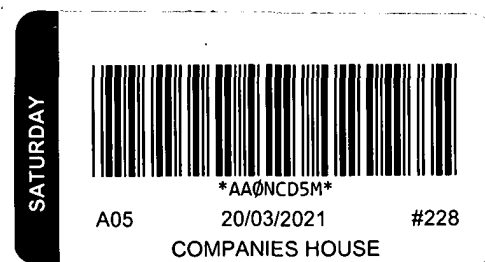


Company Registration No. 03232852

ANNINGTON PROPERTY LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2020



ANNINGTON PROPERTY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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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

THE 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 2020 the Company's investments consisted of

- the MQE Retained Estate, comprising 38,460 Units ("Retained Units") (2019: 38,726) and 181 Related Assets (2019: 181), representing the majority of the MoD's total Service Family Accommodation; and
- the MQE Surplus Estate comprising 445 Units ("Surplus Estate") (2019: 251).

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

Headleases and Underleases

Headleases

On 5 November 1996, the MoD granted a headlease ("Headlease") to 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 THE 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 APL 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
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.

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT THE BUSINESS (continued)

Rent reviews (continued)

Over the four Rent Review cycles that have been completed, substantially all Sites have resulted in rent increases, with only a small minority of Sites experiencing either no change or a decrease in rent. The results of the previously completed Rent Reviews are summarised in the table below:

As at 25 December	Number of Retained Units	Passing 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 APL 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.

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

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

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

Property releases

As the MoD's requirements for Service Family Accommodation change, it may choose to give up its rights to occupy Sites (or certain parts thereof) by terminating the related lease, subject to certain criteria. Upon termination of a lease, the Company 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.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT THE BUSINESS (continued)

Property releases (continued)

As part of the 1996 Acquisition, the MoD agreed to adhere to a minimum property release schedule, whereby the MoD guaranteed to release a cumulative total of 13,213 properties (in addition to the 2,374 properties in the Surplus Estate) by the end of 2021. The MoD has already satisfied this obligation and is no longer subject to any contractual requirements to release any Units from the Retained Estate under the 1996 lease arrangements. In the 7 March 2019 agreement with the MoD ("Arbitration Agreement"), the MoD committed to release 500 units per year, measured on a two year rolling average, and this is incentivised by a waiver on the first £7,000 of dilapidations costs for up to 500 units per year. It was agreed the first year for this purpose would be extended to include certain units released during at Bordon and Canterbury during March 2019 and end on 31 March 2020. On this basis, the MoD released 501 units in the first year of this agreement.

Pursuant to a utilities agreement entered into between the MoD and 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. A provision for these costs has been recognised (see Note 20 for further details). At present, there are 4,500 units within the MEQ Retained Estate which are covered by at least one base dependent utility supply. The utilities agreement has a term of 25 years, expiring on 4 November 2021, though this may be extended in certain circumstances to 2028 under the terms of the Arbitration Agreement, after which the MoD will not be obliged to provide the Base Dependent service when it releases any property on a Base Dependent Site.

As of 31 March 2020, the MoD had released a total of 16,600 (2019: 16,334) Units together with an additional 181 Related Assets since November 1996. Release levels for the last five years have been:

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

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

A number of Released Units are also rented to third parties, principally where the Released Units are on or near large retained Sites where they may be held for open market rent comparisons in support of the Beacon Unit rent review process. Where the MoD has on occasion released large numbers of Units on a Site, 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 slightly as a result of changes to several assumptions, including changes in market based financing assumptions.

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT THE BUSINESS (continued)

Property valuation (continued)

It is important to note that the property valuation can go down as well as up. As stated previously, the MQE property valuation has been performed on a portfolio basis, using a discounted cash flow method. This method forecasts future cash flows which are then discounted to arrive at a fair value for the portfolio. The resultant gains or losses are not crystallised unless the Company sells the assets, which is not its strategy. Our 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's initial acquisition of the portfolio in 1996 for inflation, using the average of the regional Halifax House Price Index (All House Prices) and the Nationwide House Price Index and adjusting this by a factor representing actual sales performance on disposals from the MQE Retained Estate. The methodology for calculating the Halifax House Price Index was changed during the year by IHS Markit, a leading global information provider. The update intends to address changes in the structure of the UK housing market over the past 35 years and provide a more robust measure. Some of these changes include improving the granularity of location characteristics and aligning the regions to those of UK official statistics, as well as updating weighting systems to those more widely used by global statistical agencies. The Company has thus incorporated this new methodology for calculating the index and adopted the reported regions to align with the changes implemented by IHS Markit. The impact of these changes has been to increase the indexed bid SAVPV, but it has also affected the adjustment factor determined by comparing this to historical sales values achieved. The adjustment factor was reported as 99.9% at March 2019 under the previous Halifax methodology. This result adjusts to 95.7% when using the revised Halifax methodology and is 97.25% on the same basis for March 2020. The table below sets out the SAVPV of the MQE Retained Estate:

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

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. For the year ended 31 March 2020, the Company's share of profits from the joint venture was £0.7 million (2019: £1.1 million).

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT PROPERTY MARKET OVERVIEW

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

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

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

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PROPERTY MARKET OVERVIEW (continued)

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

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

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

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT MOD RELATIONSHIP

Service Family Accommodation

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

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

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

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

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

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

Communication with the MoD

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

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

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

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT STRATEGIES

The Company's Strategies

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 impact of Covid-19 has been considered and is not seen as a material factor in the strategic plan. 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, planned for a 24 month period to March 2021, is designed to produce an equivalent result to the Site Review, but in a shorter time frame and at a significantly lower cost to both parties. It will also give APL and the MoD certainty in relation to the future rents payable for the MQE, although the revised rents will not be payable until the contracted dates in the Underleases. Management has spent time over the last year preparing for the negotiations on each of the 27 representative sites, with areas of focus being reports on condition, agreement of legal issues upon which the negotiations rest, a period of unsuccessful negotiation and finally, preparation for the arbitration of the first four sites. Work will continue on a slightly delayed timetable into 2021.

