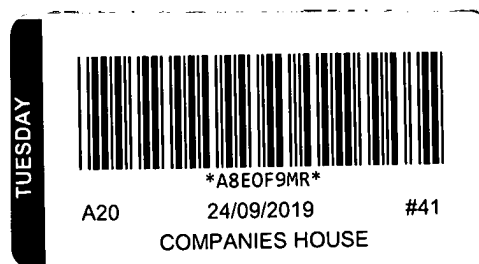


ANNINGTON PROPERTY LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2019



ANNINGTON PROPERTY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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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 Company 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 Property Limited are expressly qualified in their entirety.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

OUR BUSINESS

Company Overview

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

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

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

As at 31 March 2019 the Company's investments consisted of:

- the MQE Retained Estate, comprising 38,726 Units ("Retained Units") (2018: 38,969) and 181 Related Assets (2018: 181), representing the majority of the MoD's total Service Family Accommodation and the MQE Surplus Estate comprised of 251 Units ("Surplus Units") (2018: 14); and
- nil units under construction (2018: 6 units).

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

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

Headleases and Underleases

Headleases

On 5 November 1996, the MoD granted a headlease ("Headlease") to the Company 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 the Company under the Headleases and the Company 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, the Company 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.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT OUR BUSINESS (continued)

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 Company 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 Company until September 2021, which are payable on a quarterly basis in accordance with an agreed payment schedule that reduces over time. The Guaranteed Payments are payable irrespective of the number of Units remaining within the Retained Estate. The remaining Guaranteed Payments are shown in the following table:

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

The Company 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 the Company. At lease termination, the MoD is obliged to return the premises in good tenable repair and decorative order. To the extent that the premises are not in this state of repair, the MoD must pay damages, in lieu, for dilapidations.

Rent reviews

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT OUR BUSINESS (continued)

Rent reviews (continued)

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

As at 25 December	Number of Retained Units	Rent receivable (£'000)	Increase in rent receivable per Unit (%)
1996	55,054	110,985	-
2002	44,987	134,427	48.2%
2007	41,393	152,040	22.9%
2012	39,952	162,603	10.9%
2017	38,969	180,867	14.0%

Site reviews

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

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

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

Property releases

As the MoD's requirements for Service Family Accommodation change, it may choose to give up its rights to occupy Sites (or certain parts thereof) by terminating the related lease, subject to certain criteria. Upon termination of a lease, APL receives vacant possession of the applicable Units released from the Retained Estate ("Released Units") and is free to use or dispose of them as it sees fit. Subject to certain parameters, the number, location and timing of property releases are at the sole discretion of the MoD and the Company has no control over this process. In the 7 March 2019 agreement with the MoD ("Arbitration Agreement") there is an obligation on the MoD, the MoD has committed to release 500 units per year, measured on a two year rolling average, and this is incentivised by a waiver on the first £7,000 of dilapidations costs for 500 units per year.

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

Pursuant to a utilities agreement entered into between the MoD and the Company, 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 Company 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.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT OUR BUSINESS (continued)

Property releases (continued)

As of 31 March 2019, the MoD had released a total of 16,334 (2018: 16,091) Units together with an additional 181 Related Assets since November 1996. Release levels for the last 5 years have been:

Year ended 31 March	Number of released units
2015	171
2016	248
2017	43
2018	2
2019	243

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

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

Property valuation

As the MQE Retained Estate is let on a long leasehold basis to the MoD, the valuation of this portfolio is determined on a discounted cash flow basis. The current year valuation has increased as a result of changes to several assumptions. This includes a revised release profile in response to the Arbitration Agreement with the MoD and changes in market based financing assumptions.

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

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

SAVPV is calculated by the Company by indexing the SAVPV estimated at the time of the Company initial acquisition of the portfolio in 1996 for inflation, using the average of the regional Halifax House Price Index (All House Prices) and the Nationwide House Price Index and adjusting this by a factor representing actual sales performance on disposals from the MQE Retained Estate (99.9% at both March 2018 and 2019).

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT OUR BUSINESS (continued)

Property valuation (continued)

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

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

Joint venture

The Company, together with the London Borough of Barnet and Vinci St. Modwen, is a partner in The Inglis Consortium LLP, redeveloping 74 acres of land in Mill Hill, which, when completed, will provide new homes, a school, 10,100 square metres of retail space and 3,470 square metres of employment space.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT PROPERTY MARKET OVERVIEW

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

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

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

The Rental Market

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

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

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT PROPERTY MARKET OVERVIEW (continued)

Service Family Accommodation

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

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

Under the terms of the contractual arrangements with the Company, the MoD has to pay compensation (dilapidations) if it does not return properties to the Company in an appropriate condition, which is defined in the Underlease as "good tenantable repair and decorative order". Poor maintenance of the MQE has resulted in higher dilapidations claims in the past, which according to the MoD, in evidence to the Public Accounts Committee (PAC) on 14 May 2018, is a factor in the slow release of properties to the Company as there are difficulties in repaying these claims. The PAC hearing was prompted by the publication of an NAO report entitled 'The Ministry of Defence's Arrangement with Annington Property Limited'. Whilst reviewing the content of the report, the PAC also made recommendations on the future relationship between the MoD and Annington and on the conduct of the site review.

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

The MoD's Future Accommodation Model ("FAM") remains in development. This model is a new accommodation offer to help more service personnel live in private accommodation and meet the aspirations that many have for home ownership. The testing of FAM in practical terms has been set out by the MoD, with confirmed pilot sites at HMNB Clyde (starting from 30 September 2019), Aldershot Garrison (starting from 31 January 2020) and RAF Wittering (starting from 31 May 2020).

