ANNINGTON

20

YEARS

20TH ANNIVERSARY

ANNINGTON

Annual Report & Accounts 2017

Contents

For the last 20 years, we have invested time, money and expertise in regenerating thousands of homes and returning them to the national housing stock.

Note on forward-looking statements

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

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

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

*The information contained on pages 48 to 55 is additional to the Annual Report & Accounts dated 28 July 2017.

Strategic report

Annington became one of the largest private owners of residential property in the UK when it purchased the Married Quarters Estate ("MQE") from the Ministry of Defence ("MoD") in 1996. Annington leases back the majority of its properties to the MoD to provide accommodation for Service Families. The MoD is responsible for the management and maintenance of the properties it leases, but when the MoD wishes to terminate its lease, the properties are released to Annington, refurbished and made available for sale or private rental at open market prices.

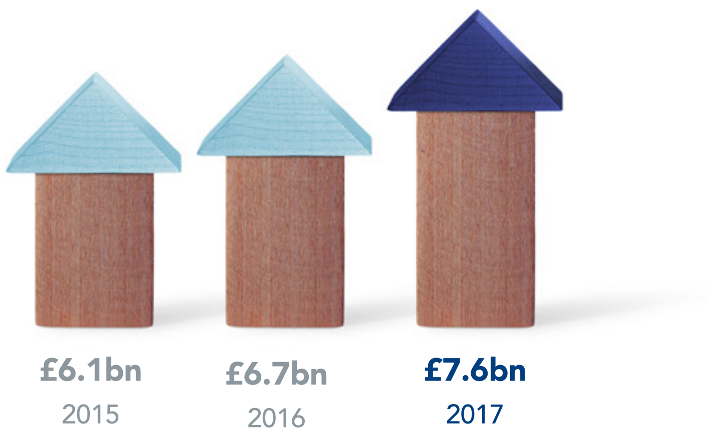
Union Buildings, Aldershot

Dating back to the early 17th Century, this Grade II listed building was carefully restored to its former glory, undergoing a remarkable transformation into 17 unique apartments. As part of the restoration, a number of original features were retained including exposed wooden beams, iron frames and detailed brickwork.

Highlights financial year 2017

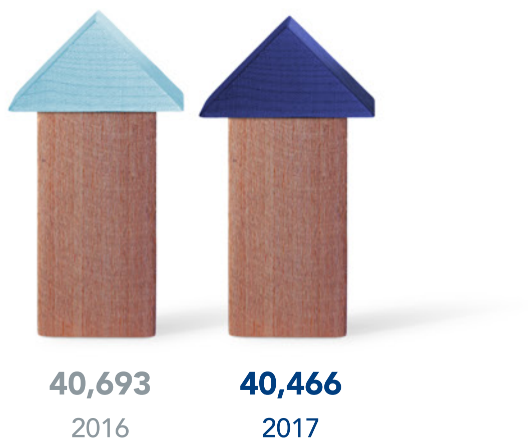
The carrying value of Group investment properties is £7.6 billion

up from £6.7bn (2015: £6.1bn)



At 31 March 2017, the Group owned 40,466 units

(2016: 40,693 units)

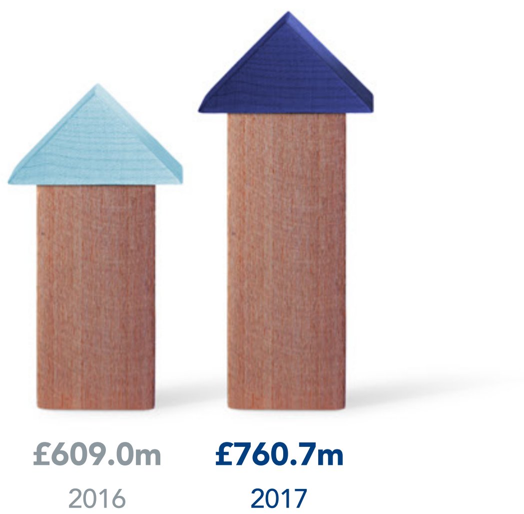


Rental income was £188.2 million

(2016: £183.0m)

Profit after taxation was £760.7 million

(2016: £609.0m)

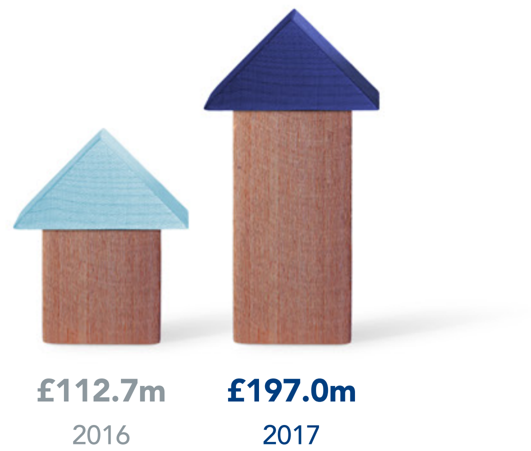


The Group sold 248 properties, generating £69.8 million in sales income

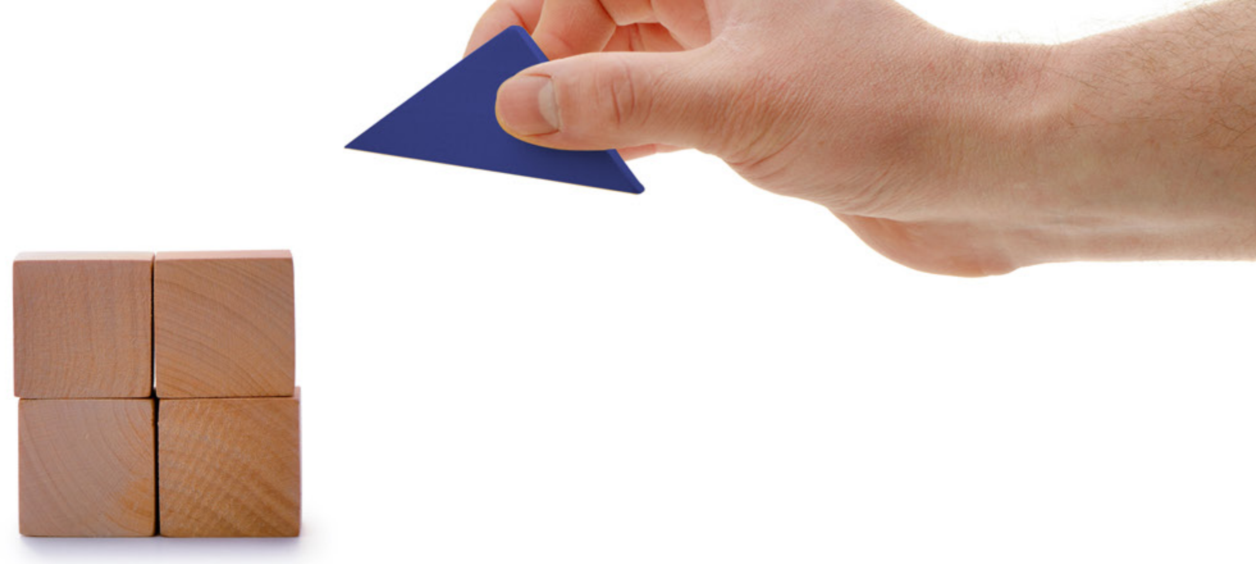
(2016: 492 properties, generating £148.8m)
(2015: 310 properties generating £74.1m)

During the year, the Group repaid Notes with a nominal value of £197.0 million

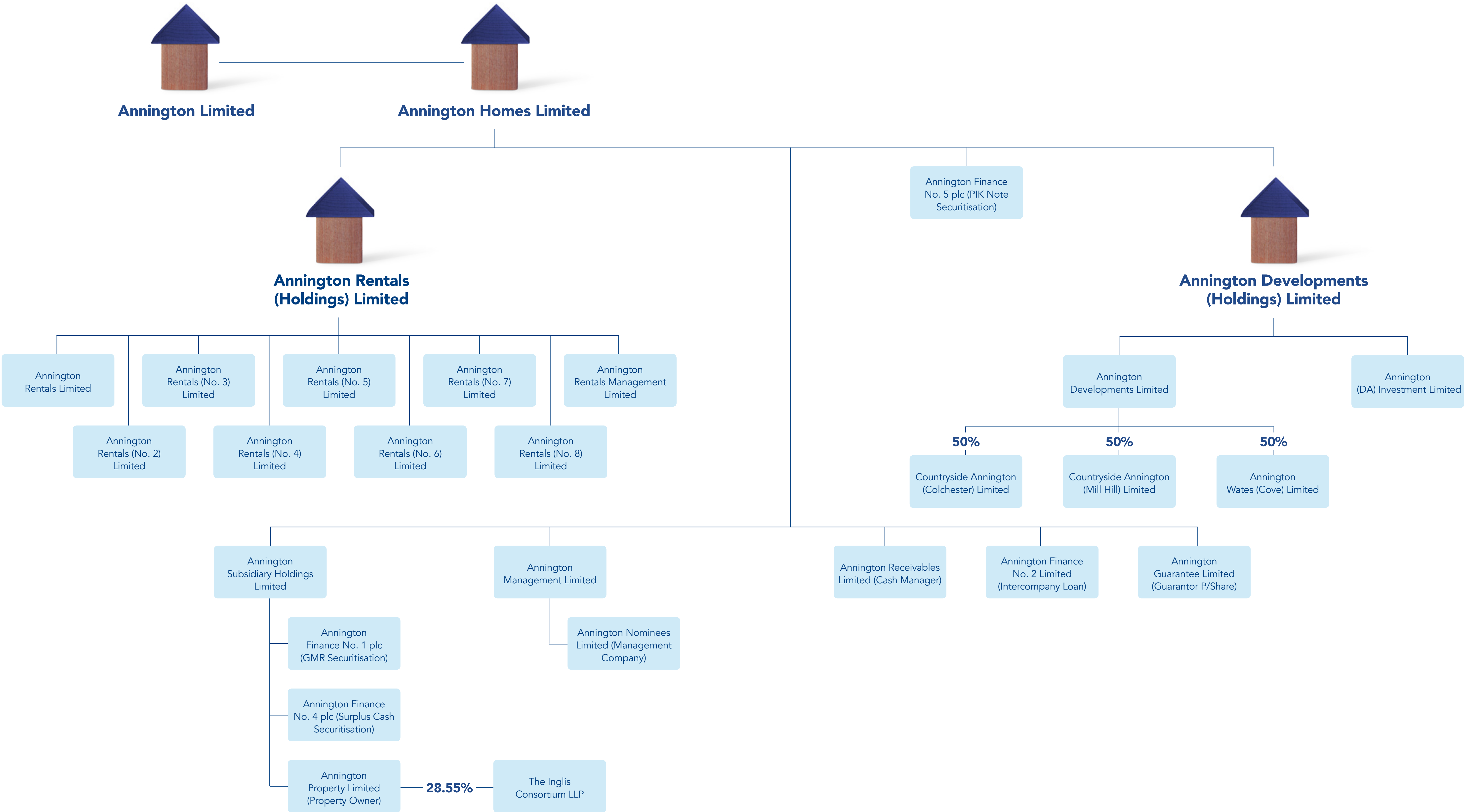
(2016: £112.7m)



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



Group structure at 31 March 2017



Our business

Annington became one of the largest private owners of residential property in the UK following the purchase of 57,434 homes from the Ministry of Defence (MoD) in 1996.

The Group overview

The Group is one of the largest private owners of residential property in the United Kingdom. The primary asset of the Group is a portfolio of residential property units ("Units") which it acquired from the Ministry of Defence of the United Kingdom (the "MoD") on 5 November 1996 for a total consideration of £1.656 billion (the "1996 Acquisition"), the largest ever acquisition of its kind in the United Kingdom. Collectively, these properties are referred to herein as the Married Quarters Estate ("MQE"). The MQE is held by Annington Property Limited ("APL"). The MoD is responsible for the management and maintenance of the properties it leases, but when the MoD wishes to terminate its lease, the properties are released to the Group, refurbished, and made available for sale or private rental at open market prices.

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

- 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" or "SFA") 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 SFA; 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 2017 the Group's investments consisted of:

- the MQE Retained Estate comprised 38,971 Units ("Retained Units") (2016: 39,014) and 181 Related Assets (2016: 181), representing the majority of the MoD's total SFA and the MQE Surplus Estate comprised of 120 Units ("Surplus Units") (2016: 344); and
- the "Non MQE Portfolio", a separate property portfolio of private rented sector accommodation which, as at 31 March 2017, consisted of 1,375 (2016: 1,335) property units let on bulk or assured shorthold tenancies ("ASTs").

The Group also has an in-house development capability ("Developments"), which was established in 1999 for the purpose of providing planning and development support that includes entering into joint venture arrangements.

MQE Portfolio

The MQE, held by APL, is the core asset of the Group. APL's primary business consists of renting Retained Units to the MoD, conducting periodic rent reviews and, as needed, selling or renting out Units, which are released by the MoD from the Retained Estate.

As of 31 March 2017, the carrying value of the MQE Retained Estate was £7,246.5 million (2016: £6,367.2 million). Following the completion of the most recent Rent Review, as at 31 March 2017, annualised passing rent in respect of the MQE was £177.8 million (2016: £171.4 million).

As of 31 March 2017, the fair value of the MQE Surplus Estate is estimated to be £26.5 million (2016: £71.3 million).

Headleases and Underleases

Headleases

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

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

Underleases

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

Rental payments

The Retained Units are rented to the MoD at a 58% discount to open market rent.

In 1998, when it was reviewing the 1996 Acquisition, the National Audit Office detailed the component parts of this 58% rent discount as follows:

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

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

The remaining Guaranteed Payments are shown in the following table:

Calculation date: 25 December	Amount of Guaranteed Payment for each quarter in the relevant year ending on the calculation date
2017	£12,700,000
2018	£12,025,000
2019	£11,325,000
2020	£10,625,000
2021	£9,950,000

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

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

Our business

Rent reviews
At the time of the 1996 Acquisition, the original Retained Estate was split into four broadly homogeneous tranches, each encompassing approximately 25% of the Retained Estate ("Tranches"), for purposes of rent reviews ("Rent Reviews"). Rent Reviews are conducted on a five year rolling basis, with a single Tranche being reviewed over each of four of the five years, with no review being carried out in the fifth year. Given the impracticality of reviewing all Retained Units within a particular Tranche, certain Units, known as "Beacon Units", located on each Site have been specified in the related underleases as being broadly representative of all of the Units on that particular Site. On the applicable review date, the rent payable on the Beacon Unit is reviewed against the open market rent as of that date, and any resulting percentage change to the Beacon Unit rent is then applied to the Site as a whole. This enables the Group to avoid 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 third round of the fourth Rent Review cycle concluded in December 2016 and resulted in a 17.9% uplift across all reviewed Sites. This represents a £6.9 million increase in rental income per annum. Over the past 19 years, substantially all Rent Reviews have resulted in rent increases at each Site, with only a small minority of Sites experiencing either no change or a decrease in rent.

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

As at 25 December	Number of retained units	Rent receivable (£'000)	Increase in rent receivable per Unit (%)
1996	55,054	110,985	–
2002	44,987	134,427	48.2
2007	41,393	152,040	22.9
2012	39,952	162,603	10.9

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

Property releases
As the MoD's requirements for SFA 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 is left with 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.

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

As of 31 March 2017, the MoD had released a total of 16,089 (2016: 16,046) Released 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
2013	22
2014	514
2015	171
2016	248
2017	43

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 temporarily leased at open market value, thereby providing an immediate uplift in value given that such properties will no longer be subject to the discounted rent being paid by the MoD prior to their release.

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

17,000+
homes sold since 1996

Details of the portfolio
The entire MQE is located in England and Wales. As of 31 March 2017, as measured by property value, approximately 77% of Units within the Retained Estate were located in East Anglia, Greater London, the South East and the South West.

The majority of the Retained Estate consists of Units located on Sites that form part of, or are near to, military bases. The Units vary in age, but as of 31 March 2017, approximately 92% of Units within the Retained Estate were built from 1945 onwards. While the MQE includes a broad selection of property types, as of 31 March 2017, approximately 81% of Units within the Retained Estate were two- and three-bedroom terraced or semi-detached properties.

Non-MQE Portfolio
The Non-MQE Portfolio was established in 1999 for the purpose of creating a residential investment portfolio, thereby diversifying and providing increased stability to the property portfolio of the wider Group. The Group, through the Non-MQE Portfolio, seeks opportunities to maximise returns through strategic 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 1,375 (2016: 1,355) properties owned and 78 (2016: 109) properties managed as of 31 March 2017. Of these eight companies, two own properties that help generate comparison data which the Group uses in rent negotiations with the MoD during Rent Reviews, two let properties to the MoD at market value and four let properties to third parties on the open market. Annington Rentals Management Limited, from time-to-time lets certain unoccupied Units within the Retained Estate on the open market on behalf of the MoD.

As at 31 March 2017, annual passing rent in respect of the Non-MQE Portfolio was £14.1 million (2016: £14.1 million). At the same date, the fair value of the Non-MQE Portfolio is estimated to be £297.5 million (2016: £271.7 million).

Developments
The Group also has an in-house development capability, which was established in 1999 for the purpose of providing planning and development support. Where opportunities arise to create added value through infill development or wholesale redevelopment of landholdings, Developments may carry out limited development 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. As at 31 March 2017, the Group's net profit from joint ventures was £4.8 million (2016: £7.2 million).

Annington Developments Limited ("ADL"), through its 50% interest in Countryside Annington (Mill Hill) Limited, is currently involved in one active joint venture arrangement with Countryside Properties plc, consisting of 395 homes (including 90 affordable homes provided to eligible households whose needs are not met by the market). Construction work started in June 2007 and, when measured by sales, is approximately 82% complete.

Developments has assisted APL with its joint venture, The Inglis Consortium LLP ("ICLLP"), in partnership with the London Borough of Barnet and Vinci St. Modwen, 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.

Property market overview

The UK housing market has been notable for its long-term growth in average house prices, which has generally exceeded both wage and retail price inflation.

