

	Energy (kWh)	tCO_2e
Direct Emissions (Scope 1)		
Natural gas	209,584	38.5
Company owned vehicles	465,016	108.9
	674,600	147.4
Indirect Emissions (Scope 2)		
Electricity	317,970	81.3
Other Indirect Emissions (Scope 3)		
Grey Fleet[1]	44,312	10.4
Total emissions	**1,036,882**	**239.1**

[1]Grey fleet relates to emissions and fuel used for transport in company vehicles or reclaimed mileage for private cars used on company business.

Methodology

In order to calculate emissions, the main requirements of the Greenhouse Gas Protocol Corporate Standard have been used along with the UK Government GHG Conversion Factors for Company Reporting 2019. Any estimates have been derived from actual historic consumption data or based on spend. No global energy use or emission data has been used as all group activity took place in the UK.

Intensity Metric

The Group's emission intensity metric is calculated using tonnes of carbon dioxide equivalent (tCO_2e) using gross rental income. During the year, the Group realised emissions of 1.20 tCO_2e (2019: 1.06 tCO_2e) per million pounds of gross rental income which is an increase of 12.6% compared to prior year. This is in line with the changes in the absolute carbon footprint, which has increased by 14.1% due to increased usage of natural gas.

Energy efficiency actions/undertakings

In an effort to reduce CO_2 emissions, we have undertaken the development of new leasing requirements for lower emission vehicles for our car fleet. The efficiency in air conditioning at the head office building has been improved due to a new BC controller being installed.

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 Going Concern section of the Strategic Report.

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of £507,693 (2019: £535,517), principally to local charities serving the communities in which the Group operates. The Group made no political donations during the year (2019: £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 22.

LINKS TO 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

During the year, the Group declared and paid a dividend of £100.0 million (2019: £nil). The dividend was determined with reference to the Group's ability to distribute cash, subject to restrictions within the debt covenant. The dividend during the year represented less than 50% of the free cash flow generated by the Group since the refinancing in July 2017.

Whilst the level and timing of future dividends remain uncertain, the Group has finished the 2019/20 financial year with cash reserves of £103.7 million. Having reviewed the Group's budget, the Board expects that it will be in a position to consider a dividend during the 2020/21 financial year, subject to considerations around the appropriate level of cash reserves to be held and potential operating volatility during the current pandemic. Based on forecasts, the level of such dividends during the 2020/21 financial year may be similar to the current year, subject to reviewing the position of the Group and Company.

POST BALANCE SHEET EVENTS

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date.

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.

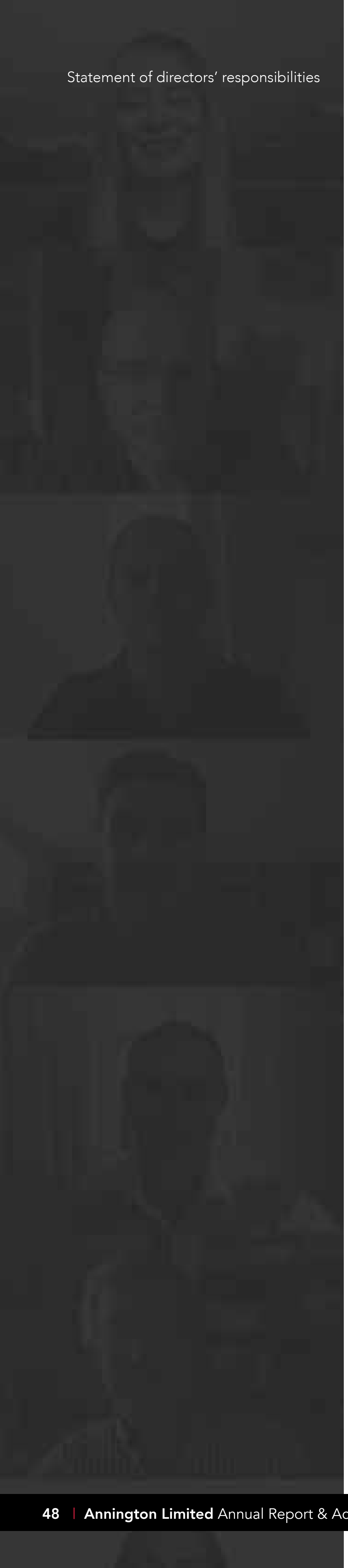
Deloitte LLP has expressed their willingness to continue in office as auditor and arrangements have been put in place for them to be re-appointed as auditor in the absence of an Annual General Meeting.

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

A P Chadd
Director
18 August 2020

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS 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 2020 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 34 and a to i.

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.

Emphasis of matter – investment property

We draw attention to note 10, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the company's investment property portfolio. As noted by the Group's external valuers, the outbreak has caused extensive disruptions to the real estate market and economic activities, and the uncertainties created have increased the estimation uncertainty over the fair value of the investment property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.

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 Statement of Directors' Responsibilities, 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

18 August 2020

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Property rental income	4	199,410	196,793
Property operating expenses		(9,387)	(4,009)
Net rental income	4	**190,023**	**192,784**
Other operating income		697	4,198
Other operating expenses		(1,090)	(660)
Administrative expenses		(13,543)	(13,868)
Site review costs	5	(20,209)	(5,636)
Utilities provision release/(expense)	20	21,682	(431)
Profit on disposal of investment properties	7	9,591	726
Profit/(loss) on disposal of inventory		369	(6)
Unrealised property revaluation gains	10	17,032	481,246
Share of results of joint ventures after taxation	13	965	1,120
Reversal of impairment of joint ventures	13	-	3,306
Operating profit	5	**205,517**	**662,779**
Finance income	8	680	638
Finance costs	8	(115,037)	(111,586)
Profit before taxation		**91,160**	**551,831**
Taxation credit/(charge)	9	679,025	(94,724)
Profit for the year after taxation		**770,185**	**457,107**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Profit for the year		770,185	457,107
Items that may subsequently be recycled through the income statement			
Cash flow hedge:			
Fair value gains/(losses) on cash flow hedge	21	9,270	(8,206)
Reclassification of fair value (losses)/gains included in the income statement		(13,628)	8,834
Total other comprehensive (loss)/income		**(4,358)**	**628**
Total comprehensive income for the year		**765,827**	**457,735**
Total comprehensive income attributable to shareholder		**765,827**	**457,735**

