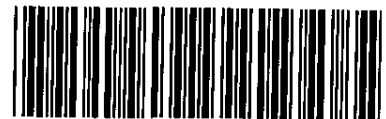


Northumberland Estates Limited

Report and Financial Statements

31 March 2017

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COMPANIES HOUSE

Northumberland Estates Limited

Directors

The Duke of Northumberland
Roderick Charles St. John Wilson
Colin Barnes
Colin Davidson
Lesley Ilderton

Secretary

Lesley Ilderton

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bank

Barclays Bank plc
Barclays House
5 St Ann's Street
Quayside
Newcastle upon Tyne
NE1 3DX

Registered Office

Suite 2A, Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 March 2017.

Principal activity and review of the business

The principal activity of Northumberland Estates Limited company and its group is commercial and residential property investment and development in the UK, Europe and North America. The group's UK commercial property values, on a like-for-like basis, decreased by 8% from 31 March 2016 to 31 March 2017. The group's non-UK commercial property values on a like-for-like basis, decreased by 16% from 31 March 2016 to 31 March 2017.

Future property investment opportunities are continually being reviewed and assessed. Future investments along with realisations of development land at uplifted values, will further strengthen the group's position going forward. The policy of maintaining properties to a high standard and enhancing their value will be continued during the forthcoming year.

As part of the ongoing review of the property portfolio, the group acquired two properties in 2017 and completed development of two commercial properties.

The group will continue to assess investment opportunities in the UK and overseas.

Objectives and strategy

The group's strategy is to remain aligned to its core policy objective of maintaining a mix of assets that generate a reliable and growing income stream and in addition to continue its development programme to generate capital receipts and / or rental income from its own land.

Key performance indicators ("KPI's")

The directors consider that the key financial performance indicators are those that communicate the financial performance and strength of the group as a whole.

Principal risks and uncertainties

The group is exposed to a number of operational, financial and commercial risks and it is the responsibility of the directors to assess these risks and ensure appropriate controls are in place to mitigate their effect. The directors consider that the principal risks and mitigating controls are as follows:

Acquisition and development

An element of the group's strategy is to grow the business through acquisition and development of commercial property. Such activity has associated risks such as valuation, timing, integration / set-up and management resources. All investment and development proposals undergo a rigorous evaluation process incorporating pay-back evaluation which targets a minimum IRR in accordance with an established criteria for approving investments.

Time delays and complexities in the planning process

Failure to obtain planning within appropriate timescales on residential developments would have a negative returns and associated costs. The group mitigates such risk by using external planning specialists where necessary to work alongside its internal planning department.

Residential house sales

There are a number of external factors that may affect the group's ability to generate residential house sales. The group mitigates such risks by monitoring reservation rates (and cancellation rates) and progress against a pre-agreed project development timeline.

EU Referendum

We continue to monitor the impact on the UK's decision to leave the EU and are confident given our set-up of the residential developments we can react quickly to any changes in the market to protect our cash flow and balance sheet.

Strategic report

Property valuation

Property valuations are undertaken by a third party professional valuation company with significant industry experience, the values have been adopted by the group and are reflected in the balance sheet. In arriving at these valuations various factors are taken into account, including but not limited to the macro-economic environment, tenancy schedules at the balance sheet date, environmental matters and nature and timing of any zoning and planning permission submitted or obtained.

Funding and liquidity risk

The group operates a prudent approach to liquidity management using a mixture of long-term debt together with cash and cash equivalents.

Foreign exchange risk

Foreign exchange rates have undergone a period of volatility. While the group attempts to mitigate this risk, a net exposure will remain to currencies which may depreciate against Sterling in the future. The group mitigates this risk using financial instruments as it deems appropriate to the size of the transaction.

Interest rate risk

The group adopts a policy of ensuring that an appropriate proportion of its exposure to changes in interest rates on borrowings is covered. Interest rate swaps are entered into to achieve an appropriate mix of fixed and floating exposure.

Tenant credit risk

The group rents out property to a wide range of commercial tenants. All tenants are credit checked before they enter into a lease. However, the group is exposed to the risk of tenants' credit position.

Taxation

The group undertakes transactions of an international nature with varying corporation tax rates, regimes and tax structuring. The group is exposed to any changes in rates or legislation changes which could increase the group's effective tax rate, to mitigate this risk the group seeks expert local tax advice and planning with regards to all significant international transactions.

