

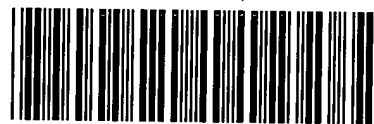
**Company Registration No. 3232852**

**ANNINGTON PROPERTY LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 March 2015**

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# **ANNINGTON PROPERTY LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015**

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# ANNINGTON PROPERTY LIMITED

## STRATEGIC REPORT

The Company was created in 1996, for the sole purpose of acquiring certain interests in the Married Quarters Estate ("MQE") in England and Wales, together with certain related assets, from the Ministry of Defence ("MoD") on 5 November 1996. This purchase included:

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

At 31 March 2015, the Retained Estate comprised 39,262 (2014: 39,433) units leased to the Ministry of Defence. The Retained Estate was purchased on a 999 year lease and immediately leased back to the MoD for a period of 200 years subject to certain underleases which permit the properties to be used by the MoD to provide housing for married service personnel and their families. The underleases provide for the MoD to pay rent on a quarterly basis at a 58% discount to similar properties' open market rent. These rents are subject to five-yearly reviews against open market values, subject to the agreed discount. All properties subject to these arrangements continue to be maintained by and remain entirely under the control of the MoD, dependent upon its operational needs. The identification of surplus properties and the timing of their release to the Company is entirely at the discretion of the MoD and, upon receiving not less than six months' notice, the Company is obliged to accept any properties declared surplus. At the end of the first 25 years following the initial acquisition, and every 15 years thereafter, a review will be performed for each site, to rebase the rent to the full market rental value for the site as a whole, reflecting the various features of the underlying lease arrangements with the MoD.

The Surplus Estate was acquired with freehold title and arrangements relating to the supply of certain utilities. The Related Assets constitute several hundred properties including houses, community buildings, playgrounds and a range of amenity facilities designed to support the residential estate.

The Master Agreement, dated 5<sup>th</sup> November 1996, contains certain obligations, on the part of the MoD, to make guaranteed minimum payments of rent and, annually, to release to Annington a pre-set minimum number of units that have become surplus to requirement, known as the Minimum Release. The Guaranteed Minimum Payment continues to be payable in accordance with a predefined schedule until December 2021. The Minimum Release obligation, to release in the period 1996-2021 a minimum of 13,213 units, excluding the original Surplus Estate, was satisfied in the 2006/7 financial year. Although the MoD is under no obligation to release further units, from a practical point of view it is expected that properties will continue to be released over time, as the MoD's requirements change.

At the time of acquisition the MoD and the Company entered into a Profit Share Agreement. The Company was obliged under the terms of the agreement to make payments to the MoD calculated on a percentage of certain gains made, or deemed to have been made, on the disposal of units or sites (including by way of letting, sale or otherwise). The agreement ended on 5 November 2011 with no further obligations on disposals after that date. Over the life of the agreement, £161.2 million was paid to HM Treasury in Profit Share.

## STRATEGIC REPORT (continued)

### PROPERTY MARKET OVERVIEW

The year started with clear signs of a recovery in the housing market with prices increasing and appearing to gather momentum across all regions of the United Kingdom. The Land Registry reported house prices were up 5.6% in the year to March 2014 with all regions contributing positive growth but particularly London with a rise of 12.4%. For the year ended April 2014, the Nationwide reported annual house price growth well ahead of the Land Registry at 10.9%, the first time it had reached double digit growth in four years, with prices in the UK as a whole just 2% behind their pre-crisis levels and London some 20% higher.

Activity levels and mortgage approvals were strong at the start of the financial year, with the Land Registry reporting 66,659 completed house sales in England and Wales in April 2014, an increase of 31% compared with the same month one year earlier, a number in accord with LSL Property Services' data reporting a 40% rise. Despite reports that the UK construction market was growing at its fastest rate for four years, such as the Royal Institute of Chartered Surveyors' ("RICS") third quarter Construction Market Survey, the construction of new homes continued to lag far behind the increase in new demand with the Nationwide reporting the number of new homes being built remaining some 40% below pre-crisis levels. Knight Frank's Housebuilding Report, issued in May 2015, supported what many have believed for some time: that the market is incapable of delivering the Government target of 200,000 homes per annum and that the majority of respondents to Knight Frank's Annual Housebuilder Survey expect the sustainable level is less than 180,000 per annum.

The imbalance between demand and supply, a persistent feature of the housing market, was clearly underpinning the upward pressure on house prices. According to Hometrack, demand for housing at a national level rose by 3.3% in April 2014 whilst new supply only managed an increase of 1.9% in the month. There were concerns that continued rampant house price inflation could lead to a house price "bubble".

This caused the Governor of the Bank of England to issue a stark warning in May 2014 that he was prepared "to take unprecedented steps" to rein in Britain's booming housing market by capping the amount that individuals could be borrow as a multiple of income or impose an "affordability test". Whether this had the desired effect or whether it was the prospect of interest rate rises or the impact of subdued wage growth is not known but by the middle of the year, there was evidence of a gradual cooling off in house price growth, particularly in London and the South East, a trend which continued into 2015.

The RICS, Nationwide, and Hometrack all noted a moderation in the market in May 2014 with fewer instructions to sell and a levelling off in new buyer demand as the Council of Mortgage Lenders ("CML") reported mortgage approvals held steady rather than increased. Hometrack noted a marginal increase in house prices of 0.3% in June 2014 and just 0.1% in July 2014 but, more importantly, no growth in housing demand which represented a major turnaround from the trend of the previous eighteen months. This effect was felt nationwide, with less than a quarter of all postcode districts registering increases and London, in particular, showing a pronounced slow down. The tale of slower growth and stabilising buyer demand was reported by the main market commentary at that time. Any optimism that this might reverse proved false. Whilst average house prices were not actually falling, weaker demand and increasing supply dampened upward pressure on prices and although the same causes were cited as the reasons for this, political uncertainty over the outcomes of the Scottish Referendum and the General Election certainly played their part too.

This cooling off could not be explained easily because consumer sentiment remained buoyant, inflation was falling, employment was rising and the prospect of interest rate rises remained distant. Moreover, the supply side of the market remained constrained which, in theory, was always going to provide underlying support for prices. The Housing Pipeline Report published by the Home Builders Federation in September 2014 confirmed that the number of homes granted planning permission had risen to its highest level for over six years, demonstrating that the industry was responding to demand. Strong construction growth was evident but labour shortages, particularly skilled labour, was reported to be acting as a constraint by both the Construction Industry Training Board and the RICS, suppressing the house builders' ability to meet demand.

