Company Registration No. 08271384

ANNINGTON LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2021

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ANNINGTON LIMITED

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NOTE ON FORWARD LOOKING STATEMENTS

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

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

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

HIGHLIGHTS FINANICAL YEAR 2021

The Annington Group ('Annington' or the 'Group'), headed by Annington Limited (the 'Company'), is pleased to present its consolidated financial statements for the year ended 31 March 2021.

- The carrying value of the Group's investment properties increased to £8.1 billion (2020: £7.7 billion).
- At 31 March 2021, the Group held 40,427 residential property units, of which 38,140 are part of the Married Quarters Estate leased to the UK Ministry of Defence (2020: 40,741 Units, 38,460 MQE).
- Rental income was £201.3 million (2020: £199.4 million).
- Adjusted EBITDA was £181.3 million (2020: £182.6 million)
- Profit after taxation was £559.5 million (2020: £770.2 million).
- The Group sold 302 (2020: 94) investment properties and recognised £70.6 million (2020: £32.1 million) in sales proceeds.
- The expedited Site Review process has been a significant area of focus of the business, with the adjustment factor for four of the 27 baskets awarded during the year and a further eight baskets awarded in July 2021.

INTRODUCTION

Annington is one of the largest providers of privately rented housing in the UK, owning over 40,000 homes with an asset value of £8.1 billion. The portfolio is unique in that over 94% of our properties are rented to the Ministry of Defence ('MoD') under a 200 year lease. As the MoD releases surplus properties back to the Group they are either sold or rented in the open market. To date the Group has helped over 17,000 people purchase their own home, many of whom were first time buyers, service personnel or key workers. We have also let thousands of homes to private individuals.

The past year has presented challenges for all businesses but has provided an opportunity for the Group to demonstrate a number of its core strengths, notably its stability and financial resilience. The Group benefits from an unusual and highly reliable cash flow with c.94% of income taking the form of Government backed rents which were unaffected by the COVID-19 pandemic. Whilst the Group was not completely insulated from the operational challenges resulting from COVID-19, business continuity was maintained thanks to a rapid restart of work on refurbishment sites following the initial lock-down and an efficient transition to home working. The business was able to operate through the pandemic without the need to claim from any government support schemes, such as the Coronavirus Job Retention Scheme.

Our Markets

The Group operates in a traditionally underserved part of the residential market for which the outlook remains strong. During the year, the UK residential property market fared better than most other parts of the economy, experiencing a robust period of rising prices, reflected in the 10.2% HM Land Registry annual growth rate to March 2021, which was welcomed following a short, shallow reversal in house price growth in April 2020. This positive picture was underpinned by early Government intervention to support the economy in the form of the Coronavirus Job Retention Scheme and the announcement of an expansion of the nil rate band for SDLT up to £500,000 on property purchases from 8 July 2020 to 30 June 2021, which was subsequently extended to 30 September 2021, at a reduced rate. A supportive mortgage environment with low interest rates available for those with at least a 25% deposit and the Government reintroduction of low deposit mortgages have also helped maintain market momentum.

The Group has a key focus on the affordable segment of the market. The affordable nature of the homes the Group has available for sale or rent, with larger floor plans, gardens and green space, on average, than equivalent new build properties, often with good transport links, continued to be in demand. Whilst transaction volumes and price growth are both expected to slow, as a result of the tapering of the SDLT holiday, the reduction in new sales instructions, a continuation in demand and a more rapid than expected economic recovery are supportive of continuing house price inflation. Strong rental demand and lack of stock has also continued to drive up rents everywhere outside London as ongoing remote working has encouraged occupiers to seek more space. These trends provide a positive backdrop for the Non-MQE Portfolio in the coming year, given that the strong market demand for single family homes in suburban or well-connected rural locations matches well with the composition of the portfolio.

ANNINGTON LIMITED

STRATEGIC REPORT

Our relationship with the MoD

The MoD is our major customer, with 95.4% of our properties rented to the MoD, generating 92.9% of the Group's rental income. Over the coming year, the expedited Site Review process, agreed with the MoD in 2019 as part of the Arbitration Agreement, will continue to be the primary strategic focus. The arbitration awards made following the first two hearings have resulted in an increase in aggregate rent levels for the 12 (out of 27) baskets awarded so far and have provided welcome certainty and clarity. This will see a reduction in the average rental adjustment factor for the relevant Sites from 58% to 49% and applying these agreed uplifts to the passing rent for 31 March 2021 would equate to additional rent of c.£18 million for the Sites in those 12 baskets at that date. We look forward to concluding the review of the remaining 15 baskets, although this process continues to occupy significant management time and resource.

As in the two preceding years, the 2020 Beacon Unit Rent Review with the MoD has been protracted and extended beyond the Rent Review date. Whilst well progressed, this Rent Review is not yet finally settled. The Group continues to properly resource the process and engage productively with its MoD counterparts and it is hoped that there will be a return to a less protracted timeline for the 2021 Review, preparations for which are underway.

Under the terms of the 2019 Dilapidations and Handback Agreement, the MoD agreed to release from the MQE a minimum of 500 units per year, calculated on the basis of a two year rolling average and Annington agreed a waiver of up to £7,000 of dilapidations costs per unit, subject to an annual cap of £3.5 million and subject to the MoD meeting the agreed release profile. The MoD has indicated that it remains committed to a release profile of 500 units per year, however, the process of identifying units appears more challenging for the MoD than anticipated. In the year to 31 March 2021, the MoD released 320 Units. The MoD's programme of sub-letting impacted the number of properties available with vacant possession and therefore eligible to be released but, where appropriate, the Group has signalled its willingness to assist with the issue of 'sitting tenants' for certain specific Sites. In tandem, the MoD has extended the notice period to these tenants out to March 2022, allowing them time to identify suitable alternative accommodation which may be sufficient to resolve the issue. The Group continues to work closely with the MoD to identify future releases.

The future

Government and Departmental discussions concerning the future of the Armed Forces and the overall Defence Estate are closely monitored by the Group. In November 2016 the MoD set out a 25 year plan to rationalise the Defence Estate in an effort to deliver the strategic aims of the Government's Strategic Defence and Security Review of 2015 ('SDSR') while reducing the cost and size of the Defence Estate. A recent report from the NAO, dated 11 June 2021, entitled Optimising the Defence Estate, notes that progress to reduce the built estate (which includes technical bases as well as Service Family Accommodation ('SFA')) has been slow and cost savings will be neither as significant nor as rapid as forecast. This suggests that the MoD may be delayed in meeting its stated aim of reducing voids from 19.8% of the SFA to a management margin of 10%.

This year the Government published its policy paper "Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy" (the Integrated Review 2021), which together with a subsequent paper indicates a further reduction to the size of the armed forces with greater reliance on technology, IT and cyber warfare compared to conventional means. It is too early to tell whether the policy set out in the Integrated Review 2021 will have an impact on SFA but the MoD's delay in meeting its 2016 objectives and the recognition that reduction of the Defence Estate is a complex undertaking suggests that there will not be a significant impact on the MQE or the Group in the short- to medium-term. The Group is committed to maintaining a constructive dialogue with the MoD and is supportive of its stated ambition to move towards a more efficient built estate.

Responsible Business

A primary concern of the Group continues to be the health and welfare of its staff. The positive impact of the UK's vaccination programme and the removal of most remaining COVID-19 related restrictions has meant that the Group was able to welcome staff back to the office from 18th August 2021, whilst continuing to monitor the public health situation.

The Group is committed to having a positive social and environmental impact. With our suppliers and contractors we ensure they are compliant with our environmental policies, which are regularly reviewed. We also have a significant programme of charitable giving to organisations that have a positive impact on society, especially military communities. The Group is also undertaking an externally administered ESG maturity assessment in 2021, which will inform the Group's longer-term approach to ESG and provide a framework for embedding sustainability at all levels of the Group. The Group is particularly focussed on aligning its strategy against sustainability frameworks and standards including the United Nations Sustainable Development Goals ('SDG').

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GROUP OVERVIEW

The Group, headed by Annington Limited, is one of the largest private owners of residential property in the United Kingdom and, as at 31 March 2021, owned 40,427 residential property units.

The primary asset of the Group is a portfolio of residential property units which was acquired from the MoD on 5 November 1996 (the '1996 Acquisition'). At the time of the 1996 Acquisition the Group acquired c. 55,060 Units (the 'Married Quarters Estate' or 'MQE') which were located on 765 Sites, almost all of which were on 999-year head-leases which were then leased back to the MoD for a term of 200 years to provide the majority of the MoD's subsidised SFA as well as certain related assets, consisting primarily of buildings used for purposes such as housing administration and welfare offices, community centres, crèches and thrift shops, as well as playground areas, sports pitches, tennis and squash courts and undeveloped open spaces.

As at 31 March 2021 (unless otherwise noted), the Group's portfolio consisted of:

	MQE Portfolio	Non-MQE Portfolio
Properties	38,140 (2020: 38,460) homes leased to the MoD and related assets	2,248 (2020: 2,161) homes owned and rented to the general public, the MoD and housing associations, including homes released from the MQE Estate. A further 39 (2020:114) new units under development, either for sale or for rental
Activity	The core business • Provision of Service Family Accommodation	• Refurbishment and sale or rent of properties released by the MoD • Residential investment portfolio • Properties rented on market terms, both individually and in bulk • Redevelopment capability
Lease length	200 year leases – 175 years unexpired	Assured Shorthold Tenancies and flexible leases
Lease type	Repairs and maintenance paid by tenant	Repairs and maintenance paid by tenant or landlord
Passing rent at 31 December 2020	£183.1m	£19.9m
Value	Fair value: £7,641.2m (2020: £7,215.9m) SAVPV: £9,724.8m (2020: £9,253.0m)	Fair value: £478.0m (2020: £459.3m) VPV: £526.8m (2020: £515.2m)

In addition to the above, the Group managed 27 (2020: 44) properties on bulk or assured shorthold tenancies ('AST').

STRATEGIES

The Group enjoys a unique role as the MoD's primary landlord for residential housing, benefiting from stable, long-term, contracted rental income with the potential for significant capital appreciation. The key elements of the Group's business strategies, which aim to ensure the Group continues to maximise the benefits of this opportunity, are described below.

Maximising MQE value increases through Rent Reviews and Site Reviews

The Group looks to maximise rental income and in turn estimated market value of the MQE through the five yearly Rent Review cycle, setting the reference open market rent for the MQE, and the 15 yearly Site Review cycle from 2021, setting the rental adjustment factors for the MQE. Management is focussed on preparations for such Rent Reviews and the accelerated Site Review process pursuant to the Arbitration Agreement for the remaining 15 baskets in order to maximise uplifts to rental value. It is anticipated that the Site Review hearings in respect of the remaining 15 baskets will be completed by mid-2023, at the latest.

Rigorously appraising options for Released Units

The Group appraises Released Units in accordance with strict criteria designed to optimise the Group's returns on investment and to examine all potential options on a Site-specific basis, including whether to sell the Units to third party purchasers or to relet the units within the Non-MQE Portfolio. The Group's management reviews and evaluates options for Released Units and pursues appropriate strategies having regard to market conditions and other circumstances existing at the time. From time to time, the Group may also choose to rent out certain properties prior to sale either while base dependent utilities supplies are separated or if this approach appears more likely to yield greater value due to market conditions or otherwise.

Developing systems and processes to minimise cost of sales of Released Units to third party purchasers and ensure efficient handling of units between release and sale or reletting

In respect of Released Units which are intended to be sold to third party purchasers, the Group utilises established systems and processes to minimise the cost of sales of Released Units. This ensures efficient handling of units between release and sale or reletting and includes the use of key task tracking to identify every aspect of a Released Unit's transition from handover by the MoD to sale in order to allocate responsibility and to control programme implementation and costs. The Group also maintains an extensive use of outsourcing to control workflows and match the uncertainties of variable MoD property release levels. Preferred contractors are employed on a schedule of rates in order to guarantee pricing levels. The Group expects that management will, where necessary, continue to offer certain sales incentives to maximise sales volumes, as well as employing sales support providers and estate agents having detailed knowledge of the local markets in which they operate.

Actively managing tenancies

Through the Non-MQE Portfolio, the Group intends to continue letting at market rates to the MoD or other third parties on the open market, and improving the Group's returns through proactively managing the Group's tenancies and rental levels. Reviews of such properties are conducted regularly to identify where there may be a void occupancy in the short-term and to assess what rental level should be achieved on reletting. If it becomes uneconomic to retain such properties, potential options to maximise value will be considered, including refurbishment, redevelopment and disposal.

Undertaking planning and development initiatives where appropriate

As and when opportunities arise within the properties released from the MQE or in the Non-MQE Portfolio, the Group will continue to undertake planning and development initiatives within, and provide planning and development skills to, the wider Group.

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BUSINESS REVIEW

MQE Portfolio

The MQE, held by Annington Property Limited ('APL') is the core asset of the Group. APL's primary business consists of renting MQE Units to the MoD, conducting periodic Rent and Site Reviews and selling or renting out Units which are released by the MoD from time to time.

As of 31 March 2021, the carrying value of the MQE was £7,641.2 million and the SAVPV (as defined in the Financial Review) at that date was estimated to be £9,724.8 million.

At the current stage of completion of the December 2020 Rent Review, the annualised passing rent in respect of the MQE was £183.1 million. For the financial year ended 31 March 2021, APL generated £37.0 million of gross income by selling Units released by the MoD.

Since 1996 the MQE Units have been rented to the MoD at a 58% adjustment by way of discount to open market rent ('Original Adjustment Factor'). The MoD is obliged to make rental payments to the Group on all MQE Units, regardless of occupancy, meaning there is no rental void risk while the properties are leased to the MoD.

The MoD is solely responsible for the condition, management and maintenance of the MQE, and is required to pay compensation for the costs of repairs for dilapidations if Released Units are not returned to APL in good tenantable repair and decorative order.

Rent Reviews and Site Reviews

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

The MQE Rent Review cycle overlaps with the timeframe for negotiations of the Site Review. Passing rents are subject to ongoing discussions for both the Rent Review and Site Review negotiations. The Rent Review in relation to Sites subject to a December 2020 Rent Review have now mostly been agreed with the four remaining Sites expected to be settled shortly.

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

The Arbitration Agreement set out the terms of an expedited process to complete the 2021-2024 Site Review rounds. This accelerated process was designed to produce an equivalent result to the Site Review, but in a shorter period and at a lower cost for both parties. It will also give the parties earlier certainty in relation to the future rents payable for the MQE.

Under this process, the Sites subject to 488 leases in the MQE at the signing of the Arbitration Agreement were divided into 27 baskets of Sites that share similar characteristics, with each basket having similar total passing rent. A new rental adjustment will be determined for each of those baskets, in place of the Original Adjustment Factor of 58% to open market value rent. Under the provisions of the Arbitration Agreement, a three person panel of experienced, impartial arbitrators (the 'Panel') are responsible for determining matters that cannot be mutually agreed between the parties. The new rental adjustment determined for each basket will apply to all of the Sites within that basket.

During the current year, two arbitral hearings were convened which determined the rental adjustment for 12 of the 27 representative Sites. The initial 12 Sites were assessed in two separate hearings. The first hearing took place in June/July 2020, and addressed four representative Sites, two of which were selected by each side. The second hearing took place in February/March 2021, and addressed eight representative Sites, selected on the same basis as the Sites for the first hearing. The Panel has determined the rental adjustment for each of the 12 Sites submitted to date. The new average rental adjustment for these Sites is 49.0 %. The rental adjustments that have been determined are highly site-specific, and due to the differing nature of each Site, the results to date cannot be extrapolated on a site-by-site basis for the remainder of the MQE Portfolio.

Whilst it was envisaged that new rental adjustments covering the entire estate would be produced within 24 months of the commencement of the process, it is now anticipated that outcomes in respect of the remaining 15 representative Sites left to be reviewed by the Panel will be completed no later than mid-2023. This delay results from the impact of the COVID-19 pandemic and the complexity and intensity of the process, even under the expedited arrangements. The MoD will continue to pay rent at the current rate until the dates on which new rents are payable under the terms of the underleases, which fall between 2021 and 2024.

Property releases

As the MoD's requirements for SFA change, it may elect to terminate, in whole or in part, any lease relating to the applicable Site upon six months' notice and certain minimum release criteria. Upon termination of a lease, APL is left with vacant possession of the Released Units and is free to use or dispose of them as it sees fit, including by selling them to third party purchasers, transferring them to the Non-MQE Portfolio or by leasing them at open market value, thereby generally providing an immediate uplift in value given that such properties will no longer be subject to the adjusted rent being paid by the MoD prior to their release.

Historically, under the agreements entered into with the MoD at the time of the 1996 Acquisition, the MoD was under an obligation to release a certain minimum number of Units every year. This obligation was met in 2007, since which time the rate of handbacks of Units from year to year became unpredictable. Accordingly, concomitant with the Arbitration Agreement, APL and the MoD entered into the Dilapidations and Handback Agreement, pursuant to which the MoD agreed to release a minimum of 500 units per annum (subject to a rolling two-year average) and APL agreed to waive up to £7,000 per unit of dilapidations and subject to an annual cap of £3.5 million (if the MoD complies with the agreed release profile).

Non-MQE Portfolio

The operational platform developed as a result of owning and operating the Non-MQE Portfolio is key to realising best value from the expected releases from the MQE pursuant to the Dilapidations and Handback Agreement. This platform allows the Group to control the timing of sales releases into the housing market and provides an opportunity to take advantage of strong yields in markets where the Group sees the potential for appropriate returns.

As of 31 March 2021, the Non-MQE Portfolio consisted of 2,248 completed properties. Of these, 596 were transferred from the MQE Portfolio upon release by the MoD and remain in APL (the 'Non-MQE: Surplus Estate'), where they are strategically assessed and either rented or sold. The remaining 1,652 completed properties (the 'Non-MQE: Rentals Portfolio') are owned by other companies within the Group. These properties are let on bulk tenancies (which are often to the MoD) at market value or let to other third parties on the open market. Some of this activity is useful in generating comparison data which the Group uses in rent negotiations with the MoD during Rent Reviews. One further company, which does not own properties, undertakes property management services for a small portfolio of 27 units.

As at 31 December 2020, annualised passing rent in respect of the Non-MQE Portfolio was £19.9 million. As of 31 March 2021, the Non-MQE Portfolio was valued at £478.0 million and SAVPV at £526.8 million.

The Group has a proven in-house development capability and is able to provide planning and development support. Where opportunities arise to create added value through infill or other development, the Group may carry out development activities on its own account or enter into joint venture arrangements with other landowners and property developers where the combination of skills, assets and resources are expected to yield higher returns. The Group is currently developing 39 new units: 22 investment properties and a further 17 trading properties recorded as inventory (31 March 2020: developing 91 investment properties and 26 inventory units). The categorisation of development units between investment properties and inventory depends on the Group's intentions for future use of the completed properties between sales and rentals activities.

Service Family Accommodation

The MoD has provided subsidised accommodation for Armed Forces service personnel and their families as a condition of service throughout the post-war period. The provision of good quality living accommodation is a core principle for the MoD, is considered to be a key enabler of operational capability and it is an important part of the Defence Estate. A number of factors influence the future of SFA, including basing, the cost of management and maintenance, the general condition of the housing stock, current government policy with respect to defence, service personnel terms and conditions of employment and budgets.

The MoD has c.49,000 SFA Units in the United Kingdom. Of these, 9,700 properties are currently vacant (19.8% of the total). As at 31 March 2021, of the 49,000 UK SFA properties, 91.5% are in England and Wales, amounting to 44,835 properties of which 38,140 (as of 31 March 2021) are part of the MQE. Applying the published void rates for the SFA generally on a pro-rata basis suggests that there are approximately 7,500 vacant Units in the MQE. The MoD's long-term management margin for void properties is 10%, but void rates have consistently been around 20% for at least the last 15 years.

The management of SFA is the responsibility of the Defence Infrastructure Organisation ('DIO') within the MoD. The Group is not responsible for management and maintenance of those properties leased to the MoD and carries no void risk.

On 17 July 2020, the Defence Secretary and the Chancellor of the Exchequer jointly announced £200 million of new Government funding to improve accommodation for Service personnel. £122 million was allocated for improving the SFA estate with £86 million to be spent in financial year 2020/21 and £36 million in financial year 2021/22. The funds have been allocated to return more than 800 long-term void properties, suffering from structural, fire or flood damage, to be refurbished fully for allocation to Service families and for improvements to 2,700 further properties.

