ANNINGTON

Annual Report and Accounts 2016

Contents

3 Strategic Report

44 Directors' Report

50 Statement of Directors' Responsibilities

52 Independent Auditor's Report to the Member of Annington Limited

54 Consolidated Statement of Income and Retained Earnings

55 Consolidated Balance Sheet

56 Company Statement of Changes in Equity

57 Company Balance Sheet

58 Consolidated Cash Flow Statement

60 Notes to the Financial Statements

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.

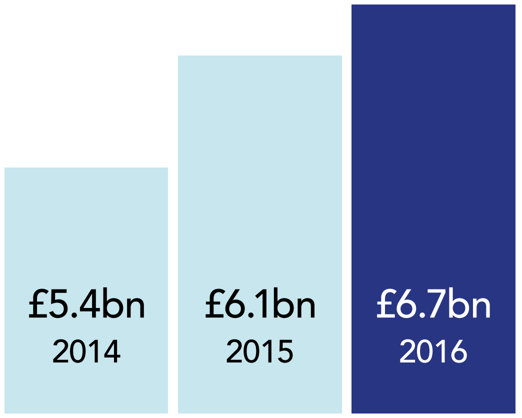
By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Many of these factors are 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 Annual Report.

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

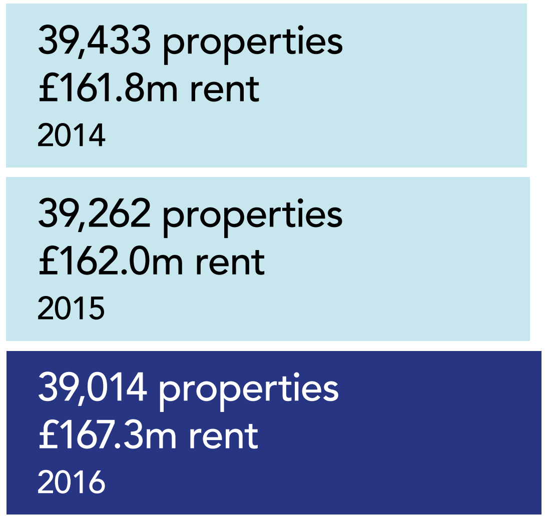
Strategic Report

Annington became one of the largest private owners of residential property in the UK when it purchased the Married Quarters Estate ("MQE") from the Ministry of Defence ("MoD") in 1996. Annington leases back the majority of its properties to the MoD to provide accommodation for Service Families. The MoD is responsible for the management and maintenance of the properties it leases, but when the MoD wishes to terminate its lease, the properties are released to Annington, refurbished and made available for sale or private rental at open market prices.

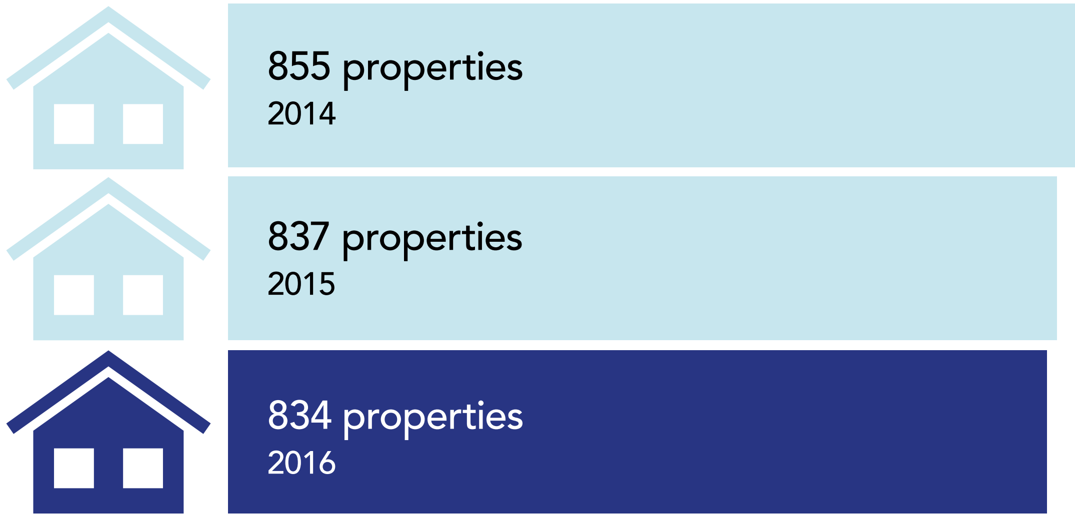
Selected Highlights 2015/16



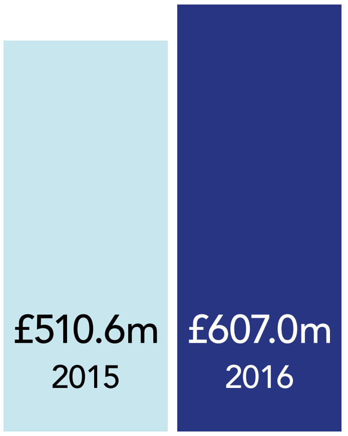
The carrying value of Group investment properties at year-end was £6.7 billion
up 9.8% from £6.1 billion (2014: £5.4 billion).



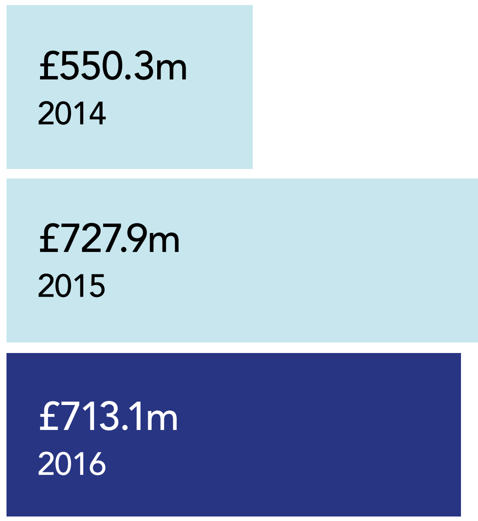
Annington Property Limited now leases 39,014 properties to the MoD generating £167.3 million rent per annum
(2015: 39,262 and £162.0 million, 2014: 39,433 and £161.8 million).



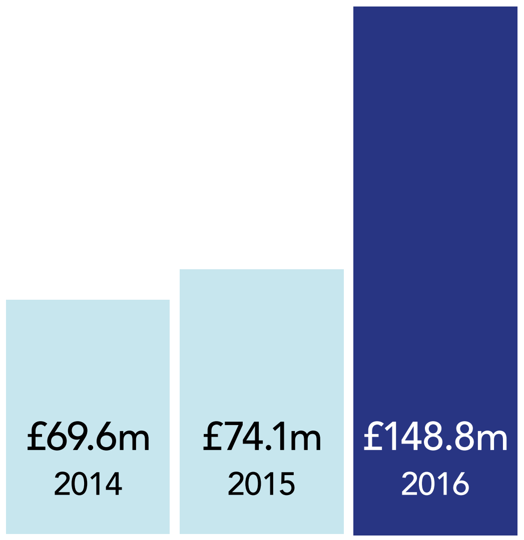
834 properties held on short-term bulk leases to the MoD
(2015: 837, 2014: 855).



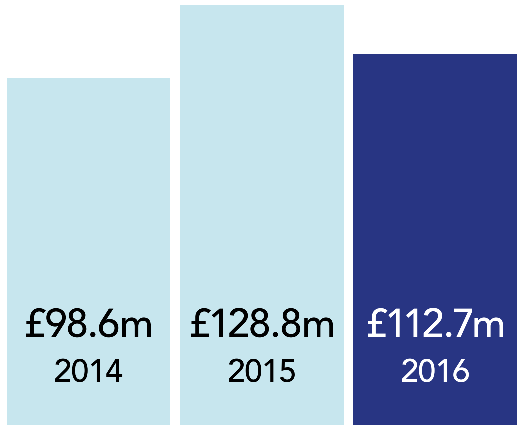
The Group profit on ordinary activities after taxation was £607.0 million
(2015: £510.6 million).



The revaluation of the Group's investment properties resulted in net uplifts in value of £713.1 million
(2015: £727.9 million, 2014: £550.3 million).

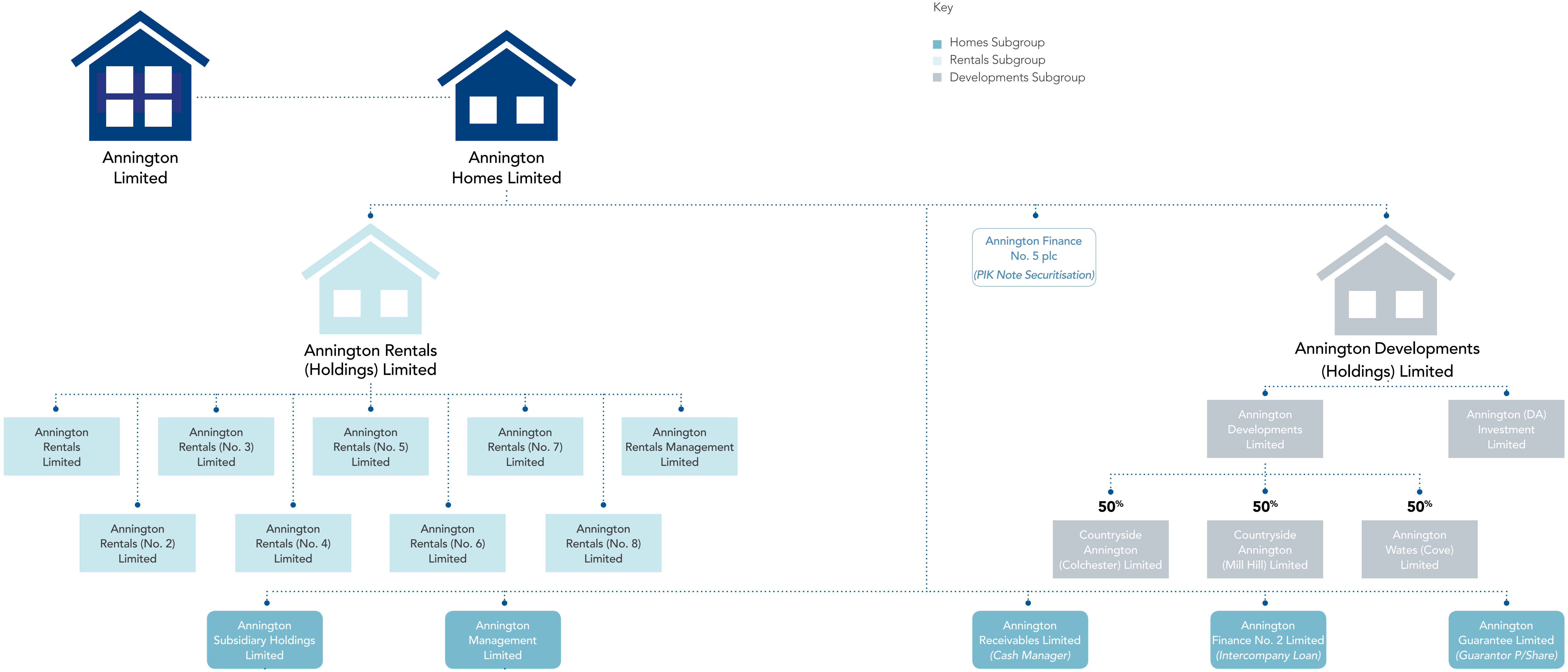


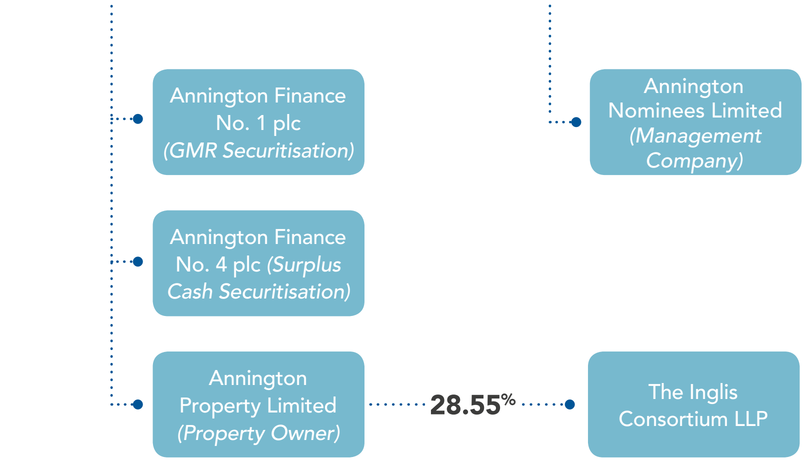
The Group sold 492 properties generating £148.8 million in income
(2015: 310 properties generating £74.1 million, 2014: 435 properties generating £69.6 million).



The Homes Subgroup repaid notes with a nominal value of £112.7 million
(2015: £128.8 million, 2014: £98.6 million).

Group Structure at 31 March 2016





The Group consists of three distinct operating subgroups:

- Annington Homes Limited Subgroup (together with subsidiaries, the Homes Subgroup)
- Annington Rentals (Holdings) Limited Subgroup (together with subsidiaries, the Rentals Subgroup)
- Annington Developments (Holdings) Limited Subgroup (together with subsidiaries, the Developments Subgroup)

The long-term financial strategy of the Group, the quality and strength of the rental income stream and the core organisational structure means that the Group was well positioned to take advantage of the recent improvement in market conditions.

The Group

HOMES SUBGROUP

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

- 765 sites, almost all on 999-year leases, comprising 55,060 units (the "Retained Estate"), which were then leased back to the MoD for a term of 200 years to provide the majority of the MoD's subsidised accommodation ("Service Family Accommodation") for Armed Forces service personnel and their families ("Service Families"). The MoD subsequently combined various units to create larger single properties, such that the revised total number of units within the original Retained Estate was 55,051;

- 58 sites comprising 2,374 units (the "Surplus Estate"), which were no longer required by the MoD for purposes of providing Service Family Accommodation; and

- certain related assets ("Related Assets"), consisting primarily of buildings used for purposes such as housing administration and welfare offices, community centres, crèches and thrift shops, as well as playground areas, sports pitches, tennis and squash courts and undeveloped open spaces.

At 31 March 2016, the Retained Estate comprised 39,014 (2015: 39,262) units leased to the MoD. The Retained Estate was purchased on a 999-year lease and immediately leased back to the MoD for a period of 200 years, subject to certain underleases which permit the properties to be used by the MoD to provide housing for married service personnel and their families. The underleases provide for the MoD to pay rent on a quarterly basis at a 58% discount to the open market rent of similar properties. These rents are subject to five-yearly reviews against open market values, subject to the agreed discount. All properties subject to these arrangements continue to be maintained by and remain entirely under the control of the MoD, subject to its operational needs. The identification of surplus properties and the timing of their release to the Homes Subgroup is entirely at the discretion of the MoD and, upon receiving not less than six months' notice, the Homes Subgroup is obliged to accept any properties declared surplus. At the end of the first 25 years following the initial acquisition, and every 15 years thereafter, a review is to be undertaken for each site, to rebase the rent to the full market rental value for the site as a whole, reflecting the various features of the underlying lease arrangements with the MoD.

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

The Master Agreement, dated 5 November 1996, contains certain obligations on the part of the MoD, to make guaranteed minimum payments of rent and, annually, to release to Annington a pre-set minimum number of units that have become surplus to requirement, known as the Minimum Release. The Guaranteed Minimum Payment continues to be payable in accordance with a predefined schedule until December 2021. The Minimum Release obligation, to release a minimum of 13,213 units in the period 1996-2021, excluding the original Surplus Estate, was satisfied in the 2006/07 financial year. Although the MoD is under no obligation to release further units and release levels have been comparatively low in the last few years, from a practical point of view it is expected that properties will continue to be released over time, as the MoD continues to rationalise the Armed Forces, as outlined in the Strategic Defence and Security Reviews of 2010 and 2015. However, as has been the case for a number of years, the level of releases in the short term is likely to be lower than longer term average release levels.

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

RENTALS SUBGROUP

The Rentals Subgroup was established in 1999 with the purpose of creating a series of residential investment portfolios, free of the constraints and conditions governing the Homes Subgroup portfolio, another subgroup within the Annington Limited corporate structure. Since that time, the Rentals Subgroup has grown to nine subsidiary companies which own 1,335 (2015: 1,442) properties and manage a further 109 (2015: 110) properties. The rentals portfolio is financed by external bank debt, drawn-down to the value of £141.7 million at 31 March 2016 (2015: £141.7 million). This facility is repayable in December 2018, with further details set out in the Financing section.

The Rentals Subgroup continues to look for opportunities to maximise returns through planned acquisitions and strategic sales.

"The Rentals Subgroup was created to provide both diversification and a more stable business model in which workflow and resources could be more evenly managed."

DEVELOPMENTS SUBGROUP

The Developments Subgroup was established in 1999 with the purpose of providing planning and development support to the wider Group. Where opportunities arise to create added value through infill development or wholesale redevelopment of landholdings, the Developments Subgroup will carry out limited development on its own account and enter into joint venture arrangements with other landowners and developers where the combination of skills will yield higher returns. At present, the Developments Subgroup is involved in three joint venture arrangements:

- Countryside Annington (Mill Hill) Limited: A scheme with Countryside Properties plc consisting of 395 homes (including 90 affordable). Construction work started in June 2007 and, when measured by sales, is approximately 69% complete (2015: 66%).