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT STRATEGY

The Company's Strategy

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

Focus on the Site Review

The purpose of each Site Review is to rebase the rent for each individual Site to the fair market rental value for the Site as a whole, reflecting the various features of the underlying lease arrangements with the MoD.

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

Appraisal and management of Releases

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT BUSINESS REVIEW

FINANCING

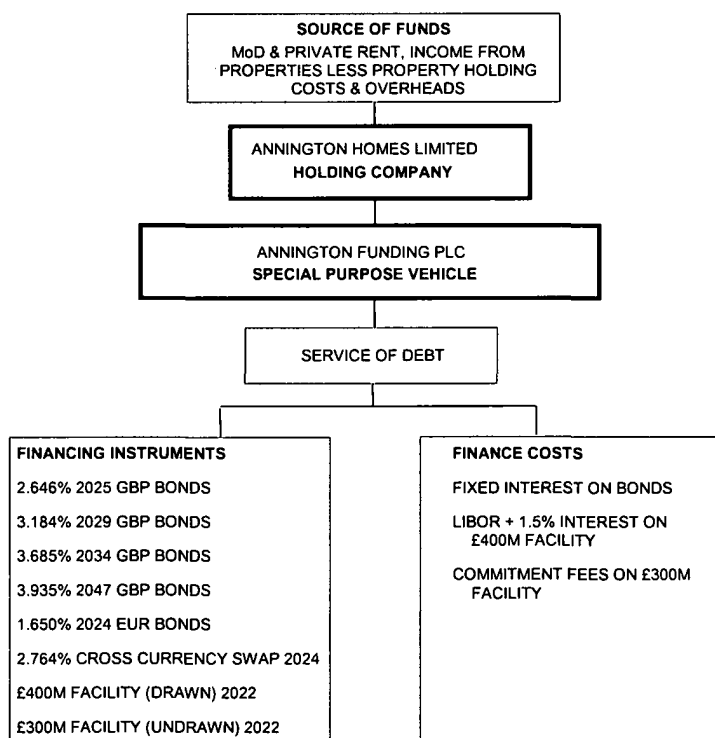
The Group is financed by shareholders equity, external bonds and a term loan. In July 2017, Annington Funding plc (“AFP”) issued five tranches totalling £3 billion of corporate, unsecured bonds under an Euro Medium Term Note (“EMTN”) programme (rated BBB) and drew down a term loan totalling £400 million,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

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

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

Cross currency swaps are in place for the €600 million bond, converting its initial nominal balance to £526.3 million. These swaps also mitigate volatility of foreign currency movements in future interest and capital repayments. The function of these swaps increases the effective interest rate of the Euro tranche debt to 2.764%, fixed for the life of the bond. The debt obligation in cash for the bonds and swaps is £97.8 million per annum and the obligation for the term loan based on LIBOR rates at 31 March 2019 is £9.2 million (2018: £8.8 million).

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



The debt has a number of covenants to comply with under both the bonds and loan facility. These are described in detail in the Going Concern section of this report. The Annington Group did not breach any covenants as at 31 March 2019 and have no expectation to do so in the foreseeable future.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT FINANCIAL PERFORMANCE

KEY PERFORMANCE INDICATORS

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

The KPI's were revised for the current year and prior year figures are provided for comparison, these are:

KPI	2019 £ millions	2018 £ millions	Basis of calculation
Net rental income	179.7	177.4	Net rental income is calculated by as property rental income less property operating expenses. Property operating expenses are incurred and not recharged to the tenant. These exclude site review costs.
This measure is used as an indicator of the returns the Company is achieving. Net rental income has increased £2.3 million or 1.3% in 2019 and is mainly due to rental income from the MQE which has increased due to the rent uplift from the Site Review conclusion in December 2017.			
Property operating expenses	1.3	1.4	Property operating expenses are incurred and not recharged to the tenant.
Property operating expenses are measured to track the operating costs of the portfolio. Property operating expenses have remained consistent year on year.			
Adjusted EBITDA	170.7	172.2	Adjusted EBITDA is calculated by adjusting the accounting operating profit/(loss) before financing and tax for: <ul style="list-style-type: none"> - revaluation gains/losses on investment properties in the income statement. - profits, losses or impairment items attributable to joint ventures in the income statement - charges/credits to the income statement, arising from changes to the utilities provision (Note 16) - one-off items (the site review costs shown in the income statement)
Adjusted EBITDA is used as a proxy for the normalised earnings of the business. This measure is prepared for management accounts, separate from similar measures that are prepared for covenant compliance. It has remained roughly consistent year on year, although 2018 figures have been helped slightly by a higher profit on disposal of investment properties.			
Free cash flow	146.9	204.5	Free cash flow is calculated as the net increase in cash and cash equivalents but adding back cash spent on purchase of investment properties and intercompany loan repayments, as shown in Investing activities cash flows, increase/repayment of intercompany borrowings ¹ as shown in Financing activities cash flows, and any dividends (none to date).
This measure is utilised to assess the cash generated to be utilised on discretionary purchases or dividends. Free cash flow has decreased from £57.5 million in 2018 to an outflow of £49.4 million in 2019. The prior year had higher joint venture distributions and proceeds from sale of investment properties.			
Net rental yield	2.5%	2.7%	Net rental yield is calculated as net rental income divided by the investment properties carrying value.
This measure is used to measure rental yields. In 2019 the net rental yield decreased by 0.2% due to the uplift in the value of the MQE not being matched by a similar uplift in rents (noting 2018 was a fallow year for the rent review).			

