

**LE GRAND ANNINGTON LIMITED**

**Report and Financial Statements**

**31 March 2012**



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# **LE GRAND ANNINGTON LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2012**

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# **LE GRAND ANNINGTON LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2012**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

R N Barr	(resigned 26 January 2012)
A Chadd	(appointed 26 January 2012)
J C Hopkins	(resigned 20 March 2012)
C Barnes	(appointed 20 March 2012)
A Chadd	(resigned 9 July 2012)
S Webber	(appointed 9 July 2012)

#### **SECRETARY**

J B Chambers	(resigned 22 January 2013)
R Luft	(appointed 22 January 2013)

#### **REGISTERED OFFICE**

1 James Street  
London  
W1U 1DR

#### **SOLICITORS**

Eversheds LLP  
1 Callaghan Square  
Cardiff  
CF10 5BT

#### **BANKERS**

The Royal Bank of Scotland plc  
London Corporate Service Centre  
PO Box 39952  
2 1/2 Devonshire Square  
London  
EC2M 4XJ

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London

## **LE GRAND ANNINGTON LIMITED**

### **DIRECTORS' REPORT (continued)**

The directors present their Annual Report and the audited financial statements for the year ended 31 March 2012

#### **PRINCIPAL ACTIVITIES**

The Le Grand Annington Limited group's (the Group) principal activity during the year was property investment. The activity of the Group is expected to continue at similar levels for the foreseeable future.

The subsidiary and associated undertakings principally affecting the losses or net assets of the Group in the year are listed in notes 11 and 12 to the financial statements.

#### **BUSINESS REVIEW**

The Business Review which is provided in the Annual Report provides details of the Group's principal activities and operations and is incorporated by reference into the Directors' Report.

#### **DIRECTORS**

The directors who served during the year were

R N Barr	resigned 26 January 2012
A Chadd	appointed 26 January 2012
J C Hopkins	resigned 20 March 2012
C Barnes	appointed 20 March 2012
A Chadd	resigned 9 July 2012
S Webber	appointed 9 July 2012

The directors had no interests in the shares of the Company or any other company within the Le Grand Annington Limited Group.

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

#### **OUR GOVERNANCE**

##### **Board of Directors**

A list of Directors who have served during the year, and subsequently, is shown above.

Details of the composition, remit and frequency of meetings of the Board and its Committees are shown at Appendix Five.

#### **GOING CONCERN**

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Further details regarding the adoption of the going concern basis can be found in note 1 'Accounting Policies' in the financial statements.

#### **OUR RESPONSIBILITIES**

The Group takes its corporate and social responsibilities seriously, both in respect of employees and the communities in which it operates. We aim, wherever possible, to adopt business practices that are economically, socially and environmentally sustainable and to promote these with whom we work. A more detailed statement of our responsibilities is set out in Appendix Four.

## **LE GRAND ANNINGTON LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **POLICY ON PAYMENT OF CREDITORS**

The Group's policy is to agree terms of payment with suppliers and these normally provide for payment within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Group owed £1.1 million to trade creditors at 31 March 2012 (2011: £1.4 million), the number of days to be shown in this report, to comply with the provisions of Accounting Regulations (SI 2008/410) schedule 7.12, is 23.1 days (2011: 28.6 days).

Financial instruments and risk management policies are covered in note 21.

#### **POST BALANCE SHEET EVENTS**

Post balance sheet events are referred to in note 35.

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## **LE GRAND ANNINGTON LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **AUDITOR**

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

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

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

A handwritten signature in black ink, appearing to read 'R Luft', written in a cursive style.

R Luft

Secretary

8 March 2013

# **LE GRAND ANNINGTON LIMITED**

## **BUSINESS REVIEW**

This Business Review describes the current and future trends and factors affecting the development, performance and position of the Group during the year ended 31 March 2012

This Business Review has been prepared solely to assist members to assess the Board's strategies and their potential to succeed. This Review should not be relied upon by any other party, or for any other purpose. Forward-looking statements are made by the directors in good faith based on information available to them at the time and up until the date on which the Report was approved. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

### **SELECTED HIGHLIGHTS 2011/12**

- Carrying value of group investment properties at year-end was £4.5 billion up 18.4% from £3.8 billion
- Group operating profit up 3.6% to £146.7 million from £141.6 million
- Annington Property Limited (APL) leases 39,970 (2011: 40,113) properties to the Secretary of State for Defence (SoSD), generating £158.9 million (2011: £155.8 million) rent per annum
- The Group leases 2,058 (2011: 2,130) properties on short-term leases, generating £19.5 million (2011: £19.2 million) rent per annum
- Properties held for short-term, bulk leases to the SoSD increased to 844 (2011: 817)
- The Group sold 485 properties generating £72.7 million sales income (2011: 381 properties generating £62.7 million of income)
- The Homes Group financing vehicles repaid debt principal of £115.6 million (2011: £144.3 million)
- The Profit Share agreement ended on 5 November 2011. Over the period of the Profit Share Agreement, the Group has paid a total £161.2 million to HM Treasury

## **LE GRAND ANNINGTON LIMITED**

### **BUSINESS REVIEW (continued)**

#### **THE GROUP**

The Group consists of three distinct Subgroups (refer to Group Structure on page 7), each described in more detail in Appendices One to Three

- Annington Homes Limited Subgroup (together with subsidiaries, the Homes Subgroup) – Appendix One
- Annington Rentals (Holdings) Limited Subgroup (together with subsidiaries, the Rentals Subgroup) – Appendix Two
- Annington Developments (Holdings) Limited Subgroup (together with subsidiaries, the Developments Subgroup) – Appendix Three

The long-term financial strategy of the Group, the quality and strength of the rental income stream and the core organisational structure has meant that the Group was well prepared for the downturn in market activity and has positioned itself to weather the current economic environment

#### **OWNERSHIP STRUCTURE AND ECONOMIC BENEFIT**

Le Grand Annington Limited has thirteen individual shareholders, with no individual shareholder having overall control

As at the year end, the shares issued by Annington Holdings plc, Le Grand Annington Limited's direct subsidiary, were owned as follows

Le Grand Annington Limited	52%
E J Filkin	24%
Air Vice Marshal (Ret'd) A F C Hunter	24%

As at 31 March 2012, the beneficial interest in Annington Homes Limited is owned by Nomura Investments (AH) Limited ('NIAH'), a subsidiary of Nomura International plc, through issued warrants which give NIAH the right to exercise at any time in exchange for the share capital of Annington Homes Limited (AHL)

NIAH also owns 'cash settled' warrants issued by Annington Rentals (Holdings) Limited and Annington Developments (Holdings) Limited, giving NIAH the economic benefit of these two subsidiary groups

Nomura's interest is managed on a day-to-day basis by Annington Management Services (Guernsey) Limited which is advised by Terra Firma Capital Partners Limited ('TFCP') TFCP typically provides advice and guidance in respect of the financial and strategic direction of the Group

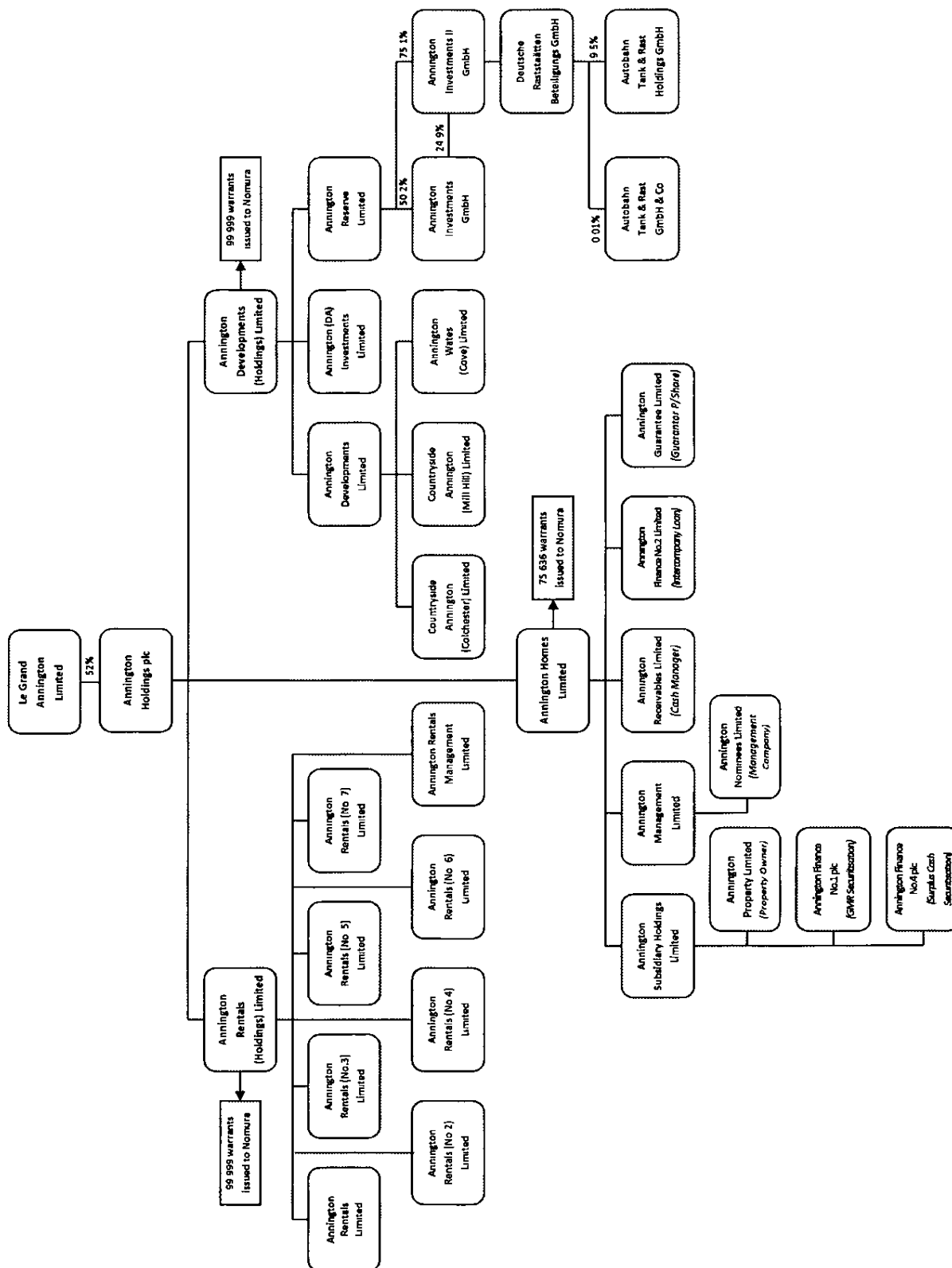
Following a series of transactions in December 2012, described in more detail at note 35, Annington Holdings plc, the direct subsidiary of Le Grand Annington Limited disposed of its interests in the remainder of the group Following this transaction, Annington Holdings Plc is the only and direct subsidiary of Le Grand Annington Limited



# LE GRAND ANNINGTON LIMITED

## BUSINESS REVIEW (continued)

### GROUP STRUCTURE AS AT 31 MARCH 2012



# **LE GRAND ANNINGTON LIMITED**

## **BUSINESS REVIEW (continued)**

### **REMUNERATION REPORT**

The Nomination and Remuneration Committee meets as required but at least annually to review all salary, bonus, Long Term Incentive Plans (LTIPs) and other benefits available to directors and staff, to ensure remuneration packages continue to be competitive in order to attract, retain and motivate experienced individuals and to drive the Group forward in achieving its objectives

All employees are employed by the Group through Annington Management Limited as lead employer. It has always been the Group's policy to maintain a small core team to manage the activities of the Group and to outsource certain operational activities to other organisations. This has allowed Annington to access professional services as required, not only avoiding direct employment but also enabling the Group to more efficiently manage the fluctuating activity levels in the portfolio across England and Wales. Where employee turnover has occurred, the Group has adapted its structure to meet current and expected future requirements.

The Group operates an annual staff appraisal process, requiring managers and their staff to discuss the year completed, to address any issues arising and to provide staff development where appropriate. These meetings are also used to set objectives for the coming year. The appraisal form is reviewed by the relevant director and each individual is 'scored' across a series of headings. These scores are then used to calibrate discretionary annual bonus awards. These annual bonus awards are subsequently used as a basis for the LTIP calculation. The appraisal process has been developed during the year to ensure alignment with the requirements of the annual bonus and long-term incentive processes. As in previous years, all staff appraisals are subject to review by the Deputy Chairman.

Details of directors' remuneration are included in note 4.

### **PROPERTY MARKET OVERVIEW AND OPERATIONS**

The 2011/12 year has followed the trend of the previous two years. The property market and the wider UK economy both experienced challenges. House prices remained stable, albeit flat, ending the year down just less than 1%. The sales market has been characterised by low sales volumes but was buoyed at the end of the period by increased activity. This increase is attributed to first time buyers trying to purchase before the stamp duty relief ended in March. Rental inflation continued to increase during the period, with LSL Property Services plc reporting annual rental inflation of 2.7%.

Although there were regional variations, the fundamentals of the sales market remained largely unchanged throughout the year with demand supported by low interest rates, extensive use of forbearance by lenders and constrained supply. The Halifax recorded a 0.6% decline in house prices in the financial year, identical to the Land Registry's data with the Nationwide recording a modest increase of 0.2%. This spread was typical of monthly movements during the year so, on average, Annington's forecasts for nil growth over the period proved to be accurate.

These figures mask the growing divergence of performance in the year between the regional markets and central London. According to data from the Land Registry, regional markets remained static or fell with Wales and the North East faring worst with price falls of 5.5% and 2.8% respectively. At the same time, London prices rose by an average of 0.7% with the South East gaining 0.3%. The contrast in the performance of different regions is highlighted by significant growth in prime central London locations such as Westminster (up 12.8% for the year) or Kensington and Chelsea (up 10.8% for the year).

According to data released by the HMRC, the 869,000 sales during the 2011 calendar year were the second lowest level since records began in 1978, eclipsed only by 2009's figures of 848,000 and set against a peak of 1,669,000 in 2006. Such a low level of activity within the market has created volatility in short term measures of house prices, with many indices showing small monthly movements that over a longer period turn out not to be significant. The current inflation trend is downward, with CPI inflation declining from 3.5% in March 2012 to 2.8% in May 2012. Low volumes and small annual house price increases may lead to a decline in real term house prices over the medium term.

In April, fears that the UK economy had been in recession for the later part of 2011/12 were confirmed when the ONS released a preliminary estimate of a 0.2% fall in GDP for the March quarter, following the 0.3% decline in the December 2011 quarter. The estimate of 0.2% decline has subsequently been revised down to a decline of 0.3% in the March quarter. This reversal of growth in the UK economy coincides with increased worries about the stability of the Eurozone and the impact on the United Kingdom. Economic growth is expected to remain muted through 2012 whilst events in the Eurozone will continue to create uncertainty.

## **LE GRAND ANNINGTON LIMITED**

### **BUSINESS REVIEW (continued)**

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

The mortgage market remained depressed through the year. The lack of mortgage availability continued to be a feature of the market place with 2011 gross mortgage volumes of c £138 billion (per The Council of Mortgage Lenders) showing no real improvement on 2010 and only a little over a third of the peak in 2007 when they stood in excess of £363 billion. 2011 did see some improvement in mortgage product and choice with more high loan-to-value mortgages on offer, but these were not widespread. Funding a deposit still remained an obstacle to accessing a house purchase, high deposits were still requested by lenders leaving rental as the only option for many intending first time buyers.

The Group's operations in 2011/12 reflect the continued low numbers of units released by the SoSD, only 143 properties on 16 sites were returned to Annington in the year. The ongoing low level of releases is attributed to The Strategic Defence and Security Review (2010) (SDSR), which has given rise to a series of sub-studies which could have a profound impact on the future of service families' accommodation. Until all the decisions have been made and certainty can be provided – the sub-studies are due to report from autumn 2012 – no decisions on the future of housing will be made. The objective of SDSR is to create 'Future Force 2020', a new style Navy, Army and Air Force and will result in a significant reduction of total force strength and a rationalisation and redeployment of the defence estate. It is likely that release levels will remain at very low levels in the short term, before increasing in the medium term.

Annington remains well positioned to take advantage of the current market conditions, switching to rental strategies where the sales market is poor and average rents are rising. At 31 March, the Group was renting 989 properties previously released from the retained estate (2011: 501).

The outlook for the future is that average prices during 2012/13 are likely to remain flat but with significant regional variations, with London and the South East better placed for recovery than other parts of the country. Mortgage availability will remain constrained and the construction and house-building sector will struggle to show any signs of a meaningful recovery.