- Countryside Annington (Colchester) Limited: A scheme with Countryside Properties plc consisting of 256 homes (including 65 affordable) which is now built and sales complete, with the last unit sold in April 2013. This company commenced the process of members voluntary winding up on 4 May 2016.

- Annington Wates (Cove) Limited: A residential development in Cove, near Farnborough, which has been completed, with the last unit sold in September 2006.

The experience gained from the Developments Subgroup's operations has been called upon to guide the Group's 28.55% investment in The Inglis Consortium LLP, a joint venture held in the Homes Subgroup in partnership with VSM Estates Limited and the London Borough of Barnet to redevelop 77.6 acres of land in Mill Hill, London which has planning permission for 2,174 properties. The Inglis Consortium LLP undertakes groundworks and infrastructure improvements in order to sell serviced land to house builders.

Property Market Overview

The year started with continued demand in the housing market with prices increasing and price growth being supported by a number of factors including economic improvement, rising employment and low mortgage rates in the United Kingdom. All major indices (Halifax, Nationwide, the Land Registry, the Office for National Statistics ("ONS"), and Rightmove) recorded growth in house prices in a range from 5.7% to 10.0% to March 2016, not dissimilar to the 5.1% to 9.6% recorded in 2015. According to the ONS, annual house price inflation to March 2016 was 10.1% in England and 2.1% in Wales, with annual house price increases in England driven by an annual increase in London (13.0%), the East (12.2%) and the South East (12.1%). Excluding London and the South East, UK house prices increased by 5.9% to March 2016, emphasising the large regional variations. The Land Registry confirmed the ONS's findings with London, the South East, East Anglia and the South West all showing strong growth. It is fortunate that both the Retained and Surplus Estates are situated mostly in areas showing the strongest growth; more than 80% of Annington's stock is located in southern and south eastern England.

The upward trend in the number of home sales continued during 2015 as did total mortgage lending but availability of stock remains a recurring issue. Knight Frank's research revealed that the number of homes available for sale dropped to a new record low in October 2015. Construction activity improved and although by December quarterly housing starts were nearly double the trough of 2009, they remain below the peak of March 2007. Demand and supply criteria remain a dominant factor in the market, pushing up prices, and there is no prospect of this changing in the short to medium term. The Government is announcing new initiatives on an almost weekly basis and the Autumn Statement and Budget were full of proposals to stimulate growth and accelerate the number of houses being built. However, the fact remains that not enough homes are being built in the UK to cope with the demand, even though the output of the construction sector reached unprecedented levels in 2015 (£135.3 billion against the previous peak of £133.7 billion during the pre-recession boom of 2007 (Source: Leading Edge, Construction Market Forecast 2015-16). According to House Builders Federation's ("HBF") research, 181,300 homes (of which 155,080 represented new build) were added to the national housing stock in 2014/15, up 22% on the previous year and 33% on 2012/13. Whilst initial planning permission for 255,032 new homes was granted in 2015, a definite increase on prior years, early estimates of the number of homes actually built is not much greater than 2014/15. The empty housing stock is being depleted, according to Department for Communities and Local Government ("DCLG") figures, with the number of empty homes at its lowest levels since records began. This equates to a drop of over a third, from 318,642 empty homes in 2004 to 203,596 in 2015. Meanwhile, the historic backlog of under-supply, estimated at 100,000 homes per annum over the last 12 years, is only getting worse and the housing situation more acute (Source: HBF Report, "Barker 10 years on").

Worryingly, there are questions as to whether the industry even has the capacity to build the number of homes needed. The Royal Institution of Chartered Surveyors ("RICS") (UK Construction Survey) reported in October 2015 the highest skills shortage since they started recording such data in 1998. This will undoubtedly impact on growth potential for the industry and is only leading to construction cost increases and price rises. According to the Centre for Policy Studies' Report "What's Behind the Housing Crisis?", at least 320,000 homes a year are now needed to improve England's chronic shortage of housing. This lack of stock is impacting activity levels, but is also one of the factors serving to underpin high prices, alongside the economy, rising wages, continued low interest rates and high levels of consumer confidence.

The seemingly inexorable rise in house prices is having a continuing social impact, with house purchase no longer an option for many people whose only alternative option is rental. According to the ONS's Economic Review (April 2016), the three-decade long trend towards increased home ownership has reversed since the economic downturn, with the rate of owner occupation falling between 2008 and 2014. DCLG's Home Statistics confirm that home ownership is levelling out after a fall from a peak of 69.5% in 2002 to 62.5% in 2015. At the same time, the prevalence of private rentals increased over the same period. These changes were particularly pronounced for young, independent householders, with significantly higher percentages of household disposable income being spent on rent. Renting is now becoming increasingly subject to the same demand/supply constraints as house purchase to the extent that, in some areas, renting is becoming unaffordable for many as well.

Annington has seen increases in value on all its sites and house sales, partly due to market conditions and partly due to aggressive pricing. Value realised on all sales year to date, including private sales, means Annington is tracking the market almost directly. Whilst values achieved reflect the sites and locations in which they are released, value realised on all sales since 1996 also show that our sales price tracking is generally in line with nearest market comparables. Other operational measures are running ahead of long term averages; for example, time taken from reservation to exchange has improved by two days on last year.

There was a notable and unseasonal acceleration in house price growth from the New Year on, which was attributed to a temporary increase in demand from those looking to beat the stamp duty increase for second homes from April. According to the RICS, both buyer demand and sales growth have eased in the aftermath of the buy-to-let rush but this softening is only expected in the near term with confidence that house prices will continue to rise firmly at the UK wide level. As in previous years, the same demand/supply pressures are going to continue to push pricing for the foreseeable future. At the time of writing, the United Kingdom has voted to leave the European Union. It is too early to understand the real impact of Brexit on the property market. Clearly, there has been an immediate adverse effect on the share prices of property companies but whether this is short term or has longer term consequences remains to be seen. For our part, there has been no adverse impact to date on sales on our sites.

It remains Annington's view that the private rental sector will continue to perform strongly. Property purchase affordability will continue to be an issue particularly in Greater London and the Home Counties, where renting from the private sector remains the only option for many low to middle income families.

Objectives and Strategy

HOMES SUBGROUP

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

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

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

RENTALS SUBGROUP

A series of subsidiaries has been established to hold residential properties with different commercial characteristics, each requiring slightly different management decisions to achieve their individual objectives. The Rentals Subgroup provides a number of offerings including letting properties to provide comparable evidence for market rents in key locations for the Homes Subgroup and letting properties on short leases to individuals or on bulk leases to organisations (such as universities, housing associations and local authorities) on longer term rental contracts with a view to making capital gains in the medium-term. It also bulk lets properties on long leases to the MoD in response to demand for units in locations not adequately serviced by the MoD's current housing provision.

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

The portfolio is subject to ongoing review to ensure that the underlying assets are providing returns in accordance with the investment rationale. This review process seeks to identify the best investment return for the Group, whether through continued rental, disposal or development in part or whole.

DEVELOPMENTS SUBGROUP

The Developments Subgroup will continue to provide planning and development skills to the wider group. The Developments Subgroup has developed some successful projects both individually and in joint ventures and will continue to seek further development opportunities where a sharing of skills and resources is considered to give opportunity for increased returns from UK based property developments.

Operations and Performance

HOMES SUBGROUP

Operations

At 31 March 2016, the MQE comprised 39,014 (2015: 39,262) units leased to the MoD. At that time, the MoD had released 16,046 (2015: 15,798) properties from the Retained Estate and 181 Related Assets (2015: 180) to the Company, in addition to the original 2,374 properties in the Surplus Estate. 18,056 (2015: 17,673) of the released and surplus properties have been sold and 20 (2015: 20) demolished or consolidated, leaving 344 (2015: 479) unsold. Of the unsold units, 75 (2015: 271) are held pending planning for redevelopment, with 6 (2015: 4) held in temporary rental, leaving 263 (2015: 204) properties available for private sale. Related Assets and new build units account for a further 247 (2015: 245) unit sales.

The releases during the year from the MoD were at a similar level to prior years, with a total of 248 units and one related asset (2015: 171 units and one related asset) released in the year.

Release levels for the last five years

Year ended 31 March	Number of released units
2012	143
2013	22
2014	514
2015	171
2016	248

Releases at Canterbury, Whetstone and High Wycombe accounted for 98% of units released. Given the low volume of releases over the last couple of years, sales activity has been focused on a restricted number of sites, most notably at Henlow, Whetstone and High Wycombe. A large majority of the units that have been refurbished at these sites have been sold or reserved, with only a handful remaining. The year also saw the last of the 155 units at Waterbeach sold with all properties completed successfully or in the process of being completed with sales values ahead of expectation.

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

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

Performance

Through Annington Property Limited, the Subgroup's principal operating subsidiary, the Homes Subgroup generated rental income of £167.9 million (2015: £163.9 million) and generated £120.6 million (2015: £49.4 million) of income by selling 383 units and two related assets (2015: 205 units). The current year includes a bulk sale of 142 units at Whetstone, London, following the granting of planning permission for 288 new homes, of which 20% (59 homes) of the new properties will be provided as affordable housing.

The second round of the fourth Rent Review cycle concluded in December 2015, with the Rentals team achieving a 16.1% uplift across all reviewed sites. This represents a £6.9 million increase in rental income per annum.

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

As at 25 December	Number of units	Rent receivable (£'000)	Increase in rent receivable per unit (%)
1996	55,054	110,985	-
2002	44,987	134,427	48.2%
2007	41,393	152,040	22.9%
2012	39,952	162,603	10.9%

The Homes Subgroup's results are reflective of not only the market but the nature and number of units available for sale following releases from the MQE. Recent years have seen relatively low levels of releases which effectively caps the number of units available for sale.

In respect of sales activities, a key measure is whether the net sales proceeds (after refurbishment costs and dilapidations income) are in line with the anticipated market value, after taking market movement into account. This measure is expressed as a percentage of the indexed open market value (using the blended average of the Halifax and Nationwide house price indices as the basis for market movements) as assessed at the time of the Annington Group's acquisition of the properties ("HPI OMV"). Achievement against HPI OMV was 100.0% (2015: 103.7%) in the year. The long-term average achieved since January 2000 is 99.9% (2015: 99.3%) confirming that performance closely tracks the market.

The net value realised per unit (sales price net of incentives – refurbishment costs + dilapidations) has increased during the current year, with the actual achieved price at £253,000 (2015: £205,000). This reflects the nature and location of the properties disposed of during the year, including the 142 units at Whetstone sold in a bulk sale for further development.

Overheads were closely monitored during the year. The number of staff employed at 31 March 2016 stood at 40 (2015: 39). This continues to represent an optimum number with which to operate the company, given the current release profile, although still historically low. Whilst the continued reduced level of staff is recognised as a business risk if release levels suddenly pick up, management remain confident this risk can be controlled and the business managed effectively through a combination of recruitment and outsourcing.

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

RENTALS SUBGROUP

Operations

The Rentals Subgroup now owns 1,335 (2015: 1,442) properties and manages a further 109 (2015: 110) properties. There are nine subsidiaries within the Rentals Subgroup, eight of which own properties, with the remaining company managing properties. Each portfolio has a different characteristic and is therefore subject to different management considerations. Strategic decisions, such as acquisitions, refurbishment programmes, letting criteria and disposals are all taken by the rentals management team. The day-to-day letting, billing, rent collection and maintenance activities are outsourced to Touchstone Corporate Property Services, who in turn use a network of local letting agents to arrange inspections and individual lettings. This structure works well for the Rentals Subgroup given the geographic spread of properties, and enables the in-house portfolio managers to maintain a strategic focus. The portfolio managers meet weekly to consider issues arising and maintain fortnightly meetings with the Touchstone Corporate Property Services team, in order to progress lettings and ensure appropriate action is taken with regards to void units, arrears etc.

The strategic review of units within the portfolio for long-term returns has continued during the 2015/16 year, with 107 (2015: 105) units sold by the Rentals Subgroup following such reviews. Approximately one third of the units sold were from the site at Balham where a successful joint venture with Fairview Homes saw the refurbishment and new build of 74 properties, one quarter of the sales were generated by the bulk disposal of 26 flats in Liverpool and single units comprised the remainder.

The Rentals Subgroup continues to operate a mixed portfolio of rental units on Assured Short-hold Tenancies ("AST") and bulk leases. Bulk leasing to the MoD remains unchanged in the year and is likely to remain so until the MoD's long-term estate strategy becomes clear.

Operations and Performance (continued)

RENTALS SUBGROUP (continued)

Performance
Gross rents have decreased marginally to £15.1 million (2015: £15.4 million). The major cause of this decrease has been the disposal of properties, as rental voids have been kept well below set targets and rents have continued to be monitored and maintained at market levels on ASTs. Bulk lettings to the MoD (representing over one half of the properties) are at fixed rental values for the first five years of the lease.

During the year, 107 property disposals were made by the Rentals Subgroup (2015: 105). This resulted in income of £27.8 million (2015: £24.6 million) and gross profit of £0.4 million (2015: £2.7 million). The uplift in sales income reflects the sales values achieved at the Balham development, with many sales completed early in the year, meaning that sales values were close to the March 2015 book values, reducing the gross profit.

£5.0 million (2015: £6.3 million) was made available to Annington Homes Limited for Group debt service or investment purposes, through net rentals and sale proceeds.

DEVELOPMENTS SUBGROUP

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

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

The Developments Subgroup has moved to an outsourcing model, with consultants retained to provide planning assistance within the Subgroup and to the wider Group. During the year, the Developments team continued to be involved with managing the Developments Subgroup’s joint venture companies, Countryside Annington (Colchester) Limited and Countryside Annington (Mill Hill) Limited and with managing the Homes Subgroup’s interest in the Inglis Consortium LLP joint venture.

The joint ventures with Countryside at Colchester and with Wates at Farnborough are both build and sales complete but management involvement is required whilst maintenance issues are resolved. During the year, both these joint ventures have had minimal activity, with Countryside Annington (Colchester) Limited commencing the process of members voluntary winding up on 4 May 2016.

The joint venture at Mill Hill has improved greatly after a difficult year in 2015, with the site’s design and build contractor going into administration. This delayed the project’s timeline by approximately 18 months but construction on its final phase of 121 units has restarted, with 10 completions occurring during the year ended 31 March 2016. Market demand for the units has held up well, where any reservations and exchanges that were lost during 2015 were replaced and at 31 March 2016, 22 units were exchanged and a further 27 were reserved.

“The Homes Subgroup has again benefited from its ability to manage the mix of rentals and sales strategies to meet the variable demand for properties on its sites across the country.”

Performance
Development activities continued to show good progress and generated significant value in the year. The Developments team continue to provide planning advice to the Group and have assisted in ad hoc projects across the country. Most of the effort this year has been involved with managing the Subgroup’s interest in the joint venture company Countryside Annington (Mill Hill) Limited and overseeing Annington Property Limited’s interest in The Inglis Consortium LLP, a joint venture entered into with surrounding landowners to develop a total of 77.6 acres of land at Mill Hill, north London.

Success has been achieved from the long awaited sale of 142 units at Whetstone. After a protracted and expensive battle to gain vacant possession of the site from a large crowd of squatters and activists who had illegally occupied Sweets Way Estate, the houses have all been demolished and the sale to Taylor Wimpey was completed in December 2015.

One large site remains to be progressed, at Brize Norton, where planning permission for 135 units has been secured to replace the existing 54 flats. Full planning permission should be secured during the course of 2016 and, following this, an appraisal of the best returns from this site will be performed, likely leading to a sale or potential build out.

The Subgroup’s own joint ventures, have reported stable results during the year. At Mill Hill, income of £5.5 million was recorded in the year to March 2016 (2015: £1.1 million). At Colchester, with the project drawing to a close, there were no sales in the current year (2015: nil).

GROUP TOTAL RECOGNISED GAINS AND LOSSES

Within the Group’s reported gains and losses are significant items relating to fair value movements on investment properties and non-cash interest expenses. The Group’s financing arrangements include zero coupon bonds with a par value of £2.4 billion. These notes accrue interest throughout their life but cash is only required to be paid upon redemption. Additionally, the financing issued by Annington Finance No. 5 plc (“AF5”) includes a PIK toggle, which allows the Group to elect whether interest on the £550 million 13% Senior PIK Notes due in 2023 is paid entirely in the form of additional Notes, entirely in cash or through a combination of additional Notes and cash, based on the availability of resources.

The Group reported a profit on ordinary activities after taxation of £607.0 million (2015: £510.6 million). This includes gains and losses on revaluation of the Group’s investment properties of £713.1 million (2015: £727.9 million).

Financing

The Group is financed by a mixture of long-term and short to medium term debt arrangements, as set out below.

ANNINGTON LIMITED

On 18 December 2015, Annington Limited entered into an agreement with its parent company Annington Holdings (Guernsey) Limited permitting it to issue zero coupon subordinated and unsecured loan notes in an aggregate principal amount of up to £290.7 million, due in 2024, with an effective interest rate of 11%. Proceeds have been used to pay interest on the AF5 PIK notes and to redeem PIK notes previously issued in lieu of cash payments. The Company has issued notes in an aggregate principal amount of £174.9 million as at 31 March 2016, which has subsequently been utilised to pay interest and redeem notes previously issued in lieu of interest by Annington Finance No. 5 plc.