¹ In 2018 interest paid on intercompany borrowings of £0.9 million included £0.8 million, which related to the legacy debt which was fully unwound and paid in 2018. Therefore £0.8 million was added back to the free cash flow as this is a one off item.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT FINANCIAL PERFORMANCE

The Company generated rental income of £180.9 million (2018: £178.8 million). The majority of this was through the MQE Portfolio Retained Estate, which generated rental income of £180.8 million (2018: £178.6 million) in the year to March 2019. The increase in rental income is driven largely by the Rent Review concluded in December 2017, which resulted in a rental uplift.

During the year, APL generated income of £6.2 million (2018: £27.4 million) through the external sale of 10 units (2018: 111 units).

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

Unrealised investment property gains of £482.8 million were also recognised in the current financial year (2018: £484.3 million loss). The higher valuation is driven by an increase in the value of the MQE following changes to inputs to the cash flow forecast model, which include a revised release profile following the signing of the Arbitration agreement with the MoD.

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

FINANCIAL REVIEW

The Company's significant accounting policies are set out in the notes to the financial statements. A summary of the Company's financial position at 31 March 2019 and the cash flows of the Company for the year is summarised below.

The Company's total assets amounted to £7,298.5 million (2017: £6,880.1million). All the Company's investment properties are located in England and Wales. The fair value of these properties is reassessed annually, with the Company's total investment properties carried at £7,248.8 million at 31 March 2019 (2019: £6,770.2 million). The Company's share of its joint venture totalled £6.2 million (2018: £10.4 million) and the Company held £43.4 million (2018: £99.5 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

The Company's combined liabilities totalled £1,281.2 million (2018: £1,391.3 million), comprising a mixture of long-term debt and exposure to deferred tax, mostly arising on the revaluation of investment properties. The Company's long-term funding is arranged through AFP in the form of bonds and a term loan.

Due to the decrease in sales, the cash inflow from property sales decreased to £5.5 million (2018: £34.2 million).

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The table below outlines the principal risks and uncertainties:

<u>Area of Potential Uncertainty</u>	<u>Risk</u>	<u>Strategy</u>
The Company is dependent on rental income from leases entered into with the MoD.	<p>The revenue from rent payments by the MoD for the MQE accounts for 99.9% (2018: 99.9%) of the Company's rental income.</p> <p>Anticipated rental income is a significant factor in the calculation of the Company's projected revenue and the estimated fair value of the Company's properties is dependent on the Rent Review process. The five-year gap between each tranche's successive Rent Reviews may prevent the Company from capturing and benefitting from interim rental market improvements but also protects the Company from interim market detriment.</p> <p>The Company expects to continue to rely primarily on the MoD, the Company's sole tenant in respect of the Retained Estate, however, there can be no assurance that circumstances will remain unchanged. The Rent Review could be unfavourable, and the MoD could fail to pay rent on time, all which could adversely affect the Company's business and create the risk that the debt service obligations would not be able to be met.</p>	<p>The refinancing that took place in July 2017 gives the Annington 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.</p> <p>The Annington Group has entered into a revolving credit facility, with £300m available and currently undrawn, that provides liquidity to the Annington Group were any rental income to be received after its due date.</p>
The UK housing market may be significantly affected by changes in general and local economic conditions, including "Brexit".	<p>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 Company's property portfolio at any given time can be affected by many factors outside the Company's control.</p> <p>During periods of low demand, low prices and poor sales rates, land and properties may become particularly illiquid, which could lead the Company to experience difficulty in successfully disposing of properties in a timely fashion, without extensive marketing efforts, or without reducing the price of the properties.</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> <p>In unfavourable conditions where chosen sales strategies may be difficult to execute, the Company could implement alternative strategies, including renting units on a short-term basis until market conditions become more favourable.</p>

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

<u>Area of Potential Uncertainty</u>	<u>Risk</u>	<u>Strategy</u>
The Company has no control over the quantity, location and timing of property releases by the MoD.	<p>If the MoD releases a significant number of properties undesirable in quality or location, or if properties are released over a short period of time, the Company may be unable to sell all, or any, such properties if the market is depressed. The loss of the rent from the MoD, combined with the poor sales of the released properties could have an adverse impact on the Company's business.</p> <p>The MoD has already satisfied their obligation of 13,213 minimum releases as part of the 1996 Acquisition.</p> <p>In recent years, the MoD has released a relatively low number of Units, resulting in reduced property stock being available for sale. However as part of the Arbitration Agreement, the MoD are committed to releasing a total of 3,500 units, with a target of 500 units per year measured on a two year rolling average. Additionally, Annington will provide a dilapidations waiver of £7,000 on 500 units per year.</p>	<p>The Board recognises this and has maintained a policy of keeping internal resources at minimum levels. All principal activities are outsourced to third parties, which can provide the necessary skills in the right mix and location. This enables the Company to flex outsourcing to meet its operational needs according to stock levels and the prevailing market conditions.</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 Company's position.</p> <p>The Board recognises that the decision regarding the future rate of property releases rests entirely with the MoD and, when reviewing employee resourcing, the Board recognises the possibility that activity levels and market conditions may vary. However, given the incentive of dilapidations relief, it is expected that the MoD will provide a minimum of 500 units a year. The business will continue to examine and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate.</p>
The Company's operational and financial performance could be affected by failures within or by a key third party supplier, service provider or stakeholder.	Performance of key entities, for instance, The Defence Infrastructure Organisation ("DIO"), Touchstone, FTI Treasury and the MoD could have an adverse effect on the Company. Internal issues may impact its ability to work with the Company efficiently and knowledgeably and to perform to an acceptable level.	The Company maintains interaction with members of key third parties. Considerable effort continues to be made to develop and nurture relationships to maintain operational efficiency. The Company will continue, as it always has done, to encourage more co-operation and partnership.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