On behalf of the Board:



Lesley Ilderton
Director
20 December 2017

Registered No. 05941545

Directors' report

The directors present their report and financial statements for the year ended 31 March 2017.

Results and dividends

The group loss for the year after taxation amounted to £4,862,645 (2016 – profit of £24,639,312). The directors do not recommend a dividend for the year ended 31 March 2017 (31 March 2016 – £nil).

Going concern

The directors have received confirmation that the shareholders will not request repayment of the loans owed to them (note 15) before 1 April 2019 and will not do so unless and until funds are available within the group to repay these loans.

The directors believe that the group is well placed to manage its business risks successfully in the future.

The directors have a reasonable expectation that the company and group have adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors

The current directors are shown on page 1.

Colin Barnes was appointed on 25 January 2016, Colin Davidson was appointed on 28 February 2017, John Brearley resigned on 31 May 2017 and Lesley Ilderton was appointed on 1 June 2017.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board:



Lesley Ilderton
Director
20 December 2017

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 the 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 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Northumberland Estates Limited

We have audited the financial statements of Northumberland Estates Limited for the year ended 31 March 2017 which comprise the Group Income Statement, the Group and Parent Company Statement of Comprehensive Income, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Statement of Financial Position, the Group Cash Flow Statement and the related notes 1 to 19. 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 FRS102 "The Financial Reporting standard applicable in the UK and the Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 undertaking'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 Report and Financial Statements 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 the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent undertaking's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 "The Financial Reporting standard applicable in the UK and the Republic of Ireland"; 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, based on the work undertaken in the course of the audit:

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

Independent auditors' report

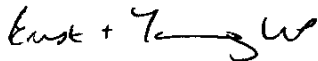
to the members of Northumberland Estates Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' report.

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 undertaking, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent undertaking 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.



Caroline Mulley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne

21 December 2017

Group Income Statement

for the year ended 31 March 2017

	Notes	2017 £	2016 £
Turnover	2	39,488,222	51,732,841
Operating expenses		(25,278,576)	(23,811,218)
		14,209,646	27,921,623
Other operating income		3,160,014	243,739
Operating profit	3	17,369,660	28,165,362
Share of profit in joint ventures		620,064	576,511
Profit on sale of investment property		945,431	275,788
(Loss) / gain on revaluation of investment properties		(17,098,282)	6,146,737
Profit on ordinary activities before interest and taxation		1,836,873	35,164,398
Interest receivable and similar income	4	169,684	4,563
Interest payable and similar charges	5	(4,498,437)	(4,240,642)
Loss on financial liabilities at fair value through income statement		(930,487)	(2,242,200)
(Loss) / profit on ordinary activities before taxation		(3,422,367)	28,686,119
Tax charge	6(a)	(1,440,278)	(4,046,807)
(Loss) / profit for the financial year		<u>(4,862,645)</u>	<u>24,639,312</u>

All amounts relate to continuing operations.

Group and company statement of comprehensive income

for the year ended 31 March 2017

Group statement of comprehensive (loss)/income

	2017	2016
	£	£
(Loss) / profit for the financial year	(4,862,645)	24,639,312
Foreign exchange gains	3,215,652	754,235
Total other comprehensive income	3,215,652	754,235
Total comprehensive (loss) / income for the year	<u>(1,646,993)</u>	<u>25,393,547</u>

Company statement of comprehensive (loss) / income

There is no comprehensive income other than the loss attributable to the shareholders of the company of £3,084,908 in the year ended 31 March 2017 (2016 – profit of £4,725,975).

Group Statement of changes in equity

for the year ended 31 March 2017

	Called-up share capital £	Other reserve £	Translation reserve £	Non-distributable reserve £	Profit and loss account £	Total equity £
<i>At 1 April 2015</i>	30,000,000	22,931	(614,101)	11,212,832	(34,898,521)	5,723,141
Profit for the year	-	-	-	6,389,964	18,249,348	24,639,312
Revaluation reserve reclassification	-	-	-	(543,645)	543,654	-
Other comprehensive income	-	-	754,235	-	-	754,235
Total comprehensive income for the year	-	-	754,235	5,846,310	18,793,002	25,393,547
<i>At 31 March 2016</i>	30,000,000	22,931	140,134	17,059,142	(16,105,519)	31,116,688
(Loss)/profit for the year	-	-	-	(16,164,034)	11,301,389	(4,862,645)
Revaluation reserve reclassification	-	-	-	10,752,205	(10,752,205)	-
Realisation of gain on asset disposal	-	-	-	(34,819)	34,819	-
Exchange differences on translation of foreign operations	-	-	910,498	-	-	910,498
Gain on monetary items forming part of net investment in foreign operations	-	-	2,305,154	-	-	2,305,154
Total comprehensive income for the year	-	-	3,215,652	(5,446,648)	584,003	(1,646,993)
<i>At 31 March 2017</i>	30,000,000	22,931	3,355,786	11,612,494	(15,521,516)	29,469,695