All corporate and departmental objectives were achieved and the appraisals process noted some excellent performances from staff.

#### **ANNINGTON HOMES LIMITED AND SUBSIDIARIES (HOMES SUBGROUP)**

##### **Objectives and Strategy**

Background to the Homes Subgroup is shown at Appendix One.

##### **Financing**

A summary of the Homes Subgroup financing arrangements is contained within Appendix One.

##### **Operations**

Up to 31 March 2012, SoSD had released 15,084 (2011: 14,941) properties from the Retained Estate and 179 related assets (2011: 177) to the Homes Subgroup, in addition to the original 2,374 in the Surplus Estate.

As at the end of March 2012, a total of 16,780 properties (2011: 16,407) from the original MQE have been sold (including the Surplus Estate but excluding related assets), a further 399 (2011: 558) were rented to third party companies and private individuals and a total of 362 (2011: 340) properties were held pending planning consent for redevelopment.

Sales activity continues on a restricted number of sites. Following the bulk sale of 124 properties at St Eval in June 2011, the majority of sites that had previously caused logistical problems due to large concentrations of properties in one area have now been sold. The release of 88 properties at Rowner in Portsmouth, raised concerns that similar issues might arise again. The strategy selected by the Homes Subgroup for this site is a staged programme of refurbishment and sale of these properties. This strategy has been designed to minimise the impact of concentration whilst providing the most efficient use of resources. The site launched in May 2012 with 490 prospective purchasers visiting the site in that month. The results to date have alleviated the original concerns.

## LE GRAND ANNINGTON LIMITED

### BUSINESS REVIEW (continued)

#### Homes Subgroup (continued)

##### Operations (continued)

The Profit Share Agreement with the SoSD ended on 5 November 2011. A percentage of the profit on all sales up to this date had to be paid to the MoD. The final settlement of the profit share is expected to be finalised during 2012. Payments to HM Treasury since the original acquisition currently stand at £161,233K (2011: £161,233K).

The low release levels experienced over the last five years have continued, with a total of 143 (2011: 275) units released in the year. The most recent forecast for 2012-13 is that 140 properties could be released, although to date termination notices have only been received in respect of 5 units. The trend of lower volumes of releases is expected to continue over the short term, at least until the MoD's strategy reviews have been completed and the implementation of new policy commences.

Release levels for the last 5 years have been

Y/e 31 March	Number of released units
2008	256
2009	468
2010	510
2011	275
2012	143

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

Annington is also a partner in the Inglis Consortium LLP's (ICLLP) development known as Millbrook Park (in north London). Annington has a 28.55% share and the scheme is expected to deliver approximately £85,000K (with HPI) in land value over a 10 year period. The long awaited and hard fought planning permission was finally obtained in 2011 as well as a completed S 106 and an approved Design Code. This allowed the ICLLP to start infrastructure and demolition works in January 2012. The first two phases of land have been marketed and sales have already been agreed with selected national house builders.

#### Performance

The Homes Subgroup made a loss before taxation of £61.0 million during the year ended 31 March 2012 (2011: £13.4 million profit). Key amongst the current year balances is £79.5 million (2011: £17.1 million) loss on the revaluation of the Homes Subgroup's swaps. The fair value movements are expected to continue creating volatility in the profit figure from year to year.

The third round of the third rent review concluded in December 2011 with an average rental uplift of 10.87%, equivalent to an additional rental income of £3.8 million per annum. This represents a good result, given that the five years since these properties were last reviewed included a significant period where rents in general came under downward pressure due to the increased supply of units and the effects of the recession.

The results of the previous rent reviews are summarised in the following table.

As at 25 December	Number of units	Rent receivable (£'000)	Increase in rent receivable per unit (%)
1996	55,054	110,985	-
2002	44,987	134,427	48.2%
2007	41,393	152,040	22.9%

## LE GRAND ANNINGTON LIMITED

### BUSINESS REVIEW (continued)

#### Homes Subgroup (continued)

#### Performance (continued)

The Homes Subgroup's sales summary (including MQE units, related assets, new build and developments)

	2011/2012	2010/2011
Units	373	369
Sales Value	£48,323K	£58,532K

The Homes Subgroup's performance reflects the issues in the wider market but the reduced levels of available stock for sale has reduced exposure to volatility in this area. The KPIs for the Homes Subgroup, outlined earlier in this report, have been impacted by the bulk sale of 124 units at St Eval. These units averaged £40,000 sales income each as they are of a non-traditional construction, therefore not qualifying for mortgage finance. The sale of these units without paying for significant structural modifications has been a good result, but has resulted in the KPIs for the Homes Subgroup being lower than previous years.

In respect of sales activities a key measure is whether the net sales proceeds (after refurbishment costs and dilapidations income) achieved are in line with the expected cash receivable, after market movements. This measure is expressed as a percentage of the indexed open market value (using the blended movement in the Halifax and Nationwide house price indices as the basis for market movements) as assessed at the time of the acquisition (HPI OMV). Achievement against HPI OMV was down to 96% (2011 106%) in the year. The long-term average achieved since January 2000 is 97.2% (2011 98.3%) confirming that performance closely tracks the market.

The net value realised per unit (sales price net of incentives – refurbishment costs + dilapidations) has decreased during the current year, with the actual achieved price at £118K (2011 £151K). This reflects the number of 'low value' properties sold during the year.

Overheads continued within budget. The Group completed a claim for VAT on overheads that the group believed had been overpaid in past years.

The Homes Subgroup has again benefited from its ability to manage the mix of rentals and sales strategies to meet the variable demand for properties on its sites across the country. On the one hand, increasing the number of properties available for sale to meet the higher than expected demand in some locations but, on the other hand, maintaining strict control of the 'build programme' where sales continued to be slow. The short-term rentals strategy has again been used for stock that is not ready for sale or where sales rates are slow due to the current market conditions.

# LE GRAND ANNINGTON LIMITED

## BUSINESS REVIEW (continued)

### Homes Subgroup (continued)

#### Key Performance Indicators

Notwithstanding the rent receivable from the SoSD the key variable drivers for the Homes Subgroup operations are the rate at which sales can be achieved and the net value achieved, after refurbishment costs. Given the unique nature of the Homes Subgroup's portfolio the achievement of targets will be dependent upon the type of unit, the location and the timing of the release.

The main key performance indicators considered are

KPI	2011/2012	2010/2011	Basis of calculation
Achievement of indexed open market value	95.7%	106.2%	To compare the value realised on the sale of a property with the value expected if the property value at acquisition had increased in line with the general house price index. The value realised is calculated as sales income plus dilapidations less refurbishment costs. This is then divided by the original value, and indexed using an average of the Nationwide and Halifax house price indices movements from 1996 to the date of sale.
Time to sell			From the point SoSD release properties, Annington's rental income ceases. It is, therefore, important that APL quickly decides what action is to be taken in order to achieve maximum value. Annington, therefore, measures the time to sell a property under three separate headings.
Average weeks from SoSD termination to sales release	82	58	
Average weeks from sales release to sales completion	22	20	
Average weeks from sales reservation to sales completion	10	10	
Net sales price per unit	£130,045	£158,297	Gross sales less value of incentives
Refurbishment costs per unit net of dilapidations received	£12,000	£7,064	Amount spent on the repair, refurbishment and upgrade of property less the amount received from the SoSD in respect of works necessary to bring the property up to good and tenable order.
Sales and Marketing cost per unit	(£4,233)	(£4,861)	Advertising and marketing costs apportioned to each unit sold on a site.
Holding costs per unit	£2,030	£1,991	Costs incurred in securing and maintaining a site/property whilst awaiting sale.

There are no relevant key performance indicators set for the Developments Subgroup.

## **LE GRAND ANNINGTON LIMITED**

### **BUSINESS REVIEW (continued)**

#### **Homes Subgroup (continued)**

##### **Financial Position and accounting policies**

A summary of the financial position is included in Appendix One

The accounting policies are stated in Note 1 to the accounts

The Homes Subgroup has long-term funding arranged through the securitisation vehicles Annington Finance No 1 plc (AF1) and Annington Finance No 4 plc (AF4). Both of these companies are reviewed by their respective rating agencies as part of the issuance conditions. There has been no reduction in the respective ratings of classes of notes during the year, or since year-end.

During the year, AF1 repaid the outstanding principal on the 2007/2011 Bonds, which amounted to £27,398K (2011 payments on this bond totalled £36,111K). Additionally, AF1 commenced repaying principal on the 2012/2021 Bonds, which amounted to £8,730K.

Net cash from operations was used to redeem £61,412K (2011 £56,160K) of AF4 B3 Floating Rate Notes and to meet 'offsetting' swap costs of £22,461K (2011 £18,966K), as required by the AF4 arrangement. In total, since the 2004 refinancing, £445,930K (2011 £384,518K) of B3 Notes have been repaid, leaving an outstanding balance of £219,020K (2011 £280,432K).

During the year, the holdback mechanism attaching to the Class A Zero Coupon Notes and the Class B Zero Coupon Notes has required £10,654K (2011 £12,975K) to be placed into the Holdback Account. Of the amounts added to the Holdback Account £10,645K (2011 £28,376K) was used to repurchase and cancel notes and the remainder is held in cash.

## LE GRAND ANNINGTON LIMITED

### BUSINESS REVIEW (continued)

#### Homes Subgroup (continued)

#### Principal Risks and Uncertainties

Area of Potential Uncertainty	Risk / Opportunity	Strategy
Fluctuating property values and rental levels	<p>The property market has a history of experiencing periods of rising values followed by a slowdown in growth rates and even falling values</p> <p>The Homes Subgroup is a long-term investor in the residential property market and as such can be expected to experience periods of both increasing and falling values as well as periods of inactivity</p> <p>Both capital and rental values are of significant importance to the valuation of the Homes Subgroup's interest in the MQE</p>	<p>The Board reviews the capital values and rental levels achieved, through its activities, and considers any changes that have occurred to the expected levels alongside prevailing market conditions</p> <p>Where deviations are noted, these will be incorporated into future appraisals to ensure realistic and rational forecasting which forms the basis for all business decisions</p>
Fluctuating levels in the number of properties released by SoSD	<p>The SoSD has absolute discretion regarding the location and timing of property releases. This can have an impact on the level of resources required to process transactions and also on the expected income and expenditure to be incurred. Historically, there has been no consistency to the release profile and with only six months' notice required before properties are handed back, it clearly has an impact on workflow in the Homes Subgroup</p>	<p>The Board recognises this and has maintained a policy of keeping internal resources at low levels. All principal activities are outsourced to third parties, which can provide the necessary skills in the right mix and location. This enables the Homes Subgroup to flex outsourcing to meet its operational needs according to stock levels and the prevailing market conditions</p>
High level of property releases by SoSD combined with varying housing market conditions	<p>If the SoSD terminated leases on a significant number of properties over a short period of time during which activity levels in the general housing market were low, the Homes Subgroup could suffer a reduction in rent from the SoSD at the same time, as sales were proving difficult</p>	<p>Notwithstanding current market conditions, the Board is of the view that the long-term demand for housing in the UK will continue to outstrip supply and that demand for market renting will be stronger during poor selling periods, reducing the overall impact on the Group's position</p> <p>However, if the SoSD releases a high number of properties during a period of strong market demand, then the Homes Subgroup would be able to increase the amount of net income generated leading to earlier redemption of the AF4 Class B3 notes. Early redemption of debt would clearly increase the value of the Homes Subgroup</p>



# LE GRAND ANNINGTON LIMITED

## BUSINESS REVIEW (continued)

### Homes Subgroup (continued)

#### Principal Risks and Uncertainties (continued)

Area of Potential Uncertainty	Risk / Opportunity	Strategy
Low levels of property releases by SoSD	Under the terms of the contract, the SoSD is required to release a minimum of 13,213 properties from the original Retained Estate during the period to December 2021. As at 31 March 2012, SoSD had released 15,084 properties, effectively fulfilling this obligation. Consequently, SoSD need not release any further properties to the Homes Subgroup.	At the time of the refinancing in February 2002, the possibility of no further releases beyond the 13,213 figure was contemplated. To mitigate the effect of this the Homes Subgroup, through its subsidiary AF4, paid a fee to the swap counterparties in return for reduced payment obligations for the period January 2008 to April 2013. After this time, it is expected SoSD rent will be sufficient to cover all debt service liabilities to 2021, without the need for sales income.
Fluctuating interest rates	The Homes Subgroup has entered into long-term funding arrangements to fit with the long-term investment strategy.	To counter the long-term exposure to fluctuating interest rates the Homes Subgroup, through its subsidiaries, has effectively fixed interest rates through to 2023 by issuing a mix of zero coupon notes, fixed interest notes and floating interest rate notes which are matched by interest rate swaps.
Late receipt of rent from SoSD	The terms of the underleases require the SoSD to pay rent to the Homes Subgroup on a quarterly basis. Interest payments on the Homes Subgroup's debt are also due quarterly. However, in the unlikely event that the SoSD is late in paying its rent or otherwise market interruption causes the rent not to be received, then there is a risk that the Homes Subgroup would not be able to meet its debt service obligations.	The Homes Subgroup has entered into three liquidity facilities to provide cover for: AF1 - £17.3 million AF4 Class B3 and Class M notes - £43.5 million AF4 Class C notes - £75.0 million

### Outlook

The subdued market conditions experienced during the year are forecast to continue throughout the next financial year and perhaps beyond. The cautious optimism expressed this time last year that house prices may recover during 2012/13 faltered but there is still optimism for a recovery in the short to medium term. Future sales are expected to continue at low volumes during the next 12 months with HPI remaining flat despite monthly variances, as witnessed this year. The business will again seek to adopt a flexible approach to renting or selling units in response to market needs.

Any optimism that 2012/13 might bring an improved economic outlook is unfounded. Average prices are likely to remain flat but significant regional variations will remain with London and the South East better placed for recovery than other parts of the country. Mortgage availability will remain constrained and the construction and house-building sector will struggle to show any signs of a meaningful recovery to reduce the ongoing imbalance between supply and demand. None of the Government's initiatives designed to stimulate the housing market will have any noticeable impact and the supply and demand imbalance in housing will persist.

## **LE GRAND ANNINGTON LIMITED**

### **BUSINESS REVIEW (continued)**

#### **Homes Subgroup (continued)**

##### **Outlook (continued)**

Our sales team have noticed that there are an increasing number of downsizers making purchases in the market. This has been particularly evident at our Rowner site, where a high percentage of customers are retired and looking to buy maisonettes after selling their larger houses. This plays to the Group's strengths of providing predominantly 2/3 bedroom dwellings at affordable values.

The difficulties in buying and selling property are still generating strong upsides for landlords in the rental market. There is an expectation that the strength of the UK rental market will continue for as long as there is a lack of availability of mortgages. Fears that young people will find the housing market unaffordable have increased and there is talk of a 'generation of renters'.

The Homes Subgroup is renting a number of properties and, over the short term, consideration will be made of the best way to capitalise on opportunities in this area. Currently, a strategy of short-term rental whilst waiting for a clear upturn in the sales market has been assessed as the best strategy for units on several sites. This strategy is considered for all releases from the Retained Estate.

The number of properties being released by the SoSD has continued at low levels, leading to reduced stock available for sale. Given that a number of strategic reviews into the operations of the MoD are ongoing, it will be some time before any clear direction is evident and we do not anticipate any significant change to these levels for a couple of years. Thereafter cost saving measures are expected to be implemented under this plan and, in turn, are expected to lead to increased releases in the medium-term.

In considering future workloads, the Board recognises that the decision regarding the future rate of property releases rests entirely with the SoSD and, when reviewing employee resourcing, the Board considers the possibility for fluctuating activity levels and market conditions. The Board does not expect to make any significant changes to the current resource levels.

Following another year in which the market has not significantly changed, it remains a realistic expectation that the market will remain depressed in terms of sales opportunities but will be buoyant from a landlord's perspective, in the near term. All the factors of the last couple of years remain, with a lack of mortgage availability, reduced demand and a lack of consumer confidence all serving to maintain downward pressure on prices.

#### **ANNINGTON RENTALS (HOLDINGS) LIMITED AND SUBSIDIARIES (RENTALS SUBGROUP)**

The Rentals Subgroup was established in 1999 with the purpose of creating a series of residential investment portfolios, free of the constraints and conditions governing the Homes Subgroup portfolio.

##### **Objectives and Strategy**

The objectives and strategy for the Rentals Subgroup is detailed at Appendix Two.