Demand for housing remains strong, by the continuing policy of low interest rates and increasing consumer confidence during a period of stable economic growth and stable employment.

The cost of an average house in the UK was £215,828 in March 2017 (according to the Land Registry), which represented annual growth of 4.1%. The areas of strongest growth have been those in which the Group has its highest concentrations of property, namely the East of England, the South East, the South West and London, in which more than 77% by value of the MQE portfolio is located. The East of England experienced the greatest increase in property prices over the year to March 2017, with an average increase of 7.2%.

Going forward, the imbalance between supply and demand continues to be the most significant factor affecting the housing market. The UK housing market has been in a long-term position of structural undersupply for over 25 years as the number of new completions has failed to keep pace with the number of new household formations and the replacement of redundant stock.

Given the supply constraints, which include land availability, planning, capacity in the house building sector, skilled labour shortages, and material and labour costs, the shortfall in housing production is not expected to materially change in the short- to medium-term, notwithstanding the efforts being made by Government to stimulate production. Delivery of the Government's million new homes ambition by 2020 alone will require 174,000 net additions each year. Current new build starts in England totalled only 162,880 in the year to March 2017, up 15% on the previous year. Annual new build completions for the same period totalled 147,960, both significantly short of the numbers required to meet current demand and historic shortfall. Although Government initiatives and the reaction of the housebuilding industry may lead to modest increased output, it is not expected to be capable of remedying the housing shortage.

The continued lack of supply is expected to continue adding upward pressure on prices but this is expected to be moderated over the next 12 months by concerns regarding the outcome of the Brexit negotiations. However, expectations for sales and prices remain in positive territory for both the three and 12 month forecasts according to the RICS's Residential Market Survey. Savills predicts that house prices on average across the UK will not rise during 2017, but projects growth for the UK of 13% over the next five years.

The current projection for house prices and the market over the short- to medium-term, underpinned by the continued lack of supply and continued demand, mean that the forecast for the housing market in England and Wales remains positive, although rising interest rates or an outcome from the Brexit negotiations that has a major impact on the UK economy may have an adverse effect.

The rental market

The state of the housing market has a clear and direct impact on the rental market. House price inflation over the past five years has resulted in an increasing number of people, particularly the young, being unable to afford to purchase a house. According to the Local Government Association, average property prices are now at 7.9 times average earnings and the average size of a deposit required to obtain a mortgage is 62% of annual income.

The Redfern Review (2016) identified three key drivers in the fall in home ownership; the higher cost, and restrictions on, mortgage lending for first time buyers, the increase in house prices, and the decline in incomes of younger people. Even if mortgage payments are affordable, funding a deposit represents a significant impediment to purchasing. Over a third of first-time buyers in England now obtain financial assistance from family members to purchase a house compared to a fifth seven years ago.

The UK's private rented sector ("PRS") has expanded rapidly in recent years at the expense of home ownership and social rented housing. In 2016, the PRS accounted for approximately 4.5 million, or 20%, of all households, the second

20 YEARS

The Wrights find their new home near High Wycombe

Rosanna, her husband Geoff and their children Franco and Liliana have recently moved to a home in Walters Ash, a peaceful residential village five miles from the market town of High Wycombe.

"We especially like the lovely big garden and spacious rooms. I love the look and feel of the development with all the green open areas" says Rosanna. "One of the main reasons for buying this home was because of its size and the fact that it had been refurbished – the garden is perfect for the children and all their toys. I can see us being very happy here for a very long time."

Property market overview

largest tenure behind home ownership and ahead of social and affordable rented stock (3.9 million). Home ownership fell from approximately 71% to 63% in the period 2003 to 2016 whilst those in the PRS has doubled. The PRS has been the fastest growing sector over the last 10 years and is projected to continue that trajectory over the next 10 years.

According to Savills, the total residential stock in the UK was valued at £6,790 billion in 2016, with private rented residential stock (including buy-to-let investors) amounting to £1,400 billion. Whilst the demand for private rented accommodation has continued to grow, the increase in the supply of rental properties has lagged behind and this has resulted in increased rents. Supply constraints have meant that institutional investors are resorting to build-to-rent to enter the PRS market. According to the British Property Federation, there are 69,824 build-to-rent units either completed or in the pipeline in the UK, as at the end of March 2017, with 38,648 in London and 31,176 in the regions. Local authorities are also now actively seeking investment in the private rented sector as a means of providing new good quality housing for local residents as well as generating a reliable income stream to cross-subsidise social and affordable housing.

In such circumstances, Savills' current forecast is that rents will continue to rise over the next five years. Private rental prices paid by tenants in England rose by 2% in the 12 months to the end of March 2017 and in Wales by 0.7%. Savills have also predicted steady growth in UK mainstream rents over the next five years totalling 19%.

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 SFA in the United Kingdom, including basing, the cost of management and maintenance, the general condition of the housing stock, current Government policy with respect to defence, service personnel terms and conditions of employment and budgets.

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

The condition of much of the MoD's estate is poor and deteriorating. This arises from a lack of maintenance, refurbishment and renovation stretching back many years. In 2009, in response to financial pressure at the time, the MoD abandoned its aim of improving the estate to "target condition" and keeping it at that level through a planned maintenance programme. Instead, it reduced the service levels to those necessary to provide a safe and legal estate. The MoD intended that, by adopting this policy, it would avoid investing in estate that it was not using. However, without a clear plan regarding the future size, location and composition of the estate on which to base decisions about spending priorities, the result has been a general deterioration.

Under the terms of the contractual arrangements with the Group, the MoD has to pay compensation (dilapidations) if it does not return properties to the Group in an appropriate condition, which is defined in the Underlease as "good tenantable repair and decorative order". Poor maintenance of the MQE has resulted in higher dilapidations claims, which according to the MoD are running at an average of £14,000 per unit, although this is based on the last five years whilst the long-term average is £6,241 per unit.

The current moratorium on the improvement programme is likely to lead to further deterioration of SFA, greater dissatisfaction by its occupants and the potential for increased voids. All of this reinforces the MoD's view that it must find a long-term alternative to the provision of a fully maintained SFA offering, something that is at the core of the Future Accommodation Project (see Outlook section).

Henlow, Bedfordshire

Former MoD homes extensively refurbished providing much needed 2 bedroom starter homes.

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 Group's strategies

The key strategies of the Group are to appropriately manage the MQE portfolio and to diversify its business by actively managing and expanding the non-MQE portfolio, which invests in the private rented sector. The key elements of the Group's business strategies aim at maximising returns across all activities, are described below.

Maximise returns on MQE Portfolio

Focus on the Site Review

The first Site Review will begin in December 2021. The purpose of each Site Review is to rebase the rent for each individual Site to the full market rental value for the Site as a whole, reflecting the various features of the underlying lease arrangements with the MoD. Management will increasingly focus on the rent negotiations with the MoD in the period leading up to the first Site Review in December 2021 and market research has and will continue to be been undertaken in preparation for such negotiations.

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

Appraisal and management of Released Units

The Group appraises Released Units in accordance with strict criteria designed to optimise the Group's 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 the Group's private rental sector capabilities. The Group's 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 out 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 adopts a wide variety of systems and processes to minimise the cost and reduce the time from release to sale.

Maximise returns on 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 the Group's returns through actively managing the Group's tenancies and rental levels. The Group intends to continue acquiring properties, either from APL in respect of Units released from the MQE, or from third parties, in order to grow its private rental sector. Reviews of such properties are conducted regularly to identify where there may be a void occupancy in the short-term and to assess what rental level should be achieved on reletting. If it becomes uneconomic to retain such properties, potential options to maximise value will be considered, including refurbishment, redevelopment and disposal. The Group intends to target locations where a particular housing demand is identified or where housing market conditions are anticipated to improve.

Seek out development opportunities

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

20 YEARS

"I've been with the business since 1998 having worked within commercial real estate up until then. The original sale of those 57,000 homes by the MoD and the sheer diversity of the properties involved, their history and geographical spread intrigued me."

"In my 20 years, I visited virtually every site that has been returned to us by the MoD. I've been lucky enough to visit some of the most beautiful parts of the country; from RAF Boulmer, near Hadrian's Wall in the North East; to Helston in Cornwall. Visiting these areas that have long associations with the military has been fascinating and given me some wonderful stories – including the one about the bouncing bomb found in the car park near RAF Coningsby!"

Terry Page
Dilapidations Manager,
Annington Limited

Business review

The Group is financed by a mixture of medium-term and long-term debt, matching the Group's long-term investment strategy.

Financing

The Group undertook a refinancing process, which culminated in the issuance of new debt instruments on 12 July 2017, and the early redemption of the existing debt as described below.

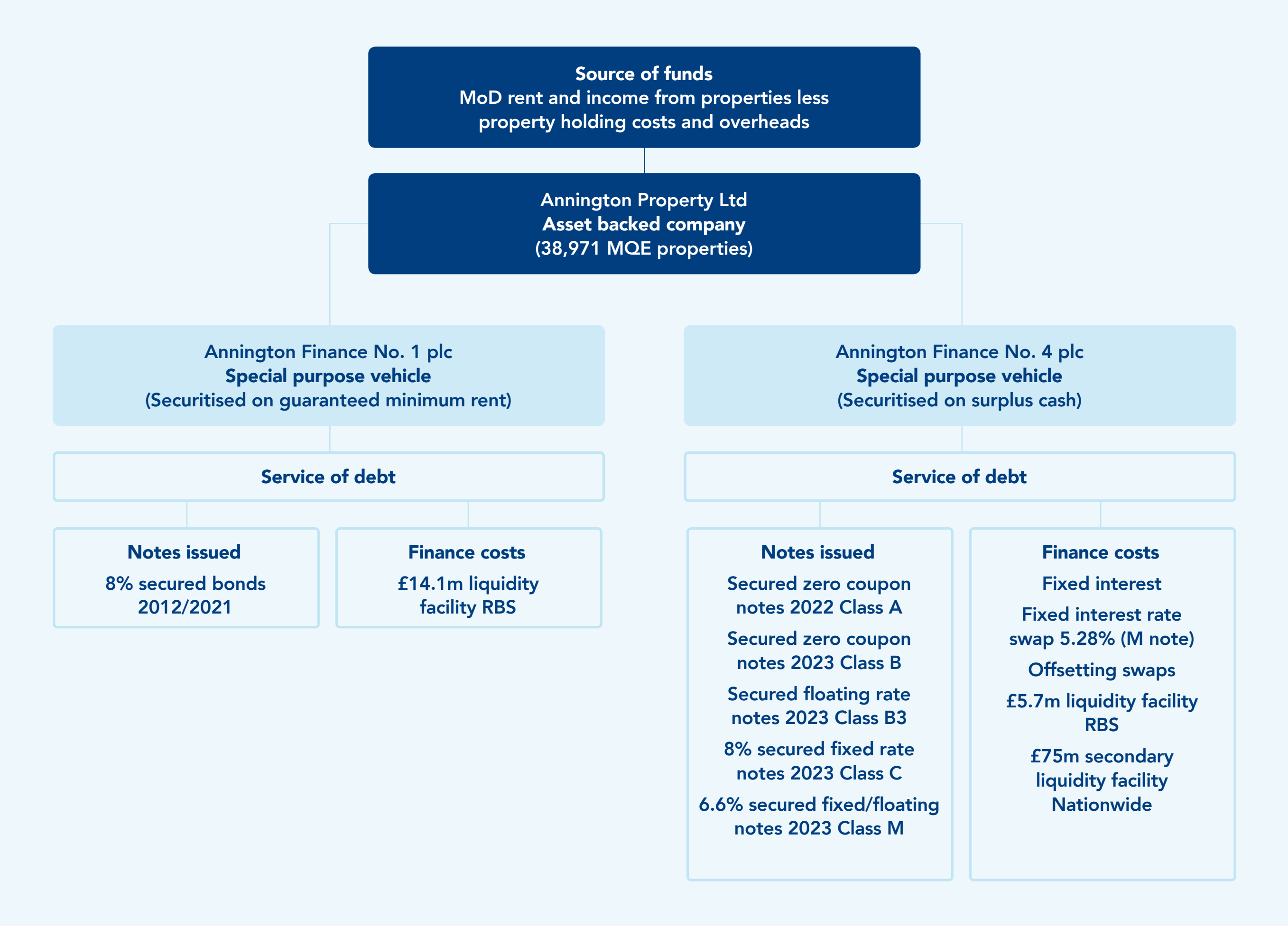
New debt issued

As detailed within the section of this report on Post Balance Sheet Events and Going Concern, the Group completed in July 2017 a whole group refinancing, involving an injection of new capital into the Group, the issuance of new debt instruments and the early redemption of all the existing debt within the Group.

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

Current financial year

The principal sources and application of funds for the MQE Portfolio held in APL, which was in place for the current and prior financial years can be simplified in the diagram shown below:



Since January 2008, the rent receivable from the MoD has been sufficient to meet debt service requirements without the need for sales. Based on current average rents and assuming no income from sales of released units, the MoD would need to release more than 17,000 units before the debt service obligations of the Group are unable to be met from rental income.

Long-term funding was arranged through the securitisation vehicles Annington Finance No. 1 plc ("AF1") and Annington Finance No. 4 plc ("AF4"). Both of these companies are reviewed by their respective rating agencies as part of the issuance conditions. Due to a downgrade of the credit rating of the UK's Long-term Issuer Default Rating, of which the AF1 securitisation has direct credit exposure to the United Kingdom sovereign, the AF1 8% 2012/2021 Secured Bonds were downgraded from AA+ to AA by Moody's Investor Services on 27 June 2016. Liabilities to AF1 are exactly matched to the Guaranteed Minimum Payment, received each quarter from the MoD. Cash received is placed on deposit for the short period between receipt and payment to AF1 note holders. As a direct result of the 9 June 2015 downgrade of the credit rating of The Royal Bank of Scotland, on 25 June 2015 Standard & Poor's downgraded the credit rating of the AF4 B3, M and C notes from A- to BBB+. This does not reflect any changes in the Group or performance against covenants by the Group.

Any rent received over and above the Guaranteed Minimum Payment, plus net sales proceeds were accumulated throughout each calendar quarter, with cash being held on short-term deposit to meet the quarterly AF4 payments. At the end of each quarter, all cash so accumulated and not paid to meet allowable expenses and overheads must be used, firstly to meet interest obligations and secondly to collateralise and/or redeem outstanding principal. Consequently, all excess cash generated by APL operations was utilised to service debt at the end of each quarter.

Annington Limited

On 18 December 2015, Annington Limited entered into an agreement with its parent company, Annington Holdings (Guernsey) Limited, permitting it to issue zero coupon subordinated and unsecured loan notes in an aggregate principal amount of up to £290.7 million, due in 2024, with an effective interest rate of 11%. Proceeds have been used to pay interest on the Annington Finance No. 5 plc ("AF5") PIK notes and to redeem PIK notes previously issued in lieu of cash payments. The Company has issued notes in an aggregate principal amount of £277.6 million as at 31 March 2017, which has subsequently been utilised to pay interest and redeem notes previously issued in lieu of interest by AF5.

Annington Finance No. 5 plc – PIK Notes

The acquisition of the Group by the Terra Firma Special Opportunities Fund 1 LP was funded in part by a debt issuance on 4 December 2012. On this date, AF5 issued £550 million 13% Senior PIK Notes due in 2023, guaranteed by Annington Homes Limited and Annington Limited. Interest is payable semi-annually in arrears in January and July, with the first payment taking place in July 2013. Interest is payable, at the option of the Issuer, entirely in the form of additional Notes, entirely in cash or through a combination of additional Notes and cash.

Annington Rentals (Holdings) Limited

On 24 December 2013, Annington Rentals (Holdings) Limited ("ARHL") entered into a £165 million Five Year Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc.

Further details on the facilities are available in Note 17.

Key performance indicators

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

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

KPI	2017	2016	Basis of calculation
MQE Portfolio			
Achievement of indexed open market value	**91.9%**	100.0%	To compare the value realised on the sale of a property with the value expected if the property value at acquisition had increased in line with the general house price index. The value realised is calculated as sales income plus dilapidations less refurbishment costs. This is then divided by the original value, and indexed using an average of the Nationwide and Halifax house price indices movements from 1996 to the date of sale.
Time to sell			
Average weeks from MoD termination to sales release	**67**	36	From the point MoD release properties, Annington's rental income ceases. It is, therefore, important that Annington Property Limited quickly decides what action is to be taken in order to achieve maximum value. Annington, therefore, measures the time to sell a property under three separate headings.
Average weeks from sales release to sales completion	**18**	15	
Average weeks from sales reservation to sales completion	**9**	9	
Net sales price per unit	**£342,830**	£313,355	Gross sales less value of incentives.
Refurbishment costs per unit net of dilapidations received	**£59,621***	£21,809	Amount spent on the repair, refurbishment and upgrade of property less the amount received from the MoD in respect of works necessary to bring the property up to good and tenantable order.
Sales and marketing cost per unit	**£4,791**	£3,461	Advertising and marketing costs apportioned to each unit sold on a site.
Holding costs per unit	**£3,440**	£1,021	Costs incurred in securing and maintaining a site/property whilst awaiting sale.
Non-MQE Portfolio			
To manage costs within pre-defined targets	**(2.42)%**	(9.80)%	To compare actual expenditure levels against predetermined forecasts, to ensure adequate control over expenditure. The KPI is measured as the percentage (overspend)/underspend from forecast.
To maintain void levels below 5.0%	**0.03%**	0.07%	To measure the amount of potential rent lost arising from properties being void as a percentage of total potential rent.

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

Financial performance

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

The Group generated rental income of £188.2 million (2016: £183.0 million). The majority of this was through APL, where the MQE Portfolio (including Surplus Estate) generated rental income of £173.9 million (2016: £167.9 million) in the year to March 2017. In the Non-MQE Portfolio, gross rents for the year to March 2017 have increased marginally to £14.3 million (2016: £14.1 million).