The accompanying notes (1 to 34) should be read in conjunction with these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investment properties	10	7,659,407	7,656,911
Plant and equipment	11	320	572
Right-of-use assets	12	2,255	-
Investment in joint ventures	13	2,722	6,039
Deferred tax assets	9	19,910	-
Derivative financial instruments	21	4,623	-
		7,689,237	7,663,522
Current assets			
Inventory	14	10,352	8,576
Trade and other receivables	15	12,500	3,636
Cash and cash equivalents	16	103,695	162,783
		126,547	174,995
Investment properties held for sale	10	15,742	2,225
Total assets		**7,831,526**	**7,840,742**
Current liabilities			
Trade and other payables	17	(38,630)	(39,514)
Rental income received in advance		(40,757)	(43,934)
Loans and borrowings	18	-	(117)
Lease liabilities	19	(729)	-
Provisions	20	(8,576)	(6,865)
		(88,692)	(90,430)
Non-current liabilities			
Other payables	17	(960)	(127)
Loans and borrowings	18	(3,385,121)	(3,371,196)
Lease liabilities	19	(1,260)	-
Deferred tax liabilities	9	(45)	(663,306)
Provisions	20	(11,729)	(33,144)
Derivative financial instruments	21	-	(4,647)
		(3,399,115)	(4,072,420)
Total liabilities		**(3,487,807)**	**(4,162,850)**
Net assets		**4,343,719**	**3,677,892**
Capital and reserves			
Share capital	23	84,756	84,756
Share premium	24	480,401	480,401
Merger reserve	25	(10,000)	(10,000)
Hedging reserve	26	(3,231)	1,127
Retained earnings	27	3,791,793	3,121,608
Total equity		**4,343,719**	**3,677,892**

The accompanying notes (1 to 34) 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 18 August 2020.

Signed on behalf of the Board of Directors

A P Chadd
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 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**
Total comprehensive (loss)/income for the year	-	-	-	(4,358)	770,185	765,827
Dividends paid	-	-	-	-	(100,000)	(100,000)
Balance at 31 March 2020	**84,756**	**480,401**	**(10,000)**	**(3,231)**	**3,791,793**	**4,343,719**

The accompanying notes (1 to 34) should be read in conjunction with these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Net cash from operating activities	28	**146,710**	**173,425**
Tax paid		(6,461)	(3,892)
Net cash inflow from operating activities		**140,249**	**169,533**
Investing activities			
Proceeds from sale of investment properties		26,298	14,310
Purchase of investment properties	10	(20,669)	(86,539)
Payments made on disposal of plant and equipment		(5)	-
Purchase of plant and equipment	11	(64)	(156)
Receipts from joint ventures	5, 13	4,282	12,777
Loan repayments from joint ventures	13	-	3,925
Interest received		680	638
Net cash inflow/(outflow) from investing activities		**10,522**	**(55,045)**
Financing activities			
Interest and other financing costs		(108,795)	(108,312)
Dividends paid		(100,000)	-
Payments of obligations under lease accounting		(1,020)	-
Net cash outflow from financing activities		**(209,815)**	**(108,312)**
Net (decrease)/increase in cash and cash equivalents		**(59,044)**	**6,176**
Cash and cash equivalents at the beginning of the year		162,783	156,607
Exchange differences on cash and cash equivalents		(44)	-
Cash and cash equivalents at the end of the year	16	**103,695**	**162,783**

The accompanying notes (1 to 34) should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

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, United Kingdom, W1U 1DR. Information on the Group's ultimate parent is presented in Note 34.

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 direct relevant activities of an entity, exposure, or rights, to variable returns of an entity and the ability to use its power over an entity to affect the amount of its returns. 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 22.

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 including the effects of Brexit and COVID-19. Actual results may differ from these estimates.

Further details regarding key sources of estimation uncertainty for the Group can be found within Notes 10 (with respect to the valuation of investment properties) and 20 (with respect to the provision for utilities).

New Standards, interpretations and amendments effective from 1 April 2019

The Group has adopted the new accounting standards, interpretations and amendments (set out below), which have become effective as at 1 April 2019.

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

The impact of the IAS 28 amendments and IFRIC 23 are not material to the Group, whilst the effects of the adoption of IFRS 16 on the Group are described below.

IFRS 16 Leases

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for the annual periods that begin on or after 1 January 2019. This standard replaces IAS 17 Leases.

The Group operates as a lessor of investment properties and these leases were classified as operating leases under IAS 17. The accounting requirements for lessors under IFRS 16 remain largely unchanged from those under IAS 17. As such, no change in lessor accounting has been effected and no transition adjustments were made on adoption of IFRS 16 in relation to these leases.

As lessee, under the previous accounting requirements, the Group classified leases as either operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group must recognise on the balance sheet its right-of-use assets and financial lease liabilities representing its lease payments discounted to present value. Optional exemptions are available for short-term leases and low-value assets that can be expensed on a straight-line basis over the lease term.

The Group has therefore recognised right-of-use assets and lease liabilities at 1 April 2019 for its leases, except where it has elected to apply the recognition exemption for leases of low value assets.

Lease liabilities are measured at the present value of the remaining lease payments at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Right-of-use assets are measured with reference to the lease liability, adjusted by the amount of any prepaid or accrued lease payments at date of application. Any costs to dismantle, remove or restore the assets to the condition required by the terms and conditions in the lease is recognised as part of the cost of the right-of-use asset. Additionally, a provision is recognised and measured under IAS 37. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

The Group has applied the modified retrospective approach. The comparative figures have not been adjusted as is permitted under the specific transitional provisions in the standard, however, right-of-use assets and lease liabilities previously classified under 'Plant and equipment' and 'Loans and borrowings' respectively, have been separately presented on the balance sheet (see below for further details).

At the date of application, lease liabilities of £2.8 million were recognised. These liabilities were adjusted by accrued lease liabilities of £0.3 million and by estimated restoration costs of £0.4 million to arrive at a right-of-use asset value of £3.0 million.

The Group had previously recognised assets held under finance leases and their related lease liabilities under IAS 17. These were presented within 'Plant and equipment' and 'Loans and borrowings' respectively and amounted to £0.2 million each at 31 March 2019. These amounts were derecognised at 1 April 2019 and their carrying amounts at that date were recognised under IFRS 16 as 'Right-of-use assets' and 'Lease liabilities'.

There was no impact on equity reserves on adoption of IFRS 16.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A summary of these impacts on the balance sheet at the date of application is presented in the table below.