Under the terms of the contractual arrangements with the Group, the MoD has to pay compensation (dilapidations) if it does not return properties to the Group in the correct condition which is defined in the Underlease as "good tenantable repair and decorative order". Poor maintenance of the MQE has resulted in higher dilapidations claims. For claims agreed during the ten year period beginning 2012 and ending 2021, the average gross cost of dilapidations to the MoD was approximately £18,000 per Unit.

Although it has been reported that a third of the MoD accommodation budget relates to service and rental payments to the Group, the MoD currently pays an adjusted rent of 42% of open market rental value on all the properties leased from the Group. At 31 December 2020, the average annual rent for an MQE Unit was approximately £4,774, compared to Rightmove Group Limited's estimated national average asking rent as reported for the quarter then ended, excluding Greater London, of £11,664 per annum, and for Greater London of £23,184. Accordingly, notwithstanding the significant expense, the MoD's lease arrangements with the Group provide it with a very cost-effective housing solution.

However, the MoD is under considerable pressure to reduce costs and the financial burden of providing SFA is under review, leading to proposals for alternatives to a fully managed and maintained housing estate, for example through support for home ownership. Currently, just over half (52%) of all service personnel own their own homes, a number that is unchanged since 2020.

The Future Accommodation Model ('FAM') is the latest iteration of the MoD's strategy to deliver accommodation for military personnel and the MoD by developing a new accommodation offer to help more service personnel live in private accommodation and meet the aspirations that many have for home ownership. It is a complex concept and pilot projects are currently underway at three locations, HMNB Clyde, Aldershot Garrison and RAF Wittering and will be reviewed in 2022. There continues to be opposition to the concept, including from the Army Families Federation, and it is not known at present what the final proposals will be or whether FAM will be adopted at all given the budgetary constraints and costs of implementation. On the demand side, the MoD's policy that defines who is entitled to SFA is expanding so that personnel no longer need to be married to qualify for SFA. Now, anyone over the age of 18 in an established long-term relationship (including same-sex couples) or who has residential responsibility for a child can apply for surplus housing. This expansion of eligibility may well offset any impact of FAM and help to further reduce void rates.

MoD Relationship

The Group has two main points of interface for its relationship with the MoD.

The first and longest standing is via the DIO which operates primarily through the Joint Working Board (comprised of representatives from the Group and DIO) to address all day-to-day estate matters and provides a quarterly forum, chaired by the Head of Accommodation at DIO, during which the MoD's overall accommodation strategy can be discussed. The DIO and the Group's teams were able to work together during the pandemic to instate COVID safe methods of managing terminations and handback.

The second is through UK Government Investments ('UKGI'), which, following the signing of the Arbitration Agreement took the lead on the Site Review process and the other commercial interests detailed in the Arbitration Agreement. Besides agreeing a mechanism for an expedited Site Review process, the Arbitration Agreement provided for a joint effort to find a solution to the ending of the Utilities Agreement (which falls away on a date in the relevant Underleases (between 25 and 28 years from 1996)), exploring partnership development and marriage value potential on adjacent sites and agreement to work more closely on the sub-letting of properties in the MQE, bulk letting and estate planning. All these initiatives were intended to lead to a more collaborative working relationship but to date, limited progress has been made. Notably, the MoD has expressed its intention to allow the Utilities Agreement to end without a replacement, meaning that all future base dependent releases will need to be migrated onto the public utilities network prior to any sale of such Units.

As a consequence of the Dilapidations and Handback Agreement, the MoD is also focussed on releasing a minimum of 500 Units per annum, on a rolling two-year average. For the year ended 31 March 2021, the MoD released 320 Units.

The Group reiterates its commitment to maintaining a positive, constructive and mutually beneficial working relationship with the MoD going forward.

The UK Housing Market

The Ministry of Housing, Communities and Local Government ('MHCLG') estimated there were 24.7 million homes in England at 31 March 2020 (in their most recent statistical release from May 2021). The majority of which (15.7m or 64%) were owner occupied, with 4.8 million private rented dwellings and 4.1 million social and affordable rental housing. The Welsh government dwelling stock estimates showed an additional 1.4 million dwellings in Wales as at 31 March 2020 of which, 1.2 million were owner occupied.

New supply of housing in England reached 244,000 in 2019-20 but is expected to be lower for 2020-21 due to the impact of the COVID-19 pandemic. Using Energy Performance Certificates ('EPCs') as a proxy for housing supply, in the 12 months to March 2021, new dwelling EPCs totalled 220,730, a decrease of 13% on the 12 months to March 2020 as reported in the MHCLG, 30 June 2021 statistical release "Housing supply: indicators of new supply, England: January to March 2021". Whilst in aggregate this represents a modest upward trend in housing output, it is still insufficient to tackle the historic under-supply which underpins the UK housing market.

In the last year demand has been driven primarily by buyers seeking additional space as a result of the COVID-19 pandemic and further supported by the time limited Stamp Duty Land Tax nil rate band extension. Hometrack's June 2021 House Price Index ('HPI') report showed demand for homes was +23% YTD vs 2020 and against a -2% YTD vs 2020 reduction in supply, suggests further potential rises in house prices subject to affordability constraints. Low interest rates, renewed availability of high loan-to-value mortgages in the market, led by the Government's mortgage guarantee scheme which provides lenders with guarantees for certain mortgages with a 5% deposit between 19th April 2021 to 31 December 2022 and a rebounding labour market are all underpinning continued housing demand and price inflation.

Annual house price growth in the United Kingdom rose to 13.2% in June 2021, the highest in over 16 years, as reported by the Office of National Statistics ('ONS') and HM Land Registry. The cost of an average house in the UK was £266,000, based on ONS data, £284,000 in England (up 13.3% over the year) and £195,000 in Wales, an increase of 16.7% over the preceding 12 month period and the highest of the four home nations. On a regional basis, London had the highest average house price at £510,299, followed by the South East and the East of England, at £355,948 and £327,017 respectively. The lowest average price remained the North East at £149,521. Regionally, the data supports a picture of fastest price growth in the most affordable regions, notably the North East and North West, with overall price increases being driven by a wide supply-demand imbalance in the market. However all regions have enjoyed strong growth over the annual period to June 2021.

The regional divergence in house prices demonstrates the 'race for space' trend resulting from the Coronavirus pandemic as people seek out properties with more indoor and outdoor space within their budget as an effect of the widespread shift to hybrid and remote working. The trend is also evident in the divergence of demand and therefore house price growth by dwelling type, with demand for houses twice that registered during 2017-19, while demand for flats has not shown the same growth. The average price for houses, from terraces to detached, is up 7.3% in the year to the end of June, up from 1.9% in the previous 12 months. In contrast, price growth for flats is lagging at 1.4%, which is unchanged compared to the previous 12 months.

Savills has revised their HPI forecast for calendar year 2021 upwards to 9%, and 21.5% over 5 years, with UK average house prices expected to reach £280,568 by the end of 2025. Capital Economics believes that the threat of a dip in house prices in 2021 has significantly diminished and amended their original prediction of a 4% drop in prices to a 3% rise and Knight Frank raised its forecast from zero to 5% growth.

The ONS reported that private rental prices paid by tenants in the UK increased by 1.2% in the 12 months to June 2021, 1.1% in England, 1.5% in Wales and 1.2% in Scotland over the same period. Regional divergence is in evidence with the East Midlands and West Midlands registering the highest annual growth (both 2.4%), while London saw the lowest (negative 0.1%). This reflects the recent changes in renter behaviour, with a preference for more space and less desire for city centre living as a result of the COVID-19 pandemic.

Strong rental demand is also evident across the UK with the exception of London, with the Royal Institution of Chartered Surveyors ('RICS') reporting growth in tenant demand accelerating over the month to June 2021 which, coupled with a shortfall in new landlord instructions, suggests rental price growth going forward, with headline projections standing at +3% for the coming 12 months. In London, the RICS 12-month rental growth projections have been modestly positive in each of the last three months, suggesting a more positive outlook than was evident earlier in the year. Further ahead, UK rents are expected to rise by 17.0% (15.9% UK ex London, 19.3% London alone) over the 5 years to 2025, as derived from data published by Savills.

KEY PEROFRMANCE INDICATORS

The Group measures Key Performance Indicators ('KPI's) based on the controllable variable drivers of its activities. The section on Alternative Performance Measures in Appendix 3 provides further details on the calculation of these measures..

Financial KPI	2021 £ millions	2020 £ millions	Management commentary
Gross rental income	201.3	199.4	Gross rental income has increased by £1.9 million or 1.0% in 2021 and is mainly due to rent increases arising from the 2019 Beacon Unit Rent Review and a full year's rent at recently completed development projects, partially offset by unit sales and releases.
Net rental income margin	97.1%	98.1%	Net rental income margin measures the profitability of the Group's rental operations, expressing net rent as a percentage of gross rental income. The decrease in margin is primarily as a result of increased holding costs of the larger volume of units released from the MQE.
Adjusted EBITDA	181.3	182.6	Adjusted EBITDA is used to measure the normalised earnings of the business by removing exceptional and irregular items of profit and loss and aims to make comparisons more meaningful across different periods. Adjusted EBITDA has decreased slightly due to a combination of factors: the increase in gross rental income being offset by the increase in property holding costs as the volume of released units on hand increased, the increase in administration costs, and the loss of one off items of other income arising from the granting of easements in 2020.
Adjusted EBITDA margin	90.0%	91.6%	Similar to the Adjusted EBITDA, Adjusted EBITDA margin is used to measure the normalised earnings of the business. This metric measures the rate of conversion of gross rental income into Adjusted EBITDA. This is a new KPI for the year and has been adopted to allow management to better measure the Group's ability to convert revenue into earnings on a normalised basis.
Free cash flow	100.6	61.6	This measure is used to assess the cash generated to be utilised on discretionary purchases or dividends. Free cash flow has increased by £39.0 million, driven by higher proceeds from sale of investment properties.
Net rental yield	2.4%	2.5%	This measure is used to measure rental yields on investment property carrying values and has remained consistent year on year.

FINANCIAL REVIEW

Income Statement

Gross Rental Income

The Group generated rental income of £201.3 million – a 1.0% increase over 2020 at £199.4 million.

	2021 (£m)	2020 (£m)	Increase %
MQE	181.5	180.2	0.7%
Non-MQE	19.8	19.2	3.1%
Total	**201.3**	**199.4**	**1.0%**

The MQE Portfolio rental income was £181.5 million in the year to March 2021 (2020: £180.2 million), with uplifts from the December 2020 Rent Review being partially offset by releases of units during the year.

The Group's Non-MQE Portfolio also saw a small increase in rental income from £19.2 million in 2020 to £19.8 million in 2021. This reflects an increase in surplus units released from the MQE being rented, together with a full year's revenue at PinnPoint in Uxbridge. These effects were partially offset by the early surrender programme relating to certain of the Group's bulk leases within the Non-MQE Portfolio, whereby some units were released from their contracts early. These units were subsequently relet or disposed.

By its nature, the MQE has a 100% occupancy. Occupancy levels for the rented portion of the Non-MQE Portfolio varied during the year. Whilst occupancy for rental Units in the Non-MQE Portfolio started the year at 96.1%, occupancy fell to 94.1% in May 2020 during the first COVID-19 lockdown in the UK, it quickly rebounded by October 2020, and ended the financial year at 98.0%.

Property Operating Expenses, Refurbishment and Dilapidation Income

For the financial year ended 31 March 2021, an exercise was performed to analyse in more detail costs relating to the refurbishment and upkeep of the Group's property portfolio. As a result, £16.5 million of qualifying refurbishment costs were capitalised in the current year. No corresponding adjustment was made in 2020, as the portion of refurbishment costs which would have met the criteria for capitalisation were not material.

In prior years dilapidations income has been disclosed within property operating expenses, along with the refurbishment costs. For 2021, dilapidations income has been presented as other operating income in the current and the prior year comparative figures, with dilapidation income of £3.1 million (2020: £7.6 million) being re-presented on the face of the income statement.

The current year property operating costs balance of £5.8 million excludes both capitalised refurbishment costs and dilapidation income. For the 2020 comparative figure, the balance shown in the current year accounts has increased by £7.6m, from £9.4m to £17.0 million due to the representation of the dilapidation income of £7.6 million into other operating income. For illustrative purposes, excluding the £13.3 million of refurbishment costs disclosed in Note 4 from the 2020 property operating expenses would produce a figure of £3.7 million. Using this number to compare to the £5.8 million in 2021, the increase in these costs reflects the increased cost of holding the higher volume of released properties from the MQE. Similarly, using the same adjustment, net rental income would have decreased slightly from £195.7 million to £195.5 million (0.1%).

Property operating expenses:	**2021 £'000**	**2020 As Presented £'000**	**Illustrative 2020 Excluding Refurbishment £'000**
Refurbishment costs	-	13,265	-
Rental operating costs	5,779	3,753	3,753
	5,799	17,018	3,753

Adjusted EBITDA

The Group uses Adjusted EBITDA to measure a normalised performance for the business. The Adjusted EBITDA calculation has been updated in the current year to reflect the Group's capitalisation of refurbishment costs. Dilapidation income and profit on disposal of investment properties are now also excluded from the definition as they were previously included solely because of their link to refurbishment costs which were included in operating profit. These changes also bring the measure more, but not completely, into line with the elements included in and excluded from the calculation of EPRA earnings. Adjusted EBITDA reflects the total of net rental income, other operating income (except for dilapidations income), administrative expenses and other operating expenses.

During the current year, the administrative expenses amounted to £14.3 million for the year (2020: £13.5 million). This increase was largely COVID-19 pandemic related: additional funding was advanced to the Group's charitable partners as their normal avenues of fundraising were no longer available; and additional IT support costs were incurred as staff moved from an office based model to one of working from home. Staff numbers also increased from 44 at 31 March 2020 to 50 at 31 March 2021, ensuring the Group's ability to handle the higher level of MQE releases expected in the next few years.

Adjusted EBITDA for the year ended 31 March 2021 was £181.3 million (2020: £182.6 million) – a decrease of 0.7%. This is the result of a combination of factors: the increase in gross rental income; the increase in property holding costs as the volume of released units on hand increased; the increase in administration costs; and the loss of one off items of other income arising from the granting of easements in 2020. For further information on the calculation of this measure, please refer to the section on Alternative Performance Measures, Appendix 3.

Property Disposals

The Group sold 314 residential units during the year (2020: 104 residential units). Of these, 302 investment properties were sold for £70.6 million (2020: 94 properties for £32.1 million), with 169 Units being sold out of the Non-MQE Portfolio's Surplus Estate (2020: 31 units) and the majority of the remainder being from the early surrender programme of bulk Units in the Non-MQE Portfolio's Rentals Portfolio mentioned above. The larger volume of releases in recent years has provided a greater stock of properties that could be made available for sale. Profit on disposal of these properties amounted to £12.6 million in the current year (2020: £9.6 million) – an increase of £3.0 million.

Property disposals	2021		2020	
	Units	Sales (£m)	Units	Sales (£m)
Non-MQE Portfolio – Surplus Estate	169	37.0	31	18.6
Non-MQE Portfolio – Rentals Portfolio	133	33.6	63	13.5
Total investment properties	**302**	**70.6**	**94**	**32.1**
Inventory units	12	5.2	10	3.9
Total properties	**314**	**75.8**	**104**	**36.0**

Other sales included 12 properties sold from inventory for £5.2 million (2020: 10 properties for £3.9 million) in connection with the Group's new build projects at Little Thetford and Allington. A loss of £0.7 million was made in the current year (2020: profit of £0.4 million), reflecting the sale of the affordable housing properties at Allington.

Exceptional item

Site Review costs continue to be significant, amounting to £24.4 million in the current year (2020: £20.2 million). This is reflective of the substantial amount of work involved in the preparation and execution of arguments before the arbitral panel and the employment of various experts and counsel in this process. As described in the Business Review, the first Site Review applies in four annual tranches starting in December 2021, marking the 25th anniversary of the initial sale and leaseback agreement of the MQE. The Site Review will then be performed every 15 years for the remainder of the lease back to the MoD, however, after this first round of Site Reviews, it is expected that a template is likely to exist for future reviews, lowering expenditure on future Site Reviews.

Cash Flows

Cash generated from operations before tax totalled £153.0 million (2020: £146.7 million). The prior year balance included approximately £13.3 million of refurbishment costs, as set out in Note 4. After allowing for this, the movement in the operating cash flows is explained by reduced dilapidation income being received in the current year.

The Group generated £50.9 million of cash from investing activities (2020: inflow of £10.5 million). During the year, the proceeds from the sale of investment properties increased 120% to £72.8 million, following the sale of 302 units in the current year, up from 94 units in the prior year. Build costs associated with the Group's investment properties at Brize Norton fell during the year, however, the recognition of refurbishment costs as a capital item in 2021 more than offset this, leading to a £2.6 million increase in cash flows on capitalised costs on investment properties.

Debt service costs were slightly lower than last year at £106.0 million (2020: £108.8 million), mainly due to the fall in the London Interbank Offered Rate ('LIBOR'), offset by a small increase in margin on the renegotiated term loan and facility.

The Group uses free cash flow to determine cash available to distribute or reinvest. The Group has defined Free Cash Flow as the net increase/decrease in cash for the year adjusted for dividends paid and payments for the purchase or construction of new investment properties. The Free Cash Flow for the year was £100.6 million (2020: £61.6 million).

Property Valuation

Following a competitive tender process, CBRE Limited ('CBRE') was appointed as valuer of the MQE and the Non-MQE Portfolios for the current year.

As in previous years, the valuation of the MQE portfolio is determined on a discounted cash flow basis, given the MQE is let on a long leasehold basis to the MoD. The Non-MQE Portfolio has been valued using a range of approaches, including using discounted cash flows, income capitalisation techniques and utilising a discount to vacant possession. The current year book value has increased from £7,675.1 million at 31 March 2020 to £8,123.3 million at 31 March 2021. This is largely due to the investment property valuation uplift, with £478.0 million being recognised as a gain on revaluation. The majority of this increase has been seen in the MQE, which increased £445.2 million in value during the year, despite there being 320 units released from this portfolio.

In the Income Statement, unrealised investment property revaluation gains of £478.1 million were recognised in the current financial year (2020: £38.7 million). During the current year, the presentation in the income statement of the revaluation of investment properties and the change in the utilities provision has been revised. Whereas previously these two items were shown separately, they are now presented on an aggregated basis within a single item entitled unrealised property revaluation gains as both movements essentially form part of the change in value of the Group's investment properties. The utilities provision movement in 2021 was a £2.6 million loss (2020: £21.7 million reduction in the level of provision).

The Group has historically used a Special Assumption of Vacant Possession Value ('SAVPV') to account for the change in value of the portfolio's underlying assets and as a measure of what the properties would be worth were they to be released. SAVPV is defined by the Group as the value estimated for a property based on the hypothetical assumption that such property is vacant, sold on an individual basis with no costs on disposal and introduced to the market in a phased and orderly manner, such that local markets do not become over-supplied and values are not depressed as a result.

In previous years' calculations of SAVPV, the Group had indexed the SAVPV estimated at the time of the Group's initial acquisition of the portfolio in 1996 for inflation, using the average of the regional Halifax House Price Index (All House Prices) and the Nationwide House Price Index and adjusting this by a factor representing actual sales performance on disposals from the MQE. As reported in the 2020 accounts, this provided an SAVPV for the 38,460 units in the MQE estate at 31 March 2020 of £9,253.0 million.

Due to the passage of time since the original acquisition in 1996, which was used as a core element of the SAVPV used previously, a project has been undertaken with CBRE to 'realign' the SAVPV to the current market. SAVPV has been calculated by CBRE using a "beacon" approach, employing representative samples to arrive at market estimates of unit values for the MQE. These values were then extrapolated to comparable units within the portfolio, with the table below setting out the SAVPV of the MQE:

	31 March 2021	
Region	**Number of units**	**SAVPV £'000**
East of England	4,809	1,167,800
East Midlands	2,456	436,745
Greater London	1,837	948,405
North East	503	77,710
North West	526	82,165
South East	12,790	3,814,723
South West	9,707	2,159,353
Wales	1,043	200,560
West Midlands	1,569	299,450
Yorks & Humberside	2,900	537,855
Total	**38,140**	**9,724,766**

Due to the basis of calculation being different between the current and prior year, this report does not disclose a comparison by region for 2020.