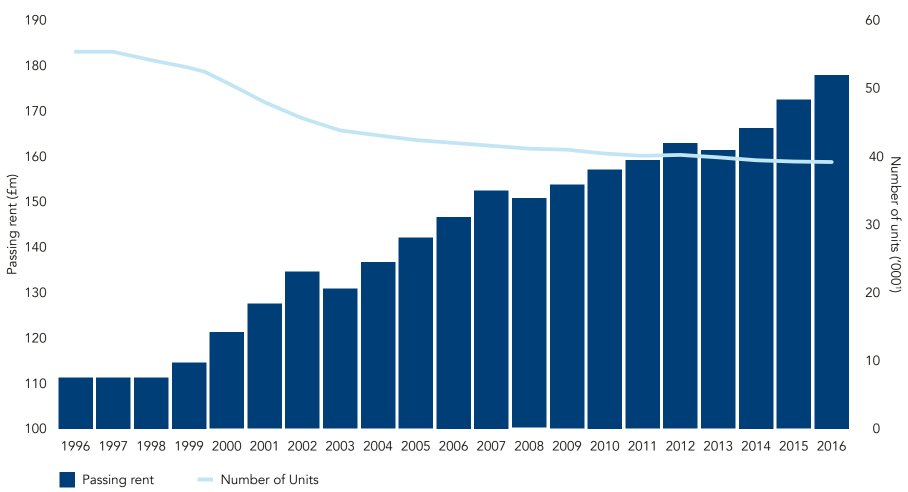
During the year, 248 properties were sold by the Group (2016: 492 properties). APL generated income of £46.6 million (2016: £120.6 million) through the external sale of 136 units (2016: 383 units and two related assets). 112 properties (2016: 107 properties) in the Non-MQE Portfolio were sold, resulting in income of £23.1 million (2016: £27.8 million).

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 has again been used for stock that is not ready for sale or where sales rates are slow due to the current market conditions.

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

In respect of sales activities in the MQE Portfolio, a key measure is whether the net sales proceeds (after refurbishment costs and dilapidations income) are in line with the anticipated market value, after taking market movement into account. This measure is expressed as a percentage of the indexed open market value (using the blended average of the Halifax and Nationwide house price indices as the basis for market movements) as assessed at the time of the Group's acquisition of the properties

Married Quarters Estate rental stream
stated at 31 December



All figures are as at 31 December. Excludes surplus Estate and Annington Rentals (Holdings) Ltd portfolio.

(HPI OMV). Achievement against HPI OMV was 91.9% (2016: 100.0%) in the year. The long-term average achieved since January 2000 is 99.5% (2016: 99.9%) confirming that performance closely tracks the market.The net value realised per unit (sales price net of incentives – refurbishment costs + dilapidations) has decreased during the current year, with the average achieved price at £283,000 (2016: £292,000).

Overheads were closely monitored during the year. The number of staff employed at 31 March 2017 stood at 37 (2016: 40). This continues to represent an optimum number with which to operate, given the current release profile, although still historically low. Whilst the continued reduced level of staff is recognised as a business risk if release levels suddenly pick up, management remain confident this risk can be controlled and the business managed effectively through a combination of recruitment and outsourcing.

Development activities continued to show good progress and generated significant value in the year. Most of the effort this year has been involved with managing the Group's interest in the joint venture company Countryside Annington (Mill Hill) Limited and overseeing APL's interest in ICLLP, a joint venture entered into with surrounding landowners to develop a total of 77.6 acres of land at Mill Hill, North London.

Future development activity will progress our site at Brize Norton, where planning permission has been secured for 135 new homes to replace the existing 54 flats. Further applications and licences are to be approved post year end before further large-scale development can commence.

Financial review

The Group's total assets amounted to £7,750.8 million.

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 2017 and the cash flows of the Group for the year is summarised below.

The Group's total assets amounted to £7,750.8 million (2016: £6,901.2 million). All the Group's investment properties are located in England and Wales. The fair value of these properties is reassessed annually, with the Group's total investment property assets carried at £7,570.5 million at 31 March 2017 (2016: £6,710.3 million). The Group's share of its joint ventures totalled £25.3 million (2016: £33.4 million) and the Group held £154.9 million (2016: £137.9 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

The Group's combined liabilities totalled £3,951.7 million (2016: £3,862.8 million), comprising a mixture of long-term debt and short-term borrowings and exposure to deferred tax, mostly arising on the revaluation of investment properties. The Group's long-term funding is arranged through the securitisation vehicles AF1 and AF4, secured against the assets and cash flows of APL, and through the Annington Limited ("AL") and AF5 Notes, secured against the cash flows and shares of Annington Homes Limited. Annington Rental (Holdings) Limited has entered into funding arrangements consistent with a residential investment portfolio with medium-term investment time horizons.

Each year, the Group is required to use cash flows from operations to reduce the outstanding debt in AF1 and AF4. During the current year:

- AF1 repaid principal of £36.8 million (2016: £36.7 million) on its bonds;
- AF4 repaid principal on the M Fixed/Floating Rate Notes totalling £121.9 million (2016: £50.7 million; in addition to this, in 2016, AF4 repaid principal totalling £40.4 million on the B3 Floating Rate Notes);
- AF4 paid £34.1 million to meet "offsetting" swap costs (2016: £27.9 million), as required by the AF4 securitisation arrangements; and
- AF4 contributed £12.9 million (2016: £18.1 million) to the holdback mechanism attaching to the Class A Zero Coupon Notes and the Class B Zero Coupon Notes, of which £6.0 million (2016: £17.7 million) has been used to repurchase and cancel Notes and the remainder is held in cash.

On the set interest payment dates during the year, AF5 paid cash interest of £75.6 million (2016: £46.2 million) and issued no new PIK notes (2016: £39.0 million) in lieu of cash interest payments. During the financial year to 31 March 2017, there were two optional redemptions totalling £31.1 million of Notes previously issued in lieu of cash interest, with a further £34,000 of accrued interest paid on the optional redemption balance (2016: £124.5 million of optional redemptions and £5.2 million of associated accrued interest).

ARHLs's £165 million Five Year Revolving Facility is drawn down to a value of £141.7 million (2016: £141.7 million) and the covenants attaching to this facility have not been breached during the year or subsequently.

20 YEARS

Rowner, Hampshire

Over 80 former MoD homes earmarked by the MoD for demolition were completely renovated offering a mix of 2, 3 and 4 bedroom units.

Principal risks and uncertainties

Area of potential uncertainty	Risk / opportunity	Strategy
The Group is dependent on rental income from leases entered into with the MoD for a substantial proportion of the Group's revenue.	The revenue from rent payments by the MoD for the MQE accounts for 92.0% (2016: 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 benefiting from interim rental market improvements but also protects the Group from interim market detriment. The Group expects to continue to rely primarily on the MoD, the Group's sole tenant in respect of the Retained Estate, however, there can be no assurance that circumstances will remain unchanged. The Rent Review could be unfavourable, the Group could breach the covenants, which would terminate right to receive rent and the MoD could fail to pay rent on time, all which could adversely affect the Group's business and create the risk that the debt service obligations would not be able to be met.	The refinancing that took place post year end 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 available and currently undrawn, that provides liquidity to the Group were any rental income to be received after its due date.
The UK housing market may be significantly affected by changes in general and local economic conditions (including "Brexit").	The property market has a history of experiencing periods of rising values followed by a slowdown in growth rates and even falling values. The realisable value of the Group's property portfolio at any given time can be affected by many factors outside the Group's control. The Group can be expected to experience periods of both increasing and falling values as well as periods of inactivity, as it is a long-term investor. Both capital and rental values are of significant importance to the valuation of the Group's investment properties. During periods of low demand, low prices and poor sales rates, land and properties may become particularly illiquid, which could lead the Group to experience difficulty in successfully disposing of properties in a timely fashion, without extensive marketing efforts, or without reducing the price of the properties.	The Board reviews the capital values and rental levels achieved and considers any changes that have occurred to the expected levels alongside prevailing market conditions. Where deviations are noted, these will be incorporated into future appraisals to ensure realistic and rational forecasting which forms the basis for all business decisions. In unfavourable conditions where chosen sales strategies may be difficult to execute, the Group could implement alternative strategies, including renting units on a short-term basis until market conditions become more favourable.

Area of potential uncertainty	Risk / opportunity	Strategy
The Group has no control over the quantity, location and timing of property releases by the MoD.	When the MoD identifies properties within the Retained Estate as being surplus to its requirements, it can elect, subject to certain conditions, to terminate the lease underlying the applicable Site. The MoD has absolute discretion with respect to the identification of surplus properties, their location and the timing of their release. Further, the MoD is required to provide only six months' notice prior to termination of the applicable lease. If the MoD releases a significant number of properties undesirable in quality or location, or if it releases a significant number of properties over a short period of time during which conditions in the sales market remain depressed, the Group may be unable to sell all, or any, such properties. In such circumstances, the overall reduction in rent that the Group receives from the MoD, combined with the reduction in income that could otherwise be generated by the sale of the released properties under more favourable conditions, could have an adverse impact on the Group's business, results of operations and financial condition. It is also possible for the MoD to opt not to release any further properties to the Group. Under the terms of the 1996 Acquisition, the MoD was required to release a minimum of 13,213 properties from the Retained 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. In recent years, the MoD has released a relatively low number of Units, resulting in reduced property stock being available for sale. Historically, there has been no trend or consistency in the release profile of surplus properties.	The Board recognises this and has maintained a policy of keeping internal resources at low levels. All principal activities are outsourced to third parties, which can provide the necessary skills in the right mix and location. This enables the Group to flex outsourcing to meet its operational needs according to stock levels and the prevailing market conditions. The Board is of the view that the long-term demand for housing in the UK will continue to outstrip supply and that demand for market renting will be stronger during poor selling periods, reducing the overall impact on the Group's position. The Board recognises that the decision regarding the future rate of property releases rests entirely with the MoD and, when reviewing employee resourcing, the Board recognises the possibility that activity levels and market conditions may vary. The business will continue to examine and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate.
Ongoing operational challenges experienced by the Defence Infrastructure Organisation.	The Defence Infrastructure Organisation ("DIO") is responsible for the management and maintenance of all SFA on behalf of the MoD. Government policy changes, budget constraints and other financial pressures have resulted in significant staffing and budget cuts with respect to the DIO. These cuts have adversely affected, and may continue to adversely affect, the DIO's day-to-day operations, and may impact its ability to work with the Group efficiently and knowledgeably on matters relating to the Retained Estate, such as property releases, dilapidations claims, Rent Reviews, utilities, freehold transfers and boundary issues.	Despite the recent challenges, the Group maintains interaction with members of the DIO at several levels. 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.

Principal risks and uncertainties

Area of potential uncertainty	Risk / opportunity	Strategy
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.
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.

Area of potential uncertainty	Risk / opportunity	Strategy
The Group's senior management team is critical to the Group's continued performance.	The Group relies to a significant extent on the discretion and judgment of the management team. The Group's performance and success is dependent, in part, upon the members of the Group's senior management team and, in particular, their relationships with and their understanding of the requirements of the MoD, other relevant public and regulatory authorities in the industry and other persons with whom the Group regularly deals in the conduct of the Group's business. While the Group has put in place policies and remuneration packages that are designed to retain and properly incentivise management, should senior management leave in significant numbers, or if a critical member of senior management were to leave unexpectedly, the Group's business, results of operations and financial condition could be adversely affected.	Knowledge is shared between senior staff members at weekly Directors Meetings and monthly Senior Managers Meetings (described in the Directors' Report). This mitigates this risk by passing knowledge between the members of the management team. Additionally, if release levels suddenly pick up, management is confident it can be controlled and the business managed effectively through a combination of recruitment and outsourcing to provide the resource needed.
Changing demand for rental and bulk residential rental properties.	A number of subsidiaries let residential property using ASTs. There is a risk of changing demand, which could affect either, or both, void and rental levels. Annington Rentals (No. 4) Limited, Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited let blocks of properties to "corporate" organisations. If the demand reduces then the relevant rental company could have a significant number of void units to deal with.	Management constantly reviews properties that may become void in the short-term and decide what rental levels should be achieved on reletting. Should it become uneconomic to retain such properties then options, including potential refurbishment and/or disposal, are considered. In-house staff maintain regular contact with tenants in order that any potential lease terminations are noted as early as possible, to facilitate timely consideration of options to relet, refurbish and/or sell.
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.

Principal stakeholder

Annington aims to maintain the good working relationship developed over the last 20 years.

MoD relationship

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

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

There have been many changes in this relationship following the introduction of the DIO on 1 April 2011 and the introduction of the DIO's Strategic Business Partner, Capita, as the MoD continues to implement the Strategic Defence and Security Review. Throughout this time, Annington has been available for open communication to ensure continued assistance is able to be provided wherever possible and to maintain the good working relationships developed over the last 20 years.

Principal stakeholder

Location was key for first time buyers Victoria and Chris

After a spell living in High Wycombe, first time buyers Victoria and Chris couldn't wait to move back to the countryside.

"The amazing location was the biggest draw. We love that Walters Ash is close to towns, with the addition of being in the Chilterns – a truly perfect location.

Houses of a similar quality, in a beautiful area like this, would have been completely out of our budget, however these houses were an excellent price. People are incredibly friendly and all seem to be proud to be part of the community.

We have two dogs Ella and Ruby so we love that we have a large garden. It just felt like our home as soon as we walked in."

Corporate responsibility

Building Opportunities Corporate Responsibility Plan

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

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

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

Millbrook Park, Mill Hill.
A joint venture enabling the development of 2,240 new homes.

20 YEARS

"During my interview at Annington, everyone was so warm and friendly which was a great indicator of what Annington is like. There is always something going on in the office and it's great that everyone takes the time to socialise. Having previously worked in both admin and finance, I joined Annington to further my career in accounting and have received incredible support with my AAT exams. I've just passed my final exam, and I'll move on to ACCA next year.

I love travelling and often head off to Europe for weekend breaks. Last year I did something a bit different and spent some time in the New Forest which reminded me a little of back home in East Yorkshire."

Ethne Gawthorpe-Jordan
Finance Assistant, Annington Limited

Caring for people

Caring for people

Annington values employees' commitment and in return provides excellent opportunities for personal and professional development.

Employees are encouraged to develop personally and professionally and invest in their development through formal training programmes, challenging work assignments and having all employees participate in annual appraisal and development reviews. The employees have a wide range of professional skill sets so training is assessed and tailored to meet specific individual needs. The nature of the training is, therefore very broad and includes both technical and soft skill-based training. In the financial year, the Group invested an average of £2,118 per employee with 100% attending training programmes. In December 2016, the biennial Staff Survey was conducted and was completed by 84% of staff. Overall the results were positive; 97% said that the Group cared about its employees, 93% felt that they understood the Group's strategy and strategic priorities and 87% said the Group supported their career goals and provided adequate training to improve personal and professional development.

Management is committed to encouraging and achieving a working environment where equality and diversity are recognised, encouraged and valued. At the end of the year, there were 37 employees (2016: 40) with employee turnover at 12.2% (2016: 7.2%) and the overall gender split of the workforce is as set out in the table below.

The health and welfare of employees are taken seriously. Employees are supported by being offered flexible and remote working to anyone experiencing personal difficulties. To help ensure the wellbeing and safety of employees, there are a number of initiatives including encouraging employees to take annual BUPA medical checks (42% in 2017); providing safety guidelines around winter driving and good practice tips on reducing sedentary issues in the office environment.

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

97%

said that Annington cares about its employees
Staff survey

The overall gender split of the workforce

	Male	Female	Total
The Board	7	1	**8**
Senior Executive Team	2	1	**3**
All employees	21	16	**37**

Walters Ash, High Wycombe

An entire estate of over 80 former MoD 2 and 3 bedroom terrace and semi-detached homes refurbished externally creating a much enhanced street scene with off-road parking.

Respecting the environment

The Group recognises that the nature of the business has environmental and social impacts and that it has a responsibility to consider and minimise these impacts where possible.

There is guidance as to how the Group, its suppliers and its contractors should operate to achieve this. In 2016, a review of the current panel of contractors'/suppliers' Environmental Policies was conducted. Most redundant properties no longer required by the MoD are refurbished, a form of recycling that brings valuable housing stock back into good repair and returns homes to the national housing stock and to the public for future use. Additionally, there has been a growing body of research indicating that extending the life cycle of buildings by refurbishment is preferable to demolition in terms of improved environmental, social and economic impacts (e.g. UCL Urban Labs' "Demolition or Refurbishment of Social Housing" October 2014 Report, BHSF's "New Tricks with Old Bricks" 2008 Report).

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, action was taken to remove the material and replace with "clean" soil.

The Group complies with all legislation and Health and Safety regulations with regards to the handling of dangerous materials. 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 and marked. In 2016, we conducted audits across all sites with external consultants to assess and measure the levels of recycling possible across developments. These findings will be used as benchmarks moving forward.

In line with the Sustainable Procurement Policy, management has a preference for using materials and products that can be ethically sourced and have a low environmental impact, if their technical performance meets the required standards and they are economically viable for refurbished properties. In 2016 the Group partnered with an external advisor to undertake an environmental and sustainability assessment on large projects. Initiatives that resulted included the decision to move towards the installation of air source heat pumps and improved energy efficient boilers.

100%

of respondents support our environmental policies guidance*

* 95% of primary suppliers and contractors surveyed responded.

20 YEARS

New home owner falls in love with historic character of restored Union Buildings

Sophie Harmer was amongst the first residents at Union Buildings, a Grade II listed building in Aldershot that has been restored and converted into attractive apartments by Annington.

"I love that the building has such character and I fell in love with its original features. The information provided regarding the building and its history was fascinating, I'm really impressed by the development as a whole.

As a first time buyer, Annington guided me through the process and I took advantage of the legal and survey fee incentive which really helped. I can see myself living at Union Buildings for a long time and would definitely recommend Annington to others."

Valuing customers and partners

The Group takes both its, and its customers' and partners' responsibilities to the communities and environments in which it operates seriously.

The Group strives to work with partners and suppliers that aspire to the 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. It is ensured that the homes meet basic safe and sound criteria so that electrical, plumbing and heating systems are thoroughly checked and defects or issues that might affect a mortgage are rectified.