Group statement of financial position

at 31 March 2017

		2017	2016
	Notes	£	£
Fixed assets			
Tangible assets	7	192,195,419	181,499,354
Investment in joint ventures	8	6,073,306	5,737,694
Other investments	8	7,828,606	5,097,594
		<u>206,097,331</u>	<u>192,334,642</u>
Current assets			
Debtors	9	22,409,381	19,318,717
Debtors falling due after more than one year	9	5,801,555	18,584,419
Stocks	10	13,003,240	19,420,632
Cash at bank and in hand		<u>6,783,309</u>	<u>3,645,138</u>
		47,997,485	60,968,906
Creditors: amounts falling due within one year	11	<u>(78,829,823)</u>	<u>(83,737,174)</u>
Net current liabilities		<u>(30,832,338)</u>	<u>(22,768,268)</u>
Total assets less current liabilities		<u>175,264,993</u>	<u>169,566,374</u>
Creditors: amounts falling due after more than one year	12	<u>(145,301,955)</u>	<u>(137,238,789)</u>
Provisions for liabilities			
Deferred tax	6	<u>(493,343)</u>	<u>(1,210,897)</u>
Net assets		<u>29,469,695</u>	<u>31,116,688</u>
Capital and reserves			
Called up share capital	13	30,000,000	30,000,000
Non-distributable reserve	18	11,612,494	17,059,142
Profit and loss account		<u>(15,521,516)</u>	<u>(16,105,519)</u>
Other reserve	18	22,931	22,931
Translation reserve	18	<u>3,355,786</u>	<u>140,134</u>
		<u>29,469,695</u>	<u>31,116,688</u>

These financial statements were approved by the Board of Directors on 20 December 2017 and signed on their behalf by:



Lesley Ilderton
Director

Company statement of changes in equity

for the year ended 31 March 2017

	Called-up share capital £	Non-distributable reserve £	Profit and loss account £	Total equity £
<i>At 1 April 2015</i>	30,000,000	2,343,538	(27,401,572)	4,941,966
Revaluation reserve reclassification	-	756,733	(756,733)	-
Profit for the year	-	2,878,963	1,847,012	4,725,975
<i>At 31 March 2016</i>	30,000,000	5,979,234	(26,311,293)	9,667,941
Revaluation reserve reclassification	-	1,849,487	(1,849,487)	-
Realisation of gain on asset disposal	-	(34,819)	34,819	-
(Loss)/profit for the year	-	(4,113,342)	1,028,434	(3,084,908)
<i>At 31 March 2017</i>	30,000,000	3,680,560	(27,097,527)	6,583,033

Company statement of financial position

at 31 March 2017

	Notes	2017 £	2016 £
Fixed assets			
Tangible assets	7	63,408,726	65,153,225
Investments	8	1,976,141	1,940,747
		<u>65,384,867</u>	<u>67,093,972</u>
Current assets			
Debtors	9	123,823,896	92,360,553
Debtors falling due after more than one year	9	-	5,307,796
Stocks	10	4,881,426	7,264,943
Cash at bank and in hand		3,499,511	2,587,090
		<u>132,204,833</u>	<u>107,520,382</u>
Creditors: amounts falling due within one year	11	(95,341,019)	(74,474,394)
Net current assets		<u>36,863,814</u>	<u>33,045,988</u>
Total assets less current liabilities		102,248,681	100,139,960
Creditors: amounts falling due after more than one year	12	(95,665,648)	(89,828,202)
Provisions for liabilities			
Deferred tax	6(c)	-	(643,817)
Net assets		<u>6,583,033</u>	<u>9,667,941</u>
Capital and reserves			
Called up share capital	13	30,000,000	30,000,000
Non-distributable reserve	18	3,680,560	5,979,234
Profit and loss account		<u>(27,097,527)</u>	<u>(26,311,293)</u>
		<u>6,583,033</u>	<u>9,667,941</u>