	At 31 March 2019 £'000	Effect of adoption of IFRS 16 £'000	At 1 April 2019 £'000
Non-current assets			
Investment properties	7,656,911	-	7,656,911
Plant and equipment	572	(248)	324
Right-of-use assets	-	2,978	2,978
Investment in joint ventures	6,039	-	6,039
	7,663,522	**2,730**	**7,666,252**
Current assets			
Inventory	8,576	-	8,576
Trade and other receivables	3,636	-	3,636
Cash and cash equivalents	162,783	-	162,783
	174,995	**-**	**174,995**
Investment properties held for sale	2,225	-	2,225
Total assets	**7,840,742**	**2,730**	**7,843,472**
Current liabilities			
Trade and other payables	(83,448)	297	(83,151)
Loans and borrowings	(117)	117	-
Lease liabilities	-	(945)	(945)
Provisions	(6,865)	-	(6,865)
	(90,430)	**(531)**	**(90,961)**
Non-current liabilities			
Other payables	(127)	-	(127)
Loans and borrowings	(3,371,196)	119	(3,371,077)
Lease liabilities	-	(1,891)	(1,891)
Deferred tax liabilities	(663,306)	-	(663,306)
Provisions	(33,144)	(427)	(33,571)
Derivative financial instruments	(4,647)	-	(4,647)
	(4,072,420)	**(2,199)**	**(4,074,619)**
Total liabilities	**(4,162,850)**	**(2,730)**	**(4,165,580)**
Net assets	**3,677,892**	**-**	**3,677,892**

A reconciliation between reported operating lease commitments at 31 March 2019 and lease liabilities recognised on the date of adoption is presented below:

Lease liabilities	**1 April 2019 £'000**
Operating lease commitments as disclosed in financial statements 31 March 2019	**2,678**
Recognition exemption for low value assets	**(4)**
Effect of discounting using the incremental borrowing rate at date of initial application	**(74)**
Finance leases recognised under IAS 17 as at 31 March 2019	**236**
Lease liabilities recognised as at 1 April 2019	**2,836**
Of which are:	
Current lease liabilities	**945**
Non-current lease liabilities	**1,891**
	2,836

On transition to IFRS 16 the Group's weighted average incremental borrowing rate applied to lease liabilities was 2.8%.

The impact of the application of IFRS 16 on the current year results has been to decrease other operating expenses and to increase depreciation and finance costs compared to IAS 17. During the twelve months ended 31 March 2020, in relation to leases under IFRS 16, the Group recognised the following amounts in the condensed consolidated income statement:

	2020 £'000
Depreciation	841
Finance costs	55

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)**
Conceptual Framework Amendments	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 3 Amendments	Amendment to Business Combinations – Definition of Business	1 January 2020
IAS1 and IAS8 Amendments	Amendment to Definition of Material	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020
IFRS 16 Amendments	Amendment to Lease Modifications – Exemption Provided to COVID-19 Related Rent Concessions	1 June 2020

These standards and interpretations have not been early adopted by the Group. The Interest Rate Benchmark Reform is expected to result in increased disclosure requirements regarding the amendment's impact to current hedging relationships. The remaining standards are not expected to have a material impact on the consolidated financial statements of the Group in future periods.

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.

	2020 £'000	**2019 £'000**
Property rental income	199,410	196,793

4. PROPERTY AND NET RENTAL INCOME (CONTINUED)

Net rental income

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

Property rental expenses	2020 £'000	2019 £'000
Refurbishment costs on MQE units:		
Incurred within 12 months of release	12,294	1,023
Incurred after 12 months of release	417	92
Refurbishment costs on Non-MQE rental units	554	63
Dilapidation income	(7,631)	-
Letting and management costs	2,812	1,520
Other repairs and maintenance	941	1,311
	9,387	**4,009**

Refurbishment costs are defined as significant repairs that are required to bring vacated properties back up to tenantable condition. Dilapidations recovered from tenants are used to defray these costs.

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

ACCOUNTING POLICY

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

	2020 £'000	2019 £'000
Receipts from joint ventures accounted through other operating income	-	4,117
Operating lease payments		
Machinery and motor vehicles	-	206
Land and buildings	-	509
Depreciation of plant and equipment	67	49
Depreciation of right-of-use assets	841	9
Write downs of inventory to net realisable value	17	68
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company	70	53
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	262	197
Total audit fee	**332**	**250**
Non-audit remuneration		
Taxation compliance services	63	57
Other taxation advisory services	32	12
Other assurance services	238	-
All other services to the Group	-	60
Total non-audit fee	**333**	**129**

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 £20.2 million of site review costs incurred in the 2020 financial year (2019: £5.6 million) have been disclosed separately in the income statement.

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

ACCOUNTING POLICY

Employee benefits

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

Directors' emoluments	2020 £'000	2019 £'000
Aggregate emoluments representing short-term employee benefits	2,577	2,605

No retirement benefits are accruing to directors. Emoluments for the highest paid director amounted to £0.9 million (2019: £0.9 million). No directors' emoluments were paid to those directors who are employed by Terra Firma Capital Partners Limited.

Average monthly number of persons employed (including directors)	2020 Number	2019 Number
Administrative	26	24
Operations	17	17
	43	**41**

Staff costs incurred during the year	2020 £'000	2019 £'000
Wages and salaries including directors' emoluments	6,572	6,179
Social security costs	631	612
Other pension costs	294	202
	7,497	**6,993**

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.

	2020 £'000	2019 £'000
Sales proceeds	32,091	15,138
Selling costs	(812)	(828)
Net disposal proceeds	31,279	14,310
Carrying value of properties disposed	(21,688)	(13,584)
	9,591	**726**

During the year disposals of 94 properties (2019: 65 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.

	2020 £'000	2019 £'000
Finance income		
Interest receivable	680	638
Total finance income	**680**	**638**
Finance costs		
Interest payable on unsecured fixed rate notes	97,958	97,811
Amortisation of issue costs	2,483	2,414
Interest payable on bank loans	9,179	9,193
Foreign exchange losses/(gains) on financing	13,673	(8,836)
Transfer from equity for cash flow hedge	(13,628)	8,834
Unwinding of discount on provisions	3,969	2,384
Effect of change in discount rate on utilities provision	(356)	(1,789)
Other finance expenses	1,704	1,572
Finance costs on lease transactions	55	3
Total finance costs	**115,037**	**111,586**

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.

	2020 £'000	2019 £'000
Current tax		
United Kingdom corporation tax at 19% (2019: 19%)	(4,146)	(5,979)
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	683,171	(88,745)
Total taxation for the year	**679,025**	**(94,724)**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2019: 19%). The tax for the current and preceding years differ from the standard tax rates for the reasons set out in the following reconciliation:

	2020 £'000	2019 £'000
Profit before taxation	91,160	551,831
Tax charge at the standard rate	(17,321)	(104,848)
Factors affecting current tax for the year:		
Expenses not deductible for tax purposes	(33)	(358)
Non-taxable income	5,127	1,137
Disposal of investments	-	(148)
Revaluation of investment properties	3,658	9,153
Change in tax rate	3,626	-
Effect of tax rate differential between current and deferred tax	-	655
Utilisation of tax losses	5,009	-
Impact of indexation	-	(315)
Deferred tax release due to NRCGT exemption	678,959	-
Taxation for the year	**679,025**	**(94,724)**

The rate of Corporation Tax for the UK had previously been set at 17% and this had been enacted at the time of preparing the March 2019 financial statements, accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. In March 2020, this was enacted, with calculations of both current and deferred tax balances using the 19% rate for 31 March 2020.