Appraisal and management of Releases

The 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

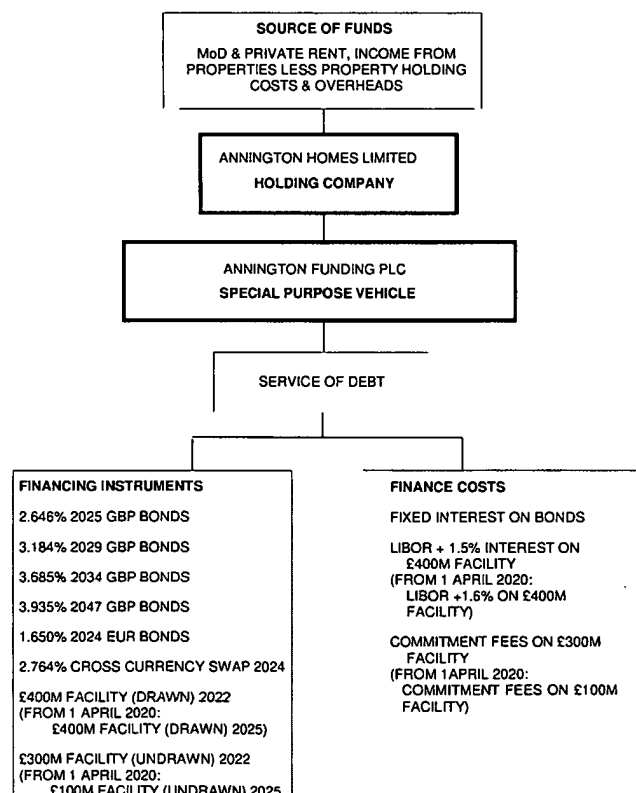
The Group is financed by shareholders equity, external bonds and a term loan. In July 2017, Annington Funding plc (“AFP”) issued five tranches totalling £3 billion of corporate, unsecured bonds under a Euro Medium Term Note (“EMTN”) programme (rated BBB) and drew down an unsecured term loan of £400 million.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

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

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

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

Cross currency swaps are in place for the €600 million bond, converting its initial nominal balance to £526.3 million. These swaps also mitigate volatility of foreign currency movements in future interest and capital repayments. The function of these swaps increases the effective interest rate of the Euro tranche debt to 2.764%, fixed for the life of the bond. The debt obligation in cash for the bonds and swaps is £97.8 million per annum. Following the agreement to amend the terms of the £400 million unsecured term loan and the revolving credit facility, the cash obligation for the next financial year, based on contractual rates at 31 March 2020, is £8.2 million for the term loan (2019: £9.2 million) and £0.7 million (2019: £1.2 million) for the revolving credit facility. The financing structure can be simplified using the diagram shown below:



The Group must comply with a number of covenants attaching to the debt under both the bonds and loan facility. These are described in detail in the Going Concern section of this report. The Group did not breach any covenants as at 31 March 2020 and has no expectation of doing so in the foreseeable future.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT BUSINESS REVIEW (continued)

KEY PERFORMANCE INDICATORS

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

KPI	2020 £ millions	2019 £ millions	Basis of calculation
Net rental income	174.7	179.7	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 decreased by £5.0 million or 2.8% in 2020 as a result of increased refurbishment costs due to a higher volume of MQE releases followings the conclusion of the 2019 Arbitration Agreement.			
Property operating expenses	5.6	1.3	Property operating expenses are incurred and not recharged to the tenant.
Property operating expenses are measured to track the operating costs of the portfolio. Property operating expenses have increased as a result of increased refurbishment costs as explained above.			
Adjusted EBITDA	175.8	170.7	Adjusted EBITDA is calculated as: 212.3 m - the accounting operating profit/(loss) before financing and tax, adjusted for: (34.3)m - revaluation gains/losses on investment properties in the income statement. (0.7)m - profits, losses or impairment items attributable to joint ventures in the income statement (21.7)m - charges/credits to the income statement, arising from changes to the utilities provision (Note 16) 20.2 m - one-off items (the site review costs shown in the income statement)
Adjusted EBITDA is used to measure for the normalised earnings of the business. This metric makes comparisons more meaningful across different periods. Adjusted EBITDA has increased mainly due to higher profits from investment property disposals.			
Free cash flow	140.5	146.9	Free cash flow is calculated as: (25.7)m - the net increase in cash and cash equivalents, but adding back Nil - cash spent on purchase of investment properties Nil - intercompany loan repayments, as shown in Investing activities cash flows, (0.5)m - increase in intercompany borrowings as shown in Financing activities cash flows 166.7 m - repayment of intercompany borrowings as shown in Financing activities cash flows, and Nil - any dividends (none to date).
This measure is utilised to assess the cash generated that may be utilised on discretionary purchases or dividends. Free cash flow has decreased from £146.9 million in 2019 to £140.4 million in 2020 as a result of higher costs incurred from Site Review activities, offset by higher proceeds from sale of investment properties.			
Net rental yield	2.4%	2.5%	Net rental yield is calculated as: net rental income (£174.7m) divided by the investment properties carrying value (£7,269.3m).
This measure is used to measure rental yields and it has fallen slightly as maintenance costs rose following the release of units in poor condition..			

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT BUSINESS REVIEW (continued)

INCOME STATEMENT

The Company generated rental income of £180.3 million (2019: £180.9 million). The majority of this was through the MQE Portfolio Retained Estate, which generated rental income of £180.2 million (2019: £180.8 million) in the year to March 2020. The increase in rental income is driven largely by the conclusions reached thus far into the December 2019 Rent Review which has resulted in a rental uplift.

During the year, the Company generated income of £25.6 million (2019: £6.2 million) through the sale of 72 units (2019: 10 units). The results are reflective of the nature (condition, location and size) and number of units released by the MoD and subsequently made available for sale. The larger volume of releases in March 2019 provided a greater stock of properties available during the financial year, compared to recent years where relatively low levels of releases have effectively capped the number of units available for sale, reflected by volatility in the reported performance.

With market conditions suffering from uncertainty during the year, the Company has again benefited from its ability to manage the mix of rentals and sales strategies to meet the variable demand for properties on its sites across the country. The short-term rentals strategy continues to be used for stock that is not ready for sale or where sales rates are slow due to the current market conditions.

Unrealised investment property gains of £34.3 million were also recognised in the current financial year (2019: £482.8 million). The higher valuation is driven by a slight increase in the value of the retained MQE and greater units within the MQE Surplus Estate.

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

BALANCE SHEET AND CASH FLOWS

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 2020 and the cash flows of the Company for the year is summarised below.