The Group strives to make home buying as trouble-free as possible by managing the sale process for their properties, through regular engagement with agents and solicitors, aiming to ensure all buyers receive a consistent, fair and timely process. Over the past year, the period from reservation to exchange remained under nine weeks. Where appropriate, buyers are offered the Seal of Approval incentive, providing the buyer with the comfort that the gas, electrical, heating and internal water systems have been professionally checked and serviced and that, should they fail within the 28 day period from legal completion, the Group will repair them free of charge. The Group has set a target of responding and dealing with any issues arising within 14 days and has achieved this in 94% (2016: 89%) of cases.

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

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

94%

of customer issues were dealt with within 14 days

20 YEARS

"As a member of the Annington Charity Committee, I've seen how the charities we support operate close-up. I'm a keen runner and I recently took part in the 100k London to Brighton alongside ex-servicemen and women to raise money and awareness for Blind Veterans. Understanding their challenges and hearing about their experiences was hugely inspiring.

It's fantastic that Annington supports staff in taking three days a year to volunteer at a charity of their choice, giving everyone the opportunity to do something worthwhile."

Paul Hills
Quantity Surveyor/Project Manager
Annington Limited

Investing in communities

In addition to investing in communities by providing homes, the Group is passionate about strengthening local communities by supporting charities and making charitable donations to a diverse range of good causes. This can involve funding a variety of activities e.g. supporting local schools by donating equipment.

Trust and charitable giving

The Group supports charities and good causes both on its own behalf and via the Annington Trust.

The charitable objectives are focused and strategic. Areas are targeted where the greatest impact can be made through financial support and by the volunteering of skills and expertise of the Group's employees. A Charity Committee, comprising a cross section of employees, exists to oversee charitable giving. The focus is on supporting charities that help children and young people, the homeless, and the disabled in addition to supporting charities with military connections.

Charitable contributions

In 2017, the Group and its employees raised or donated over £160,000 to charities. The majority of this was used to support five key charity partners: Bag Books, The Connection at St. Martin-in-the-Fields, Blind Veterans UK, HighGround Projects Ltd and The Ripple Pond. To help maximise the impact from these charity partnerships, Charity Champions have been appointed to work with the respective charities and engage fellow employees with fundraising and volunteering opportunities. The Group allows each employee to take a maximum of three days paid leave to undertake volunteering work.

The Annington Trust

The Annington Trust was established in 1996 for the benefit of Service Families living on the Married Quarters Estate, with the objective of sponsoring community activities and projects. The Trust derives its income from a capital fund that was set up at the time the MQE was purchased in 1996 and subsequently added to by the Group. The capital fund currently has in excess of £520,000. Since its inception, the Trust has disbursed over £584,000 (2016: £522,000) to support approximately 450 projects (2016: 440). These have varied in size from small grants of a few hundred pounds for pre-school activities, youth organisations and sports clubs, to major awards of several thousands of pounds to provide much needed support for families. Two such major awards in 2016/2017 included the on-going commitment to The Annington Challenge run by the Outward Bound Trust and the first payment of three to Royal British Legion Industries.

Due to the changing nature of applications, the Trustees made a decision in 2015 to alter the Trust's strategy, deciding to wind the Trust down over the period to December 2022, to coincide with the end of the Terra Firma Special Opportunities Fund I LLP ("TFSOF1"). This will enable the use of both income and capital amounting to £100,000 per annum over that period to support the Trust's objectives.

over
450
projects supported by The Annington Trust

over
£160,000
raised by the Group and its employees for charities

Life skills/education	48%
Sports and wellbeing	27%
Homelessness	14%
Community cohesion	10%
Appeals	1%

Further details of the charities supported by the Group and the Trust are set out on pages 48 to 55.

Annual slavery and human trafficking statement

The 2015 Modern Slavery Act ("the Act") came into force on 29 October 2015.

This statement is made pursuant to Part 6 of the Act and sets out the steps Annington Limited ("the 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.

Within Annington's core operations, the scale of refurbishment work required to the properties varies from site to site and is greatly dependent on the condition in which they are handed back by the MoD. 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.

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. As part of this process the following policies were reviewed:

- Slavery and Human Trafficking;
- Whistle-Blowing Policy;
- Supplier Code of Conduct; and
- Sustainable Procurement Policy.

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

In line with the Company's corporate governance arrangements the Board of Annington Limited have approved the:

- Policy on Slavery and Human Trafficking;
- Supplier Code of Conduct; and
- Sustainable Procurement Policy.

Annington has taken steps to raise awareness of slavery and trafficking issues amongst its staff and contractors through the introduction of the policy documents listed above. We are also taking steps to introduce training to the key members of staff working in our property team, to assist them to be able to spot signs of slavery and trafficking and to understand the risks involved.

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

- reviewing our progress in entering into communications with contractors to raise awareness of the Modern Slavery Act and our Supplier Code of Conduct; and
- continuing to focus on our supplier due diligence process to ensure that we engage 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 Slavery and Human Trafficking. The Commercial Director has responsibility to the 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 2016 to 31 March 2017 and has been approved by the Board of Directors.

Post balance sheet events and 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 and this section.

Full details of post balance sheet events are set out in Note 30 to the Consolidated financial statements.

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

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

AFP issued the new bonds in the denominations, maturities and fixed interest rates as seen in **Table 1** below.

Cross currency swaps are in place for the €600 million bond, converting the nominal balance to £526.26 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.

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

The covenants attaching to the debt can be seen in **Table 2** below.

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

Table 1 – New bonds issued

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%

Table 2 – Covenants attached to debt

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%

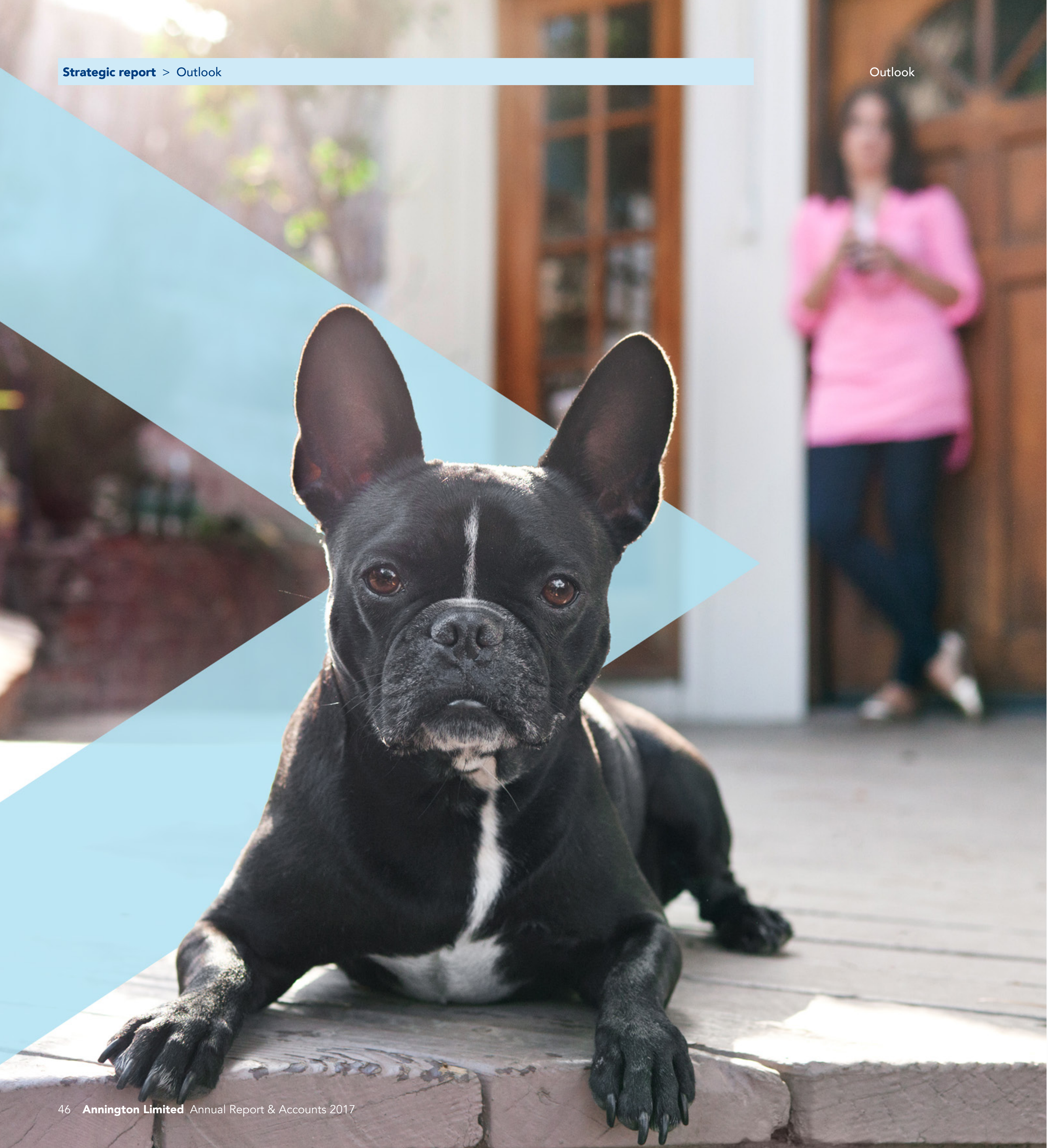
Post balance sheet events and going concern

The Group meets its day-to-day working capital requirements from both rental income and property sales. In uncertain economic environments, such that there is uncertainty over the level of demand for properties, comfort is gained that the rental income is sufficient to meet debt service requirements without the need for sales. A significant number of units could become void and the Group would still be able to service its debt obligations from the remaining rental income. It should be noted that the Group receives cash on a quarterly basis in relation to its long-term rental of investment properties, however, accounting regulations require the debt to be repaid for the next 12 months to be disclosed as a current liability. The forecast receipts of rent in the year ahead will be sufficient to meet short-term cash requirements.

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

Bushey, Hertfordshire

Private development of four family friendly 4 bedroom new build homes, one detached and three linked semi-detached set on the outskirts of Watford.



Outlook

Annington's financial year to 31 March 2017 has been stable, with economic conditions remaining supportive.

The imbalance between supply and demand will likely continue to drive positive growth in property values and rental income.

Since the EU Referendum, there has been much uncertainty about the direction of travel in the UK housing market and wider economy, as it remains impossible to accurately predict the outcome of the negotiations that have now begun. In the short- to medium-term the underlying supply and demand dynamics are unlikely to change radically.

In the financial year ended 31 March 2017, the MoD released 43 units. The trend towards lower release volumes is expected to continue over the short-term, at least until the MoD's review of estate strategy has been completed. Future release levels by the MoD look set to remain at a low level for the foreseeable future.

A key priority in the coming year is to continue to engage with the MoD and DIO in an effort to get some clarity on future release profiles but this will depend on the outcome of discussions and the new senior management team at the DIO. Focus will remain on achieving another good result in the rent review and in extending the knowledge of the Site Review mechanism.

The MoD has concluded that the current model of directly providing subsidised accommodation to service personnel through SFA is becoming less attractive to service personnel and their families, increasingly unaffordable and less effective at meeting the MoD's operational and business needs. For example, the current accommodation model bases entitlement to accommodation on marital status and rank and, in its view, does not reflect the diversity of today's Service Families. The MoD's objectives are to deliver a more flexible, attractive and better value for money approach to accommodation for military personnel and the MoD by developing a new accommodation offer to help more service personnel live in private accommodation and meet the aspirations that many have for home ownership. This could involve subsidies to either rent in the open market or advances of salary/loans to purchase a home. The Forces Help to Buy scheme already exists and could be extended to facilitate this.

The Future Accommodation Project is a defence wide project and, at this stage, no firm decisions have been taken, but if approval is given during 2017, it would be implemented gradually with a pilot commencing in a few years' time. It is not known at present what the final proposals will be or whether the Future Accommodation Project will be adopted at all given the budgetary constraints and the possible costs of implementation.

The Group's operational strategy is largely unchanged from previous years. The business will continue to define and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate, whilst presenting a flexible approach to the MoD and DIO.

The refinancing undertaken post year end has meant that the Group will be able to benefit from less onerous covenant requirements, lower interest payments, and longer and staggered maturities of debt. These benefits allow the Group to expand its footprint in the private rented sector. This will diversify the business and mitigate the risk of being dependent on the MQE Portfolio.

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

A P Chadd
Director
28 July 2017

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

The Annington Trust

Royal British Legion Industries

The Annington Trust made a three year commitment of £25,000 per year to fund the Royal British Legion Industries LifeWorks for Families programme which has been developed specifically to help military spouses and partners find and sustain work.

Delegates receiving their certificates

The LifeWorks for Families programme promotes the first steps to paid employment and places a big emphasis on encouraging volunteering both as a means of community integration and a solid foundation for future employment.

In 2016, RBLI delivered 12 three day courses, including overseas, and the Annington donation helped organise and deliver these life-changing courses aimed at beneficiaries with very low self-confidence. The donation helped the RBLI engage with whole communities of spouses and partners using social media. Our support has also allowed the RBLI to be more creative in finding new ways to engage with spouses and partners; as well as the full three day programme, the charity now offers short CV clinics and sessions specifically about the hidden job market, as well as 1-2-1 telephone advice.

In October 2016, LifeWorks was independently evaluated by the Learning & Work Institute and was described as "a unique and successful service"; a dedicated website was launched in the same month and a course in Bulford held in November was so oversubscribed that a second course had to be run. At the time of writing, 18 LifeWorks for Families courses are booked for 2017 including in Germany and Belgium.

The difference LifeWorks for Families can make was summed up by one participant:

"A brief message of thanks to you and the RBLI. I have just left the course and feel utterly overwhelmed with what a difference three days with LifeWorks has made to me and I know to every other lady on that course. I was close to tears Tuesday morning prior to commencing the course; fear of the experience. I have just cried all the way home on completing it!! Life changing!"

£25,000

helped deliver 12 three day courses

The Annington Trust

The Annington Challenge

The Annington Trust has supported the Outward Bound Trust through the Annington Challenge since 2011.

The Outward Bound Trust is an educational charity that uses the outdoors to help develop young people from all walks of life. The organisation runs adventurous and challenging outdoor learning programmes that equip young people with valuable skills for education, work and life.

Now in its sixth year, The Annington Challenge once again saw youngsters aged 11-19 being offered the opportunity to participate in a residential outward bound course at the Outward Bound Trust's centres in Scotland, England and Wales.

As in previous years, we asked schools from around the UK with a high proportion of Service children to nominate those that they felt would benefit from an outward bound adventure; in particular those children with issues around low self-confidence, self-belief or resilience.

Teachers and other professionals involved provided examples of how and why the young people were selected. One said "Rachel has made huge progress in controlling her emotions and communication with others. She is a hard working student and deserves this opportunity, so she will benefit hugely." Another was nominated with these words "Jordan is an ambassador for the Service children through school. She is quite shy but would benefit from building up her confidence."

The Annington Challenge 2016 sponsored 33 young people aged between 11–19, male and female. The split between male and female was 55%/45% and 73% were from Service families.

Five older children took the Skills for Life course, a 19 day adventure that culminated with the participants making a presentation to a large audience of their peers. The remainder took part in either a week-long Discover Adventure course or a seven day Serious Adventure course and all three saw participants try their hand at activities never attempted before including canoeing, climbing,

over

450

projects supported by The Annington Trust

gorge walking, abseiling and camping out overnight in a real wilderness environment. Many wrote of returning home with memories of making new friends, learning to work as part of a structured team, putting trust in their peers and gaining greater confidence through personal development.

100% of participants said they had a better understanding of their skills and abilities and the same percentage again said they were more aware of the skills they needed to develop. In addition, since the course, many have noticed changes in their behaviour and their attitudes towards time-keeping and dealing with difficult or challenging situations.

Ben, 16, summed it up when he said: "I have noticed that I have become more aware of people's, and my own, abilities. In doing this I have been able to empathise more with people and I would say I have become a more understanding person. I have recently started sixth form and I have realised that I don't need to stay quiet and I am more approachable when I'm confident and being myself and I hope I will continue to remain confident."

100%

Participants that said they had a better understanding of their skills and abilities after having taken part.

Supported charities > Supplemental information to the Annual Report & Accounts

73%

of youngsters who participated in the Annington Challenge were from Service Families

Our charity partners

Blind Veterans UK

Blind Veterans UK supports vision-impaired veterans, regardless of when they served in the Armed Forces or how they lost their sight.

The charity provides free, lifelong practical and emotional support to help veterans lead fulfilling and active lives.

Blind veterans offer introduction weeks, rehabilitation and training to help blind veterans deal with sight loss and relearn vital life skills; such as reading, travelling via public transport and cooking a meal. They provide equipment such as talking watches and magnifying aids to help blind veterans live independently and adapt houses so veterans feel safe and comfortable in their own home.

They help blind veterans to socialise with each other and make new friends by inviting them to holiday at Blind Veterans UK centres. They attend lunch clubs and reunions, and try new hobbies and sports such as creative writing, photography and archery.

The charity cares for blind veterans at its training and rehabilitation centres and employs trained nurses to help those with complex health needs. They offer respite care and the charity's Brighton centre also has permanent residents.

In 2016, Annington continued its support of the charity with the second of three agreed donations of £25,000. The donation has been used by BVUK to assist with the development of the Life Skills for Independent Living project based at the charity's centre in Llandudno.

This magnificent former convalescence home for shale miners has been renovated and meticulously refurbished to meet Veterans' needs and will play an invaluable part in helping blind servicemen and women live an independent life. The centre now features 40 en-suite bedrooms, both single and double, for short-term visitors plus 14 care rooms and a further 25 en-suite rooms for blind veterans staying for either a holiday or for rehabilitation and training. The Life Skills for Independent Living project will provide the most vulnerable veterans with a tailored programme of support in the new facilities and will help reduce the risks veterans face, including homelessness, self-harm and relationship breakdowns.

There have been a number of fundraising initiatives completed by many working at Annington. Two Annington employees formed part of the Dinner in the Dark Committee; the Dinner, held in March 2017, raised more than £27,000 for BVUK. Last summer a group from Annington participated in the charity's major fundraiser, the 100K London to Brighton walk, a colleague ran the Brighton Half Marathon and many lent their support at the Blind Veterans annual Carol Service at St. Marylebone Parish Church in December.