Financing

Since 2017 the Group has operated an unsecured debt strategy and a policy of retaining a BBB rating. The Group is financed by £3.4 billion of debt, mainly consisting of bonds issued on the London Stock Exchange through the Group's subsidiary, Annington Funding plc. With this level of debt, the Group's LTV, as calculated in accordance with the covenants attaching to the bonds is 39.1%, reduced from 42.7% at the same time last year demonstrating the strength in the balance sheet and the growth in value of the investment properties. At 31 March 2021, the Group's weighted average cost of debt was 3.09% (2020: 3.15%) and a weighted average life of 10.2 years (2020: 11.2 years).

Bonds issued under the 2017 EMTN

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

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

Facilities Agreement

The Group is party to an unsecured £500 million facilities agreement (the 'Facilities Agreement') with Barclays Bank plc as agent. Pursuant to the terms of the Facilities Agreement, a £400 million term loan has been drawn down and a £100m revolving credit facility remains undrawn. The term loan facility and revolving credit facility mature in March 2025.

Hedging

Cross currency swaps are in place for the €600 million bond, converting its initial nominal balance to £526.3 million. These swaps also mitigate volatility of foreign currency movements in future interest and capital repayments. The function of these swaps increases the effective interest rate of the Euro tranche debt to 2.764%, fixed for the life of the bond. These swaps are considered effective hedges of foreign currency fluctuations within the Euro bonds and as such hedge accounting is applied, with fair value gains or losses on the hedge being recognised in other comprehensive income. In the current year, fair value losses of £23.3 million (2020: gains of £9.3 million) were recognised in other comprehensive income.

Taxation

A deferred tax asset of £44.3 million (2020: £19.9 million) has been recognised in respect of unutilised tax losses available for offset against expected future profits over the next five years (2020: three years). The expected future profits are based on the Group's internal forecasts upon which management expect that loss utilisation is probable. In the current year, due to the ongoing Site Review negotiations, the Group has recorded the deferred tax asset based on five years' forecast (2020: three years). This change has been caused by further clarity being available of the outcome of these rent negotiations and has resulted in a greater asset being recorded.

Dividends

Our policy is to distribute free cash flow subject to maintaining financial policies and suitable cash reserves to ensure the Group's operational needs are able to be met. No dividend was paid during the year (2020: £100 million). Subsequent to year-end, a dividend of £170 million was declared and paid in May 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

The table below outlines the principal risks and uncertainties:

Area of potential uncertainty	**The UK housing market and rental market may be significantly affected by changes in general and local economic conditions, including the effects of "Brexit" and the continuing impacts of COVID-19.**
Description of risk	The property market has a history of experiencing periods of rising values followed by a slowdown in growth. The realisable value of the Group's property portfolio at any given time can be affected by many factors outside the Group's control, including regulatory and political factors, general economic factors and those specific to the property market and suppliers to the property market, taxes and subsidies, number, condition and location of released properties, consumer confidence and the impact of COVID-19. During periods of low demand, low prices and poor sales rates, land and properties may become particularly illiquid, which could lead the Group to experience difficulty in successfully disposing of properties in a timely fashion, without extensive marketing efforts, or without reducing the price of the properties. Similarly, the Group's financial stability depends, in part, on the strength of the rental market, particularly when the housing market is weak and the Group experiences difficulty in disposing of properties released by the MoD. A worsening of general rent levels could adversely affect the Group's ability to negotiate rent increases during Rent Reviews. Weak rental markets could also adversely affect the sales value of Released Units. A weak rental market could also have an adverse effect on the Group's revenue generated by its private rental sector property portfolio, the Non-MQE Portfolio. Void levels could rise if prospective tenants' interest in ASTs declines in locations that are part of the its Non-MQE Portfolio, or if the MoD or the corporate organisations to which the Group may bulk lease properties forming part of the Non-MQE Portfolio, shift away from rentals. While to date the Group has not experienced a material adverse effect to its business as a result of Brexit or the COVID-19 pandemic, given the uncertainty introduced by both these factors and the impact on the economy generally, it is possible that any sustained negative impact on the economy could negatively affect the Group's property values and rental income could be negatively impacted.
Mitigating strategies	The Board reviews the capital values and rental levels achieved and considers any changes that have occurred to the expected levels alongside prevailing market conditions. Where deviations are noted, these will be incorporated into future appraisals to ensure realistic and rational forecasting which forms the basis for all business decisions. In unfavourable conditions where chosen sales strategies may be difficult to execute, the Group could implement alternative strategies, including renting units on a short-term basis until market conditions become more favourable. The Group engages in proactive management of its rentals portfolio to ensure that maximum value can be achieved, utilising the 20+ years of experience gained in the residential rental market and its in-depth knowledge of local market dynamics, including rents, valuations and occupancy rates. Local agents are used to supplement in-house knowledge and experience to achieve the best returns. The Group is also protected somewhat by market fluctuations due to its arrangements with the MoD (five-yearly Rent Reviews) and entering into other bulk arrangements where long-term leases are negotiated.

Area of potential uncertainty	**The Group is dependent on rental income from leases entered into with the MoD for a substantial proportion of its revenue.**
Description of risk	The Group derives a substantial proportion of its revenue from rent payments by the MoD pursuant to 200-year leases entered into in connection with the Group's acquisition of the Married Quarters Estate in 1996 and bulk leases which are part of the Non-MQE Portfolio. Anticipated rental income is a significant factor in the calculation of the Group's projected revenue and the estimated market value of the Group's properties. Key to the determination of the Group's rent levels is the Rent Review process, whereby rent payments from the MoD on the MQE Units are assessed and adjusted every five years. The five-year gap between each tranche's successive Rent Reviews may prevent the Group from capturing and benefitting from interim rental market improvements but conversely may also protect the Group from interim market detriment. Also key to the determination of the of the Group's rent levels is the final outcomes of the accelerated Site Review process pursuant to the Arbitration Agreement. Although the results of the first two Site Review hearings have resulted in an increase in rent levels on an aggregate basis for the Sites in the first 12 baskets, there is a risk that the Site Review outcome for the remaining Sites could result in a decline in rent levels for those Sites within the remaining 15 baskets. The Group expects to continue to rely primarily on the MoD, its sole tenant in respect of the MQE, continuing to make payments in compliance with the relevant lease contracts, however, any change in circumstances or any market interruption that causes a failure or delay by the MoD to make rent payments could adversely affect the Group's business, results of operations and financial condition.
Mitigating strategies	The Group is very experienced in negotiating Rent Reviews and employs local experts as needed. It retains a number of strategic Units for rental in the Non-MQE Portfolio to assist with relevant market benchmarking in order take full advantage of Rent Review opportunities. The results of the first two Site Review hearings have resulted in an increase in rent levels on an aggregate basis for all Sites in the first 12 baskets providing increased certainty and clarity. Applying the agreed uplifts to the passing rent for 31 March 2021, the Group could expect additional rent of c.£18m for the Sites in those 12 baskets as at 31 March 2021. Extensive preparations are now underway for the remaining 15 baskets of leases. The Group has retained specialist advisors to assist with this process. The Group has the ability to call upon a £100 million revolving credit facility which to date remains undrawn. This facility provides liquidity to the Group were any rental income to be received after its due date.

Area of potential uncertainty	**The Group cannot limit the quantity or influence the type, location and timing of property releases by the MoD.**
Description of risk	Pursuant to the terms of the Dilapidations and Handback Agreement, the MoD has committed to release a minimum of 500 Units per year on a two year rolling average. However, subject to these commitments, the MoD has absolute discretion with respect to the identification of surplus properties, their location and the timing of their release. Further, the MoD is required to provide only six months' notice prior to termination of the applicable lease. Prior to the date of the Dilapidations and Handback Agreement, there was no trend or consistency in the release profile of surplus properties. The terms of the Dilapidations and Handback Agreement help to provide more certainty as to the future release profile, however, there is a risk that the MoD will not honour its commitment in the future and that steps taken by the Group to enforce the commitment may be unsuccessful, which would then lead to uncertainty as to the number of annual property releases. If the MoD releases a significant number of properties that are of an undesirable type or location, or if it releases a significant number of properties over a short period of time, notwithstanding the Group's successful management of a large number of Units released just before and during a previous economic downturn, the Group may be unable to sell all of, or any of such properties if the market is depressed. In such circumstances, the overall reduction in rent that the Group receives from the MoD, combined with the reduction in income that could otherwise be generated by the sale of the released properties under more favourable conditions, could have an adverse impact on the Group's business, results of operations and financial condition. Additionally, following completion of the accelerated Site Review process pursuant to the Arbitration Agreement there will be 27 different adjustment factors. In the unlikely event of a high proportion of property releases involving a large number of Units with low rental adjustment factors, the average aggregate rental adjustment factor for Units remaining in the MQE would increase and this could impact the carrying value of the Group's assets. However, identification of Sites for release by the MoD will logically be driven by the locations where the MoD has a requirement for SFA and not by the level of the adjustment factor on any particular Site. The lack of control over property releases impacts the level of internal resources required to handle resale transactions, as well as the level of income and expenditure expected to be generated or incurred in connection with those transactions.
Mitigating strategies	Although there can be no guarantee that the MoD will honour its minimum release commitment, management is in dialogue with the MoD regarding potential releases that would enable the MoD to meet its target for the current year, and the commitment of the MoD to provide such releases is a legally binding and enforceable contractual right of the Group. The Board is of the view that the long-term demand for housing in the UK will continue to outstrip supply and that demand for market renting will be stronger during poor selling periods, reducing the overall impact on the Group's position. The Group's heavy presence in the greater south of the country provides further comfort that it is well placed to benefit from structural changes in demand. The business will continue to examine and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate, thereby benefitting from earlier occupation and increased income. The Group also prepares and reviews sensitivity analyses on an annual basis to monitor the number of releases that it could withstand such that it would still be able to service its debt obligations and comply with its covenant restrictions, which currently reflect significant headroom. The Group's flexible sales/rental strategies, its revolving credit facility and its ability to pay down debt all provide options for mitigating the impact of an unexpected quantity or mix of releases. In recognition of the uncertainty around volume of releases, the Group has maintained a policy of keeping internal resources at minimum levels. Principal activities are outsourced to third parties, which can provide the necessary skills in the right mix and location. This enables the Group to flex outsourcing to meet its operational needs according to stock levels and the prevailing market conditions.

Area of potential uncertainty	**The Group may be obliged to re-provide connections to public utilities where the MoD elects to terminate its obligation to supply utility services or upon expiration of the Utilities Agreement.**
Description of risk	Under the terms of a utilities agreement (**Utilities Agreement**) entered into by the MoD and the Group upon the 1996 Acquisition, the MoD is only contracted to supply some utility services, such as the supply of potable water, electricity and the disposal of domestic sewage, where there is some intermediate treatment or storage located on MoD adjacent land to released property (a 'Base Dependency') until at least 75% of the properties located on a given Site have been released. After this threshold has been reached, the MoD could elect to continue the supply for a term of 60 years or elect not to continue after a three year notice period. In the event that the MoD releases more than 75% of the properties located on a given Site with a Base Dependency ('Base Dependent Site') and elects to terminate the supply after three years the Group will incur costs, which could be significant, to provide alternative utility supply arrangements. Any obligation on the MoD to provide services pursuant to the Utilities Agreement falls away on a date in the relevant underlease (between 25 and 28 years from 5 November 1996, coterminous with the Site Review). Upon expiration of the Utilities Agreement, the Group will be obliged to re-provide connections to the public utilities network for whichever utility supply is base dependent on that Site, prior to releasing Units for sale and will incur costs, which could be significant, at that time. Any delay in the implementation of such utilities separation schemes could delay the sales of such units which could have an adverse impact on the Group's business, results of operations and financial condition.
Mitigating strategies	Since the 1996 Acquisition Date, the Group has, as of 31 March 2021, successfully completed 62 utility separation projects on 50 Base Dependent Sites. The experience and capabilities that the Group has developed over this period to efficiently execute such projects means that the Group is in a strong position to assess the risks associated with any Base Dependent Site and develop a programme to minimise the costs and time associated with such utility separation projects. In many cases it will also be possible to let out properties on ASTs until the utilities separation schemes can be completed and the properties sold. Many of the Sites that were originally thought to be Base Dependent Sites at the time of the 1996 Acquisition may no longer be base dependent due to the effects of Government Legislation, which allows for the public adoption of some private utilities. The Group co-operates with the MoD wherever possible to deliver private infrastructure utility transfers to public utility companies.

Area of potential uncertainty	**Property valuation is inherently subjective and uncertain.**
Description of risk	Property valuations are inherently subjective due to the individual nature of each property, as they are necessarily made on the basis of assumptions which may not prove to be accurate and which can change from year to year. In particular, the valuation makes assumptions about the likely rental uplift from the accelerated Site Review process under the Arbitration Agreement for the remaining 15 baskets of leases, level and value of future releases by the MoD and likely returns targets for an arm's length purchaser that may not prove to be accurate. As a result, valuations are subject to a degree of uncertainty. Valuers other than those engaged by the Group may reach different valuations of the Group's properties. There is a risk that the valuations of the Group's properties will not be reflected in any actual transaction prices, even where any such transactions occur shortly after the relevant valuation date. Failure to achieve successful sales of properties in the future at commercially acceptable prices could have an adverse effect on the Group's business, results of operations and financial condition. Unsound valuations could also undermine the Group's ability to negotiate favourable rent increases during the Group's five-yearly Rent Reviews with the MoD, which could further adversely impact the Group's results of operations.
Mitigating strategies	The Group manages this risk by ensuring that regular valuations of the Group's properties are performed by external, independent, third party professional valuers, registered with the RICS.

Area of potential uncertainty	**The Group's management team is critical to its continued performance.**
Description of risk	The Group relies to a significant extent on the discretion and judgment of the management team. The Group's performance and success is dependent, in part, upon the members of its management team and, in particular, their relationships with, and their understanding of the requirements of the MoD, and other partners and stakeholders. While the Group has put in place policies and remuneration which are designed to retain and properly incentivise management, should management leave in significant numbers unexpectedly, the Group's business, results of operations and financial condition could be adversely affected. Further, the process of attracting and retaining suitable replacements for key personnel whose services the Group may lose would result in transition costs and would divert the attention of other members of the Group's management from its existing operations.
Mitigating strategies	The Group has devised remuneration packages that are designed to retain and properly incentivise management. Knowledge is shared between senior staff members at formal and informal meetings. Additionally, if there is sudden increased activity within the business, it can be managed effectively through a combination of recruitment and outsourcing to provide the resource needed. The Board has put in place succession plans with sufficient handover periods so that knowledge is passed on to incoming management. There also exists a number of long-serving staff members who are able to support and assist the new management team.

Area of potential uncertainty	**The Group may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.**
Description of risk	The Group may become exposed to potentially significant litigation, arbitration proceedings and other claims in connection with its business. Due to the uncertainty inherent in litigation, there can be no assurance that the ultimate outcome of any legal proceedings will not result in an award of substantial damages against the Group, including one beyond its financial resources. Further, should an issue arise in connection with a large proportion of the Group's properties, plaintiffs may seek class action status. Class action lawsuits can be costly to defend, and the Group could face substantial liability if any certified class action suit resulted in a judgment unfavourable to it. The Group's insurance policies may not be available or adequate to cover any liability for damages, the cost of repairs, or the expense of litigation surrounding future claims. This may have a material adverse effect on the Group's business, results of operations and financial condition.
Mitigating strategies	The Group maintains policies and procedures to ensure it is compliant with laws and ethical standards to minimise the risk of significant litigation. In addition, the Group employs respected companies to advise on transactions and other legal matters.

Area of potential uncertainty	**The Group's business could be disrupted if its information systems fail or if its databases are destroyed or damaged.**
Description of risk	The Group uses several information technology tools, platforms and systems to support, among other things, its operations, billing, expenses and financial information and reporting processes. The Group's business and operations could be adversely impacted if these information systems or databases and any back-up systems were to fail, or if the databases were to be destroyed or damaged.
Mitigating strategies	The Group has taken measures to mitigate potential information technology security risks and information technology failures, including use of a Managed Detection and Response ('MDR') service (via a third party using a 24/7 offsite cyber security operations centre); and restriction of access to the Group's network to devices issued and managed by the Group, with centralised control over software and updates. The Group makes regular back ups of production servers (onsite and offsite) and tests its IT disaster recovery plan on an annual basis.

Area of potential uncertainty	**The Group's business is subject to complex and evolving regulations, including rules governing the ownership, leasing or occupation of land, climate-change risk and the use of hazardous materials that carry potential environmental risks and liabilities.**
Description of risk	The Group is subject to laws and regulations concerning, among other things, planning, building development, land use, sales, the provision of mortgage financing, fire, health and safety, the environment and employment. Changes in relevant laws, regulations or policies, or the interpretation thereof, or delays in such interpretations being delivered, may delay or increase the cost of the Group's operations. The Group expects that increasingly stringent requirements will be imposed on property owners and property developers in the future (including more stringent environmental or climate change based regulations). Although the effect of these requirements cannot be predicted, compliance with them could cause delays, including in the sale of Released Units, and increase the Group's costs, which could have a material adverse effect on its business, results of operations and financial condition.
Mitigating Strategies	The Group maintains policies and procedures to ensure it is compliant with laws and ethical standards and employs advisers (including sustainability consultants) to ensure it is compliant with changing laws and regulations.

Area of potential uncertainty	**The Group's operational and financial performance could be affected by failures within or by a key third party supplier, service provider or stakeholder.**
Description of Risk	Performance of key entities, for instance failures of performance by the DIO, Touchstone, LSL, FTI Treasury and the MoD could have an adverse effect on the Group. Internal issues at such entities may impact their ability to work with the Group efficiently and knowledgeably and to perform to an acceptable level.
Mitigating Strategies	The Group maintains interaction with members of key third parties. Considerable effort continues to be made to develop and nurture relationships to maintain operational efficiency. The Group will continue to encourage more co-operation and partnership.

Area of potential uncertainty	**Risks arising from the Group's financing structure**
Description of risk	The Group currently relies on primary forms of financing consisting of bank facilities (i.e. term loan and revolving credit facility from major banks) and public bond issuance. The last global economic downturn and resulting dislocation of financial markets around the world caused a number of the world's largest financial and other institutions significant operational and financial difficulties. The failure of the Group to manage refinancing requirements may result in a shortage of funds to repay facilities as they fall due. A source of financing could become unavailable, for example, if a reduction in its credit rating makes the cost of accessing the public and private debt markets prohibitive. Any failure by lenders to fulfil their obligations to the Group as well as the inability of the Group to access new funding in the longer-term may impact the Group's cash flow and liquidity, which could have a material adverse effect on its business, results of operations, financial condition and prospects. The terms of the Group's bonds and loan facilities include financial covenants such as Loan to Value ('LTV') and Interest Coverage Ratio ('ICR') covenants. Unexpected changes in financial performance or asset values could potentially lead to the possibility of a breach of these covenants.
Mitigating Strategies	The diversity in the tenor of the Group's financing helps to protect it from liquidity risk. The Group constantly monitors the financing markets for financing and refinancing opportunities and maintains relationships with a large number of lenders. The Group currently benefits from significant headroom in its covenants. The Group has processes and procedures in place to forecast and monitor covenant compliance which means that the Group believes any risk in this area is highly unlikely to materialise.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG')

Corporate Responsibility

Building Opportunities Corporate Responsibility Plan

Annington believes that being a good corporate citizen and being commercially successful go hand in hand. The Group's commitment to corporate responsibility is based on its desire to make society and the communities in which it operates better places, whilst recognising that it brings a commercial advantage, contributes to management of risks within operations, increases efficiency and enhances the Group's reputation with key stakeholders.

The Group monitors its approach to sustainability recognising the changing demands of society and the regulatory landscape and the views of its key stakeholders, particularly regarding environmental issues. To help manage the Group's various ESG initiatives and to align them with the Group's business priorities, these activities are captured within a strategic framework, the Building Opportunities Corporate Responsibility Plan, which consists of four pillars: People, Environment, Customers and Partners, and Communities. The Group's CSR strategy is overseen by its Corporate Responsibility Taskforce (CRT).

As part of its continuing commitment to corporate responsibility, in FY 2020/2021 Management began a comprehensive review of the Group's CSR strategy and retained a specialist ESG and sustainability consultancy to undertake a thorough assessment of Annington's approach to ESG. The process will include a full review of Annington's current ESG position and will result in recommendations in regard to aligning with reporting frameworks and standards including the Task Force on Climate Related Financial Disclosure ('TCFD'), Sustainability Accounting Standards Board ('SASB') and Global Real Estate Sustainability Benchmark ('GRESB'). A summary of the Group's progress against TCFD recommendations is presented in Appendix 4.