The Company's total assets amounted to £7,317.9 million (2019: £7,298.5 million). 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 £7,269.3 million at 31 March 2020 (2019: £7,248.8 million). The Company's share of its joint venture totalled £2.6 million (2019: £6.2 million) and the Company held £26.1 million (2019: £43.4 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

The Company's combined liabilities totalled £433.3 million (2019: £1,281.2 million), comprised primarily of long-term debt. The Company's long-term funding is arranged through AFP in the form of bonds and a term loan.

During the year, Annington Limited's immediate parent entity, Annington Holdings (Guernsey) Limited ("AHGL"), informed the Group that AHGL qualifies as a Collective Investment Vehicle for the purposes of Non-Resident Capital Gains Tax rules and that it made an exemption election under this legislation. The exemption election under this legislation is designed to prevent multiple layers of taxation within a structure which would otherwise be borne by all investors and operates by centralising responsibility for Capital Gains Tax upon the investors in the Collective Investment Vehicle. A consequence of this is that responsibility for Capital Gains Tax is removed from subsidiary group entities, meaning that the Company has derecognised the previously recorded deferred tax liability related to capital gains. Such unrealised gains arose on the property value uplifts over time and would have been realised only in the event of a disposal of those properties. The Company now recognises a deferred tax asset of £19.9 million based on the foreseeable use of tax losses accrued in previous years. A further £200.8 million of deferred tax asset arising from unused tax losses remains unrecognised, with future recognition of this asset being contingent upon there being sufficient future taxable profits against which it can be utilised.

Net cash from operating activities before tax decreased by £24.6 million, from £165.3 million to £140.7 million. The key cause of the reduction in this balance is a £14.6 million increase in site review expenses during the year, to fund the Group's preparation for negotiations and arbitrations to determine the correct level of rents to be paid in future years. Working capital movements and increasing refurbishment costs following the increased number of units returned by the MoD are the next most significant causes of this change.

Tax payments increased to £6.5 million, up from £3.9 million in 2019.

Due to the increase in sales, the cash inflow from property sales increased to £20.2 million (2019: £5.5 million).

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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 for a substantial proportion of its revenue.	<p>The revenue from rent payments by the MoD for the MQE accounts for 99.9% (2019: 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. The outcome of the site review process is determined on a negotiated or arbitrated basis, to reflect an appropriate market rent for each site. Taking into account relevant market elements, this rate is expected to result in a discount to comparable open market rents for the units on an individual basis, which may be higher or lower than the current 58% discount.</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, the MoD could release a large number of units, and it could fail to pay rent on time, all of which could adversely affect the Company's business and create the risk that the debt service obligations would not be able to be met.</p>	<p>Where the MoD has 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. This strategy is available to best manage any reduction in rental receipts from the MoD in the event of significant releases.</p> <p>Through the Arbitration Agreement, the Site review process is being determined for 27 baskets of sites. The Company has retained specialist advisors to assist with this process.</p> <p>The refinancing that took place in July 2017 gives the Group significant operational flexibility to diversify the business and pursue a growth strategy in the private residential sector or other areas to mitigate the risk of the negative potential outcomes.</p> <p>The Group has entered into a revolving credit facility, with £300 million (reduced to £100 million on 1 April 2020) available and undrawn, that provides liquidity to the Group were any rental income to be received after its due date or to bridge any financing gap, were significant numbers of units released on short notice.</p>

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Area of Potential Uncertainty	Risk	Strategy
<p>The UK housing market may be significantly affected by changes in general and local economic conditions, including the finalisation of the "Brexit" trade agreements and the impacts of COVID-19.</p>	<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>Similarly, rental income may be delayed or reduced.</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>
<p>The Company has no control over the quantity, location and timing of property releases by the MoD.</p>	<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, APL will provide a dilapidations waiver of £7,000 on up to 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>
<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.</p>	<p>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.</p>	<p>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.</p>

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 STAKEHOLDERS

Statement on s172 of the Companies Act 2006

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

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment,
- (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- (f) the need to act fairly as between members of the company.

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

Stakeholder:	How we consult and consider stakeholder interests	More information
Customers	<p>Our largest customer is the MoD. While there is access at high level within the DIO on strategic issues, most day to day business is dealt with through the Joint Working Board (APL and DIO), which meets quarterly and is chaired by the Head of Accommodation at DIO. The majority of the issues relate to the day to day running of the estate rather than strategic direction and decision making but this forum is almost the only opportunity to discuss accommodation strategy with the MoD.</p> <p>For individual customers, we maintain regular engagement with solicitors and agents and make available a customer helpline to facilitate feedback.</p>	<p>See the MoD relationship section of this report.</p> <p>See the Valuing our customers and partners section of our Corporate Responsibility Plan, later in this report.</p>
Shareholders	<p>The Board comprises independent non-executive Directors, Terra Firma Directors and Executive Directors. This enables the Board to consult with Shareholders in real time. Further to this, members of the Board are in regular contact with Terra Firma representatives through informal meetings and formal events such as conferences and scheduled management meetings.</p>	<p>See the Directors' report disclosures on Board Composition and Ownership Structure.</p>
Suppliers	<p>Via the management team's regular contact with suppliers, we maintain strong relationships and open lines of communication. Information from this is available to the Board via the executive directors and department heads who are welcomed at board meetings in an ex officio capacity. We consider the interest of suppliers in many ways and this is evidenced by the Company's commitment to health and safety and the Considerate Contractors scheme.</p>	<p>See the Valuing our customers and partners section of our Corporate Responsibility Plan, later in this report.</p>
Employees	<p>The Annington Group has a small number of employees and goes to great lengths to ensure the welfare and concerns of staff are taken into account when making decisions impacting on them. The Group communicates with employees through a weekly report detailing all relevant business, market and staff news. Directors meet weekly and regular feedback is passed through a monthly managers' meeting. We also hold a quarterly Staff Forum where all staff are invited to attend and participate. Employees are anonymously surveyed on a bi-annual basis to gauge attitudes and sentiments to a range of factors, issues, and concerns. Regular contact and communication with employees has been a particular priority during the COVID-19 lockdown.</p>	<p>See the Caring for People section of our Corporate Responsibility Plan, later in this report.</p>

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT STAKEHOLDERS (continued)

Stakeholder:	How we consult and consider stakeholder interests	More information
The community	<p>The majority of our portfolio is located on or near to MoD bases. When these houses are released to the Group, we make efforts to support the communities in which they are located.</p> <p>The Group has also committed to the Armed Forces Covenant, providing a number of benefits to service personnel.</p> <p>We seek feedback from the individual forces Families Federations and are in contact with the leadership of these organisations on a regular basis.</p>	See the Investing in Communities and Charitable Contributions sections of our Corporate Responsibility Plan, later in this report.
The environment	We consider the impact on the environment based not only on safety but also on benefit to the community. Decisions are taken in line with our Sustainable Procurement Policy to reduce our impact on the environment.	See the section on Respecting the Environment within our Corporate Responsibility Plan, later in this report.