9. TAXATION (CONTINUED)

Deferred tax

The movement in deferred tax is as set out below:

	Accelerated tax depreciation £'000	Investment properties £'000	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 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)**
Change in tax rate	(4)	-	-	3,633	3,629
(Charge)/credit to profit or loss	(3)	873,165	(520)	(193,100)	679,542
At 31 March 2020	**(43)**	**-**	**-**	**19,908**	**19,865**

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:

	2020 £'000	2019 £'000
Deferred tax assets	19,910	211,575
Deferred tax liabilities	(45)	(874,881)
Net deferred tax assets/(liabilities)	**19,865**	**(663,306)**

At the balance sheet date, the Group has unused tax losses of £1,207.5 million (2019: £1,231.8 million) available for offset against future profits. A deferred tax asset of £19.9 million has been recognised in respect of these losses (2019: £209.9 million), leaving £209.5 million of unrecognised deferred tax assets (2019: £nil). Deferred tax assets have been recognised based on the Group's reasonable expectation that their utilisation is probable based on internal forecasts. This has resulted in the recognised deferred tax asset at March 2020 representing the forecast utilisation of deferred tax assets for the next three financial years.

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 2020 are measured at 19% (2019: 17%).

Annington Limited's immediate parent entity, Annington Holdings (Guernsey) Limited (AHGL) has confirmed to the Board of Annington Limited that to attract new investment into the Annington Group it is an Open Ended Investment Company (OEIC). Further, AHGL has informed Annington Limited that it qualifies as a Collective Investment Vehicle (CIV) and has made an exemption election under the Non Resident Capital Gains Tax (NRCGT) legislation. An exemption election, designed to prevent multiple layers of taxation within a structure which would otherwise be borne by all investors, may be made by a CIV which has a genuine diversity of ownership (GDO) pursuant to the Authorised Investment Funds (Tax) Regulations 2006. The effect of which is that the CIV's investors and subsidiaries do not pay capital gains tax on property disposals, electing instead to pay capital gains tax on distributions by the CIV. AHGL has confirmed that it has met the GDO condition and the election took effect from 6 April 2019.

Following the election, the investors in AHGL have assumed liability for capital gains taxes covering AHGL and all its subsidiaries. Annington Limited and its subsidiaries will be exempt from capital gains tax on property disposals from the above effective date. A consequence of this is the derecognition within these accounts of the deferred tax liabilities relating to capital gains tax as at 31 March 2020.

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.

Key source of estimation uncertainty

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. Further information regarding valuation techniques and inputs used in determining the fair value of investment properties is set out further on in this note.

	Investment properties £'000	Investment properties held for sale £'000	Total £'000
2020 Valuation			
Carrying value at 1 April	7,656,911	2,225	7,659,136
Additions - capital expenditure	20,669	-	20,669
Disposals	(19,463)	(2,225)	(21,688)
Transfer to investment properties held for sale	(13,451)	13,451	-
Unrealised property revaluation gains	14,741	2,291	17,032
Total carrying value at 31 March	**7,659,407**	**15,742**	**7,675,149**
2019 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	481,378	(132)	481,246
Total carrying value at 31 March	**7,656,911**	**2,225**	**7,659,136**

Properties would have been included on an historical cost basis at £1,491.5 million (2019: £1,491.2 million).

As at 31 March 2020 there were 82 (2019: 6) investment properties classified as held for sale, with disposal expected within the next 12 months.

The carrying value of investment properties and investment properties held for sale comprises:	2020 £'000	2019 £'000
Freehold	451,842	350,809
Long leaseholds	7,441	92,318
Very long leaseholds (over 900 years)	7,215,866	7,216,009
	7,675,149	**7,659,136**

10. INVESTMENT PROPERTIES (CONTINUED)

Reconciliation of fair value/market value to carrying value:	2020 £'000	2019 £'000
Market value as estimated by the external valuer	7,655,283	7,619,127
Add: amounts included in utilities provision (Note 20)	19,866	40,009
Carrying value for financial reporting purposes	**7,675,149**	**7,659,136**

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 20).

All leasehold properties leased by the MoD are maintained by them 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 30.

Substantially 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 31 March 2020 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 shorthold 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 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. The COVID-19 crisis has dealt a major economic shock which the real estate markets are still absorbing and reacting to. Market activity is being impacted in many sectors. As at the valuation date of 31st March 2020, AVL consider that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. AVL's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

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, Martin Angel resumed responsibility for the valuation in 2019, with 2020 being the second year in the current rotation. 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, these are based on their professional judgement and market observation.

The fair value measurement hierarchy level for all investment properties as at 31 March 2020 was Level 3 significant unobservable inputs (2019: 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 and market yields. In valuing the properties, the following assumptions have been adopted and incorporated into the valuation model:

2020	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	7,196,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	180,191
		Estimated future rent increase (20 year average - %)	2.50% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	7.25%
Surplus estate			
Fair value	53,432		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	17.5%
Assured shorthold and other bulk tenancies			
Fair value	405,851		
Valuation technique		Vacant possession market comparison	
		Blended House Price Index (%)	0.4% - 7.7%
		Rental discount rates (%)	0.0% - 9.73%
Fair value at 31 March 2020	**7,655,283**		

10. INVESTMENT PROPERTIES (CONTINUED)

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**		

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. The useful life applied to plant and equipment range between 2-10 years (2019: 2-10 years).

	2020 £'000	2019 £'000
Cost		
At 1 April	1,868	1,460
Additions	64	413
Disposals	(1)	(5)
Derecognition of assets on adoption of IFRS 16	(257)	-
At 31 March	1,674	1,868
Accumulated depreciation		
At 1 April	1,296	1,243
Depreciation charge for the year	67	58
Disposals	-	(5)
Derecognition of assets on adoption of IFRS 16	(9)	-
At 31 March	1,354	1,296
Net book value		
At 31 March	320	572

At 31 March 2019, lease assets recognised under IAS 17 were included within 'Plant and equipment'. These assets have been derecognised upon adoption of IFRS 16 on 1 April 2019 and have been recognised at their carrying value at that date as 'Right-of-use assets' (see Note 2 for further details).

12. RIGHT-OF-USE ASSETS

ACCOUNTING POLICY

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The average lease life applied is 4 years (2019: 5 years). For further information on the lease liabilities, refer to note 19.