##### **Financing**

A summary of the Rentals Subgroup financing arrangements is contained within Appendix Two.

##### **Operations**

As at 31 March 2012, the Rentals Subgroup controlled 1,614 (2011: 1,569) properties. During the current year, operations have expanded through acquisitions in Annington Rentals (No 7) Limited of an additional 26 units and through the transfer of 10 units from APL to Annington Rentals (No 2) Limited.

During the year, a redevelopment of 84 units at Uxbridge owned by Annington Rentals (No 4) Limited was undertaken. A development scheme with a national house builder to add an additional 24 units and refurbish the initial 84 was assessed as providing the best return for the group. The programme is now complete, with sales up to 31 March of 98 properties (2011: nil). This resulted in turnover of £19,654K (2011: £nil) and gross profit of £558K (2011: £nil).

## LE GRAND ANNINGTON LIMITED

### BUSINESS REVIEW (continued)

#### Rentals Subgroup (continued)

##### Operations (continued)

The Rentals Subgroup continues to operate a mixed portfolio of rental units on Assured Short-hold Tenancies (AST) and bulk leases. Bulk leasing to the SoSD is continuing to expand where opportunities arise for the group to provide properties on 10-year leases in areas of high demand.

##### Performance

The Rentals Subgroup again has seen low numbers of void properties and costs maintained below forecast (see KPIs below). Gross rents have increased to £15,108K (2011: £14,625K), primarily through the acquisition of a further 123 properties in 2011 by Annington Rentals (No 6) Limited (AR6) and an additional 26 properties in 2012 in Annington Rentals (No 7) Limited (AR7), all are now let to the SoSD on ten-year leases. Rents have continued to be monitored and maintained at market levels on ASTs. Bulk lettings to the SoSD (representing over one half of the properties) are at fixed rental values for the first five years of the lease.

During the year, nine property disposals were made by Annington Rentals (No 2) Limited (2011: 12). This resulted in a turnover of £1,466K (2011: £2,071K) and gross profit of £48K (2011: £114K). Sales made by Annington Rentals (No 4) Limited are noted above in the Operations section. Sale proceeds have been used to reduce the group's borrowings, including a total of £10,900K which was released to RBS to pay down debt (2011: £7,100K).

##### Key Performance Indicators

KPI	2011/2012	2010/2011	Basis of calculation
To manage costs within pre-defined targets	-5.29%	-4.06%	To compare actual expenditure levels against predetermined forecasts, to ensure adequate control over expenditure exists. The KPI is measured as a percentage +/- from forecast.
To maintain void levels below 5.0%	0.77%	1.26%	To measure the amount of potential rent lost arising from properties being void as a percentage of total potential rent.

##### Financial position and accounting policies

The financial position is summarised in Appendix Two.

The accounting policies are stated in Note 1 to the accounts.

The Rentals Subgroup has entered into funding arrangements consistent with a residential investment portfolio with medium-term investment time horizons. As the portfolio grows, further funding will be sought commensurate with the growth prospects.

The property portfolios are revalued every year. Each of the subsidiary company portfolios has been divided into five relatively even tranches. Each tranche is broadly representative of the others in respect of geographical spread. Each tranche will be valued in sequence, by an external valuer, over a five-year cycle. The annual percentage adjustment in respect of the tranche externally valued in any particular year will be applied to the remaining four tranches not so valued, in order that a current valuation for the whole portfolio can be expressed in these accounts.

During the year, the market for this type of property (typically family homes) continued to be variable, with some regions faring better than others. The annual valuation saw a slight increase in overall values and no issues are expected regarding the loan to value covenants in either of the external funding arrangements.

## LE GRAND ANNINGTON LIMITED

### BUSINESS REVIEW (continued)

#### Rentals Subgroup (continued)

##### Principal Risks and Uncertainties

Area of Potential Uncertainty	Risk / Opportunity	Strategy
Fluctuating interest rates	The Rentals Subgroup has entered into medium-term funding arrangements to fit with the medium-term investment strategy	To counter the medium-term exposure to fluctuating interest rates, the Rentals Subgroup has fixed interest rates through to July 2014 by entering into facilities at a floating interest rate and simultaneously entering into interest rate swaps to fix the interest liability
Changing demand for private residential rental property	A number of Rental Subgroup subsidiaries let residential property using assured shorthold tenancies. There is a risk of changing demand, which could effect either or both void and rental levels	Management constantly reviews properties, which may become void in the short-term and decide what rental levels should be achieved on re-letting. Should it become uneconomic to retain such properties then options, including potential refurbishment and/or disposal, are considered
Changing demand for bulk residential rental properties	Annington Rentals (No 4) Limited, Annington Rentals (No 6) Limited and Annington Rentals (No 7) Limited let blocks of properties to 'corporate' organisations. If the demand reduces then the relevant rental company could have a significant number of void units to deal with	<p>Annington Rentals (No 4) Limited lets blocks of property for periods of 3 – 5 years. In-house staff maintain regular contact with the 'tenant organisation' in order that any potential lease terminations are noted as early as possible, in order to facilitate timely consideration of options to re-let, refurbish and / or sell</p> <p>With regards Annington Rentals (No 6) Limited and Annington Rentals (No 7) Limited lettings, each property is let on an individual lease for 10 years with a 5-year break. Again regular contact is maintained with the 'tenant organisation' to monitor demand and changing requirements</p>

#### Outlook

Annington Rentals has plans in place to continue its investment programme. These plans focus on the recently incorporated AR7, which will invest mainly in new build properties. External funding has been obtained to finance this expansion.

The programme of reviewing stock held within the Rentals subsidiaries continues on a rolling basis. Where properties are identified by management as being surplus to future requirements, they will be considered for sale and the funds raised used to reduce the group's borrowings.

## LE GRAND ANNINGTON LIMITED

### BUSINESS REVIEW (continued)

#### ANNINGTON DEVELOPMENTS (HOLDINGS) LIMITED AND SUBSIDIARIES (DEVELOPMENTS SUBGROUP)

Details of the Developments Subgroup interests, objectives and strategy, and financing are shown at Appendix Three

##### Operations

The Developments Subgroup team has continued to provide planning advice to the wider Group and has assisted in ad hoc projects within the portfolio. The Developments team continue to be involved with managing the Developments Subgroup's interest in the joint venture companies, Countryside Annington (Colchester) Limited and Countryside Annington (Mill Hill) Limited. These two companies have slowed build programmes during the year to match construction activity to forecast sales.

Annington (DA) Investment Limited has an undrawn commitment to provide €44.7 million further investment into Deutsche Annington Immobilien GmbH via a Terra Firma Capital Partners Fund. These committed but undrawn funds are held by Annington Homes Limited (AHL) in Euros. Therefore, any exchange rate gains or losses will fall within the Homes Subgroup.

##### Performance

Against the backdrop of reduced development opportunities and planning activity due to the lack of releases from the SoSD, the Developments Subgroup had a very satisfactory year. The two joint venture developments at Colchester and Mill Hill have been managed well and within budget, meeting all objectives. The financial situation at Colchester has strengthened to enable the shareholder loan to be paid down and at Mill Hill, the external bank loan was repaid during the year. Cash at bank within each joint venture will be used to fund the remaining development works.

At Mill Hill, sales progress has been impressive with £17,635K of sales in the year to March 2012 (2011: £14,223K) generated from the sales of 42 private homes (2011: 25). At Colchester, sales progress has similarly been impressive with £4,203K of sales in the year to March 2012 (2011: £4,870K) generated from the sales of 23 private homes (2011: 22).

##### Financial Position and Accounting Policies

The financial position is summarised in Appendix Three.

The accounting policies are stated in Note 1 to the accounts.

##### Principal Risks and Uncertainties:

Area of Potential Uncertainty	Risk / Opportunity	Strategy
The Developments Subgroup residential development projects are exposed to the current and future demand for new housing.	As with all new-build developments, the goal is to deliver the right product to market at the right time.	Regular management meetings consider changes to requirements and pricing before committing to further avoidable costs. This has resulted in slowing down development if it appears that completed stock will outstrip demand.
The Developments Subgroup, through its joint ventures, has entered into specific project financing.	These facilities have specific covenants in relation to loan to value, cost overruns and completed stock units.	Regular joint venture management meetings consider changes to requirements and pricing before committing to further avoidable costs. This has resulted in slowing down development if it appears that completed stock will outstrip demand.

## **LE GRAND ANNINGTON LIMITED**

### **BUSINESS REVIEW (continued)**

#### **Developments Subgroup (continued)**

##### **Outlook**

With the continued low level of releases from the SoSD, the Developments Subgroup will continue to pursue planning permissions to create added value from the Homes Subgroup sites available. Existing developments, including the joint ventures at Colchester and Mill Hill, will be progressed to orderly conclusions with the objective to at least maintain the profits realised so far. Work will continue in following through and developing as much value as possible from the ICLLP entered into by APL for the joint development of Millbrook Park. An opportunity has been identified to possibly develop a parcel of land in Whetstone. Preliminary feasibility studies and exploratory discussions with planners are currently being undertaken.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LE GRAND ANNINGTON LIMITED**

We have audited the financial statements of Le Grand Annington Limited for the year ended 31 March 2012 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost profit and losses, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2012 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LE GRAND ANNINGTON LIMITED (continued)**

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Claire Faulkner (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

8 March 2013



# LE GRAND ANNINGTON LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
<b>TURNOVER</b>			
Group income and share of joint venture's turnover		186,563	181,052
Less share of joint venture's turnover		(10,920)	(9,546)
<b>GROUP TURNOVER</b>	2	175,643	171,506
Cost of sales		(10,432)	(12,804)
<b>GROSS PROFIT</b>		165,211	158,702
Administration expenses		(18,474)	(17,126)
Other operating income		137	6
<b>OPERATING PROFIT</b>	3	146,874	141,582
Share of operating profit in joint ventures		1,098	647
Profit on disposal of properties	5	13,722	13,270
Amounts written off investments	13	(34,475)	-
<b>PROFIT BEFORE FINANCE CHARGES AND TAXATION</b>		127,219	155,499
Interest receivable and similar income	6	6,561	7,562
Interest payable and similar charges	7	(227,185)	(167,990)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(93,405)	(4,929)
Tax (charge)/credit on loss on ordinary activities	8	(1,351)	3,191
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(94,756)	(1,738)
Minority interest	26	192,013	(28,624)
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		97,257	(30,362)

All activities derive from continuing operations

## LE GRAND ANNINGTON LIMITED

### CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Profit/(loss) for the financial year	25	97,257	(30,362)
Exchange differences		(425)	(121)
Unrealised surplus on revaluation of properties		8,850	6,958
Total recognised gains and losses for the financial year		<u>105,682</u>	<u>(23,525)</u>

### CONSOLIDATED NOTE OF HISTORICAL COST PROFITS AND LOSSES Year ended 31 March 2012

	2012 £'000	2011 £'000
Reported loss before taxation for the financial year	(93,405)	(4,929)
Realisation of property revaluation gains of previous years	26,575	23,736
Historical cost (loss)/profit on ordinary activities before taxation	<u>(66,830)</u>	<u>18,807</u>
Historical cost profit/(loss) for the year retained after taxation and minority Interests	<u>102,691</u>	<u>(29,120)</u>

# LE GRAND ANNINGTON LIMITED

## CONSOLIDATED BALANCE SHEET 31 March 2012

	Note	2012 £'000	2011 £'000
<b>FIXED ASSETS</b>			
Tangible assets	10	42	80
Investment properties	10	4,530,066	3,807,557
		<u>4,530,108</u>	<u>3,807,637</u>
<b>INVESTMENT IN JOINT VENTURES</b>	12		
Share of gross assets		17,926	22,388
Share of gross liabilities		(12,562)	(18,231)
		<u>5,364</u>	<u>4,157</u>
Share of net assets		6,052	9,584
Loans		<u>11,416</u>	<u>13,741</u>
<b>OTHER INVESTMENTS</b>	13	126,927	162,304
		<u>4,668,451</u>	<u>3,983,682</u>
<b>CURRENT ASSETS</b>			
Debtors			
Due within one year	14	3,101	2,191
Due after one year	14	-	222
Cash at bank and in hand	15	101,962	141,433
Short-term deposits		37,029	-
		<u>142,092</u>	<u>143,846</u>
<b>CREDITORS: amounts falling due within one year</b>	16	(114,743)	(99,072)
<b>NET CURRENT ASSETS</b>		<u>27,349</u>	<u>44,774</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,695,800	4,028,456
<b>CREDITORS: amounts falling due after more than one year</b>	17	(2,459,888)	(2,456,354)
<b>PROVISIONS FOR LIABILITIES</b>	18	(27,001)	(25,970)
<b>NET ASSETS</b>		<u>2,208,911</u>	<u>1,546,132</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	-	-
Revaluation reserve	24	11,901	8,484
Profit and loss account	24	7,626	(94,639)
		<u>19,527</u>	<u>(86,155)</u>
<b>SHAREHOLDERS' FUNDS/(DEFICIT)</b>	25	19,527	(86,155)
<b>MINORITY INTEREST</b>	26	2,189,384	1,632,287
<b>TOTAL CAPITAL EMPLOYED</b>		<u>2,208,911</u>	<u>1,546,132</u>

The financial statements of Le Grand Annington Limited, registered number 3591675, were approved by the Board of Directors and authorised for issue on 8 March 2013

Signed on behalf of the Board of Directors

*C Barnes*

C Barnes  
Director

# LE GRAND ANNINGTON LIMITED

## COMPANY BALANCE SHEET 31 March 2011/2

	Note	2012 £'000	2011 £'000
<b>FIXED ASSETS</b>			
Investments	11	-	-
<b>CURRENT ASSETS</b>			
Debtors Due after one year	14	-	-
Cash at bank and in hand		-	-
<b>CREDITORS: amounts falling due within one year</b>	16	-	-
<b>NET CURRENT ASSETS</b>		-	-
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		-	-
<b>CREDITORS: amounts falling due after more than one year</b>	17	-	-
<b>NET LIABILITIES</b>		-	-
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	-	-
Revaluation reserve	24	-	-
Profit and loss account	24	-	-
<b>SHAREHOLDERS' DEFICIT</b>	25	-	-

The financial statements of Le Grand Annington Limited, registered number 3591675, were approved by the Board of Directors and authorised for issue on 8 March 2013

Signed on behalf of the Board of Directors

*C Barnes*

C Barnes  
Director

# LE GRAND ANNINGTON LIMITED

## CONSOLIDATED CASH FLOW STATEMENT Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
<b>Net cash inflow from operating activities</b>	27	156,361	155,649
<b>Returns on investments and servicing of finance</b>			
Interest received		3,685	3,252
Dividends from fixed assets investments		841	860
Interest paid		(78,930)	(87,120)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(74,404)	(83,008)
<b>Taxation</b>		916	1,977
<b>Capital expenditure and financial investment</b>			
Sales of properties		65,202	55,355
Purchase of tangible assets	10	(11,987)	(16,849)
Purchase of short term investments		(37,029)	-
Purchase of listed investments		-	(783)
Disposal of listed investments		-	16,196
Investment in joint venture		(896)	-
Purchase of other investments	13	(38)	(8,270)
<b>Net cash inflow from capital expenditure and financial investment</b>		15,252	45,649
<b>Acquisitions and disposals</b>			
Loans to joint ventures	12	(574)	-
Loans repaid from joint ventures	12	4,106	450
<b>Net cash inflow from acquisitions and disposals</b>		3,532	450
<b>Net cash inflow before financing</b>		101,657	120,717
<b>Financing</b>			
Increase in borrowings		45,000	15,963
Repayment of borrowings		(161,461)	(120,742)
Purchase of offsetting swaps		(22,460)	(18,966)
<b>Net cash outflow from financing</b>	28	(138,921)	(123,745)
<b>Decrease in cash</b>	28	(37,264)	(3,028)

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 1. ACCOUNTING POLICIES

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

#### Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and investments, and in accordance with applicable United Kingdom accounting standards.

#### Going concern

Following a series of transactions in December 2012, described in more detail at note 35, Annington Holdings plc, the direct subsidiary of Le Grand Annington Limited disposed of its interests in the remainder of the group. Following this transaction, the ability of Le Grand Annington Limited to continue as a going concern is based on the liquidity of the new group. The directors have assessed the available liquid assets and the forecast cash flows of Annington Holdings plc and the Company.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 31 March 2012. The results of the subsidiaries acquired or sold are consolidated for the period from or on the date on which control passed. Acquisitions are accounted for under the acquisition method.

In accordance with FRS 9, 'Associate and Joint Ventures', joint ventures are included in the Group Financial Statements under the gross equity method of accounting.