These financial statements were approved by the Board of Directors on 20 December 2017 and signed on their behalf by:



Lesley Ilderton
Director

Group statement of cash flows

for the year ended 31 March 2017

	2017	2016
Note	£	£
Net cash inflow from operating activities	14 16,656,437	9,694,319
Investing activities		
Interest received	18,259	4,563
Payments to acquire tangible fixed assets	(22,119,638)	(5,783,441)
Receipts from sales of tangible fixed assets	6,045,924	579,619
Payments to acquire investments	(4,078,268)	(3,750,339)
Receipts from sales of investments	1,347,255	-
Net cash flow from investing activities	(18,786,468)	(8,949,598)
Financing activities		
Interest paid	(4,370,346)	(4,112,551)
New loans to joint venture	(23,902)	(100,380)
Repayment of loans from joint venture	-	182,500
New loans from joint venture	1,836,505	238,590
New loans	13,232,500	2,143,275
Repayment of loans	(5,406,555)	(2,091,539)
Net cash flow from financing activities	5,268,202	(3,740,105)
Increase/(decrease) in cash	3,138,171	(2,995,384)
Cash at 1 April 2016	3,645,138	6,640,522
Cash at 31 March 2017	6,783,309	3,645,138

Notes to the financial statements

at 31 March 2017

1. Accounting policies

Statement of compliance

Northumberland Estates Limited is a limited company by shares incorporated in England. The Registered Office address is Suite 2A, Quayside House, Quayside, Newcastle upon Tyne, NE1 3DX and the company registered number is 05941545.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards.

The accounting principles used to prepare the financial statements are based on historical cost, unless stated otherwise.

The financial statements are prepared in GBP sterling which is the functional currency of the group and company.

Going concern

The directors have received confirmation that the shareholders will not request repayment of the loans owed to them (note 11) for a period of at least one year from the date of signing these financial statements. As such the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Group financial statements

The consolidated income statement and statement of financial position consolidate the financial statements of the company and its subsidiary undertakings and equity account the company's interest in its joint ventures. The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes. Intra-group transactions are eliminated fully on consolidation. No income statement is presented for the parent company, Northumberland Estates Limited, as permitted by section 408 of the Companies Act 2006.

Basis of consolidation

• Subsidiaries

Subsidiaries are all entities (including special purposes entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date control ceases.

• Joint ventures

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement.

Investments in joint ventures are accounted for by the equity method of accounting and are initially recognised at cost.

The group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement. The group's share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in joint ventures.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimations and assumptions that affect the amounts reported for assets and liabilities as at balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Valuation of investment properties

The group carries its investment properties at fair value, with changes in fair value being recognised through the income statement. The group engaged Bilfinger GVA to determine fair value at 31 March 2017. The valuation has been made in accordance with the RICS Appraisal and Valuation Manual. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate.

Appraisal of future developments

Management appraise all developments for technical, economic and financial feasibility through an established internal criteria. The appraisal is most sensitive to development construction costs and estimated yield.

Development sites sale obligations

The group makes development site sales from time-to-time. Where there is a post-sale obligation, management estimates the financial impact. Such obligations require input from various sectors and as such are sensitive to price changes in raw materials, professional fees and unforeseen complications in performing the obligation.

Significant accounting policies

Revenue recognition

Revenue comprises gross rentals exclusive of VAT. Gross rental income is recognised on a straight line basis over the lease term on an accruals basis. The group records deferred revenue when it receives consideration from a customer before achieving certain criteria that must be met for revenue to be recognised, which mainly is the timing of when rentals are due.

The group discounts its long term receivables from development site sales to their net present value using an appropriate discount rate.

Development site sales are recognised as follows:

- On sites that are sold outright - when legal completion occurs.
- On sites that are developed under a management agreement with a third party the sales are recognised when a certain milestones are achieved, those being: legal completion has occurred on a per plot basis and the overall development site profit can be reasonably measured.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

Significant accounting policies (continued)

Investment properties

The groups investment properties are held for long term investment and are accounted for as follows:

- Investment properties are initially recorded at cost which includes purchase cost and directly attributable expenditure.
- Investment properties whose fair value can be measured reliably are measured at fair value. The surplus or deficit on revaluation is recognised through the income statement and accumulated in the non-distributable reserve.