Particular attention will be given to the UN Sustainable Development Goals ('SDG'), referred to herein and including the sector specific goals highlighted by RICS and where the Group is currently making, and can continue to make, a meaningful contribution. Once the ESG assessment cycle is complete, recommendations will be fully reviewed by the Board and a timetable of implementation will be established with targets and objectives clearly articulated.

Caring for people

Annington values its employees' commitment, professional development and health and wellbeing and in doing so is aligned with the overall purpose of SDG 8 (Decent Work and Economic Growth). A comprehensive range of benefits aimed at promoting physical and mental health as well as excellent opportunities for personal and professional development are available to all staff.

As of 16 March 2020, as a result of the Government mandated 'work from home' instruction in response to the COVID-19 pandemic, all of the Group's offices closed, and remained so in line with Government advice. The Group ensured that all employees were provided with the necessary equipment to do their jobs safely and securely from home. Daily staff communications were put in place and a programme of virtual events were established to keep everyone connected. Employees adapted quickly with minimum disruption to everyday operations and the biennial staff survey conducted in December 2020 resulted in 100% of respondents agreeing with the statement that 'Annington cares about its employees'.

100% of staff completed a suite of online training courses, both technical and soft skill based, as well as continuing professional development (CPD). In the financial year the Group invested an average of £727 per employee (2020: £1,061).

Diversity & Inclusion

Management is committed to encouraging and achieving a working environment where equality and diversity are recognised, encouraged and valued. At 31 March 2021, there were 50 employees (2020: 44) with employee turnover at 4% (2020: 11.6%) and the overall gender split of the workforce is as follows:

	Male	Female	Total
The Board	6	1	7
Senior executive team (excl board members)	2	2	4
All employees	27	23	50

Equal opportunities reporting:	
Age Range: Under 30 30-50 Over 50	 4 29 17
Average Age:	46
Gender Split:	54% Male (27); 46% Female (23)
Ethnicity:	85% White; 15% Asian/Black/Mixed
Number of reported incidents of harassment and/or discrimination in the workplace:	Zero

Respecting the environment

Reporting framework and oversight

The Group and the Board of Directors recognise and understand that the nature of the business has environmental and social impacts and that it has a responsibility to consider and minimise these impacts where possible. The Group has a suite of environmental policies which apply to the Group, its contractors and suppliers which have been adopted by the Board and are regularly reviewed and updated.

The Group is also considering how it can contribute to the UK's goal to be Net Zero by 2050.

The Group welcomes the recommendations of TCFD and recognises the impetus this will provide for companies and stakeholders to understand relevant climate-related risks and to ensure appropriate risk mitigation processes are in place. This is the Group's first year implementing the TCFD recommendations, and it is committed to further develop its approach in order to meet the recommendations in full and in line with emerging legislative requirements.

The table in Appendix 4 shows a summary of the Group's progress against the TCFD recommendations.

On-site activity

The Group has policies in place governing the supply of materials and development practices; its Sustainable Procurement Policy outlines that materials and products are to be ethically sourced and have a low environmental impact while also maintaining the Group's technical standards. Management has developed the supply chain, allowing for more visibility and control over the materials sourced for current and future projects. In addition, the Group's Environmental Policy guides management and its employees on reducing the consumption of utilities and materials as well as minimising the amount of waste produced on site that cannot be recycled. The Group continued to work with its suppliers when compiling material specifications for its projects.

The Group incorporates sustainable design principles in all its projects in order to reduce the negative impacts on the environment, minimising waste and reducing the consumption of non-renewable resources and creating healthy, productive environments.

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

The Group aims to divert as much waste from landfill as possible. For example, at RAF Henlow, old carpets were recycled for animal bedding, old fencing and timber chipped for on-site landscaping purposes and the UPVC window frames collected and recycled into pellets for re-use.

Energy efficiency, particularly regarding Released Units, is a key focus of the environmental pillar within the ESG strategy. The Group has used ground source heat pumps in past new builds, and further work has begun to consider how best to incorporate low-carbon sources of heating and other energy efficiency measures into its projects to future-proof these homes for the next generation of occupants.

STRATEGIC REPORT

Within the Group, APL has an obligation to report carbon usage under the Streamlined Energy & Carbon Reporting ('SECR') regulations. Whilst the Group is not individually required to report, it monitors its use of energy and resources and its policies in this area are summarised here. The metrics used to monitor the Group's energy consumption and greenhouse gas ('GHG') emissions is set out later within this section of the report. The risks and opportunities identified by the Group with respect to the environment are:

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

Greenhouse gas reporting

As a UK incorporated unquoted company, Annington Limited is required to report its energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The data detailed in this table represent emissions and energy use for which Annington are responsible, including electricity and gas use in our offices, electricity used in the common parts of the properties in our portfolio and fuel used in our company vehicles.

We have used the main requirements of the Greenhouse Gas Protocol Corporate Standard to calculate emissions, along with the UK Government GHG Conversion Factors for Company Reporting 2020. Any estimates included in our totals are derived from actual data, either historic consumption data or based on spend. As all our activity took place in the UK and its offshore area, there are no global energy use and emissions data to report.

The below figures detail the Group's total emissions by activity and scope in the year:

	2021		2020	
	Energy (kWh)	**tCO_2e**	**Energy (kWh)**	**tCO_2e**
Direct Emissions (Scope 1)				
Natural gas	1,539,829	283.1	209,584	38.5
Company owned vehicles	262,174	59.2	465,016	108.9
	1,802,003	342.3	674,600	147.4
Indirect Emissions (Scope 2)				
Electricity	307,314	71.7	317,970	81.3
Other Indirect Emissions (Scope 3)				
Grey Fleet[1]	43,254	10.2	44,312	10.4
Total emissions	**2,152,571**	**424.2**	**1,036,882**	**239.1**

[1]Grey fleet relates to emissions and fuel used for transport in company vehicles or reclaimed mileage for private cars used on company business.

The increase in carbon emissions is explained by holding additional released units from the MQE.

Methodology: In order to calculate emissions, the main requirements of the Greenhouse Gas Protocol Corporate Standard have been used along with the UK Government GHG Conversion Factors for Company Reporting 2019. Any estimates have been derived from actual historic consumption data or based on spend. No global energy use or emission data has been used as all group activity took place in the UK.

Intensity Metric: The Group's emission intensity metric is calculated using tonnes of carbon dioxide equivalent (tCO_2e) using gross rental income. During the year, the Group released emissions of 2.1 tCO_2e (2020: 1.2 tCO_2e) per million pounds of gross rental income which is an increase of 75.6% compared to prior year. This is in line with the changes in the absolute carbon footprint, which has increased by 77.4%, primarily due to increased usage of natural gas.

Energy efficiency actions/undertakings: As mentioned, the Group began a comprehensive review of the its CSR strategy, including environmental and climate-change related issues. As part of this review, the Group is considering how it can contribute to the UK's goal to be Net Zero by 2050 and has retained a specialist ESG and sustainability consultancy to assist with this undertaking.

<u>Valuing our customers and partners</u>

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

Following the Government's announcement on 23 March 2020, the Group closed all operational sites with immediate effect. Over the following weeks, the Construction Leadership Council issued guidance on how sites could remain operational and the Group revised its suite of Policy Documents to incorporate the new guidance. In addition to the minimum requirements including COVID-19 specific Risk Assessments and issuance of letters to all local residents advising that sites were reopening, other more specific measures were also put in place including contactless site sign in, permits issuance for those operatives required to work within 2m and the introduction of staggered start and finish times. Once work re-started, the Group implemented several additional measures to reduce the risk of COVID-19 transmission.

The Group routinely works to improve the 'street scene' on its Sites to make the communities in which houses are situated more desirable places to live. This can include landscaping, the provision of, or improvements to, children's play areas, installing off-road parking and upgrading the external appearance of properties. In 2021, local residents benefitted from the provision of a Village Hall at the Group's development in Allington.

The Group strives to make home buying as straight forward as possible by managing the sale process for its properties through regular engagement with agents and solicitors, aiming to ensure all buyers receive a consistent, fair and timely process. Where appropriate, buyers are offered the Annington Seal of Approval incentive, providing the buyer with the comfort that the electrical, heating and internal water systems have been professionally checked and serviced and that, should they fail within the 28 day period from legal completion, the Group will repair them free of charge. The Group has set a target of responding and dealing with any customer service issues arising within 14 days and has achieved this in 37% (2020: 77%) of cases. The Group's ability to respond within the 14 day period was severely impacted by the restrictions imposed by COVID-19, and only those issues assessed as "safety critical" were attended to, however, outstanding customer service issues were resolved as soon as circumstances allowed.

In the FY 2020/2021 the Group continued to assist customers by participating in the Help to Buy scheme. 55% of purchasers at the Group's new build development of 135 family homes at RAF Brize Norton utilised the scheme and at the Group's development in Little Thetford 40% of the units were purchased using the Scheme.

Although the majority of the Group's activity relates to the refurbishment of homes, when the Group does build new homes, it acts as a responsible developer, abiding by the Consumer Code for Home Builders to make the home buying process fairer and more transparent for buyers. Where possible, the Group also looks to achieve "Secured by Design" accreditation.

Many of the Group's suppliers and contractors are long-term partners and it is committed to treating them fairly. The Group's selection process focusses on identifying companies who have proven experience in the industry, ensuring that they deliver high quality results and give the best results for customers.

The Group is closely aligned to SDG 8 (Decent Work and Economic Growth) and requires suppliers and contractors to share the Group's commitment to quality, health and safety and environmental issues. The Group is committed to providing a safe working environment, with both its own and its contractors' safety management systems complying with UK Health and Safety legislation. The Group monitors and assesses implementation of its policies and systems through monthly independent health and safety checks on active Sites, in addition to requiring contractors to undertake their own regular health and safety checks, as part of their contractual obligations. The Group complies with the Modern Slavery Act (2015) and maintains an Annual Slavery and Human Trafficking Statement, which is available at www.annington.co.uk.

Despite the increased number of releases from the MoD over the last two years and the consequent increased activity on-site, Management can report the following:

	2021	2020
Contractor Incidents	Nil	10
Incidents reportable under RIDDOR	Nil	2
Employee work incidents	Nil	Nil

Regarding the Non-MQE Portfolio, the Group adhered to all legal and moral responsibilities throughout the pandemic and did not receive any reports, incidents or complaints in relation to the COVID-19 restrictions. The Group's AST tenants continued to be able to report all aspects of maintenance, regardless of the issue and jobs were prioritised for completion, with all emergency works successfully undertaken. New protocols were quickly put in place to ensure AST tenants and contractors followed strict Government guidelines on social distancing. In addition, COVID-19 Risk Assessments were produced for all communal areas within the Group's blocks of flats and issued to c.400 AST tenants across the Non-MQE Portfolio. Additional cleaning was undertaken in communal areas, COVID-19 social distancing signage was installed for anyone entering the Group's premises and regular tenant communications were issued to support them in staying safe. During the pandemic, the Group maintained a portfolio compliance figure of 99%.

Investing in communities

The Group is passionate about local communities and supporting charities that work with disadvantaged groups or those at risk of marginalisation and its activities in this regard are closely aligned with the targets of SDG 4 (Quality Education) and SDG 10 (Reduced Inequalities).

Charitable contributions

All charity partners and projects are assessed against four key principles and are aligned with the Group's corporate identity and culture – the Group seeks out focussed, approachable, caring and experienced partners. It is the Group's intention that its charitable support will:

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

During the year, the Group continued to support the Commonwealth War Graves Commission ('CWGC') "Eyes On, Hands On" project. The project has seen the creation of a nationwide army of volunteers who will be responsible for documenting the condition of and providing basic maintenance for 165,000 'scattered graves' that exist across 12,500 sites in the UK. The pandemic, resultant lockdowns and Government advice on social interaction saw the project paused for much of the year but despite this, the year ended with 1,600 volunteers recruited.

Throughout the pandemic, the Group continued to support its charity partners. During the year, the Group worked closely with:

- *Reading Force* – A charity for Service families that was inspired by one military family's experience of the lasting power of shared reading, and which was shortlisted in 2019 for the prestigious Soldiering On Awards. The charity experienced unprecedented demand for books during lockdown and the Group made an additional donation of £15,000 to help with increased costs.
- *Waterloo Uncovered* – The 2020 Dig was cancelled and the Group's donation was derestricted to allow Waterloo Uncovered to develop an online training and personal development offering for veterans. Annington made an additional donation of £22,000 to help the charity cover the shortfall resulting from cancelled public fundraising events.
- *The Outward Bound Trust* – To allow for continuity of funding, in 2018 the Group took over sponsorship of the Annington Challenge from the Annington Trust. The Outward Bound Trust was hit harder than most by the COVID-19 pandemic and closed all its centres and programmes. As a result, the Annington Challenge did not go ahead in summer 2020 and the Group derestricted its donation to support the organisation's broader operations.

- *Turn on the Subtitles ('TOTS')* – TOTS is partnering with the National Literacy Trust to encourage all broadcasters of children's programming to make same language subtitles the default in order to decrease rates of illiteracy.
- *Scotty's Little Soldiers* – Scotty's Little Soldiers aims to provide support to bereaved children of British Armed Forces personnel and Annington's donation effectively funds the costs of a Head of Support which the CEO of Scotty's Little Soldiers has described as "the single most impactful activity since the charity started". The charity faced increased demand for its support services during lockdown and in recognition of this, the Group made an additional donation of £30,000 to help offset the losses experienced as a result of cancelled public fundraising events.
- *The Silver Line* – The Silver Line is a free confidential helpline providing information, friendship and advice to older people, open 24 hours a day, every day of the year.
- *Royal British Legion Industries ('RBLI')* – RBLI is a national charity supporting the Armed Forces, people with disabilities and the unemployed through its social enterprise. The charity also provides housing for veterans at its village in Kent and Annington continued to financially support the charity's Centenary Village Campaign which is aiming to build 100 new homes for veterans.

In addition to cash donations, which in 2021 totalled £0.9 million (2020: £0.5 million) the Group allows each employee to take up to three days paid leave to undertake volunteering work. Whilst this proved difficult over the past year due to COVID-19 restrictions, employees continued to volunteer as Silver Line Phone Friends.

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

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

The Group continued to invest in local communities where it operated and examples of this includes a programme of providing Buddy Benches to local schools, Memory Trees to local hospitals and a £10,000 donation to the Phoenix Theatre & Arts Centre in Bordon, Hampshire – an important cultural and community asset in the town.

STRATEGIC REPORT

Statement on s172 of the Companies Act 2006

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

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

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

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

Stakeholder:	How the Board consults and considers stakeholder interests	More information
The community	The majority of the Group's portfolio is located on or near to MoD bases. When these houses are released to the Group, it makes efforts to support the communities in which they are located. The Group has also committed to the Armed Forces Covenant, providing a number of benefits to service personnel. The Group seeks feedback from the individual forces Families Federations and is in contact with the leadership of these organisations on a regular basis.	See the Investing in Communities and Charitable Contributions sections of the Group's Corporate Responsibility Plan in this report.
The environment	The Group considers the impact on the environment based not only on safety but also on benefit to the community. Decisions are taken in line with its Sustainable Procurement Policy to reduce its impact on the environment. The Group has begun the process of reviewing and further developing its ESG strategy in consideration of the RICS recommended UN Sustainable Development Goals.	See the section on Respecting the Environment within the Group's Corporate Responsibility Plan in this report.

ANNINGTON LIMITED

STRATEGIC REPORT

OUTLOOK AND GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Introduction, Group overview, Strategies, Business review and Financial review and in this section.

The Group, through AFP, has issued the £3.0 billion of unsecured corporate bonds in five tranches. Under the facilities agreement, as extended in March 2020, a further £400 million term loan has been drawn by the Group and an undrawn revolving credit facility of £100 million is available to the Group, both expiring in 2025.

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

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

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

The Group meets its day-to-day working capital requirements from both rental income and property sales. In uncertain economic environments, such that there is uncertainty over the level of demand for properties, comfort is gained that the rental income is sufficient to meet debt service requirements without the need for sales. A significant number of units could become void and the Group would still be able to service its debt obligations from the remaining rental income.

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

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

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

I Rylatt
Director
27 August 2021

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

ANNINGTON LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 March 2021.

Directors

The directors who served throughout the year and up to the date of approval of the financial statements, except as noted, were as follows:

Baroness Helen Liddell (Chairman) *Independent Non-Executive Director* Appointed 1 April 2017	Baroness Helen Liddell has considerable political experience, having previously been a Member of Parliament from 1994-2005, during which time she held a variety of influential positions including Economic Secretary to the Treasury, Minister for Transport, Minister for Energy and Competitiveness in Europe and the Secretary of State for Scotland. Between 2005 and 2009, she was the British High Commissioner to Australia. Prior to entering Parliament, she held positions in the Scottish Trades Union Congress, worked for the BBC, the Labour Party, the Scottish Daily Record and the Sunday Mail and was the Chief Executive of Business Ventures.
Jonathan Ottley Short (Deputy Chairman) *Independent Non-Executive Director* Appointed 1 April 2017	Jonathan Ottley Short has a background predominately in banking and finance, having worked for American National Bank and Trust Company, S.G.Warburg, Baring Brothers, Lazard and Pramerica Real Estate Investors before setting up his own fund in 2007, Internos Global Investors. Internos, now known as Principal Real Estate Investors, is a pan-European investment manager which operates across the risk spectrum from core real estate to opportunistic and private equity investment including hotel and healthcare real estate.
Ian Rylatt *Chief Executive Officer* Appointed 7 May 2021	Ian Rylatt joined Annington in April 2021 from Balfour Beatty plc where he was Chief Executive Officer for a number of group businesses and member of the group Executive Committee. Since 2012, Ian was Chief Executive Officer of Balfour Beatty Investments responsible for all the business's infrastructure and real estate / PRS investment activities including its US multi-family housing business and its Military Housing business managing c. 35,000 homes for the US Department of Defense. Ian initially joined Balfour Beatty in 1998 as a Business Development Director. Prior to Balfour Beatty Ian held a number of finance and equity investment related roles within Rolls-Royce plc.
Stephen Leung *Chief Financial Officer* Appointed 1 April 2021	Stephen Leung has 20 years' experience in the real estate sector and joined Annington in March 2021 from iQ Student Accommodation, where he had been CFO since 2015. He was previously Finance Director at Otium Real Estate Limited and has held positions at a number of leading real estate businesses including, Land Securities and Trillium.
Nick Vaughan *Chief Operating Officer* Appointed 29 October 2012	Nick Vaughan has 32 years' experience in the real estate sector and joined the Group in December 1998 as Financial Analyst, Strategy and Programme Manager. He was appointed Commercial Director in January 2001 and Chief Operating Officer in August 2021. Prior to joining the Group, he worked for The British Land Company plc in various roles, including Finance Director of the health club division and in strategic projects and acquisitions. Prior to that, he was the Financial Director of a number of Rosehaugh plc group companies.
Vivek Ahuja *Non-Executive Director* Appointed 23 October 2018	Vivek joined Terra Firma as a Partner and Group Chief Financial Officer in January 2018. Subsequently, Vivek was appointed to the role of CEO of Terra Firma in July 2020. Vivek joined the Board of Annington Limited in October 2018 through Terra Firma's appointment. Vivek has three decades of experience in global finance and over 20 years in senior finance roles.

Justin King	*Non-Executive Director:*	Appointed 3 March 2016; Resigned 5 May 2021
James Hopkins	*Chief Executive Officer (former):*	Appointed 29 October 2012; Resigned 7 May 2021
Andrew Chadd	*Chief Financial Officer (former):*	Appointed 29 October 2012; Resigned 1 April 2021

DIRECTORS' REPORT

Change in executive management

As part of succession planning for the Group, during the year, James Hopkins, the CEO for 22 years, and Andrew Chadd, the CFO, decided to step down from their roles in the short-to-medium-term. As part of a planned succession strategy, the Nomination and Remuneration Committee commenced a thorough process to find the right future leadership for the Group. This process led to the appointment of Stephen Leung as CFO and Ian Rylatt as CEO in April and May 2021, respectively, following hand over periods with their predecessors. The Board would like to thank James and Andrew for their many years of dedicated service and welcome Ian and Stephen to continue the work of the Group into the future.

Corporate governance arrangements

The Group has not applied a formal corporate governance code as it believes its established and previously applied corporate governance principles currently sufficiently align with published corporate governance codes.

The Board sets the strategy, values and culture for the Group in furthering its success. To help them achieve this, the Board:

- *delegates responsibilities to various committees, the functions and compositions of which are set out below;*
- fosters relationships with stakeholders (refer to ESG section of the Strategic Report, including the statement on s.172 of the Companies Act); and
- conducts risk assessments and develops risk management systems in order to manage and mitigate identified risks (refer to the Principal risks and uncertainties section of the Strategic Report).