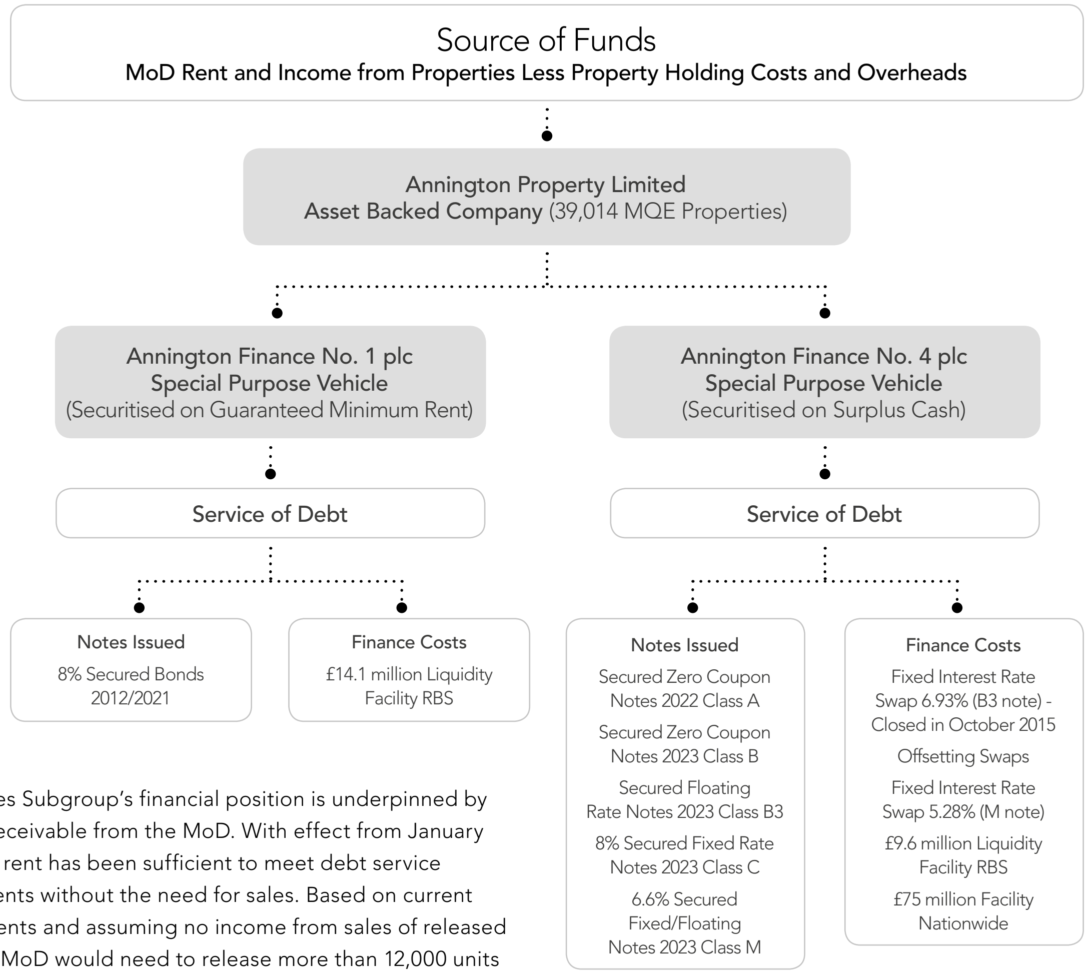
ANNINGTON FINANCE NO. 5 PLC - PIK NOTES

The acquisition of the Group by the Terra Firma Special Opportunities Fund 1 LP was funded in part by a debt issuance on 4 December 2012. On this date, Annington Finance No. 5 plc issued £550 million 13% Senior PIK Notes due in 2023, guaranteed by Annington Homes Limited and Annington Limited. Interest is payable semi-annually in arrears in January and July, with the first payment taking place in July 2013. Interest is payable, at the option of the Issuer, entirely in the form of additional Notes, entirely in cash or through a combination of additional Notes and cash.

HOMES SUBGROUP

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

A simplified diagram of the principal sources and application of funds for the Homes operational Subgroup is shown opposite:



The Homes Subgroup's financial position is underpinned by the rent receivable from the MoD. With effect from January 2008, this rent has been sufficient to meet debt service requirements without the need for sales. Based on current average rents and assuming no income from sales of released units, the MoD would need to release more than 12,000 units before the debt service obligations of the Subgroup are unable to be met from rental income. This means that the Homes Subgroup does not have to consider liquidity issues when determining appropriate strategies and is in a robust position, confident that the current market conditions will not call for significant changes to operations.

Long-term funding is arranged through the securitisation vehicles Annington Finance No. 1 plc ("AF1") and Annington Finance No. 4 plc ("AF4"). Both of these companies are reviewed by their respective rating agencies as part of the issuance conditions. Due to a downgrade of the credit rating of UK's Long-term Issuer Default Rating, of which the AF1 securitisation has direct credit exposure to the United Kingdom sovereign, the AF1 8% 2012/2021 Secured Bonds were downgraded from AA+ to AA by Moody's Investor Services on 27 June 2016. Liabilities to AF1 are exactly matched to the Guaranteed Minimum Payment, received each quarter from the MoD. Cash received is placed on deposit for the short period between receipt and payment to AF1 note holders. As a direct result of the 9 June 2015 downgrade of the credit rating of The Royal Bank of Scotland, on 25 June 2015 Standard & Poor's downgraded the credit rating of the Annington Finance No. 4 plc B3, M and C notes from A- to BBB+. This does not reflect any changes in the Group or performance against covenants by the Group.

Any rent received over and above the Guaranteed Minimum Payment, plus net sales proceeds are accumulated throughout each calendar quarter, with cash being held on short-term deposit to meet the quarterly AF4 payments.

At the end of each quarter, all cash so accumulated and not paid to meet allowable expenses and overheads must be used, firstly to meet interest obligations and secondly to collateralise and/or redeem outstanding principal. Consequently, all excess cash generated by Annington Property Limited operations is utilised to service debt at the end of each quarter.

RENTALS SUBGROUP

On 24 December 2013, Annington Rentals (Holdings) Limited entered into a £165 million Five Year Term and Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc. Further details on the facilities are available in note 19.

DEVELOPMENTS SUBGROUP

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

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

Financial Position and Accounting Policies

The Group's significant accounting policies are stated in note 1 to the financial statements. The Group's financial position is summarised below.

The Company transitioned to FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" during the year. As required by that standard the comparative financial information for the year ended 31 March 2015 has been restated. The principal changes affecting the entity are:

- Gains and losses on revaluation of the Group's investment properties are shown in the Group's profit and loss results instead of being recorded directly in reserves. For the years ended 31 March 2015 and 2016, this has resulted in the Group reporting a profit on ordinary activities where previously a loss would have been reported.

- Deferred tax liabilities on investment property revaluations and consequently deferred tax assets are now recognised on the Consolidated Balance Sheet. This has resulted in a lower accounting value of the net assets of the Group in comparison to what would have been reported under the old UK GAAP.

Details of the effect of the change on the entity's financial position and financial performance for the year ended 31 March 2015 are reported at note 33 "Transition to FRS 102".

At 31 March 2016, the Group's total assets amounted to £6,862.0 million (2015: £6,209.3 million), with all investment properties located in England and Wales. The market value of these properties is reassessed annually, with the Group's total investment property assets worth £6,671.0 million at 31 March 2016 (2015: £6,062.6 million). The Group's share of its joint ventures totalled £33.4 million (2015: £29.2 million) and the Group held £157.4 million of current assets (2015: £117.4 million), mainly comprising cash and other short-term investments.

The Group's combined liabilities totalled £3,855.9 million (2015: £3,810.2 million), comprising a mixture of long-term debt and short-term borrowings and exposure to deferred tax, mostly arising on the revaluation of investment properties. The Group's long-term funding is arranged through the securitisation vehicles Annington Finance No. 1 plc ("AF1") and Annington Finance No. 4 plc ("AF4"), secured against the assets and cash flows of Annington Property Limited, and through the Annington Limited ("AL") and Annington Finance No. 5 plc ("AF5") notes, secured against the cash flows and shares of Annington Homes Limited. The Rentals Subgroup has entered into funding arrangements consistent with a residential investment portfolio with medium-term investment time horizons. During the year, the Company became party to new debt, subordinated to all other group borrowings, the proceeds of which have been utilised to reduce the level of debt held by AF5.

Each year, the Homes Subgroup is required to use cash flows from operations to reduce the outstanding debt in AF1 and AF4. During the current year:

- AF1 repaid principal of £36.7 million (2015: £36.5 million) on its bonds;

- AF4 repaid principal totalling £40.4 million (2015: £70.8 million) on the B3 Floating Rate Notes;

- AF4 repaid principal totalling £50.7 million (2015: £nil) on the M Fixed/Floating Rate Notes;

- AF4 paid £27.9 million to meet 'offsetting' swap costs (2015: £25.2 million), as required by the AF4 securitisation arrangements; and

- AF4 contributed £18.1 million (2015: £9.6 million) to the holdback mechanism attaching to the Class A Zero Coupon Notes and the Class B Zero Coupon Notes, of which £17.8 million (2015: £6.3 million) has been used to repurchase and cancel notes and the remainder is held in cash.

On the set interest payment dates during the year, AF5 paid cash interest of £46.2 million (2015: £5.9 million) and issued £39.0 million (2015: £74.7 million) of new PIK notes in lieu of cash interest payments. During January 2016, there were two optional redemptions totalling £124.5 million of notes previously issued in lieu of cash interest, with a further £5.2 million of accrued interest paid on the optional redemption balance (2015: £nil).

Annington Rentals (Holdings) Limited's £165 million Five Year Term Revolving Facility is drawn down to a value of £141.7 million (2015: £141.7 million) and the covenants attaching to Rentals Subgroup debt facilities have not been breached during the year or subsequently, with the current forecast not indicating any covenant breaches within the term of the loan.

Key Performance Indicators

The Group measures KPIs based on the controllable variable drivers of its activities. Certain overriding considerations need to be noted when assessing the KPIs. For example, given the unique nature of the Homes Subgroup's portfolio, the achievement of targets will be dependent upon the type of unit, the location, its condition and the timing of the release. Therefore, it is not appropriate to simply compare KPIs from one year to the next due to these variations but they are used to monitor longer-term trends. There are no relevant key performance indicators set for the Developments Subgroup.

"In respect of sales activities, a key measure is whether the net sales proceeds (after refurbishment costs and dilapidations income) are in line with the anticipated market value, after taking market movement into account."

The main key performance indicators considered are:

Subgroup	KPI	2015/2016	2014/2015	Basis of calculation
Homes	Achievement of indexed open market value	100.0%	103.7%	To compare the value realised on the sale of a property with the value expected if the property value at acquisition had increased in line with the general house price index. The value realised is calculated as sales income plus dilapidations less refurbishment costs. This is then divided by the original value, and indexed using an average of the Nationwide and Halifax house price indices movements from 1996 to the date of sale.
Homes	Time to sell:			From the point MoD release properties, Annington's rental income ceases. It is, therefore, important that Annington Property Limited quickly decides what action is to be taken in order to achieve maximum value. Annington, therefore, measures the time to sell a property under three separate headings.
	Average weeks from MoD termination to sales release	36	77	
	Average weeks from sales release to sales completion	15	15	
	Average weeks from sales reservation to sales completion	9	9	
Homes	Net sales price per unit	£313,355	£241,021	Gross sales less value of incentives.
Homes	Refurbishment costs per unit net of dilapidations received	£21,809	£35,526	Amount spent on the repair, refurbishment and upgrade of property less the amount received from the MoD in respect of works necessary to bring the property up to good and tenantable order.
Homes	Sales and marketing cost per unit	£3,461	£6,804	Advertising and marketing costs apportioned to each unit sold on a site.
Homes	Holding costs per unit	£1,021	£2,539	Costs incurred in securing and maintaining a site/ property whilst awaiting sale.
Rentals	To manage costs within pre-defined targets.	(9.80)%	(3.59)%	To compare actual expenditure levels against predetermined forecasts, to ensure adequate control over expenditure. The KPI is measured as the percentage (overspend)/underspend from forecast.
Rentals	To maintain void levels below 5.0%	0.07%	1.21%	To measure the amount of potential rent lost arising from properties being void as a percentage of total potential rent.

Principal Risks and Uncertainties

The table below outlines the principal risks and uncertainties:

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

Area of Potential Uncertainty	Risk / Opportunity	Strategy
Low levels of property releases by the MoD.	Under the terms of the contract, the MoD is required to release a minimum of 13,213 properties from the original Retained Estate during the period to December 2021. As at 31 March 2016, the MoD had released 16,046 units, effectively fulfilling this obligation. Consequently, the MoD need not release any further properties to the Homes Subgroup.	The Board recognises that the decision regarding the future rate of property releases rests entirely with the MoD and, when reviewing employee resourcing, the Board recognises the possibility that activity levels and market conditions may vary. The business will continue to examine and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate.
Fluctuating interest rates.	The Homes Subgroup has entered into long-term funding arrangements to fit with the long-term investment strategy.	To counter the long-term exposure to fluctuating interest rates the Homes Subgroup, through its subsidiaries, has effectively fixed interest rates through to 2023 by issuing a mix of zero coupon notes, fixed interest notes and floating interest rate notes which are matched by interest rate swaps.
Late receipt of rent from the MoD.	The terms of the underleases require the MoD to pay rent to the Homes Subgroup on a quarterly basis. Interest payments on the Homes Subgroup's debt are also due quarterly. However, in the unlikely event that the MoD is late in paying its rent or otherwise market interruption causes the rent not to be received, then there is a risk that the Homes Subgroup would not be able to meets its debt service obligations.	The Homes Subgroup has entered into three liquidity facilities to provide cover for: AF1 - £14.1 million AF4 Class B3 and Class M notes - £9.6 million AF4 Class C notes - £75.0 million
Organisational Resilience.	Our performance and success is dependent, in part, upon the members of our management team. There are several staff members who hold significant relationships with, and understanding of the requirements of, the MoD, other relevant public and regulatory authorities in the industry in which we operate and other persons with whom we regularly deal in the conduct of our business. Should such staff members leave in significant numbers or should they leave unexpectedly, our business, results of operations and financial condition could be adversely affected.	Knowledge is shared between senior staff members at weekly Directors Meetings and monthly Senior Managers Meetings (described in the Directors' Report). This mitigates this risk by passing knowledge between the members of the management team. Additionally, if release levels suddenly pick up, management is confident it can be controlled and the business managed effectively through a combination of recruitment and outsourcing to provide the resource needed.

Principal Risks and Uncertainties (continued)

Area of Potential Uncertainty	Risk / Opportunity	Strategy
Rentals Subgroup		
Fluctuating interest rates.	The Rentals Subgroup has entered into medium term funding arrangements at a floating interest rate to fit with the medium-term investment strategy. Additionally, the facility is due for renewal by December 2018. Whilst management are confident of being able to replace this facility, there is a risk that prevailing market conditions at the point of entering into a new facility will alter the interest profile of the Rentals Subgroup.	To counter the exposure to fluctuating interest rates, the Rentals Subgroup has fixed interest rates for the life of the debt by entering into interest rate swaps to fix the interest liability. Management actively review opportunities for refinancing in the lead up to the expiry of debt facilities. In doing so, they seek to take advantage of the best market rates available to the Group.
Changing demand for rental property.	A number of Rental Subgroup subsidiaries let residential property using assured shorthold tenancies. There is a risk of changing demand, which could affect either, or both, void and rental levels.	Management constantly reviews properties which may become void in the short-term and decide what rental levels should be achieved on re-letting. Should it become uneconomic to retain such properties then options, including potential refurbishment and/or disposal, are considered.
Changing demand for bulk residential rental properties.	Annington Rentals (No.4) Limited, Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited let blocks of properties to 'corporate' organisations. If the demand reduces then the relevant rental company could have a significant number of void units to deal with.	Annington Rentals (No.4) Limited lets blocks of property for periods of 3 – 5 years. In-house staff maintain regular contact with the 'tenant organisation' in order that any potential lease terminations are noted as early as possible, to facilitate timely consideration of options to re-let, refurbish and/or sell. With regards Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited lettings, each property is let on an individual lease for 10 years with a 5-year break. Again regular contact is maintained with the 'tenant organisation' to monitor demand and changing requirements.
Developments Subgroup		
The company's residential development projects are exposed to the current and future demand for new housing.	As with all new-build developments, the goal is to deliver the right product to market at the right time.	Regular management meetings consider changes to requirements and pricing before committing to further avoidable costs. This has resulted in slowing down development if it appears that completed stock will exceed demand.

Outlook

Annington's financial year to 31 March 2016 began with the rate of growth remaining subdued, particularly in London and the South East. Economic conditions have remained supportive; however, market conditions continue to remain tight as the imbalance between supply and demand persists.

The Land Registry recorded an annual increase of 8.2% in house prices to April 2016 in England and Wales, bringing the average price of a property to £209,054 compared with the previous peak of £181,014 in November 2007. The Nationwide reported a rise of 4.9%, representing a small decrease on the 5.7% recorded in March with both the RICS and the Halifax house price indices showing a marginal decrease for the month.