2020	Computer equipment £'000	Buildings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April	-	-	-	-
Initial recognition on adoption of IFRS 16	248	2,374	356	2,978
Re-measurement adjustments	(14)	-	4	(10)
Additions	-	-	150	150
Disposals	-	-	(69)	(69)
At 31 March	234	2,374	441	3,049
Accumulated depreciation				
At 1 April	-	-	-	-
Depreciation charge for the year	48	578	215	841
Disposals	-	-	(47)	(47)
At 31 March	48	578	168	794
Net book value				
At 31 March	186	1,796	273	2,255

At 31 March 2019, lease assets recognised under IAS 17 were included within 'Plant and equipment'. These assets have been derecognised upon adoption of IFRS 16 on 1 April 2019 and have been recognised at their carrying value at that date as 'Right-of-use assets' (see Note 2 for further details).

13. 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 2020 are set out below. Each of these entities operates within the United Kingdom.

Held through Annington Developments Limited

Name of joint venture	Principal activity	Holding	Held since
Annington Wates (Cove) Limited	Property development	50.00%	22 July 2004
Countryside Annington (Colchester) Limited	Property development	50.00%	17 March 2005
Countryside Annington (Mill Hill) Limited	Property development	50.00%	8 December 2006

The Group's interest in these entities is held as 100% interest in "X" Ordinary shares. Each of these entities has issued 500 "X" Ordinary and 500 "Y" Ordinary shares. The rights of the holders of these classes of shares are identical and rank in pari passu.

Held through Annington Property Limited

Name of joint venture	Principal activity	Holding	Held since
The Inglis Consortium LLP	Property development	28.55%	4 April 2011

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 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**
Distributions	(4,282)	-	(4,282)
Share of profit for the year	965	-	965
At 31 March 2020	**1,722**	**1,000**	**2,722**

The Group's share of profits from joint ventures represents profits from continued operations. Countryside Annington (Colchester) Limited is in voluntary members' liquidation. The Group has not recognised any income, expenditure, assets or liabilities in relation to this joint venture in the current year. 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.

14. 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 proceeds that the Group expects on sale of a property or current market value net of associated selling costs.

	2020 £'000	2019 £'000
Work in progress	10,352	8,576

The cost of inventories recognised as an expense and included in cost of sales amounted to £3,426,063 (2019: £286,048).

Inventory has been written down to its net realisable value during the year by £17,142 (2019: £67,535).

15. TRADE AND OTHER RECEIVABLES

ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value when the Company becomes entitled to receive the contractual cash flows and are subsequently measured at amortised cost using the effective interest method less any impairment.

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

Trade receivables

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. In the current year, additional provision has been made in consideration of the economic impact of the COVID-19 pandemic.

	2020 £'000	2019 £'000
Amounts falling due within one year		
Trade receivables	8,266	23
Sundry receivables	3,372	3,084
Corporation tax	228	-
Other taxes	22	86
Prepayments and accrued income	612	443
	12,500	**3,636**

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

Trade receivables are stated after provisions for impairment of £42,613 (2019: £10,623).

16. 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.

	2020 £'000	2019 £'000
Cash on hand and at bank	24,892	46,218
Short-term deposits	10,455	29,084
Short-term investments	68,348	87,481
Cash and cash equivalents	**103,695**	**162,783**

17. 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.

	2020 £'000	2019 £'000
Amounts falling due within one year		
Trade payables	1,686	2,080
Accruals	36,475	34,120
Corporation tax	-	2,087
Social security and other taxes	325	192
Retention creditors	101	983
Other	43	52
	38,630	**39,514**
Amounts falling due after one year		
Retention creditors	960	127
	960	**127**

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

18. 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.

	2020 £'000	2019 £'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 notes	1,150,640	-
Unsecured bank loans	395,710	396,904
Finance lease liability	-	119
	1,546,350	**397,023**
Amounts falling due after five years		
Unsecured notes	1,838,771	2,974,173
Total non-current loans and borrowings	3,385,121	3,371,196
Total loans and borrowings	**3,385,121**	**3,371,313**

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to that transaction have been capitalised in advance of the effective date as these were incurred prior to the year end.

At 31 March 2019, finance lease liabilities recognised under IAS 17 were included within 'Loans and borrowings'. These liabilities were derecognised upon adoption of IFRS 16 on 1 April 2019 and have been separately recognised at their carrying value at that date as 'Lease liabilities'. (see Note 2 for further details).

A reconciliation of debt movement is provided in Note 29.

19. LEASE LIABILITIES

ACCOUNTING POLICY

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 lease payments are discounted using the Group's weighted average incremental borrowing rate of 2.8%.

	2020 £'000	2019 £'000
Maturity analysis		
Amounts falling due within one year	770	-
Amounts falling due between one and five years	1,294	-
Minimum lease payments	2,064	-
Less: future finance charges	(75)	-
Present value of lease obligations	**1,989**	**-**
Current	729	-
Non-current	1,260	-
Total lease liabilities	**1,989**	**-**

At 31 March 2019, finance lease liabilities recognised under IAS 17 were included within 'Loans and borrowings'. These liabilities were derecognised upon adoption of IFRS 16 on 1 April 2019 and have been separately recognised at their carrying value at that date as 'Lease liabilities'.
(see Note 2 for further details).

A reconciliation of the lease liability movement is provided in Note 29.

20. 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).

Key source of estimation uncertainty

Utilities provision

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. The inputs, 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 £0.3 million/increase by £0.4 million respectively.

Make good provision

When determining the make good provision on leased properties, the estimation technique requires an assumption to be made of the future costs and timing of work to be completed. When doing so, estimates of costs and future inflation are made, which, if not accurate could have a material effect on the provision balance. The estimated future costs are subject to negotiation with the landlord at the time of which the liability becomes due.

	Make good provision £'000	Utilities provision £'000	Total 2020 £'000
2020			
At 1 April	-	40,009	40,009
Provision recognised on adoption of IFRS 16	427	-	427
Unwinding of discount	12	3,957	3,969
Effect of change in discount rate	-	(356)	(356)
Amounts credited to income statement	-	(21,682)	(21,682)
Utilised	-	(2,062)	(2,062)
At 31 March	**439**	**19,866**	**20,305**
Current provision	-	8,576	8,576
Non-current provision	439	11,290	11,729
	439	**19,866**	**20,305**

	Utilities provision £'000	Total 2019 £'000
2019		
At 1 April	39,663	39,663
Unwinding of discount	2,384	2,384
Effect of change in discount rate	(1,789)	(1,789)
Amount charged to income statement	431	431
Utilised	(680)	(680)
At 31 March	**40,009**	**40,009**
Current provision	6,865	6,865
Non-current provision	33,144	33,144
	40,009	**40,009**

Utilities provision

At the point of purchase in 1996, the Married Quarters Estate included certain sites that are dependent on the related technical base for the provision of utilities. The MoD has undertaken to supply utilities to those sites for the period they are rented to the MoD and for released units, until at least the 25th anniversary of the purchase. Where there have been releases of property that are currently base dependent or there is a constructive obligation to provide for the adoption of certain utilities on units which are not base dependent, a provision has been made to separate these units where the Group has a committed present obligation to separate these units. The provision has been discounted in accordance with the relevant borrowing costs of the Group. There is a contingent liability (refer Note 31) in respect of base dependent units where it is possible that an obligation to separate these units may arise in the future.