Affordability increasingly became a focus for commentators' attention. The "Home Truths 2014/15: Broken Market, Broken Dream" report published by the National Housing Federation ("NHF") in September 2014 typified the sentiment, noting that the average first time buyer needed a £30,000 deposit, almost ten times the deposit needed in the 1980's, after accounting for inflation. A YouGov survey in the same month noted that more than a quarter of people with a mortgage said they would be in financial trouble if interest rates rose.

## **STRATEGIC REPORT (continued)**

### **PROPERTY MARKET OVERVIEW (continued)**

Hometrack, in September 2014, reported that growth had “completely stalled”, however, the fact remained that house price growth was still in positive territory across all regions in the UK and this remained the case for the rest of the year. Simply put, it was just not rising at the same meteoric rate it was earlier in the year. The Office of National Statistics reported an annual increase in UK house prices of 12.1% in the year to September 2014, with England leading the charge with a gain of 12.5%. The same report showed Wales recorded a rise of 5.8% but this had dropped to 9.8% by December 2014 and 7.2% in February 2015. The Land Registry showed a fall from 6.7% in January 2015 to 5.1% in April 2015 whilst the Nationwide recorded four consecutive months of decline in the rate of annual increase from 7.2% in December 2014 to 5.1% in March 2015. Other indices including those produced by the Halifax, Knight Frank and Rightmove reported similar findings with the CML identifying a decline in mortgage lending too.

According to the RICS, which was very much in tune with other commentators, house buyers and sales flat lined in March, with the number of properties coming to the market falling, a phenomenon witnessed by Rightmove as well, but this has only served to maintain upwards pressure on house prices. UK house prices increased by 9.6% in the year to March 2015 according to the ONS's House Price Index, an increase on its reported figures in February and serving to demonstrate that whilst not resurgent, the market was on the move again. Other commentators also noticed a 'bounce back', albeit marginal. The first quarter of 2015 might have seen the highest quarterly number of new homes built since 2007. In May 2015, the ONS reported 40,300 new starts in the quarter to March 2015, showing that the momentum from 2014 which saw 137,300 new homes started, up 10% on the 2013 calendar year and 75% on the trough in 2009, was gathering speed, but this is still not anywhere near the numbers needed to cope with demand or Government targets. And, there might have been a drop off in the number of new buyers but the lack of supply was still supporting house price increases. This phenomenon will continue well in to 2015 and beyond.

The lack of supply and affordability constraints had a serious impact on the rental market with the drop off in new buyers in the sales market only leading to resurgence in demand for rental property with a record demand from new tenants. Rents rose by 1.7% in 2014 according to the ONS Index of Private Housing Rental Prices and are set to continue to grow. The private rented sector was the fastest growing sector, expanding at the expense of home ownership and remaining larger than the social rented sector. In 2013-14, 19% (4.4 million) households were renting privately against 18% in 2012-13 and 11% in 2003.

### **OBJECTIVES AND STRATEGY**

The management of the Company's interest in the MQE can be said to be 'reactive' in that, with the exception of the rent review process, it is only when the MoD declares properties surplus that the Company can fully engage in property related activities. However, the main objective continues to be maintaining and, where possible, improving the value of the Company's interests in the MQE. A key driver in this value is the rent review process. By ensuring that market rents for comparable properties are fully researched, the Company ensures that any upward movement in rents is captured and used in the review process. Given the length of the lease arrangements, anticipated rental income is a significant factor in the calculation of value.

Once properties leased to the MoD are returned to the Company, all disposal options are rigorously appraised, including rental, third party sales, or redevelopment, in order to identify the optimum added value strategy for the Company. The Company is entitled to receive the freehold to all released properties and may be required to undertake a range of works to enable the properties to be occupied or sold to third parties, including the provision of adoptable utility supplies. In the case of sales to third parties, the Company assesses what level of refurbishment should be undertaken to create the optimum added value. The Company bears the cost of both elements of work before lettings or sales are achieved. A proportion of the costs to return the units to tenantable condition may be recoverable by way of claims for dilapidations against the MoD.

The Company continues to examine the way in which it evaluates the options for dealing with future sites to ensure units are prepared for disposal in a way that meets the changing market conditions. Historically, the Company has used a strategy that has prepared large numbers of properties for sale over a short period of time. However, during property market declines, the Company has the ability to choose to retain more properties for rent and to prepare smaller numbers of properties for sale in order to keep completed stock levels low and can re-phase works to optimise cash flow requirements. This strategy was successfully used during the last five years to address market conditions prevailing at that time.

## STRATEGIC REPORT (continued)

### OPERATIONS AND PERFORMANCE

At 31 March 2015, the MQE comprised 39,262 (2014: 39,433) units leased to the MoD. At that time, the MoD had released 15,798 (2014: 15,627) properties from the Retained Estate and 180 Related Assets (2014: 179) to the Company, in addition to the original 2,374 properties in the Surplus Estate. 17,673 (2014: 17,468) of the released and surplus properties have been sold and 20 (2014: 20) demolished or consolidated, leaving 479 (2014: 513) unsold. Of the unsold units, 271 (2014: 278) are held pending planning for redevelopment, with 4 (2014: 14) held in temporary rental, leaving 204 (2014: 221) properties available for private sale. Related Assets and new build units account for a further 245 (2014: 245) unit sales.

After an exceptional year in 2014, the releases from the MoD have reverted to the low levels seen in prior years, with a total of 171 units and one Related Asset (2014: 514 units) released in the year.

Release levels for the last 5 years have been:

Year ended 31 March	Number of released units
2011	275
2012	143
2013	22
2014	514
2015	171

Releases at Henlow, Canterbury, Shrewsbury and High Wycombe accounted for 85% of units released. Given the low volume of releases, sales activity has been focused on a restricted number of sites, most notably Waterbeach and Uxbridge. A large majority of the units that have been refurbished at these two sites have been sold or reserved, with only a handful remaining at Waterbeach.

Strategic third party relationships remain important in helping potential purchasers acquire properties from Annington, particularly first-time buyers. Relationships with estate agencies, an independent financial adviser and conveyancing solicitors continue to ensure that sales progress smoothly. Similar arrangements exist with surveyors and contractors across a range of disciplines to ensure that building and refurbishment works are well managed.

Annington's 28.55% investment in the Inglis Consortium LLP and its development 'Millbrook Park', Mill Hill (in north London) continues to show positive results, with land values and house prices still rising. The fourth, fifth and sixth phases of the development were sold during the year, for amounts in excess of original expectations.

#### Performance

The Company generated rental income of £163.9 million (2014: £164.1 million) and generated £49.4 million (2014: £69.5 million or £53.8 million excluding intra-group sales) of income by selling 205 units (2014: 396 units and one Related Asset, or 297 units and one Related Asset excluding intra-group sales).