Board, executive review and committees attendance

The number of board and committee meetings attended by each Director during the 2021 financial year was as follows:

	Board	Audit Committee	Nomination and Remuneration Committee	Investment Committee	Overall Attendance
Total number of meetings	**4**	**2**	**2**	**9**	
Baroness Helen L Liddell	4	2	2	*	100%
Vivek G Ahuja	4	2	2	*	100%
Justin M King	4	2	2	*	100%
Jonathan O Short	4	2	2	*	100%
James C Hopkins	4	2*	2*	9	100%
Andrew P Chadd	4	2*	2*	9	100%
Nick P Vaughan	4	*	*	9	100%

*Director was not a member of the committee therefore attendance was not required.

Directors' indemnities

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

The role of the Board

The Board is responsible for the long-term success, strategic direction and delivery of operational objectives. The Board provides leadership of the Group within the framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for it to meet its objectives and reviews management performance. The Board sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Details of the Board and committee composition, remit and frequency of meeting

<u>Board of Directors</u>

The Board of Directors comprises at least two independent, non-executive directors, up to two further non-executive directors employed by Terra Firma Capital Partners Limited and at least three executive directors. The Chairman is drawn from the non-executive directors. The Board meets formally each quarter to review issues, progress being made and performance against budget.

DIRECTORS' REPORT

The Board gathers quarterly, typically halfway between formal Board meetings for updates on performance and to discuss any issues which may require resolution prior to the next formal Board meeting. These sessions are attended by the non-executive directors and senior management, including the executive directors. Senior management is invited to bring matters to the Board's attention so that the Board is provided with a greater understanding of the business's operations and in depth focus can be placed on areas not normally covered by formal Board Meetings.

Audit Committee

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

Nomination and Remuneration Committee

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

Investment Committee

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

Finance Committee

The Finance Committee includes the independent, non-executive directors, up to two non-executive directors employed by Terra Firma Capital Partners Limited and two executive directors. The Committee meets as required to discuss and consider appraised project strategies above the Investment Committee's approval threshold and to consider financing strategy. Any major projects or significant investments will be referred to the Board for ultimate approval. No meetings were necessary during the year.

Directors' Meetings

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

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

A summary of board composition and its diversity as at 31 March 2021 is set out in the tables below:

Board composition

Independent Non-executive Chairman and Director	1
Independent Non-executive Director	1
Non-executive Director	2
Executive Director	3
Total number of Directors	7

Non-executive Director tenure (including the chairman and excluding executive directors)

Under 3 years	1
3 – 6 years	3

Gender diversity (including the Chairman)

Female	1
Male	6
Total	7

DIRECTORS' REPORT

Remuneration report

The Nomination and Remuneration Committee meets as required but at least annually to review all salary, bonus, any Long-Term Incentive Plans 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 staff are employed by the Group through Annington Management Limited as lead employer. It has always been the Group's policy to maintain a small core team to manage the activities of the Group and to outsource certain operational activities to other organisations. This has allowed Annington to access professional services as required, enabling the Group to manage the fluctuating activity levels in the portfolio across England and Wales more efficiently. Where employee turnover has occurred, the Group has adapted its structure to meet current and expected future requirements.

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

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

Guidelines for Disclosure and Transparency in Private Equity

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

Ownership structure and economic benefit

Annington Holdings (Guernsey) Limited ('AHGL'), a company registered in Guernsey, is the immediate parent of Annington Limited. AHGL is a subsidiary of the Terra Firma Special Opportunities Fund I ('TFSOFI'), with a further ownership interest held by the Terra Firma Special Opportunities Fund II ('TFSOFII'). TFSOFI and TFSOFII are managed by General Partners that are ultimately owned by Terra Firma Holdings Limited (Guernsey), a company registered in Guernsey, which the Directors regard as the ultimate parent entity. The ultimate controlling party is Guy Hands.

TFSOFI was established as a single asset fund with the purpose of acquiring Annington from Nomura. Terra Firma had previously managed Nomura's investment in Annington. Having raised funds from investors around the world, both institutional and private, TFSOFI closed in December 2012. In 2017, to further support Annington's growth strategy, Terra Firma raised TFSOFII, as a parallel investor in Annington. Terra Firma appoints two directors to the Board of Annington Limited.

Going concern

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

Further details regarding the adoption of the going concern basis can be found within the Going Concern section of the Strategic Report.

Charitable and political donations

During the year the Group made charitable donations of £0.9 million (2020: £0.5 million), principally to local charities serving the communities in which the Group operates. The Group made no political donations during the year (2020: £nil).

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

Financial instruments and risk management policies

Financial instruments and risk management policies are addressed in Note 22.

ANNINGTON LIMITED

DIRECTORS' REPORT

Links to Strategic Report

The areas of potential risks and uncertainty which face the business, details of its financing and its future outlook are addressed in the Strategic Report. An indication of likely future developments in the business and development activities are included in the Strategic Report. Information regarding stakeholder engagement and ESG reporting, including carbon reporting, is included in the Strategic Report.

Employment of disabled persons

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

Dividends and post balance sheet events

During the year, the Group did not declare or pay a dividend (2020: £100.0 million). Since 2017 the Group has operated an unsecured debt strategy and a policy of retaining a BBB rating. Our dividend policy is to distribute free cash flow subject to maintaining financial policies and suitable cash reserves to ensure the Group's operational needs are able to be met. Subsequent to year-end, a dividend of £170 million was declared and paid in May 2021.

Auditor

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

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

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

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

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

S Leung
Director
27 August 2021

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') and have also chosen to prepare the parent company financial statements under IFRSs. 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 Group and of the profit or loss of the Group for that year.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ANNINGTON LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Annington Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 35 and a to j.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- *financing facilities including nature of facilities, repayment terms and covenants*
- *linkage to business model and medium-term risks*
- *assumptions used in the forecasts*
- *amount of headroom in the forecasts (cash and covenants)*
- *sensitivity analysis*
- *sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management*

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

We have nothing to report in respect of these matters.

Use of our report

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

Richard Howe FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 August 2021

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Property rental income	4	201,345	199,410
Property operating expenses		(5,799)	(17,018)
Net rental income	4	195,546	182,392
Other operating income	5	3,147	8,328
Administrative expenses		(14,263)	(13,543)
Other operating expenses		(983)	(1,090)
Site Review costs	5	(24,416)	(20,209)
Profit on disposal of investment properties	7	12,644	9,591
(Loss)/profit on disposal of inventory		(659)	369
Unrealised property revaluation gains	10, 20	478,091	38,714
Share of results of joint ventures after taxation	13	(462)	965
Operating profit	5	648,645	205,517
Finance income	8	50	680
Finance costs	8	(109,453)	(115,037)
Profit before taxation		539,242	91,160
Taxation credit	9	20,225	679,025
Profit for the year after taxation		559,467	770,185

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Profit for the year		559,467	770,185
Items that may subsequently be recycled through the income statement			
Cash flow hedge:			
Fair value (losses)/gains on cash flow hedge	21	(23,252)	9,270
Reclassification of fair value gains/(losses) included in the income statement	8	19,509	(13,628)
Total other comprehensive loss		(3,743)	(4,358)
Total comprehensive income for the year		555,724	765,827
Total comprehensive income attributable to shareholder		555,724	765,827

The accompanying notes (1 to 35) should be read in conjunction with these financial statements.

CONSOLIDATED BALANCE SHEET
At 31 March 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Investment properties	10	8,087,751	7,659,407
Plant and equipment	11	285	320
Right-of-use assets	12	1,688	2,255
Investment in joint ventures	13	2,262	2,722
Deferred tax assets	9	44,276	19,910
Derivative financial instruments	21	-	4,623
		8,136,262	7,689,237
Current assets			
Inventory	14	9,235	10,352
Trade and other receivables	15	8,080	12,500
Cash and cash equivalents	16	197,509	103,695
		214,824	126,547
Investment properties held for sale	10	35,531	15,742
Total assets		8,386,617	7,831,526
Current liabilities			
Trade and other payables	17	(36,450)	(38,630)
Rental income received in advance		(41,072)	(40,757)
Lease liabilities	19	(749)	(729)
Provisions	20	(11,732)	(8,576)
		(90,003)	(88,692)
Non-current liabilities			
Other payables	17	(273)	(960)
Loans and borrowings	18	(3,367,854)	(3,385,121)
Lease liabilities	19	(735)	(1,260)
Deferred tax liabilities	9	(39)	(45)
Provisions	20	(9,641)	(11,729)
Derivative financial instruments	21	(18,629)	-
		(3,397,171)	(3,399,115)
Total liabilities		(3,487,174)	(3,487,807)
Net assets		4,899,443	4,343,719
Capital and reserves			
Share capital	23	84,756	84,756
Share premium	24	480,401	480,401
Merger reserve	25	(10,000)	(10,000)
Hedging reserve	26	(6,974)	(3,231)
Retained earnings	27	4,351,260	3,791,793
Total equity		4,899,443	4,343,719

The accompanying notes (1 to 35) should be read in conjunction with these financial statements.

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 27 August 2021.

Signed on behalf of the Board of Directors

S Leung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	84,756	480,401	(10,000)	1,127	3,121,608	3,677,892
Total comprehensive (loss)/income for the year	-	-	-	(4,358)	770,185	765,827
Dividends paid	-	-	-	-	(100,000)	(100,000)
Balance at 31 March 2020	84,756	480,401	(10,000)	(3,231)	3,791,793	4,343,719
Total comprehensive (loss)/income for the year	-	-	-	(3,743)	559,467	555,724
Balance at 31 March 2021	84,756	480,401	(10,000)	(6,974)	4,351,260	4,899,443

The accompanying notes (1 to 35) should be read in conjunction with these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Net cash from operating activities	28	153,026	146,710
Tax paid		(3,400)	(6,461)
Net cash inflow from operating activities		149,626	140,249
Investing activities			
Proceeds from sale of investment properties		72,818	26,298
Development and acquisition of investment properties	10	(6,818)	(20,669)
Refurbishment expenditure on investment properties	10	(16,485)	-
Payments made on disposal of plant and equipment		-	(5)
Purchase of plant and equipment	11	(45)	(64)
Receipts from joint ventures	5, 13	1,409	4,282
Interest received		50	680
Net cash inflow from investing activities		50,929	10,522
Financing activities			
Interest and other financing costs		(105,986)	(108,795)
Dividends paid		-	(100,000)
Interest payments on lease obligations		(40)	(55)
Principal payments on lease obligations		(770)	(965)
Net cash outflow from financing activities		(106,796)	(209,815)
Net increase/(decrease) in cash and cash equivalents		93,759	(59,044)
Cash and cash equivalents at the beginning of the year		103,695	162,783
Exchange differences on cash and cash equivalents		55	(44)
Cash and cash equivalents at the end of the year	16	197,509	103,695

The accompanying notes (1 to 35) should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021

1. CORPORATE INFORMATION

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

The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London, United Kingdom, W1U 1DR. Information on the Group's ultimate parent is presented in Note 35.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

These financial statements are presented in pound sterling, which is the functional currency of the parent company and the Group. All values are rounded to the nearest thousand (£'000), except where otherwise indicated. They have been prepared on the historical cost basis, except for property revaluation gains and losses, investment in subsidiary companies and derivative financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of consolidation

Subsidiaries are those entities controlled by the Group. Control is assumed when the Group has the power to direct relevant activities of an entity, exposure, or rights, to variable returns of an entity and the ability to use its power over an entity to affect the amount of its returns. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Going concern

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

Fair value measurement

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

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

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

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

Further information regarding the assumptions made in measuring fair values is included in Note 10 and Note 22.

Critical accounting judgements and key sources of estimation uncertainty

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

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

Further details regarding key sources of estimation uncertainty for the Group can be found within Notes 9 (with respect to deferred tax), 10 (with respect to the valuation of investment properties) and 20 (with respect to the provision for utilities).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards, interpretations and amendments effective from 1 April 2020

The Group has adopted the new accounting standards, interpretations and amendments, which have become effective as at 1 April 2020. Those that have impacted the Group's current accounting policies are described below:

Amendment to IFRS 9, IAS 39 and IFRS 7, *Financial instruments; Interest Rate Benchmark Reform Phase 1*

The Phase 1 amendments provide relief to specific hedge accounting requirements for hedging relationships that are affected by the interbank offered rates ('IBOR') reform. The Group's £400 million unsecured term loan incurs interest at a floating interest rate of London IBOR ('LIBOR') + 1.6%. However, the Group has not entered into any interest rate hedging relationships, therefore no new or additional disclosures are required as a result of the reliefs provided under Phase 1 of the IBOR reform. Phase 2 of the project will address any issues that arise once the existing Interest Rate Benchmarks have been replaced with an alternative rate. Phase 2 comes into effect on periods beginning on or after 1 January 2021.

The Group and its loan issuers will be replacing GBP LIBOR with SONIA (Sterling Overnight Index Average). The Group is in discussions with its loan issuers regarding the timing and mechanics of replacing GBP LIBOR with SONIA with respect to its loan agreements. The impact of this transition has not yet been determined and the Group will continue to review new information as it becomes available from the reform project.

3. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

New/Amended Standards and Interpretations		Effective date (annual periods beginning on or after)
IFRS 9, IAS 39, IFRS 4, IFRS 16, and IFRS 7 Amendments	Interest Rate Benchmark Reform Phase 2 Amendments	1 January 2021
IFRS Improvements	2018-2020 Annual Improvements Cycle	1 January 2022
IAS 37 Amendments	Amendments to Costs of Fulfilling a Contract	1 January 2022
IAS 1 and IFRS Practice Statement 2	Amendments to Disclosure of Accounting Policies	1 January 2023
IAS 1 Amendments	Amendments to the Classification of Liabilities as current or Non-current	1 January 2023
IAS 8 Amendments	Amendments to definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Amendments to Deferred Tax from Single Transactions	1 January 2023

These standards and interpretations have not been early adopted by the Group. The Interest Rate Benchmark Reform is expected to result in increased disclosure requirements regarding the amendment's impact to current hedging relationships. The remaining standards are not expected to have a material impact on the consolidated financial statements of the Group in future periods.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

4. PROPERTY AND NET RENTAL INCOME

ACCOUNTING POLICY

Property rental income – Revenue recognition

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

	2021 £'000	2020 £'000
Property rental income	201,345	199,410

Net rental income

Net rental income comprises property rental income less property operating expenses. Property operating expenses are expensed as incurred.

	2021	2020
Property operating expenses:	**£'000**	**£'000**
Refurbishment costs on Non-MQE Surplus units:		
Incurred within 12 months of release	-	12,294
Incurred after 12 months of release	-	417
Refurbishment costs on Non-MQE Rental units	-	554
Letting and management costs	4,776	2,812
Other repairs and maintenance	1,023	941
	5,799	17,018

Due to the Arbitration Agreement, the Group has received an increased volume of properties released from the MQE over the last two years. This volume of releases is expected to continue at minimum for the next five years. During the current year, the cost of refurbishing these properties has become quantitatively material and a more detailed review of costs was undertaken which identified a number of items that are capital in nature and should be capitalised as an addition to investment properties.

Capitalised refurbishment works include replacing certain parts of the property as well as those that enhance the existing asset. As permitted by IAS 40, the Group does not derecognise replaced parts as it is assumed that through the application of the fair value model, the property values will reflect any losses in value at reporting date.

For the year ended 31 March 2021, the Group has capitalised all qualifying refurbishment costs, which amounts to £16.5 million and will continue to apply this process going forward. A correction to prior year has not been made as the portion of refurbishment costs which would have met the criteria for capitalisation in the prior year were not material.

Previously, dilapidation income was presented within property operating expenses as the income is used to defray refurbishment costs. This income has now been presented in the Consolidated Income Statement within other operating income. Comparatives have been re-presented to align with this change.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

5. OPERATING PROFIT

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Depreciation of plant and equipment	78	67
Depreciation of right-of-use assets	831	841
Loss on disposal of plant and equipment and right-of-use assets	3	6
Write downs of inventory to net realisable value	-	17
Other operating income		
Dilapidation income	3,105	7,631
Net profit from property management	41	65
Sundry income	1	632
Total other operating income	3,147	8,328
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company	75	70
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	284	262
Total audit fee	359	332
Non-audit remuneration		
Taxation compliance services	-	63
Other taxation advisory services	-	32
Other assurance services	-	238
Total non-audit fee	-	333

Site Review costs

Included in operating profit are costs relating to the Site Review, which are considered exceptional in nature, due to the size and infrequent occurrence of Site Reviews. Site Reviews will reset rent on the MQE to the relevant open market rate. The first applies in four annual tranches starting in December 2021, marking the 25th anniversary of the initial sale and leaseback agreement of the MQE. The Site Review will then be performed every 15 years for the remainder of the lease back to the MoD, however, after this first round of Site Reviews, it is expected that a template is likely to exist for future reviews, lowering expenditure on future Site Reviews.

The Arbitration Agreement with the MoD sets out a two year process for reaching agreement on the future discount to be applied to Sites following the 2021-2024 Site Review adjustments. Having entered into this agreement and confirming the mechanisms to be applied in determining the uplifts, Annington has determined that a significant sum will need to be spent in this round of negotiations, as precedents will need to be developed between the parties as to the way in which a Site Review will operate. The Group estimates that the costs associated with this are of such a material nature as to require separate disclosure on the face of the consolidated income statement. The £24.4 million of Site Review costs incurred in the 2021 financial year (2020: £20.2 million) have been disclosed separately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

ACCOUNTING POLICY

Employee benefits

The Group provides a range of benefits to employees, including annual bonuses, paid holiday arrangements and defined contribution plans.

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

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

	2021 £'000	2020 £'000
Directors' emoluments		
Aggregate emoluments representing short-term employee benefits	2,562	2,577

No retirement benefits are accruing to directors. Emoluments, for the highest paid director amounted to £0.9 million (2020: £0.9 million). No directors' emoluments were paid to those directors who are employed by Terra Firma Capital Partners Limited.

	2021 Number	2020 Number
Average monthly number of persons employed (including directors)		
Administrative	28	26
Operations	19	17
	47	43

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	2021 £'000	2020 £'000
Staff costs incurred during the year		
Wages and salaries including directors' emoluments	6,629	6,572
Social security costs	915	631
Other pension costs	321	294
	7,865	7,497

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

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

7. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Sales proceeds	70,567	32,091
Selling costs	(1,924)	(812)
Net disposal proceeds	68,643	31,279
Carrying value of properties disposed	(55,822)	(21,688)
Other direct disposal costs	(177)	-
	12,644	9,591

During the year, disposals of 302 properties (2020: 94 properties) were completed.

8. FINANCE INCOME AND COSTS

ACCOUNTING POLICY

Interest income is recognised over time, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs, including any transaction costs, are charged to the income statement using the effective interest rate method.