CORPORATE RESPONSIBILITY

The Company is a subsidiary of Annington Limited. The Company coordinates its Corporate Social Responsibility work with the rest of the Annington Limited Group ("the Group"). References below to the Group also describe the Company's activities in these areas.

Building Opportunities Corporate Responsibility Plan

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

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

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

Caring for people

Management values employees' commitment and in return provides excellent opportunities for personal and professional development. Employees are encouraged to invest in their development through formal training programmes, challenging work assignments and participating in annual appraisal and development reviews. The Group's employees have a wide range of professional skill sets so training is assessed and tailored to meet specific individual needs with individual development plans. The nature of the training is, therefore, very broad and includes both technical and soft skill based training as well as continuing professional development (CPD). In the financial year, the Group invested an average of £1,061 (2019: £2,442) per employee with 100% attending training programmes. During the year, there was a move to provide more training courses online in order to make it more convenient for employees to complete courses. This was used extensively during the COVID-19 lockdown.

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT CORPORATE RESPONSIBILITY (continued)

Caring for people (continued)

The health and welfare of employees are taken seriously. The Group has a policy of flexible and remote working for anyone experiencing personal difficulties but following the COVID-19 pandemic, it is likely that more people will make use of this. To help ensure the wellbeing and safety of employees, there are a number of initiatives including encouraging employees to take regular BUPA medical checks; providing safety guidelines around winter driving and good practice tips on a range of issues such as healthy eating and fitness.

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

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

Respecting the environment

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

Given the geographic spread of the Group's portfolio and proximity to MoD bases, there may be some concern about contamination resulting from previous uses. However, historically, only two sites released by the MoD have been found to have any traces of contamination. In both instances, remediation strategies were implemented resulting in the removal of any contaminants and the affected areas being signed off as 'clean and inert'.

The Group complies with all legislation and Health and Safety regulations with regard to the handling of hazardous/contaminated material. Given the age of some of the properties, there have been instances where asbestos has been found. Any such materials have been, and will continue to be, professionally removed and disposed of or, where advised to do so, left in situ but appropriately treated, recorded and labelled.

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

The Group has enacted policies over the supply of materials and development practices; our Sustainable Procurement Policy outlines that materials and products are to be ethically sourced and have a low environmental impact while also maintaining our technical standards. Management has developed the supply chain, allowing for more visibility and control over the materials sourced for current and future projects. In addition, our Environmental Policy guides management and our employees on reducing the consumption of utilities and materials as well as minimising the amount of waste produced on site that cannot be recycled. The Group has worked closely with a major national supplier when compiling material specifications for its projects at Little Thetford, Allington and Bordon. At Brize Norton, construction continues on the 135 units being built utilising a timber frame system, which is considered inherently more sustainable than conventional construction methods.

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT CORPORATE RESPONSIBILITY (continued)

Respecting the environment (continued)

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

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

The Group's use of energy and resources are monitored. APL has an obligation to report carbon usage under the Streamlined Energy & Carbon Reporting regulations. We summarise here our policies in this area. The metrics used to monitor our energy consumption and GHG emissions has been included within our Directors' Report. The risks and opportunities identified by the Group with respect to our environment are:

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

Valuing our customers and partners

The Group takes its responsibilities to the communities and environments in which it operates seriously and seeks to work only with partners and suppliers that subscribe to its business standards and values.

Where possible, effort is concentrated on improving the 'street scene' to make the communities in which houses are situated more desirable places to live. This can include landscaping, installing off-road parking and upgrading the external appearance of properties. Thorough checks are performed on the electrical, plumbing and heating systems and any defects or issues that might affect a mortgage are rectified.

The Group strives to make home buying as trouble-free as possible for home buyers by managing the sale process for their properties, through regular engagement with agents and solicitors, aiming to ensure all buyers receive a consistent, fair and timely process. Where appropriate, buyers are offered the Annington Seal of Approval incentive, providing the buyer with the comfort that the electrical, heating and internal water systems have been professionally checked and serviced and that, should they fail within the 28 day period from legal completion, the Group will repair them free of charge. The Group has set a target of responding and dealing with any customer service issues arising within 14 days and have achieved this in 77% (2019: 79%) of cases.

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT CORPORATE RESPONSIBILITY (continued)

Valuing our customers and partners (continued)

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

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

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

Investing in communities

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

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

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

Charitable contributions

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

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

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT CORPORATE RESPONSIBILITY (continued)

Charitable contributions (continued)

During the year, the Group has worked with:

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

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

ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT CORPORATE RESPONSIBILITY (continued)

Modern Slavery and Human Trafficking

The Company is a subsidiary of Annington Limited and is covered by the Annington Group's statement on Modern Slavery and Human Trafficking as set out below. References below to the Group (or "Annington") also describe the Company's activities in these areas.

Annual Slavery and Human Trafficking Statement

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

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

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

Within Annington's core refurbishment and new build operations, the scale of work carried out each year varies considerably due to two factors. Firstly, the numbers of sites and homes returned to Annington by the MoD and secondly, the condition in which they are handed back. In order to manage this and the fact that the release of properties to Annington is entirely at the discretion of the MoD, Annington has determined that the most effective and efficient method of procuring the refurbishment work is to outsource it to pre-selected contractors and suppliers. The year April 2019 to March 2020 saw the MoD hand a number of properties back to Annington.

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

Annington continues to raise awareness of slavery and trafficking issues amongst its staff and contractors through training. Training on slavery and human trafficking for all staff is delivered as part of the Group's annual training programme, so that they can understand the risks involved and know how to make the organisation aware of issues so they can be addressed.