In the financial year ended 31 March 2016, the MoD released 248 units and one Related Asset across eight sites. The trend towards lower release volumes is expected to continue over the short term, at least until the MoD's review of estate strategy has been completed, the implementation of any new policy commences and the resettlement of the troops returning from Germany is substantially complete.

Future release levels by the MoD look set to remain at a low level for the foreseeable future even though the voids are running in excess of 20% of the estate (UK Defence Statistics – Service Family Accommodation). It was anticipated that the appointment of Capita as the MoD's Strategic Business Partner in 2014 coupled with the appointment of a new CEO in June 2015 would result in a fresh start but almost two years on, there have been losses at the senior management level and a new course of strategic thinking remains to be seen.

Key projects affecting the Married Quarters Estate (MQE) – the Footprint Strategy, the Basing Plan, the Living Accommodation Strategy Review and the New Employment Model – were all stalled in the run up to the General Election and, subsequently, pending the outcome of the Strategic Defence and Security Review ("SDSR") in the autumn. Even though a number of important announcements were made in November regarding SDSR 2015, the primary objective of which is to reduce the MoD's current basing footprint and make it more affordable, details of this are not going to be seen until autumn 2016 (at the earliest), when a view on future release profiles may be formed.

Outlook (continued)

Despite the recent challenges, the Commercial Department's operations have significant interfaces with members of the DIO organisations and considerable effort continues to be made to develop relationships so that as and when the DIO business plan is settled and announced, we will be well placed to understand it and what this might mean for housing and releases. Annington will continue, as it always has done, to encourage more co-operation and partnership.

Annington's operational strategy is largely unchanged from previous years. The business will continue to define and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate, whilst presenting a flexible approach to the MoD/DIO.

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

Since the EU Referendum, there has been much uncertainty about the direction of travel in the UK housing market and wider economy, as it remains impossible to accurately predict what will happen as a consequence of the Leave vote. Market indicators, such as RICS surveys, suggest that a continuation of the uncertainty is likely to reduce price growth and transactions, especially with first-time buyers, in the short term.

In the short to medium term the underlying supply and demand dynamics are unlikely to change radically and, in the month since the referendum, commentators have noted that property price growth, whilst slight, has remained positive, with Nationwide reporting a monthly change of 0.2% in June 2016 and Rightmove reporting 0.8% for the same month. Other residential research reports that expectations are for mortgage lending to be robust in the medium term, as it is unlikely that lenders will follow should the base rate be reduced, whilst the prospect of an increase in mortgage interest rates has diminished in the short to medium term. Due to the tighter lending criteria in recent years, those with fixed term fixed rate deals are unlikely to be as affected over this time frame.

With the EU exit process yet to be set in motion, it is still too early to know what the impact will be once activated. Nonetheless, as commentators have articulated, the fundamentals have not changed and the inherent undersupply of housing in the UK should continue to underpin prices in the market. This situation is unlikely to improve either, given current population growth. The ONS has reported that the UK population is increasing with the number of people resident in the UK up by 513,200 (2014: 491,100) in the year to 30 June 2015 and this will only serve to increase demand and pressure on pricing.

"Value realised on all sales year to date, including private sales, means Annington is tracking the market almost directly."

For 2016/17, the Group plans to bring forward the remainder of the units released in 2015/16, which is largely comprised by properties at Canterbury, all but 30 of which are likely to be transferred to rentals. The transfer to the Rentals subgroup and the low number of releases will leave external private sales volumes lower than in historic periods. Any properties that are released will be handled accordingly. The Property Department will also have the challenge of two new build infill sites, totalling 12 proposed new build units.

Maintaining pressure on the delivery of product and value from the Countryside Annington (Mill Hill) Limited site will still be important with this joint venture anticipating to be build complete by May 2017. Unfortunately, with the exception of Brize Norton and with release levels low, there are no new development opportunities to consider but Annington will continue to be proactive in encouraging the MoD/DIO to consider potential sites.

A key priority in the coming year is to continue to engage with the MoD and DIO in an effort to get some clarity on future release profiles but this will depend on the outcome of discussions and the new senior management team at DIO. Focus will remain on achieving another good result in the rent review and not only in extending our knowledge of the Site Review but establishing more comparable evidence.

Corporate Responsibility

OUR BUILDING OPPORTUNITIES PLAN

For Annington, acting responsibly and being successful commercially go hand in hand. We know that to be a sustainable business, how we do business is as important as what we deliver.

Annington's commitment to corporate responsibility ("CR") is based on a firm belief that it will help us maintain a commercial advantage, manage risks within our operations, increase our efficiency and enhance our reputation with key stakeholders.

In 2015, in recognition of the changing demands of society, regulations and the need for companies to reduce their environmental impacts, we reviewed how sustainability is managed through our business, so that it is aligned with the views of our key stakeholders. To help manage the various social and environmental initiatives that were taking place across the company and to align them with our business priorities, we captured these activities within a strategic framework, our Building Opportunities Plan.

Our Building Opportunities Corporate Responsibility Plan has four key pillars that cover all aspects of our business:

Caring for our People
By caring for our people and fostering their personal and professional development, they bring a wealth of skills and experience to meet the needs of our customers, partners and shareholders and deliver our business goals.

Respecting our Environment
By encouraging our employees to consider the environmental impact of our offices and working with our partners on the sites we refurbish, we minimise the environmental impact of our business.

Valuing our Customers and Partners
By working with partners and suppliers that aspire to our business standards and values and treating them fairly, we together meet our customers' needs by providing refurbished homes for sale or rent at competitive prices in environments in which people want to live.

Investing in our Communities
By adding valuable housing stock back into local communities and supporting local charity and community organisations, we help contribute to thriving and sustainable communities.

From a governance perspective, a CR Task Force was established to develop and oversee the implementation of the CR related policies and prioritise and deliver on the actions within the CR Plan. The CR Task Force is responsible for overseeing the strategic CR direction for Annington, reporting on progress to the Board and advising them on any CR related material issues.

Our Company Values
The F.A.C.E of Annington mirrors our Building Opportunities Plan and underpins our commitment to acting responsibly. These values set guidelines for our behaviours to make good commercial and ethical decisions.

THE face OF ANNINGTON

Corporate Responsibility (continued)

OUR BUILDING OPPORTUNITIES PLAN (continued)

Caring for our People

At Annington, we value everyone's commitment and in return we provide excellent opportunities for personal and professional development. We encourage employees to develop personally and professionally and invest in their development through formal training programmes, challenging work assignments and having all employees participate in annual appraisal and development reviews. Our employees cover a wide range of professional skill sets so training is assessed and tailored to meet specific individual needs. The nature of the training is, therefore, very broad and includes both technical and soft skill based training. In the financial year, the Group invested an average of £1,157 per employee for an average 39.8 hours of training per employee.

100%
of employees attended training programmes

We are committed to encouraging and achieving a working environment which is fair to all individuals, through our Equal Opportunities Policy, where equality and diversity are recognised, encouraged and valued. At the end of the year there were 40 (2015: 39) employees in the Group and the overall gender split of the workforce is as follows:

	Male	Female	Total
The Board	6	1	7
Senior Executive team	2	1	3
All employees	22	18	40

We take the health and welfare of our employees seriously and strive to be supportive and offer flexible and remote working to anyone experiencing personal difficulties. To help ensure the wellbeing and safety of our employees, we have a number of initiatives including encouraging employees to take BUPA medical checks (51% in 2015/16); providing safety guidelines around winter driving and good practice tips on reducing sedentary issues in the office environment.

Respecting our Environment

We recognise that the nature of our business has environmental and social impacts and that we have a responsibility to consider and minimise these impacts where possible. We set guidance as to how the Group, our suppliers and contractors should operate to achieve this.

Most redundant properties no longer required by the MoD are refurbished, a form of recycling that brings valuable housing stock back into good repair and returns homes to the national housing stock and to the public for future use. Additionally, there has been a growing body of research indicating that extending the life cycle of buildings by refurbishment is preferable to demolition in terms of improved environmental, social and economic impacts (e.g. UCL Urban Lab's 'Demolition or Refurbishment of Social Housing' Oct 2014 Report, BHSF's 'New Tricks with Old Bricks 2008 Report).

In line with our Sustainable Procurement Policy, we have a preference for using materials and products that can be ethically sourced and have a low environmental impact, if their technical performance meets the required standards and they are economically viable for refurbished properties.

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

Before

Corporate Responsibility (continued)

OUR BUILDING OPPORTUNITIES PLAN (continued)

Valuing our Customers and Partners

Annington's business model is based on the outsourcing of many of our operations to suppliers and partners. We take both our and their responsibilities to the communities and environments in which we operate seriously. By working with partners and suppliers that aspire to our business standards and values and treating them fairly, we together meet our customers' needs by providing refurbished homes for sale or rent at competitive prices in environments in which people want to live.

To meet our customers' needs, we aim:

To offer value for money.
We aim to sell or rent our properties at competitive market values. To make home buying a realistic option for more people, we often utilise appropriate financial incentives. An example of this is our incentive of '£750 towards Legal & Survey Fees'.

To create environments and places in which people want to live.
Where we can, effort is concentrated on improving the 'street scene' to make the communities in which our houses are situated more desirable places to live. This can include landscaping, installing off road parking and upgrading the external appearance of properties. We ensure that our homes meet basic safe and sound criteria so that electrical, plumbing and heating systems are thoroughly checked and defects or issues that might affect a mortgage are rectified.

To provide peace of mind.
The process of buying a home can often be one of life's most stressful challenges. Annington strives to make it as trouble free as possible by managing the sale process for their properties, through regular engagement with our agents and solicitors, aiming to ensure all buyers receive a consistent, fair and timely process. Over the past year, the average Annington sale from reservation to exchange has taken just 8 weeks.

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

We require suppliers and contractors to share our commitment to quality, health and safety, environmental issues and embrace sustainable practices. We are committed to providing a safe working environment both in our offices and at the sites where our contract partners are refurbishing homes. Both our and our contractors' safety management systems comply with UK Health and Safety legislation and we are continually looking at how we can improve our compliance and reporting standards.

"Learning outside of the classroom is so important, especially in urban areas. We were delighted that Annington were prepared to cover the cost of the project."

Karen Smith, Head Teacher Queenswell Infant School

Investing in our Communities

Annington's business is about providing homes in the UK, whether for Service Families or through private sale or rental in the open market. By refurbishing properties no longer required by the MoD, so that they are brought back into productive use, we are adding valuable housing stock back into local communities for the benefit of society.

In addition to investing in communities by providing homes, we are passionate about strengthening local communities by supporting charities and making charitable donations to a diverse range of good causes. This can involve funding a variety of activities e.g. supporting local schools by donating equipment.

Corporate Responsibility (continued)

OUR BUILDING OPPORTUNITIES PLAN (continued)

Investing in our Communities (continued)
Annington supports charities and good causes in its capacity as the Group and via The Annington Trust, which was established in 1996 to benefit service families living in the MoD's married quarter estates.

Annington Group Charitable Activity
In 2015, we revisited the Group's charitable objectives, with the intention of making our community investment more focused and strategic. We aim to target areas where we can make the greatest impact through our financial support and by the volunteering of skills and expertise of our employees. A Charity Committee, comprising a cross section of employees, was established to oversee our charitable giving. Following a detailed review involving our employees, we decided to focus on supporting charities that helped: children and young people, the homeless and the disabled, in addition to supporting charities with military connections.

In 2015/16 the Annington Group and its employees raised or donated over £228,000 to charities, comprising £48,000 from employee fundraising activities and over £180,000 donated by the Company. The majority of this support was focused on five key charity partners: Bag Books, The Connection at St Martin-in-the-Fields, Blind Veterans UK, Highground Projects Limited and The Ripple Pond. To help maximise the impact from these charity partnerships, Charity Champions have been appointed to work with the respective charities and engage fellow employees with fundraising and volunteering opportunities.

Over £228,000 raised for or donated to charitable causes

Over £113,000 donated by The Annington Trust

The Annington Trust
The Annington Trust was established in 1996 for the benefit of Service Families living on the married quarters estate, with the objective of sponsoring community activities and projects. The Trust derives its income from a capital fund that was set up at the time the MQE was purchased in 1996 and subsequently added to by the Group. The capital fund currently has in excess of £600,000. Since its inception, the Trust has disbursed £522,000 (2015: £409,000) to support 442 (2015: 423) projects. These have varied in size from small grants of a few hundred pounds for pre-school activities, youth organisations and sports clubs, to major awards of several thousands of pounds to provide much needed support for families at a time when the Services are heavily engaged in overseas operations.

Due to the changing nature of applications, the Trustees made a decision in 2015 to alter the Trust's strategy, deciding to wind the Trust down over the period to December 2022, to coincide with the end of the Terra Firma Special Opportunities Fund I LLP ("TFSOF1"). This will enable the use of both income and capital amounting to £100,000 per annum over that period to support the Trust's objectives.

Annual Slavery and Human Trafficking Statement

The 2015 Modern Slavery Act ("the Act") came into force on 29 October 2015. This statement is made pursuant to Part 6 of the Act and sets out the steps Annington Limited ("the Company") and its subsidiaries have taken to ensure that slavery and human trafficking is not taking place in our supply chains or in any part of the business.

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

Within Annington's core operations, the scale of refurbishment work required to the properties varies from site to site and is greatly dependent on the condition in which they are handed back by the MoD. In order to manage this and the fact that the release of properties to Annington is entirely at the discretion of the MoD, Annington has determined that the most effective and efficient method of procuring the refurbishment work is to outsource it to pre-selected contractors and suppliers.

In preparation for the introduction of the Act, Annington conducted a full review of its business and operations. It was identified that Annington is a low risk business but that the areas of highest risk existed around our contracting activities and the possible use of slave/trafficked labour on site or within the Company's supply chain. In order to ensure that Annington remained compliant with legislation, including the provisions of the new Act, Annington has, with the support of the Company's external legal advisors:

- Prepared a Policy on Slavery and Human Trafficking;
- Updated Annington's Whistle-Blowing Policy;
- Prepared a Supplier Code of Conduct;
- Prepared a Sustainable Procurement Policy;
- Updated the contractor pre-qualification questionnaire to cover modern slavery;
- Written to all suppliers/contractors asking them to certify that they have the relevant policies and procedures in place and that they will abide by the Annington Supplier Code of Conduct;
- Sent all suppliers and contractors a separate questionnaire regarding compliance with the Act; and
- Reviewed and amended our suite of construction contracts.

In line with the Company's corporate governance arrangements the Board of Annington Limited have approved the:

- Policy on Slavery and Human Trafficking;
- Supplier Code of Conduct; and
- Sustainable Procurement Policy.

To ensure all Annington employees are aware of the Company's new Slavery and Human Trafficking policy and any required updates to other policies, appropriate staff training has been delivered.

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

This statement represents Annington's statement in accordance with Section 54 of the Modern Slavery Act 2015 for the financial year 1 April 2015 to 31 March 2016 and has been approved by the Board of Directors.

MoD Relationship

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

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

There have been many changes in this relationship following the introduction of the DIO on 1 April 2011 and the introduction of the DIO's Strategic Business Partner, Capita, as the MoD continues to implement the SDSR. Throughout this time of adjustment, Annington intends to ensure continued assistance is provided wherever possible and to maintain the good working relationships developed over the previous 20 years.

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

N P Vaughan
Director
29 July 2016

"The Commercial Department's operations have significant interfaces with members of the DIO organisations and considerable effort continues to be made to develop relationships."

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

Directors' Report

The Directors submit their annual report and audited financial statements for the year ended 31 March 2016.

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, a company registered in Guernsey, is the immediate parent of Annington Limited. Annington Holdings (Guernsey) Limited 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.

BOARD OF DIRECTORS

The Directors holding office during the period are listed below. Except as noted below, all served throughout the financial year and to the date of this report.

NON-EXECUTIVE

E J Filkin (Chairman)
Elizabeth was appointed as an independent non-executive Director and Chairman of the Annington Board in 2008. In addition, she sits on the Audit, Finance and Nomination & Remuneration Committees. She is also a Trustee of the Annington Trust.

F S Duncan
Fraser is an independent non-executive Director of Annington. He also chairs the Audit, Finance and Nomination & Remuneration Committees.

S Kassam (resigned 30 July 2015)
Sami joined the Board on 31 July 2012 and resigned as Director during the year. Sami was a representative of Terra Firma. Sami brought with him significant transaction experience, having been on the investment team at Terra Firma since 2006.

J King (appointed 3 March 2016)
Justin joined Terra Firma as Vice Chairman and Head of Portfolio Businesses in September 2015. Subsequently, Justin joined the Board of Annington Limited in March 2016, as a representative of Terra Firma. Justin has a wealth of business experience, including as CEO of Sainsbury's between 2004 and 2014.

H A Vos (appointed 30 July 2015)
Arnold joined the Board in July 2015 as a representative of Terra Firma. He has worked for Terra Firma since 2010 in a number of roles and is currently a non-executive Director of Wyevale Garden Centres. On 29 February 2016, Arnold became a member of the Finance Committee, the Nomination & Remuneration Committee and is Secretary of the Audit Committee.

S Webber
Steve joined the board on 9 July 2012 as a representative of Terra Firma but has had a continuing involvement with the Group since its formation in 1996. Until 29 February 2016, he was a member of the Finance Committee, the Nomination & Remuneration Committee and was Secretary of the Audit Committee.