£75,000

donated to Blind Veterans UK over three years

Our charity partners

The Connection at St. Martin-in-the-Fields

The Connection is the UK's busiest homelessness charity supporting people away from the streets through specialist services including: a day and night centre, street outreach, assistance with finding employment and specialist mental health and addiction support.

The charity's Day Centre team are responsible for engaging with the vulnerable homeless people who walk through its doors every day; carrying out initial assessments which ascertain why they have presented as homeless and the extent of their needs.

The team go on to signpost new clients to practical services including the Charity's café, computers, showers, laundry, and health services. Depending on their individual needs, they will also facilitate referrals to specialist services in the centre, including mental health, substance misuse, gambling, supported housing, benefits, and education, training and employment. The Day Centre also aims to foster an inclusive community through a programme of groups and activities.

In 2016, we made the second of three donations to the charity. The money helps fund the salary of Angela Protain, Day Centre Manager who has more than two decades of experience in homelessness services. As Manager of the Day Centre, she manages the Centre's team of 14 staff and ensures that clients meet with a warm, welcoming atmosphere when they come in off the streets. Angela's role is pastoral, and she is very skilled at setting people at ease.

Every year, Angela is on duty on Christmas Day. After Christmas lunch, she dresses up as Mrs Claus and gives out presents to the homeless people – Christmas is an especially difficult and emotional time of year for so many of the charity's clients but Angela's personality and caring nature makes that day special for everyone.

Annington employees engaged with clients when they escorted a small group on a day out to The London Museum, taking to the streets with collection buckets as part of a fundraising campaign and donating 23 bags of brand new clothing for the homeless at Christmas. Our annual Christmas Jumper Day and Secret Santa raised £685 in staff donations for The Connection and the money was used to purchase goods which the charity distributed amongst the homeless.

Angela Protain
Day Centre Manager

Our charity partners
The Ripple Pond and HighGround

The Ripple Pond is a self-help support network for the adult family members of physically or emotionally injured Service Personnel and Veterans.

HighGround helps Service Leavers, Reservists and Veterans find jobs, careers and vocational opportunities in the land-based sector.

The Ripple Pond

The charity was established in 2012 by two mothers of seriously wounded servicemen who identified that no service existed for adult family members and who had found strength and comfort by sharing and supporting each other through such a unique challenge.

We helped the charity achieve charitable status, provided the use of facilities for meetings and the support, time and expertise of finance staff to ensure sound development and growth of the membership.

In 2016, we made the second of three payments of £25,000 and the continuation of this multi year commitment has allowed the charity to develop quickly and focus on putting together all the key governance and operational processes it needs to allow it to grow and function without the burden of fundraising. The support has allowed The Ripple Pond time to establish itself, gather momentum and provide support in various forms to its ever growing number of beneficiaries as well as gain a foothold within military and NHS mind-sets.

HighGround

HighGround's mission is to help Service Leavers, Reservists and Veterans find jobs, careers and vocational opportunities in the land-based sector and has two core activities namely providing the Horticultural Therapy service at Court, and Rural Weeks. Rural Weeks give any Service Leaver, Reservist or Veteran the opportunity to taste the huge range of careers available within the land based sector.

We have supported the charity since 2013 and our donations allowed the charity to establish a London HQ at the Regimental Headquarters of the London Scottish Regiment, enabling HighGround to access skilled and specialist volunteers. In early 2017, we made the fourth donation of £20,000 which enabled HighGround to cover vital core costs and to build their fundraising.

Furthermore, senior members of Annington's team have also volunteered time to help the charity with their strategic planning and developing their network of supporters.

"With Annington's precious support, HighGround is now entering its fourth year of operation with a strong brand, secure infrastructure and a five year plan." Anna Baker-Creswell, Founder HighGround.

£25,000

donated to The Ripple Pond in 2017

£20,000

donated to HighGround in 2017

Julia Molony, co-founder of the Ripple Pond, with her son Anthony

Our charity partners
Bag Books

Bag Books is a UK-wide charity making multi-sensory books for people with severe learning disabilities.

A Bag Books story is no ordinary book; it is unbound, its pages are A3 card and it comes in a box containing an array of objects to feel and move; things to smell and sounds to activate. Each sensory object is used by the participant, hand-over-hand with a storyteller, in a sequence carefully devised to tempt the interest and hold the attention.

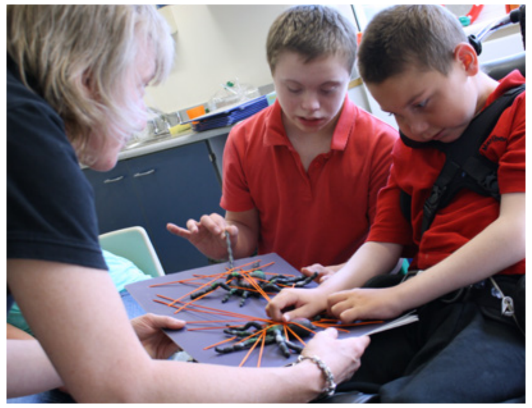
The books help participants develop motor skills, encourage communication and foster turn-taking. Each book is hand-made in Bag Books craft workshop and takes an average of eight hours to construct.

Our funding enabled the charity to send their Storytellers to 19 Special Schools for a demonstration day of storytelling. The schools were all situated near military bases across the UK and the storytelling sessions reached a total of 662 children.

The teachers who observed these sessions said that 98% of the children had benefited from the multi-sensory storytelling. Our funding also provided training and multi-sensory books so that the teachers could run their own sessions in future.

During the year, groups of our staff also helped to construct the multi-sensory books on three occasions and made the equivalent of 17 whole books. We also supported two members of staff who took part in sponsored cycle rides for the charity. "The most important indicator of satisfaction was seen in the engagement of children for half an hour. Two of the seven would not normally engage for the length of time required yet they sat, listened and touched all materials. Brilliant to see." A Teacher from Hillingdon Manor School, Hillingdon.

Annington staff at a book building day



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 2017.

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

Executive Directors

J C Hopkins

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

A P Chadd

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

N P Vaughan

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

Non-executive Directors

H L Liddell

Chairman
Baroness Helen Liddell was appointed as an independent non-executive Director of Annington Limited on 1 April 2017, and appointed to be Chairman of the Board on 1 May 2017. She has considerable political experience, having previously been a Member of Parliament from 1994 to 2005. Between 2005 and 2009, she was the British High Commissioner to Australia. Prior to this, she held positions in the Scottish Trades Union Congress, worked for the BBC, the Scottish Daily Record and the Sunday Mail and was the Chief Executive of Business Ventures.

J O Short

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

E J Filkin

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

H A Vos

Arnold Vos joined the Board in July 2015 as a representative of Terra Firma. He has worked for Terra Firma since 2010 in a number of roles and is currently a non-executive Director of Wyevale Garden Centres. On 29 February 2016, Arnold became a member of the Finance Committee, the Nomination and Remuneration Committee and was Secretary of the Audit Committee. He resigned from the Board on 1 August 2016.

F S Duncan

Fraser Duncan is an independent non-executive Director of Annington. He also chairs the Audit, Finance and Nomination and Remuneration Committees.

S K Webber

Steve Webber joined the Board on 9 July 2012 as a representative of Terra Firma but has had a continuing involvement with the Group since its formation in 1996. Until 29 February 2016, he was a member of the Finance Committee, the Nomination & Remuneration Committee and was Secretary of the Audit Committee.

J M King

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

D L Spiri

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

Directors' report

Directors' report

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 Company within the framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company'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 and E J Filkin served in this role during the year and stepped down on 30 April 2017. H L Liddell assumed the Chair on 1 May 2017. The Board meets formally each quarter to review issues, progress being made and performance against budget. "Executive Review Meetings", attended by the same individuals, are held as required for updates on performance and to discuss any issues which may require resolution prior to the next formal Board meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Charitable and political donations
During the year the Group made charitable donations of £160,000 (2016: £180,000), principally to local charities serving the communities in which the Group operates. The Group made no political donations during the year (2016: £nil).

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

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

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

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

Dividends
No dividends have been paid or proposed during the year (2016: £nil).

Post balance sheet events
Post balance sheet events are referred to in the Strategic Report and Note 30 to the consolidated financial statements.

Auditor
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:
– so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
– the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and arrangements have been put in place for them to be reappointed 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
28 July 2017

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

Directors' report

Statement of directors' responsibilities

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

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

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

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

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

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

Independent auditor's report to the member of Annington Limited

We have audited the financial statements of Annington Limited for the year ended 31 March 2017, which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity, the related notes 1 to 31 and the related notes a to n the Company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and of the Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the 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.

Opinion on other matter 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 Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Richard Howe (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
28 July 2017

Consolidated income statement

For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Property rental income	4	188,164	183,001
Property operating expenses		(7,442)	(17,439)
Net rental income	4	**180,722**	**165,562**
Other operating income		79	61
Administrative expenses		(14,626)	(12,231)
Utilities provision release	18	2,449	1,085
Unrealised property revaluation gains	10	911,544	714,515
Profit on disposal of property assets	7	13,727	35,634
Share of results of joint ventures after taxation	12	4,816	7,196
Operating profit	5	**1,098,711**	**911,822**
Finance income	8	6,191	4,722
Finance costs	8	(268,129)	(273,925)
Profit before taxation		**836,773**	**642,619**
Taxation	9	(76,078)	(33,620)
Profit for the year after taxation		**760,695**	**608,999**
Profit attributable to shareholder		**760,695**	**608,999**

There were no items of other comprehensive income or expense and therefore the profit for the year reflects the Group's total comprehensive income.

Consolidated balance sheet

At 31 March 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Investment properties	10	7,563,065	6,699,590
Plant and equipment	11	142	98
Investment in joint ventures	12	25,284	33,403
Other receivables	14	–	19,512
		7,588,491	**6,752,603**
Current assets			
Inventory	13	890	–
Trade and other receivables	14	22,560	21,900
Cash, cash equivalents and restricted cash	15	131,421	115,993
		154,871	**137,893**
Investment properties held for sale	10	7,428	10,686
Total assets		**7,750,790**	**6,901,182**
Current liabilities			
Trade and other payables	16	(67,590)	(58,168)
Loans and borrowings	17	(56,352)	(60,039)
Provisions	18	(3,412)	–
		(127,354)	**(118,207)**
Non-current liabilities			
Other payables	16	(22)	(10,329)
Loans and borrowings	17	(2,955,618)	(2,900,924)
Deferred tax liabilities	9	(806,556)	(730,478)
Provisions	18	(36,107)	(39,227)
Derivative financial instruments	19	(26,074)	(63,653)
		(3,824,377)	**(3,744,611)**
Total liabilities		**(3,951,731)**	**(3,862,818)**
Net assets		**3,799,059**	**3,038,364**
Capital and reserves			
Share capital	21	84,756	84,756
Merger reserve	22	(10,000)	(10,000)
Retained earnings	23	3,724,303	2,963,608
Total equity		**3,799,059**	**3,038,364**

The accompanying notes (1 to 31) 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 28 July 2017.

Signed on behalf of the Board of Directors

A P Chadd
Director

Consolidated statement of changes in equity
For the year ended 31 March 2017

	Share capital £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2015	84,756	(10,000)	2,354,609	2,429,365
Profit attributable to shareholder, being total comprehensive income for the year	–	–	608,999	608,999
Balance at 31 March 2016	**84,756**	**(10,000)**	**2,963,608**	**3,038,364**
Profit attributable to shareholder, being total comprehensive income for the year	–	–	760,695	760,695
Balance at 31 March 2017	**84,756**	**(10,000)**	**3,724,303**	**3,799,059**

Consolidated cash flow statement
For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Net cash from operating activities	24	166,042	157,223
Tax received		–	9
Net cash inflow from operating activities		**166,042**	**157,232**
Investing activities			
Proceeds from sale of property assets		90,200	94,598
Purchase of property assets	10	(3,049)	(3,568)
Proceeds from sale of plant and equipment	5	2	–
Purchase of plant and equipment	11	(125)	(72)
Loans to joint ventures	12	(4,018)	(1,250)
Distributions from joint ventures	12	10,820	14,090
Loan repayments from joint ventures	12	6,133	–
Interest received		135	249
Net cash inflow from investing activities		**100,098**	**104,047**
Financing activities			
Increase in borrowings	17	106,705	170,875
Repayment of borrowings		(199,842)	(297,141)
Purchase of offsetting swaps		(34,130)	(27,943)
Interest paid		(123,445)	(107,708)
Net cash outflow from financing activities		**(250,712)**	**(261,917)**
Net increase/(decrease) in cash, cash equivalents and restricted cash		15,428	(638)
Cash, cash equivalents and restricted cash at the beginning of the year		115,993	116,631
Cash, cash equivalents and restricted cash at the end of the year	15	**131,421**	**115,993**

Notes to the financial statements

For the year ended 31 March 2017

1. Corporate information

Annington Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London W1U 1DR. Information on the Group's ultimate parent is presented in Note 28.

2. Significant accounting policies

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations as adopted by the European Union. They have also been prepared in accordance with the Companies Act 2006, except as described below in the basis of consolidation.
These financial statements are presented in pound sterling, which is the functional currency of the parent company and the Group. All values are rounded to the nearest thousand (£'000), except where otherwise indicated. They have been prepared on the historical cost basis, except for property revaluation gains and losses, investment in subsidiary companies and derivative financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

Significant judgements and key estimates
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.

Property asset valuations
The property portfolio is carried in the balance sheet at fair value adjusted for related provisions that are disclosed separately on the balance sheet. The fair value is valued annually by professionally qualified external valuers. The valuation of the property asset 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 property asset portfolio differs from the valuation, which could have a material effect on the financial position of the Group. Property valuations are one of the principal uncertainties of the Group.

Accounting for debt at amortised cost
To determine the book value of the debt balances held at amortised cost, the future cash flows are estimated. In doing so, assumptions are made relating to the future performance of the Group. The amortisation of finance costs and the related balances may be impacted if financial instruments are not repaid in line with current forecasts.

Provision for utilities
When determining the provision for utilities, the estimation technique requires an assumption be made of the future cost and the timing of works to connect sites to public utilities. When doing so, estimates of costs and future inflation are made, which, if not accurate could have a material effect on the provision balance.

3. Standards issued but not yet effective

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

New and Amended Standards		Effective date (annual periods beginning on or after)
IFRS 7	Additional disclosures (and consequential amendments) resulting from IFRS 9	Concurrent with adoption of IFRS 9
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(*)
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 7	Disclosure Initiative	1 January 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

(*) The IASB decided in December 2015 to defer the effective date indefinitely; nevertheless, the amendments are available for earlier adoption.
These standards and interpretations have not been early adopted by the Group. The Group is in the process of assessing the impact of these new standards and interpretations on its financial reporting.

4. Property and net rental income

ACCOUNTING POLICY

Property rental income – Revenue recognition
Property rental income from property assets 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.

	2017 £'000	2016 £'000
Property rental income	**188,164**	**183,001**

Net rental income
Net rental income comprises property rental income less property operating expenses. Property operating expenses are expensed as incurred and property operating expenditure not recovered from tenants is charged to the income statement. The Group generates substantially all of its net rental income, profits before taxation and net assets from residential property investment in England and Wales.

5. Operating profit

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000
Operating lease payments:		
Machinery and motor vehicles	202	187
Land and buildings	458	417
Depreciation of plant and equipment	81	86
Gain on sale of equipment	(2)	–
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company	45	47
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	211	221
Total audit fee	**256**	**268**
Non-audit remuneration		
Taxation compliance services	58	56
Other taxation advisory services	32	24
Other assurance services	62	–
All other services to the Group	25	67
Total non-audit fee	**177**	**147**

6. Information regarding directors and employees

ACCOUNTING POLICY

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

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

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

	2017 £'000	2016 £'000
Directors' emoluments		
Aggregate emoluments representing short-term employee benefits	2,060	2,001
Amounts receivable under the Long-Term Incentive Plan	1,150	1,150
	3,210	**3,151**

No retirement benefits are accruing to Directors. The emoluments including the Long-Term Incentive Plan for the highest paid Director amounted to £1,431,000 (2016: £1,299,000). No Directors' emoluments were paid to A Vos, J King and D Spiri who are employed by Terra Firma Capital Partners Limited.

	2017 Number	2016 Number
Average monthly number of persons employed (including directors)		
Administrative	22	22
Operations	16	16
	38	**38**

	2017 £'000	2016 £'000
Staff costs incurred during the year		
Wages and salaries including directors' emoluments	7,203	6,940
Social security costs	460	437
Other pension costs	351	373
	8,014	**7,750**

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

Wages and salaries include an accrual for the future potential payments of the discretionary Long-Term Incentive Plan. This scheme (LTIP 4) was established for the period 1 April 2012 to 31 March 2017 and was settled in April 2017. The accrual is based on annual discretionary awards over the life of the scheme.

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

7. Profit on disposal of property assets

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.

	2017 £'000	2016 £'000
Sales proceeds	69,759	148,833
Selling costs	(1,655)	(5,015)
Net disposal proceeds	68,104	143,818
Carrying value of properties disposed	(54,377)	(108,184)
	13,727	**35,634**

During the year, disposals of 248 properties (2016: 492 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.

	2017 £'000	2016 £'000
Finance income		
Interest receivable	2,743	1,441
Fair value gain on interest rate swaps	3,448	3,281
Total finance income	**6,191**	**4,722**
Finance costs		
Interest payable on secured floating and fixed rate notes	142,312	147,222
Amortisation of discount and issue costs and finance expenses	112,992	111,318
Interest payable on bank loans	6,020	5,674
Unwinding of discount of provision	2,894	3,151
Fair value loss on interest rate swaps	–	354
Loss on bonds redeemed	1,617	4,722
Other finance expenses	2,294	1,484
Total finance costs	**268,129**	**273,925**

9. Taxation

ACCOUNTING POLICY

The taxation expense for the year comprises current and deferred tax. Tax 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 in the countries where the Group operates and generates taxable income. 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.