Following a fallow year in 2013, negotiations for the first year in the fourth Rent Review cycle concluded in December 2014, with the Rentals team achieving a 14.5% uplift across all reviewed sites. This represents a £5.8 million increase in rental income per annum.

The results of our completed Rent Reviews are summarised in the following table.

As at 25 December	Number of 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%

The Company's results are reflective of not only the market but the nature of units available for sale following releases from the MQE. The KPIs for the Homes Subgroup, outlined later in this report, are reflective of a year in which there were no bulk sales, following the sale of the 194 units at Brize Norton in 2013/4, which resulted in almost half of Annington Property Limited's sales for that period.

## STRATEGIC REPORT (continued)

### Performance (continued)

In respect of sales activities, a key measure is whether the net sales proceeds (after refurbishment costs and dilapidations income) achieved, after taking market movement in to account, are in line with the expected cash receivable. 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 acquisition (HPI OMV). Achievement against HPI OMV was 103.7% (2014: 131.3%) in the year. The long-term average achieved since January 2000 is 99.3% (2014: 99.3%) confirming that performance closely tracks the market.

The net value realised per unit (sales price net of incentives – refurbishment costs + dilapidations) has increased during the current year, with the actual achieved price at £205,000 (2014: £159,000). This reflects the impact of the bulk sales at Brize Norton and at Waterbeach in 2013/2014 which brought down the prior year average.

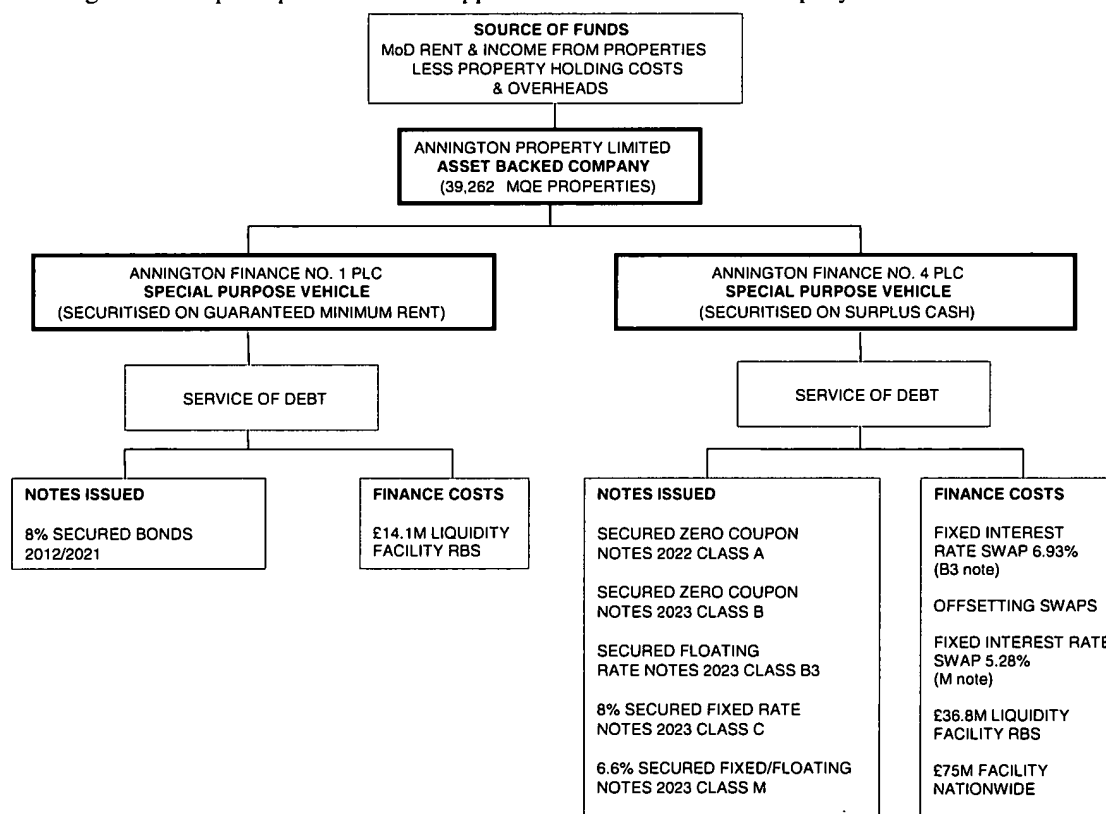
During the year, the Company finalised outstanding negotiations with the MoD and settled all obligations under the profit share agreement. This released a balance that was accrued of £5.7 million within the Group and realised £6.2 million as recognition of previously overpaid profit share amounts, which was disclosed as a contingent asset at March 2014.

The Company 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. On the one hand, by increasing the number of properties available for sale Annington has been able to meet the higher than expected demand in some locations but, on the other hand, has maintained strict control of the 'build programme' where sales have continued to be slow. 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.

## FINANCING

The Company is a long-term investor by nature and, therefore, long-term debt arrangements have been secured in order to defray the risk of refinancing within the short to medium-term. At the same time, interest rates have been fixed in order to remove the financial risk arising from fluctuating rates.

A simplified diagram of the principal sources and application of funds for the Company is shown below:



# **ANNINGTON PROPERTY LIMITED**

## **STRATEGIC REPORT (continued)**

### **FINANCING (continued)**

The Company's financial position is underpinned by the rent receivable from the MoD. With effect from January 2008, this rent is 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 10,000 units before the debt service obligations of the Company are unable to be met from rental income. This means that the Company does not have to consider liquidity issues when determining appropriate strategies and is in a robust position, confident that the current market conditions will not call for significant changes to operations.

Long-term funding is 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 Royal Bank of Scotland, the account bank for the AF1 securitisation, the AF1 8% 2012/2021 Secured Bonds have been downgraded to Aa3 by Moody's Investor Services on 1 April 2014. 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 Annington Finance (No.4) plc B3, M and C notes from A- to BBB+. This does not reflect any changes in the Company or performance against covenants by the Company.

Any rent received over and above the Guaranteed Minimum Payment, plus net sales proceeds are 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 the Company's operations is utilised to service debt at the end of each quarter.

### **FINANCIAL POSITION AND ACCOUNTING POLICIES**

The Company's accounting policies are stated in Note 1 to the financial statements. At 31 March 2015, the Company's total assets amounted to £7,483.9 million (2014: £6,714.4 million), with all investment properties located in England and Wales. The market value of these properties is reassessed annually, with the Group's total investment property assets worth £5,789.5 million at 31 March 2015 (2014: £5,103.0 million). The Company's liabilities at 31 March 2015 were £2,178.9 million (2014: £2,215.4 million).