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

- Engagement with contractors to raise awareness of the Modern Slavery Act and the Group's Supplier Code of Conduct. This is done continuously through pre-commencement meetings with contractors to ensure they are aware of our policies and are abiding by their own policies.
- Continuing to focus on the supplier due diligence process to ensure that the Group engages appropriately with any new suppliers and contractors.

Annington strictly prohibits the use of modern slavery and human trafficking in our operations and supply chain and is committed to implementing systems and controls and delivering training aimed at ensuring that modern slavery is not taking place anywhere within its organisation or in any of its supply chains. The Property Director has responsibility for ensuring that the contractors and suppliers used in the refurbishment of properties comply with Annington's policies, including our Slavery and Human Trafficking policy. The Commercial Director has responsibility to the Annington board for oversight of the Act across the Group.

This statement represents Annington's statement in accordance with Section 54 of the Modern Slavery Act 2015 for the financial year 1 April 2019 to 31 March 2020 and has been approved by the Board of Directors.

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 Group's future as a going concern is the ability to service and repay its debt. For the foreseeable future, at least until the maturity of the Euro denominated tranche of Notes in 2024, the Group only needs to pay the interest on the debt. The debt has a number of covenants to comply with under both the bonds and loan facility. The covenants attaching to the debt are:

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

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

The Group's forecasts do not indicate any of these covenants will be breached in the foreseeable future. Further, the Group's forecasts do indicate that sufficient cash flow will be generated to cover payments of interest on its debt and generate significant additional free cash flows to allow for reinvestment or potential dividends to shareholders. Further, were this not possible, cash reserves and the undrawn revolving credit facility provides additional liquidity to the Group to allow the continued operation for the foreseeable future. The Group is satisfied that sufficient actions are available to mitigate any potential adverse impact on covenant compliance in the event of any reasonably foreseeable unfavourable outcome to the ongoing site review process.

The 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.

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

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

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

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

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

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

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

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

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

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

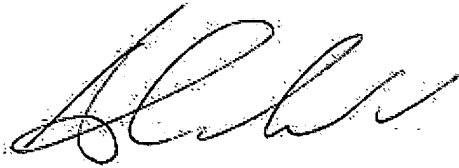
ANNINGTON PROPERTY LIMITED

STRATEGIC REPORT OUTLOOK (continued)

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

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

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

A handwritten signature in black ink, appearing to read 'A P Chadd', is written over a horizontal dotted line.

A P Chadd

Director

18 August 2020

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 2020.

RESULTS AND DIVIDENDS

The Company's profit after taxation for the year is £867.3 million (2019: profit of £528.4 million). No dividend has been paid or proposed (2019: £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.

GREENHOUSE GAS REPORTING

The Company, as a member of the Annington Limited Group, is included within the Group's reporting of greenhouse gas data, as disclosed within Annington Limited's Directors' Report for 31 March 2020.

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
18 August 2020

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

ANNINGTON PROPERTY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law, the directors have elected to prepare the Company's 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 year.

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

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

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

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

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

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 2020 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 24.

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.

Emphasis of matter – Investment property

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
18 August 2020

ANNINGTON PROPERTY LIMITED

INCOME STATEMENT

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Property rental income	4	180,321	180,939
Property operating expenses		(5,583)	(1,288)
Net rental income	4	174,738	179,651
Other operating income		632	5
Other operating expenses		(985)	-
Administrative expenses		(9,961)	(10,077)
Site review costs	5	(20,209)	(5,636)
Utilities provision release/(expense)	16	21,682	(431)
Unrealised property revaluation gains	10	34,282	482,752
Share of result of joint venture after taxation	11	689	1,063
Profit on disposal of investment properties	7	11,384	1,078
Operating profit	5	212,252	648,405
Finance income	8	159	304
Finance costs	8	(21,933)	(26,018)
Profit before taxation		190,478	622,691
Taxation	9	676,837	(94,323)
Profit for the year after taxation		867,315	528,368
Profit attributable to shareholder		867,315	528,368

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

ANNINGTON PROPERTY LIMITED

BALANCE SHEET At 31 March 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investment properties	10	7,261,563	7,247,566
Investment in joint venture	11	2,590	6,184
Deferred tax	9	19,908	-
Receivables	12	-	10
		<u>7,284,061</u>	<u>7,253,760</u>
Current assets			
Receivables	12	8,374	35
Cash and cash equivalents	13	17,689	43,414
		<u>26,063</u>	<u>43,449</u>
Investment properties held for sale	10	7,735	1,256
Total assets		<u>7,317,859</u>	<u>7,298,465</u>
Current liabilities			
Trade and other payables	14	(4,887)	(4,561)
Rental income received in advance		(40,757)	(41,495)
Loans and borrowings	15	(367,764)	(533,978)
Provisions	16	(8,576)	(6,865)
		<u>(421,984)</u>	<u>(586,899)</u>
Non-current liabilities			
Deferred tax	9	-	(661,152)
Provisions	16	(11,290)	(33,144)
		<u>(11,290)</u>	<u>(694,296)</u>
Total liabilities		<u>(433,274)</u>	<u>(1,281,195)</u>
Net assets		<u>6,884,585</u>	<u>6,017,270</u>
Capital and reserves			
Share capital	18	-	-
Retained earnings	19	6,884,585	6,017,270
Total equity		<u>6,884,585</u>	<u>6,017,270</u>

The accompanying notes (1 to 24) 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 18 August 2020.

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 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 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
Profit attributable to shareholder, being total comprehensive income for the year	-	867,315	867,315
Balance at 31 March 2020	-	6,884,585	6,884,585

ANNINGTON PROPERTY LIMITED

CASH FLOW STATEMENT For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Net cash from operating activities	20	140,708	165,304
Taxation paid		(6,538)	(4,000)
Net cash inflow from operating activities		<u>134,170</u>	<u>161,304</u>
Distributions from joint venture	11	4,283	5,282
Proceeds from sale of investment properties		20,209	5,469
Investment property additions	10	-	(263)
Amounts received under intercompany loan repayments		-	6,440
Interest received		160	304
Net cash inflow from investing activities		<u>24,652</u>	<u>17,232</u>
Financing activities			
Increase in intercompany borrowings		456	2,877
Interest paid on intercompany borrowings		(18,332)	(25,424)
Repayment of intercompany borrowings		(166,671)	(205,610)
Net cash outflow from financing activities		<u>(184,547)</u>	<u>(228,157)</u>
Net decrease in cash and cash equivalents		(25,725)	(49,621)
Cash and cash equivalents at the beginning of the year		43,414	93,035
Cash and cash equivalents at the end of the year	13	<u>17,689</u>	<u>43,414</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

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, United Kingdom, W1U 1DR. Information on the Company's ultimate parent is presented in Note 24.