The share warrants issued by Annington Homes Limited (note 11) are treated as exercised when determining minority interests (note 26).

#### Turnover

Gross rent under all leases is accounted for on a straight-line basis over the lease term. Rent increases arising from rent reviews are taken into account when such reviews have been settled with the tenants.

#### Investment properties

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

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

The net book value of investment properties is shown net of disposal costs, as determined in accordance with the Profit Share Agreement, which the Company would have incurred had the assets been disposed of at the balance sheet date. The Profit Share Agreement ended on 5 November 2011, hence no such adjustment is required at 31 March 2012.

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 1. ACCOUNTING POLICIES (continued)

#### Dilapidations

Dilapidation receipts are credited to refurbishment works and are only recognised when the claims have been agreed. Income in respect of claims recognised is deferred to the extent that the works are incomplete.

#### Profit share

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

#### Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

The balances on foreign currency loans are translated at the rates of exchange ruling at the period end and the unrealised exchange differences are dealt with in the profit and loss account, as are the realised exchange differences arising on repayments of foreign currency loan during the period.

#### Taxation

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

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life, as follows:

Plant, equipment and vehicles	3 years
-------------------------------	---------

#### Leases

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

#### Borrowings

Borrowings are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability. Borrowings are subsequently carried at amortised cost, whereby finance costs, which comprise interest, discounts and issue costs, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount. Borrowing costs are shown net of receipts or payments from various swap arrangements (note 20).

#### Assets in the course of construction

Assets in the course of construction are stated at cost. All costs directly associated with the purchase and construction of these assets are capitalised. When the assets are completed, they are reclassified as investment properties.

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 1. ACCOUNTING POLICIES (continued)

#### Pension costs

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

#### Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

The Group's derivative financial instruments are not designated as hedging instruments and are held on the balance sheet at fair value. Changes in the fair value are recognised in the profit and loss account as they arise. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

#### Investments in subsidiary undertakings

The Company's investments in the shares of the subsidiary undertakings are stated at net asset value at 31 March 2012 and after reflecting warrants held by Nomura Investments (AH) Limited which has the effect of restricting the value that could be attributed to Annington Holdings plc. This includes, where applicable, the professional valuation of properties. Surpluses and deficits arising from changes in net asset value are taken to the revaluation reserve.

#### Other investments

Investments in fixed asset investments are shown at cost less provision for impairment.

#### Listed investments

Investments are carried at fair value with changes in fair value recognised directly in equity.

#### Financial instruments

Investments are recognised and derecognised on a trade date and are initially measured at fair value, plus transaction costs. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

#### Trade receivables

Trade receivables that have fixed or determinable payments are initially measured at fair value, subsequently measured at amortised cost and discounted to reflect the time value of money.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Impairment of financial assets

Financial assets, other than those held at fair value through the Profit and Loss account, 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 impacted. This recognised impairment will be taken to the Profit and Loss account.

### 2. SEGMENT INFORMATION

The Group generates substantially all of its turnover, profits before taxation and net assets from property investment in England and Wales.



# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

### 3. OPERATING PROFIT

	2012 £'000	2011 £'000
<b>Operating profit is after charging:</b>		
Operating lease payments		
Plant and machinery	216	207
Buildings	565	595
Depreciation of tangible fixed assets	47	39
Impairment losses on investment properties	9	83
Write-back of impairment losses on investment properties	(852)	
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
- the audit of the Company	5	17
Fees payable to the Company's auditor and their associates for other services to the Group		
- the audit of the Group	246	352
- the audit of Profit Share	27	25
Total audit fee	278	394
Fees payable to the Company's auditor for other services		
- all other services to the Company	-	1
Fees payable to the Company's auditor and their associates for other services to the Group		
- tax services to the Group	331	342
- all other services to the Group	415	4
Total non-audit fee	746	347

Included in the 2011 year auditor's remuneration are amounts relating to the 2010 audit of £5,000 for the Company and £125,000 in relation to all other members of the Group

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

No director of the Company received emoluments for qualifying services to the Company during the current or previous year

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	2012 No	2011 No
<b>Average number of persons employed (including directors)</b>		
Administrative	25	25
Operations	23	24
	<u>48</u>	<u>49</u>
<b>Staff costs incurred during the year in respect of these employees were:</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Wages and salaries including directors' emoluments	11,907	11,469
Social security costs	487	437
Other pension costs (note 31)	475	484
	<u>12,869</u>	<u>12,390</u>

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

#### Long term incentive plan

Wages and salaries include an accrual for the future potential payments of the discretionary Long Term Incentive Plans (LTIPs). The current scheme (LTIP3) has been established for the period 1 April 2007 to 31 March 2012. The first payment was made in April 2012 with further instalments potentially payable over the following two years. The accrual is based on a multiple of the discretionary annual performance bonus awarded for the year ended 31 March 2012.

### 5. PROFIT ON DISPOSAL OF PROPERTIES

	2012 £'000	2011 £'000
Sales proceeds	72,715	62,690
Selling costs	(3,356)	(1,762)
Payment under Profit Share Agreement	(1,621)	(3,782)
	<u>67,738</u>	<u>57,146</u>
Sale of properties	67,738	57,146
Cost of sales	(54,016)	(43,876)
	<u>13,722</u>	<u>13,270</u>

The disposal of units arises from a mix of released units, related assets and new build opportunities from the original MQE portfolio acquired by Annington Property Limited and properties sold from the Rentals Subgroup, both being wholly-owned subsidiaries (refer to the Business Review). During the year disposals of 485 units (2011: 381 units) were completed.

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £'000	2011 £'000
Interest receivable	3,323	2,192
Surplus on bonds redeemed	155	1,142
Dividends	841	887
Fair value write up on interest rate swaps	2,225	3,262
Unrealised foreign exchange gains on loans	17	79
	<u>6,561</u>	<u>7,562</u>

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £'000	2011 £'000
Interest payable on secured floating and fixed rate notes	57,016	62,019
Amortisation of discount and issue costs	77,590	74,148
Interest payable on bank loans	7,244	7,276
Interest arising on liabilities held at amortised cost	141,850	143,443
Other finance charges	976	894
Fair value write down on interest rate swaps	79,469	17,115
Loss on bonds redeemed	1,951	5,034
Swap break costs	278	455
Foreign exchange loss on foreign currency deposits	2,188	213
	<u>226,712</u>	<u>167,154</u>
Share of joint venture interest payable	473	836
	<u>227,185</u>	<u>167,990</u>

### 8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2012 £'000	2011 £'000
<b>Current tax</b>		
United Kingdom corporation tax at 26% (2011 - 28%)	-	-
Foreign tax	1,230	187
Share of joint ventures' tax	439	315
Consideration received for tax losses surrendered	(324)	
Total current tax	<u>1,345</u>	<u>502</u>
<b>Adjustments in respect of prior years</b>		
United Kingdom corporation tax at 26% (2011 - 28%)	-	-
<b>Deferred tax</b>		
Profits taxable in the future under the Securitisation Regime at 24% (2011 - 26%) (note 19)	6	(3,791)
Share of joint ventures' tax	-	98
	<u>6</u>	<u>(3,693)</u>
<b>Total tax on loss on ordinary activities</b>	<u>1,351</u>	<u>(3,191)</u>

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 26% (2011 - 28%) The current tax charge for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation

	2012 £'000	2011 £'000
Loss on ordinary activities before tax	(93,405)	(4,929)
Tax on loss on ordinary activities at standard rate	(24,285)	(1,380)
Factors affecting credit for the year		
Expenses not deductible for tax purposes	30,758	911
Short-term timing differences	(1,980)	(2,031)
Creation of tax losses	10,268	2,714
Non-taxable income	(24,570)	(4,582)
Taxable profit on disposal of assets in excess of accounting profit	(3,137)	4,903
Taxable income from investment in limited partnership	988	901
Capital allowances in excess of depreciation	(9)	(32)
Deferred profits taxed under securitisation regime	12,243	(1,016)
Share of joint venture's adjustments	(9)	114
Foreign tax paid	1,078	-
Total actual amount of current tax	1,345	502

The amount of tax losses carried forward at 31 March 2012 is approximately £129.2 million (2011 £132.9 million)

The historical cost of the Group's properties is £1,469.1 million (2011 £1,473.2 million) The tax which would be payable on the surplus arising on the revaluation of fixed assets in the event of their sale at such valuation, is approximately £734.6 million (2011 £606.9 million) A deferred tax liability has not been recognised in respect of this adjustment as there is insufficient evidence that the liability will become due

A deferred tax asset has not been recognised in respect of timing differences relating to the long term incentive plan, or in respect of losses carried forward, as there is insufficient evidence that the asset will be recovered The amount of the asset not recognised is £39.2 million (2011 £41.4 million)

	2012 £'000	2011 £'000
LTIP provision	8,266	6,833
Losses carried forward	31,020	34,558
	39,286	41,391

In April 2012, the headline rate of corporation tax reduces from 26% to 24%, with further 1% reductions expected each year until a rate of 22% is in place from April 2014, as declared in the 2012 Budget Announcement

### 9. PROFIT FOR THE COMPANY

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented for Le Grand Annington Limited The result of the company was £nil for the year ended 31 March 2012 (2011 - £nil)

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

### 10. TANGIBLE FIXED ASSETS

#### GROUP

	Investment properties £'000	Plant, equipment and vehicles £'000	Total £'000
<b>Cost or valuation</b>			
At 1 April 2011	3,807,557	1,005	3,808,562
Additions – capital expenditure	11,978	9	11,987
Disposals	(52,423)	-	(52,423)
Revaluation	762,111	-	762,111
Assets written-off	-	(81)	(81)
Impairment	(9)	-	(9)
Impairment recovery	852	-	852
At 31 March 2012	4,530,066	933	4,530,999
<b>Accumulated depreciation</b>			
At 1 April 2011	-	925	925
Charge for the year	-	47	47
Assets written-off	-	(81)	(81)
At 31 March 2012	-	891	891
<b>Net book value</b>			
At 31 March 2012	4,530,066	42	4,530,108
At 31 March 2011	3,807,557	80	3,807,637

	2012 £'000	2011 £'000
<b>The main headline analysis for the portfolio is:</b>		
Market value	4,530,066	3,995,479
Disposal costs (calculated in accordance with the profit share arrangement)	-	(187,922)
Net book value	4,530,066	3,807,557

	2012 £'000	2011 £'000
<b>The net book amount of properties comprises</b>		
Freehold	324,530	343,134
Long leaseholds	16,536	16,293
Very long leaseholds (over 900 years)	4,189,000	3,448,130
	4,530,066	3,807,557

	2012 £'000	2011 £'000
<b>Properties stated on a historical cost basis</b>		
Cost	2,105,600	2,127,377
Net book amount	2,105,600	2,127,377

# **LE GRAND ANNINGTON LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 March 2012**

### **10. TANGIBLE FIXED ASSETS (continued)**

#### **Homes Subgroup**

Allsop LLP ('Allsop') has prepared a Market Valuation of the freehold and leasehold investment properties held by Annington Property Limited, for the purpose of the Group's financial statements. The Market Value as at 31 March 2012 was £4,280.8 million (2011: £3,745.8 million) and the valuer's opinion was derived on a portfolio basis, primarily using comparable recent market transactions on arm's length terms. The valuation was carried out by an external valuer in accordance with the requirements of the RICS Valuation Standards (sixth edition, as subsequently amended), except where it is not, in practical terms, feasible to comply due to the large number of properties involved.

This is a 'Regulated Purpose Valuation'. Allsop has provided strategic advice and agency services to Annington Property Limited since 1997 and has provided annual valuations of the portfolio since 1999. Allsop have confirmed that in relation to their most recent financial year, the proportion of their total fee income arising from Annington Property Limited was less than 5% which may be regarded as minimal. Allsop has been the valuer of these properties since 1999.

#### **Rentals Subgroup**

The market value of the properties held by the wholly owned subsidiaries of Annington Rentals (Holdings) Limited was £249.1 million (2011: £249.4 million). These investment properties have been valued by the directors on the basis of market value.

The directors have considered the valuation of the properties as at 31 March 2012, with reference to an external valuation performed by Allsop LLP. The valuer was instructed to value a representative sample of approximately 20% with the intention that the whole portfolio is valued on a rolling basis every five years. The valuer was instructed to value such properties by way of external inspections and in accordance with the requirements of the RICS Valuation Standards. The valuation was then extrapolated internally using a desktop financial model, to provide the directors' opinion of the Market Value.

#### **Developments Subgroup**

Allsop LLP has prepared a valuation of the investment properties at 31 March 2012. This was undertaken on the basis of Market Value. Assets in the course of construction have been shown at cost.

#### **The Group**

The revaluation surplus for the year is mainly attributable to the minority interest and is shown in the minority interest reconciliation in note 26, apart from the Group's share which is shown in the reconciliation of movements in shareholders' funds at note 25 and the statement of total recognised gains and losses.

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

### 11. INVESTMENT IN GROUP UNDERTAKINGS

#### COMPANY

£'000

#### Value

At 1 April 2011 and 31 March 2012

-

The historical cost of the investment in Annington Holdings plc was £1 (2011 £1)

Le Grand Annington Limited owns 52% of Annington Holdings plc. The principal undertakings of Annington Holdings plc at 31 March 2012, all of which are wholly owned, with the exception of Annington Investments GmbH which is 50.2% owned and included in the consolidated financial statements, are shown below

Name of subsidiary undertakings	Country of incorporation	Principal activity
Annington Holdings plc*	Great Britain	Intermediate group holding company
Annington Homes Limited	Great Britain	Intermediate group holding company
Annington Property Limited	Great Britain	Property investment
Annington Management Limited	Great Britain	Management
Annington Receivables Limited	Great Britain	Income management
Annington Finance No. 1 plc	Great Britain	Finance
Annington Finance No. 4 plc	Great Britain	Finance
Annington Developments (Holdings) Limited	Great Britain	Intermediate group holding company
Annington Developments Limited	Great Britain	Property investment
Annington Reserve Limited	Great Britain	Intermediate group holding company
Annington (DA) Investment Limited	Great Britain	Property investment
Annington Rentals (Holdings) Limited	Great Britain	Intermediate group holding company
Annington Rentals Limited	Great Britain	Property investment
Annington Rentals (No. 2) Limited	Great Britain	Property investment
Annington Rentals (No. 3) Limited	Great Britain	Property investment
Annington Rentals (No. 4) Limited	Great Britain	Property investment
Annington Rentals (No. 5) Limited	Great Britain	Property investment
Annington Rentals (No. 6) Limited	Great Britain	Property investment
Annington Rentals (No. 7) Limited	Great Britain	Property investment
Annington Rentals Management Limited	Great Britain	Property management
Annington Investments GmbH	Germany	Intermediate group holding company

\*The shares in Annington Holdings plc are directly owned by the Company

As permitted by Section 410 (1) of the Companies Act 2006, particulars of other subsidiary undertakings are not shown above. A complete list of group undertakings will, however, be filed with the Annual Return.

Annington Homes Limited has issued 75,636 warrants allotted and fully paid amounting to £7,563,600 to Nomura Investments (AH) Limited. The terms of the warrants were varied on 28 February 2002, increasing the exercise price from £6,478 per warrant to £19,696. If the warrants are not exercised before 1 January 2015 the exercise price will increase to £21,666.

These warrants are exercisable at any time and Nomura Investments (AH) Limited has no other rights to take up shares in Annington Homes Limited.

The eventual date on which the warrants may be exercised is currently not determined and consequently no value has been attributed to these warrants in the balance sheet other than the original subscription monies paid in 1996.

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 12. INVESTMENT IN JOINT VENTURES

Annington Developments Limited holds all the Group's joint venture investments as from the following dates

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

The principal undertakings at 31 March 2011 are shown below

Name of joint venture	Country of incorporation	Principal activity	Holding %
Annington Wates (Cove) Limited	Great Britain	Property development	50%
Countryside Annington (Colchester) Limited	Great Britain	Property development	50%
Countryside Annington (Mill Hill) Limited	Great Britain	Property development	50%

	Share of net assets/ (liabilities) £'000	Loan £'000	Total £'000
At 1 April 2011	4,157	9,584	13,741
Additions	896	125	1,021
Repayment	-	(4,106)	(4,106)
Interest on loan	-	449	449
Unrealised profit	125	-	125
Share of retained loss for the year	186	-	186
At 31 March 2012	5,364	6,052	11,416

### 13. OTHER INVESTMENTS

Group	2012 £'000	2011 £'000
At 1 April 2011	162,304	154,193
Additions	38	8,270
Exchange adjustment	(940)	(159)
Impairment	(34,475)	-
At 31 March 2012	126,927	162,304

The Group held a 9.5% investment in Autobahn Tank & Rast Holdings GmbH and a 0.01% investment in Autobahn Tank & Rast GmbH & Co KG and a 9.1% investment in Terra Firma Deutsche Annington - V L P, a private equity investor in Deutsche Annington Immobilien GmbH

As set out in Note 35, in December 2012 a transaction involving the group resulted in the disposal of these investments. Market values for these investments were determined during this process. In doing so, an updated impairment review taking into account this latest evidence of valuation was required and performed. As a result of this review, the carrying values of these investments were impaired by £34.5 million.



# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 14. DEBTORS

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts due within one year				
Trade debtors	102	178	-	-
Other debtors	2,423	1,326	-	-
Corporation tax	119	116	-	-
Other taxation and social security	39	179	-	-
Prepayments and accrued income	418	392	-	-
	<u>3,101</u>	<u>2,191</u>	<u>-</u>	<u>-</u>
Amounts due after more than one year				
Prepayments and accrued income	-	222	-	-
	<u>-</u>	<u>222</u>	<u>-</u>	<u>-</u>
	<u>3,101</u>	<u>2,413</u>	<u>-</u>	<u>-</u>

### 15. CASH AT BANK AND IN HAND

GROUP	2012 £'000	2011 £'000
Cash at bank	2,514	1,850
Short-term deposits	96,080	128,639
Holdback custodian account	49	40
Blocked and restricted cash	3,319	10,904
	<u>101,962</u>	<u>141,433</u>

In compliance with the RBS funding arrangements and attaching to the group's loan facilities held by Annington Rentals (Holdings) Limited and Annington Rentals (No 6) Limited, bank accounts exist to cover various aspects of operations. These are in the name of each company and administered by RBS. These arrangements are considered temporary and funds will be released provided certain conditions are met. There are no penalties associated with these arrangements.

Annington Developments Limited, acting as a guarantor to RBS on behalf of the joint venture Countryside Annington (Mill Hill) Limited, has a blocked account to cover commitments under the guarantee. This was released on 2 August 2011.

A custodian bank account administered by RBS was set up on behalf of Annington Finance No 4 plc during the 2010 year. Funds are held on behalf of the Class A Zero Coupon and Class B Zero Coupon noteholders, in accordance with the holdback custody agreement (further details are set out in the Credit Risk section of note 21).

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

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

	GROUP		COMPANY	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Debenture loans (note 19)	36,243	36,284	-	-
Trade creditors	1,103	1,444	-	-
Other creditors	6,067	4,534	-	-
Other taxation and social security	482	890	-	-
Accruals and deferred income	70,848	55,920	-	-
	<u>114,743</u>	<u>99,072</u>	<u>-</u>	<u>-</u>

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

	GROUP		COMPANY	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Bank loans (note 19)	123,178	134,300	-	-
Debenture loans (note 19)	2,194,105	2,229,787	-	-
Derivatives – interest rate swaps (note 19)	120,768	65,985	-	-
Accruals and deferred income	21,837	26,282	-	-
	<u>2,459,888</u>	<u>2,456,354</u>	<u>-</u>	<u>-</u>

### 18. PROVISION FOR LIABILITIES

GROUP	Provision for deferred tax £'000	Provision for utilities £'000	Total £'000
At 1 April 2011	42	25,928	25,970
Charged to profit and loss account	8	1,051	1,059
Utilised in year	-	(26)	(26)
Effect of decrease in rate on opening liability	(2)	-	(2)
At 31 March 2012	<u>48</u>	<u>26,953</u>	<u>27,001</u>

There is a legal agreement to provide for the adoption of private utilities on sites where there have been releases of property which are currently dependent, for the supply of water and/or certain sewerage treatment, on adjacent SoSD bases. In addition, there is a constructive liability to provide for the adoption of certain utilities on certain sites which are not base dependent. In the prior year there was a change in the basis of estimation, resulting in a more accurate assessment of the provision. Full provision has been made on the base dependent sites in accordance with the legal agreement and for all obligations which have crystallised on non-base dependent sites. Of the total provision, £3 million (2011 - £4 million) is anticipated to be incurred over the next three years (2011 - three years), and the balance during the period June 2019 to December 2024. The provision has been discounted in accordance with the relevant borrowing costs of the group. There is a contingent liability (note 32) in respect of base dependent sites where properties have not been released.

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 18. PROVISION FOR LIABILITIES (continued)

The provision for tax arises on taxable profits under the securitisation regime that are not due to be paid until cash is realised within AF4. The adjustments in respect of previous periods have been made to bring the deferred tax accrual in line with the expected future tax liabilities.

From April 2012, the headline rate of corporation tax reduces from 26% to 24%, with further 1% reductions expected each year until a rate of 22% is in place from April 2014, as declared in the 2012 Budget Announcement. The deferred tax charge for the year ended 31 March 2012 includes a credit of £2K to reflect the impact of the reduction in rate to 24% on the deferred tax liabilities. The prospective reductions in tax rate have, however, not been taken into account since these had not been substantially enacted as at the Balance Sheet date.

### 19. LOANS AND OTHER BORROWINGS

#### GROUP

#### Reconciliation of movements

	2012 £'000	Amortisation of bond issue costs and finance charges £'000	Revaluation adjustment £'000	Issued/ (repaid) £'000	2011 £'000
<b>Annington Finance No.1 plc</b>					
7.75% Secured Bonds 2007/2011	-	(156)	-	(27,398)	27,554
8% Secured Bonds 2012/2021	397,214	(7,030)	-	(8,730)	412,974
	<u>397,214</u>	<u>(7,186)</u>	<u>-</u>	<u>(36,128)</u>	<u>440,528</u>
<b>Annington Finance No 4 plc</b>					
<b>Secured Notes</b>					
Zero Coupon Notes 2022 Class A	753,062	44,346	-	(5,492)	714,208
Zero Coupon Notes 2023 Class B	451,156	30,893	-	(3,206)	423,469
Floating Rate Notes 2023 Class B3	221,099	1,508	-	(61,413)	281,004
Fixed Rate Notes 2023 Class C	147,836	206	-	-	147,630
Fixed Rate/FRN 2023 Class M	259,981	749	-	-	259,232
Interest rate swap	116,143	-	79,469	(22,461)	59,135
	<u>1,949,277</u>	<u>77,702</u>	<u>79,469</u>	<u>(92,572)</u>	<u>1,884,678</u>
<b>Total debentures and swaps</b>	<u>2,346,491</u>	<u>70,516</u>	<u>79,469</u>	<u>(128,700)</u>	<u>2,325,206</u>
<b>Royal Bank of Scotland - 7yr</b>	-	96	-	(55,900)	55,804
<b>Royal Bank of Scotland - 2.5yr</b>	44,508	(492)	-	45,000	-
<b>Interest rate swap</b>	1,085	-	(1,512)	-	2,597
	<u>45,593</u>	<u>(396)</u>	<u>(1,512)</u>	<u>(10,900)</u>	<u>58,401</u>
<b>Annington Rentals (No.6) Limited</b>					
<b>Royal Bank of Scotland /Bank of Ireland - 2013</b>	78,670	174	-	-	78,496
<b>Interest rate swap</b>	3,540	-	(713)	-	4,253
	<u>82,210</u>	<u>174</u>	<u>(713)</u>	<u>-</u>	<u>82,749</u>
<b>Total bank loans</b>	<u>127,803</u>	<u>(222)</u>	<u>(2,225)</u>	<u>(10,900)</u>	<u>141,150</u>
<b>Total loans and other borrowings</b>	<u>2,474,294</u>	<u>70,294</u>	<u>77,244</u>	<u>(139,600)</u>	<u>2,466,356</u>

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 19. LOANS AND OTHER BORROWINGS (continued)

<b>Maturity of debt</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
In one year or less, or on demand	36,243	36,284
Between one and two years	118,557	94,644
Between two and five years	155,574	192,258
In five years or more	2,163,920	2,143,170
	<u>2,474,294</u>	<u>2,466,356</u>

### 20. FINANCIAL INSTRUMENTS FAIR VALUES

	<b>Par value of debt £'000</b>	<b>2012 Balance sheet value £'000</b>	<b>Fair value £'000</b>
<b>Secured notes</b>			
8% Secured Bonds 2012/2021	360,570	397,214	440,350
<b>Annington Finance No.1 plc</b>	360,570	397,214	440,350
<b>Secured notes</b>			
Zero Coupon Notes 2022 Class A	1,437,870	753,062	928,864
Zero Coupon Notes 2023 Class B	966,960	451,156	568,963
Floating Rate Notes 2023 Class B3	219,020	221,099	218,165
Fixed Rate Notes 2023 Class C	150,000	147,836	281,109
Fixed Rate/FRN 2023 Class M	260,000	259,981	185,872
<b>Interest rate swap</b>			
Pay fixed 6.93% and receiving floating Class B3	-	75,532	75,532
Pay fixed 5.28% and receiving floating Class M	-	40,611	40,611
<b>Annington Finance No.4 plc</b>	3,033,850	1,949,277	2,299,116
<b>Bank loan secured</b>			
Bank loan	45,000	44,508	45,000
Interest rate swap	-	1,085	1,085
<b>Annington Rentals (Holdings) Limited</b>	45,000	45,593	46,085
<b>Bank loan secured</b>			
Bank loan	78,923	78,670	78,923
Interest rate swap	-	3,540	3,540
<b>Annington Rentals (No.6) Limited</b>	78,923	82,210	82,463
<b>Total financial liabilities and instruments</b>	<u>3,518,343</u>	<u>2,474,294</u>	<u>2,868,014</u>

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

### 20. FINANCIAL INSTRUMENTS FAIR VALUES (continued)

	Par value of debt £'000	2011 Balance sheet value £'000	Fair value £'000
<b>Secured notes</b>			
7 75% Secured Bonds 2007/2011	27,398	27,554	27,647
8% Secured Bonds 2012/2021	369,300	412,974	439,669
<b>Annington Finance No.1 plc</b>	<b>396,698</b>	<b>440,528</b>	<b>467,316</b>
<b>Secured notes</b>			
Zero Coupon Notes 2022 Class A	1,448,760	714,208	814,434
Zero Coupon Notes 2023 Class B	974,140	423,469	584,484
Floating Rate Notes 2023 Class B3	280,432	281,004	279,355
Fixed Rate Notes 2023 Class C	150,000	147,630	158,978
Fixed Rate/FRN 2023 Class M	260,000	259,232	263,921
<b>Interest rate swap</b>			
Pay fixed 6 93% and receiving floating Class B3	-	49,322	49,322
Pay fixed 5 28% and receiving floating Class M	-	9,813	9,813
<b>Annington Finance No.4 plc</b>	<b>3,113,332</b>	<b>1,884,678</b>	<b>2,160,307</b>
<b>Bank loan secured</b>			
Bank loan	55,900	55,804	55,900
Interest rate swap	-	2,597	2,597
<b>Annington Rentals (Holdings) Limited</b>	<b>55,900</b>	<b>58,401</b>	<b>58,497</b>
<b>Bank loan secured</b>			
Bank loan	78,923	78,496	78,923
Interest rate swap	-	4,253	4,253
<b>Annington Rentals (No.6) Limited</b>	<b>78,923</b>	<b>82,749</b>	<b>83,176</b>
<b>Total financial liabilities and instruments</b>	<b>3,644,853</b>	<b>2,466,356</b>	<b>2,769,296</b>
<b>Weighted Averages</b>			
Weighted average interest rate		2012 7 26%	2011 7 36%
Weighted average period of fixed interest rates		9 36 years	9 01 years

The Group's policy in regard to Borrowers' Risk Management is set out in note 21

The fair values of the Group's outstanding interest rate swaps have been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by FRS 29 "Financial Instruments Disclosures"

#### Annington Finance No.1 plc

Three classes of secured bonds were issued in November 1996, of which one is in place as at 31 March 2012. The interest rates and maturity dates are shown in the illustration within Appendix One

#### Security

These Bonds are secured on the Guaranteed Minimum Rent payable by the SoSD over the 25 years ending 2021. The MQE is currently comprised of 39,970 properties (2011: 40,113)

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 20. FINANCIAL INSTRUMENTS FAIR VALUES (continued)

#### Annington Finance No 1 plc (continued)

##### Fair Value

Given the nature of these Notes and the lack of available comparable market evidence of similar financial instruments, a discounted cash flow approach has been used to arrive at a 'fair value' using a comparable of Treasury 8% 2021 Notes yielding 1.96% as at 31 March 2012 (2011 yielding 3.68%) with an additional 0.5% risk factor (2011 0.5%). This discount rate is consistent with the assumption used in valuing the portfolio from which this rental income derives and also reflects the risk for any delay in the passing of rental income from the SoSD via a paying agency to our Bank. The applied discount rate has been based on an internal view of risk assessment of this income.

##### Facilities

The Group has one undrawn committed borrowing facility relating to the Annington Finance No 1 plc funding.

	2012 £'000	2011 £'000
Expiring in one year or less	17,325	17,325

#### Annington Finance No. 4 plc

Five classes of Secured Bonds have been issued (original issue in December 1997 with a Tap Issue in February 2002 and a refinance in August 2004). The interest rates and maturity dates are shown in the illustration within the financing section of the Business Review.

##### Security

All these Notes are secured on the proceeds, generated by Annington Property Limited, from excess rental income from the Retained Estate above the guaranteed minimum received from the SoSD, from the disposal of the Surplus Estate and net rental income from the Surplus Estate. These Notes are also secured on the remaining Married Quarters Estate.

##### Fair Value

The fair value of the Class A Zero Coupon Notes was based on the market rate applied to the repurchase of the respective bonds on 19 April 2012 (2011 The fair value of the Class A Zero Coupon Notes was based on the closing market price on 31 March 2011, following a transaction on that date.)

The fair value of the Class B Zero Coupon Notes was based on the market rate applied to the repurchase of the respective bonds on 19 April 2012 (2011 28 April 2011).

The fair value of the Class B3 Secured Floating Rate Notes 2023 was based on the market rate applied to the repurchase of the respective bonds on 10 April 2012 (2011 11 April 2011).

Given the nature of these Notes and the lack of available market evidence of trading and a lack of comparable market evidence of similar financial instruments, a discounted cash flow approach has been used to arrive at a fair value for certain of the notes. The various discount rates used are based on the Gilt Rate Gross Redemption yield on 8% Treasury 2021 as at 31 March 2012 yielding 1.96% (2011 yielding 3.68%) and then adjusted accordingly to reflect the risks. The applied discount rates shown below reflect an internal view of risk for the various classes of notes, assessed against the future income streams of AF4.

	2012	2011
Secured Fixed Rate Notes 2023 Class C	5.26%	6.98%
Secured Fixed Rate Notes 2023 Class M	4.71%	6.43%

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 20. FINANCIAL INSTRUMENTS FAIR VALUES (continued)

#### Annington Finance No.4 plc (continued)

##### Fair Value (continued)

This approach represents Level 2 fair value measurements as defined in FRS 29 "Financial Instruments Disclosures"

The valuation of the interest rate swaps and offsetting swaps are based on actual market valuations as at 31 March 2012

##### Facilities

The Group has two undrawn committed borrowing facilities relating to the Annington Finance No 4 plc funding

	2012 £'000	2011 £'000
Expiring in one year or less	118,008	119,618

#### Annington Rentals (Holdings) Limited

ARHL entered into a Revolving Seven Year Facility Agreement dated 13 September 2005 with The Royal Bank of Scotland plc enabling it to borrow up to a maximum of £55.9 million (2011 £55.9 million). This loan was closed out on 16 February 2012 and the company entered into a new Two and a Half Year Facility dated 16 February 2012 with The Royal Bank of Scotland plc enabling it to borrow up to a maximum of £45 million to July 2014 against residential properties held by certain of its subsidiaries (note 11) using a loan to value ratio of 55%. Interest is payable on the loan at a floating rate. Interest rates are fixed by one (2011 – two) swap agreement which ends 31 July 2014 (note 19).