<u>Area of Potential Uncertainty</u>	<u>Risk</u>	<u>Strategy</u>
Property valuation is inherently subjective and uncertain.	<p>Valuations are inherently subjective due to the individual nature of each property and are based on assumptions that may not prove to be accurate.</p> <p>There is a risk that the valuations of the Company'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 Company's business, results of operations and financial condition. Unsound valuations could also undermine the Company's ability to negotiate favourable rent increases during the Company's five-yearly Rent Reviews with the MoD.</p>	The Company manages this risk by ensuring that regular valuations of the Company's properties are performed by external, independent, third party professional valuers, registered with the Royal Institute of Chartered Surveyors.
The Company may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.	<p>The Company may become exposed to potentially significant litigation, arbitration proceedings and other claims in connection with the Company's business. Disputes could arise in connection with the Company 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 Company, including one beyond its financial resources. Further, should an issue arise in connection with a large proportion of the Company's properties, plaintiffs may seek class action status. The Company'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 Company's business, results of operations and financial condition.</p>	<p>The Company maintains policies and procedures to ensure it is compliant with laws and ethical standards to minimise the risk of significant litigation.</p> <p>In addition, the Company employs respected companies to advise on transactions and other legal matters.</p>

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

<u>Area of Potential Uncertainty</u>	<u>Risk</u>	<u>Strategy</u>
The Company's senior management team is critical to the Company's continued performance.	The Company relies to a significant extent on the discretion and judgment of the management team. The Company's performance and success is dependent, in part, upon the members of the Company'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 Company regularly deals in the conduct of the its business. While the Company 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 Company's business, results of operations and financial condition could be adversely affected.	<p>The Company has devised remuneration packages that are designed to retain and properly incentivise management. Knowledge is shared between senior staff members at formal and informal meetings.</p> <p>Additionally, if there is sudden increased activity within the business, it can managed effectively through a combination of recruitment and outsourcing to provide the resource needed.</p>
The Company's business could be disrupted if its information systems fail or if its databases are destroyed or damaged.	The Company uses several information technology tools, platforms and systems to support, among other things, its operations, billing, expenses and financial information and reporting processes. The Company'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.	<p>The Company has taken measures to mitigate potential information technology security risks and information technology failures.</p> <p>The Company takes regular back ups and tests its IT disaster recovery plan on an annual basis.</p>

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT PRINCIPAL STAKEHOLDER

MOD RELATIONSHIP

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

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

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT 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 Business review, Financial review, Financial performance and this section.

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

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

The Annington Group's forecasts do not indicate any of these covenants will be breached in the foreseeable future. Further, the Annington 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 Annington Group to allow the continued operation for the foreseeable future.

The Company 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 Company would still be able to service its debt obligations from the remaining rental income.

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

After making enquiries, the directors have a reasonable expectation that the Company 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.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT OUTLOOK

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

With the increased number of releases, the focus for the Company will be on the refurbishment of the units handed back, particularly 232 properties at Bordon and Canterbury, which require extensive reinstatement works.

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

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

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

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

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



A P Chadd
Director

16 August 2019

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

ANNINGTON PROPERTY LIMITED

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements for the year ended 31 March 2019.

RESULTS AND DIVIDENDS

The Company's profit after taxation for the year is £528.4 million (2018: loss of £864.6 million). No dividend has been paid or proposed (2018: £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 within the Going Concern section of the Strategic Report.

FUTURE DEVELOPMENTS

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

AUDITOR

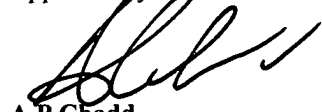
Each of the persons who is a director at the date of approval of this annual report confirms that:

- 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/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

16 August 2019

REGISTERED OFFICE

1 James Street
London, United Kingdom
W1U 1DR

ANNINGTON PROPERTY LIMITED

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, 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 PROPERTY LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Annington Property Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related Notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ANNINGTON PROPERTY LIMITED (continued)

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Richard Howe (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
16 August 2019

ANNINGTON PROPERTY LIMITED

INCOME STATEMENT

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Property rental income	4	180,939	178,784
Property operating expenses		(1,288)	(1,350)
Net rental income	4	179,651	177,434
Other operating income		5	688
Administrative expenses		(10,077)	(12,187)
Site review costs	5	(5,636)	(1,505)
Utilities provision (expense)/release	16	(431)	4,069
Unrealised property revaluation gains/(losses)	10	482,752	(484,520)
Share of result of joint venture after taxation	11	1,063	14,912
Profit on disposal of investment properties	7	1,078	6,259
Operating profit/(loss)	5	648,405	(294,580)
Finance income	8	304	36,077
Finance costs	8	(26,018)	(837,232)
Profit/(loss) before taxation		622,691	(1,095,735)
Taxation	9	(94,323)	231,167
Profit/(loss) for the year after taxation		528,368	(864,568)
Profit/(loss) attributable to shareholder		528,368	(864,568)

There were no items of other comprehensive income or expense for the current or prior year and therefore the profit/loss for the year reflects the Company's total comprehensive income.