	2021 £'000	2020 £'000
Finance income		
Interest receivable	50	680

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

8. FINANCE INCOME AND COSTS (continued)

	2021 £'000	2020 £'000
Finance costs		
Interest payable on unsecured fixed rate notes	97,652	97,958
Amortisation of issue costs	2,437	2,483
Interest payable on bank loans	7,214	9,179
Foreign exchange (gains)/losses on financing	(19,564)	13,673
Transfer to equity for cash flow hedge	19,509	(13,628)
Unwinding of discount on provisions	1,497	3,969
Effect of change in discount rate on utilities provision	55	(356)
Other finance expenses	613	1,704
Finance costs on lease transactions	40	55
Total finance costs	109,453	115,037

9. TAXATION

ACCOUNTING POLICY

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

Current tax

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

Deferred tax

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

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

The Group has elected to offset the deferred tax assets and liabilities as:

- the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

Key source of estimation uncertainty

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised. The assessment of future taxable profit is based on management's judgement regarding the reliability of internal forecasts and estimates regarding future growth rates and costs. Estimates and assumptions could prove to be inaccurate, which may significantly affect deferred tax balances recognised.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

9. TAXATION (continued)

	2021 £'000	2020 £'000
Current tax		
United Kingdom corporation tax at 19% (2020: 19%)	(4,148)	(4,146)
Deferred tax recognised in income statement		
Deferred taxation: origination and reversal of temporary differences	24,373	683,171
Total taxation for the year recognised in income statement	20,225	679,025

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2020: 19%). The tax for the current and preceding years differ from the standard tax rates for the reasons set out in the following reconciliation:

	2021 £'000	2020 £'000
Profit before taxation	539,242	91,160
Tax charge at the standard rate	(102,456)	(17,321)
Factors affecting current tax for the year:		
Expenses not deductible for tax purposes	(132)	(33)
Non-taxable income	2,948	5,127
Revaluation of investment properties	90,838	3,658
Change in tax rate	-	3,626
Utilisation of tax losses	4,658	5,009
Deferred tax release due to NRCGT exemption	24,369	678,959
Taxation for the year recognised in income statement	20,225	679,025

The rate of Corporation Tax for the UK remains at 19% for the year ended 31 March 2021. The new 25% UK Corporation Tax Rate from April 2023 onwards was published on 11 March 2021 and completed its scrutiny in the House of Commons on 24 May 2021, with the Finance Act 2021 receiving Royal Assent on 10 June 2021. The March 2021 calculation of current and deferred tax continues to use the 19% rate as the new 25% Corporation Tax Rate was only substantively enacted after 31 March 2021.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

9. TAXATION (continued)

Deferred tax

The movement in deferred tax is as set out below:

	Accelerated tax depreciation £'000	Investment properties £'000	Deferred finance costs £'000	Tax losses £'000	Total £'000
At 1 April 2019	(36)	(873,165)	520	209,375	(663,306)
Change in tax rate	(4)	-	-	3,633	3,629
(Charge)/credit to income statement	(3)	873,165	(520)	(193,100)	679,542
At 31 March 2020	(43)	-	-	19,908	19,865
Credit to income statement	4	-	-	24,368	24,372
At 31 March 2021	(39)	-	-	44,276	44,237

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

	2021 £'000	2020 £'000
Deferred tax assets	44,726	19,910
Deferred tax liabilities	(39)	(45)
Net deferred tax assets	44,237	19,865

At the balance sheet date, the Group has unused tax losses of £1,178.9 million (2020: £1,207.5 million) available for offset against future profits. A deferred tax asset of £44.3 million has been recognised in respect of these losses (2020: £19.9 million), leaving £179.7 million of unrecognised deferred tax assets (2020: £209.5 million). Deferred tax assets have been recognised based on the Group's reasonable expectation that their utilisation is probable based on internal forecasts. This has resulted in the recognised deferred tax asset at March 2021 representing the forecast utilisation of deferred tax assets for the next five (2020: three) financial years. Had deferred tax assets been recognised based on a three year forecast, £21.7m would have been recognised, whereas based on a full forecast running to the end of the remaining Married Quarters Estate lease term of 175 years, deferred tax assets of £224.0 million would have been recognised.

No deferred tax liabilities are recognised on temporary differences associated with investments in subsidiaries and interests in joint ventures for the current and preceding year in accordance with the accounting policy.

Deferred tax balances at 31 March 2021 are measured at 19% (2020: 19%).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

10. INVESTMENT PROPERTIES

ACCOUNTING POLICY

Investment properties comprise property that is held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes and other professional fees. Subsequent to initial recognition, expenditure is capitalised to investment properties if it is deemed to enhance the value of the properties. At each year end, investment properties are revalued at fair value, adjusted for related provisions. The fair value is determined annually by professionally qualified external valuers on a portfolio basis such that individual property calculations are not performed. Changes in fair value are included in the income statement in the period in which they arise. No depreciation is provided in respect of investment properties.

Where specific investment properties are expected to sell within the next 12 months, their carrying value is classified as held for sale within current assets.

Investment properties are transferred to investment properties held for sale if their carrying amount is intended to be recovered through a sales transaction rather than continuing use. This condition is regarded as met if the sale is highly probable, the property is available for immediate sale in its present condition, the property is being actively marketed, and management is committed to the sale, which is expected to qualify as a completed sale within 12 months from the date of classification.

Investment properties held for sale continue to be measured in accordance with the accounting policy for investment properties.

Key source of estimation uncertainty

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

2021	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Valuation			
Carrying value at 1 April	7,659,407	15,742	7,675,149
Additions - development and acquisitions	6,818	-	6,818
Additions – refurbishment expenditure	16,485	-	16,485
Disposals	(40,080)	(15,742)	(55,822)
Change in utilities obligation	2,561	-	2,561
Transfer to investment properties held for sale	(26,969)	26,969	-
Unrealised property revaluation gains	469,529	8,562	478,091
Total carrying value at 31 March	8,087,751	35,531	8,123,282

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

10. INVESTMENT PROPERTIES (continued)

2020	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Valuation			
Carrying value at 1 April	7,656,911	2,225	7,659,136
Additions - development and acquisitions	20,669	-	20,669
Disposals	(19,463)	(2,225)	(21,688)
Change in utilities obligation	(21,682)	-	(21,682)
Transfer to investment properties held for sale	(13,451)	13,451	-
Unrealised property revaluation gains	36,423	2,291	38,714
Total carrying value at 31 March	7,659,407	15,742	7,675,149

Properties would have been included on an historical cost basis at £1,468.8 million (2020: £1,491.5 million).

As at 31 March 2021 there were 202 (2020: 82) investment properties classified as held for sale, with disposal expected within the next 12 months.

As part of the review of capital refurbishment costs discussed in note 4, the treatment of changes in the utilities obligation was also reviewed. These movements in the utility obligation have always been reflected in the movements of the annual revaluation of the Group's investment properties but have been presented separately on the consolidated income statement. Going forward, the Group will now present this net movement within 'Unrealised property revaluation gains/(losses)' on the consolidated income statement. This change in presentation has been applied to the comparative year. However, the net movement has been separated in the above investment property note reconciliation.

	2021 £'000	2020 £'000
The carrying value of investment properties and investment properties held for sale comprises:		
Freehold	475,082	451,842
Long leaseholds	7,015	7,441
Very long leaseholds (over 900 years)	7,641,185	7,215,866
	8,123,282	7,675,149

	2021 £'000	2020 £'000
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	8,119,147	7,655,283
Add: amounts included in utilities provision (Note 20)	4,135	19,866
Carrying value for financial reporting purposes	8,123,282	7,675,149

IFRS requires the market value of investment properties be adjusted for assets or liabilities recognised separately on the balance sheet. Due to the method used by the external valuer in calculating market value, when arriving at carrying value, the Group has adjusted the market valuation of investment properties to exclude that portion of the utilities provision (Note 20) relating to properties still held by the Group.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

10. INVESTMENT PROPERTIES (continued)

Future minimum rents receivable under non-cancellable operating leases are disclosed in Note 30.

Substantially all of the Group's investment properties generated rental income in the current and prior year, with the exception of the plots and infill areas that are held for future development.

The Group's freehold and long leasehold interests in its investment properties were valued as at 31 March 2021 by an external valuer, Rupert Driver BSc MRICS of CBRE Limited ('CBRE'). The valuation, which was prepared on a portfolio basis, was subject to the existing leases, underleases and tenancies as advised but otherwise with vacant possession.

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

This is a 'Regulated Purpose Valuation'. CBRE has a policy of rotating the lead valuer every five years. This is both CBRE and Rupert Driver's first year of providing an annual valuation.

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

The fair value measurement hierarchy level for all investment properties as at 31 March 2021 was Level 3 significant unobservable inputs (2020: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

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

2021	Fair value £'000	Unobservable inputs	Input
MQE			
Fair value	7,641,200		
Valuation technique		Discounted cash-flow	
		Annualised gross rent (£'000 p.a.)	181,612
		Estimated future rent increase (20 year average - %)	3.26% p.a.
		Long-term House Price Inflation (%)	3.00% p.a.
		Discount rates (%)	3.75 – 6.50%
Non-MQE - Surplus Estate			
Fair value	100,560		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	6.00%
		Net yield on rented units (%)	4.00 – 4.25%
		Discount to SAVPV (%)	5.00%
Non MQE – Rentals Portfolio			
Fair value	377,387		
Valuation technique		Vacant possession market comparison	
		Net yield (%)	3.65 – 5.00%
		Discount to SAVPV (%)	3.50 – 11.39%
Fair value at 31 March 2021	8,119,147		

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

10. INVESTMENT PROPERTIES (continued)

2020	Fair value £'000	Unobservable inputs	Input
MQE			
Fair value	7,196,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	180,191
		Estimated future rent increase (20 year average - %)	2.50% p.a.
		Long-term House Price Inflation (%)	2.75% p.a.
		IRR (%)	5.6%
Non-MQE -Surplus Estate			
Fair value	53,432		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	17.5%
Non-MQE – Rentals Portfolio			
Fair value	405,851		
Valuation technique		Vacant possession market comparison	
		Blended HPI (%)	0.4% - 7.7%
		Rental discount rates (%)	0.0% - 9.73%
Fair value at 31 March 2020	7,655,283		

Had the MQE Portfolio valuation discount rates increased by 0.2%, the valuation, all other factors remaining constant, would have decreased by £324.0 million. Conversely, had the MQE Portfolio valuation discount rates decreased by 0.2%, the valuation, all other factors remaining constant, would have increased by £348.0 million.

There are other interrelationships (changes in gross rent, estimated future rent increase and long-term HPI) between unobservable inputs as they are determined by market conditions, and so the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions, (i.e. gross rents increase and discount rates decrease), valuation movements can be amplified whereas if they move in the same direction they may offset reducing the overall net valuation movement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

11. PLANT AND EQUIPMENT

ACCOUNTING POLICY

Plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life, which is determined for each asset. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The useful life applied to plant and equipment range between 2-10 years (2020: 2-10 years).

	2021 £'000	2020 £'000
Cost		
At 1 April	1,674	1,868
Additions	45	64
Disposals	(54)	(1)
Derecognition of assets on adoption of IFRS 16	-	(257)
At 31 March	1,665	1,674
Accumulated depreciation		
At 1 April	1,354	1,296
Depreciation charge for the year	78	67
Disposals	(52)	-
Derecognition of assets on adoption of IFRS 16	-	(9)
At 31 March	1,380	1,354
Net book value		
At 31 March	285	320

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

12. RIGHT-OF-USE ASSETS

ACCOUNTING POLICY

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The average lease life applied is 4 years (2020: 4 years). For further information on the lease liabilities, refer to Note 19.

2021	Computer equipment £'000	Buildings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April	234	2,374	441	3,049
Additions	-	-	270	270
Disposals	-	-	(158)	(158)
At 31 March	234	2,374	553	3,161
Accumulated depreciation				
At 1 April	48	578	168	794
Depreciation charge for the year	49	576	206	831
Disposals	-	-	(152)	(152)
At 31 March	97	1,154	222	1,473
Net book value				
At 31 March	137	1,220	331	1,688

2020	Computer equipment £'000	Buildings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April	-	-	-	-
Initial recognition on adoption of IFRS 16	248	2,374	356	2,978
Remeasurement adjustments	(14)	-	4	(10)
Additions	-	-	150	150
Disposals	-	-	(69)	(69)
At 31 March	234	2,374	441	3,049
Accumulated depreciation				
At 1 April	-	-	-	-
Depreciation charge for the year	48	578	215	841
Disposals	-	-	(47)	(47)
At 31 March	48	578	168	794
Net book value				
At 31 March	186	1,796	273	2,255

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

13. INVESTMENT IN JOINT VENTURES

ACCOUNTING POLICY

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

On 21 August 2020, the Group concluded its investment in the Countryside Annington (Colchester) Limited joint venture as it was formally dissolved on that date. The Group's remaining joint venture undertakings at 31 March 2021 are set out below. Each of these entities operates within the United Kingdom.

Held through Annington Developments Limited

Name of joint venture	Principal activity	Holding	Held since
Annington Wates (Cove) Limited	Property development	50.00%	22 July 2004
Countryside Annington (Mill Hill) Limited	Property development	50.00%	8 December 2006

On 30 March 2021, Annington Wates (Cove) Limited passed a resolution to begin voluntarily winding up the Company.

The Group's interest in these entities is held as 100% interest in "X" Ordinary shares. Each of these entities has issued 500 "X" Ordinary and 500 "Y" Ordinary shares. The rights of the holders of these classes of shares are identical and rank in pari passu.

Held through Annington Property Limited

Name of joint venture	Principal activity	Holding	Held since
The Inglis Consortium LLP	Property development	28.55%	4 April 2011

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

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

	Share of net assets £'000	Loans £'000	Total £'000
At 1 April 2019	5,039	1,000	6,039
Distributions	(4,282)	-	(4,282)
Share of profit for the year	965	-	965
At 31 March 2020	1,722	1,000	2,722
Additions	1,411	-	1,411
Distributions	(1,409)	-	(1,409)
Share of loss for the year	(462)	-	(462)
At 31 March 2021	1,262	1,000	2,262

The Group's share of profits from joint ventures represents profits from continued operations. Annington Wates (Cove) Limited is in voluntary members' liquidation, however the income, expenditure, assets and liabilities in relation to this joint venture are immaterial in both the current and prior year. The joint ventures have not recorded any other comprehensive income and the share of profits disclosed in the above table also represents the Group's share of total comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

14. INVENTORY

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Work in progress	9,235	10,352

The cost of inventories recognised as an expense and included in cost of sales amounted to £5,769,010 (2020: £3,426,063).

There were no impairments of inventory during the year (2020: £17,142).

15. TRADE AND OTHER RECEIVABLES

ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value when the Company becomes entitled to receive the contractual cash flows and are subsequently measured at amortised cost using the effective interest method less any impairment.

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

Trade receivables

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

	2021 £'000	2020 £'000
Amounts falling due within one year		
Trade receivables	881	8,266
Sundry receivables	3,539	3,372
Corporation tax	-	228
Other taxes	59	22
Prepayments and accrued income	3,601	612
	8,080	12,500

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

Trade receivables are stated after provisions for impairment of £40,294 (2020: £42,613).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

16. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

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

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

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

	2021 £'000	2020 £'000
Cash on hand and at bank	41,863	24,892
Short-term deposits	31,480	10,455
Short-term investments	124,166	68,348
Cash and cash equivalents	197,509	103,695

17. TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Amounts falling due within one year		
Trade payables	1,889	1,686
Accruals	32,815	36,475
Corporation tax	520	-
Social security and other taxes	299	325
Retention creditors	922	101
Other	5	43
	36,450	38,630
Amounts falling due after one year		
Retention creditors	273	960
	273	960

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

18. LOANS AND BORROWINGS

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Amounts falling due between one and five years		
Unsecured notes	1,132,065	1,150,640
Unsecured bank loans	396,414	395,710
	1,528,479	1,546,350
Amounts falling due after five years		
Unsecured notes	1,839,375	1,838,771
Total non-current loans and borrowings	3,367,854	3,385,121
Total loans and borrowings	3,367,854	3,385,121

The Group holds five tranches of corporate, unsecured bonds, totalling c.£3.0 billion and a term loan of £400 million, also unsecured. A revolving credit facility is also available to the Group, which has never been drawn against.

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility was extended to March 2025, from July 2022, whilst the undrawn revolving credit facility was reduced to £100 million from £300 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to that transaction, totalling £2.1 million, were capitalised in the previous financial year in advance of the effective date as these were incurred prior to the 31 March 2020 year end.

A reconciliation of debt movement is provided in Note 29.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

19. LEASE LIABILITIES

ACCOUNTING POLICY

Lease liabilities are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments.

Lease liabilities relate to lease contracts on office buildings, motor vehicles and communications infrastructure.

	2021 £'000	2020 £'000
Maturity analysis		
Amounts falling due within one year	775	770
Amounts falling due between one and five years	747	1,294
Minimum lease payments	1,522	2,064
Less: future finance charges	(38)	(75)
Present value of lease obligations	1,484	1,989
Current	749	729
Non-current	735	1,260
Total lease liabilities	1,484	1,989

A reconciliation of the lease liability movement is provided in Note 29.

20. PROVISIONS

ACCOUNTING POLICY

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

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

Key source of estimation uncertainty

Utilities provision

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

Warranty provision

When determining the warranty provision on the sale of new build properties, the estimation technique requires an assumption to be made of the future costs. When doing so, estimates of costs and future inflation are made which, if not accurate could have a material effect on the provision balance.

Make good provision

When determining the make good provision on leased properties, the estimation technique requires an assumption to be made of the future costs and timing of work to be completed. When doing so, estimates of costs and future inflation are made, which, if not accurate could have a material effect on the provision balance. The estimated future costs are subject to negotiation with the landlord at the time of which the liability becomes due.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

20. PROVISIONS (continued)

	Warranty provision £'000	Make good provision £'000	Utilities provision £'000	Total £'000
2021				
At 1 April	-	439	19,866	20,305
Unwinding of discount	-	12	1,485	1,497
Effect of change in discount rate	-	-	55	55
Change in estimated obligation	153	-	2,561	2,714
Utilised	-	-	(3,198)	(3,198)
At 31 March	**153**	**451**	**20,769**	**21,373**
Current provision	42	-	11,690	11,732
Non-current provision	111	451	9,079	9,641
	153	**451**	**20,769**	**21,373**

	Make good Provision £'000	Utilities provision £'000	Total £'000
2020			
At 1 April	-	40,009	40,009
Provision recognised on adoption of IFRS 16	427	-	427
Unwinding of discount	12	3,957	3,969
Effect of change in discount rate	-	(356)	(356)
Change in estimated obligation	-	(21,682)	(21,682)
Utilised	-	(2,062)	(2,062)
At 31 March	439	19,866	20,305
Current provision	-	8,576	8,576
Non-current provision	439	11,290	11,729
	439	19,866	20,305

20. PROVISIONS (continued)

Utilities provision

At the point of purchase in 1996, the Married Quarters Estate included certain Sites that are dependent on the related technical base for the provision of utilities. The MoD has undertaken to supply utilities to those Sites for the period they are rented to the MoD and for released units, until at least the 25th anniversary of the purchase. Where there have been releases of property that are currently base dependent or there is a constructive obligation to provide for the adoption of certain utilities on units which are not base dependent, a provision has been made to separate these units where the Group has a committed present obligation to separate these units, including units that have already been sold to third parties. Of the total of £20.8 million, £4.1 million relates to units still on hand at 31 March 2021. This amount has been added back to the investment property valuation to avoid double accounting for the obligation (refer Note 10). The provision has been discounted in accordance with the relevant borrowing costs of the Group. There is a contingent liability and asset (refer Note 31) in respect of base dependent units where it is possible that an obligation to separate these units may arise in the future.

Warranty provision

The warranty provision relates to the estimated costs to repair any defects that come to light during the warranty period on the sale of new build properties. The Group is legally obligated to rectify property defects for a ten year period which comes into effect upon the sale completion date. The Group's exposure is mitigated by an insurance policy that covers the majority of the warranty period, and a further one year period which is covered by the contractor's guarantee.

Make good provision

The make good provision relates to the estimated cost of restoration work agreed to be carried out on the Group's leased properties at the end of the lease term in 2023.

21. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The Group uses derivative financial instruments to reduce exposure to foreign exchange rate risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Changes in the fair value are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

Hedges of foreign currency exchange risk on firm commitments are accounted for as cash flow hedges. The relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking hedge transactions, is documented at the inception of the hedge relationship. Additionally, on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributed to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives, that are designated and qualify as cash flow hedges, is recognised in other comprehensive income ('OCI') and accumulated in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria.

	2021 £'000	2020 £'000
Financial assets carried at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	-	4,623
Financial liabilities carried at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	(18,629)	-

Reconciliation of movements in derivative financial liability/asset:

	2021 £'000	Revaluation adjustment £'000	2020 £'000
Cross currency swaps	(18,629)	(23,252)	4,623
Total derivative financial (liabilities)/assets	(18,629)	(23,252)	4,623

Further details of derivative financial instruments are provided in Note 22.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICY

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

Financial assets

Impairment of financial assets

The Group's expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition.

Financial liabilities

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

The Group has the following financial instruments:

	Note	2021 £'000	2020 £'000
Financial assets			
Cash and receivables:			
Trade and other receivables excluding prepayments	15	7,508	11,638
Cash and cash equivalents	16	197,509	103,695
Assets measured at fair value through OCI:			
Cross currency swaps	21	-	4,623
Total financial assets		205,017	119,956
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	17	35,904	39,222
Loans and borrowings	18	3,367,854	3,385,121
Liabilities measured at fair value through OCI:			
Cross currency swaps	21	18,629	-
Total financial liabilities		3,422,387	3,424,343

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

Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

The Group also holds cross currency swaps with Barclays Bank plc, JP Morgan Securities plc, Goldman Sachs Bank USA and Banco Santander SA (London Branch). The Group's exposure to counter party credit risk with respect to these derivatives is assessed as low, as each of the counterparties holds at least an upper medium grade rating.

Other than amounts due from the joint venture companies and dilapidations claims outstanding, the Group has no other significant concentration of credit risk. Trade receivables are presented net of allowances for impairment are made where appropriate, as set out in Note 15.