EXECUTIVE

J C Hopkins (Chief Executive)
James joined Annington as Chief Executive in July 1998. He is also a Trustee of the Annington Trust.

He was previously the Managing Director of Hanson Land Limited. Before joining Hanson plc in 1987, he spent six years in the Army where he served in a variety of roles with his regiment, The Life Guards. James graduated from Oxford University in 1981.

A P Chadd (Chief Financial Officer)
Andrew joined the Board of Annington in 2010. Until 30 June 2012, he acted as a representative of Terra Firma on the Board and held the roles of Secretary for the Audit, Finance and Nomination & Remuneration Committees. On 1 October 2012, Andrew was appointed the Group Chief Financial Officer ("CFO"), having acted as CFO Designate since 1 July 2012.

Andrew joined Nomura's PFG, the predecessor of Terra Firma, in 1999. Since then, he has been involved in a number of Terra Firma's portfolio businesses.

N P Vaughan (Commercial Director)
Nick joined Annington in December 1998 as Financial Analyst, Strategy and Programme Manager. He was appointed Commercial Director in January 2001 and joined the Annington Board in April 2001.

Nick came to Annington from The British Land Company plc where he worked on a number of strategic property projects and acquisitions. He was previously Financial Director of a number of Rosehaugh plc group companies.

DIRECTORS' INDEMNITIES

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

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

Board of Directors

The Board of Directors comprises at least two non-executive independent directors, 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 and E J Filkin served in this role during the year and subsequently. The Board meets formally each quarter to review issues, progress being made and performance against budget. 'Executive Review Meetings', attended by the same individuals, are held as required for updates on performance and to discuss any issues which may require resolution prior to the next formal Board meeting.

Details of the composition, remit and frequency of meetings of the Board and its Committees are shown below.

Audit Committee

The Audit Committee includes the non-executive independent directors and one non-executive director employed by Terra Firma Capital Partners Limited.
The Committee met three times in the 2015/16 financial year, however, in line with the schedule to meet twice per annum, one of these meetings was a consequence of only holding one meeting in 2014/15. 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 non-executive independent directors and 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 non-executive independent directors, one non-executive director employed by Terra Firma Capital Partners Limited and two executive directors. The Committee meets as required to discuss and consider appraised project strategies and to consider financing strategy. Any major projects or significant investments will be referred to the Board for ultimate approval.

Directors' and Senior Managers' Meetings

The executive directors along with associate directors meet every Monday morning in order to consider results from the previous week, provide an update on short-term issues and to prioritise work for the coming week. 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 all senior managers is held on the first Monday of each calendar month. This ensures that all those present are kept up to date with the Group's progress and any issues affecting the 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.

REMUNERATION REPORT

The Nomination and Remuneration Committee meets as required but at least annually to review all salary, bonus, Long Term Incentive Plans ("LTIP"s) 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. During the year, a salary review exercise was carried out in order to ensure remuneration levels remain competitive.

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

The Group operates an annual staff appraisal process, requiring managers and their staff to discuss the year completed, to address any issues arising and to provide staff development where appropriate. These meetings are also used to set objectives for the coming year. The appraisal form is reviewed by the relevant director and each individual is 'scored' across a series of headings. 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 4.

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 in note 1 'Significant Accounting Policies' in the financial statements.

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of £180,000 (2015: £32,000), principally to local charities serving the communities in which the Group operates. The Group made no political donations during the year (2015: £nil).

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Financial instruments and risk management policies are addressed in note 20.

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.

DIVIDENDS

No dividends have been paid or proposed during the year (2015: £nil).

POST BALANCE SHEET EVENTS

Post balance sheet events are referred to in note 32.

AUDITORS

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

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

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

Deloitte LLP have expressed their willingness to continue in office as auditor and arrangements have been put in place for them to be 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.

A P Chadd
Director
29 July 2016

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

Statement of Directors' Responsibilities

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

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

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 Company and 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Member of Annington Limited

We have audited the financial statements of Annington Limited for the year ended 31 March 2016 which comprise the consolidated statement of income and retained earnings, the consolidated and parent company balance sheets, parent company statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

Emma Cox BA, ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 July 2016

Consolidated Statement of Income and Retained Earnings

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	2	183,001	179,269
Cost of sales		(19,505)	(20,983)
Gross Profit		**163,496**	**158,286**
Administrative expenses		(12,231)	(12,844)
Other operating income		61	210
Operating Profit	3	**151,326**	**145,652**
Share of results in joint ventures		7,196	8,730
Profit on disposal of properties	5	35,634	23,306
Change in fair value of investment properties	10	713,096	727,863
Profit Before Finance Charges and Taxation		**907,252**	**905,551**
Interest receivable and similar income	6	4,722	215
Interest payable and similar charges	7	(270,774)	(271,817)
Profit on Ordinary Activities Before Taxation		**641,200**	**633,949**
Tax on profit on ordinary activities	8	(34,184)	(123,390)
Total Profit for the Financial Year		**607,016**	**510,559**
Retained Earnings at 1 April		2,324,330	1,813,771
Retained Earnings at 31 March	23	2,931,346	2,324,330

All items in the above statement derive from continuing operations.

Consolidated Balance Sheet

At 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Tangible Assets	10	98	112
Investment properties	10	6,671,049	6,062,569
Investment in joint ventures	11	33,403	29,155
		6,704,550	**6,091,836**
Current Assets			
Debtors:			
Due within one year	12	21,900	795
Due after more than one year	12	19,512	-
Investments	13	54,811	32,504
Cash at bank and in hand	14	61,182	84,127
		157,405	**117,426**
Creditors: Amount falling due within one year	15	(118,206)	(146,190)
Net Current Assets/(Liabilities)		**39,199**	**(28,764)**
Total Assets Less Current Liabilities		**6,743,749**	**6,063,072**
Creditors: amounts falling due after more than one year	16	(2,974,906)	(2,936,858)
Provisions for liabilities	17	(762,741)	(727,128)
Net Assets		**3,006,102**	**2,399,086**
Capital and Reserves			
Called up share capital	21	84,756	84,756
Merger reserve	22	(10,000)	(10,000)
Retained earnings	23	2,931,346	2,324,330
Shareholder's Funds		**3,006,102**	**2,399,086**

The accompanying notes (1 to 33) should be read in conjunction with these financial statements.

The financial statements of Annington Limited, registered number 8271384, were approved by the Board of Directors and authorised for issue on 29 July 2016.

Signed on behalf of the Board of Directors

N P Vaughan
Director

A Chadd
Director

Company Statement of Changes in Equity

For the year ended 31 March 2016

	Note	Called up share capital £'000	Retained earnings £'000	Total Equity £'000
At 1 April 2015		84,756	1,899,478	1,984,234
Profit for the year	9	-	651	651
Change in fair value of investments through other comprehensive income	31	-	144,100	144,100
At 31 March 2016		**84,756**	**2,044,229**	**2,128,985**

Company Balance Sheet

At 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Investments	31	2,128,500	1,984,400
Current Assets			
Debtors due after more than one year	12	175,404	-
Creditors: Amounts falling due within one year	15	(15)	(166)
Net Current Assets/(Liabilities)		**175,389**	**(166)**
Total Assets Less Current Liabilities		**2,303,889**	**1,984,234**
Creditors: amounts falling due after more than one year	16	(174,904)	-
Net Assets		**2,128,985**	**1,984,234**
Capital and Reserves			
Called up share capital	21	84,756	84,756
Retained earnings	23	2,044,229	1,899,478
Shareholder's Funds		**2,128,985**	**1,984,234**

The accompanying notes (1 to 33) should be read in conjunction with these financial statements.

The financial statements of Annington Limited, registered number 8271384, were approved by the Board of Directors and authorised for issue on 29 July 2016.

Signed on behalf of the Board of Directors

N P Vaughan
Director

A Chadd
Director

Consolidated Cash Flow Statement

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Net cash from operating activities	24	**157,223**	**143,180**
Taxation received		9	349
Net cash generated from operating activities		**157,232**	**143,529**
Cash flow from investment activities			
Loans to joint ventures	11	(1,250)	(6,140)
Dividends from joint ventures	11	14,090	5,471
Proceeds from sale of investment properties		94,598	67,744
Purchase of tangible assets	10	(3,640)	(4,421)
Net cash received from investing activities		**103,798**	**62,654**
Cash flow from financing activities			
Increase in borrowings	18	170,875	-
Repayment of borrowings		(297,141)	(140,281)
Purchase of offsetting swaps		(27,943)	(25,180)
Interest received		249	215
Interest paid		(107,708)	(71,917)
Net cash used in financing activities		**(261,668)**	**(237,163)**
Net decrease in cash and cash equivalents		**(638)**	**(30,980)**
Cash and cash equivalents at the beginning of the year		116,631	147,611
Cash and cash equivalents at the end of the year		**115,993**	**116,631**
Cash and cash equivalents consists of:			
Cash at bank and in hand	14	61,182	84,127
Short-term deposits (included in current asset investments)	13	32,809	13,504
Short-term investments (included in current asset investments)	13	22,002	19,000
Cash and cash equivalents		**115,993**	**116,631**

Notes to the Financial Statements

For the year ended 31 March 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Company and Group financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102"), and with the Companies Act 2006. The financial statements have been prepared under the historical cost basis except for the modification to a fair value basis for certain fixed assets and derivative financial instruments.

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. This is the first year in which the financial statements have been prepared under FRS 102. As permissible by FRS 102, the Group has opted to apply the recognition and measurement provisions of IAS 39 'Financial Instruments: Recognition and Measurement (as adopted for use in the EU).' The Company has elected to account for its investments in subsidiaries at fair value with changes in fair value recognised in other comprehensive income in accordance with FRS 102. Details of the transition to FRS 102 are disclosed in note 33.

The Company and Group financial statements are presented in pounds sterling (£).

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 from disclosing its individual statement of income and retained earnings.

Exemptions for qualifying entities under FRS 102

FRS 102 permits a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been applied by the Company. The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows on the basis that its cash flows are included within the consolidated statement of cash flows which are publically available; and

- from the financial instrument disclosures required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures.

Going concern

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

The Group meets its day-to-day working capital requirements from both rental income and property disposals. 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 and that 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. With regards to the external bank debt within the Rentals Subgroup, the Loan to Value and interest coverage ratios have not been breached. There is not expected to be any breach of this covenant in the foreseeable future. The loan facility held by Annington Rentals (Holdings) Limited falls due in December 2018.

The Group's ability to elect whether interest on the Annington Finance No. 5 plc PIK Notes is paid entirely in the form of additional Notes, entirely in cash or through a combination of additional Notes and cash, based on the availability of resources, ensures the Group is able to meet these liabilities for the foreseeable future.

The Group has reported a net current asset position at 31 March 2016. The Group receives cash on a quarterly basis in relation to its long-term rental of investment properties, however, accounting regulations require the debt to be repaid for the next 12 months to be disclosed as a current liability. The receipts of the minimum guaranteed payment in the year ahead will be sufficient to meet short term requirements.

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.

Basis of consolidation

The Group reconstruction effected in December 2012 has been accounted for using merger accounting principles in order to meet the overriding requirement under section 404(5) of the Companies Act 2006 for financial statements to present a true and fair view. The transaction did not meet one of the conditions for merger accounting under the Companies Act 2006, namely that the fair value of any non-equity consideration must not exceed 10% of the equity shares issued. However, the directors consider that the alternative approach of acquisition accounting, with the restatement of assets and liabilities to fair values, the creation of goodwill and the inclusion of post-reorganisation results only, would not give a true and fair view of the Group's results and financial position. The substance of the transaction was not the acquisition of a business but a group reconstruction under which a new holding company has been established with all the former beneficial owners within the Annington Holdings plc having the same proportionate interest in Annington Limited as they had previously held in Annington Holdings plc. The directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 2006. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 31 March 2016. The results of the subsidiaries acquired or sold are consolidated for the period from or on the date on which control passed.

Investments in joint ventures are included in the Group financial statements under the equity method of accounting.

Turnover

Gross rental income from all tenants is accounted for on an accruals basis, when the amount of income can be reliably measured and the future economic benefit is probable. Rental income from investment properties let under an operating lease is recognised in the statement of income and retained earnings on a straight-line basis over the term of the lease. 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.

Investment properties

Investment properties are carried at fair value determined annually on a portfolio basis such that individual property calculations are not performed. Initial recognition of investment properties is at cost, they are subsequently measured at fair value with any change in fair value recognised in the statement of income and retained earnings. Depreciation is not charged on investment properties.

Disposals are accounted for on a legal completion of contract basis. Direct costs of the sale are offset against the gain/loss on sale. Other costs are included in operating expenses.

Dilapidations

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

Foreign currency translation

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

The balances on foreign currency loans are translated at the rates of exchange ruling at the year end and the unrealised exchange differences are recorded in the statement of income and retained earnings, as are the realised exchange differences arising on repayments of foreign currency loan during the period.

Taxation

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

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)
Deferred tax is recognised on all timing differences at the reporting date. Deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference. Deferred tax relating to investment property is measured using the tax rates and allowances that apply to sale of the asset.

Deferred tax is not recognised on timing differences arising from the accounting for investments in subsidiaries at fair value, as the Company is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and

- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

Plant, equipment and vehicles	3 years

Leases
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease and any associated incentives are charged to the statement of income and retained earnings on a straight-line basis over the life of the lease.

The Group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 and continues to credit such lease incentives to the statement of income and retained earnings over the period to the first review date on which the rent is adjusted to market rates.

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

Employee benefits
The Group provides a range of benefits to employees, including annual bonuses, long term incentives, 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 period 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 statement of income and retained earnings 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.

Financial liabilities
At initial recognition, financial liabilities are classified as loans and borrowings, payables, derivative financial instruments or financial liabilities at fair value through profit or loss, as appropriate. Financial liabilities are classified according to the substance of the contractual arrangements entered into. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities subsequently carried at amortised cost are accounted for such that finance costs, which comprise interest, discounts and issue costs, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount. At the balance sheet date, the estimation of the period of repayment of debt and interest is updated, to take into account the future anticipated cash flows. Where the anticipated future cash flows used to calculate the amortised cost of borrowings are re-estimated, any consequent adjustment in carrying value is recognised within the profit and loss. Where floating rate interest is re-estimated, any consequent adjustment in effective interest rate is updated.

The debt and associated accrued interest is classified as current and non-current based on the contractual payments required within 12 months at the balance sheet date. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Equity instruments
Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Derivative financial instruments
The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes and the derivative financial instruments are not designated as hedging instruments.

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 reporting date. Changes in the fair value are recognised in the statement of income and retained earnings as they arise. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Investments - Company
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. If a revaluation decrease exceeds the accumulated revaluation gains in equity, the excess is recognised in profit or loss.

Financial assets
At initial recognition, financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale ("AFS") financial assets or loans and receivables, as appropriate. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised on a trade date basis.

Other investments
Other investments are classified as available-for-sale and stated at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in equity.

Trade receivables
Trade receivables that have fixed or determinable payments are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, demand 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.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Accounting judgements and estimates
Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be exactly the same as the related actual results.

The valuation of the investment property 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 to be 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 differ from the valuation, which could have a material effect on the financial position of the Group.

To determine the book value of the debt balances held at amortised cost, the future cash flows are estimated. In doing so, assumptions are made relating to the future performance of the Group. The amortisation of finance costs and the related balances may be impacted if financial instruments are not repaid in line with current forecasts.

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

In the calculation of the fair value of investments in subsidiaries, the selection of comparable companies is made subjectively by reviewing publicly available information. Further, the underlying asset values within the Group are subject to judgements and estimates, changes in which could change the valuation base.

2. TURNOVER

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

3. OPERATING PROFIT

Operating profit is after charging:	**2016 £'000**	**2015 £'000**
Operating lease payments		
Plant and machinery	187	182
Buildings	417	421
Depreciation of tangible fixed assets	86	112
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements:		
- the audit of the Company	47	43
Fees payable to the Company's auditor and their associates for other services to the Group:		
- the audit of the Company's subsidiaries	221	205
Total audit fee	**268**	**248**
- Taxation compliance services	56	56
- Other taxation advisory services	24	34
- All other services to the Group	67	-
Total non-audit fee	**147**	**90**

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments	**2016 £'000**	**2015 £'000**
Aggregate emoluments	2,001	2,048
Amounts receivable under the Long Term Incentive Plan	1,150	1,150
Total Directors' emoluments and compensation to key management personnel	**3,151**	**3,198**

No retirement benefits are accruing to directors. The emoluments including the Long Term Incentive Plan for the highest paid director amounted to £1,299,000 (2015: £1,323,000). No directors' emoluments were paid to S Kassam, J King, A Vos and S Webber who are employed by Terra Firma Capital Partners Limited.

Average monthly number of persons employed (including directors)	**2016 Number**	**2015 Number**
Administrative	22	22
Operations	16	17
	38	**39**

Staff costs incurred during the year in respect of these employees were:	**2016 £'000**	**2015 £'000**
Wages and salaries including directors' emoluments	6,940	7,302
Social security costs	437	417
Other pension costs (note 27)	373	375
	7,750	**8,094**

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

Long term incentive plan

Wages and salaries include an accrual for the future potential payments of the discretionary Long Term Incentive Plans ("LTIP"s). A new scheme ("LTIP4") was established for the period 1 April 2012 to 31 March 2017. Amounts are potentially payable in annual instalments from April 2017. The accrual is based on annual discretionary awards over the life of the scheme.