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 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.

In July 2017, 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 Euro denominated tranche of Notes in 2024, 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.

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

The 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. In making these forecasts and considering the issue of going concern, the Board has taken into account the effects of the UK's exit from the European Union and of COVID-19. Possible downside effects considered included falling house prices, falling rental values and increased arrears from tenants. In all circumstances, cash reserves and rental receipts from the MoD were sufficient to fund the ongoing operations of the Company and Group.

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.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including the effects of Brexit and COVID-19. Actual results may differ from these estimates.

Further details regarding key sources of estimation uncertainty for the Group can be found within Notes 10 (with respect to the valuation of investment properties) and 16 (with respect to the provision for utilities).

New Standards, interpretations and amendments effective from 1 April 2019

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

New/Amended Standards and Interpretations		Effective date (annual periods beginning on or after)
IFRS 16	Leases	1 January 2019
IAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC 23	Uncertainty over Income Tax Positions	1 January 2019

The impact of these changes are not material to the Company, however, given that it operates as a lessor, the effects of the adoption of IFRS 16 on the Company are discussed below.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards, interpretations and amendments effective from 1 April 2019 (continued)

IFRS16 Leases

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

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

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, lessees must recognise on the balance sheet its right-of-use assets and financial lease liabilities representing its lease payments discounted to present value. Optional exemptions are available for short-term leases and low-value assets that can be expensed on a straight-line basis over the lease term.

The Company's leases as lessee are accounted for within Annington Management Limited, a fellow subsidiary of the Group, through an overhead management agreement. Therefore, upon adoption there will be no material impact on the Company in the current or future reporting periods as this is accounted for within Annington Management Limited.

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 have been issued and adopted by the EU but are not yet effective:

New/Amended Standards and Interpretations		Effective date (annual periods beginning on or after)
Conceptual Framework Amendments	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IAS1 and IAS8 Amendments	Amendment to Definition of Material	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020
IFRS 16 Amendments	Amendments to Lease Modifications – Exemption Provided to COVID-19 Related Rent Concessions	1 June 2020

These standards and interpretations have not been early adopted by the Company and are not expected to have a material impact on the consolidated financial statements of the Company in future periods.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (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.

	2020 £'000	2019 £'000
Property rental income	180,321	180,939

Net rental income

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

	2020 £'000	2019 £'000
Property rental expenses:		
Refurbishment costs on MQE units:		
Incurred within 12 months of release	12,294	1,086
Incurred after 12 months of release	417	92
Dilapidations income	(7,631)	-
Letting and management costs	451	91
Other repairs and maintenance	52	19
	<u>5,583</u>	<u>1,288</u>

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

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 March 2020 (continued)**

5. OPERATING PROFIT

ACCOUNTING POLICY

Operating profit is stated after auditor's remuneration and before finance income and finance costs.

The auditor's remuneration was £56,600 (2019: £42,200) 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 rent on the MQE Retained Estate to the relevant open market rate. The first applies in four annual tranches starting in December 2021, marking the 25th anniversary of the initial sale and leaseback agreement of the MQE. The Site Review will then be performed on a 15 year rolling basis for the remainder of the lease back to the MoD.

The Arbitration Agreement with the MOD sets out a two year process for reaching agreement on the future discount to be applied to sites following the 2021-2024 site review adjustments. Having entered into this agreement and confirming the mechanisms to be applied in determining the uplifts, the Company has determined that a significant sum will need to be spent in this round of negotiations, as precedents will need to be developed between the parties as to the way in which a site review will operate. The Company 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 £20.2 million of site review costs incurred in the 2020 financial year (2019: £5.6 million) have been disclosed separately in the income statement.

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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 (2019: none). The cost of performing work for the Company is borne by another group company, Annington Management Limited.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

7. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

ACCOUNTING POLICY

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

	2020 £'000	2019 £'000
Sales proceeds	25,644	6,233
Selling costs	(454)	(764)
Net disposal proceeds	25,190	5,469
Carrying value of properties disposed	(13,806)	(4,391)
	<u>11,384</u>	<u>1,078</u>

During the year, disposals of 72 properties (2019: 10 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	2020 £'000	2019 £'000
Finance income			
Interest on bank deposits and investments		157	304
Other interest		2	-
Total finance income		<u>159</u>	<u>304</u>
Finance costs			
Interest payable on intercompany balances		18,332	25,424
Unwinding of discount and effect of changes in discount rate on utilities provision	16	3,601	594
Total finance costs		<u>21,933</u>	<u>26,018</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

9. TAXATION

ACCOUNTING POLICY

Taxation for the year comprises current and deferred tax, which is recognised in the income statement.

Current tax

Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the balance sheet date. Taxable profit differs from profit before tax as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- in respect of taxable temporary differences associated with investments in 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 and intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

	2020 £'000	2019 £'000
Current tax		
United Kingdom corporation tax at 19% (2019: 19%)	(4,059)	(6,087)
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	680,896	(88,236)
Total taxation for the year	<u>676,837</u>	<u>(94,323)</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

9. TAXATION (continued)

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

	2020 £'000	2019 £'000
Profit before taxation	190,478	622,691
Tax charge at the standard rate	(36,191)	(118,311)
Factors affecting current tax for the year:		
Non-taxable income	5,189	-
Utilisation of tax losses	5,009	-
Change in tax rate	3,633	-
Effect of tax rate differential between current and deferred tax	-	434
Deferred tax release due to NRCGT exemption	677,263	-
Group relief claimed	15,419	13,803
Revaluation of investment properties	6,514	9,655
Taxable income from investment in The Inglis Consortium LLP	1	139
Disposal of investment properties	-	259
Effect of indexation	-	(302)
Total taxation for the year	676,837	(94,323)

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

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 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)
Credit/(charge) to profit or loss	863,228	(520)	(185,281)	677,427
Effect of change in tax rate	-	-	3,633	3,633
At 31 March 2020	-	-	19,908	19,908

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

9. TAXATION (continued)

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

	2020 £'000	2019 £'000
Deferred tax liabilities	-	(863,228)
Deferred tax assets	19,908	202,076
Net deferred tax assets/(liabilities)	19,908	(661,152)

Deferred tax balances at 31 March 2020 are measured at 19% (2019: 17%).