# ANNINGTON PROPERTY LIMITED

## STRATEGIC REPORT (continued)

### KEY PERFORMANCE INDICATORS

The Company 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 Company's 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 main key performance indicators considered are:

KPI	2014/2015	2013/2014	Basis of calculation
Achievement of indexed open market value	103.7%	131.3%*	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:			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 MoD termination to sales release	77	29*	
Average weeks from sales release to sales completion	15	4*	
Average weeks from sales reservation to sales completion	9	2*	
Net sales price per unit	£241,021	£175,222*	Gross sales less value of incentives.
Refurbishment costs per unit net of dilapidations received	£35,526	£15,878*	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 tenable order.
Sales and marketing cost per unit	£6,804	£2,209*	Advertising and marketing costs apportioned to each unit sold on a site.
Holding costs per unit	£2,539	£1,301*	Costs incurred in securing and maintaining a site/property whilst awaiting sale.

\* - The KPIs for 2013/14 are affected by the bulk sale of 194 units at Brize Norton to the MoD on the same day as they were released from the MQE, thus reducing the hold time and costs involved with the disposal of these properties.

# ANNINGTON PROPERTY LIMITED

## STRATEGIC REPORT (continued)

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal funding of the Company is through the issue of a series of secured zero coupon, floating rate and fixed rate notes issued by Annington Finance No.1 plc ("AF1") and Annington Finance No.4 plc ("AF4"). The long term nature of the relationship with these companies, provide long term protection against interest rate and liquidity risks.

The table below outlines the principal risks and uncertainties:

<u>Area of Potential Uncertainty</u>	<u>Risk / Opportunity</u>	<u>Strategy</u>
Fluctuating property values and rental levels.	<p>The property market has a history of experiencing periods of rising values followed by a slowdown in growth rates and even falling values.</p> <p>The Company is a long-term investor in the residential property market and as such can be expected to experience periods of both increasing and falling values as well as periods of inactivity.</p> <p>Both capital and rental values are of significant importance to the valuation of the Company's interest in the MQE.</p>	<p>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.</p> <p>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.</p>
Fluctuating levels in the number of properties released by MoD.	<p>The MoD has absolute discretion regarding the location and timing of property releases. This can have an impact on the level of resources required to process transactions and also on the expected income and expenditure to be incurred. Historically, there has been no consistency to the release profile and with only six months' notice required before properties are handed back, it clearly has an impact on workflow in the Company.</p>	<p>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 Company to flex outsourcing to meet its operational needs according to stock levels and the prevailing market conditions.</p>
High level of property releases by MoD combined with varying housing market conditions.	<p>If the MoD terminated leases on a significant number of properties over a short period of time, during which activity levels in the general housing market were low, the Company could suffer a reduction in rent from the MoD, at the same time that sales were proving difficult.</p>	<p>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.</p> <p>However, if the MoD releases a high number of properties during a period of strong market demand, then the Company would be able to increase the amount of net income generated leading to earlier redemption of the funding attaching to the AF4 Class B3 notes. Early redemption of debt would clearly increase the value of the Company.</p>

**STRATEGIC REPORT (continued)**

**PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

<u>Area of Potential Uncertainty</u>	<u>Risk / Opportunity</u>	<u>Strategy</u>
Low levels of property releases by the MoD.	Under the terms of the contract, the MoD is required to release a minimum of 13,213 properties from the original Retained Estate during the period to December 2021. As at 31 March 2015, the MoD had released 15,798 units, effectively fulfilling this obligation. Consequently, the MoD need not release any further properties to the Company.	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 that 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.
Fluctuating interest rates.	The Company has entered into long-term funding arrangements to fit with the long-term investment strategy.	To counter the long-term exposure to fluctuating interest rates the Company, through its debt financing, has effectively fixed interest rates through to 2023 by issuing a mix of zero coupon notes, fixed interest notes and floating interest rate notes which are matched by interest rate swaps.
Late receipt of rent from the MoD.	The terms of the underleases require the MoD to pay rent to the Company on a quarterly basis. Interest payments on the Company's debt are also due quarterly. However, in the unlikely event that the MoD is late in paying its rent or otherwise market interruption causes the rent not to be received, then there is a risk that the Company would not be able to meet its debt service obligations.	As part of its financing arrangements, Annington Finance No. 1 plc and Annington Finance No. 4 plc have entered into three liquidity facilities to provide cover if this risk were to arise:  AF1 - £14.1 million AF4 Class B3 and Class M notes - £36.8 million AF4 Class C notes - £75.0 million
Organisational Resilience	Our performance and success is dependent, in part, upon the members of our management team. There are several staff members who hold significant relationships with and understanding of the requirements of the MoD, other relevant public and regulatory authorities in the industry in which we operate and other persons with whom we regularly deal in the conduct of our business. Should such staff members leave in significant numbers or should they leave unexpectedly, our 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. 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.

## STRATEGIC REPORT (continued)

### FINANCIAL RISK MANAGEMENT

Exposure to credit, market and liquidity risk (including interest rate and currency) arises in the normal course of the Company's business activities.

#### *Credit Risk*

The Company's principal financial assets are bank and cash balances, short-term deposits, trade and other receivables and investments.

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

The Company 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. Even though the Company has a significant concentration of credit risk to one main tenant; being the Government this is considered a low credit risk. The rent is payable quarterly in advance and to date, this has always been received by the due date.

Trade and other receivables relate to property disposals where deferred settlement terms have been negotiated as part of the legal completion process and the Company has a low credit risk on this type of transaction.

#### *Market Risk*

##### Debt Management

The Company's borrowings are through various tranches of loans from AF1 and AF4. These companies have then issued various classes of Notes. In total, this arrangement represents a 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. AF1 holds a borrowing facility to allow payment on debt balances should a situation arise that no income is received and AF4 has two committed liquidity facilities relating to the Company's funding. During the year, as a result of the RBS being downgraded by Moody's, AF1 and AF4 were required to seek an alternative liquidity provider with the requisite rating of P-1. No alternative bank was prepared to offer a replacement facility, therefore AF1 and AF4's facility were drawn down from the RBS and placed with HSBC which holds the necessary rating.

The Company has no overdraft arrangements in place as it has adequate funds invested on the Money Market in short to medium term deposits to maintain its short-term liquidity. In addition, the Company also forecasts its liquidity requirements using five-year rolling cash forecasts, which are updated quarterly.

##### Cash Management and Liquidity

Short to medium-term money market deposits 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.