5. PROFIT ON DISPOSAL OF PROPERTIES

	2016 £'000	2015 £'000
Sales proceeds	148,833	74,057
Selling costs	(5,015)	(2,953)
Profit share	-	6,288
Sale of properties	**143,818**	**77,392**
Cost of sales	(108,184)	(54,086)
	35,634	**23,306**

The disposal of units arises from a mix of released units, Related Assets and new build opportunities from the original MQE portfolio acquired by Annington Property Limited and properties sold from the Rentals Subgroup, both being wholly-owned subsidiaries (refer to the Strategic Report). During the year disposals of 492 properties (2015: 310 properties) were completed.

During the year ended 31 March 2015, an agreement was reached to settle all obligations under the Profit Share Agreement. Under this settlement, the anticipated future revisions to the profit share previously paid by the Company were determined and settled for the sum of £6.3 million and liabilities recognised by the Group of £5.8 million were extinguished.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £'000	2015 £'000
Interest receivable	1,441	215
Total interest income on financial assets not measured at fair value through profit or loss	**1,441**	**215**
Fair value gain on interest rate swaps	3,281	-
Total interest receivable and similar income	**4,722**	**215**

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Interest payable on secured floating and fixed rate notes	147,222	137,114
Amortisation of discount and issue costs and finance charges	111,318	88,050
Interest payable on bank loans	5,674	5,909
Total interest expense on financial liabilities not measured at fair value through the profit and loss	**264,214**	**231,073**
Other finance charges	1,484	1,388
Fair value loss on interest rate swaps	354	34,850
Loss on bonds redeemed	4,722	4,506
Total interest payable and similar charges	**270,774**	**271,817**

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Current tax	2016 £'000	2015 £'000
United Kingdom corporation tax at 20% (2015: 21%)	-	-
Consideration received for tax losses surrendered	(9)	(349)
Total current tax	**(9)**	**(349)**
Deferred tax		
Deferred taxation: origination and reversal of timing differences	116,818	130,272
Profits taxable in the future under the Securitisation Regime at 18% (2015: 20%)	1	8
Impact of change in tax rate	(82,626)	(6,541)
Total deferred tax	**34,193**	**123,739**
Total tax charge on gain on ordinary activities	**34,184**	**123,390**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 20% (2015: 21%). The tax charge for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	**641,200**	**633,949**
Tax on profit on ordinary activities at the standard rate	**128,240**	**133,129**
Factors affecting the current tax charge for the year:		
Expenses not deductible for tax purposes	7,404	7,740
Non-taxable income	(7,447)	(7,927)
Disposal of investments	(852)	2,314
Change of tax rate	(82,626)	(6,541)
Impact of indexation	(6,092)	(4,604)
Deferred loss taxed under securitisation regime	(4,420)	(332)
Consideration received for tax losses surrendered	(9)	(349)
Other items	(14)	(40)
Tax charge for the year	**34,184**	**123,390**

The amount of tax losses carried forward at 31 March 2016 is approximately £355.5 million (2015: £329.7 million). From 1 April 2015, the headline rate of corporation tax reduced from 21% to 20%. It will be further reduced to 19% from 1 April 2017, and 18% from 1 April 2020, with these rates substantively enacted at the current balance sheet date. Deferred tax balances at 31 March 2016 are measured at 18% (2015: 20%).

9. PROFIT FOR THE COMPANY

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented for Annington Limited. The Company made a profit of £0.7 million for the year ending 31 March 2016 (2015: loss of £0.1 million).

10. TANGIBLE ASSETS AND INVESTMENT PROPERTIES

GROUP	Investment properties £'000	Plant, equipment and vehicles £'000	Total £'000
Cost or valuation			
At 1 April 2015	6,062,569	1,195	6,063,764
Additions – capital expenditure	3,568	72	3,640
Disposals	(108,184)	-	(108,184)
Fair value movement	713,096	-	713,096
At 31 March 2016	**6,671,049**	**1,267**	**6,672,316**
Accumulated depreciation			
At 1 April 2015	-	1,083	1,083
Charge for the year	-	86	86
At 31 March 2016	**-**	**1,169**	**1,169**
Net book value			
At 31 March 2015	6,062,569	112	6,062,681
At 31 March 2016	**6,671,049**	**98**	**6,671,147**

	2016 £'000	2015 £'000
The main headline analysis for the investment portfolio is:		
Market value and net book value	**6,671,049**	**6,062,569**
The net book amount of investment properties comprises:		
Freehold	329,341	357,138
Long leaseholds	13,708	17,431
Very long leaseholds (over 900 years)	6,328,000	5,688,000
	6,671,049	**6,062,569**
Investment properties stated on a historical cost basis:		
Historical cost	1,410,588	1,446,834
Historical net book value	**1,410,588**	**1,446,834**

10. TANGIBLE ASSETS AND INVESTMENT PROPERTIES (continued)

Homes Subgroup

Allsop LLP ('Allsop') has prepared a market valuation of the freehold and leasehold investment properties held by Annington Property Limited, for the purpose of the Group's financial statements. The market value as at 31 March 2016 was £6,399.3 million (2015: £5,789.5 million) and the valuer's opinion was derived on a portfolio basis, primarily using comparable recent market transactions on arm's length terms. The valuation was carried out by an external valuer in accordance with the requirements of the RICS Valuation Standards (sixth edition, as subsequently amended), except where it is not, in practical terms, feasible to comply due to the large number of properties involved.

In valuing the properties the following assumptions have been adopted and incorporated into the valuation model: a long term rental growth assumption of 3.0% per annum; a projected five-year change in rental values of between 14% - 18%; vacant possession values of dwellings at each site have been updated to be in line with regional changes in the average of the Nationwide and Halifax house price indices and actual performance; short term house price inflation of between 3.7% and 4.1% per annum; and long term at 3.0% per annum.

Within their valuation report, released prior to the EU Referendum, Allsop have highlighted that uncertainty related to the EU referendum on 23 June 2016 was likely to have affected market confidence at the valuation date. This risk has been reflected in the valuation as at 31 March 2016 through a downward adjustment of 5% to their calculations.

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

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

A holdback mechanism was adopted under the Class A Zero Coupon and Class B Zero Coupon Notes whereby on the disposal of investment properties, holdback amounts will be calculated and held in custody accounts. This mechanism was triggered during the 2010 year (further details are set out in the Credit Risk section of note 20).

Rentals Subgroup

The market value of the properties held by the wholly owned subsidiaries of Annington Rentals (Holdings) Limited was £271.7 million (2015: £273.1 million). All investment properties are held for investment potential, which may be realised through rental or capital growth over time. All the investment properties are held for use in operating leases, as and when this is determined to best meet the Company's investment strategy.

The investment properties have been valued by the directors on the basis of market value. The basis for market value for this valuation is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The directors have considered the valuation of the properties as at 31 March 2016, with reference to an external valuation performed by Allsop LLP. The valuer was given a representative sample of properties to value to ensure the whole portfolio is valued every five years. The valuer was instructed to value such similar properties by way of external inspections and in accordance with the requirements of the RICS Appraisal Valuation Standards. The valuation was then extrapolated to provide the movement for the whole portfolio. The basis of the extrapolation technique is the movement of the market value of the externally sampled properties, blended with recent comparable vacant possession values split by geographic region.
Where no such evidence is available, due to the lack of recent comparable transactions, the value has been determined with consideration for the relevant Halifax and Nationwide regional indices and historical performance in relation to these indices in the current year. These indices when blended indicated movements between (0.9)% and 16.8%.

At 31 March 2016, the Group had contracted with tenants for the following future minimum lease payments:

	2016 £'000	2015 £'000
Within one year	95,973	93,401
In two to five years	14,234	22,792
After five years	141	997
	110,348	**117,190**

11. INVESTMENT IN JOINT VENTURES

The principal joint venture undertakings at 31 March 2016 are shown below:

Name of joint venture	Principal activity	Holding %
Annington Wates (Cove) Limited	Property development	50.00%
Countryside Annington (Colchester) Limited	Property development	50.00%
Countryside Annington (Mill Hill) Limited	Property development	50.00%
The Inglis Consortium LLP	Property development	28.55%

The Group has held these investments from the following dates:

Held through Annington Developments Limited as 100% interest in "X" Ordinary shares:

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

Each of the above entities has issued 500 "X" Ordinary and 500 "Y" Ordinary shares. The rights of the holders of the "X" Ordinary shares and "Y" Ordinary shares are identical and rank in pari passu.

Held through Annington Property Limited:

4 April 2011	The Inglis Consortium LLP

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%.

	Share of net assets £'000	Loans £'000	Total £'000
At 1 April 2015	16,387	12,768	29,155
Additions	9,869	1,250	11,119
Interest on loans	-	797	797
Distributions and dividends	(14,090)	-	(14,090)
Share of profit for the year	6,422	-	6,422
At 31 March 2016	**18,588**	**14,815**	**33,403**

12. DEBTORS

	GROUP		COMPANY	
Amounts falling due within one year	**2016 £'000**	**2015 £'000**	**2016 £'000**	**2015 £'000**
Trade debtors	59	16	-	-
Other debtors	21,195	423	-	-
Other taxation and social security	41	44	-	-
Prepayments and accrued income	605	312	-	-
	21,900	**795**	**-**	**-**
Amounts falling due after more than one year				
Other debtors	19,512	-	-	-
Amounts owed by Group undertakings	-	-	174,679	
Deferred tax	-	-	725	-
	41,412	**795**	**175,404**	**-**

Trade debtors are stated after provisions for impairment of £293,127 (2015: £281,505).
Amounts owed by Group undertakings by the Company are unsecured, interest bearing at 11.0% and has a fixed date of repayment in 2024.

Deferred Tax
The provision for deferred tax consists of the following deferred tax assets:

COMPANY	**2016 £'000**	**2015 £'000**
Accrued Interest	725	-
Total deferred tax asset	**725**	-

No net reversal of deferred tax assets is expected in 2017 as it is anticipated that the timing difference on the accrued interest will increase.

13. CURRENT ASSET INVESTMENTS

GROUP	**2016 £'000**	**2015 £'000**
Short-term deposits	32,809	13,504
Short-term investments	22,002	19,000
	54,811	**32,504**

Short-term investments relate to shares held in an investment company that has ten highly liquid cash funds. The fair value of the short-term investments has been determined based on the redemption rules as per the prospectus at 1 April 2016. Redemption requests can be made at any time on a dealing day as set out in the prospectus.

14. CASH AT BANK AND IN HAND

GROUP	**2016 £'000**	**2015 £'000**
Cash at bank	4,423	19,068
Cash deposits	23,803	56,795
Holdback custodian account	2,403	2,037
Blocked and restricted cash	30,553	6,227
	61,182	**84,127**

Cash deposits
Cash deposits include the Group's HSBC primary standby accounts established in July 2012. The balance reported includes a balance of £23.7 million (2015: £50.9 million) related to the drawn liquidity facilities and associated interest (see note 18).

Holdback custodian account
On behalf of Annington Finance No. 4 plc, the RBS administers a custodian bank account. Funds are held on behalf of the Class A Zero Coupon and Class B Zero Coupon Noteholders, in accordance with the holdback custody agreement (further details are set out in the Credit Risk section of note 20).

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

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Secured notes (note 18)	36,295	36,056	-	-
Drawn liquidity facility (note 18)	23,744	50,871	-	-
Trade creditors	545	424	-	-
Amounts owed to Group undertakings	-	-	15	166
Other creditors including taxation and social security	404	395	-	-
Accruals and deferred income	57,218	58,444	-	-
Total creditors falling due within one year	**118,206**	**146,190**	**15**	**166**

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

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		COMPANY	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Amounts falling due between one and five years				
Secured notes (note 18)	148,217	151,709	-	-
Bank loans (note 18)	140,405	139,927	-	-
Derivatives – interest rate swaps (note 18)	5,081	4,727	-	-
Accruals and deferred income	10,329	6,828	-	-
	304,032	**303,191**	**-**	**-**
Amounts falling due after more than five years				
Secured and unsecured notes (note 18)	2,612,302	2,543,871	174,904	-
Derivatives – interest rate swaps (note 18)	58,572	89,796	-	-
	2,670,874	**2,633,667**	**174,904**	-
Total creditors falling due after more than one year	**2,974,906**	**2,936,858**	**174,904**	**-**

17. PROVISION FOR LIABILITIES

GROUP	Deferred tax provision £'000	Utilities provision £'000	Total £'000
At 1 April 2015	689,320	37,808	727,128
Additions dealt with in profit or loss	34,193	2,066	36,259
Amounts utilised in year	-	(646)	(646)
At 31 March 2016	**723,513**	**39,228**	**762,741**

Utilities

There is a legal agreement to provide for the adoption of private utilities on sites where there have been releases of property which are currently dependent, for the supply of water and/or certain sewage treatment, on adjacent MoD bases. In addition, there is a constructive liability to provide for the adoption of certain utilities on certain sites which are not base dependent. Full provision has been made on the base dependent sites in accordance with the legal agreement and for all obligations which have crystallised on non-base dependent sites. Of the total provision, £2.1 million (2015: £2.1 million) is anticipated to be incurred over the next three years (2015: three years), and the balance during the period April 2019 to December 2024. The provision has been discounted in accordance with the relevant borrowing costs of the Group. There is a contingent liability (note 28) in respect of base dependent sites where properties have not been released.

Deferred tax

The provision for deferred tax consists of the following deferred tax liabilities:

GROUP	2016 £'000	2015 £'000
Investment properties	(791,405)	(757,594)
Tax losses	63,992	66,000
Acquired tangible assets	19	27
Employment benefits	1,639	1,366
Profits taxed under securitisation regime	(65)	(64)
Accrued interest	725	-
Receivables	668	-
Swaps	914	945
Total deferred tax provision	**(723,513)**	**(689,320)**

No net reversal of deferred tax liabilities is expected to occur in 2017 as it is expected that timing differences on investment properties and tax losses will increase and this will more than offset the reversal of timing differences for other items.

Part of the provision for tax arises on taxable profits under the securitisation regime that are not due to be paid until cash is realised within Annington Finance No. 4 plc.

From 1 April 2015, the headline rate of corporation tax reduced from 21% to 20%. It will be further reduced to 19% from 1 April 2017, and 18% from 1 April 2020, with these rates substantively enacted at the current balance sheet date. Deferred tax balances at 31 March 2016 are measured at 18% (2015: 20%).

18. LOANS AND OTHER BORROWINGS

GROUP Reconciliation of movements	2016 £'000	Amortisation of bond issue costs and finance charges £'000	Revaluation adjustment £'000	Issued/ Drawn/ (Repaid)/ Swap transfers £'000	2015 £'000
Annington Limited					
11% Unsecured Zero Coupon Notes 2024	**174,904**	**4,029**	**-**	**170,875**	**-**
Annington Finance No. 1 plc					
8% Secured Bonds 2012/2021	213,185	625	-	(36,682)	249,242
Drawn liquidity facility	14,100	-	-	-	14,100
	227,285	**625**	**-**	**(36,682)**	**263,342**
Annington Finance No. 4 plc					
Zero Coupon Notes 2022 Class A	884,021	58,568	-	(9,248)	834,701
Zero Coupon Notes 2023 Class B	556,657	41,634	-	(3,789)	518,812
Floating Rate Notes 2023 Class B3	3,492	48	-	(40,361)	43,805
Fixed Rate Notes 2023 Class C	148,636	201	-	-	148,435
Fixed Rate/FRN 2023 Class M	208,644	8,230	-	(50,713)	251,127
Interest rate swaps	58,572	-	(3,281)	(27,943)	89,796
Drawn liquidity facility	9,644	-	-	(27,127)	36,771
	1,869,666	**108,681**	**(3,281)**	**(159,181)**	**1,923,447**
Annington Finance No. 5 plc					
PIK Notes 2023	**607,275**	**7,261**	**-**	**(85,500)**	**685,514**
Annington Rentals (Holdings) Limited					
Royal Bank of Scotland – 5yr	140,405	478	-	-	139,927
Interest rate swap	5,081	-	354	-	4,727
	145,486	**478**	**354**	**-**	**144,654**
Total loans and other borrowings	**3,024,616**	**121,074**	**(2,927)**	**(110,488)**	**3,016,957**

COMPANY Reconciliation of movements	2016 £'000	Amortisation of bond issue costs and finance charges £'000	Revaluation adjustment £'000	Issued/ Drawn/ (Repaid)/ Swap transfers £'000	2015 £'000
11% Unsecured Zero Coupon Notes 2024	174,904	4,029	-	170,875	-
Total loans and other borrowings	**174,904**	**4,029**	**-**	**170,875**	**-**