ANNINGTON PROPERTY LIMITED

BALANCE SHEET

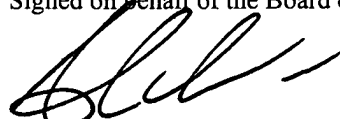
At 31 March 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investment properties	10	7,247,566	6,768,311
Investment in joint venture	11	6,184	10,403
Receivables	12	10	-
		<u>7,253,760</u>	<u>6,778,714</u>
Current assets			
Receivables	12	35	6,484
Cash and cash equivalents	13	43,414	93,035
		<u>43,449</u>	<u>99,519</u>
Investment properties held for sale	10	1,256	1,887
Total assets		<u>7,298,465</u>	<u>6,880,120</u>
Current liabilities			
Trade and other payables	14	(46,056)	(41,725)
Loans and borrowings	15	(533,978)	(736,712)
Provisions	16	(6,865)	(3,635)
		<u>(586,899)</u>	<u>(782,072)</u>
Non-current liabilities			
Other payables	14	-	(202)
Deferred tax	9	(661,152)	(572,916)
Provisions	16	(33,144)	(36,028)
		<u>(694,296)</u>	<u>(609,146)</u>
Total liabilities		<u>(1,281,195)</u>	<u>(1,391,218)</u>
Net assets		<u>6,017,270</u>	<u>5,488,902</u>
Capital and reserves			
Share capital	18	-	-
Retained earnings	19	6,017,270	5,488,902
Total equity		<u>6,017,270</u>	<u>5,488,902</u>

The accompanying notes (1 to 25) should be read in conjunction with these financial statements.

The financial statements of Annington Property Limited, registered number 03232852, were approved by the Board of Directors and authorised for issue on 16 August 2019.

Signed on behalf of the Board of Directors



A P Chadd
Director

ANNINGTON PROPERTY LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 31 March 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	-	6,353,470	6,353,470
Loss attributable to shareholder, being total comprehensive income for the year	-	(864,568)	(864,568)
Balance at 31 March 2018	-	5,488,902	5,488,902
Profit attributable to shareholder, being total comprehensive income for the year	-	528,368	528,368
Balance at 31 March 2019	-	6,017,270	6,017,270

ANNINGTON PROPERTY LIMITED

CASH FLOW STATEMENT For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Net cash from operating activities	20	165,303	162,595
Taxation paid		(4,000)	-
Net cash inflow from operating activities		<u>161,303</u>	<u>162,595</u>
Distributions from joint venture	11	5,282	28,978
Proceeds from sale of investment properties		5,469	34,188
Investment property additions	10	(263)	(2,261)
Amounts received under intercompany loan repayments		6,440	1,883,861
Interest received		304	1,159
Net cash inflow from investing activities		<u>17,232</u>	<u>1,945,925</u>
Financing activities			
Increase in intercompany borrowings		2,877	800,664
Interest paid on intercompany borrowings		(25,424)	(917,851)
Repayment of intercompany borrowings		(205,610)	(1,976,843)
Net cash outflow from financing activities		<u>(228,157)</u>	<u>(2,094,030)</u>
Net (decrease)/increase in cash and cash equivalents		(49,622)	14,490
Cash and cash equivalents at the beginning of the year		<u>93,035</u>	<u>78,545</u>
Cash and cash equivalents at the end of the year	13	<u><u>43,414</u></u>	<u><u>93,035</u></u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. CORPORATE INFORMATION

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

The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London W1U 1DR. Information on the Company's ultimate parent is presented in Note 25.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

These financial statements are presented in pound sterling, which is the functional currency of the Company. All values are rounded to the nearest thousand (£'000), except where otherwise indicated. They have been prepared on the historical cost basis, except for the revaluation of investment properties that are measured at 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.

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 Business Review within the Strategic Report. The Strategic Report also describes the financial position of the Company, while its objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk is set out in note 17.

During the 2018 year, new debt was issued by the Annington Group. The ability to service and repay this debt is critical to the Annington Group's, and the Company's, future as a going concern. For the foreseeable future, at least until the maturity of the term loan in 2022, the Annington Group only needs to pay the interest on the debt. The new debt has a number of covenants to comply with under both the bonds and loan facility. The covenants attaching to the debt are set out in the Going Concern section of the Strategic Report.

The Annington Group's forecasts do not indicate that any of these covenants will be breached in the foreseeable future. Further, the Annington 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. Were this not possible, the undrawn revolving credit facility provides additional liquidity to the Annington Group to allow the continued operation for the foreseeable future.

The Company meets its day-to-day working capital requirements from rental income. In uncertain economic environments, where there is uncertainty over the level of demand for properties, comfort is obtained via the fact that rental income is sufficient to meet debt service requirements without the need for sales and that a significant number of units could become void and the Company would still be able to service its debt obligations from the remaining rental income. The Company receives cash on a quarterly basis in relation to its long-term rental of investment properties. The forecast receipts of rent in the year ahead will be sufficient to meet short-term cash requirements.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Group financial statements

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of another company for which consolidated financial statements are prepared.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

Significant accounting judgements and key estimation uncertainties

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Valuation of investment properties

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

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

Provision for utilities

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

New Standards, interpretations and amendments effective from 1 April 2018

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 40 Amendments – Transfers to Investment Property

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

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

3. NEW STANDARDS AND INTREPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

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

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

IFRS16 Leases

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

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

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

The Company leases with the MoD are currently recognised as operating leases and under IFRS 16 they will continue to be classified as such.