Deferred tax assets and deferred tax liabilities are offset only if:
– 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 on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

	2017 £'000	2016 £'000
Current tax		
United Kingdom corporation tax at 20% (2016: 20%)	–	–
Consideration received for tax losses surrendered	–	(9)
Total current tax	**–**	**(9)**
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	116,653	103,307
Profits taxable in the future under the Securitisation Regime at 17% (2016: 18%)	7	7
Impact of change in tax rate	(40,582)	(69,685)
Total deferred tax	**76,078**	**33,629**
Total taxation expense for the year	**76,078**	**33,620**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 20% (2016: 20%).
The tax for the current and preceding year differ from the standard tax rates for the reasons set out in the following reconciliation:

	2017 £'000	2016 £'000
Profit before taxation	**836,773**	**642,619**
Tax on profit at the standard rate	167,355	128,524
Factors affecting the current tax for the year:		
Expenses not deductible for tax purposes	5,457	7,404
Non-taxable income	(1,972)	(7,739)
Disposal of investments	(4,630)	(852)
Change in tax rate	(40,582)	(69,685)
Effect of tax rate differential between current and deferred tax	(30,112)	(13,511)
Impact of indexation	(12,808)	(6,092)
Deferred profit taxed under securitisation regime	(6,630)	(4,420)
Consideration received for tax losses surrendered	–	(9)
Taxation expense for the year	**76,078**	**33,620**

From 1 April 2016, the headline rate of corporation tax was 20%. It will be reduced to 19% from 1 April 2017, and further reduced to 17% from 1 April 2020, with these rates substantively enacted at the current balance sheet date.

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

	Accelerated tax depreciation £'000	Employment benefits £'000	Investment properties £'000	Profits under securitisation regime £'000	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 2015	(27)	(1,366)	765,123	64	(945)	(66,000)	696,849
Charge/(credit) to profit or loss	6	(410)	109,759	7	(1,456)	(4,592)	103,314
Effect of change in tax rate	2	137	(76,512)	(6)	94	6,600	(69,685)
At 31 March 2016	**(19)**	**(1,639)**	**798,370**	**65**	**(2,307)**	**(63,992)**	**730,478**
Charge/(credit) to profit or loss	14	(370)	132,146	7	(3,674)	(11,463)	116,660
Effect of change in tax rate	1	91	(44,353)	(4)	128	3,555	(40,582)
At 31 March 2017	**(4)**	**(1,918)**	**886,163**	**68**	**(5,853)**	**(71,900)**	**806,556**

9. Taxation (continued)

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

	2017 £'000	2016 £'000
Deferred tax liabilities	(887,226)	(798,489)
Deferred tax assets	80,670	68,011
Net deferred tax liabilities	**(806,556)**	**(730,478)**

At the balance sheet date, the Group has unused tax losses of £422.9 million (2016: £355.5 million) available for offset against future profits. A deferred tax asset of £71.9 million has been recognised in respect of these losses (2016: £64.0 million).

No deferred tax liabilities are recognised on temporary differences associated with investments in subsidiaries and interests in joint ventures for the current and preceding year in accordance with the accounting policy. At the balance sheet date, the Group has unrecognised deferred tax liabilities relating to the investment in joint ventures of £4.3 million (2016: £6.0 million). The Group has an unrecognised deferred tax asset relating to losses recognised in Annington Finance No. 4 plc of £0.6 million at 31 March 2017 (31 March 2016: £6.5 million).

Part of the provision for tax arises on taxable profits under the securitisation regime that are not due to be paid until cash is realised within Annington Finance No. 4 plc.

Deferred tax balances at 31 March 2017 are measured at 17% (2016: 18%).

10. Property assets

ACCOUNTING POLICY

Property assets comprise investment properties and investment properties held for sale.

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.

2017	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Valuation			
Carrying value at 1 April	6,699,590	10,686	6,710,276
Additions – capital expenditure	3,049	–	3,049
Disposals	(43,690)	(10,686)	(54,376)
Transfer to investment properties held for sale	(6,146)	6,146	–
Unrealised property revaluation gains	910,262	1,282	911,544
Total carrying value at 31 March	**7,563,065**	**7,428**	**7,570,493**

2016	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Valuation			
Carrying value at 1 April	6,074,852	25,525	6,100,377
Additions – capital expenditure	3,568	–	3,568
Disposals	(82,659)	(25,525)	(108,184)
Transfer to investment properties held for sale	(6,537)	6,537	–
Unrealised property revaluation gains	710,366	4,149	714,515
Total carrying value at 31 March	**6,699,590**	**10,686**	**6,710,276**

Properties would have been included on an historical cost basis at £1,390.6 million (2016: £1,410.6 million).

As at 31 March 2017 there were 29 (2016: 32) property assets classified as held for sale, with disposal expected within the next 12 months.

	2017 £'000	2016 £'000
The carrying value of investment properties and investment properties held for sale comprises:		
Freehold	315,175	329,341
Long leaseholds	8,799	13,708
Very long leaseholds (over 900 years)	7,246,519	6,367,227
	7,570,493	**6,710,276**

	2017 £'000	2016 £'000
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	7,530,974	6,671,049
Add: amounts included in utilities provision (Note 18)	39,519	39,227
Carrying value for financial reporting purposes	**7,570,493**	**6,710,276**

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

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

Future minimum rents receivable under non-cancellable operating leases are disclosed in Note 26.

	2017 £'000	2016 £'000
Property rental income from investment properties	**188,164**	**183,001**
Property rental expenses:		
Refurbishment costs	(5,088)	(15,024)
Dilapidations recovered from tenants	1,814	3,444
Rental running expenses	(4,168)	(5,859)
	(7,442)	**(17,439)**

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

10. Property assets (continued)

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

Allsop LLP ("Allsop") has prepared a market valuation of the property assets held by Annington Property Limited in alignment with the requirements of IFRS 13, Fair Value Measurement. This is a "Regulated Purpose Valuation". Allsop has provided strategic advice and agency services to Annington Property Limited since 1997 and has provided annual valuations of the portfolio since 1999. The valuer's opinion was derived on a portfolio basis, primarily using comparable recent market transactions on arm's length terms. The valuation was carried out by an independent valuer in accordance with the requirements of the RICS Valuation Standards (sixth edition, as subsequently amended), except where it is not, in practical terms, feasible to comply due to the large number of properties involved. Allsop has confirmed that in relation to their most recent financial year, the proportion of their total fee income arising from Annington Property Limited was less than 5%, which may be regarded as minimal.

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

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

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

Within their valuation report for 31 March 2016, which was released prior to the EU Referendum, Allsop highlighted that uncertainty related to the EU referendum on 23 June 2016 was likely to have affected market confidence at the valuation date. This risk was been reflected in the valuation as at 31 March 2016 through a downward adjustment of 5% to their calculations. No specific adjustment for this item was applied within the 31 March 2017 valuation.

The fair value measurement hierarchy level for all property assets as at 31 March 2017 was Level 3 significant unobservable inputs (2016: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Property asset 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:

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

2016	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	6,328,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	171,393
		Estimated future rent increase (20 year average – %)	3.1% p.a.
		Long-term House Price Index (%)	3.0% p.a.
		Discount rates (%)	1.3% – 11%
Surplus estate			
Fair value	71,320		
Valuation technique		Discounted cash flow and vacant possession market comparison	
		Bulk rental discount rate (%)	12.5%
Assured shorthold and other bulk tenancies			
Fair value	271,729		
Valuation technique		Vacant possession market comparison	
		Blended House Price Index (%)	2.3% – 13.9%
		Rental (premium)/discount rates (%)	(2.5)% – 12.5%
Fair value at 31 March 2016	**6,671,049**		

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

11. Plant and equipment

ACCOUNTING POLICY

Plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life, which is on average three years. 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.

	2017 £'000	2016 £'000
Cost		
At 1 April	1,267	1,195
Additions	125	72
Disposals	(5)	–
At 31 March	**1,387**	**1,267**
Accumulated depreciation		
At 1 April	1,169	1,083
Depreciation charge for the year	81	86
Disposals	(5)	–
At 31 March	**1,245**	**1,169**
Net book value		
At 31 March	**142**	**98**

12. Investment in joint ventures

ACCOUNTING POLICY

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

The Group's joint venture undertakings at 31 March 2017 are shown below:

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

Each of these entities operates within the United Kingdom.

Held through Annington Developments Limited as 100% interest in "X" Ordinary shares since the following dates:

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

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

Held through Annington Property Limited since the following date:

4 April 2011	The Inglis Consortium LLP

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

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

	Share of net assets £'000	Loans £'000	Total £'000
At 1 April 2015	16,387	12,768	29,155
Additions	9,869	1,250	11,119
Interest on loans	–	797	797
Distributions	(14,090)	–	(14,090)
Share of profit for the year	6,422	–	6,422
At 31 March 2016	**18,588**	**14,815**	**33,403**
Additions	–	4,018	4,018
Interest on loans	–	856	856
Repayments	–	(6,133)	(6,133)
Distributions	(10,820)	–	(10,820)
Share of profit for the year	3,960	–	3,960
Capital contribution	856	(856)	–
At 31 March 2017	**12,584**	**12,700**	**25,284**

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

During the year, the shareholders of Countryside Annington (Mill Hill) Limited elected to waive their right to collect interest on the outstanding loan balances owed by the Company for the year ending 31 March 2017. This has been accounted for as a capital contribution to be reflected as a new investment.

13. Inventory

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000
Work in progress	890	–

Inventory is expected to be sold within the next 12 months.

14. Trade and other receivables

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000
Amounts falling due within one year		
Trade receivables	13	59
Sundry receivables	1,160	187
Deferred consideration on property sales	21,042	21,008
Other taxation and social security	13	41
Prepayments and accrued income	332	605
	22,560	**21,900**
Amounts falling due after one year		
Deferred consideration on property sales	**–**	**19,512**

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

Trade receivables are stated after provisions for impairment of £12,924 (2016: £293,127).

	2017 £'000	2016 £'000
Trade receivables can be analysed as follows:		
Amount receivable not past due	13	59
Amount receivable impaired (gross)	13	293
Less impairment	(13)	(293)
	13	**59**

15. Cash, cash equivalents and restricted cash

ACCOUNTING POLICY

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

Short-term investments relate to shares held in an investment company that has ten 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.

	2017 £'000	2016 £'000
Cash at bank	13,784	4,423
Short-term deposits	35,908	32,809
Short-term investments	38,000	22,002
Cash and cash equivalents	**87,692**	**59,234**
HSBC deposits	19,790	23,803
Holdback custodian account	9,253	2,403
RBS deposits	14,686	30,553
Restricted cash	**43,729**	**56,759**
Cash, cash equivalents and restricted cash	**131,421**	**115,993**

Restricted cash

HSBC deposits

The Group holds primary standby deposit accounts with HSBC established in July 2012. The balance reported includes a balance of £19.8 million (2016: £23.8 million) related to the drawn liquidity facilities from RBS and associated interest (refer Note 17). These deposits are restricted and can only be withdrawn provided certain conditions have been met.

Holdback custodian account

On behalf of AF4, the RBS administers a custodian bank account. A holdback mechanism is required to maintain security for the Class A Zero Coupon and Class B Zero Coupon Notes. This mechanism calculates holdback amounts with reference to property disposals and are held in a custody account. These funds are restricted as they are held on behalf of the Class A Zero Coupon and Class B Zero Coupon Noteholders, in accordance with the holdback custody agreement.

RBS deposits

In compliance with the RBS funding arrangements and attaching to the Group's loan facilities held by Annington Rentals (Holdings) Limited, bank accounts exist to cover various aspects of operations. These are in the name of each company and administered by RBS. These funds can only be released provided certain conditions are met.

16. Trade and other payables

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000
Amounts falling due within one year		
Trade payables	297	552
Accruals	26,087	17,647
Taxes and social security	164	397
Deferred income	41,042	39,572
	67,590	**58,168**
Amounts falling due after one year		
Accruals	**22**	**10,329**

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

17. Loans and borrowings

ACCOUNTING POLICY

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.

	2017 £'000	2016 £'000
Amounts falling due within one year		
Secured notes	36,571	36,295
Drawn liquidity facility	19,781	23,744
	56,352	**60,039**
Amounts falling due between one and five years		
Secured notes	140,320	148,217
Bank loans	140,919	140,405
	281,239	288,622
Amounts falling due after five years		
Secured notes	2,367,293	2,437,398
Unsecured notes	307,086	174,904
	2,674,379	2,612,302
	2,955,618	**2,900,924**
Total loans and borrowings	**3,011,970**	**2,960,963**

Reconciliation of movement

	2017 £'000	Amortisation of bond issue costs and finance charges £'000	Issued/Drawn/(Repaid) £'000	2016 £'000
Annington Limited				
11% Unsecured Zero Coupon Notes 2024	307,086	25,477	106,705	174,904
Annington Finance No. 1 plc				
8% Secured Bonds 2012/2021	176,890	525	(36,820)	213,185
Drawn liquidity facility	14,100	–	–	14,100
	190,990	525	(36,820)	227,285
Annington Finance No. 4 plc				
Zero Coupon Notes 2022 Class A	944,072	62,260	(2,209)	884,021
Zero Coupon Notes 2023 Class B	599,075	44,630	(2,212)	556,657
Floating Rate Notes 2023 Class B3	3,538	46	–	3,492
Fixed Rate Notes 2023 Class C	148,836	200	–	148,636
Fixed Rate/FRN 2023 Class M	91,716	4,968	(121,896)	208,644
Drawn liquidity facility	5,681	–	(3,963)	9,644
	1,792,918	112,104	(130,280)	1,811,094
Annington Finance No. 5 plc				
PIK Notes 2023	580,057	3,907	(31,125)	607,275
Annington Rentals (Holdings) Limited				
Royal Bank of Scotland – 5yr	140,919	514	–	140,405
Total loans and borrowings	**3,011,970**	**142,527**	**(91,520)**	**2,960,963**

Security

Annington Finance No. 1 plc
This Bond is secured on the Guaranteed Minimum Rent payable by the MoD over the 25 years ending 2021. The MQE currently consists of 38,971 properties (2016: 39,014).

Annington Finance No. 4 plc
These five Notes are secured on the proceeds, generated by Annington Property Limited, from excess rental income from the Retained Estate (income generated above the guaranteed minimum received from the MoD), from the disposal of the Surplus Estate and net rental income from the Surplus Estate. These Notes are also secured on the remaining MQE.

Annington Finance No. 5 plc
The Notes are secured by a first-priority security interest over all of the share capital of Annington Homes Limited, a first-priority security interest in the loan due to Annington Finance No. 5 plc from Annington Homes Limited and fixed and floating expenses over all of the undertakings, goodwill, property, assets and rights, present and future, of each of Annington Finance No. 5 plc and Annington Homes Limited.

Annington Rentals (Holdings) Limited
The facility is secured by way of a fixed and floating charge on all assets and undertakings present and future of Annington Rentals (Holdings) Limited and its subsidiary undertakings.

18. Provisions

ACCOUNTING POLICY

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

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

	2017 £'000	2016 £'000
Utilities provision		
At 1 April	39,227	37,808
Unwinding of discount	2,894	3,151
Amounts credited to income statement	(2,449)	(1,085)
Utilised	(153)	(647)
At 31 March	**39,519**	**39,227**
Current provision	3,412	–
Non-current provision	36,107	39,227
	39,519	**39,227**

There is a legal agreement to provide for the adoption of private utilities on sites where there have been releases of property that are currently dependent, for the supply of water and/or certain sewage treatment, on adjacent MoD bases. In addition, there is a constructive liability to provide for the adoption of certain utilities on certain sites which are not base dependent. Full provision has been made on the base dependent sites in accordance with the legal agreement and for all obligations which have crystallised on non-base dependent sites. The provision has been discounted in accordance with the relevant borrowing costs of the Group. There is a contingent liability (refer Note 26) in respect of base dependent sites where properties have not been released.

19. Derivative financial instruments

ACCOUNTING POLICY

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes and the derivative financial instruments are not designated as hedging instruments.

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 the income statement. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

	2017 £'000	2016 £'000
Financial liabilities carried at fair value through profit or loss (FVTPL)		
Interest rate swaps that are not designated in hedge accounting relationships	26,074	63,653

Reconciliation of movements

	2017 £'000	Revaluation adjustment £'000	Issued/Drawn/(Repaid) £'000	2016 £'000
Annington Finance No. 4 plc				
Interest rate swaps	22,250	(2,192)	(34,130)	58,572
Annington Rentals (Holdings) Limited				
Interest rate swaps	3,824	(1,257)	–	5,081
Total derivative financial instruments	**26,074**	**(3,449)**	**(34,130)**	**63,653**

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

20. Financial instruments and risk management

ACCOUNTING POLICY

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

Financial assets

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

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

	Note	2017 £'000	2016 £'000
Financial assets			
Cash and receivables:			
Trade and other receivables	14	22,215	40,766
Cash, cash equivalents and restricted cash	15	131,421	115,993
Total financial assets		**153,636**	**156,759**
Financial liabilities			
Liabilities measured at fair value through profit and loss:			
Interest rate swaps	19	26,074	63,653
Liabilities measured at amortised cost:			
Trade and other payables	16	26,406	28,528
Loans and borrowings	17	3,011,970	2,960,963
		3,038,376	2,989,491
Total financial liabilities		**3,064,450**	**3,053,144**

Exposure to credit, liquidity, 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 interest rates but are not employed for speculative purposes.

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

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

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

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

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

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 doubtful receivables and allowances for impairment are made where appropriate, as set out in Note 14.

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

Debt Management
The Group's borrowings are through the issue of various classes of notes on the securitisation of the MQE by way of two income streams generated by the portfolio:
(i) Guaranteed Rental Income received from the MoD;
(ii) Excess income from net sales and rents.

There are various borrowing facilities in place to ensure that there is no default in the repayment of the borrowing and interest to the bond holders. These facilities are renewed annually and to date have never been called upon.

The Group has one medium-term external bank loan secured on its investment property rental portfolio (Note 17).
The Group has no overdraft arrangements in place as it has adequate funds invested on the money market in short-term to medium-term deposits to maintain its short-term liquidity. In addition the Group also forecasts its liquidity requirements using five-year rolling cash forecasts, which are updated on a monthly basis.