19. FINANCIAL INSTRUMENTS FAIR VALUES

GROUP	Par value of debt £'000	2016 Balance sheet value £'000	Fair value £'000
Unsecured notes			
11% Zero Coupon Subordinated and Unsecured Loan Notes 2024	170,875	174,904	184,630
Annington Limited	**170,875**	**174,904**	**184,630**
Secured notes			
8% Secured Bonds 2012/2021	214,819	213,185	257,159
Drawn liquidity facility	14,100	14,100	14,100
Annington Finance No. 1 plc	**228,919**	**227,285**	**271,259**
Secured notes			
Zero Coupon Notes 2022 Class A	1,394,510	884,021	1,163,161
Zero Coupon Notes 2023 Class B	940,650	556,657	774,625
Floating Rate Notes 2023 Class B3	21	3,492	3,076
Fixed Rate Notes 2023 Class C	150,000	148,636	185,562
Fixed Rate/FRN 2023 Class M	209,287	208,644	209,287
Drawn liquidity facility	9,644	9,644	9,644
Interest rate swaps			
Pay fixed 5.28% and receiving floating Class M	-	58,572	58,572
Annington Finance No. 4 plc	**2,704,112**	**1,869,666**	**2,403,927**
Secured notes			
PIK Notes 2023	591,500	607,275	633,390
Annington Finance No. 5 plc	**591,500**	**607,275**	**633,390**
Bank loan secured			
Royal Bank of Scotland – 5yr	141,688	140,405	141,688
Interest rate swap	-	5,081	5,081
Annington Rentals (Holdings) Limited	**141,688**	**145,486**	**146,769**
Total financial liabilities and instruments	**3,837,094**	**3,024,616**	**3,639,975**

COMPANY	Par value of debt £'000	2016 Balance sheet value £'000	Fair value £'000
Secured notes			
11% Zero Coupon Subordinated and Unsecured Loan Notes 2024	170,875	174,904	184,630
Total financial liabilities and instruments	**170,875**	**174,904**	**184,630**

19. FINANCIAL INSTRUMENTS FAIR VALUES (continued)

GROUP	Par value of debt £'000	2015 Balance sheet value £'000	Fair value £'000
Secured notes			
8% Secured Bonds 2012/2021	251,500	249,242	306,408
Drawn liquidity facility	14,100	14,100	14,100
Annington Finance No. 1 plc	**265,600**	**263,342**	**320,508**
Secured notes			
Zero Coupon Notes 2022 Class A	1,409,600	834,701	1,165,880
Zero Coupon Notes 2023 Class B	947,250	518,812	652,272
Floating Rate Notes 2023 Class B3	40,382	43,805	43,221
Fixed Rate Notes 2023 Class C	150,000	148,435	185,626
Fixed Rate/FRN 2023 Class M	260,000	251,127	262,091
Drawn liquidity facility	36,771	36,771	36,771
Interest rate swaps			
Pay fixed 6.93% and receiving floating Class B3	-	15,664	15,664
Pay fixed 5.28% and receiving floating Class M	-	74,132	74,132
Annington Finance No. 4 plc	**2,844,003**	**1,923,447**	**2,435,657**
Secured notes			
PIK Notes 2023	677,000	685,514	712,053
Annington Finance No. 5 plc	**677,000**	**685,514**	**712,053**
Bank loan secured			
Royal Bank of Scotland – 5yr	141,688	139,927	141,688
Interest rate swap	-	4,727	4,727
Annington Rentals (Holdings) Limited	**141,688**	**144,654**	**146,415**
Total financial liabilities and instruments	**3,928,291**	**3,016,957**	**3,614,633**

GROUP WEIGHTED AVERAGES	2016	2015
Weighted average interest rate	8.66%	9.27%
Weighted average period of fixed interest rates	6.8 years	7.6 years

The Group's policy in regard to Borrowers' Risk Management is set out in note 20.

The fair values of the Group's outstanding interest rate swaps have been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements under the fair value hierarchy.

ANNINGTON FINANCE NO. 1 PLC

Three classes of secured bonds were issued in November 1996, of which one is in place as at 31 March 2016. The interest rates and maturity dates are shown in the illustration within the Strategic Report.

Security

This Bond is secured on the Guaranteed Minimum Rent payable by the MoD over the 25 years ending 2021. The MQE currently consists of 39,014 properties (2015: 39,262).

Fair Value

Given the nature of these Notes and the lack of available comparable market evidence of similar financial instruments, a discounted cash flow approach has been used to arrive at a fair value using a comparable of Treasury 8% 2021 Notes yielding 0.8% as at 31 March 2016 (2015: yielding 1.21%) with an additional 0.5% risk factor (2015: 0.5%). This discount rate is consistent with the assumption used in valuing the portfolio from which this rental income derives and also reflects the risk for any delay in the passing of rental income from the MoD via their paying agency to our bank. The applied discount rate has been based on an internal view of risk assessment of this income. This approach represents Level 2 fair value measurements as defined in IFRS 7.

ANNINGTON FINANCE NO. 4 PLC

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

Security

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

Fair Value

The fair value of the Class A Zero Coupon Notes was based on the market rate applied to the repurchase of the respective bonds on 23 April 2016 (2015: 23 April 2015).

The fair value of the Class B Zero Coupon Notes was based on the market rate applied to the repurchase of the respective bonds on 22 April 2016 (2015: N/A).

The fair value of the Class M Secured Fixed Rate Notes was based on the market rate applied to the repurchase of the respective bonds on 11 April 2016 (2015: N/A).

Given the nature of the Annington Finance No. 4 plc Notes and the lack of available market evidence of trading and a lack of comparable market evidence of similar financial instruments, a discounted cash flow approach has been used to arrive at a fair value for certain of the notes. The various discount rates used are based on the Gilt rate Gross Redemption yield on 8% Treasury 2021 as at 31 March 2016 yielding 0.80% (2015: yielding 1.21%) and then adjusted accordingly to reflect the risks. The applied discount rates shown below reflect an internal view of risk for the various classes of notes, assessed against the future income streams of Annington Finance No. 4 plc.

	2016	2015
Secured Zero Coupon Notes 2023 Class B	-*	3.41%
Secured Floating Rate Notes 2023 Class B3	3.25%	3.66%
Secured Fixed Rate Notes 2023 Class M	4.10%	4.51%
Secured Fixed Rate Notes 2023 Class C	-*	3.96%

*In 2016 the fair value was based on the market rate applied to the repurchase of the respective bonds as per the above.

This approach represents Level 2 fair value measurements.

The valuation of the interest rate swaps and offsetting swaps are based on actual market valuations as at 31 March 2016.

ANNINGTON FINANCE NO. 5 PLC

On 4 December 2012, Annington Finance No. 5 plc issued £550.0 million Senior PIK Notes due in 2023. Interest is payable semi-annually in arrears in January and July, at the option of the Issuer, entirely in the form of additional Notes, entirely in cash or through a combination of additional Notes and cash.

Security

The Notes are secured by a first-priority security interest over all of the share capital of Annington Homes Limited, a first-priority security interest in the loan due to Annington Finance No. 5 plc from Annington Homes Limited and fixed and floating charges over all of the undertakings, goodwill, property, assets and rights, present and future, of each of Annington Finance No. 5 plc and Annington Homes Limited.

19. FINANCIAL INSTRUMENTS FAIR VALUES (continued)

Fair Value
Given the nature of these Notes and the lack of available comparable market evidence of similar financial instruments, a discounted cash flow approach has been used to arrive at a fair value using a comparable of 8% Treasury 2021 as at 31 March 2016 yielding 0.8% (2015: yielding 1.21%) with an additional 11.5% risk factor (2015: 11.5% risk factor). The applied discount rate has been based on an internal view of risk assessment of this income. This approach represents Level 2 fair value measurements.

ANNINGTON RENTALS (HOLDINGS) LIMITED

On 24 December 2013, Annington Rentals (Holdings) Limited entered a £165.0 million Five Year Term and Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc, secured against residential properties held by all of its subsidiaries (note 31). This facility requires three covenant tests to be maintained - Loan to Value, Gross Interest Coverage Ratio and Net Interest Coverage Ratio. The Loan to Value ratio of 65% within the Company's facility has been met for the current year. The first drawdown made on 31 January 2014 was mainly used to settle the old £42.0 million loan in Annington Rentals (Holdings) Limited, the £85.3 million loan outstanding in Annington Rentals (No. 6) Limited and the £8.9 million loan outstanding in Annington Rentals (No. 7) Limited. Interest on the loan is payable at a floating rate but has been fixed by swaps, including unmatured swaps previously held by Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited, which were novated to Annington Rentals (Holdings) Limited under this refinancing. The fair value of this debt was determined to be the outstanding balance drawn down.

ANNINGTON LIMITED

On 18 December 2015, Annington Limited entered into an agreement with its parent company Annington Holdings (Guernsey) Limited permitting it to issue Zero Coupon Subordinated and Unsecured Loan Notes in an aggregate principal amount of up to £290.7 million due in 2024.

Fair Value
Given the nature of these Notes and the lack of available comparable market evidence of similar financial instruments, a discounted cash flow approach has been used to arrive at a fair value using a comparable of 8% Treasury 2021 as at 31 March 2016 yielding 0.8% (2015: yielding 1.21%) with an additional 9.5% risk factor. The applied discount rate has been based on an internal view of risk assessment of this income. This approach represents Level 2 fair value measurements.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

GROUP
The Group has the following financial instruments:

	Note	2016 £'000	2015 £'000
Financial assets			
Available for sale:			
Other investments - short-term investments	13	22,002	19,000
		22,002	**19,000**
Financial assets that are debt instruments measured at amortised cost:			
Trade debtors	12	59	16
Other debtors	12	40,707	423
Other investments - short-term deposits	13	32,809	13,504
Cash at bank and in hand	14	61,182	84,127
		134,757	**98,070**
Total financial assets		**156,759**	**117,070**

	Note	2016 £'000	2015 £'000
Financial liabilities			
Financial liabilities measured at fair value through profit and loss:			
Interest rate swaps	16	63,653	94,523
		63,653	**94,523**
Financial liabilities measured at amortised cost:			
Bank loans	15/16	164,149	190,798
Debenture loans	15/16	2,796,814	2,731,636
Trade creditors and other creditors		553	430
Accruals		27,977	26,941
		2,989,493	**2,949,805**
Total financial liabilities		**3,053,146**	**3,044,328**

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

COMPANY
The Company has the following financial instruments:

	Note	2016 £'000	2015 £'000
Financial liabilities			
Financial liabilities measured at amortised cost:			
Debenture loans	15/16	174,904	-
Amounts owed to Group undertakings	15	15	166
Total financial liabilities		**174,919**	**166**

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit Risk

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

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

The Group has a low credit risk as the Retained Estate portfolio is leased on a 200-year underlease to the 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, this has always been received by the due date.

The amount of debt issued in December 1997 was sized assuming the MoD would release a minimum of 13,213 units from the Retained Estate and that these would be disposed by Annington Property Limited. It was always envisaged that the release rate would be higher than this minimum, which becomes an issue for the Class A Zero Coupon and Class B Zero Coupon noteholders as they are principally relying on the residual value of the Retained Estate in 2022.
To ensure both classes of noteholders are not disadvantaged, a holdback mechanism was adopted whereby holdback amounts will be calculated and held in custody accounts.

This mechanism was triggered during the 2010 year. As a result, in the current year £18.1 million (2015: £15.9 million) has been transferred to the holdback account. These amounts may be used to make investments in similar rated notes or to repurchase Class A Zero Coupon Notes and Class B Zero Coupon Notes. Any purchased Notes must be cancelled.

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

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

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

Other than amounts due from the joint venture companies and dilapidations claims outstanding, the Group has no other significant concentration of credit risk with exposure spread over a large number of tenants, and cash deposited with various banks and institutions as short-term deposits and short-term investments. The receivables (note 12) are stated after impairment losses and an allowance for doubtful receivables where appropriate.

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

Debt Management

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

The Group has one medium-term external bank loan secured on the Rentals Subgroup rental portfolios (note 18).

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

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings (note 18), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings (notes 21 - 23).

There is one bank facility agreement in place that requires covenant tests to be maintained.

	Loan to Value	Interest cover
Annington Rentals (Holdings) Limited	65%	125%

All these covenant tests have been complied with during the year ended 31 March 2016.

Interest Rate Management

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. There are a number of interest rate swaps in place to fix the exposure the Group has to fluctuations in interest rates. Annington Finance No. 4 plc had two interest rate swap agreements in place for the Floating Rate Notes (since December 1997), where the Group paid fixed 6.93% and receives variable rates linked to LIBOR. During the year, Annington Finance No. 4 plc took out £40.4 million of offsetting swaps bringing the total offsetting swap position to £732.1 million and the outstanding net notional liability position under these arrangements to £nil. In October 2015 the original swap and all offsetting swaps were cancelled.

In August 2004 two further interest rate swap agreements for an additional £260.0 million (2015: £260.0 million) were entered into by Annington Finance No. 4 plc for the Class M Fixed/Floating Rate Notes which came into effect in April 2015, to match the date this note transitioned to floating rate, with a termination date in January 2023. The Group pays fixed 5.284% and receives variable rates linked to LIBOR, and offsetting swaps amounting to £310.7 million (2015: £260.0 million) in place to fix interest rate exposures that result by the early redemption of Bonds ahead of the original payment profile, where the Group receives fixed at 5.284% and pays variable rates linked to LIBOR. Under these agreements, Annington Finance No. 4 plc has a net notional liability position of £208.8 million (2015: £260.0 million).

As at 31 March 2016, the fair value of the Annington Finance No. 4 plc interest rate swaps was a liability of £75.4 million (2015: £273.3 million) and the offsetting swaps was an asset of £16.8 million (2015: £183.5 million).

At 31 March 2016, Annington Rentals (Holdings) Limited held a number of interest rate swap and cap agreements totalling £129.9 million (2015: £142.0 million), with caps comprising 25% of the total set at the fixed rate of the swap contract to which they relate. Under the swap contracts Annington Rentals (Holdings) Limited receives variable rates linked to LIBOR and pay at a fixed weighted average of 1.83% (2015: 1.84%). As at 31 March 2016, the fair value of interest rate swaps was a liability of £5.1 million (2015: £4.7 million).

Cash Management and Liquidity

Cash levels are monitored to ensure sufficient resources are available to meet the Group's current and projected operational commitments. The Group has borrowing facilities in place for Annington Finance No. 1 plc of £14.1 million (2015: £14.1 million) and for Annington Finance No. 4 plc of £84.6 million (2015: £111.8 million) to ensure no default on the quarterly bond repayments.

In the 2012 financial year, as a result of RBS being downgraded by Moody's, Annington Finance No. 1 plc and Annington Finance No. 4 plc were required to seek an alternative liquidity provider with the requisite rating of P-1. No alternative bank was prepared to offer a replacement facility, therefore the £14.1 million (2015: £14.1 million) facility held by Annington Finance No. 1 plc and the £9.6 million (2015: £36.8 million) facility held by Annington Finance No. 4 plc were drawn down from RBS and placed with HSBC which holds the necessary rating (see note 14). Annington Finance No. 4 plc holds a £75.0 million (2015: £75.0 million) liquidity facility with Nationwide. As this facility is renewed annually, the current facility limit, that is undrawn at both the current and previous balance sheet dates, expires in one year or less.

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

Liquidity and interest risk financial maturity analysis

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

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

GROUP AND COMPANY

2016	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Other financial liabilities	545	545	-	-
Secured bond issues	4,533,329	68,344	245,484	4,219,501
Unsecured bond issues	402,797	-	-	402,797
Loans and other borrowings	177,479	28,029	149,450	-
Total non-derivative financial liabilities	**5,114,150**	**96,918**	**394,934**	**4,622,298**
Derivative financial instruments				
Derivative financial liabilities	67,923	11,522	40,627	15,774
Total financial liabilities	**5,182,073**	**108,440**	**435,561**	**4,638,072**
Trade and other debtors	(21,254)	(21,254)	-	-
Cash and short-term deposits	(93,991)	(93,991)	-	-
Short-term investments	(22,002)	(22,002)	-	-
Total financial assets	**(137,247)**	**(137,247)**	**-**	**-**
Total financial instruments	**5,044,826**	**(28,807)**	**435,561**	**4,638,072**

2015	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Other financial liabilities	430	430	-	-
Secured bond issues	5,291,416	87,726	327,629	4,876,061
Loans and other borrowings	208,664	55,194	153,470	-
Total non-derivative financial liabilities	**5,500,510**	**143,350**	**481,099**	**4,876,061**
Derivative financial instruments				
Derivative financial liabilities	155,173	19,840	84,647	50,686
Total financial liabilities	**5,655,683**	**163,190**	**565,746**	**4,926,747**
Trade and other debtors	(439)	(439)	-	-
Cash and short-term deposits	(97,631)	(97,631)	-	-
Short-term investments	(19,000)	(19,000)	-	-
Total financial assets	**(117,070)**	**(117,070)**	**-**	**-**
Total financial instruments	**5,538,613**	**46,120**	**565,746**	**4,926,747**

21. CALLED UP CAPITAL

GROUP AND COMPANY	2016 £'000	2015 £'000
Called up, allotted and fully paid		
8,475,620,000 ordinary shares of £0.01 each	**84,756**	**84,756**

On inception, the Company allotted one fully paid ordinary share with a nominal value of £1. On 3 December 2012, this share was subdivided into 100 equal fully paid ordinary shares with a nominal value of £0.01 each.

On 10 December 2012, the Company allotted 999,999,900 ordinary shares of £0.01 nominal value in consideration for the purchase of Annington Homes Limited from Annington Holdings (Guernsey) Limited as part of the group restructure set out within the basis of consolidation in note 1, accordingly these shares have been disclosed as if they had been issued at 1 April 2011, the date of the beginning of the comparative period. As merger accounting has been applied, no share premium was recognised on issue.