The provision at March 2019 included costs to separate entire base dependent sites, including the retained units, where not all units on those sites had yet been released. This position was based on historical agreements with the MoD that this would be possible. The MoD has now requested that that we only separate released units on a significant number of affected sites. Being able to disconnect only released units rather than entire sites resulted in a revision to our estimated costs. The provision for utilities at year-end only takes into account units previously released or terminated, rather than whole sites, unless specifically agreed by the MoD. A significant portion of the current year £21.7 million decrease in the utilities provision is attributed to this revision.

Make good provision

The make good provision relates to the estimated cost of restoration work agreed to be carried out on the Group's leased properties at the end of the lease term in 2023.

21. 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.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	2020 £'000	2019 £'000
Financial assets carried at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	4,623	-
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 asset/(liability):

	2020 £'000	Revaluation adjustment £'000	2019 £'000
Cross currency swaps	4,623	9,270	(4,647)
Total derivative financial assets/(liabilities)	**4,623**	**9,270**	**(4,647)**

Further details of derivative financial instruments are provided in Note 22.

22. 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	2020 £'000	2019 £'000
Financial assets			
Cash and receivables:			
Trade and other receivables	15	11,638	3,107
Cash and cash equivalents	16	103,695	162,783
Assets measured at fair value through OCI:			
Cross currency swaps	21	4,623	-
Total financial assets		**119,956**	**165,890**
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	17	39,222	37,310
Loans and borrowings	18	3,385,121	3,371,313
Liabilities measured at fair value through OCI:			
Cross currency swaps	21	-	4,647
Total financial liabilities		**3,424,343**	**3,413,270**

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

Credit risk

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

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

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

The Group's credit risk is attributed primarily to its trade and other receivables, which consists principally of 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 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 where appropriate, as set out in Note 15.

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.

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date.

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 18) 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 23 - 27).

The debt imposes a number of covenants that must be complied with, on a Group basis, 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 seven 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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Currency risk sensitivity analysis

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

	Strengthening 10%		Weakening 10%	
	Gains/(losses) in consolidated income statement £'000	Gains/(losses) included in equity £'000	Gains/(losses) in consolidated income statement £'000	Gains/(losses) included in equity £'000
2020	-	(7,074)	-	6,141
2019	-	(5,525)	-	5,644

Interest rate management

In previous years 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) 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
2020	(696)	(346)	706	345
2019	(872)	-	947	-

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, which 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 2020. On 26 March 2020, it was agreed that this facility be reduced to £100 million, effective 1 April 2020.

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.

2020	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	12,892	12,892	-	-
Loans and borrowings	4,753,991	100,807	1,311,791	3,341,393
Lease liabilities	2,064	770	1,294	-
Total non-derivative financial liabilities	**4,768,947**	**114,469**	**1,313,085**	**3,341,393**
Derivative financial instruments				
Cross currency swap	17,175	5,788	11,387	-
Total financial liabilities	**4,786,122**	**120,257**	**1,324,472**	**3,341,393**

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
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**

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair values

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

2020	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 **Non-derivative financial liabilities**			
Unsecured bonds	3,001,260	2,989,411	2,979,678
Unsecured term loan	400,000	395,710	400,000
	3,401,260	**3,385,121**	**3,379,678**
Derivative financial asset			
Cross currency swap	-	(4,623)	(4,623)
	3,401,260	**3,380,498**	**3,375,055**

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**

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 2020.

Unsecured term loan

This loan relates to a £400 million unsecured bank loan, originally maturing in July 2022. On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to the transaction have been capitalised in advance of the effective date as these were incurred prior to the year end. Further details, including covenant information, have been mentioned previously in this Note.

23. SHARE CAPITAL

	2020 £'000	2019 £'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 12 December 2019, the company issued 1,500,000,000 ordinary shares at £1.00 each in Annington Homes Limited. On the same date, these shares were cancelled and extinguished for the purposes of creating distributable reserves. These reserves were distributed by way of a dividend as disclosed in Note 27.

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.

24. SHARE PREMIUM

	2020 £'000	2019 £'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.

25. MERGER RESERVE

	2020 £'000	2019 £'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.

26. HEDGING RESERVE

	2020 £'000	2019 £'000
At 1 April	**1,127**	**499**
Fair value gains/(losses) on cash flow hedge	9,270	(8,206)
Reclassification of fair value (losses)/ gains included in the income statement	(13,628)	8,834
At 31 March	**(3,231)**	**1,127**

27. RETAINED EARNINGS

	Retained earnings £'000
At 1 April 2018	**2,664,501**
Total comprehensive profit for the year	457,107
Balance at 31 March 2019	**3,121,608**
Total comprehensive profit for the year	770,185
Dividends paid	(100,000)
Balance at 31 March 2020	**3,791,793**

On 12 December 2019, the Board declared a dividend totalling £100.0 million, equating to 1.18 pence per ordinary share. On the same day, the dividend was paid in cash to it the Company's immediate parent, Annington Holdings (Guernsey) Limited.