The Company's leases as lessee are accounted for within Annington Management Limited through an overhead management agreement. Therefore at date of application there will be no material impact on the Company in the current or future reporting periods as this is accounted within Annington Management Limited.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

4. PROPERTY AND NET RENTAL INCOME

ACCOUNTING POLICY

Property rental income – Revenue recognition

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

	2019 £'000	2018 £'000
Property rental income	180,939	178,784

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 expensed to the income statement.

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

5. OPERATING PROFIT/(LOSS)

ACCOUNTING POLICY

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

	2019 £'000	2018 £'000
Operating lease payments		
Land and buildings	509	431

The auditor's remuneration was £42,200 (2018: £48,388) for the audit of the Company's annual financial statements, and was borne by another group company, in the current and preceding year.

In accordance with SI 2008/489 of the Companies Act 2006, the Company has not disclosed the fees payable to the Company's auditor for 'Other services' as this information is included in the consolidated financial statements of Annington Limited.

Site Review Costs

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

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

The Company had no employees of its own during the year (2018: none). The cost of performing work for the Company is borne by another group company, Annington Management Limited.

7. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

ACCOUNTING POLICY

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

	2019 £'000	2018 £'000
Sales proceeds	6,233	27,411
Selling costs	(764)	(344)
Net disposal proceeds	5,469	27,067
Carrying value of properties disposed	(4,391)	(20,808)
	<u>1,078</u>	<u>6,259</u>

During the year, disposals of 10 properties (2018: 111 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.

	Note	2019 £'000	2018 £'000
Finance income			
Interest receivable on intercompany balances		-	34,918
Other interest		304	1,159
Total finance income		<u>304</u>	<u>36,077</u>
Finance costs			
Interest payable on intercompany balances		25,424	85,341
Intercompany finance charges		-	746,933
Unwinding of discount and effect of changes in discount rate on utilities provision	16	594	4,958
Total finance costs		<u>26,018</u>	<u>837,232</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

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 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.

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax at 19% (2018: 19%)	(6,087)	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	(88,236)	231,167
Total taxation for the year	<u>(94,323)</u>	<u>231,167</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

9. TAXATION (continued)

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

	2019 £'000	2018 £'000
Profit/(loss) before taxation	622,691	(1,095,735)
Tax (charge)/credit at the standard rate	(118,311)	208,190
Factors affecting the current tax for the year:		
Disposal of investment properties	259	(607)
Effect of tax rate differential between current and deferred tax	10,089	(24,875)
Notional transfer to group company	-	3,095
Taxable income from investment in The Inglis Consortium LLP	139	139
Group relief claimed	13,803	33,965
Effect of indexation	(302)	11,260
Total taxation for the year	(94,323)	231,167

From 1 April 2017, the headline rate of corporation tax was reduced from 20% to 19%, and will be 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:

	Investment properties £'000	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 2017	(876,170)	188	71,899	(804,083)
Credit to profit or loss	94,882	340	135,945	231,167
At 31 March 2018	(781,288)	528	207,844	(572,916)
Charge to profit or loss	(81,940)	(8)	(6,288)	(88,236)
At 31 March 2019	(863,228)	520	201,556	(661,152)

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

9. TAXATION (continued)

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:

	2019 £'000	2018 £'000
Deferred tax liabilities	(863,228)	(781,288)
Deferred tax assets	202,076	208,372
Net deferred tax liabilities	(661,152)	(572,916)

At the balance sheet date, the Company has unused tax losses of £1,185.6 million (2018: £1,222.6 million) available for offset against future profits. A deferred tax asset of £201.6 million (2018: £207.8 million) has been recognised in respect of these losses.

No deferred tax liabilities are recognised on temporary differences associated with the interest in the joint venture for the current and preceding year in accordance with the accounting policy.

Deferred tax balances at 31 March 2019 are measured at 17% (2018: 17%).

10. INVESTMENT PROPERTIES

ACCOUNTING POLICY

Investment properties comprise property that is held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes and other professional fees. Subsequent to initial recognition, investment properties are recognised at the carrying value at balance sheet date which is the fair value adjusted for related provisions that are disclosed separately on the balance sheet. The fair value is determined annually by professionally qualified external valuers on a portfolio basis such that individual property calculations are not performed. Changes in the carrying value are included in the income statement for 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.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2019 (continued)

10. INVESTMENT PROPERTIES (continued)

2019	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Carrying value at 1 April	6,768,311	1887	6,770,198
Additions - capital expenditure	263	-	263
Disposals	(2,504)	(1,887)	(4,391)
Transfer to investment properties held for sale	(1,317)	1,317	-
Unrealised property revaluation gains/(losses)	482,813	(61)	482,752
Total carrying value at 31 March	<u>7,247,566</u>	<u>1,256</u>	<u>7,248,822</u>

2018	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Carrying value at 1 April	7,267,288	5,707	7,272,995
Additions - capital expenditure	2,261	-	2,261
Disposals	(15,101)	(5,707)	(20,808)
Transfer to investment properties held for sale	(1,725)	1,725	-
Unrealised property revaluation (losses)/gains	(484,412)	162	(484,250)
Total carrying value at 31 March	<u>6,768,311</u>	<u>1,887</u>	<u>6,770,198</u>

Properties would have been included on an historical cost basis at £1,199.9 million (2018: £1,202.1 million).

As at 31 March 2019 there were 3 (2018: 8) investment properties classified as held for sale, with disposal expected within the next 12 months.