## STRATEGIC REPORT (continued)

### OUTLOOK

Annington's financial year to 31 March 2015 began with a resurgent housing market and rapidly rising prices, but ended with the rate of growth slowing, particularly in London and the South East. The market slowed before the General Election in May but there were high hopes that a majority government with an enterprise and pro-housebuilding agenda would give a further boost to the market. This has not materialised and whilst there has been some positive movement in prices there has been no demonstrable 'bounce back' in the housing market since. The situation of a sluggish market at the end of 2014/15 is likely to continue into 2015/16.

The Land Registry recorded an annual increase of 5.1% in house prices to April 2015 in England and Wales bringing the average price of a property to £179,817 compared with the peak of £181,014 in November 2007. The Nationwide reported a rise of 5.2%, representing a small increase on the 5.1% recorded in March with both the RICS and the Halifax house price indices showing improvement but marginal improvement. Conversely, both the Nationwide and Knight Frank recorded declines in the rate of house price growth with identical falls from 5.2% in April 2015 to 4.6% in May 2015.

Notwithstanding this picture, expectations for further price rises in the short term are positive with house price increases forecast to be in the 5%-7% range over the next year. Rightmove forecasts that all regions are to see positive house price growth in 2015/16 with the highest rises forecast in the South East, as the London ripple effect continues and stock shortages remain acute. According to the Halifax Housing Market Confidence Tracker, 67% of the public are expecting the average UK house price to rise over the 12 months to December 2014. Tight supply conditions continue to be the key factor underpinning prices with low stock levels and a drop in fresh instructions. Underlying demand will remain strong as mortgage rates remain close to all-time lows and as consumer confidence improves further on the back of a positive election result, stronger labour market conditions and the brighter economic outlook.

Although earnings growth is picking up, house price growth continues to outstrip income growth by a margin and, since the supply side is unlikely to accelerate significantly due to capacity constraints and skills shortages, affordability will become even more stretched. Hometrack forecasts that house price growth will continue to slow in high priced areas in Central London and the South East as buyers target more affordable areas. And whilst construction output is set to increase in 2015, there is nothing in the past year that has given confidence that the construction industry is capable of delivering the Government's target of 200,000 homes each year needed to keep pace with demand, let alone make up for the historic shortfall of one million homes.

This situation is unlikely to improve either, given current population growth. The ONS has reported that the UK population is increasing with the number of people resident in the UK up by 491,100 in the year to 30 June 2014. This trend is set to continue for the foreseeable future and, therefore, demand for housing will only become ever more acute, pushing house prices still further, particularly since the supply side is unable to respond. And whilst house price growth continues to outpace annual wage growth, affordability constraints will become more acute. Shelter's report published in May 2015 claims that only 16.9% of all listings were affordable and suitable for families earning the median income of £30,748.

The rental market witnessed an increase in tenant demand in 2014/15 and this will continue with little improvement in new landlord instructions so, inevitably, there is increased upwards pressure on rents. UK rents are the highest in Europe and double the Continental average, according to the NHF with private renters spending 40% of their income on paying their rent in comparison to the European average of 28%.

Affordability is not only a concern in relation to house price purchases, it is also becoming an increasing concern for renters. Rents are expected to increase by an average of 3% in 2015/16 according to the RICS's Residential Market Survey and Knight Frank reported in June 2015 that average UK rents growing at their fastest rate for two years. Renting continues to grow at the expense of home ownership. In the decade ending 2011, according to the ONS, the proportion of homes owned decreased by 5% (from 69% to 64%) whilst the proportion of rented households increased by 5% (from 31% to 36%). In the meantime, the social rented sector stayed static at 17% which does not provide confidence to those who cannot afford to buy or, increasingly, to rent either.

Annington has been able to capitalise on the improving market conditions, but release levels and hence stock levels remain low. At 31 March 2015, there were 479 surplus properties held in the Homes sub-group, of which 275 were held on temporary rental or pending redevelopment, leaving 204 units available for sale.

In the financial year ended 31 March 2015, the MoD released 171 units and one Related Asset across eight sites. At Whetstone in London, an additional 33 units which were due to be handed back to Annington during the period, however the release of these units was delayed until the end of May 2015. 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 and the implementation of any new policy commences.

**STRATEGIC REPORT (continued)**

**OUTLOOK (continued)**

Future release levels by the MoD remain unclear against a background of ongoing reviews into the future of the Armed Forces. The financial year started optimistically with the appointment of Capita as the Defence Infrastructure Organisation's ('DIO') Strategic Business Partner. Since then, however, the CEO appointed by Capita has stepped down and, most importantly, the Footprint Strategy (a strategy to outline how best to deliver affordable and sustainable infrastructure for the Armed Forces of the right size and quality across the UK) and the Living Accommodation Strategy ('LASR') have both stalled and it may be some time before we have any conclusive outputs.

Annington does not expect much progress to be made until the new CEO of the DIO, who took office on 5 May 2015, settles into his role and SDSR 2015 completes at the beginning of 2016. Although reported void levels for the 49,400 units that form the MoD's Service Family Accommodation, of which Annington's MQE portfolio forms the bulk, are currently relatively high at 20.8%, it is not yet clear how these future strategies might translate into releases to Annington, particularly given the impact of moving 20,000 troops back from Germany between now and 2018.

Annington's operational strategy is largely unchanged from previous years. 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, whilst presenting a flexible approach to the MoD/DIO.

In considering future workloads, 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 Board does not expect to make any significant changes to current resourcing levels.

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



**A P Chadd**  
Director  
23 July 2015

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

# **ANNINGTON PROPERTY LIMITED**

## **DIRECTORS' REPORT**

The directors present the annual report and the audited financial statements for the year ended 31 March 2015.

### **RESULTS AND DIVIDENDS**

The Company's profit after taxation for the year is £76.5 million (2014 profit of £84.3 million). No dividend has been paid or proposed (2014 - £nil).

### **DIRECTORS**

The directors who served throughout the year and to the date of this report were:

J C Hopkins  
N P Vaughan  
S E Parsons  
A P Chadd

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

### **STRATEGIC REPORT**

The Company's financial risk management and future developments are set out in the strategic report.

### **GOING CONCERN**

After making enquiries, the directors have a reasonable expectation that the Company has 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 in note 1 'Accounting Policies' in the financial statements.

### **FUTURE DEVELOPMENTS**

The Company's future developments are set out in the Outlook section of the Strategic Report.