A deferred tax asset of £19.9 million (2019: £201.6 million) has been recognised in respect of unused tax losses of £1,161.5 million (2019: £1,185.6 million), leaving £200.8m of unrecognised deferred tax assets (2019: £nil). Deferred tax assets have been recognised based on the reasonable expectation that their utilisation is probable based on internal forecasts. This has resulted in the recognised deferred tax asset at March 2020 representing the forecast utilisation of deferred tax assets for the next three financial years.

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

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

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

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.

Key source of estimation uncertainty

The valuation of the investment properties portfolio is inherently subjective as it utilises, among other factors, comparable sales data and the expected future rental revenues. The valuer exercises professional judgement when determining what market observations are used in the assessment of fair value. If any assumptions made in the valuation prove to be inaccurate, this may mean that the value of the investment properties portfolio differs from the valuation, which could have a material effect on the financial position of the Company. Further information regarding valuation techniques and inputs used in determining the fair value of investment properties is set out further on in this note.

	Investment properties £'000	Investment properties held for sale £'000	Total £'000
2020			
Carrying value at 1 April	7,247,566	1,256	7,248,822
Disposals	(12,550)	(1,256)	(13,806)
Transfer to investment properties held for sale	(4,856)	4,856	-
Unrealised property revaluation gains	31,403	2,879	34,282
Total carrying value at 31 March	<u>7,261,563</u>	<u>7,735</u>	<u>7,269,298</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

10. INVESTMENT PROPERTIES (continued)

	Investment properties £'000	Investment properties held for sale £'000	Total £'000
2019			
Carrying value at 1 April	6,768,311	1,887	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	7,247,566	1,256	7,248,822

Properties would have been included on an historical cost basis at £1,197.2 million (2019: £1,199.9 million).

As at 31 March 2020 there were 41 (2019: 3) investment properties classified as held for sale, with disposal expected within the next 12 months.

	2020 £'000	2019 £'000
The carrying value of investment properties and investment properties held for sale comprises:		
Freehold	53,432	32,813
Very long leaseholds (over 900 years)	7,215,866	7,126,009
	7,269,298	7,248,822

	2020 £'000	2019 £'000
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	7,249,432	7,208,813
Add: amounts included in utilities provision (Note 16)	19,866	40,009
Carrying value for financial reporting purposes	7,269,298	7,248,822

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.

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 for future development.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

10. INVESTMENT PROPERTIES (continued)

The Company's freehold and long leasehold interests in its investment properties were valued as at 31 March 2020 by an external valuer, Martin Angel FRICS of Allsop Valuations Limited ("AVL"), a subsidiary of Allsop LLP ("Allsop"). The valuation, which was prepared on a portfolio basis, was subject to the existing leases, underleases and tenancies as advised but otherwise with vacant possession.

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

This is a 'Regulated Purpose Valuation'. Allsop, and latterly AVL, have provided annual valuations of the portfolio since 1999. Both have a policy of rotating the valuer not less frequently than every seven years. In accordance with that policy, Martin Angel resumed responsibility for the valuation in 2019, with 2020 being the second year in the current rotation. AVL have confirmed that, in relation to their most recent financial year, the proportion of Allsop's total fee is 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 2020 was Level 3 significant unobservable inputs (2019: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

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

2020	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	7,196,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	180,191
		Estimated future rent increase (20 year average - %)	2.50% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	7.25%
Surplus estate			
Fair value	53,432		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	17.5%
Fair value at 31 March 2020	7,249,432		

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

10. INVESTMENT PROPERTIES (continued)

2019	Fair value £'000	Unobservable inputs	Input
Retained estate			
Fair value	7,176,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	179,747
		Estimated future rent increase (20 year average - %)	2.75% p.a.
		Long-term House Price Index (%)	2.75% p.a.
		IRR (%)	7.52%
Surplus estate			
Fair value	32,813		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	15.0%
Fair value at 31 March 2019	<u><u>7,208,813</u></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 2020 (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 Company's principal joint venture undertaking at 31 March 2020 is The Inglis Consortium LLP, a property development company. 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.

	2020 £'000	2019 £'000
Share of net assets		
At 1 April	6,184	10,403
Distributions	(4,283)	(5,282)
Share of profit for the year	689	1,063
At 31 March	2,590	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 2020 (continued)

12. RECEIVABLES

ACCOUNTING POLICY

Receivables are initially recognised at fair value when the Company becomes entitled to received the contractual cash flows and are 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

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.

	2020 £'000	2019 £'000
Amounts falling due within one year		
Deferred consideration on property sales	4,981	-
Trade receivables	3,131	-
Other receivables	32	34
Corporation tax	228	-
Prepayments and accrued income	2	1
	<u>8,374</u>	<u>35</u>
Amounts falling due after one year		
Other receivables	-	10
	<u>-</u>	<u>10</u>

The carrying value of receivables approximates the fair value. As at the reporting date, the expected credit loss allowance was £1,609 (2019: £1,609).

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 relate to shares held in an investment company that holds highly liquid cash funds. The fair value of the short-term investments has been determined based on the redemption rules as set out in the product's prospectus. Redemption requests can be made at any time on a dealing day as set out in the product's prospectus.

Cash and cash equivalents are limited to instruments with a maturity of less than three months.

	2020 £'000	2019 £'000
Cash at bank	1,774	1,375
Short-term deposits	-	10,028
Short-term investments	15,915	32,011
	<u>17,689</u>	<u>43,414</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (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.

	2020 £'000	2019 £'000
Amounts falling due within one year		
Trade payables	1,113	800
Corporation tax	-	2,087
Other taxes and social security	14	74
Accruals	3,760	1,600
	<u>4,887</u>	<u>4,561</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, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method, such that discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability. The debt and associated accrued interest is classified as current and non-current based on the contractual payments required within 12 months of the balance sheet date.

	2020 £'000	2019 £'000
Amounts falling due within one year		
Amounts owed to group undertakings	367,764	533,978

Current

Amounts due to group undertakings include £360.9 million (2019: £527.5 million), which are unsecured, interest bearing at 4.035% (2019: 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 2020 (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).