	2019 £'000	2018 £'000
The carrying value of investment properties and investment properties held for sale comprises:		
Freehold	32,813	8,535
Very long leaseholds (over 900 years)	<u>7,216,009</u>	<u>6,761,663</u>
	<u>7,248,822</u>	<u>6,770,198</u>

	2019 £'000	2018 £'000
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	7,208,813	6,730,535
Add: amounts included in utilities provision (Note 16)	<u>40,009</u>	<u>39,663</u>
Carrying value for financial reporting purposes	<u>7,248,822</u>	<u>6,770,198</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

10. INVESTMENT PROPERTIES (continued)

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 Company has adjusted the market valuation of investment properties to exclude the utilities provision (Note 16).

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 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.

Future minimum rents receivable under non-cancellable operating leases are disclosed in Note 22.

	2019 £'000	2018 £'000
Property rental income from investment properties:	180,939	178,784
Property rental expenses:		
Refurbishment costs	(1,178)	(2,499)
Dilapidations recovered from tenants	-	1,379
Rental running expenses	(110)	(230)
	<u>(1,288)</u>	<u>(1,350)</u>

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

In the previous year site review costs were within rental running costs, these have since been reclassified to be disclosed separately within the financial statements therefore the rental running expenses comparatives reduced by £1,505,000, from £1,735,000 to £230,000, refer to note 5 for information on the reclassification of site review costs.

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

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

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

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

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

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2019 (continued)

10. INVESTMENT PROPERTIES (continued)

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

2019	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	7,176,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	179,747
		Estimated future rent increase (20 year average - %)	2.75% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	8.1%
Surplus estate			
Fair value	32,813		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	15.0%
Fair value at 31 March 2019	<u>7,203,813</u>		
2018	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	6,722,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	180,867
		Estimated future rent increase (20 year average - %)	2.75% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	8.1%
Surplus estate			
Fair value	8,535		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	15.0%
Fair value at 31 March 2018	<u>6,730,535</u>		

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2019 (continued)

11. INVESTMENT IN JOINT VENTURE

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 Company's share of the net assets of the joint venture, less any impairment. Losses in a joint venture in excess of the Company's interest in that entity are recognised only to the extent that the Company has incurred legal or constructive obligations on behalf of the joint venture.

The principal joint venture undertaking at 31 March 2019 is shown below:

Name of joint venture	Principal activity	Holding
The Inglis Consortium LLP	Property development	28.55%

The Company'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 Company 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.

	Share of net assets £'000
At 1 April 2017	10,548
Additions	13,921
Distributions	(28,978)
Share of profit for the year	14,912
At 31 March 2018	10,403
Distributions	(5,282)
Share of profit for the year	1,063
At 31 March 2019	6,184

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

12. RECEIVABLES

ACCOUNTING POLICY

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

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

Trade receivables and contract assets

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

	2019 £'000	2018 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	-	6,440
Other receivables	34	41
Prepayments and accrued income	1	3
	<u>35</u>	<u>6,484</u>
Amounts falling due after one year		
Other receivables	10	-
	<u>10</u>	<u>-</u>

The carrying value of receivables approximates the fair value. As at the reporting date, the expected credit loss allowance was £1,609 (2018: £4,429).

13. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

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

Short-term investments relates 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.

	2019 £'000	2018 £'000
Cash at bank	10,028	2,797
Short-term deposits	32,011	15,006
Short-term investments	1,375	75,232
	<u>43,414</u>	<u>93,035</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

14. TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

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

	2019 £'000	2018 £'000
Amounts falling due within one year		
Trade payables	800	11
Corporation tax	2,087	-
Taxes and social security	74	393
Accruals	1,600	723
Deferred income	41,495	40,598
	<u>46,056</u>	<u>41,725</u>
Amounts falling due after one year		
Accruals	-	202
	<u>-</u>	<u>202</u>

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

15. LOANS AND BORROWINGS

ACCOUNTING POLICY

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

	2019 £'000	2018 £'000
Amounts falling due within one year		
Amounts owed to group undertakings	533,978	736,712

Current

Amounts due to group undertakings include £527.5 million (2018: £733.1 million), which are unsecured, interest bearing at 4.035% (2018: 4.035%) and have no fixed date of repayment. The balance is interest free, unsecured with no fixed date of repayment.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2019 (continued)

16. PROVISIONS

ACCOUNTING POLICY

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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).

	2019 £'000	2018 £'000
Utilities provision		
At 1 April	39,663	39,519
Unwinding of discount	2,384	4,958
Effect of change in discount rate	(1,790)	-
Amount charged/(credited) to income statement	431	(4,069)
Utilised	(679)	(745)
	<hr/>	<hr/>
At 31 March	40,009	39,663
	<hr/>	<hr/>
Current provision	6,865	3,635
Non-current provision	33,144	36,028
	<hr/>	<hr/>
	40,009	39,663
	<hr/>	<hr/>

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 Company. There is a contingent liability (refer to Note 22) in respect of base dependent sites where properties have not been released.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

17. 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 include trade and other payables and loans and borrowings.

The Company has the following financial instruments:

	Note	2019 £'000	2018 £'000
Financial assets			
Cash and receivables:			
Receivables	12	35	6,481
Cash and cash equivalents	13	43,414	93,035
Total financial assets		43,449	99,516
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	14	2,400	936
Loans and borrowings	15	533,979	736,712
Total financial liabilities		536,379	737,648

Exposure to credit, liquidity, and interest rate risks arise in the normal course of the Company's business activities.