Operating lease incentives

In accordance with FRS 102, Section 35, for lease terms that commenced prior to adoption of FRS 102 (1 April 2014), and in accordance with UITF 28, rentals received under operating leases were recognised on a straight line basis over the term of the lease. Incentives given by the company to sign an operating lease are similarly spread on a straight line basis over the term of the lease, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is smaller than the full lease term, in which case the shorter period is used. For lease terms that commenced after the adoption of FRS 102 incentives given by the company to sign an operating lease are spread on a straight line basis over the term of the lease.

Deferred taxation

Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Stocks – Development land

Stocks are stated at the lower of cost and estimated selling price less costs to complete.

At the end of each reporting period development sites are assessed for impairment. If a development is impaired it is reduced to the selling price less costs to sell and an impairment charge is recognised through the income statement.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet date. All differences are taken to the income statement. The assets and liabilities of overseas subsidiary undertakings are translated at rates of exchange ruling at the balance sheet date. Income and expenses for each statement of comprehensive income are translated at exchange rates at the dates of transaction. All resulting exchange differences are recognised in the income statement.

Derivative instruments

The group uses interest rate swaps to adjust interest rate exposures. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through the income statement. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of interest rate swaps are determined by calculating the present value of the estimated future cash flow based on observable yield curves.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

Significant accounting policies (continued)

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at the fair value of consideration received net of transaction costs incurred. After initial recognition they are measured at amortised cost using the effective interest method.

Investments

The group has investments in various Limited Liability Companies (LLCs) registered in the USA. These investments are recognised at fair value which is cost less accumulated impairment losses. At each balance sheet date an impairment review is carried out and any change in the fair value is recognised through the income statement.

In the company's financial statements investment in subsidiary undertakings and joint ventures is held at cost less accumulated impairment losses.

2. Turnover

Turnover comprises of rental income from the group's investments property assets located in the UK and Europe and revenue from the sale of development sites.

The amount of group turnover attributable to each of the classes of continuing activity of the group is as follows:

	2017 £	2016 £
Rental income from investment properties	12,987,205	11,895,457
Property development	26,501,017	39,837,384
	<u>39,488,222</u>	<u>51,732,841</u>

In the year ended 31 March 2017 23% of the rental income from investment properties arose in Switzerland (31 March 2016 – 26%). All of the revenue from property development arose in the UK.

3. Operating profit

This is stated after charging:

	2017 £	2016 £
Impairment of development sites	100,749	82,567
Auditors' remuneration – audit services	63,400	54,969
– other services	36,750	24,500
	<u>200,900</u>	<u>162,036</u>

There are no persons holding service contracts with the company. None of the directors received any remuneration from the company during the year (2016 - £nil). Included within administration expenses is a cost allocation from the Traditional Estates of £1,658,875 (2016 - £1,510,408) and included in this charge is the cost of the directors for their services to the group.

Notes to the financial statements

at 31 March 2017

4. Interest receivable and similar income

	2017 £	2016 £
Bank interest receivable	12,653	3,294
Other interest receivable	157,031	1,269
	169,684	4,563
Share of joint venture interest	27,546	1,493
	<u>197,230</u>	<u>6,056</u>

5. Interest payable and similar charges

	2017 £	2016 £
Interest payable to related parties	167,164	151,678
Bank interest payable	4,203,104	3,960,260
Borrowing costs amortisation	128,091	128,091
Other interest payable	78	613
	4,498,437	4,240,642
Share of joint venture interest	235,998	342,463
	<u>4,734,435</u>	<u>4,583,105</u>

6. Tax

(a) Tax on ordinary activities

The tax charge is made up as follows:

	2017 £	2016 £
Current tax:		
UK corporation tax on (loss)/profit for the year	2,028,521	3,633,498
Overseas tax	165,362	136,520
Overseas tax adjustment in respect of prior periods	(48,636)	(681,129)
Adjustments in respect of prior periods	12,585	(10,588)
Current tax	<u>2,157,832</u>	<u>3,078,301</u>
Deferred tax:		
Origination and reversal of timing differences	(601,563)	1,335,543
Effect of changes in tax rates	31,135	(134,544)
Adjustments in respect of prior years	(147,126)	(232,493)
Total deferred tax	<u>(717,554)</u>	<u>968,506</u>
Tax on profit on ordinary activities (note 6(b))	1,440,278	4,046,807
Share of joint venture tax	650,887	181,060
	<u>2,091,165</u>	<u>4,227,867</u>