#### Annington Rentals (No.6) Limited

AR6 entered into a Revolving Five Year Facility Agreement dated 10 September 2008 with The Royal Bank of Scotland Plc and The Bank of Ireland, enabling it to borrow up to a maximum of £100 million against residential properties held by AR6 using a loan to value ratio of 65%. On 31 December 2010, the facility limit was reduced to the balance that had been drawn down on that date, therefore the facility limit is now £78.9 million. Effective 5 December 2011, The Bank of Ireland novated its interest in the facility and swap agreements to KW UK Loan Partners Limited. On 14 May 2012, the AR6 reached an agreement with both The Royal Bank of Scotland plc and KW UK Loan Partners Limited to amend the facility agreement. At this time, the term of the loan was shortened such that the loan is payable on 31 December 2012. Interest is payable on the loan at a floating rate. Repayment of principal and interest are fixed by five (2011 – five) swap agreements which end on 10 September 2013.

### 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

	2012 £'000	2011 £'000
<b>Financial assets</b>		
Available for sale		
Other investments (note 13)	161,402	162,304
	<u>161,402</u>	<u>162,304</u>
<b>Loans and receivables</b>		
Trade debtors (note 14)	102	178
Other debtors (note 14)	2,423	1,326
Cash and cash equivalents (note 15)	101,962	141,433
	<u>104,487</u>	<u>142,937</u>
	<u>265,889</u>	<u>305,241</u>

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)	2012 £'000	2011 £'000
<b>Financial liabilities</b>		
Fair value through the profit and loss account		
Interest rate swaps (note 17)	120,768	65,985
Measured at amortised cost		
Debenture and bank loans (notes 16 & 17)	2,353,526	2,400,371
Trade and other creditors (note 16)	7,170	5,978
	<u>2,360,696</u>	<u>2,406,349</u>
	<u>2,481,464</u>	<u>2,472,334</u>

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

### Credit Risk

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

The Group has an agreement with The Royal Bank of Scotland Plc specialist treasury service to manage and optimise the liquidity resources and requirements of the Group. Risk is minimised by using a revolving panel of Banks, which all have been identified as low risk according to Credit Agency ratings and the maximum amount of funds that can be placed with any one institution is limited. The Banks and criteria are reviewed and updated periodically to ensure they reflect the prevailing market conditions.

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

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

Amounts due under property disposals related to the sale of land to the joint venture company Countryside Annington (Mill Hill) Limited. This was considered low risk as the Group has a primary charge over the land in the joint venture company. This balance was recovered in full in March 2011.

Agreed dilapidations claims are due from the SoSD and under an agreed protocol, they are due to be settled within 30 days of invoice date.

Tenant debtors relate to properties let to third parties. Let properties includes those released and returned from the SoSD to the Homes Subgroup, where a rental strategy is being pursued, and properties within the Rentals Subgroup. The Group employs a managing agent to actively pursue arrears and this policy has resulted in minimal bad debts to date.

Other than amounts due from the joint venture companies and dilapidations claims outstanding, the Group has no other significant concentration of creditor risk with exposure spread over a large number of tenants, and cash deposited with various banks by The Royal Bank of Scotland Plc. The receivables (note 14) are stated after an allowance for doubtful receivables, and allowances for impairments are made where appropriate.

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



**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 March 2012**

**21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Debt Management**

The Group's borrowings are through the issue of various classes of notes, on the securitisation of the MQE by way of two income streams generated by the portfolio (i) Guaranteed Rental Income received from the SoSD, (ii) Excess income from net sales and rents. There are various borrowing facilities in place to ensure that there is no default in the repayment of the borrowing and interest to the Bond Holders. These facilities are renewed annually and to date have never been called upon.

The Group has two medium-term external bank loans secured on the Rentals Subgroup rental portfolios (note 19).

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

**Capital Risk Management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings (note 19), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings (note 25).

There are two bank facility agreements in place that require covenant tests to be maintained:

	<b>Loan to value</b>	<b>Interest cover</b>
Annington Rentals (Holdings) Limited	65%	115%
Annington Rentals (No 6) Limited	65%	120%

All these covenant tests have been complied with during the year ended 31 March 2012.

**Interest Rate Management**

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

Annington Finance No 4 plc has two interest rate swap agreements in place for the Floating Rate Notes (since December 1997) where the Group pays fixed 6.93% and receives variable rates linked to LIBOR, of offsetting swaps amounting to £567 million (2011: £506 million) in place to fix interest rate exposures that result by the early redemption of Bonds ahead of the original payment profile, where the Group receives fixed at 6.93% and pays variable rates linked to LIBOR. Annington Finance No 4 plc has a net notional liability position of £219 million (2011: £280 million).

In August 2004, two further interest rate swap agreements for an additional £260 million (2011: £260 million) were entered into by Annington Finance No 4 plc for the Class M Fixed/Floating Rate Notes which comes into effect in April 2015 with a termination date in January 2023. The Group pays fixed 5.284% and receives variable rates linked to LIBOR.

As at 31 March 2012, the fair value of the Annington Finance No 4 plc interest rate swaps was a liability of £297 million (2011: £183 million) and the offsetting swaps was an asset of £182 million (2011: £124 million).

Annington Rentals (Holdings) Limited had swap agreements in place from December 2005 to February 2012. Under these agreements ARHL paid at a fixed weighted average of 5.62% (2011: 4.60%) and received variable rates linked to LIBOR. At the beginning of the financial year ARHL had interest rate swaps of £55.9 million, these were closed out on 16 February 2012. On the same date ARHL entered into an agreement for interest rate swaps totalling £45 million, comprised of a £30 million pay fixed interest at 2.59% and receive floating linked to LIBOR and an interest rate cap currently standing at £15 million fixed at 2.59%, maturing July 2014. As at 31 March 2012, the fair value of interest rate swaps was a liability of £1.1 million (2011: liability £2.6 million).

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### Interest Rate Management (continued)

Annington Rentals (No 6) Limited has a number of swap agreements dated from September 2008 onwards under which it pays at a fixed weighted average of 5.33% (2011: 4.12%) and receives variable rates linked to LIBOR on interest rate swaps of £78.9 million (2011: £78.9 million). As at 31 March 2012, the fair value of the interest rate swaps was a liability of £3.5 million (2011: £4.3 million).

The Group does not hedge account for its interest rate swaps and states them at fair value, with changes in fair value included in the Profit and Loss Account.

#### Foreign Currency Management

To manage foreign currency exposure, the Group holds committed but undrawn funds on deposit in Euros to provide further investment in Terra Firma Deutsche Annington – V L P, a private equity investor in Deutsche Annington Immobilien GmbH (see note 13 and Principal Risks and Uncertainties within the Directors' Report Business Review). These Euro funds are managed by RBS Treasury Services to optimise the returns to the Group. At 31 March, the Sterling equivalent of Euro funds held on deposit amounted to £37.3 million (2011: £41.3 million).

Annington Reserve Limited, an intermediate holding company, had a Euro denominated loan payable to an overseas subsidiary, following a payment in June 2011 the balance is now £nil million (2011: £7.2 million).

The exchange differences on the Euro deposits and the loan are recognised through the profit and loss account.

The investment held in Autobahn Tank & Rast Holdings GmbH (note 13) is held at cost by a subsidiary company whose functional currency is Euros. Consequently the Group has exposure to fluctuations in the Pounds Sterling to Euros foreign exchange rate with respect to the carrying amount of its net investment in the subsidiary. The Group does not hedge against this risk and movements are taken directly to reserves.

#### Cash Management and Liquidity

Cash levels are monitored to ensure sufficient resources are available to meet the Group's current and projected operational commitments. The Group has borrowing facilities in place for Annington Finance No 1 plc £17.3 million (2011: £17.3 million) and Annington Finance No 4 plc £11.8 million (2011: £11.96 million) to ensure no default on the quarterly bond repayments. Short to medium-term money market deposits are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk. Longer-term liquidity requirements are forecast to be met out of future operational cash and income streams.

#### Sensitivity Analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates may have an impact on consolidated earnings.

At 31 March 2012, it is estimated that a movement in the interest rate by 50 basis points would have the following effect on the fair value adjustment in the Group's profit and loss account. The sensitivity has been calculated from data supplied from our bankers.

	2012 £'000	2011 £'000
<b>Sensitivity on interest rate swaps</b>		
Market to market valuation as at 31 March	120,768	65,985
<b>Fair value (write-back)/write-off to profit and loss account</b>		
Assumed shift in interest rates		
50 basis points positive	(21,654)	(22,129)
50 basis points negative	23,198	23,469

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### Sensitivity Analysis (continued)

In respect of its investment in Euro denominated net investments, management estimate that the impact of a 5% decrease in the Pounds Sterling to Euros foreign exchange rate would impact reserves by an increase of £1 0 million (2011 £1 4 million), a 5% increase would decrease reserves by £0 9 million (2011 £1 3 million)

In respect of its Euros denominated cash deposits, short term investments and loans, management estimate that a 5% decrease in the Pounds Sterling to Euros foreign exchange rate would increase the credit recognised through the profit and loss account by £1 8 million (2011 £1 6 million) A 5% increase would decrease the credit recognised through the profit and loss account by £2 0 million (2011 £1 8 million)

#### Liquidity and interest risk financial maturity analysis

In respect of non-derivative financial liabilities, the following table provides a maturity analysis for individual elements The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay The table includes both interest and principal cash flows In respect of derivative financial instruments, the fair values have been calculated using appropriate market discount rates to arrive at the future cash flows

		2012			
	Total £'000	Less than one year £'000	One to two years £'000	Two to five years £'000	More than five years £'000
<b>Non-derivative financial liabilities</b>					
Other financial liabilities	7,170	7,170	-	-	-
Secured bond issues	3,883,955	97,722	94,890	244,100	3,447,243
Loans and other borrowings	131,750	5,795	84,051	41,904	-
<b>Total non-derivative financial liabilities</b>	<b>4,022,875</b>	<b>110,687</b>	<b>178,941</b>	<b>286,004</b>	<b>3,447,243</b>
<b>Derivative financial instruments</b>					
Derivative financial liabilities	143,286	(606)	10,652	51,703	81,537
<b>Total financial liabilities</b>	<b>143,286</b>	<b>(606)</b>	<b>10,652</b>	<b>51,703</b>	<b>81,537</b>
Listed investments					
Trade and other debtors	(2,423)	(2,423)	-	-	-
Cash and deposits	(138,991)	(136,336)	(511)	(2,144)	-
	(141,414)	(138,759)	(511)	(2,144)	-
<b>Total financial instruments</b>	<b>4,024,747</b>	<b>(28,678)</b>	<b>189,082</b>	<b>335,563</b>	<b>3,528,780</b>

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### Liquidity and interest risk financial maturity analysis (continued)

			2011		
	Total	Less than	One to	Two to	More than
	£'000	one year	two years	five years	five years
		£'000	£'000	£'000	£'000
<b>Non-derivative financial liabilities</b>					
Other financial liabilities	5,978	5,978	-	-	-
Secured bond issues	4,077,827	100,829	98,082	265,544	3,613,372
Loans and other borrowings	143,236	2,853	59,540	80,843	-
<b>Total non-derivative financial liabilities</b>	<b>4,227,041</b>	<b>109,660</b>	<b>157,622</b>	<b>346,387</b>	<b>3,613,372</b>
<b>Derivative financial instruments</b>					
Derivative financial liabilities	80,517	4,759	446	28,525	46,787
<b>Total financial liabilities</b>	<b>4,307,558</b>	<b>114,418</b>	<b>158,067</b>	<b>374,912</b>	<b>3,712,219</b>
Trade and other debtors	(1,504)	(1,504)	-	-	-
Cash and deposits	(141,432)	(138,204)	(1,167)	(2,061)	-
	(142,936)	(139,708)	(1,167)	(2,061)	-
<b>Total financial instruments</b>	<b>4,164,622</b>	<b>(25,289)</b>	<b>156,901</b>	<b>372,851</b>	<b>3,660,159</b>

### 22. FAIR VALUES OF FINANCIAL INSTRUMENTS

The only financial assets whose carrying value is stated at fair value are the listed investments representing Level 1 fair value measurement as defined in FRS 29 "Financial Instruments Disclosures". A disclosure of the fair value of other investments has not been made because the fair value cannot be reliably measured, as there is no quoted market price in an active market, also there is limited comparable evidence available for valuation purposes for similar business models. The carrying amounts of these investments are stated in note 13. The Group does not intend to dispose of the investments in the short-term.

The fair values for trade and other receivables, trade and other payables and cash at bank and in hand equate to their book value.

The fair values of the interest rate swaps and debenture and bank loans are shown in note 20. The only financial liabilities whose carrying value is stated at fair value are the interest rate swaps representing Level 2 fair value measurement as defined in FRS 29 "Financial Instruments Disclosures".

### 23. CALLED UP SHARE CAPITAL

	2012	2011
	£	£
<b>Authorised, called up, allotted and fully paid</b>		
13 ordinary shares of £1 each	13	13

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 24. STATEMENT OF MOVEMENTS ON RESERVES

	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
<b>GROUP</b>			
At 1 April 2011	(94,639)	8,484	(86,155)
Surplus on valuation of properties	-	8,850	8,850
Transfers	5,433	(5,433)	-
Exchange differences	(425)	-	(425)
Retained loss for the financial year	97,257	-	97,257
	<u>7,626</u>	<u>11,901</u>	<u>19,527</u>
At 31 March 20112			
			<b>Profit and loss account £'000</b>
<b>COMPANY</b>			
At 1 April 2011			-
Retained loss for the financial year			-
			<u>-</u>
At 31 March 20112			<u>-</u>

The realisation of property revaluation gains of previous years shown in the Consolidated Note of Historical Cost Profits and Losses is mainly attributable to the minority interest and only the Group's share is shown above as a result

### 25. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT)

	2012 £'000	2011 £'000
<b>GROUP</b>		
Profit/(loss) for the financial year	97,257	(30,362)
Revaluation in year	8,850	6,958
Exchange differences	(425)	(121)
Net decrease/(increase) in shareholders' deficit	105,682	(23,525)
Opening shareholders' deficit	(86,155)	(62,630)
Closing shareholders' funds/(deficit)	<u>19,527</u>	<u>(86,155)</u>
<b>COMPANY</b>		
Loss for the financial year	-	-
Net increase in shareholders' deficit	-	-
Opening shareholders' deficit	-	-
Closing shareholders' deficit	<u>-</u>	<u>-</u>

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 26. MINORITY INTERESTS

	2012 £'000	2011 £'000
At 1 April	1,632,287	1,617,747
(Loss)/profit for the financial year	(192,013)	28,624
Currency translation difference on foreign currency net investments	(421)	(120)
Revaluation of properties	753,583	(14,156)
Other	(4,052)	-
Fair value adjustments on available-for-sale investments	-	221
Recycling of revaluation reserves to profit & loss on disposal	-	(29)
Closing minority interest	<u>2,189,384</u>	<u>1,632,287</u>

### 27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £'000	2011 £'000
Operating profit	146,874	141,582
Depreciation charge	47	39
Decrease in debtors	(1,080)	4,565
Increase in creditors	9,496	6,936
Increase in provisions	1,024	2,527
Net cash inflow from operating activities	<u>156,361</u>	<u>155,649</u>

### 28. ANALYSIS OF NET DEBT

	At 31 March 2012 £'000	Cash flow £'000	Other non- cash changes £'000	At 1 April 2011 £'000
Cash at bank and in hand	<u>101,962</u>	<u>(37,264)</u>	<u>(2,207)</u>	<u>141,433</u>
Debts falling due within one year	(36,243)	36,284	(36,243)	(36,284)
Debts falling due after more than one year	<u>(2,438,051)</u>	<u>102,637</u>	<u>(110,616)</u>	<u>(2,430,072)</u>
	<u>(2,474,294)</u>	<u>138,921</u>	<u>(146,859)</u>	<u>(2,466,356)</u>
Net debt	<u>(2,372,332)</u>	<u>101,657</u>	<u>(149,066)</u>	<u>(2,324,923)</u>

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

# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2012

### 29. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2012 £'000	2011 £'000
Decrease in cash in the year	(37,264)	(3,028)
Cash outflow from decrease in debt	138,921	123,745
Amortisation of debt issue costs and other non-cash charges	(77,590)	(76,677)
Other non-cash charges	7,975	12,039
Fair value adjustment in derivatives	(77,244)	(13,853)
<b>Movement in net debt in the year</b>	<b>(45,202)</b>	<b>42,226</b>
Opening net debt	(2,324,923)	(2,366,579)
Exchange translation movement	(2,207)	(570)
<b>Closing net debt</b>	<b>(2,372,332)</b>	<b>(2,324,923)</b>

### 30. FINANCIAL COMMITMENTS

Capital commitments are as follows

GROUP	2012 £'000	2011 £'000
Contracted for but not provided for Building contracts	881	3,854

In 2011, Annington Rentals (No 4) Limited has entered into a contract for the construction of 24 new units and significant refurbishment of 84 existing units at Uxbridge. The company is committed to pay a contractual percentage of the total build costs. Until construction is completed, the total amount to which the company is committed is uncertain. Based on the terms of the contract, at 31 March 2012, the amount committed was not less than £881,230 (2011: £3,854,388). As such, this is the balance disclosed above.