20. Financial instruments and risk management (continued)

Capital Risk Management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt and equity. Debt includes loans and borrowings (Note 17) and cash, cash equivalents and restricted cash, and equity comprises equity attributable to equity holders of the Company, being issued share capital, reserves and retained earnings (Notes 21 – 23).

There is one bank facility agreement in place that requires covenant tests to be maintained.

	Loan to value	Gross Interest cover	Net Interest cover
Annington Rentals (Holdings) Limited	65%	175%	150%

All of these covenant tests have been complied with during the years ended 31 March 2017 and 31 March 2016.

Interest Rate Management
The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. There are a number of interest rate swaps in place to fix the exposure the Group has to fluctuations in interest rates.

In August 2004 two interest rate swap agreements, totalling £260 million were entered into by Annington Finance No. 4 plc relating to the Class M Fixed/Floating Rate Notes. The floating rate interest on these notes came into effect in April 2015, with swap payments commencing at the same time, with a termination date in January 2023. The Group pays fixed 5.284% and receives variable rates linked to LIBOR. Offsetting swaps amounting to £172.6 million as at 31 March 2017 (2016: £50.7 million) were in place to fix interest rate exposures that result from the early redemption of the Notes ahead of the original payment profile, under which the Group receives fixed at 5.284% and pays variable rates linked to LIBOR. Under these agreements, Annington Finance No. 4 plc has a net notional liability position of £87.4 million as at 31 March 2017 (2016: £209.3 million).

Further, between December 1997 and October 2015, Annington Finance No. 4 plc had two interest rate swap agreements in place for the Class B3 Floating Rate Notes, where the Group paid fixed 6.93% and received variable rates linked to LIBOR, and the opportunity to purchase offsetting swaps. In October 2015, the original swaps and all associated offsetting swaps were cancelled.

At 31 March 2017, the fair value of the originating swaps in Annington Finance No. 4 plc was a liability of £66.2 million (2016: £72.8 million), while the fair value of the offsetting swaps was an asset of £43.9 million (2016: £14.2 million).

At 31 March 2017, Annington Rentals (Holdings) Limited held a number of interest rate swap and cap agreements totalling £128.7 million (2016: £129.9 million), with caps comprising 25% of the total set at the fixed rate of the swap contract to which they relate. Under the swap contracts Annington Rentals (Holdings) Limited receives variable rates linked to LIBOR and pay at a fixed weighted average of 1.83% (2016: 1.83%). As at 31 March 2017, the fair value of interest rate swaps was a liability of £3.8 million (2016: £5.1 million).

The Group does not hedge account for its interest rate swaps and states them at fair value with changes in fair value included in the income statement.

A 50 basis point increase/decrease in the interest rate in which derivative financial instruments are held would lead to a £2.4 million decrease (2016: £6.8 million decrease)/£4.5 million increase (2016: £11.5 million increase) in the Group's net finance costs.

Cash Management and Liquidity
Cash levels are monitored to ensure sufficient resources are available to meet the Group's current and projected operational commitments. The Group has borrowing facilities in place for AF1 of £14.1 million (2016: £14.1 million) and for AF4 of £80.7 million (2016: £84.6 million) to ensure no default on the quarterly bond repayments.

The £14.1 million (2016: £14.1 million) facility held by AF1 and the £5.7 million (2016: £9.6 million) facility held by AF4 are drawn down from RBS and placed with HSBC which holds the necessary rating.

AF4 holds a £75.0 million (2016: £75.0 million) liquidity facility with Nationwide, this was undrawn at both the current and previous balance sheet dates. This facility was cancelled in July 2017.

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

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

		2017		
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	26,406	26,384	22	–
Loans and borrowings	4,719,067	86,749	350,735	4,281,583
Total non-derivative financial liabilities	**4,745,473**	**113,133**	**350,757**	**4,281,583**
Derivative financial instruments				
Interest rate swaps	16,965	8,714	8,251	–
Total financial liabilities	**4,762,438**	**121,847**	**359,008**	**4,281,583**
Non-derivative financial assets				
Trade and other receivables	(24,824)	(24,824)	–	–
Cash, cash equivalents and restricted cash	(131,421)	(131,421)	–	–
Total non-derivative financial assets	**(156,245)**	**(156,245)**	**–**	**–**
Net financial liabilities/(assets)	**4,606,193**	**(34,398)**	**359,008**	**4,281,583**

		2016		
	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	28,528	18,199	10,329	–
Loans and borrowings	5,113,605	96,373	394,934	4,622,298
Total non-derivative financial liabilities	**5,142,133**	**114,572**	**405,263**	**4,622,298**
Derivative financial instruments				
Interest rate swaps	67,923	11,522	40,627	15,774
Total financial liabilities	**5,210,056**	**126,094**	**445,890**	**4,638,072**
Non-derivative financial assets				
Trade and other receivables	(44,479)	(22,363)	(22,116)	–
Cash, cash equivalents and restricted cash	(115,993)	(115,993)	–	–
Total non-derivative financial assets	**(160,472)**	**(138,356)**	**(22,116)**	**–**
Net financial liabilities/(assets)	**5,049,584**	**(12,262)**	**423,774**	**4,638,072**

20. Financial instruments and risk management (continued)

Fair values

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

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

	2016 Par value of debt £'000	2016 Balance sheet value £'000	2016 Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	170,875	174,904	184,630
Secured notes	3,500,787	2,621,910	3,226,260
Drawn liquidity facility	23,744	23,744	23,744
Secured bank loan	141,688	140,405	141,688
	3,837,094	**2,960,963**	**3,576,322**
Derivative financial liabilities			
Interest rate swaps	–	63,653	63,653
	3,837,094	**3,024,616**	**3,639,975**

	2017	2016
Weighted average interest rate	9.46%	8.66%
Weighted average period of fixed interest rates	5.7 years	6.8 years

Unsecured and secured notes

Listed Notes have been valued based on the Luxembourg Stock Exchange indicative price at balance sheet date. Where Notes are not listed they have been valued by determining pricing based on future yield, using the market yield of a comparable of Treasury 8% 2021 Notes yielding 0.24% (2016: yielding 0.39%), and applying an appropriate market discount rate. This represents a Level 2 fair value measurement.

Interest rate swaps

The fair value of derivative financial instruments is based on counterparty valuations using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 31 March 2017 and 31 March 2016.

Secured bank loan

This loan relates to a £165.0 million Five Year Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc, secured against residential properties held by all of its subsidiaries (Note 29). This facility requires three covenant tests to be maintained: Loan to Value, Gross Interest Coverage Ratio and Net Interest Coverage Ratio. Interest on the loan is payable at a floating rate but has been fixed by swaps, the fair value of this debt was determined to be the outstanding balance drawn down.

21. Share capital

	2017 £'000	2016 £'000
Called up, allotted and fully paid		
8,475,620,000 ordinary shares of £0.01 each	84,756	84,756

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

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

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

22. Merger reserve

	2017 £'000	2016 £'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.

23. Retained earnings

Retained earnings include all current and prior year retained profits and losses. The components of this are:

	2017 £'000	2016 £'000
Distributable profits	(808,200)	(669,491)
Non-distributable profits	4,532,503	3,633,099
Total retained earnings	**3,724,303**	**2,963,608**

Non-distributable profits represents unrealised gains arising on remeasurement of the Group's property assets net of deferred tax.

24. Note to the cash flow statement

	2017 £'000	2016 £'000
Profit after taxation	**760,695**	**608,999**
Adjustment for:		
Taxation	76,078	33,620
Finance costs	268,129	273,925
Finance income	(6,191)	(4,722)
Share of results of joint ventures after taxation	(4,816)	(7,196)
Profit on disposal of property assets	(13,727)	(35,634)
Unrealised property revaluation gains	(911,544)	(714,515)
Utilities provision release	(2,449)	(1,085)
Depreciation expense	81	86
Gain on sale of plant and equipment	(2)	–
Movements in working capital:		
Increase in inventory	(890)	–
Increase in debtors	(626)	(92)
Increase in creditors	1,457	4,484
Decrease in provisions	(153)	(647)
Net cash inflow from operating activities	**166,042**	**157,223**

25. Analysis of changes in net debt

	2017 £'000	Cash flow £'000	Other non-cash changes £'000	2016 £'000
Cash, cash equivalents and restricted cash	131,421	15,428	–	115,993
Debts falling due within one year	(56,351)	40,783	(37,095)	(60,039)
Debts falling due after more than one year	(2,981,693)	86,484	(103,600)	(2,964,577)
	(3,038,044)	**127,267**	**(140,695)**	**(3,024,616**
Net debt	**(2,906,623)**	**142,695**	**(140,695)**	**(2,908,623)**

Non-cash changes include amortisation of discounts and issue costs relating to debt issues.

26. Commitments and contingencies

ACCOUNTING POLICY

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

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

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

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

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

Operating lease commitments – Group as lessor
The Group has entered into property leases on its property assets portfolio. The Group 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 2017, the Group had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2017 £'000	2016 £'000
Within one year	98,196	95,973
In two to five years	12,755	14,234
After five years	33,471	141
	144,442	**110,348**

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

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

	Land and buildings		Machinery and motor vehicles	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Within one year	477	503	152	196
Between one and five years	55	76	105	193
	532	**579**	**257**	**389**

Contingent liabilities
As stated in Note 18, there is a contingent liability to allow for the adoption of private utilities on sites that are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment and where there have been no releases of property from the MoD. This amounts to £126.7 million (2016: £122.3 million).

27. Related party disclosures

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

On 18 December 2015, Annington Limited entered into an agreement with its parent company Annington Holdings (Guernsey) Limited permitting it to issue Zero Coupon Subordinated and Unsecured Loan Notes in an aggregate principal amount of up to £290.7 million due in 2024. During the year, £106.7 million was borrowed under this agreement. Accreted interest on this borrowing brought the book value of the debt to £307.1 million at 31 March 2017 (2016: £174.9 million).

During the current year, the Group has had transactions with joint ventures that include distributions, loans and associated interest. These transactions form the basis for the movements disclosed in Note 12.

n addition, during the year ended 31 March 2016 Annington Property Limited sold two parcels of land to the Inglis Consortium LLP for £9.9 million.

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

28. Entity information and controlling party

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

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

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

29. 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 2017, which are wholly owned, incorporated in the United Kingdom and included in the consolidated financial statements, are shown below. The address of the registered office for all subsidiary undertakings, with the exception of Annington Nominees Limited and its undertakings, is 1 James Street, London W1U 1DR.

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

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

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

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

Name of subsidiary undertaking	Holding %	Name of subsidiary undertaking	Holding %
Arborfield East Residents Company Limited	3.03	Lancaster Square Residents Company Limited	1.75
Ashchurch (St. David's) Residents Company Limited	5.26	Limerick (Balham) Residents Company Limited	2.63
Beaconside Residents Company Limited	1.75	Longtown Rosetrees Residents Company Limited	7.14
Biggin Hill Residents Company Limited	3.33	Marchwood (Africa Drive) Residents Company Limited	100.00
Bordon Residents Company Limited	0.95	Marham Residents Company Limited	4.76
Boulmer Residents Company Limited	1.79	Mayne Avenue Residents Company Limited	1.10
Britannia Crescent Residents Company Limited	1.10	Mostyn Court Bushey Residents Company Limited	4.55
Bulford Residents Company Limited	2.13	North Luffenham Residents Company Limited	1.59
Burgoyne Heights Residents Company Limited	0.75	Northwood Residents Company Limited	12.50
Butlers Meadow Residents Company Limited	1.32	Nottingham Road Residents Company Limited	3.23
Cardiff Place Residents Company Limited	2.56	Petersfield (Kings Road) Residents Company Limited	20.00
Catterick Anzio Residents Company Limited	100.00	Ringwood Crescent Residents Company Limited	11.11
Chartwell Gate Trust and Management Scheme	25.00	Scampton Residents Company Limited	0.61
Chester (Dale Camp) Residents Company Limited	2.00	Shorncliffe Drive Residents Company Limited	5.26
Chicksands Residents Company Limited	0.85	South Wigston Residents Company Limited	1.67
Chivenor Residents Company Limited	2.94	St. Columb Minor Residents Company Limited	1.72
Coningsby (West Drive) Residents Company Limited	1.35	St. Eval Parc Residents Company Limited	0.34
Cove Residents Company Limited	100.00	Stanbridge Residents Company Limited	10.00
Cranwell Residents Company Limited	3.13	Stokesay Road Residents Company Limited	1.89
Dale Road Residents Company Limited	0.78	Strensall Residents Company Limited	2.86
Dishforth Residents Company Limited	3.23	The Elstons Residents Association Limited	91.30
Donnington Residents Company Limited	1.25	Thirsk Residents Company Limited	2.86
Donnington (Richards Road) Residents Company Limited	1.59	Union Building (Aldershot) Residents Company Limited	100.00
Driffield Ramsden Residents Company Limited	7.14	Uxbridge (Buchan) Residents Company Limited	80.39
East Vale Residents Company Limited	0.31	Uxbridge (Southern) Residents Company Limited	1.54
Exmouth (York Close) Residents Company Limited	10.00	Uxbridge Jupiter Heights Residents Company Limited	4.00
Foulkes Terrace (Aldershot) Residents Company Limited	25.00	Waterbeach (Abbey Place) Residents Company Limited	100.00
Garats Hay Residents Company Limited	7.69	Waterbeach Residents Company Limited	0.69
Graham Road (Redruth) Residents Company Limited	1.82	Watton Residents Company Limited	3.70
Greenmill Residents Company Limited	3.13	West Moors Residents Company Limited	5.00
Henlow Residents Company Limited	5.00	West Vale Residents Company Limited	0.52
High Wycombe (Woodcock) Residents Company Limited	6.25	Whetstone Milson Close Residents Company Limited	3.23
Honington (Poplar Close) Residents Company Limited	3.03	White Waltham Residents Company Limited	12.50
Innsworth Residents Company Limited	1.28	Wimbish Residents Company Limited	3.85
Keith Park Road (Uxbridge) Residents Company Limited	0.60	Wittering Residents Company Limited	0.29
Kirton (York Road) Residents Company Limited	25.00	Woodbridge West Residents Company Limited	2.44
Kirton in Lindsey Residents Company Limited	1.25	Wyton Residents Company Limited	0.56

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

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

Name of subsidiary undertaking	Holding %	Name of subsidiary undertaking	Holding %
Beaumont Place Management Limited Registered address: Vantage Point, 23 Mark Road, Hemel Hempstead, Hertfordshire, HP2 7DN	70.00	Elliott Place Management Company Ltd Registered address: Gasworks House, Canal Bank, Brecon, Powys, LD3 7HG	50.00

30. Post balance sheet events

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

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

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

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

Cross currency swaps are in place for the €600 million bond, converting the nominal balance to £526.26 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.
Of the Group's existing debt, the following transactions took place in July 2017:

Company	Tranche of Debt	Subsequent Event	Date
Annington Limited	11% Unsecured Zero Coupon Notes 2024	Redeemed	12 July 2017
Annington Finance No. 1 plc	8% Secured Bonds 2012/2021	Redeemed	13 July 2017
Annington Finance No. 4 plc	Zero Coupon Notes 2022 Class A	Redeemed	13 July 2017
Annington Finance No. 4 plc	Zero Coupon Notes 2023 Class B	Redeemed	13 July 2017
Annington Finance No. 4 plc	Floating Rate Notes 2023 Class B3	Defeased (to be redeemed on 10 October 2017)	12 July 2017
Annington Finance No. 4 plc	Fixed Rate Notes 2023 Class C	Redeemed	13 July 2017
Annington Finance No. 4 plc	Fixed Rate/FRN 2023 Class M	Defeased (to be redeemed on 10 October 2017)	12 July 2017
Annington Finance No. 5 plc	PIK Notes 2023	Defeased; and redeemed	12 July 2017; 28 July 2017
Annington Rentals (Holdings) Limited	Royal Bank of Scotland – 5yr loan	Repaid	12 July 2017

31. Adoption of IFRS

The Group had previously prepared Companies Act financial statements for the year ended 31 March 2016 in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). The Group's first IFRS financial statements were prepared for inclusion in the prospectus of Annington Funding plc for the purpose of raising new debt, with a transition date of 1 April 2014.

This note explains the principal adjustments made by the Group in restating its FRS 102 financial statements, including the balance sheet as at 1 April 2014 and financial statements for the year ended 31 March 2015.

Exemptions applied
IFRS 1 allows first time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemption:
– IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 April 2014. Use of this exemption means that FRS 102 carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS balance sheet. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

Estimates
The estimates at 1 April 2014 and at 31 March 2015 are consistent with those made for the same dates in accordance with FRS 102 (after adjustments to reflect any differences in accounting policies). The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 April 2014, the date of transition to IFRS and as at 31 March 2015.