### **AUDITOR**

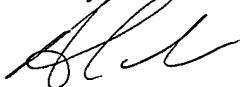
Each of the persons who is a director at the date of approval of this annual report confirms that:

- 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 ought to have taken as a director to make himself 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

23 July 2015

### **REGISTERED OFFICE**

1 James Street  
London, United Kingdom  
W1U 1DR

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ANNINGTON PROPERTY LIMITED**

We have audited the financial statements of Annington Property Limited for the year ended 31 March 2015 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's member 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 member 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 member 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 Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 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 company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

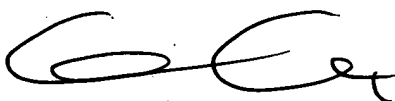
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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.

### **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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



**Emma Cox BA, ACA (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

23 July 2015

# ANNINGTON PROPERTY LIMITED

## PROFIT AND LOSS ACCOUNT For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
<b>TURNOVER</b>	2	163,915	164,110
Cost of sales		(17,962)	(16,199)
Gross profit		145,953	147,911
Administration expenses		(10,814)	(9,811)
Other operating income		198	23
<b>OPERATING PROFIT</b>	4	135,337	138,123
Profit on disposal of properties	5	20,312	28,645
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES</b>		155,649	166,768
Interest receivable and similar income	6	99,833	92,929
Interest payable and similar charges	7	(178,962)	(175,386)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		76,520	84,311
Tax on profit on ordinary activities	8	-	-
<b>PROFIT FOR THE FINANCIAL YEAR</b>		76,520	84,311

All activities derive from continuing operations.

# **ANNINGTON PROPERTY LIMITED**

## **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES** **For the year ended 31 March 2015**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Profit for the financial year	76,520	84,311
Unrealised surplus on revaluation of properties	720,677	519,164
Surplus on revaluation of investment	8,890	2,912
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	<u>806,087</u>	<u>606,387</u>

## **NOTE OF HISTORICAL COST PROFITS AND LOSSES** **For the year ended 31 March 2015**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Reported profit on ordinary activities before taxation	76,520	84,311
Realisation of property revaluation gains of previous years	25,448	30,216
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	101,968	114,527
Tax on profit on ordinary activities	-	-
	<hr/>	<hr/>
Historical cost profit on ordinary activities after taxation	<u>101,968</u>	<u>114,527</u>

# ANNINGTON PROPERTY LIMITED

## BALANCE SHEET As at 31 March 2015

	Note	2015 £'000	2014 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	5,789,500	5,103,000
Investment in joint venture	10	13,349	6,138
		<u>5,802,849</u>	<u>5,109,138</u>
<b>CURRENT ASSETS</b>			
Debtors:			
Due within one year	11	6,525	6,578
Due after more than one year	11	1,626,575	1,526,795
Investments: other investments - short-term deposits		5,500	25,001
Investments: other investments - short-term investments		19,000	29,000
Cash at bank and in hand		23,478	17,855
		<u>1,681,078</u>	<u>1,605,229</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(102,975)</u>	<u>(122,575)</u>
<b>NET CURRENT ASSETS</b>		<u>1,578,103</u>	<u>1,482,654</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>7,380,952</u>	<u>6,591,792</u>
<b>CREDITORS: amounts falling due after more than one year</b>	13	(2,038,077)	(2,058,058)
<b>PROVISIONS FOR LIABILITIES</b>	14	<u>(37,808)</u>	<u>(34,754)</u>
<b>NET ASSETS</b>		<u><u>5,305,067</u></u>	<u><u>4,498,980</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	-	-
Revaluation reserve	16	3,597,234	2,888,048
Profit and loss account	16	1,707,833	1,610,932
<b>SHAREHOLDER'S FUNDS</b>	17	<u><u>5,305,067</u></u>	<u><u>4,498,980</u></u>

The financial statements of Annington Property Limited, registered number 3232852, were approved by the Board of Directors and authorised for issue on 23 July 2015.

Signed on behalf of the Board of Directors



A P Chadd  
Director

# **ANNINGTON PROPERTY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2015 (continued)**

### **1. ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have been applied consistently throughout the year and preceding year.

#### **Accounting convention**

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties, and in accordance with applicable United Kingdom accounting standards.

#### **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic report also describes the financial position of the Company, its cash flows and liquidity position; its objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Company meets its day to day working capital requirements from both rental income and property disposals. The current economic and market conditions create uncertainty particularly over the level of demand for these disposals. Currently the rent received from the SoSD for the MQE is sufficient to meet existing current financial liabilities without the need for sales; therefore the Company does not foresee the need to hold discussions with its lenders about future borrowing needs.

After making enquiries, and having assessed the responses of the directors of the Company's parent Annington Homes Limited to their enquiries, the directors have a reasonable expectation that the Company has 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.

#### **Cash flow statement**

The Company is a wholly owned subsidiary of Annington Limited and is included in the consolidated financial statements of Annington Limited which include a consolidated cash flow statement and are publicly available. The Company has therefore elected to make use of the exemption provided in Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements" not to produce its own cash flow statement.

#### **Turnover**

Income from the SoSD in respect of the units within the Retained Estate and income from the tenants within the Surplus Estate is accounted for on an accruals basis. Rent increases arising from rent reviews are taken into account when such reviews have been settled with the tenants.

#### **Investment properties**

Investment properties are revalued annually on a portfolio basis. The aggregate surpluses or deficits on the portfolio of properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties, or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties". The financial effect of the departure from the statutory accounting rules cannot reasonably be quantified as depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Disposals are accounted for on a legal completion of contract basis. Direct costs (including amounts payable under the Profit Share Agreement) of the sale are offset against the profit (loss) on sale.

The net book value of investment properties is shown net of profit share disposal costs calculated in accordance with the Profit Share Agreement which the Company would have incurred had the assets been disposed at the balance sheet date. The profit share agreement ended on 5 November 2011, hence no such adjustment is required as at 31 March 2015.

# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2015 (continued)

### 1. ACCOUNTING POLICIES (continued)

#### Investments in joint ventures

The company's investments in the shares of the joint ventures are stated at share of net asset value, less any provision for such balance that may not be recoverable. This includes, where applicable, the professional valuation of properties held by the joint venture.

Surpluses and deficits arising from changes in net asset value are taken to the revaluation reserve, limited to the Company's original investment. Provisions for balances assessed as not being recoverable, along with any consequent recovery, are recorded through the profit and loss statement.

#### Profit share

All property disposals until 5 November 2011 were subject to a Profit Share Agreement based on the principles of the Taxation of Chargeable Gains Act 1992. This Agreement was signed with the Secretary of State for Defence on 5 November 1996. The applicable Profit Share percentage becomes payable on the date of legal exchange for property disposals.

#### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Leases

Operating lease rentals are charged to the profit and loss account as incurred.

### 2. SEGMENTAL REPORTING

The Company generates all of its turnover from property investment in England and Wales.