Annual commitments under non-cancellable operating leases are as follows

GROUP	Land and buildings		Other	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Leases which expire				
Within one year	45	57	35	45
Within two to five years	515	514	83	75
	<u>560</u>	<u>571</u>	<u>118</u>	<u>120</u>

### 31. PENSION COMMITMENTS

The Group contributes to employees' personal defined contribution pension schemes. The contributions made for the year were £474,574 (2011: £483,675).

# **LE GRAND ANNINGTON LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 March 2012**

### **32. CONTINGENT ASSETS AND LIABILITIES**

As stated in note 18, there is a contingent liability to allow for the adoption of private utilities on sites which are currently base dependent (dependent on the SoSD) for their supply of water and sewerage treatment and where there has been no releases of property from the SoSD. This amounts to £111.7 million (2011: £108.3 million).

There is a contingent asset in respect of profit share recoverable on future utilities expenditure covered by the provision referred to in note 19. The amount is subject to agreement with the SoSD as to timing of recovery and method of calculation.

Annington (DA) Investment Limited had committed to provide €44.8 million at 31 March 2012 (2011: €44.8 million) of additional funding/investment to Terra Firma Deutsche Annington L.P. under the terms of its investment in that partnership. On 30 November, in response to a call notice from the General Partner, Annington (DA) Investment Limited made a further investment of £20.7 million, reducing this commitment. During December 2012, as part of a series of transactions described in Note 35, a disposal of the entire interest in Terra Firma Deutsche Annington L.P. took place, reducing the amount committed to £nil.

### **33. RELATED PARTY TRANSACTIONS**

The directors consider the Nomura Group of companies, of which Nomura Investments (AH) Limited is the principal UK subsidiary, as a related party as during the year it had the ability to exercise a controlling influence over part of the Annington Group through the Nomura Group's holding of warrants to subscribe for ordinary shares in Annington Homes Limited.

In February 2007, a major land development site with 187 existing properties was sold at a market value of £36.7 million to the Annington Holdings plc Group joint venture, Countryside Annington (Mill Hill) Limited. In March 2009, in response to adverse economic and trading conditions the joint venture negotiated a reduction in the original price, a deed of variation was signed which reduced the amount to be paid for this land by £6.7 million. In consideration for this reduction in 'Price' Annington Property Limited became entitled to 'priority payments' of a more generous form of overage up to £15 million if the profits of the Joint Venture recover.

During the current year, the group has had transactions with joint ventures that including the drawdown and repayment of borrowings and associated interest. During 2011, the final land payment for Mill Hill was received by Annington Property Limited.

During the year, the Annington Property Limited invested £896k in The Inglis Consortium LLP (note 12).

### **34. CONTROLLING PARTY**

Le Grand Annington Limited is the ultimate holding company for the consolidated Group.

As at 31 March 2011, the Nomura Group of companies, of which Nomura Investments (AH) Limited is a subsidiary, had the ability to exercise a controlling influence over part of the Annington Group through Nomura Investments (AH) Limited's holding of warrants in relation to the shares of Annington Homes Limited (note 11). It also has the ability to exercise a controlling influence over the remainder of the Annington Group by way of cash warrants in Annington Rentals (Holdings) Limited and Annington Developments (Holdings) Limited. These cash warrants are exercisable at any time in whole or in part.

As set out in Note 35, in December 2012, as part of a series of transactions, all the warrants referred to in the paragraph above were exercised. Following these transactions, Nomura Investments (AH) Limited had the ability to exercise control over the group and as part of the transactions sold its interests to Terra Firma Special Opportunities Fund I, L.P. This sale completed on 13 December 2012. The Company's direct subsidiary Annington Holdings plc sold its interest in the remainder of the group to Terra Firma Special Opportunities Fund I, L.P., on the same day.



# LE GRAND ANNINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2012

### 35. POST BALANCE SHEET EVENTS

Since the year end, the Company repurchased and cancelled £13.6 million (2011: £17.6 million) of Class B3 Floating Rate Notes on the interest payment dates falling due in April. Then the company partly redeemed £410 per note in July, £537 per note in October and £433 per note in January 2013. The pool factor of outstanding notes is 54.68% (2011: 68.48%).

Further deposits were transferred into the holdback accounts of £7.1 million in April, July, October and January 2013 (2011: £6.6 million) for Class A Zero Coupon noteholders and £4.8 million (2011: £4.1 million) for Class B Zero Coupon noteholders.

A summary of the repurchase and cancellation of Class A Zero Coupon Notes and Class B Zero Coupon Notes transactions follows:

	<u>Holdback Transactions</u>		<u>Nominal Values of Notes Purchased and cancelled</u>	
	<u>Class A £'000</u>	<u>Class B £'000</u>	<u>Class A £'000</u>	<u>Class B £'000</u>
Purchase Class A Zero Notes	(7,131)	-	(10,080)	-
Purchase Class B Zero Notes	-	(4,723)	-	(7,060)
Transfers to Holdback Accounts	7,131	4,779	-	-
Total movements since year end	<u>-</u>	<u>56</u>	<u>(10,080)</u>	<u>(7,060)</u>

On 14 May 2012, the Annington Rentals (No 6) Limited reached an agreement with both The Royal Bank of Scotland plc and KW UK Loan Partners Limited to amend the borrowing facility agreement. At this time, the term of the loan was shortened such that the loan is payable on 31 December 2012 and limited changes in control are permitted.

On 27 June 2012, Annington Rentals (No 6) Limited and Annington Rentals (No 7) Limited entered into a four year £105 million Facility Agreement with The Royal Bank of Scotland plc. This facility allows funds to be drawn down for a period starting on the date of the agreement and ending 45 months later. The first drawdown will be used to repay the existing Annington Rentals (No 6) Limited facility and outstanding swaps.

On 22 October, the £105 million facility between RBS and AR6 & AR7 was further drawdown by AR6 (£4.6 million) and AR7 (£3.1 million). Subsequent to this, the undrawn commitment under the facility agreement is £12.6 million, available to be drawn when the facility conditions can be met. On this date, derivatives were opened to hedge against interest rate movements on the newly drawn balances, consisting of interest rate swaps and caps fixed at 1.04% with maturity in line with the facility.

On 31 October, Annington Rental Holdings Limited made a further £1 million voluntary repayment of the RBS £45 million facility which reduces the outstanding amount to £43 million. This repayment is in advance of the mandatory repayment obligation under the facility agreement that requires £2 million be repaid by January 2013.

On 30 November 2012 the group made a further investment in Terra Firma Deutsche Annington - V L P of £20.7 million.

In a series of transactions in December 2012, Terra Firma Special Opportunities Fund I, L P acquired the majority of the group. As part of these transactions:

- a newly incorporated member of the group, Annington Finance No. 5 plc issued £550 million Senior PIK notes due 2023,
- the investments in the Annington Rentals (Holdings) Limited sub-group and the Annington Development (Holdings) Limited subgroup were transferred from Annington Holdings plc to Annington Homes Limited.
- the share warrants issued by Annington Homes Limited were exercised by Nomura Investments (AH) Limited, resulting in Annington Homes Limited receiving £1,489.7 million in return for issuing 75,636 shares, providing Nomura Investments (AH) Limited with control of the restructured Annington Homes Limited group,

## **LE GRAND ANNINGTON LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 March 2012**

#### **35. POST BALANCE SHEET EVENTS (continued)**

- a subsequent reduction in share capital and dividend resulted in the payment of a £1,489.7 million dividend,
- the cash warrants issued by Annington Rentals (Holdings) Limited and Annington Development (Holdings) Limited were exercised by Nomura Investments (AH) Limited, resulting in a payment of £74.7 million,
- the investments in Autobahn Tank & Rast Holdings GmbH, Autobahn Tank & Rast GmbH & Co KG and Terra Firma Deutsche Annington - V LP along with cash balances totalling £565.1 million were distributed out of the group. As a result of this, an updated impairment review taking into account this latest evidence of valuation was performed. Given the available evidence of the market value in November that may be ascribed to the market value in March and the comparability of the value in use and the market value, an adjusting post balance sheet date event was recorded to impair these investment at March 2012 and the carrying values of these investments were impaired by £34.5 million,
- the interest in the group held by both Nomura and the Company's direct subsidiary, Annington Holdings plc, were sold to Terra Firma Special Opportunities Fund I, LP

As a result of these transactions, from 13 December 2012, the Company's sole investment is in Annington Holdings plc

# **LE GRAND ANNINGTON LIMITED**

## **APPENDIX ONE**

### **ANNINGTON HOMES LIMITED AND SUBSIDIARIES (HOMES SUBGROUP)**

#### **Background**

The Homes Subgroup was created in 1996, for the sole purpose of acquiring certain interests in the MQE in England and Wales, together with certain related assets, from the SoSD on 5 November 1996

This purchase included approximately 760 sites containing 55,362 housing units (the Retained Estate) and 58 sites containing 2,374 units (the Surplus Estate), together in each case with certain related assets

The Retained Estate was purchased on a 999 year lease and immediately leased back to the SoSD for a period of 200 years subject to certain Underleases which permit the properties be used by the SoSD to provide housing for married service personnel and their families. The Underleases provide for the SoSD to pay rent at a 58% discount to open market rent on a quarterly basis. These rents are subject to five-yearly reviews against market values, subject to the agreed discount. All properties subject to these arrangements continue to be maintained by and remain entirely under the control of the SoSD, dependent upon its operational needs. The identification of surplus properties and the timing of their release to the Homes Subgroup is entirely at the discretion of the SoSD and, upon not less than six months' notice, the Homes Subgroup is obliged to accept any properties declared surplus. At the end of the first 25 years following the initial acquisition, the level of rent payable for each individual site is subject to review and renegotiation.

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

The Master Agreement, dated 5<sup>th</sup> November 1996, contains certain obligations, on the part of the SoSD, to make guaranteed minimum payments of rent and, annually, to release to Annington a pre-set minimum number of units that have become surplus to requirement, known as the Minimum Release. The Guaranteed Minimum Payment continues to be payable in accordance with a predefined schedule until December 2021. The Minimum Release obligation, to release a minimum of 13,213 in the period 1996-2021 has been satisfied with 15,084 units having been released as at 31 March 2012. Although the SoSD is under no obligation to release further units, from a practical point of view it is expected that properties will continue to be released over time, as the SoSD's requirements change.

At the time of acquisition the SoSD and the Homes Subgroup entered into a Profit Share Agreement. The Homes Subgroup is obliged to make payments to the SoSD calculated on a percentage of certain gains made, or deemed to have been made, on the disposal of units or sites (including by way of letting, sale or otherwise). The agreement ended on 5 November 2011 with no further obligations on disposals after that date. As at 31 March 2012, £161.2 million (2011: £161.2 million) had been paid, to HM Treasury in Profit Share, since November 1996.

#### **Objectives and Strategy**

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

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

# LE GRAND ANNINGTON LIMITED

## APPENDIX ONE

### ANNINGTON HOMES LIMITED AND SUBSIDIARIES (HOMES SUBGROUP)

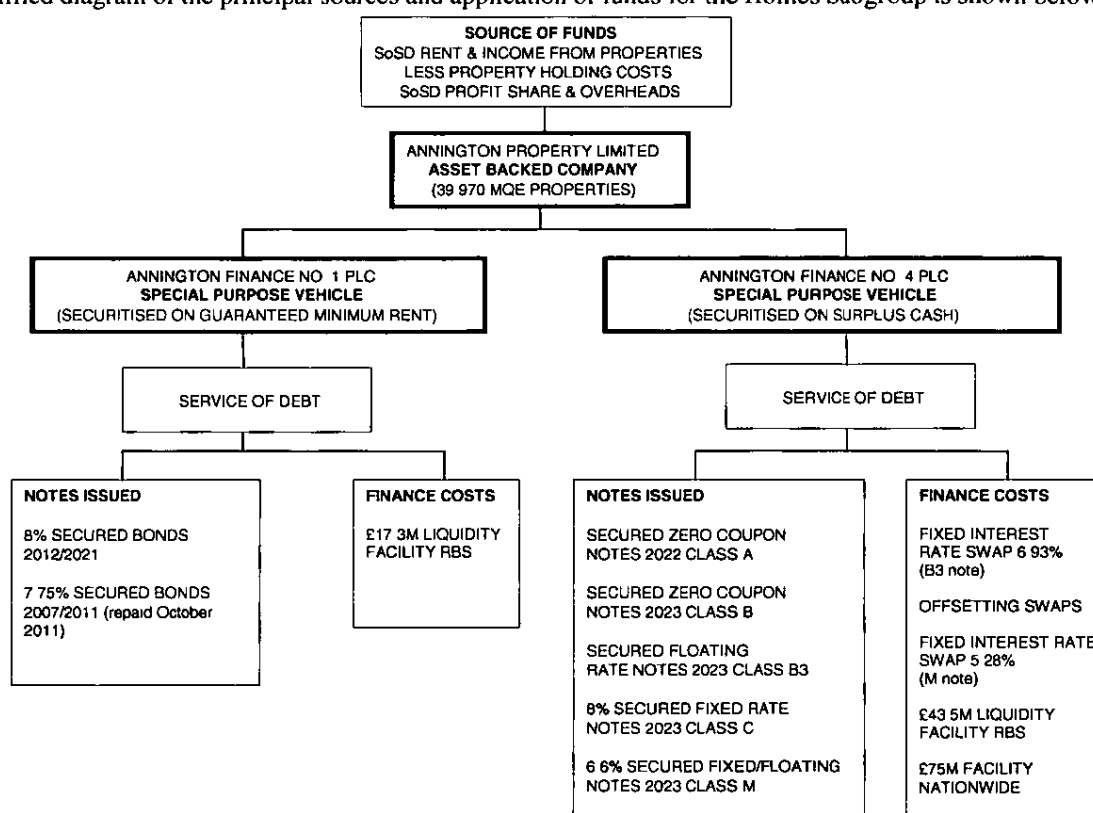
#### Objectives and Strategy (continued)

The Homes Subgroup continued to examine the way in which it evaluates the options for dealing with future sites to ensure units are prepared for disposal in a way that meets the changing market conditions. Historically, the Homes Subgroup has used a strategy that has prepared large numbers of properties for sale over a short period of time. However, with the property market and economic climate continuing to deteriorate, the Homes Subgroup has chosen to retain more properties for rent and to prepare smaller numbers of properties for sale in order to keep completed stock levels low and has re-phased works to optimise cashflow requirements. This strategy is expected to continue for the foreseeable future.

#### Financing

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

A simplified diagram of the principal sources and application of funds for the Homes Subgroup is shown below.



The Homes Subgroup's financial position is underpinned by the rent receivable from the SoSD. With effect from January 2008, this rent is sufficient to meet debt service requirements without the need for sales. Based on current average rents, SoSD would need to release more than 9,500 units before this situation changed. This means that the Homes Subgroup does not have to consider liquidity issues when determining appropriate strategies and is in a robust position, confident that the current market conditions will not call for significant changes to operations.

# **LE GRAND ANNINGTON LIMITED**

## **APPENDIX ONE**

### **ANNINGTON HOMES LIMITED AND SUBSIDIARIES (HOMES SUBGROUP)**

#### **Financial Position and Accounting Policies**

The accounting policies are stated in Note 1 to the accounts

As stated elsewhere in the review, the Homes Subgroup has long-term funding arranged through the securitisation vehicles AF1 and AF4. Both of these companies are reviewed by their respective rating agencies as part of the issuance conditions. There has been no reduction in their respective ratings of classes of notes during the year. Liabilities to AF1 are exactly matched to the Guaranteed Minimum Payment, received each quarter from the SoSD. Cash received is placed on deposit for the short period between receipt and payment to AF1 note holders.

Any rent received over and above the Guaranteed Minimum Payment, plus net sales proceeds are accumulated throughout each calendar quarter, with cash being held on short-term deposit to meet the quarterly AF4 payments. At the end of each quarter, all cash so accumulated must be used, firstly to meet interest obligations and secondly to collateralise and/or redeem outstanding principal. Consequently, all cash generated by Annington Property Limited (APL) operations is utilised at the end of each quarter.

Since January 2008, the rental income received from the SoSD has been sufficient to meet the Homes Subgroup's debt service requirements without the need to sell properties. This puts the Homes Subgroup in a robust position to weather the current economic downturn and the depressed state of the residential property market.