On 13 December 2012, the Company allotted 7,475,620,000 fully paid ordinary shares with a nominal value of £0.01.

22. STATEMENT OF MOVEMENTS IN RESERVES

GROUP	2016 £'000	2015 £'000
Merger reserve	**10,000**	**10,000**

The Merger reserve arose during the group restructure set out within the basis of consolidation in note 1.

23. RETAINED EARNINGS

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

GROUP	2016 £'000	2015 £'000
Distributable profits	(641,286)	(632,356)
Non-distributable profits	3,572,632	2,956,686
Total retained earnings	**2,931,346**	**2,324,330**

COMPANY	2016 £'000	2015 £'000
Distributable profits	485	(166)
Non-distributable profits	2,043,744	1,899,644
Total retained earnings	**2,044,229**	**1,899,478**

24. NOTES TO THE CASH FLOW STATEMENT

	2016 £'000	2015 £'000
Operating profit	151,326	145,652
Depreciation charge	86	112
Increase in debtors	(92)	(213)
Increase/(decrease) in creditors	4,484	(5,425)
Increase in provisions	1,419	3,054
Net cash inflow from operating activities	**157,223**	**143,180**

25. ANALYSIS OF CHANGES IN NET DEBT

	At 31 March 2016 £'000	Cash flow £'000	Other non-cash changes £'000	At 1 April 2015 £'000
Cash at bank and in hand	61,182	(22,945)	-	84,127
Debts falling due within one year	(60,039)	63,809	(36,921)	(86,927)
Debts falling due after more than one year	(2,964,577)	90,401	(124,948)	(2,930,030)
	(3,024,616)	**154,210**	**(161,869)**	**(3,016,957)**
Net debt	**2,963,434**	**131,265**	**(161,869)**	**(2,932,830)**

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

26. FINANCIAL COMMITMENTS

Future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Plant and machinery	
GROUP	**2016 £'000**	**2015 £'000**	**2016 £'000**	**2015 £'000**
Payments due:				
Not later than one year	-	-	25	26
Later than one year and not later than five years	503	503	346	116
	503	**503**	**371**	**142**

The Company has no capital or other commitments at 31 March 2016 (2015: nil).

27. PENSION COMMITMENTS

The Group contributes to employees' personal defined contribution pension schemes. The contributions made for the year were £0.4 million (2015: £0.4 million).

28. CONTINGENT ASSETS AND LIABILITIES

As stated in note 17, there is a contingent liability to allow for the adoption of private utilities on sites which are currently base dependent (dependent on the MoD) for their supply of water and sewage treatment and where there have been no releases of property from the MoD. This amounts to £122.3 million (2015: £121.2 million).

29. RELATED PARTY TRANSACTIONS

On 18 December 2015, Annington Limited entered into an agreement with its parent company Annington Holdings (Guernsey) Limited permitting it to issue Zero Coupon Subordinated and Unsecured Loan Notes in an aggregate principal amount of up to £290.7 million due in 2024. During the year, £170.9 million was borrowed under this agreement, with further borrowings of £59.2 million subsequent to year end. Accreted interest on this borrowing brought the book value of the debt to £174.9 million at 31 March 2016.

During the current year, the Group has had transactions with joint ventures that include distributions, loans and associated interest. These transactions form the basis for the movements disclosed in note 11.

In addition, during the year ended Annington Property Limited sold two parcels of land to the Inglis Consortium LLP for £9.9 million.

30. ENTITY INFORMATION AND CONTROLLING PARTY

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

Annington Holdings (Guernsey) Limited, a company registered in Guernsey, is the immediate parent of the Annington Limited. Annington Holdings (Guernsey) Limited 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 W1U 1DR.

31. SUBSIDIARIES AND RELATED UNDERTAKINGS

COMPANY	**£'000**
Valuation	
At 1 April 2015	1,984,400
Change in fair value of investments	144,100
At 31 March 2016	**2,128,500**

The historical cost of the investment in subsidiaries was £84,756,199 (2015: £84,756,199).

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 12% discount (2015: 9% premium), 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.

Of the fair value movement, a gain of £144.1 million was recognised through other comprehensive income.

31. SUBSIDIARIES AND RELATED UNDERTAKINGS (continued)

The subsidiary undertakings of Annington Limited at 31 March 2016, which are wholly owned, incorporated in Great Britain and included in the consolidated financial statements, are shown below:

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 Finance No. 1 plc	Finance
Annington Finance No. 2 Limited	Finance
Annington Finance No. 4 plc	Finance
Annington Finance No. 5 plc	Finance
Annington Developments (Holdings) Limited	Intermediate group holding company
Annington Developments Limited	Property investment
Annington (DA) Investment Limited	Property investment
Annington Rentals (Holdings) Limited	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 investment
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] Annington Nominees Limited owns one Class "A" share in each of the companies listed opposite, all of which are property management companies and incorporated in Great Britain. 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. The results for each of these undertakings are not consolidated into the group 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.

Name of subsidiary undertakings	Holding %	Name of subsidiary untertakings	Holding %
Arborfield East Residents Company Limited	3.03	Kirton in Lindsey Residents Company Limited	1.25
Ashchurch (St. David's) Residents Company Limited	5.26	Lancaster Square Residents Company Limited	1.75
Beaconside Residents Company Limited	1.75	Limerick (Balham) Residents Company Limited	2.63
Biggin Hill Residents Company Limited	3.33	Longtown Rosetrees Residents Company Limited	7.14
Bordon Residents Company Limited	0.95	Marham Residents Company Limited	4.76
Boulmer Residents Company Limited	1.79	Mayne Avenue Residents Company Limited	1.10
Britannia Crescent Residents Company Limited	1.10	Mostyn Court Bushey Residents Company Ltd	4.55
Bulford Residents Company Limited	2.13	North Luffenham Residents Company Limited	1.59
Burgoyne Heights Residents Company Limited	0.75	Northwood Residents Company Limited	12.50
Butlers Meadow Residents Company Limited	1.32	Nottingham Road Residents Company Limited	3.23
Cardiff Place Residents Company Limited	2.56	Petersfield (Kings Road) Residents Company Limited	20.00
Catterick (Anzio) Residents Company Limited	2.70	Ringwood Crescent Residents Company Limited	11.11
Chester (Dale Camp) Residents Company Limited	2.00	Salerno Residents Company Limited	100.00
Chicksands Residents Company Limited	0.85	Scampton Residents Company Limited	0.61
Chivenor Residents Company Limited	2.94	Shorncliffe Drive Residents Company Limited	5.26
Coningsby (West Drive) Residents Company Limited	1.35	South Wigston Residents Company Limited	1.67
Cove Residents Company Limited	100.00	St. Columb Minor Residents Company Limited	1.72
Cranwell Residents Company Limited	3.13	St. Eval Parc Residents Company Limited	0.34
Dale Road Residents Company Limited	0.78	Stanbridge Residents Company Limited	10.00
Dishforth Residents Company Limited	3.23	Stokesay Road Residents Company Limited	1.89
Donnington Residents Company Limited	1.25	Strensall Residents Company Limited	2.86
Donnington (Richards Road) Residents Company Limited	1.59	Thirsk Residents Company Limited	2.86
Driffield Ramsden Residents Company Limited	7.14	Uxbridge (Buchan) Residents Company Limited	1.96
East Vale Residents Company Limited	0.31	Uxbridge (Southern) Residents Company Limited	1.54
Exmouth (York Close) Residents Company Limited	10.00	Uxbridge Jupiter Residents Company Limited	4.00
Foulkes Terrace (Aldershot) Residents Company Limited	25.00	Waterbeach (Abbey Place) Residents Company Limited	1.00
Garats Hay Residents Company Limited	7.69	Waterbeach Residents Company Limited	0.69
Graham Road (Redruth) Residents Company Limited	1.82	Watton Residents Company Limited	3.70
Greenmill Residents Company Limited	3.13	West Moors Residents Company Limited	5.00
Henlow Residents Company Limited	5.00	West Vale Residents Company Limited	0.52
High Wycombe (Woodcock) Residents Company Limited	6.25	Whetstone Milson Close Residents Company Limited	3.23
Hilsea (Farmside Gardens) Residents Company Limited	100.00	White Waltham Residents Company Limited	12.50
Honington (Poplar Close) Residents Company Limited	3.03	Wimbish Residents Company Limited	3.85
Innsworth Residents Company Limited	1.28	Wittering Residents Company Limited	0.29
Keith Park Road (Uxbridge) Residents Company Limited	0.60	Woodbridge West Residents Company Limited	2.44
Kirton (York Road) Residents Company Limited	25.00	Wyton Residents Company Limited	0.56

32. POST BALANCE SHEET EVENTS

Since the year end, the Company has redeemed and cancelled £26.3 million of Class M Notes at a pool factor of 0.8509 on the interest payment date falling due in April (2015: nil). In July offers to sell were undersubscribed resulting in £16.18 million alternative partial redemption which has reduced the pool factor to 0.7777 (from 0.8509).

Further deposits were transferred into the holdback accounts in April and July of £2.1 million (2015: £4.2 million) for Class A Zero Coupon noteholders and £1.1 million (2015: £2.6 million) for Class B Zero Coupon noteholders.

A summary of the repurchase and cancellation of Class A Zero Coupon Notes and Class B Zero Coupon Notes transactions executed since the year end follows:

	Holdback Transactions		Nominal Values of Notes Purchased and Cancelled	
	Class A £'000	Class B £'000	Class A £'000	Class B £'000
Purchase Class A Zero Notes	(1,424)	(3,073)	1,680	3,720
Transfers to Holdback Accounts	2,098	1,047	-	-
Total movements since year end	**674**	**(2,026)**	**1,680**	**3,720**

On 15 July 2016, interest was paid on the Senior PIK Notes due in 2023 in the form of £38.4 million cash (2015: £5.0 million of cash and an increase in the value of notes on issue of £39.0 million). On 18 July 2016, AF5 repaid notes totalling £20.8 million.

On 15 July 2016 and 18 July 2016, the Company issued further Zero Coupon Subordinated and Unsecured Loan Notes in an aggregate principal amount of £34.4 million and £20.8 million respectively.

As a direct result of the 27 June 2016 downgrade of the UK's Long-term Issuer Default Rating (IDR) in line with the downgrading of UK Sovereign, Annington Finance No.1 plc 8% secured bonds due 2021 have been downgraded from AA+ to AA with a negative outlook. This does not reflect any changes in the Group or performance against covenants by the Group.

33. TRANSITION TO FRS 102

This is the first year that the Group and Company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out opposite are the changes in accounting policies which reconcile the profit and loss for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

RESTATED CONSOLIDATED BALANCE SHEET		At 1 April 2014 £'000			At 31 March 2015 £'000		
	Note	As previously stated	Effect of transition	FRS 102 (as restated)	As previously stated	Effect of transition	FRS 102 (as restated)
Fixed Assets							
Tangible assets		183	-	183	112	-	112
Investment properties		5,383,889	-	5,383,889	6,062,569	-	6,062,569
		5,384,072	**-**	**5,384,072**	**6,062,681**	**-**	**6,062,681**
Investment In Joint Ventures							
Share of gross assets		24,562	-	24,562	38,400	-	38,400
Share of gross liabilities		(14,695)	-	(14,695)	(22,013)	-	(22,013)
Share Of Net Assets		**9,867**	**-**	**9,867**	**16,387**	**-**	**16,387**
Loans		6,091	-	6,091	12,768	-	12,768
		15,958	**-**	**15,958**	**29,155**	**-**	**29,155**
		5,400,030	**-**	**5,400,030**	**6,091,836**	**-**	**6,091,836**
Current Assets							
Debtors		582	-	582	795	-	795
Investments		65,955	-	65,955	32,504	-	32,504
Cash at bank and in hand		81,656	-	81,656	84,127	-	84,127
		148,193	**-**	**148,193**	**117,426**	**-**	**117,426**
Creditors: Amounts falling due within one year	A	(166,007)	(54)	(166,061)	(146,121)	(69)	(146,190)
Net Current Liabilities		**(17,814)**	**(54)**	**(17,868)**	**(28,695)**	**(69)**	**(28,764)**
Total Assets Less Current Liabilities		**5,382,216**	**(54)**	**5,382,162**	**6,063,141**	**(69)**	**6,063,072**
Creditors: Amounts falling due after more than one year		(2,893,299)	-	(2,893,299)	(2,936,858)	-	(2,936,858)
Provisions for liabilities	B	(34,811)	(565,525)	(600,336)	(37,872)	(689,256)	(727,128)
Net Assets		**2,454,106**	**(565,579)**	**1,888,527**	**3,088,411**	**(689,325)**	**2,399,086**
Capital And Reserves							
Called up share capital		84,756	-	84,756	84,756	-	84,756
Merger reserve		(10,000)	-	(10,000)	(10,000)	-	(10,000)
Revaluation reserve	C	2,942,256	(2,942,256)	-	3,648,280	(3,648,280)	-
Retained earnings (previously profit and loss account)	C	(562,906)	2,376,677	1,813,771	(634,625)	2,958,955	2,324,330
Shareholder's Funds		**2,454,106**	**(565,579)**	**1,888,527**	**3,088,411**	**(689,325)**	**2,399,086**

33. TRANSITION TO FRS 102 (continued)

RESTATED COMPANY BALANCE SHEET	Note	At 1 April 2014 £'000 As Previously stated	Effect of transition	FRS 102 (as restated)	At 31 March 2015 £'000 As Previously stated	Effect of transition	FRS 102 (as restated)
Fixed Assets							
Investments	D	2,454,106	(1,138,406)	1,315,700	3,088,411	(1,104,011)	1,984,400
Creditors: Amounts falling due within one year		(91)	-	(91)	(166)	-	(166)
Total Assets Less Current Liabilities		**2,454,015**	**(1,138,406)**	**1,315,609**	**3,088,245**	**(1,104,011)**	**1,984,234**
Net Assets		**2,454,015**	**(1,138,406)**	**1,315,609**	**3,088,245**	**(1,104,011)**	**1,984,234**
Capital And Reserves							
Called up share capital		84,756	-	84,756	84,756	-	84,756
Revaluation reserve	D	2,369,350	(2,369,350)	-	3,003,655	(3,003,655)	-
Retained earnings (previously profit and loss account)	D	(91)	1,230,944	1,230,853	(166)	1,899,644	1,899,478
Shareholder's Funds		**2,454,015**	**(1,138,406)**	**1,315,609**	**3,088,245**	**(1,104,011)**	**1,984,234**

RESTATED CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2015	Note	31 March 2015 £'000
Original loss on ordinary activities before tax		(99,618)
Adjustments:		
Administrative expenses	A	(15)
Revaluation of investment properties – reclassification to retained earnings	C	733,542
Reclassification of share of joint ventures' tax	E	40
Restated profit on ordinary activities before tax		**633,949**
Original tax charge on loss on ordinary activities		381
Adjustments:		
Reclassification of share of joint ventures' tax	E	(40)
Deferred tax on revaluation of investment properties	B	(135,241)
Deferred tax on tax losses	B	12,472
Deferred tax losses: other	B	(962)
Restated tax on profit on ordinary activities		**(123,390)**
Restated total profit for the financial year		**510,559**

A) Holiday pay accrual
FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. This has resulted in the Group recognising a liability for holiday pay on the transition to FRS 102. Previously holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid. In the year to 31 March 2015 an additional charge of £15,000 was recognised in the profit and loss account and the liability at 31 March 2015 was £69,000.

B) Recognition of deferred tax assets and liabilities
FRS 102 removes some of the exemptions available under previous UK GAAP with respect to recognising deferred tax. As a result deferred tax liabilities have been recognised on the fair value movement of investment property and other items. Deferred tax assets have been recognised to the extent that it is probably that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

C) Investment property: fair value through profit and loss
Under FRS 102, movement in the fair value of investment properties are recorded in the statement of income and retained earnings results and not recorded directly within reserves until realisation on the sale of properties, as was the case under previous UK GAAP. This has resulted in the Group taking all fair value movement surpluses at the date of the transition to FRS 102 from the revaluation reserve to retained earnings. In the year to 31 March 2015 an impairment of £5.6 million was previously recorded in profit and loss and a valuation uplift of £733.5 million recorded directly to reserves. On transition to FRS 102 the balance of £733.5 million has been reclassified to profit and loss. As a result the net revaluation uplift of £727.9 million is recorded in the restated profit for the year.

D) Investments in subsidiaries
For the purpose of preparing individual or separate financial statements, FRS 102 requires an entity to account for its investments in subsidiaries either at cost less impairment or at fair value. The Company has elected to account for its investments in subsidiaries at fair value through other comprehensive income. If a revaluation decrease exceeds the accumulated revaluation gains in equity, the excess is recognised in profit or loss. Any subsequent increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. The fair value of the investments at 31 March 2015 has been determined as £1,984.4 million, refer to note 31 for further details.

E) Share of joint ventures
Under FRS 102 investments in joint ventures are included in the Group financial statements under the equity method of accounting instead of being recorded under the gross equity method of accounting as under previous UK GAAP. The share of the results in joint venture in the statement of income and retained earnings includes interest receivable, interest payable and is stated after tax. Under previous UK GAAP interest payable was included in the interest payable balance and the result was stated before tax.

F) Cash flow statement
The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. The cash flow statement reconciles to cash and cash equivalents and not cash alone as under previous UK GAAP. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand 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' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'.

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