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no emoluments for their services to the Company in the current and preceding year.

The Company had no employees of its own during the year (2014 - nil). The cost of performing work for the Company is borne by another group company, in the current and preceding year.

### 4. OPERATING PROFIT

	2015 £'000	2014 £'000
<b>Operating profit is after charging:</b>		
Operating lease payment		
Land and buildings	421	423

Costs in respect of audit services are borne by another group company in the current and prior year.

The auditor's remuneration was £39,900 (2014 - £39,000) for the audit of the company's annual financial statements, £15,200 (2014 - £14,800) for taxation compliance services and £7,000 (2014 - £3,800) for other services relating to taxation and was borne by another group company, in the current and preceding year.

# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2015 (continued)

### 5. PROFIT ON DISPOSAL OF PROPERTIES

	2015 £'000	2014 £'000
Sales proceeds	49,409	69,563
Selling costs	(1,208)	(644)
Profit share	6,288	-
	<hr/>	<hr/>
Sale of properties	54,489	68,919
Cost of sales	(34,177)	(40,274)
	<hr/>	<hr/>
	20,312	28,645
	<hr/>	<hr/>

The Profit Share Agreement (outlined in note 1) required a payment of a share of the profit arising on disposal of the Company's investment properties. This was calculated based on cash received or paid, rather than on an accrual basis. The Agreement further allowed for adjustments in subsequent periods for items cash settled after the period in which the property was disposed. In the periods that such adjustments are made, the original profit share calculation was adjusted to recognise the altered profit. During the period, an agreement was reached to settle all obligations under the Profit Share Agreement. Under this settlement, the anticipated future revisions to the profit share previously paid by the Company were determined and settled for the sum of £6.3 million and liabilities recognised by the Company of £4.7 million (and a further £1.1 million recognised by fellow group entities) were extinguished.

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £'000	2014 £'000
Interest receivable on inter-company balances	99,780	92,878
Other interest	53	51
	<hr/>	<hr/>
	99,833	92,929
	<hr/>	<hr/>

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £'000	2014 £'000
Interest payable on inter-company balances	178,962	175,363
Other interest	-	23
	<hr/>	<hr/>
	178,962	175,386
	<hr/>	<hr/>

# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2015 (continued)

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2015 £'000	2014 £'000
<b>Current tax</b>		
United Kingdom corporation tax at 21% (2014 - 23%)	-	-

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 21% (2014: 23%). The current tax charge for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	76,520	84,311
Tax on profit on ordinary activities at 21% (2014 - 23%)	16,069	19,392
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	3,399	3,346
Tax on disposal of properties	2,517	1,511
Creation of tax losses	13,034	15,149
Notional transfer to group company	(3,199)	(4,312)
Taxable income from investment in The Inglis Consortium LLP	1,624	697
Group relief claimed	(33,444)	(35,783)
Total actual amount of current tax	-	-

The amount of tax losses carried forward at 31 March 2015 is £329.7 million (2014 - £269.9 million). A deferred tax asset of approximately £65.9 million (2014 - £56.7 million) has not been recognised in respect of these losses as there is insufficient evidence that the asset will be recovered.

The historical cost of the Company's properties is £1,233.7 million (2014 - £1,242.4 million). The tax which would be payable on the surplus arising on the revaluation of investment properties in the event of their sale at such valuation is estimated to be £911.1 million (2014 - £772.1 million).

From 1 April 2014, the headline rate of corporation tax reduced from 23% to 21%, and was further reduced to 20% from 1 April 2015, with both these rates substantively enacted at both the current and comparative balance sheet dates.



# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2015 (continued)

### 9. FIXED ASSETS

#### TANGIBLE FIXED ASSETS

	<b>Investment properties £'000</b>
<b>Cost or valuation</b>	
At 1 April 2014	5,103,000
Additions	-
Disposals	(34,177)
Revaluation	720,677
	<hr/>
At 31 March 2015	5,789,500
	<hr/>
<b>Net book value</b>	
At 31 March 2015	5,789,500
	<hr/>
At 31 March 2014	5,103,000
	<hr/>

Allsop LLP has prepared a portfolio valuation of the investment properties at 31 March 2015 for the purposes of the financial statements. Allsop LLP is an external valuer and the valuer's opinion was derived on a portfolio basis primarily using comparable recent market transactions on arm's length terms.

The valuations have been carried out in accordance with the requirements of the RICS Appraisal Valuation Manual, except where it is not, in practical terms, feasible to comply due to the large number of properties involved. This is a "Regulated Purpose Valuation". However, Allsop LLP has undertaken such valuation work for Annington Property Limited since 1999.

Allsop LLP provides strategic advice and agency services to Annington Property Limited and has done so since 1997. In relation to Allsop LLP's preceding financial year, Allsop LLP confirmed that the proportion of its total fee income arising from Annington Property Limited was less than 5% of the total fee income of Allsop LLP.

The market value as at 31 March 2015 was £5,789.5 million (2014 - £5,103.0 million). This relates to 39,262 (2014 - 39,433) properties within the Retained Estate and 479 (2014 - 513) properties in the Surplus Estate.

	<b>2015 £'000</b>	<b>2014 £'000</b>
<b>The net book amount of properties comprises</b>		
Freehold	101,500	88,000
Very long leaseholds (over 900 years)	5,688,000	5,015,000
	<hr/>	<hr/>
	5,789,500	5,103,000
	<hr/>	<hr/>

Properties would have been included on a historical cost basis as follows:

	<b>2015 £'000</b>	<b>2014 £'000</b>
Cost	1,233,691	1,242,421
	<hr/>	<hr/>
Net book amount	1,233,691	1,242,421
	<hr/>	<hr/>

# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2015 (continued)

### 10. INVESTMENT IN JOINT VENTURE

On 4 April 2011, Annington Property Limited entered into a Co-operation Agreement and Limited Liability Partnership as a partner in the Inglis Consortium LLP. The Inglis Consortium LLP was incorporated on 14 February with Annington Property Limited and VSM Estates Limited as sole members with the Mayor and Burgesses of the London Borough of Barnet becoming a member on 4 April 2011, when the agreement was executed. Through the agreement entered into on 4 April 2011, the partners have agreed to co-operate to develop land currently owned by each of the partners at Mill Hill in north London.