In 2004, AF4 restructured its debt creating a surplus of £260m. It was agreed at the time, that these funds should be held by Annington Homes Limited (AHL) and used for corporate development in the wider Group. These funds have been, and continue to be, used for investment in both the Rentals Subgroup and the Developments Subgroup.

The Royal Bank of Scotland plc Agency Treasury Services provides the treasury function to the Group. Surplus cash is swept into a single treasury account from which cash deposits are placed with a variety of pre-qualified counterparties, with the objective of achieving interest returns commensurate with minimal risk to principal.

Through the various arrangements outlined in note 22, the Homes Subgroup is protected against adverse movements in interest rates and is protected in the short-term from both delays in receipt of the Guaranteed Minimum Rental payment from the SoSD and shortfalls in operational cash flow resulting from adverse market conditions. During the year it has not been necessary to draw on any of the liquidity facilities.

APL's interest in the MQE is almost unique in that it consists, primarily, of properties held under a series of long leases extending for 999 years from 1996 and each of which are subject to underlease arrangements granted to the SoSD extending for 200 years from 1996. As a consequence, the property valuation takes note of the contracted rental income, of which some is guaranteed up to December 2021, which is subject to rent reviews every five years. In forming a view as to the value of these interests the valuer, Allsop LLP, has regard to the quality of income (supported by government covenant) and the anticipated changes to the size of the portfolio (forecast release of properties by SoSD) over a period of 70 years. Where a quantity of properties is forecast to be released, an assessment of potential disposal value is made through a number of assumptions regarding timing and changes to property values. A sample of properties which have already been released, but not sold, as at the date of valuation, is inspected and individual values assigned to similar house types in the same location. All of the above provides the basis for estimating a cash flow which is then discounted at rates commensurate with the level of assessed risk.

The value derived from this calculation is then considered in the context of affordability. Given the current financial environment, which has led to a shortage of available funding, the valuer obtains institutional views on the availability of debt and equity, the appropriate balance between the two and the respective associated costs of such a transaction. The consensus view in respect of these factors is then incorporated into the assessment of market value as at the balance sheet date.

The number of properties released and available for sale is a small percentage of the overall total covered by this valuation. Given that the significant majority of value is derived from the assumed future rent flows and estimated future sales, there is no significant impact on the valuation in periods when lower volumes of transactional evidence is available. Further analysis is provided at note 10.

# **LE GRAND ANNINGTON LIMITED**

## **APPENDIX TWO**

### **ANNINGTON RENTALS (HOLDINGS) LIMITED AND SUBSIDIARIES (RENTALS SUBGROUP)**

#### **Background**

The Rentals Subgroup was established in 1999 with the purpose of creating a series of residential investment portfolios, free of the constraints and conditions governing the Homes Subgroup portfolio. Since that time the Rentals Subgroup has grown to eight subsidiary companies with 1,614 properties owned and/or managed. Separate external funding has been established through two loan facilities, drawn-down to the value of £45 million and £78.9 million at 31 March 2012. These facilities are repayable in 2014 and 2013 respectively. A new £105 million facility has been entered into on 27 June 2012 to replace the facility repayable in 2013. Further details are set out in Financing (below).

#### **Objectives and Strategy**

A series of subsidiaries has been established to hold residential properties with different commercial characteristics, each requiring slightly different management decisions to achieve their individual objectives. The Rentals Subgroup provides a number of offerings including letting properties to provide comparable evidence for market rents in key locations for the Homes Subgroup, letting properties to individuals with a view to making strategic gains in the medium-term and bulk letting properties to organisations (such as universities, housing associations and local authorities) to secure longer term rental contracts.

Since the Homes Subgroup cannot influence which or how many properties are released by the SoSD, the Rentals Subgroup was created to provide both diversification and a more stable business model in which workflow and resources could be more evenly managed. The Rentals Subgroup continues to grow and has been able to improve returns through actively managing tenancies and rental levels. It has the financial resources to acquire portfolios or bulk purchase new build properties in areas where it has identified a known need or where market improvements are anticipated. To date, the Rentals Subgroup has concentrated on acquiring houses in areas generally associated with MQE locations, rather than city centre blocks of flats. There is currently no intention to change this strategy.

#### **Financing**

The Rentals Subgroup is financed by two bank facilities (note 20) and intra-group finance. In February 2012 the Rentals Subgroup entered into a 30-month facility with The Royal Bank of Scotland plc. This facility is secured on properties owned by Annington Rentals Limited, Annington Rentals (No 2) Limited, Annington Rentals (No 3) Limited, Annington Rentals (No 4) Limited and Annington Rentals (No 5) Limited. At the same time as entering into the facility, the Rentals Subgroup entered into an interest rate swap in order to remove the risk of fluctuating interest rates during the period of the facility. The proceeds of this facility were used to repay the previous bank facility.

Annington Rentals (No 6) Limited (AR6) had a £78.9 million loan facility jointly with The Royal Bank of Scotland plc and Bank of Ireland. Again, the exposure to fluctuating interest rates has been fixed by entering into an interest rate swap. On entering this facility in 2009, AR6 utilised the funds to repay some of the intra-group finance and to expand the number of properties acquired for renting to the SoSD. Effective 5 December 2011, Bank of Ireland novated its interest in the facility and swap agreements to KW UK Loan Partners Limited. In May 2012, this facility was varied to facilitate a potential 'change of control' and amend the repayment date to 31 December 2012. On 27 June 2012, the Annington Rentals (No 6) Limited and Annington Rentals (No 7) Limited entered into a four year £105 million Facility Agreement with The Royal Bank of Scotland plc. This facility allows funds to be drawn down for a period starting on the date of the agreement and ending 45 months later. The first drawdown will be used to repay the existing Annington Rentals (No 6) Limited facility and outstanding swaps.

## **LE GRAND ANNINGTON LIMITED**

### **APPENDIX TWO**

#### **ANNINGTON RENTALS (HOLDINGS) LIMITED AND SUBSIDIARIES (RENTALS SUBGROUP)**

##### **Operations**

The Rentals Subgroup now controls some 1,614 (2011: 1,569) properties and is a sizeable business in its own right. There are now eight subsidiaries within the Rentals Subgroup, seven of which own properties, the other managing properties. Each portfolio has a different characteristic and is therefore subject to different management considerations. Strategic decisions, such as acquisitions, refurbishment programmes, letting criteria and disposals are all taken by the rentals management team. The day-to-day letting, billing, rent collection and maintenance activities are outsourced to Touchstone Corporate Property Services, who in turn use a network of local letting agents to arrange inspections and individual lettings. This structure works well for the Rentals Subgroup given the geographic spread of properties, and enables the in-house Portfolio Managers to maintain a strategic focus. The Portfolio Managers meet weekly to consider issues arising and maintain fortnightly meetings with the Touchstone Corporate Property Services team, in order to progress lettings and ensure appropriate action is taken with regards void units, arrears etc.

## **LE GRAND ANNINGTON LIMITED**

### **APPENDIX THREE**

#### **ANNINGTON DEVELOPMENTS (HOLDINGS) LIMITED AND SUBSIDIARIES (DEVELOPMENTS SUBGROUP)**

##### **Background**

The Developments Subgroup was established in 1999 with the purpose of providing planning and development support to the wider Group. Where opportunities arise to create added value through infill development or wholesale redevelopment of landholdings, the Developments Subgroup will provide the services of 'Planning and Development Consultant' for the benefit of the Group.

The Developments Subgroup will also carry out limited development on its own account and enter into joint venture arrangements with other landowners and developers where the combination of skills will yield higher returns. At present, the Developments Subgroup is involved in three joint venture arrangements as set out within description of The Group within the Directors' Report Business Review.

The Developments Subgroup also holds two strategic real estate related investments in mainland Europe. The first of these is a strategic stake in Deutsche Annington Immobilien GmbH (owner of approximately 190,000 residential properties in Germany). The second is a minority stake in Autobahn Tank & Rast Holdings GmbH and Autobahn Tank & Rast GmbH & Co. KG, owner of 90% of German motorway concessions for petrol stations, shops, restaurants and motels. These investments are opportunities for the Developments Subgroup to support other parties by providing equity and loans into complex structures, whilst adding value for the Developments Subgroup and its stakeholders.

##### **Objectives and Strategy**

The Developments Subgroup will continue to provide planning and development skills to the wider group. At the same time, the Developments Subgroup will consider joint venture arrangements where a sharing of skills and resources is considered to give opportunity for increased returns from UK based property developments. We previously reported that the Developments Subgroup would continue to look for opportunities. However, with the uncertain market, 'land transactions' have effectively ceased to exist in recent times. The Developments Subgroup has developed some successful projects both individually and in joint ventures, and will continue to seek further development opportunities, once land buyers return to the market.

##### **Financing**

Project Finance for developments directly owned by the Developments Subgroup is provided by way of intra-group loans. The interest rate on these loans is fixed and repayable on a fixed date in accordance with loan agreements.

Investment into joint venture arrangements is financed in a similar way, except the repayment of such loans is subordinated to any specific project finance raised directly by the joint venture company, where relevant.

Annington (DA) Investment Limited has an undrawn commitment to provide further investment into Deutsche Annington Immobilien GmbH via a Terra Firma Capital Partners Fund. These committed but undrawn funds are held by AHL in Euros. Therefore any exchange rate gains or losses will fall within the Homes Subgroup.

Annington Reserve Limited, subsequent to the disposal of 49.8% of its holding in the Autobahn Tank & Rast group of companies in August 2007, is self-financing.

##### **Operations**

The economic crisis has impacted upon activity, with the demand for residential development land all but drying up. The Developments Subgroup team continue to provide planning advice to the Group and have assisted in ad hoc projects across the country. Most of the effort this year has been involved with managing the Subgroup's interest in the joint venture companies Countryside Annington (Colchester) Limited and Countryside Annington (Mill Hill) Limited. These two companies have had to react to the testing market conditions, but ended the year in a satisfactory position.

Recently, the skills and resources of the Developments Subgroup have been utilised by APL, to enable that company to manage its interest in The Inglis Consortium LLP, a joint venture entered into with surrounding landowners to develop a total of 77.6 acres of land at Mill Hill, North London.



# **LE GRAND ANNINGTON LIMITED**

## **APPENDIX FOUR OUR RESPONSIBILITIES**

### **Employees**

As an employer, the Group believes in maintaining an inclusive, professional and productive working environment in which equal opportunities are promoted and all discriminatory practices deterred. All individuals are encouraged to achieve personal and professional development whether it is through training or other means. Our employees cover a wide range of professional skill sets so training is assessed and tailored to meet specific individual needs. The nature of the training is, therefore, very broad including both technical and soft skill based training. At the end of the year there were 50 (2011: 50) employees in the Group and the average period of employment was 9.2 years (2011: 8.90).

### **Social Responsibility**

Whilst Annington will rent homes and redevelop properties, the principal activity of the Group is to receive surplus properties back from the SoSD and to refurbish and sell or rent these properties. In doing so, our philosophy is to provide good quality, value for money homes.

Until recently, 30% of Annington homes had been sold to Service or ex-Service personnel, but this is reducing steadily due to changes in the accessibility of the United Kingdom residential property market. In addition more than 50% of those buying an Annington home have been first time buyers. For the 12 months to end of March 2012 this had dropped to 22%. Service and ex-Service personnel have benefited from a variety of discounts totalling just under £13 million.

We always try to offer our homes at competitive prices with the most appropriate financial incentives, the aim of which is to make house purchase affordable for more people. We aim to create environments in which people want to live by uplifting street scenes, improving landscaping and changing the external appearance of the homes so that some individuality and variety can be incorporated into areas that might have lacked it previously.

We ensure that our homes meet basic safe and sound criteria so that electrical, plumbing and heating systems are thoroughly checked and defects or issues that might affect a mortgage are rectified.

### **Environmental**

In refurbishing the properties, we not only seek to improve the local environment and the community, but we strive to use sustainable methods of construction and materials. In doing so, we endeavour to bring redundant housing stock back into good repair, delivering much needed affordable housing back into the national housing supply.

Given the spread of location of the Group's portfolio and proximity to MoD bases, there may be some concern about contamination resulting from previous uses. However, our experience to date, is that only two sites released by the SoSD, have been found to have any traces of contamination. In both instances, action was taken to remove the material and replace with 'clean' soil. The Group will comply with all legislation and Health & Safety regulations with regards to the handling of dangerous materials. Given the age of some of the properties, there have been instances where asbestos has been found. Any such materials have been, and will continue to be, professionally removed and disposed of or, where advised to do so, left in situ but appropriately marked.

### **Trust and Charitable Donations**

In further recognition of the portfolio's origins, the Annington Trust was established in 1996 for the benefit of Service families living on 'the patch', as it is known, with the objective of sponsoring community activities and projects. The Trust derives its income from a capital fund that was set up at the time the MQE was purchased in 1996. Since then, the Trustees, who include the Chairmen of the three Services' Families Federations, have disbursed £315K (2011: £250K) to support 381 (2011: 358) projects. These have varied in size from small grants of a few hundred pounds for pre-school activities, youth organisations and sports clubs, to major awards of several thousands of pounds to provide much needed support for families at a time when the Services are heavily engaged in overseas operations.

**APPENDIX FOUR  
OUR RESPONSIBILITIES**

**Trust and Charitable Donations (continued)**

Quite separately, the Group itself has been involved in supporting the community. We have supported a diverse number of projects associated with the Services but falling outside the Trust's charitable objects, ranging from small community related projects, through goodwill advertising and sponsorship of publications and events to major exercises to ensure the continued use of community centres after MoD base closures. For the last three years the Group has funded the Annington Trust a fixed sum of £25K per annum (to May 2011). However, given the continuing low returns achieved on the Capital Fund, the Group has agreed additional increased funding of £50K per annum (payable quarterly) for the next three years to June 2014. This will make a considerable difference to the scope of the Trust, and to ensure that it can continue its activities and raise its profile within the service community.

During the year the Group made charitable donations of £141K (2011: £65K), principally to local charities serving the communities in which the Group operates.

**MoD Relationship**

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

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

There have been many changes in this relationship following the introduction of the Defence Infrastructure Organisation (DIO) on 1 April 2011 and further changes are expected as the DIO completes its journey towards full operating capability over the two years subsequent to its establishment. Throughout this time of adjustment, Annington intends to ensure continued assistance is provided wherever possible and to maintain the excellent working relationships developed over the previous 15 years.

## **LE GRAND ANNINGTON LIMITED**

### **APPENDIX FIVE**

#### **DETAILS OF BOARD AND COMMITTEE COMPOSITION, REMIT AND FREQUENCY OF MEETING**

The Group is managed at the Annington Holdings plc level with oversight from the Company's Board of Directors. The following describes activities of the Annington Holdings plc Board of Directors.

During the reporting year, the Board of Directors comprised the non-executive Chairman (E J Filkin) and Deputy Chairman (Air Vice Marshal (Ret'd) A F C Hunter), two further non-executive directors employed by Terra Firma Capital Partners Limited (A P Chadd, K Dolenec) and F S Duncan and three executive directors (J B Chambers, J C Hopkins and N P Vaughan). The Board met formally each quarter to review issues, progress being made and performance against budget. 'Executive Review Meetings', attended by the same individuals, were held during each of the intervening months for a briefer update on performance and to discuss any issues which may require resolution prior to the next formal Board meeting.

##### **Audit Committee**

The Audit Committee included the non-executive Chairman and Deputy Chairman and two independent directors. The Committee meets at least once per annum and received a report from the Auditor following substantial completion of their audit work and considered the ongoing effectiveness of controls and procedures operated by the executive team. During the current period of 'financial uncertainty', the Committee specifically considered the appropriateness of preparing accounts on the 'going concern' basis.

##### **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee includes the non-executive Chairman and Deputy Chairman and two independent directors. The Committee meet as required, but meets at least once per annum to consider the overall remuneration packages of all staff and to review the staff appraisal process, which provides evidence for salary reviews and/or award of discretionary bonuses. This year specific attention has been given to the adequacy and effectiveness of the staff appraisal format. Proposals for changes will be considered prior to the next staff appraisals, at the end of the year.

##### **Investment Committee**

The Investment Committee included the three executive directors and meet as required to discuss and consider appraised project strategies. Any major projects or significant investments are referred to the Board for ultimate approval.

##### **Senior Managers' Meeting**

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

##### **Directors' Meeting**

The executive directors along with associate directors meet every Monday morning in order to consider results from the previous week, provide an update on short-term issues and to prioritise work for the coming week.