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

Debt management

The Group holds five tranches of corporate, unsecured bonds, totalling c.£3.0 billion and a term loan of £400 million, also unsecured. A revolving credit facility is also available to the Group, which has never been drawn against.

Effective 1 April 2020, a £100 million five year revolving borrowing facility (reduced from £300 million) is in place to ensure that there is no default in the repayment of the borrowing and interest to the bondholders. The Group has no overdraft arrangements in place as it has adequate funds invested on the money market in short-term to medium-term deposits to maintain its short-term liquidity. In addition, the Group also forecasts its liquidity requirements using five-year rolling cash forecasts, which are reviewed on a monthly basis.

Capital risk management

Capital is managed so that entities in the Group will be able to continue as going concerns while leveraging the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt and equity. Net debt includes loans and borrowings (Note 18) offset by cash and cash equivalents, while equity comprises equity attributable to equity holders of the Company, being issued share capital, reserves and retained earnings (Notes 23 - 27).

The debt imposes a number of covenants that must be complied with, on a Group basis, under both the bonds and loan facility. The covenants attaching to the debt are:

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Currency risk

The Group holds a seven year unsecured euro bond of €600 million expiring July 2024. To hedge against fluctuations in the Euro to Pound Sterling exchange rate, the Group entered into a cross currency swap of €600 million, converting the nominal balance to £526.26 million. This swap mitigates the volatility of foreign currency movements in future interest and capital payments. The function of this swap increases the effective interest rate of Euro tranche debt to 2.764%. The hedge is in line with the Group Treasury Policy whereby the Group should look to put in place hedges covering 50-100% of the FX risk arising from foreign currency debt, to the extent that foreign currency debt exceeds £50 million in aggregate.

Currency risk sensitivity analysis

The impact of a hypothetical strengthening/weakening of pound sterling against the Euro for the cross currency swap, with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown below:

	Strengthening 10%		Weakening 10%	
	Gains/(losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)	Gains/(losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)
2021	-	(9,317)	-	2,950
2020	-	(7,074)	-	6,141

Interest rate management

In the previous year until the point of the refinancing, the Group was exposed to floating interest rates. There were a number of interest rate swaps in place to fix the exposure the Group had to fluctuations in interest rates.

After the refinancing, the Group has a relatively low interest rate risk as the majority of the Group's borrowings are at fixed interest rates. The term loan is the only instrument that has a floating interest rate of LIBOR + 1.6%. The term loan is for a value of £400 million, originally maturing in 2022, but has been extended to 2025, effective 1 April 2020. The Group has assessed that this is a tolerable level of interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The impact of a hypothetical increase/decrease in interest rates with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown in the following table:

	50 bps increase		50 bps decrease	
	Gains/(losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)	Gains/(losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)
2021	(2,008)	(197)	719	222
2020	(696)	(346)	706	345

The 50bps decrease in interest rate is subject to a floor of 0% + 1.6% margin.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Cash management and liquidity

Cash levels are monitored to ensure sufficient resources are available to meet the Group's current and projected operational commitments. Annington Funding plc provides funding to Annington Homes Limited, which in turn provides intercompany loans at fixed interest rates to other entities in the Group.

AFP holds a £100 million liquidity facility that was undrawn as at 31 March 2021 (2020: £300 million).

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

Liquidity risk and financial maturity analysis

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

	2021			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	10,105	10,105	-	-
Loans and borrowings	4,646,806	98,191	1,907,220	2,641,395
Lease liabilities	1,522	775	747	-
Total non-derivative financial liabilities	4,658,433	109,071	1,907,967	2,641,395
Derivative financial instruments				
Cross currency swap	32,254	6,111	26,143	-
Total financial liabilities	4,690,687	115,182	1,934,110	2,641,395

	2020			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	12,892	12,892	-	-
Loans and borrowings	4,753,991	100,807	1,311,791	3,341,393
Lease liabilities	2,064	770	1,294	-
Total non-derivative financial liabilities	4,768,947	114,469	1,313,085	3,341,393
Derivative financial instruments				
Cross currency swap	17,175	5,788	11,387	-
Total financial liabilities	4,786,122	120,257	1,324,472	3,341,393

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values

The fair values of the Group's borrowings, cross currency swap and offsetting swaps are determined by a Level 2 valuation technique.

	2021 Par value of debt £'000	2021 Balance sheet value £'000	2021 Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	3,001,260	2,971,440	3,305,205
Unsecured term loan	400,000	396,414	400,000
	3,401,260	3,367,854	3,705,205
Derivative financial liability			
Cross currency swap	-	18,629	18,629
	3,401,260	3,386,483	3,723,834

	2020 Par value of debt £'000	2020 Balance sheet value £'000	2020 Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	3,001,260	2,989,411	2,979,678
Unsecured term loan	400,000	395,710	400,000
	3,401,260	3,385,121	3,379,678
Derivative financial asset			
Cross currency swap	-	(4,623)	(4,623)
	3,401,260	3,380,498	3,375,055

Unsecured bonds

The volume of market trades of the Group's bonds is not considered sufficient to be an active market. Therefore, listed bonds have been fair valued by a third party valuer using a spread to a reference gilt curve. The reference gilt curve is based upon observable market data. The spread is determined with reference to comparable sector bond pricing. This represents a Level 2 fair value measurement. Further details, including covenant information, have been mentioned previously in this Note.

Cross currency swaps

The fair value of derivative financial instruments is based on valuations by an independent valuer using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 31 March 2021.

Unsecured term loan

This loan relates to a £400 million unsecured bank loan, originally maturing in July 2022. On 26 March 2020, an agreement to extend the maturity of the term loan and the revolving credit facility to March 2025 was entered into, simultaneously reducing the undrawn revolving credit facility to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to the transaction have been capitalised in advance of the effective date as these were incurred prior to the year end. Further details, including covenant information, have been mentioned previously in this Note.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

23. SHARE CAPITAL

	2021 £'000	2020 £'000
Called up, allotted and fully paid		
8,475,620,200 ordinary shares of £0.01 each	84,756	84,756

24. SHARE PREMIUM

	2021 £'000	2020 £'000
Share premium	480,401	480,401

On 12 July 2017, the Company allotted 200 ordinary shares with a share premium of £480.4 million.

25. MERGER RESERVE

	2021 £'000	2020 £'000
Merger reserve	10,000	10,000

The Group reconstruction effected in December 2012 was accounted for using merger accounting principles. On transition to IFRS, the business combination was not restated, with the merger reserve at transition being calculated by reference to the previous carrying value.

26. HEDGING RESERVE

	2021 £'000	2020 £'000
At 1 April	(3,231)	1,127
Fair value (losses)/gains on cash flow hedge	(23,252)	9,270
Reclassification of fair value gains/(losses) included in the income statement	19,509	(13,628)
At 31 March	(6,974)	(3,231)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

27. RETAINED EARNINGS

	Retained earnings £'000
At 1 April 2019	3,121,608
Total comprehensive profit for the year	770,185
Dividends paid	(100,000)
Balance at 31 March 2020	3,791,793
Total comprehensive profit for the year	559,467
Balance at 31 March 2021	4,351,260

28. NOTE TO THE CASH FLOW STATEMENT

	2021 £'000	2020 £'000
Profit after taxation	559,467	770,185
Adjustment for:		
Taxation	(20,225)	(679,025)
Finance costs	109,453	115,037
Finance income	(50)	(680)
Share of results of joint ventures after taxation	462	(965)
Profit on disposal of investment properties	(12,644)	(9,591)
Loss on disposal of plant and equipment and right-of-use assets	3	6
Unrealised property revaluation gains	(478,091)	(38,714)
Depreciation expense	909	908
Write down of inventory to net realisable value	-	17
Movements in working capital:		
Decrease/(increase) in inventory	1,117	(1,793)
Increase in debtors	(268)	(3,506)
Increase in creditors	(3,950)	(3,106)
Decrease in provisions	(3,157)	(2,063)
Net cash inflow from operating activities	153,026	146,710

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

29. ANALYSIS OF CHANGES IN NET DEBT

			Non-cash items				
	2021 £'000	Cash flow £'000	Debt modification £'000	Amortisation of bond issue costs and interest accrued £'000	Fair value adjustments and exchange movements £'000	Lease liability additions/ disposals £'000	2020 £'000
Cash and cash equivalents	**197,509**	93,759	-	-	55	-	103,695
Unsecured notes	**(2,971,440)**	-	-	(1,603)	19,574	-	(2,989,411)
Unsecured term loan	**(396,414)**	-	130	(834)	-	-	(395,710)
Lease liabilities	**(1,484)**	810	-	(40)	-	(265)	(1,989)
Total loans and borrowings	**(3,369,338)**	810	130	(2,477)	19,574	(265)	(3,387,110)
Net debt	**(3,171,829)**	(94,569)	130	(2,477)	19,629	(265)	(3,283,415)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

30. LEASE COMMITMENTS

ACCOUNTING POLICY

Under IFRS 16 the determination of whether a contract contains a lease is based on whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group, as a lessee, recognises right-of-use assets and lease liabilities in the consolidated balance sheet; depreciation and interest in the consolidated income statement; and separates cash paid on principal and interest portions in the consolidated statement of cash flows. A lease expense has been recognised where the Group is the lessee to short-term and low-value asset lease contracts.

As a lessor, the Group continues to classify leases as either finance leases or operating leases and account for them accordingly under IFRS 16. Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Management has exercised judgement in considering the potential transfer of the risks and rewards of ownership for properties leased to tenants and has determined that such leases are operating leases.

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

Operating lease arrangements - Group as lessor

The Group has entered into property lease agreements on its investment properties portfolio and has performed an evaluation of the terms and conditions of the arrangements of these leases. This includes factors such as the lease term not constituting a substantial portion of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the property. The Group also retains all the significant risks and rewards of ownership of these properties. As such, all of these leases are accounted for as operating leases.

At 31 March 2021, the Group had contracted with tenants the following future minimum rentals receivable under non-cancellable operating leases:

	2021 £'000	2020 £'000
Within one year	97,077	98,885
In two to five years	1,692	2,554
	98,769	101,439

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

31. CAPITAL COMMITMENTS AND CONTINGENCIES

ACCOUNTING POLICY

Capital commitments
Contractual obligations comprise obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

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

Capital commitments

The Group had entered into construction contracts for the development of its investment properties and agreed to make contributions to community infrastructure projects as part of these developments. During the financial, the Group finalised its contributions to the community development commitment.

Contingent liabilities

As stated in Note 20, there is a contingent liability to allow for the adoption of private utilities on properties that are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment. No obligation currently exists with respect to these properties as they have not yet been released by the MoD. Instead, there is a possible future obligation should releases occur and the Group becomes obligated to provide for private utility adoption. This amounts to £203.8 million (2020: £177.5 million). Upon the technical completion of utilities adoption, the Group is eligible to a refund from the MOD for each utility. These refunds are estimated at £17.5 million (2020: £16.7 million).

In June 2018, Annington Limited, Annington Homes Limited, Annington Rentals (Holdings) Limited and Annington Rentals (No.4) Limited entered into an agreement with QBE Insurance (Europe) Limited through which surety bonding facilities to the value of £5.0 million are made available to the Group. Under this agreement, the aforementioned entities act as guarantors in respect of performance bonds given. A premium of 1.25% per annum is payable on the face value of the surety provided. In July 2018, a £0.6 million bond was issued against this facility.

32. RELATED PARTY DISCLOSURES

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

Information regarding key management personnel

The Group considers the Directors to be the key management personnel. Details of payments to key management personnel are disclosed in Note 6.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

33. SUBSIDIARIES AND RELATED UNDERTAKINGS

ACCOUNTING POLICY

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

The subsidiary undertakings of Annington Limited at 31 March 2021, which are wholly owned, incorporated in the United Kingdom and included in the consolidated financial statements, are shown below. The address of the registered office for all subsidiary undertakings is 1 James Street, London W1U 1DR.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

33. SUBSIDIARIES AND RELATED UNDERTAKINGS (continued)

Name of subsidiary undertaking	Holding %
Arborfield East Residents Company Limited	6.06
Ashchurch (St. David's) Residents Company Limited	10.53
Beaconside Residents Company Limited	1.75
Biggin Hill Residents Company Limited	3.33
Bordon Residents Company Limited	0.95
Bordon (St Lucia Park) Residents Company Limited	1.20
Boulmer Residents Company Limited	8.62
Britannia Crescent Residents Company Limited	4.40
Bulford Residents Company Limited	12.77
Burgoyne Heights Residents Company Limited	0.75
Butlers Meadow Residents Company Limited	1.32
Canterbury Place Residents Company Limited	6.45
Cardiff Place Residents Company Limited	10.26
Catterick Anzio Residents Company Limited	100.00
Chester (Dale Camp) Residents Company Limited	8.00
Chicksands Residents Company Limited	4.27
Chivenor Residents Company Limited	11.76
Coningsby (West Drive) Residents Company Limited	4.05
Cove Residents Company Limited	100.00
Cranwell Residents Company Limited	9.38
Dale Road Residents Company Limited	3.88
Dewsberry Gardens (Little Thetford) Residents Company Limited	10.00
Dishforth Residents Company Limited	9.68
Donnington Residents Company Limited	1.25
Donnington (Richards Road) Residents Company Limited	1.59
Driffield Ramsden Residents Company Limited	7.14
East Vale Residents Company Limited	0.31
Elm Road (Marham) Residents Company Limited	100.00
Exmouth (York Close) Residents Company Limited	10.00
Foulkes Terrace (Aldershot) Residents Company Limited	25.00
Gamlingay Residents Company Limited	14.29
Garats Hay Residents Company Limited	7.69
Greenmill Residents Company Limited	3.13
Henlow Residents Company Limited	1.28
High Wycombe (Woodcock) Residents Company Limited	3.33
Honington (Poplar Close) Residents Company Limited	6.06
Innesworth Resident Company Limited	3.80

Name of subsidiary undertaking	Holding %
Keith Park Road Residents Company Limited	0.60
Kirton (York Road) Residents Company Limited	6.25
Kirton In Lindsey Residents Company Limited	1.23
Lancaster Square Residents Company Limited	1.75
Longtown Rosetrees Residents Company Limited	7.14
Marchwood (Africa Drive) Residents Company Limited	100.00
Marham Residents Company Limited	19.05
Mayne Avenue Residents Company Limited	1.10
Mostyn Road Bushey Residents Company Limited	3.33
North Luffenham Residents Company Limited	6.02
Northwood Residents Company Limited	12.50
Nottingham Road Residents Company Limited	9.68
Petersfield (Kings Road) Residents Company Limited	10.00
Ringwood Crescent Residents Company Limited	11.11
Riverside Rise (Allington) Residents Company Limited	100.00
Scampton Residents Company Limited	1.84
South Wigston Residents Company Limited	1.67
St. Columb Minor Residents Company Limited	1.67
St. Eval Parc Residents Company Limited	0.67
Stanbridge Residents Company Limited	10.00
Stanmore Crescent Residents Company Limited	12.28
Stokesay Road Residents Company Limited	5.66
Strensall Residents Company Limited	2.86
Tedder Avenue (Henlow) Residents Company Limited	100.00
The Elstons Residents Management Association Limited	72.73
Thirsk Residents Company Limited	14.29
Union Building (Aldershot) Residents Company Limited	5.56
Uxbridge (Buchan) Residents Company Limited	80.39
Waterbeach (Abbey Place) Residents Company Limited	100.00
Watton Residents Company Limited	3.70
West Vale Residents Company Limited	1.55
Whetstone Millson Close Residents Company Limited	1.03
White Waltham Residents Company Limited	12.50
Wimbish Residents Company Limited	11.54
Wittering Residents Company Limited	0.86
Woodbridge West Residents Company Limited	2.44

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

33. SUBSIDIARIES AND RELATED UNDERTAKINGS (continued)

Each company in the above table is incorporated in the United Kingdom and the address of their registered office is Unit 8 Minerva Business Park, Lynch Wood, Peterborough PE2 6FT. Through subsidiaries of Annington Rentals (Holdings) Limited, the Group indirectly holds a 70.00% investment in Beaumont Place Management Limited. The address of their registered office is Vantage Point, 23 Mark Road, Hemel Hempstead, Hertfordshire, HP2 7DN.

34. ENTITY INFORMATION AND CONTROLLING PARTY

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

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

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

35. SUBSEQUENT EVENTS

In May 2021 Annington Limited declared and paid a dividend of £170.0 million to the Group's immediate parent, Annington Holdings (Guernsey) Limited.

COMPANY BALANCE SHEET
At 31 March 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Investment in subsidiary companies	c	4,649,800	3,216,700
Total assets		4,649,800	3,216,700
Current liabilities			
Payables	e	(27)	(27)
Total liabilities		(27)	(27)
Net assets		4,649,773	3,216,673
Capital and reserves			
Share capital	23	84,756	84,756
Share premium	24	480,401	480,401
Revaluation reserve		4,084,543	2,651,443
Retained earnings		73	73
Total equity		4,649,773	3,216,673

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

The Company reported no profit or loss for the year ended 31 March 2021 (2020: profit of £93.4 million).

The financial statements of Annington Limited, registered number 08271384, were approved by the Board of Directors and authorised for issue on 27 August 2021.

Signed on behalf of the Board of Directors

S Leung
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Note	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019		84,756	480,401	2,797,543	6,672	3,369,372
Profit attributable to shareholders		-	-	-	93,401	93,401
Dividends paid		-	-	-	(100,000)	(100,000)
Change in fair value of investment in subsidiary companies	c	-	-	(146,100)	-	(146,100)
Balance at 31 March 2020		84,756	480,401	2,651,443	73	3,216,673
Change in fair value of investment in subsidiary companies	c	-	-	1,433,100	-	1,433,100
Balance at 31 March 2021		84,756	480,401	4,084,543	73	4,649,773

COMPANY CASH FLOW STATEMENT
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Net cash from operating activities	g	-	-
Investing activities			
Dividends received from subsidiary		-	100,000
Net cash inflow from investing activities		-	100,000
Financing activities			
Dividends paid		-	(100,000)
Net cash outflow from financing activities		-	(100,000)
Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021

a. SIGNIFICANT ACCOUNTING POLICIES AND CORPORATE INFORMATION

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations as adopted by the United Kingdom. They have also been prepared in accordance with the Companies Act 2006.

The corporate information and significant accounting policies of the Company are consistent with those of the Group, which can be found in the Notes to the Consolidated Financial Statements.

Significant judgements and key estimation uncertainties

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

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

Further details regarding key sources of estimation uncertainty for the Company can be found within Note c with respect to the valuation of investments in subsidiaries.

b. PROFIT FOR THE YEAR

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

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

c. INVESTMENT IN SUBSIDIARY COMPANIES

ACCOUNTING POLICY

The Company has elected to account for its investments in subsidiaries at fair value. Fair value is determined by reference to the discount or premium to net asset value of similar investments listed on the London Stock Exchange. If the carrying amount is increased or decreased as a result of a revaluation, the change is recognised in other comprehensive income and accumulated in equity.

Key source of estimation uncertainty

In calculating the fair value of investment in subsidiaries, comparable companies are selected with reference to certain criteria and by reviewing publicly available market information, without reference to any premium offered for overall control. There is an element of subjectivity as to the level of similarity of comparable companies selected in terms of size and type of operations and this is further dependent on the timeliness of information that is available. Additionally, the underlying asset values within the Group are subject to judgements and estimates, changes in which could change the valuation base.

The fair value of the investment in subsidiaries are determined by a Level 2 valuation technique, as described below.

	2021 £'000	2020 £'000
At 1 April	3,216,700	3,362,800
Increase/(decrease) in fair value during the year	1,433,100	(146,100)
At 31 March	4,649,800	3,216,700

The historical cost of the investment in subsidiaries was £565,256,967 (2020: £565,256,967).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

c. **INVESTMENT IN SUBSIDIARY COMPANIES (continued)**

Fair value is measured by applying to the net asset value of investees an estimated discount or premium determined through an analysis of comparable FTSE 100 and FTSE 250 companies. The selection criteria for comparable companies was applied to entities operating within the property sector and took into account factors including the size of the company and the presence of residential operations within the company. The discount or premium was determined based on market capitalisation and the resultant discount to/premium over the net asset value. The result, a 2% premium (2020: 26% discount), was applied to the net asset values (adjusted to bring book values to fair values for classes of assets and liabilities carried at book value) of each of the Company's subsidiaries to arrive at fair value. This premium arises from market-related factors and does not include an additional amount for control. Had the premium applied increased/decreased by 1%, the fair value of the investment in subsidiaries would have increased by £45.6 million or decreased by £45.5 million, respectively.