Key source of estimation uncertainty

When determining the provision for utilities, the estimation technique requires an assumption be made of the future cost and the timing of works to connect sites to public utilities. These estimated cash flows are then discounted at an appropriate rate that reflects current assessments of the risks associated with the liability. The inputs, if not accurate, could have a material effect on the provision balance. As an example, if the discount rate assumption increased/decreased by 0.5%, the provision would decrease by £0.3 million/increase by £0.4 million respectively.

	2020 £'000	2019 £'000
Utilities provision		
At 1 April	40,009	39,663
Unwinding of discount	3,957	2,384
Effect of change in discount rate	(356)	(1,790)
Amount (credited)/charged to income statement	(21,682)	431
Utilised	(2,062)	(679)
At 31 March	19,866	40,009
Current provision	8,576	6,865
Non-current provision	11,290	33,144
	19,866	40,009

At the point of purchase in 1996, the Married Quarters Estate included certain sites that are dependent on the related technical base for the provision of utilities. The MoD has undertaken to supply utilities to those sites for the period they are rented to the MoD and for released units, until at least the 25th anniversary of the purchase. Where there have been releases of property that are currently base dependent or there is a constructive obligation to provide for the adoption of certain utilities on units which are not base dependent, a provision has been made to separate these units where the Company has a committed present obligation to separate these units. The provision has been discounted in accordance with the relevant borrowing costs of the Company. There is a contingent liability (refer Note 22) in respect of base dependent units where it is possible that an obligation to separate these units may arise in the future.

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (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	2020 £'000	2019 £'000
Financial assets			
Cash and receivables:			
Receivables	12	8,144	35
Cash and cash equivalents	13	17,689	43,414
Total financial assets		<u>25,833</u>	<u>43,449</u>
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	14	4,873	2,400
Loans and borrowings	15	367,764	533,979
Total financial liabilities		<u>372,637</u>	<u>536,379</u>

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 March 2020 (continued)**

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

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

Other than amounts due from 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.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

	2020			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	4,873	4,873	-	-
Loans and borrowings	367,764	367,764	-	-
Total financial liabilities	372,637	372,637	-	-

	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	536,379	-	-

18. SHARE CAPITAL

	2020 £	2019 £
Authorised, issued and fully paid		
1 ordinary share of £1	1	1

19. RETAINED EARNINGS

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

	2020 £'000	2019 £'000
Distributable profits	1,758,501	1,779,609
Non-distributable profits	5,126,084	4,237,661
Total retained earnings	6,884,585	6,017,270

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

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

20. NOTE TO THE CASH FLOW STATEMENT

	2020 £'000	2019 £'000
Profit after taxation	867,315	528,368
<i>Adjustment for:</i>		
Taxation (credit)/charge	(676,837)	94,323
Finance costs	21,933	26,018
Finance income	(159)	(304)
Share of result of joint venture after taxation	(689)	(1,063)
Profit on disposal of investment properties	(11,384)	(1,078)
Unrealised property revaluation gains	(34,282)	(482,752)
Utilities provision (release)/expense	(21,682)	431
<i>Movements in working capital:</i>		
Increase in debtors	(3,120)	(3)
Increase in creditors	1,675	2,043
Decrease in provisions	(2,062)	(679)
Net cash inflow from operating activities	<u>140,708</u>	<u>165,304</u>

21. ANALYSIS OF CHANGES IN NET DEBT

	2020 £'000	Cash flow £'000	Other non-cash changes £'000	2019 £'000
Cash and cash equivalents	17,689	(25,725)	-	43,414
Amounts owed to group undertakings	(367,764)	184,547	(18,332)	(533,979)
Net debt	<u>(350,075)</u>	<u>158,822</u>	<u>(18,332)</u>	<u>(490,565)</u>

Non-cash changes include finance charges accrued.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

22. COMMITMENTS AND CONTINGENCIES

ACCOUNTING POLICY

Under IFRS 16, the determination of whether a contract contains a lease is based on whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. For further details on the Company's adoption of IFRS 16, refer to Note 2.

Company as a lessee

These leases are accounted for within Annington Management Limited, a fellow subsidiary, through an overhead management agreement.

Company as a lessor

As a lessor, the Company continues to classify leases as either finance leases or operating leases and account for them accordingly under IFRS 16. 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 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.

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 arrangements – Company as a lessor

The Company has entered into property leases on its investment properties portfolio and has performed an evaluation of the terms and conditions of the arrangements of these leases. This includes factors such as the lease term not constituting a substantial portion of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the property. The 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 2020, the Company had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2020 £'000	2019 £'000
Within one year	91,411	89,890
	<u>91,411</u>	<u>89,890</u>

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020 (continued)

22. COMMITMENTS AND CONTINGENCIES (continued)

Contingent liabilities

As stated in Note 16, there is a contingent liability to allow for the adoption of private utilities on properties that are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment. No obligation currently exists with respect to these properties as they have not yet been released by the MoD. Instead, there is a possible future obligation should releases occur and we become obligated to provide for private utility adoption. This amounts to £177.5 million (2019: £134.4 million). Upon the technical completion of utilities adoption, the Company is eligible to a refund from the MOD for each utility. We have estimated these refunds to amount to £16.7million (2019: £16.7 million).

23. RELATED PARTY DISCLOSURES

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

	Finance costs and recharge of costs	
	2020	2019
	£'000	£'000
Parent		
Annington Homes Limited	18,332	25,424
Related parties		
Annington Subsidiary Holdings Limited	629	-
	<u>18,961</u>	<u>25,424</u>

Transactions with joint ventures are set out in note 11.

The following amounts were outstanding at the balance sheet date:

	Amounts owed to related parties	
	2020	2019
	£'000	£'000
Parent		
Annington Homes Limited	360,931	527,529
Related parties		
Annington Finance No. 1 plc	-	13
Annington Finance No. 2 Limited	-	70
Annington Finance No. 4 plc	-	617
Annington Subsidiary Holdings Limited	629	-
Annington Management Limited	6,204	5,748
Annington Rental (Holdings) Limited	-	2
	<u>367,764</u>	<u>533,979</u>

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

The Company considers the Directors to be the key management personnel. Details of the remuneration of the Directors can be found in note 5.

ANNINGTON PROPERTY LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 March 2020 (continued)**

24. 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, United Kingdom, W1U 1DR.

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