Notes to the financial statements

at 31 March 2017

6. Tax (continued)

(b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2016–20%). The differences are explained below:

	2017 £	2016 £
(Loss) / profit on ordinary activities before taxation	(3,422,367)	28,686,119
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 – 20%)	(684,473)	5,737,223
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,364,515	8,152
Income not taxable for tax purposes	(439,851)	(1,922,371)
Utilisation of losses	(531)	(2,056,138)
Effect of gains	1,469,092	2,863,389
Partnership share	(6,503)	421,021
Other timing differences	(109,929)	54,285
Tax rate changes	31,135	(134,544)
Adjustment from previous periods	(134,541)	(243,081)
Adjustment in respect of prior periods (overseas)	(48,636)	(681,129)
Total tax charge for the year	1,440,278	4,046,807

(c) Deferred tax

At 31 March 2017 deferred tax (liability) / asset was as follows:

	Group £	Company £
At 1 April 2016	(1,210,897)	(643,817)
Movement in the year	717,554	690,843
At 31 March 2017	(493,343)	47,026

The group's deferred taxation (liability) / asset is as follows:

	2017		2016	
	Provided £	Unprovided £	Provided £	Unprovided £
Timing differences – non trading	-	1,296,621	4,475	1,477,307
Timing differences – trading	-	590,911	-	625,761
Losses	-	-	104,414	-
Fixed assets	(493,343)	241,222	(1,319,786)	46,784
	(493,343)	2,128,754	(1,210,897)	2,149,762

Notes to the financial statements

at 31 March 2017

6. Tax (continued)

Deferred tax (continued)

The company's deferred taxation (liability) / asset is as follows:

	2017		2016	
	<i>Provided</i>	<i>Unprovided</i>	<i>Provided</i>	<i>Unprovided</i>
	£	£	£	£
Timing differences – non trading	-	935,631	-	1,095,082
Timing differences – trading	-	590,911	-	625,761
Fixed assets	47,206	41,367	(643,817)	43,800
	<u>47,026</u>	<u>1,567,909</u>	<u>(643,817)</u>	<u>1,764,553</u>

(d) Factors that may affect future tax charges

The group's results for this accounting period are taxed at an effective rate of 20%. The main rate of corporation tax in the UK reduced to 19% from 1 April 2017 and to 17% effective from 1 April 2020. This will reduce the group's future current tax charge accordingly.

7. Tangible fixed assets

Group

	<i>Freehold investment property</i>	<i>Leasehold investment property</i>	<i>Total</i>
	£	£	£
At 1 April 2016	126,609,839	54,889,515	181,499,354
Additions	12,073,768	10,045,870	22,119,638
Disposals	(5,100,493)	-	(5,100,493)
Transfer from current assets	1,158,135	2,734,395	3,892,530
Revaluations included in income statement	(10,626,721)	(6,471,561)	(17,098,282)
Foreign exchange movement	6,882,672	-	6,882,672
At 31 March 2017	<u>130,997,200</u>	<u>61,198,219</u>	<u>192,195,419</u>

Investment property has been valued at 31 March 2017 by Bilfinger GVA. The valuation has been made in accordance with the RICS Appraisal and Valuation Manual. Investment property has been valued by individual property using the comparative and investment methods. The valuation has been assessed on a collation and analysis of appropriate comparable investment and retail transactions, together with evidence of demand in the vicinity of the individual property. This has then been applied to the subject property taking into account size, location, lease terms, covenants and any other material factors.

Investment property if included on an historical cost basis would be stated at:

	2017	2016
	£	£
	<u>208,247,008</u>	<u>196,303,381</u>

Notes to the financial statements

at 31 March 2017

7. Tangible fixed assets (continued)

Company

	<i>Freehold investment properties valuation £</i>	<i>Leasehold investment properties valuation £</i>	<i>Total £</i>
At 1 April 2016	49,448,225	15,705,000	65,153,225
Additions	314,480	977,124	1,291,604
Disposals	(1,657,156)	-	(1,657,156)
Transfer from current assets	-	2,734,395	2,734,395
Revaluations included in income statement	(4,283,781)	170,439	(4,113,342)
At 31 March 2017	43,821,768	19,586,958	63,408,726

Investment property has been valued at 31 March 2017 by Bilfinger GVA. The valuation has been made in accordance with the RICS Appraisal and Valuation Manual. Investment property has been valued by individual property using the comparative and investment methods. The valuation has been assessed on a collation and analysis of appropriate comparable investment and retail transactions, together with evidence of demand in the vicinity of the individual property. This has then been applied to the subject property taking into account size, location, lease terms, covenants and any other material factors.