28. NOTE TO THE CASH FLOW STATEMENT

	2020 £'000	2019 £'000
Profit after taxation	**770,185**	**457,107**
Adjustment for:		
Taxation	(679,025)	94,724
Finance costs	115,037	111,586
Finance income	(680)	(638)
Share of results of joint ventures after taxation	(965)	(1,120)
Receipts from joint ventures accounted for through other operating income	-	(4,117)
Reversal of impairment of joint ventures	-	(3,306)
Profit on disposal of investment properties	(9,591)	(726)
Loss on disposal of right-of-use assets	6	-
Unrealised property revaluation gains	(17,032)	(481,246)
Utilities provision (release)/expense	(21,682)	431
Depreciation expense	908	58
Write down of inventory to net realisable value	17	68
Movements in working capital:		
Increase in inventory	(1,793)	(2,912)
Increase in debtors	(3,506)	(30)
(Decrease)/increase in creditors	(3,106)	4,226
Decrease in provisions	(2,063)	(680)
Net cash inflow from operating activities	**146,710**	**173,425**

29. ANALYSIS OF CHANGES IN NET DEBT

			Non-cash items				
	2020 £'000	Cashflow £'000	Issue Costs accrued £'000	Amortisation of bond issue costs and interest accrued £'000	Fair value adjustments and exchange movements £'000	Lease liability additions/ disposals £'000	2019 £'000
Cash and cash equivalents	**103,695**	**(59,044)**	**-**	**-**	**(44)**	**-**	**162,783**
Unsecured notes	(2,989,411)	-	-	(1,565)	(13,673)	-	(2,974,173)
Unsecured term loan	(395,710)	-	2,112	(918)	-	-	(396,904)
Lease liabilities	(1,989)	1,020	-	(55)	-	(2,718)	(236)
Total loans and borrowings	**(3,387,110)**	**1,020**	**2,112**	**(2,538)**	**(13,673)**	**(2,718)**	**(3,371,313)**
Net debt	**(3,283,415)**	**(58,024)**	**2,112**	**(2,538)**	**(13,717)**	**(2,718)**	**(3,208,530)**

30. LEASE COMMITMENTS

ACCOUNTING POLICY

Under IFRS 16 the determination of whether a contract contains a lease is based on whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group, as a lessee, must recognise right-of-use assets and lease liabilities in the consolidated balance sheet; depreciation and interest in the consolidated income statement; and separate cash paid on principal and interest portions in the consolidated statement of cash flows. For further details on the Group's adoption of IFRS 16, refer to Note 2. Right-of-use assets and lease liabilities have been separated on the balance sheet and discussed further in Notes 12 and 19, respectively. A lease expense has been recognised where the Group is the lessee to short-term and low-value asset lease contracts.

As a lessor, the Group continues to classify leases as either finance leases or operating leases and account for them accordingly under IFRS 16. 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 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 arrangements - 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 2020, the Group had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2020 £'000	2019 £'000
Within one year	98,885	99,014
In two to five years	2,554	6,509
	101,439	**105,523**

31. 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 £6.6 million (2019: £27.0 million).

Contingent liabilities

As stated in Note 20, there is a contingent liability to allow for the adoption of private utilities on properties that are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment. No obligation currently exists with respect to these properties as they have not yet been released by the MoD. Instead, there is a possible future obligation should releases occur and we become obligated to provide for private utility adoption. This amounts to £177.5 million (2019: £134.4 million). Upon the technical completion of utilities adoption, the Group is eligible to a refund from the MOD for each utility. We have estimated these refunds to amount to £16.7million (2019: £16.7 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.

32. 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.

Information regarding key management personnel

The Group considers the Directors to be the key management personnel. Details of payments to key management personnel are disclosed in Note 6.

33. 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 2020, 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 Funding plc	Finance
Annington Developments (Holdings) Limited	Intermediate group holding company
Annington Developments Limited	Property development
Annington (DA) Investment Limited	Property investment
Annington Rentals (Holdings) Limited[c]	Intermediate group holding company
Annington Rentals Limited	Property investment
Annington Rentals (No.2) Limited	Property investment
Annington Rentals (No.3) Limited	Property investment
Annington Rentals (No.4) Limited	Property development
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 management

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.

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

33. SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Name of subsidiary undertaking	Holding %	Name of subsidiary undertaking	Holding %
Arborfield East Residents Company Limited	3.03	Innsworth Residents Company Limited	1.27
Ashchurch (St. David's) Residents Company Limited	5.26	Keith Park Road Residents Company Limited	0.60
Beaconside Residents Company Limited	1.75	Kirton (York Road) Residents Company Limited	6.25
Biggin Hill Residents Company Limited	3.33	Kirton In Lindsey Residents Company Limited	1.23
Bordon Residents Company Limited	0.95	Lancaster Square Residents Company Limited	1.75
Bordon (St Lucia Park) Residents Company Limited	3.23	Longtown Rosetrees Residents Company Limited	7.14
Boulmer Residents Company Limited	1.79	Marham Residents Company Limited	4.76
Britannia Crescent Residents Company Limited	1.10	Mayne Avenue Residents Company Limited	1.10
Bulford Residents Company Limited	2.13	Mostyn Road Bushey Residents Company Limited	3.45
Burgoyne Heights Residents Company Limited	0.75	North Luffenham Residents Company Limited	1.59
Butlers Meadow Residents Company Limited	1.32	Northwood Residents Company Limited	12.50
Canterbury Place Residents Company Limited	3.23	Nottingham Road Residents Company Limited	3.23
Cardiff Place Residents Company Limited	2.56	Petersfield (Kings Road) Residents Company Limited	10.00
Catterick Anzio Residents Company Limited	100.00	Ringwood Crescent Residents Company Limited	11.11
Chester (Dale Camp) Residents Company Limited	2.00	Riverside Rise (Allington) Residents Company Limited	100.00
Chicksands Residents Company Limited	0.85	Salerno Residents Company Limited	100.00
Chivenor Residents Company Limited	2.94	Scampton Residents Company Limited	0.61
Coningsby (West Drive) Residents Company Limited	1.35	South Wigston Residents Company Limited	1.67
Cove Residents Company Limited	100.00	St. Columb Minor Residents Company Limited	1.67
Cranwell Residents Company Limited	3.13	St. Eval Parc Residents Company Limited	0.34
Dale Road Residents Company Limited	0.78	Stanbridge Residents Company Limited	10.00
Dewsberry Gardens (Little Thetford) Residents Company Limited	100.00	Stanmore Crescent Residents Company Limited	100.00
Dishforth Residents Company Limited	3.23	Stokesay Road Residents Company Limited	1.89
Donnington Residents Company Limited	1.25	Strensall Residents Company Limited	2.86
Donnington (Richards Road) Residents Company Limited	1.59	Thirsk Residents Company Limited	2.86
Driffield Ramsden Residents Company Limited	7.14	Union Building (Aldershot) Residents Company Limited	5.56
East Vale Residents Company Limited	0.31	Uxbridge (Buchan) Residents Company Limited	80.39
Exmouth (York Close) Residents Company Limited	10.00	Waterbeach (Abbey Place) Residents Company Limited	100.00
Foulkes Terrace (Aldershot) Residents Company Limited	25.00	Watton Residents Company Limited	3.70
Gamlingay Residents Company Limited	50.00	West Moors Residents Company Limited	5.00
Garats Hay Residents Company Limited	7.69	West Vale Residents Company Limited	0.52
Greenmill Residents Company Limited	3.13	Whetstone Millson Close Residents Company Limited	1.09
Henlow Residents Company Limited	1.28	White Waltham Residents Company Limited	12.50
High Wycombe (Woodcock) Residents Company Limited	1.12	Wimbish Residents Company Limited	3.85
Hilsea (Farmside Gardens) Residents Company Limited	100.00	Wittering Residents Company Limited	0.29
Honington (Poplar Close) Residents Company Limited	3.03	Woodbridge West Residents Company Limited	2.44

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 below subsidiary undertakings are held by subsidiaries of Annington Rentals (Holdings) Limited.