Credit Risk

The Company's principal financial assets are cash and cash equivalents and receivables.

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. 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 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. The rent is payable quarterly in advance and, to date, has always been received by the due date.

The Company's credit risk is attributed primarily to its 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.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Other than amounts due from the joint venture company and dilapidations claims outstanding, the Company has no other significant concentration of credit risk.

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

Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

Cash Management and Liquidity

Cash levels are monitored to ensure sufficient resources are available to meet the Company's current and projected operational commitments.

Cash balances are invested in short- 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 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 Company can be required to pay. The table includes both interest and principal cash flows. In respect of derivative financial instruments, the fair values have been calculated using appropriate market discount rates to arrive at the future cash flows.

	2019			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	2,400	2,400	-	-
Loans and borrowings	533,979	533,979	-	-
Total financial liabilities	536,379	536,269	-	-

	2018			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	936	734	202	-
Loans and borrowings	736,712	736,712	-	-
Total financial liabilities	737,648	737,446	202	-

18. SHARE CAPITAL

	2019 £	2018 £
Authorised, issued and fully paid		
1 ordinary share of £1	1	1

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2019 (continued)

19. RETAINED EARNINGS

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

	2019 £'000	2018 £'000
Distributable profits	1,779,609	1,039,996
Non-distributable profits	4,237,661	4,448,906
Total retained earnings	<u>6,017,270</u>	<u>5,488,902</u>

Non-distributable profits represents unrealised gains after tax arising on remeasurement of the Company's investment properties.

20. NOTE TO THE CASH FLOW STATEMENT

	2019 £'000	2018 £'000
Profit/(Loss) after taxation	528,368	(864,568)
<i>Adjustment for:</i>		
Taxation	94,323	(231,167)
Finance costs	26,018	837,232
Finance income	(304)	(36,077)
Share of result of joint venture after taxation	(1,063)	(14,912)
Profit on disposal of investment properties	(1,078)	(6,259)
Unrealised property revaluation (gains)/losses	(482,752)	484,250
Utilities provision release	431	(4,069)
<i>Movements in working capital:</i>		
(Increase)/decrease in debtors	(3)	822
Increase/(decrease) in creditors	2,042	(1,912)
Decrease in provisions	(679)	(745)
Net cash inflow from operating activities	<u>165,303</u>	<u>162,595</u>

21. ANALYSIS OF CHANGES IN NET DEBT

	2019 £'000	Cash flow £'000	Other non-cash changes £'000	2018 £'000
Cash and cash equivalents	43,414	(49,621)	-	93,035
Debts falling due within one year	(533,979)	228,157	(25,424)	(736,712)
Debts falling due after more than one year	-	-	-	-
	<u>(533,979)</u>	<u>228,157</u>	<u>(25,424)</u>	<u>(736,712)</u>
Net debt	<u>490,565</u>	<u>178,536</u>	<u>(25,424)</u>	<u>(643,677)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

22. 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.

Company as a lessor

Leases in which the Company 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.

Company as a lessee

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

Contingent liabilities

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

Operating lease commitments – Company as lessor

The Company has entered into property leases on its investment properties portfolio. The Company 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 Company also retains all the significant risks and rewards of ownership of these properties. As such, all of these leases are accounted for as operating leases.

At 31 March 2019, the Company had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2019 £'000	2018 £'000
Within one year	89,890	89,762
	<u>89,890</u>	<u>89,762</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

22. COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments – Company as lessee

The Company has entered into property leases on land and buildings. The lease terms are between one to five years but the Company has the option, under some of its leases, to lease the assets for additional terms of up to 12 months.

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

	Land and buildings	
	2019	2018
	£'000	£'000
Within one year	565	182
In two to five years	1,663	2,020
	<u>2,228</u>	<u>2,202</u>

Contingent liabilities

As stated in Note 16, there is a contingent liability to allow for the adoption of private utilities on sites that are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment and where there have been no releases of property from the MoD. This amounts to £134.4 million (2018: £132.1 million).

23. RELATED PARTY DISCLOSURES

During the year, the Company entered into the following transactions with related parties:

	Sale of investment properties		Interest income		Finance costs and recharge of costs	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Parent						
Annington Homes Limited	-	-	-	34,918	25,424	22,441
Related parties						
Annington Finance No. 4 plc	-	-	-	-	-	777,040
Annington Finance No. 1 plc	-	-	-	-	-	32,793
Joint venture						
The Inglis Consortium LLP	-	13,921	-	-	-	-
	<u>-</u>	<u>13,921</u>	<u>-</u>	<u>34,918</u>	<u>25,424</u>	<u>832,274</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2019 (continued)

23. RELATED PARTY DISCLOSURES (continued)

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		Amounts owed to related parties	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Parent				
Annington Homes Limited	-	-	527,529	733,106
Related parties				
Annington Developments Limited	-	6,440	-	-
Annington Finance No. 1 plc	-	-	13	12
Annington Finance No. 2 Limited	-	-	70	70
Annington Finance No. 4 plc	-	-	617	617
Annington Receivables Limited	-	-	-	33
Annington Management Limited	-	-	5,748	2,872
Annington Rental (Holdings) Limited	-	-	2	2
	<u>-</u>	<u>6,440</u>	<u>533,979</u>	<u>736,712</u>

The terms of these related party balances are detailed in Note 15.

24. POST BALANCE SHEET EVENTS

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

25. CONTROLLING PARTY

Annington Subsidiary Holdings Limited, a company incorporated in the United Kingdom, 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.

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