Group reconciliation of equity as at 1 April 2014 (date of transition to IFRS)

	Note	FRS 102 £'000	Effect of transition £'000	IFRS as at 1 April 2014 £'000
Non-current assets				
Investment properties	i	5,383,889	(12,956)	5,370,933
Plant and equipment		183	–	183
Investment in joint ventures		15,958	–	15,958
		5,400,030	**(12,956)**	**5,387,074**
Current assets				
Trade and other receivables		582	–	582
Cash, cash equivalents and restricted cash		147,611	–	147,611
		148,193	**–**	**148,193**
Investment properties held for sale	i	–	12,956	12,956
Total assets		**5,548,223**	**–**	**5,548,223**
Current liabilities				
Trade and other payables		(74,497)	–	(74,497)
Loans and borrowings		(91,564)	–	(91,564)
		(166,061)	**–**	**(166,061)**
Non-current liabilities				
Other payables		(4,551)	–	(4,551)
Loans and borrowings		(2,803,895)	–	(2,803,895)
Deferred tax liabilities		(565,581)	–	(565,581)
Provisions		(34,755)	–	(34,755)
Derivative financial instruments		(84,853)	–	(84,853)
		(3,493,635)	**–**	**(3,493,635)**
Total liabilities		**(3,659,696)**	**–**	**(3,659,696)**
Net assets		**1,888,527**	**–**	**1,888,527**
Capital and reserves				
Share capital		84,756	–	84,756
Merger reserve		(10,000)	–	(10,000)
Retained earnings		1,813,771	–	1,813,771
Total equity		**1,888,527**	**–**	**1,888,527**

31. Adoption of IFRS (continued)

Group reconciliation of equity as at 31 March 2015

	Note	FRS 102 £'000	Effect of transition £'000	Utilities provision[ii] £'000	IFRS as at 31 March 2015 £'000
Non-current assets					
Investment properties	i	6,062,569	(25,525)	37,808	6,074,852
Plant and equipment		112	–	–	112
Investment in joint ventures		29,155	–	–	29,155
		6,091,836	**(25,525)**	**37,808**	**6,104,119**
Current assets					
Trade and other receivables		795	–	–	795
Cash, cash equivalents and restricted cash		116,631	–	–	116,631
		117,426	**–**	**–**	**117,426**
Investment properties held for sale	i	–	25,525	–	25,525
Total assets		**6,209,262**	**–**	**37,808**	**6,247,070**
Current liabilities					
Trade and other payables		(59,263)	–	–	(59,263)
Loans and borrowings		(86,927)	–	–	(86,927)
		(146,190)	**–**	**–**	**(146,190)**
Non-current liabilities					
Other payables		(6,828)	–	–	(6,828)
Loans and borrowings		(2,835,507)	–	–	(2,835,507)
Deferred tax liabilities		(689,320)	–	(7,529)	(696,849)
Provisions		(37,808)	–	–	(37,808)
Derivative financial instruments		(94,523)	–	–	(94,523)
		(3,663,986)	**–**	**(7,529)**	**(3,671,515)**
Total liabilities		**(3,810,176)**	**–**	**(7,529)**	**(3,817,705)**
Net assets		**2,399,086**	**–**	**30,279**	**2,429,365**
Capital and reserves					
Share capital		84,756	–	–	84,756
Merger reserve		(10,000)	–	–	(10,000)
Retained earnings		2,324,330	–	30,279	2,354,609
Total equity		**2,399,086**	**–**	**30,279**	**2,429,365**

Group reconciliation of total comprehensive income for the year ended 31 March 2015

	Note	FRS 102 £'000	Effect of transition £'000	Utilities provision[ii] £'000	IFRS for the year ended 31 March 2015 £'000
Property rental income		179,269	–	–	179,269
Property operating expenses		(20,983)	–	4,122	(16,861)
Net rental income		**158,286**	**–**	**4,122**	**162,408**
Other operating income		210	–	–	210
Administrative expenses		(12,844)	–	–	(12,844)
Utilities provision expense		–	–	(878)	(878)
Unrealised property revaluation gains		727,863	–	37,808	765,671
Profit on disposal of investment properties		23,306	–	–	23,306
Share of results of joint ventures after taxation		8,730	–	–	8,730
Operating profit		**905,551**	**–**	**41,052**	**946,603**
Finance income		215	–	–	215
Finance costs		(271,817)	–	(3,244)	(275,061)
Profit before taxation		**633,949**	**–**	**37,808**	**671,757**
Taxation		(123,390)	–	(7,529)	(130,919)
Profit for the year after taxation		**510,559**	**–**	**30,279**	**540,838**
Profit attributable to shareholder		**510,559**	**–**	**30,279**	**540,838**

There were no items of other comprehensive income or expense and therefore the profit for the year reflects the Group's total comprehensive income.

Notes to the Group reconciliation of equity as at 1 April 2014 and 31 March 2015 and Group total comprehensive income for the year ended 31 March 2015

i Investment properties held for sale

IFRS requires non-current assets to be classified as held for sale where the carrying amount is recovered principally through a sale transaction rather than through continuing use, whereas previous FRS 102 did not have any concept of held for sale assets. This has resulted in a reclassification of those properties that had been released for sale at year end to investment properties held for sale.

ii Reclassification of utilities provision

Under FRS 102, the market value of investment properties was equal to the carrying value. IFRS requires the market value of investment properties to be adjusted for assets or liabilities recognised separately on the balance sheet. This has resulted in the Group adjusting the market valuation for investment properties to exclude the utilities provision that has been recognised separately. Under FRS 102, the discount unwind of the utilities provision and the provision amount charged/released to the income statement were included in cost of sales. Under IFRS, these are disclosed separately, with the discount unwind recognised as a borrowing cost. This has resulted in the Company separately disclosing these amounts in the income statement. The discount unwind has been included in finance costs.

Company balance sheet

At 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000	1 April 2015 £'000
Non-current assets				
Investment in subsidiary companies	c	2,516,500	2,156,800	2,017,400
Deferred tax asset	d	5,016	725	–
Receivables	e	307,267	174,679	–
Total assets		**2,828,783**	**2,332,204**	**2,017,400**
Current liabilities				
Payables	f	(28)	(15)	(166)
Non-current liabilities				
Borrowings	g	(307,086)	(174,904)	–
Total liabilities		**(307,114)**	**(174,919)**	**(166)**
Net assets		**2,521,669**	**2,157,285**	**2,017,234**
Capital and reserves				
Share capital	21	84,756	84,756	84,756
Revaluation reserve		2,431,744	2,072,044	1,932,644
Retained earnings		5,169	485	(166)
Total equity		**2,521,669**	**2,157,285**	**2,017,234**

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

The Company reported a profit of £4.7 million for the year ended 31 March 2017 (2016: profit of £0.7 million).

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 28 July 2017.

Signed on behalf of the Board of Directors

A P Chadd
Director

Company statement of changes in equity

For the year ended 31 March 2017

	Note	Share capital £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2015		84,756	1,932,644	(166)	2,017,234
Profit attributable to shareholder		–	–	651	651
Change in fair value of investment in subsidiary companies	c	–	139,400	–	139,400
Balance at 31 March 2016		**84,756**	**2,072,044**	**485**	**2,157,285**
Profit attributable to shareholder		–	–	4,684	4,684
Change in fair value of investment in subsidiary companies	c	–	359,700	–	359,700
Balance at 31 March 2017		**84,756**	**2,431,744**	**5,169**	**2,521,669**

Company cash flow statement

For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Net cash from operating activities	i	–	–
Investing activities			
Loans to subsidiary		(106,705)	(170,875)
Net cash outflow from investing activities		**(106,705)**	**(170,875)**
Financing activities			
Increase in borrowings		106,705	170,875
Net cash inflow from financing activities		**106,705**	**170,875**
Net decrease in cash and cash equivalents		**–**	**–**
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		**–**	**–**

Notes to the Company financial statements

For the year ended 31 March 2017

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. These financial statements for the year ended 31 March 2017 are the first the Company has prepared in accordance with IFRS.

The Company had previously prepared its financial statements in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). Details of how the Company adopted IFRS are disclosed in Note n.

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 estimates

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

b. Profit for the year

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

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

c. Investment in subsidiary companies

ACCOUNTING POLICY

The Company has elected to account for its investments in subsidiaries at fair value. Fair value is determined by reference to the discount or premium to net asset value of similar investments listed on the London Stock Exchange. If the carrying amount is increased or decreased as a result of a revaluation, the change is recognised in other comprehensive income and accumulated in equity. If a revaluation decrease exceeds the accumulated revaluation gains in equity, the excess is recognised in profit or loss.
The fair value of the investment in subsidiaries are determined by a Level 2 valuation technique, as described below. The fair value measurement hierarchy levels have been defined in Note 10 to the Consolidated financial statements.

	2017 £'000	2016 £'000	2015 £'000
Valuation			
At 1 April	2,156,800	2,017,400	1,315,700
Increase in fair value during the year	359,700	139,400	701,700
At 31 March	**2,516,500**	**2,156,800**	**2,017,400**

The historical cost of the investment in subsidiaries was £84,756,199 (2016: £84,756,199).

Fair value is measured by applying to the net asset value of investees an estimated discount or premium determined through an analysis of comparable FTSE 100 and FTSE 250 companies. The selection criteria for comparable companies was applied to entities operating within the property sector and took into account factors including the size of the company and the presence of residential operations within the company. The discount or premium was determined based on market capitalisation and the resultant discount to/premium over the net asset value. The result, a 19% discount (2016: 12% 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.

c. Investment in subsidiary companies (continued)

Of the fair value movement, a gain of £359.7 million (2016: gain of £139.4 million) was recognised through other comprehensive income.

Details of all subsidiaries as at 31 March 2017 are shown in Note 29 to the Consolidated financial statements.

d. Taxation

ACCOUNTING POLICY

The taxation expense for the year comprises current and deferred tax. Tax 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 in the countries where the Company operates and generates taxable income. Taxable profit differs from profit before tax as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences, except:
– in respect of taxable temporary differences associated with investments in joint arrangements, when the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Deferred tax assets and deferred tax liabilities are offset only if:
– the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
– the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

	2017 £'000	2016 £'000
Current tax		
United Kingdom corporation tax at 20% (2016: 20%)	–	–
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	4,291	725
Total deferred tax	**4,291**	**725**
Total taxation for the year	**4,291**	**725**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 20% (2016: 20%). The tax for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2017 £'000	2016 £'000
Profit/(loss) before taxation	**394**	**(74)**
Tax on profit/loss at the standard rate	79	(15)
Factors affecting the current tax for the year:		
Group relief claimed	(47)	(791)
Change in tax rate	40	–
Expenses not deductible for tax	764	81
Transfer pricing adjustment	(5,127)	–
Taxation for the year	**(4,291)**	**(725)**

From 1 April 2016, the headline rate of corporation tax was 20%. It will be reduced to 19% from 1 April 2017, and further reduced to 17% from 1 April 2020, with these rates substantively enacted at the current balance sheet date.

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

	Deferred finance costs £'000	Total £'000
At 1 April 2015	–	–
Credit to profit or loss	(725)	(725)
At 31 March 2016	**(725)**	**(725)**
Credit to profit or loss	(4,291)	(4,291)
At 31 March 2017	**(5,016)**	**(5,016)**

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

	2017 £'000	2016 £'000
Deferred tax assets	5,016	725
Net deferred tax assets	**5,016**	**725**

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 £427.8 million (2016: £372.1 million).

e. Receivables

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000	2015 £'000
Amounts owed by group undertakings	307,267	174,679	–

Amounts owed by group undertakings to the Company are unsecured, interest bearing at 11.0% and have a fixed date of repayment in 2024.

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

The carrying value of receivables approximates the fair value.

f. Payables

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000	2015 £'000
Amounts owed to group undertakings	28	15	166

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

g. Borrowings

ACCOUNTING POLICY

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

	2017 £'000	2016 £'000	2015 £'000
Amounts falling due after more than five years			
Unsecured notes	307,086	174,904	–

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

	2016 £'000	Amortisation of bond issue costs and finance charges £'000	Issued/Drawn/(Repaid) £'000	2015 £'000
Reconciliation of movements				
11% Unsecured Zero Coupon Notes 2024	174,904	4,029	170,875	–

h. Financial instruments and risk management

ACCOUNTING POLICY

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

Financial assets

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

Financial liabilities
The Company's financial liabilities consists of intercompany borrowings.

The Company has the following financial instruments:

	Note	2017 £'000	2016 £'000	2015 £'000
Financial assets				
Receivables	e	307,267	174,679	–
Investment in subsidiary companies	c	2,516,500	2,156,800	2,017,400
Total financial assets		**2,823,767**	**2,331,479**	**2,017,400**
Financial liabilities				
Liabilities measured at amortised cost:				
Payables	f	28	15	166
Borrowings	g	307,086	174,904	–
Total financial liabilities		**307,114**	**174,919**	**166**

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

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

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

	2016		
	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	170,875	174,904	184,630
Level 2			
Non-derivative financial assets			
Investment in subsidiaries	–	2,156,800	2,156,800

h. Financial instruments and risk management (continued)

	2015 Par value of debt £'000	2015 Balance sheet value £'000	2015 Fair value £'000
Level 2			
Non-derivative financial assets			
Investment in subsidiaries	–	2,017,400	2,017,400

Further details of the unsecured notes are shown in Note 20 to the Group financial statements.

i. Note to the cash flow statement

	2017 £'000	2016 £'000
Profit after taxation	**4,685**	**651**
Adjustment for:		
Taxation	(4,291)	(725)
Administration expenses	(234)	68
Finance income	(25,637)	(4,023)
Finance costs	25,477	4,029
Net cash from operating activities	**–**	**–**

j. Analysis of change in net debt

	2017 £'000	Cash flow £'000	Other non-cash changes £'000	2016 £'000
Cash and cash equivalents	–	–	–	–
Debts falling due after more than one year	(307,086)	(106,705)	(25,477)	(174,904)
Net debt	**(307,086)**	**(106,705)**	**(25,477)**	**(174,904)**

Non-cash changes include amortisation of discounts and issue costs relating to debt issues.

k. Related party disclosures

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

	2017 £'000	2016 £'000
Recharge of costs	(149)	(140)
Loans to subsidiary	132,562	174,897
Borrowings from related parties	(132,182)	(174,904)

On 18 December 2015, the Company entered into an agreement with its parent company Annington Holdings (Guernsey) Limited permitting it to issue Zero Coupon Subordinated and Unsecured Loan Notes in an aggregate principal amount of up to £290.7 million due in 2024. During the year, £106.7 million was borrowed under this agreement. Accreted interest on this borrowing brought the book value of the debt to £307.1 million at 31 March 2017 (2016: £174.9 million).

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

l. Commitments and contingencies

The Company had no capital or other commitments at 31 March 2017 (2016: £nil).

m. Post balance sheet events

Details on reportable or adjusting post balance sheet events applicable to the consolidated Group are disclosed in Note 30 to the Consolidated financial statements. In addition, on 12 July, the Company acquired one new £1.00 share issued by Annington Homes Limited for total cash consideration of £164,000,000.00, generating a share premium of £163,999,999.00. On the same day, the Company acquired one new £1.00 share issued by Annington Homes Limited for a total consideration of £316,500,768.21, generating a further share premium of £316,500,767.21, with the consideration for this being offset against the amount due by Annington Homes Limited to Annington Limited under the loan agreement dated 18 December 2015.

n. First time adoption of IFRS

The Company has previously prepared Companies Act financial statements for the year ended 31 March 2016 in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). These financial statements constitute the Company's first IFRS financial statements, with a transition date of 1 April 2015.

This note explains the principal adjustments made by the Company in restating its FRS 102 financial statements, including the balance sheets as at 1 April 2015 and financial statements for the year ended 31 March 2016.

Exemptions applied
IFRS 1 allows first time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemption:
– IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 April 2015. Use of this exemption means that UK GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS balance sheet. The Company did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

Estimates
The estimates at 1 April 2015 and at 31 March 2016 are consistent with those made for the same dates in accordance with FRS 102 (after adjustments to reflect any differences in accounting policies). The estimates used by the Company to present these amounts in accordance with IFRS reflect conditions at 1 April 2015, the date of transition to IFRS and as at 31 March 2016.

Company reconciliation of equity as at 1 April 2015 (date of transition to IFRS)

	Note	FRS 102 £'000	Effect of transition £'000	Utilities provision[ii] £'000	IFRS as at 1 April 2015 £'000
Non-current assets					
Investment in subsidiary companies		1,984,400	–	33,000	2,017,400
Total assets		**1,984,400**	**–**	**33,000**	**2,017,400**
Current liabilities					
Payables		(166)	–	–	(166)
Total liabilities		**(166)**	**–**	**–**	**(166)**
Net assets		**1,984,234**	**–**	**33,000**	**2,017,234**
Capital and reserves					
Share capital		84,756	–	–	84,756
Revaluation reserve	i	–	1,899,644	33,000	1,932,644
Retained earnings	i	1,899,478	(1,899,644)	–	(166)
Total equity		**1,984,234**	**–**	**33,000**	**2,017,234**

n. First time adoption of IFRS (continued)

Company reconciliation of equity as at 31 March 2016

	Note	FRS 102 £'000	Effect of transition £'000	Utilities provision[ii] £'000	IFRS as at 31 March 2016 £'000
Non-current assets					
Investment in subsidiary companies		2,128,500	–	28,300	2,156,800
Deferred tax asset		725	–	–	725
Receivables		174,679	–	–	174,679
Total assets		**2,303,904**	**–**	**28,300**	**2,332,204**
Current liabilities					
Payables		(15)	–	–	(15)
Non-current liabilities					
Borrowings		(174,904)	–	–	(174,904)
Total liabilities		**(174,919)**	**–**	**–**	**(174,919)**
Net assets		**2,128,985**	**–**	**28,300**	**2,157,285**
Capital and reserves					
Share capital		84,756	–	–	84,756
Revaluation reserve	i	–	2,043,744	28,300	2,072,044
Retained earnings	i	2,044,229	(2,043,744)	–	485
Total equity		**2,128,985**	**–**	**28,300**	**2,157,285**

Notes to the reconciliation of equity as at 1 April 2015 and 31 March 2016

i Revaluation reserve

For the purpose of preparing separate financial statements, IFRS requires an entity to account for its investment in subsidiary companies either at cost less impairment or at fair value. The Company has elected to account for its investment in subsidiary companies at fair value through other comprehensive income and to disclose this balance in a separate reserve. If a revaluation decrease exceeds the accumulated revaluations in equity, the excess is recognised in profit or loss.

ii Reclassification of utilities provision

Under FRS 102, the market value of investment properties was equal to the carrying value. IFRS requires the market value of investment properties to be adjusted for assets or liabilities recognised separately on the balance sheet. This has resulted in as subsidiary company adjusting the market valuation for investment properties to exclude the utilities provision that has been recognised separately. This has impacted the fair value of the investment in subsidiary companies accounted for by the Company.

THE face OF ANNINGTON

Focused · Approachable · Caring · Experienced

Our company values, The FACE of Annington, mirror our Building Opportunities Corporate Responsibility Plan and underpin our commitment to acting responsibly. These values set guidelines for our behaviours to make good commercial and ethical decisions.

20 YEARS

A celebration

2016 marked the 20th anniversary of Annington Homes.

To celebrate this momentous occasion, staff past and present from the last 20 years came together to witness a fantastic firework display.

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