The fair value gain of £1,433.1 million (2020: loss of £146.1 million) was recognised through other comprehensive income.

Details of all subsidiaries as at 31 March 2021 are shown in Note 33 to the Consolidated Financial Statements.

d. **TAXATION**

ACCOUNTING POLICY

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

Current tax

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

Deferred tax

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

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

	2021 £'000	2020 £'000
Current tax		
United Kingdom corporation tax at 19% (2020: 19%)	-	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	-	(6,599)
Total taxation for the year	-	(6,599)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

d. TAXATION (continued)

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2020: 19%). The tax for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2021 £'000	2020 £'000
Profit before taxation	-	100,000
Tax on profit at the standard rate	-	(19,000)
Factors affecting the current tax for the year:		
Income not assessable for tax purposes	-	19,000
Taxation for the year	-	-

The rate of Corporation Tax for the UK remains at 19%. In the March 2021 Budget, it was announced that the UK's Corporation Tax rate will increase to 25% from April 2023. The March 2021 calculation of current tax continues to use the 19% rate and deferred tax uses the rate that corresponds to when the deferred tax item is expected to be resolved.

Deferred tax

The movement in deferred tax is as set out below:

	Tax losses £'000	Total £'000
At 1 April 2019	6,599	6,599
Charge to profit or loss	(6,599)	(6,599)
At 31 March 2020	-	-
Charge to profit or loss	-	-
At 31 March 2021	-	-

No deferred tax liabilities are recognised on temporary differences associated with the investment in the Company's subsidiary for the current year and preceding year in accordance with the accounting policy. At the balance sheet date, the Company has unrecognised deferred tax liabilities relating to the investment in the subsidiary of £790.4 million (2020: £518.0 million).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

e. PAYABLES

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Amounts owed to group undertakings	27	27

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

f. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICY

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

Financial assets

Impairment of financial assets

The Group's expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition.

Financial liabilities

The Company's financial liabilities consists of intercompany borrowings.

The Company has the following financial instruments:

	Note	2021 £'000	2020 £'000
Financial assets			
Investment in subsidiary companies	c	4,649,800	3,215,800
Total financial assets		4,649,800	3,215,800
Financial liabilities			
Liabilities measured at amortised cost:			
Payables	e	27	27
Total financial liabilities		27	27

Details of risk management of the Company are shown in Note 22 to the Consolidated financial statements.

Fair values

The fair values of the Company's borrowings are determined by a Level 2 valuation technique. Refer Note 22 to the Consolidated Financial Statements where the fair value measurement hierarchy levels have been defined.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021 (continued)

f. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Par value of debt £'000	2021 Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial assets			
Investment in subsidiaries	-	4,649,800	4,649,800

	Par value of debt £'000	2020 Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial assets			
Investment in subsidiaries	-	3,216,700	3,216,700

g. NOTE TO THE CASH FLOW STATEMENT

	2021 £'000	2020 £'000
Profit after tax	-	93,401
Adjustment for:		
Tax	-	6,599
Dividends received	-	(100,000)
Net cash from operating activities	-	-

h. RELATED PARTY DISCLOSURES

Amounts owed to related parties

	2021 £'000	2020 £'000
Annington Homes Limited	(27)	(27)
	(27)	(27)

Information regarding key management personnel

Details of payments to key management personnel are disclosed in Note 6. The Company considers its key management personnel to be its directors.

i. COMMITMENTS AND CONTINGENCIES

The Company had no capital or other commitments at 31 March 2021 (2020: £nil).

j. SUBSEQUENT EVENTS

In May 2021 Annington Limited declared and paid a dividend of £170.0 million to the Group's immediate parent, Annington Holdings (Guernsey) Limited.

Appendix 1: Glossary

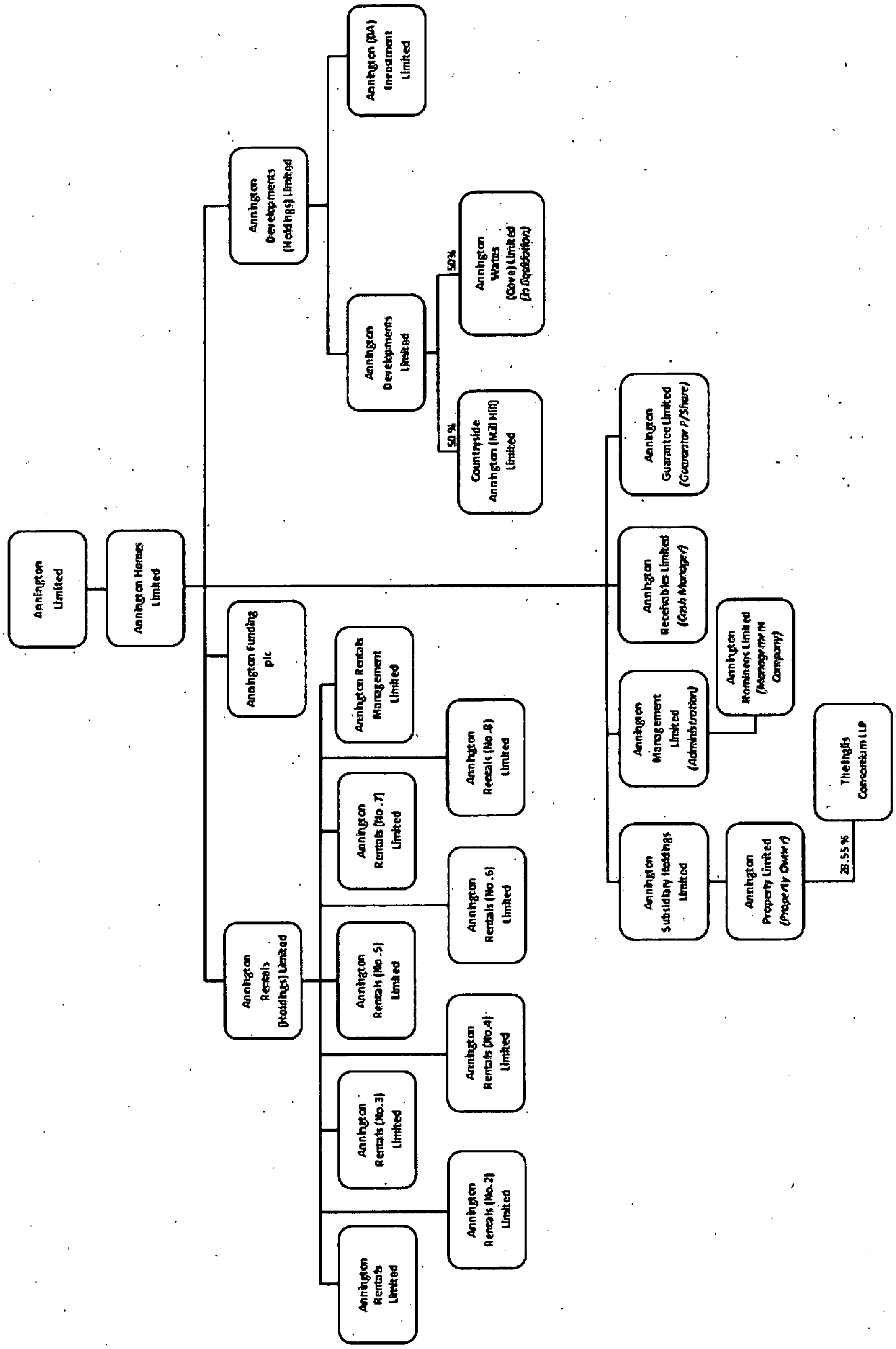
Term	Definition
1996 Acquisition	The acquisition of the portfolio of residential property units from the Ministry of Defence of the United Kingdom on 5 November 1996
Adjusted EBITDA	A measure of normalised earnings by removing exceptional and irregular items of profit and loss, as defined in the Alternative Performance Measures, Appendix 3
Adjusted EBITDA Margin	A measure of the Adjusted EBITDA as a percentage of gross rental income, as defined in Appendix 3
AHGL	Annington Holdings (Guernsey) Limited
Annington	The Annington Group, being Annington Limited and its subsidiaries
APL	Annington Property Limited, a subsidiary of the Group
Arbitration Agreement	The 7 March 2019 agreement with the MoD to expedite the process to complete the 2021-2024 Site Review rounds
AST	Assured Shorthold Tenancy
B/S	Balance Sheet
Base Dependency	Reliance of utility supply on, or connection to, the MoD supply of utilities.
Base Dependent Site	Site with a Base Dependency
Baskets	Under the Arbitration Agreement, 488 leases in the MQE were divided into 27 baskets of leases
Beacon Units	Certain Units located on each Site which have been specified in the related Underleases as being broadly representative of all of the Units on that particular Site
CBRE	CBRE Limited
CF	Cash Flow Statement
Company	Annington Limited
COVID-19	The outbreak of the novel coronavirus, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020
CRT	The Group's Corporate Responsibility Task Force
CWGC	Commonwealth War Graves Commission
Dilapidations and Handback Agreement	The agreement between APL and the MoD, pursuant to which the MoD agreed to release a minimum of 500 Units per annum (subject to a rolling two-year average) and APL agreed to waive up to £7,000 per unit of dilapidations and subject to an annual cap of £3.5 million (if the MoD complies with the agreed release profile)
DIO	The Defence Infrastructure Organisation
EPC	Energy Performance Certificates
ESG	Environmental, social and governance
Facilities Agreement	An unsecured £500 million facilities agreement
FAM	The Future Accommodation Model
FY 2020/2021	The financial year ended 31 March 2021
GHG	Greenhouse Gas
Group	The Annington Group, being Annington Limited and its subsidiaries

Term	Definition
HPI	House Price Index
I/S	Income Statement
IBOR	Interbank Offered Rate
IFRS	International Financial Reporting Standards
Joint Working Board	Representatives from the Annington Group and DIO
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
MHCLG	The Ministry of Housing, Communities and Local Government
MoD	The Ministry of Defence of the United Kingdom
MQE	The Married Quarters Estate – residential property units acquired under the 1996 Acquisition and leased to the MoD
Non-MQE Portfolio	The Non-MQE: Surplus Estate together with the Non-MQE: Rentals Portfolio and units under development either for sale or for rental
Non-MQE: Rentals Portfolio	Units owned by subsidiaries other than APL and let on bulk or AST leases
Non-MQE: Surplus Estate	Units transferred from the MQE Portfolio upon release by the MoD and which remain in APL
OCI	Other comprehensive income
ONS	The Office of National Statistics
Original Adjustment Factor	58% adjustment by way of discount to open market rent on the MQE Portfolio
Panel	A three person panel of experienced, impartial arbitrators
Portfolio SAVPV	The aggregate of the SAVPVs for all the properties in a portfolio
RBLI	Royal British Legion Industries
Released Units	Units which are released out of the MQE to Annington by the MoD
Rent Review	Review of rent payable on the Beacon Units within the MQE against open market rent. The MQE at the time of the 1996 Acquisition was split into four broadly homogenous tranches for the purposes of rent reviews, which are conducted on a five-year rolling basis, with a single tranche being reviewed over each of four of the five years, and no review being carried out in the fifth year.
RICS	The Royal Institution of Chartered Surveyors
SAVPV	Special Assumption of Vacant Possession Value, being the value estimated for a property based on the hypothetical assumption that such property is vacant, sold on an individual basis with no costs on disposal and introduced to the market in a phased and orderly manner, such that local markets do not become over-supplied and values are not depressed as a result
SDG	United Nations Sustainable Development Goals
SDSR	The Government's Strategic Defence and Security Review of 2015
SECR	Streamlined Energy and Carbon Reporting
Secured by Design	The official police security initiative that works to improve the security of buildings and their immediate surroundings.
Service Families	Armed Forces service personnel and their families in the UK
SFA	Service Family Accommodation, MoD's subsidised accommodation

Term	Definition
Site Review	Under the terms of each Underlease, the rent in respect of each Site (and specifically the Original Adjustment Factor) would be reviewed periodically. The purpose of the Site Review is to determine the amount that a willing lessee would pay, by way of rent, for each of the Sites, were each Site offered to the market on terms identical to the Underlease. The new site rent determined for each Site is then to be compared with the aggregate open market rental value of all units on each Site to determine a new adjustment factor, which would apply to that Site for the 15 years from the date of the relevant Site Review in place of the Original Adjustment Factor.
Sites	Sites upon which one or more Units were located
SONIA	Sterling Overnight Index Average
Subsidiary	A subsidiary within the meaning of Section 1159 of the Companies Act 2006
TCFD	Task Force on Climate Related Financial Disclosure
Terra Firma	Terra Firma Capital Partners Limited, Terra Firma Investments (Special Opportunities Fund I) Limited or Terra Firma Investments (Special Opportunities Fund II)
TFSOFI	Terra Firma Special Opportunities Fund I
TFSOFII	Terra Firma Special Opportunities Fund II
TOTS	Turn on the Subtitles
UK	The United Kingdom
UKGI	UK Government Investments
Underlease	The 200 year lease that APL has granted to the MoD following acquisition of the MQE Portfolio
Units	Residential property units
Utilities Agreement	An agreement whereby the MoD is contracted to supply some utility services on a base dependent site, until at least 75% of the properties located on a given Site have been released
VPV	Vacant Possession Value

APPENDICES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021

Appendix 2: Group Chart



Appendix 3: Alternative Performance Measures – Definitions and Calculation

Alternative Performance Measures

The Group employs a number of measures to monitor performance against its objectives. These are set out within the KPI section of this report. Certain of these measures are not defined within the applicable financial reporting framework and are therefore defined below.

	Reference	2021 £ 000	2020 £ 000
Gross rental income			
Gross rental income is derived from rentals earned on investment properties and is presented on the face of the income statement.	I/S	201,345	199,410
Net rental income margin			
Gross rental income as presented on the face of the income statement	I/S	201,345	199,410
Property operating expenses as presented on the face of the income statement.	I/S	(5,799)	(3,753)*
Net rental income		195,546	195,657
Divided by Gross rental income		201,345	199,410
Expressed as a percentage		97.1%	98.1%
*For comparability, property operating expenses for 2020 have been adjusted as follows:			
As reported in 2020 financial statements			9,387
Dilapidation income added back as set out in the financial statements	Note 5		7,631
As presented in 2021 financial statements as comparative	Note 4		17,018
Refurbishment costs as presented in Note 4	Note 4		(13,265)
			3,753
Adjusted EBITDA			
Adjusted EBITDA is calculated as:			
Operating profit before financing and tax as presented on the face of the income statement, adjusted for:	I/S	648,645	205,517
Amortisation, depreciation or impairment (including other non-cash write downs) of assets	Note 5	909	925
Revaluation gains on investment properties*	I/S	(478,091)	(38,714)
(Profits), losses or impairment items attributable to joint ventures	I/S	462	(965)
Refurbishment costs not capitalised*	Note 4	-	13,625
Dilapidation income*	Note 5	(3,105)	(7,631)
Profit on disposal of investment properties*	I/S	(12,644)	(9,591)
Loss/(profit) on disposal of inventory*	I/S	659	(369)
One-off items (Site Review costs shown in the income statement)	I/S	24,416	20,209
		181,251	182,646

*The calculation of adjusted EBITDA has been updated in the current year to take into account the capitalisation of refurbishment costs and the related effects this has had on dilapidations and profit on disposal of investment properties. This has resulted in the exclusion of the aforementioned items which were previously included solely because of their link to the refurbishment costs which were included in operating profit. The 2020 figure excludes refurbishment costs to ensure comparability across periods presented.

Appendix 3: Alternative Performance Measures – Definitions and Calculation (continued)

Revaluation gains on investment properties include the portion relating to the change in the utilities obligation, which was previously presented separately and listed as a separate adjustment to operating profit. Profit/loss on disposal of inventory has also been excluded as it is not viewed as a core part of the business.

	Reference	2021 £ 000	2020 £ 000
Adjusted EBITDA Margin			
Adjusted EBITDA margin is calculated as:			
Adjusted EBITDA as calculated above	Above	181,251	182,646
Divided by gross rental income as presented on the face of the income statement	I/S	201,345	199,410
Adjusted EBITDA Margin		90.0%	91.6%
Free cash flow			
Free cash flow is calculated as:			
Net increase/(decrease) in cash and cash equivalents, adjusted for:	CF	93,759	(59,043)
Purchase of investment properties, as shown in the Investing cash flows	CF	6,818	20,669
Dividends paid	CF	-	100,000
		100,577	61,626
Net rental yield			
Net rental yield is calculated as:			
Net rental income, as calculated above	Above	195,546	195,657
Divided by carrying value of investment properties	B/S	8,123,282	7,675,149
Expressed as a percentage		2.4%	2.5%

Appendix 4 - Summary of the Group's progress against the TCFD recommendations

GOVERNANCE	
Describe the Board's oversight of climate-related risks and opportunities.	The Group's Chief Executive has ultimate responsibility for sustainability, including climate change, and chairs the CRT. As the Group begins to consider the implications of climate-related risks and opportunities, the terms of reference, including the relationship with the Board, operating structure, frequency of meetings and outputs of the CRT will be reviewed to ensure environmental, social and governance (ESG) matters have an appropriate level of governance and are integrated within the business.
Describe management's role in assessing and managing climate-related risks and opportunities	The Group's new Design & Technical Manager (who reports, through the Head of Project Management, to the Property Director) will be responsible for embedding environmental considerations throughout the Group's design and build process. The CSR Manager is also responsible for communicating and implementing the CSR strategy within the Group, which includes climate related considerations and mitigating activities. If required, additional specialist resource will be utilised to ensure climate-related issues, including current and potential future policy, are identified and the implications for the Group are clearly understood
STRATEGY	
Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term.	Regulatory and financial related climate-change risk has been identified by the Group as a principal risk. Further information can be found in the Principal Risks and Uncertainties section of this report. The Group is at the start of a process to better understand climate-related risks to its business over the short, medium and long-term. A review identified the following potential impacts relevant to the Group's business from physical climate change risks associated with changing weather patterns and increased frequency of extreme weather events that lead to increased risks of flooding and overheating: • Disruption on site; • Disruption to the Group's supply chain; and • Impact on comfort levels in the homes the Group builds and refurbishes. Flood risk assessments are conducted for any new developments and further consideration may be required to properly consider the risk of overheating to the homes we build and refurbish. In addition, noting the MoD's responsibility for maintenance of the MQE, the Group nevertheless considers that there is a high level of transition risk as the UK moves to a low-carbon economy. This includes risks that arise from: • Policy changes resulting in new legislative requirements. For example, the impact of the Future Homes Standard and associated updates of the Building Regulations will require house building and renovations to result in increasing levels of energy efficiency and a move towards renewable energy for heating by 2025; • Carbon taxes and resulting increasing energy and material costs; and • Consumer preferences and expectations. The Group will be engaging with its supply chain partners and relevant expert bodies to improve its understanding of the financial risks to the business.
Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning	Going forward, the Group will undertake a climate-related risk and opportunity assessment, which will identify the impacts on the business strategy and financial planning.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	As part of the climate-related risk and opportunity assessment, the business will identify appropriate future climate scenarios to assess against.

Appendix 4 - Summary of the Group's progress against the TCFD recommendations (continued)

RISK MANAGEMENT	
Describe the organisation's processes for identifying and assessing climate related risks.	A full ESG review is underway and recommendations related to climate related risk assessments will be integrated into the Group-wide risk management framework and assessment to ensure robust management measures are in place.
Describe the organisation's processes for managing climate-related risks	As the Group begins to fully understand its climate-related risks and opportunities, these will be fed into the annual ESG risk assessment which will form part of its integrated risk management process.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The Group maintains a risk register which is updated and reviewed by the Board. The Audit Committee has specific responsibility for monitoring financial reporting, external audit programmes and providing assurance to the Board on financial, operational and compliance controls. The senior leadership team is responsible for implementing Group policies, tracking risk management performance, identifying principal risks and allocating resources for effective risk management and mitigation.
METRICS AND TARGETS	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities	Once the climate-related risk and opportunities assessment has been completed for the Group, appropriate metrics will be identified to assess the risks and opportunities going forward.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks	The Group measures Scope 1 and Scope 2 GHG emissions and these are reported in its Annual Report & Accounts as part of the annual SECR disclosure. Scope 3 emissions pertaining to business travel via employee-owned vehicles are included in this measurement and reported in the SECR disclosure.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	In due course further consideration to the introduction of targets to reduce location-based Scope 1 and Scope 2 will be made.

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