	2015 £'000	2014 £'000
At 1 April	6,138	8,651
Additions	3,792	-
Distributions	(5,471)	(5,425)
Revaluation of investment	8,890	2,912
	<u>13,349</u>	<u>6,138</u>
At 31 March		

### 11. DEBTORS

	2015 £'000	2014 £'000
<b>Amounts due within one year:</b>		
Amounts owed by group undertakings	6,440	6,440
Other debtors	82	123
Tax	-	10
Prepayments and accrued income	3	5
	<u>6,525</u>	<u>6,578</u>

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

#### Amounts due after more than one year:

Amounts owed by group undertakings	<u>1,626,575</u>	<u>1,526,795</u>
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Amounts owed by group undertakings include £1,449.8 million loans (2014 - £1,350.0 million) which are unsecured and interest bearing, between 6.6076% and 7.8%, and have a fixed date of repayment in March 2025, and other amounts of £176.8 million (2014 - £176.8 million) which are unsecured, interest free and are not due to be repaid within one year of the signed balance sheet date.

	<u>1,633,100</u>	<u>1,533,373</u>
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# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2015 (continued)

### 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £'000	2014 £'000
Trade creditors	138	590
Amounts due to group undertakings	61,051	77,978
Other creditors	-	4,716
Other taxation and social security	29	3
Accruals and deferred income	41,757	39,288
	<u>102,975</u>	<u>122,575</u>

Amounts due to group undertakings include £41.0 million loans (2014 - £41.4 million) which are secured and interest bearing at 8% and are due within one year and other amounts of £20.0 million (2014 - £36.6 million) which are unsecured, interest free and have no fixed date of repayment.

During the year, the profit share liability was settled against an amount recoverable from the MoD previously disclosed as a contingent asset (refer to note 19).

### 13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2015 £'000	2014 £'000
Amounts due to group undertakings	<u>2,038,077</u>	<u>2,058,058</u>

Amounts due to group undertakings includes: £213.2 million (2014 - £249.2 million) which is secured and interest bearing at 8% and has a fixed date for repayment in accordance with the Annington Property Limited Issuer Loan Agreement payments schedule due to complete in 2021; £1,824.9 million (2014 - £1,808.8 million) which is secured and interest bearing at fixed rates based upon external funding and swap interest rates in AF4, which has a weighted average interest rate of 6.50% (2014 - 6.71%), and a margin of between 0.02% and 0.38% and have fixed dates for repayment in accordance with a Funding Loan Agreement payments schedule due to complete in 2023.

Amounts due to group undertakings include £1,891.1 million loans (2014: £1,912.2 million) due in five years or more in accordance with the above agreements.

### 14. PROVISION FOR LIABILITIES

	2015 £'000	2014 £'000
<b>Provision for private utilities</b>		
Provision brought forward	34,754	29,179
Charged to profit and loss account	4,123	5,754
Utilised in year	(1,069)	(179)
	<u>37,808</u>	<u>34,754</u>
Provision carried forward		

There is a legal agreement to provide for the adoption of private utilities on sites where there have been releases of property which are currently dependent, for the supply of water and/or certain sewerage 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. In the prior year there was a change in the basis of estimation, resulting in a more accurate assessment of the provision. 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. Of the total provision, £2.1 million (2014 - £2.9 million) is anticipated to be incurred over the next three years (2014 - three years), and the balance during the period April 2018 to December 2024. There is a contingent liability (note 19) in respect of base dependent sites where properties have not been released.

# ANNINGTON PROPERTY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2015 (continued)

### 15. CALLED UP SHARE CAPITAL

	2015 £	2014 £
<b>Called up, allotted and fully paid</b>		
1 ordinary share of £1	1	1
	<u>1</u>	<u>1</u>

### 16. STATEMENT OF MOVEMENTS ON RESERVES

	Profit and loss account £'000	Revalu- ation reserve £'000	Total £'000
At 1 April 2014	1,610,932	2,888,048	4,498,980
Retained profit for the year	76,520	-	76,520
Surplus on revaluation of investment properties	-	720,677	720,677
Surplus on revaluation of joint venture investment	-	8,890	8,890
Transfer on disposal of properties	20,381	(20,381)	-
	<u>1,707,833</u>	<u>3,597,234</u>	<u>5,305,067</u>
At 31 March 2015			

### 17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2015 £'000	2014 £'000
Profit for the financial year	76,520	84,311
Surplus on revaluation of investment properties	720,677	519,164
Surplus on revaluation of joint venture investment	8,890	2,912
	<u>806,087</u>	<u>606,387</u>
Net increase in shareholder's funds		
Opening shareholder's funds	4,498,980	3,892,593
	<u>5,305,067</u>	<u>4,498,980</u>
Closing shareholder's funds		

### 18. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable leases, are as follows:

	Land and buildings	
	2015 £'000	2014 £'000
Leases which expire:		
Within one year	-	-
Between two and five years	503	502
	<u>503</u>	<u>502</u>

# **ANNINGTON PROPERTY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2015 (continued)**

### **19. CONTINGENT ASSETS AND LIABILITIES**

There is a contingent liability to allow for the adoption of private utilities on sites which are currently base dependent (dependent on the MoD) for their supply of water and sewerage treatment and where there has been no releases of property from the SoSD. This amounts to £121.2 million (2014 - £115.1 million).

At 31 March 2014, a contingent asset was disclosed in respect of profit share recoverable on future utilities expenditure covered by the provision referred to in note 14. At that time, the amount was subject to agreement with the SoSD as to timing of recovery and method of calculation. In September 2014, an amount of £6.3 million was agreed as recoverable with the MoD (see note 5)

### **20. RELATED PARTY TRANSACTIONS**

The Company is a wholly owned subsidiary within the Annington Limited group and is included in the consolidated financial statements of Annington Limited. The Company has taken advantage of the exemption provided in Financial Reporting Standard 8 "Related Party Disclosures" not to make disclosure of transactions with other entities that are part of the same group, on the basis that all subsidiary undertakings party to the transactions are wholly owned by a member of the group.

In February 2007, a major land development site with 187 existing properties was sold at a market value of £36.7 million to the Group's joint venture, Countryside Annington (Mill Hill) Limited. As part of the Agreement, a deferred payment of £26.2 million was payable by the joint venture in four stages which commenced February 2008 and completed in February 2011. In March 2009 in response to adverse economic and trading conditions, the joint venture negotiated a reduction in the original price; a deed of variation was signed which reduced the remaining instalments by £6.7 million. In consideration for this reduction in "Price" the Company became entitled to "priority payments" of a more generous form of overage up to £15 million if the profits of the Joint Venture recover.

### **21. PARENT COMPANY**

Annington Subsidiary Holdings Limited, a company incorporated in Great Britain, is the immediate parent company.

The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.

Annington Limited is the parent company of the largest and smallest group of which the Company is a member and for which group financial statements are drawn up. The Annual Report and Financial Statements for Annington Limited are available on request from the registered office at 1 James Street, London W1U 1DR.