Name of subsidiary undertaking	Holding %
Beaumont Place Management Limited	70.00
Registered address: Vantage Point, 23 Mark Road, Hemel Hempstead, Hertfordshire, HP2 7DN	
The Elstons Residents Association Ltd	81.00
Registered address: Unit 8 Minerva Business Park, Lynch Wood, Peterborough, England, PE2 6FT	

34. 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, United Kingdom, W1U 1DR.

COMPANY BALANCE SHEET

AT 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investment in subsidiary companies	c	3,216,700	3,362,800
Deferred tax asset	d	-	6,599
		3,216,700	3,369,399
Total assets		**3,216,700**	**3,369,399**
Current liabilities			
Payables	e	(27)	(27)
Total liabilities		**(27)**	**(27)**
Net assets		**3,216,673**	**3,369,372**
Capital and reserves			
Share capital	21	84,756	84,756
Share premium	22	480,401	480,401
Revaluation reserve		2,651,443	2,797,543
Retained earnings		73	6,672
Total equity		**3,216,673**	**3,369,372**

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

The Company reported a profit of £93.4 million for the year ended 31 March 2020 (2019: profit of £nil).

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 18 August 2020.

Signed on behalf of the Board of Directors

A P Chadd
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Note	Share capital £'000	Share Premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 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**
Profit attributable to shareholders		-	-	-	93,401	93,401
Dividends paid		-	-	-	(100,000)	(100,000)
Change in fair value of investment in subsidiary companies	c	-	-	(146,100)	-	(146,100)
Balance at 31 March 2020		**84,756**	**480,401**	**2,651,443**	**73**	**3,316,673**

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Net cash from operating activities	g	-	-
Investing activities			
Dividends received from subsidiary		100,000	-
Net cash inflow from investing activities		**100,000**	**-**
Financing activities			
Dividends paid		(100,000)	-
Net cash outflow from financing activities		**(100,000)**	**-**
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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

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

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.

Further details regarding key sources of estimation uncertainty for the Company can be found within Note c with respect to the valuation of investments in subsidiaries.

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.

Key source of estimation uncertainty

In calculating the fair value of investment in subsidiaries, comparable companies are selected with reference to certain criteria and by reviewing publicly available market information, without reference to any premium offered for overall control. There is an element of subjectivity as to the level of similarity of comparable companies selected in terms of size and type of operations and this is further dependent on the timeliness of information that is available. Additionally, the underlying asset values within the Group are subject to judgements and estimates, changes in which could change the valuation base.

The fair value of the investment in subsidiaries are determined by a Level 2 valuation technique, as described below.

	2020 £'000	2019 £'000
At 1 April	**3,362,800**	**2,530,400**
(Decrease)/increase in fair value during the year	(146,100)	832,400
At 31 March	**3,216,700**	**3,362,800**

The historical cost of the investment in subsidiaries was £565,256,967 (2019: £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 26% discount (2019: 7% 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. No control premium is included within the calculations.

The fair value loss of £146.1 million (2019: gain of £832.4 million) was recognised through other comprehensive income.

Details of all subsidiaries as at 31 March 2020 are shown in Note 33 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 subsidiaries, when the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

	2020 £'000	2019 £'000
Current tax		
United Kingdom corporation tax at 19% (2019: 19%)	-	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	(6,599)	-
Total taxation for the year	**(6,599)**	**-**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2019: 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:

	2020 £'000	2019 £'000
Profit before taxation	100,000	-
Tax on profit at the standard rate	(19,000)	-
Factors affecting the current tax for the year:		
Income not assessable for tax purposes	19,000	-
Total taxation for the year	**-**	**-**

The rate of Corporation Tax for the UK had previously been set at 17% and this had been enacted at the time of preparing the March 2019 financial statements and accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. In March 2020, this was enacted, with calculations of both current and deferred tax balances using the 19% rate for 31 March 2020.

Deferred tax

The movement in deferred tax is as set out below:

	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 2018	**6,599**	**-**	**6,599**
Credit to profit or loss	(6,599)	6,599	-
At 31 March 2019	**-**	**6,599**	**6,599**
Charge to profit or loss	-	(6,599)	(6,599)
At 31 March 2020	**-**	**-**	**-**

	2020 £'000	2019 £'000
Deferred tax assets	-	6,599
Net deferred tax assets	**-**	**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 £518.0 million (2019: £488.4 million).

E. PAYABLES

ACCOUNTING POLICY

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

	2020 £'000	2019 £'000
Amounts owed to group undertakings	27	27

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

F. 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	2020 £'000	2019 £'000
Financial assets			
Investment in subsidiary companies	c	3,215,800	3,362,800
Total financial assets		**3,215,800**	**3,362,800**
Financial liabilities			
Liabilities measured at amortised cost:			
Payables	e	27	27
Total financial liabilities		**27**	**27**

Details of risk management of the Company are shown in Note 22 to the Consolidated financial statements.

Fair values

The fair values of the Company's borrowings are determined by a Level 2 valuation technique. Refer Note 22 to the Consolidated Financial Statements where the fair value measurement hierarchy levels have been defined.

2020	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2 Non-derivative financial assets			
Investment in subsidiaries	-	3,215,800	3,215,800

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

G. NOTE TO THE CASH FLOW STATEMENT

	2020 £'000	2019 £'000
Profit after tax	**93,401**	**-**
Adjustment for:		
Tax	6,599	-
Dividends received	(100,000)	-
Net cash from operating activities	**-**	**-**

H. RELATED PARTY DISCLOSURES

Dividends

On 12 December 2019 Annington Homes Limited, the Company's sole subsidiary, declared and paid a dividend of £100.0 million (2019: £nil).

On the same day, the Board of Annington Limited declared and paid a dividend totalling £100.0 million at a rate equating to 1.18 pence per ordinary share to Annington Holdings (Guernsey) Limited (2019: £nil).

Amounts owed to related parties

	2020 £'000	2019 £'000
Annington Homes Limited	(27)	(27)
	(27)	**(27)**

Information regarding key management personnel

Details of payments to key management personnel are disclosed in Note 6. The Company considers its key management personnel to be its directors.

I. COMMITMENTS AND CONTINGENCIES

The Company had no capital or other commitments at 31 March 2020 (2019: £nil).

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