Investment property if included on an historical cost basis would be stated at:

<i>2017 £</i>	<i>2016 £</i>
<u>66,109,237</u>	<u>63,740,395</u>

8. Investments

Group

Investment in joint ventures

	<i>Total £</i>
At 1 April 2016	5,737,694
Share of profit	620,064
Foreign exchange	(284,452)
At 31 March 2017	<u>6,073,306</u>

<i>Joint venture</i>	<i>Nature of business</i>	<i>Country of registration</i>	<i>Proportion of holding</i>
Buccleuch Property (Germany) Limited *	Property investment	England and Wales	50%
Regeneration NE LLP	Property development	England and Wales	50%
Prudhoe Estates LLP	Property development	England and Wales	50%
Holburn LLP	Property development	England and Wales	25%

* This company is 50% owned by Northumberland Estates 2007 Limited (formerly Hotspur Land 2007 Limited), a subsidiary undertaking, such that it is 50% owned by the group.

Notes to the financial statements

at 31 March 2017

8. Investments (continued)

Investment property held by the joint venture, Buccleuch Property (Germany) Limited has been valued by the directors. The valuation has been made in accordance with the RICS Appraisal and Valuation Manual.

The company has a 50% share of specific plots of development land in North East England with Taradina Number Two Limited and Eastland (Wynyard) Limited. The joint arrangements are not structured through an entity and both parties jointly control operations and assets.

Company

	<i>Subsidiary shares</i>	<i>Investment in joint ventures</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 April 2016	400,002	1,540,745	1,940,747
Share of profit	-	35,394	35,394
At 31 March 2017	<u>400,002</u>	<u>1,576,139</u>	<u>1,976,141</u>

The company owns 100% of the share capital of the companies listed below, unless otherwise stated:

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Registered office</i>	<i>Nature of business</i>
Northumberland Estates Investments Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Property investment and management
Northumberland Estates 2004 Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Investment in property investment vehicles
Northumberland Estates Developments Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Property development
Northumberland Estates 2007 Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Investment in property investment vehicles
Northumberland Estates Ventures Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Property investment and management
Northumberland Estates Investments 2000 Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Property investment and management
Northumberland Estates Investments 3000 Limited	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Property investment and management
Swiss Land Estates SA	Switzerland	Quai du Mont-Blanc 29, Geneva	Property investment
Blyth Investments LLP (50% held*)	UK	110 Quayside, Newcastle upon Tyne, NE1 3DX	Property investment

* This company is 50% owned by the Northumberland Estates Limited and 50% held by Northumberland Estates Ventures Limited, a subsidiary undertaking, such that it is 100% owned subsidiary of the group.

Notes to the financial statements

at 31 March 2017

8. Investments (continued)

Group

Other investments

	Total £
At 1 April 2016	5,097,594
Additions	4,078,268
Capital returns	(1,347,256)
At 31 March 2017	<u>7,828,606</u>

Group

Entities in which the group has greater than a 20% holding are as follows:

<i>Other investments</i>	<i>Nature of business</i>	<i>Country of registration</i>	<i>Proportion of holding</i>
Sharon Hills Equity Investments LLC	Property investment	United States	33.3%

Other investments are valued at cost. The directors consider the value of the other investments to be supported by their underlying assets.

9. Debtors

	<i>2017</i> <i>Group</i> £	<i>2017</i> <i>Company</i> £	<i>2016</i> <i>Group</i> £	<i>2016</i> <i>Company</i> £
Trade debtors	5,424,334	810,332	12,162,877	1,009,089
Amounts owed by related parties	125,216	-	125,216	-
Amounts owed by subsidiary undertakings	-	105,073,451	-	80,201,599
Amounts owed by joint ventures	173,795	173,795	149,893	149,893
Northumberland Estates Inter Trust Account (note 15)	-	10,441,270	-	4,630,299
Other debtors	22,324,958	7,250,592	25,377,312	11,666,651
Deferred tax (note 6(c))	-	47,026	-	-
Prepayments and accrued income	162,633	27,430	87,838	10,818
	<u>28,210,936</u>	<u>123,823,896</u>	<u>37,903,136</u>	<u>97,668,349</u>

Amounts falling due after more than one year included in the, above are:

	<i>2017</i> <i>Group</i> £	<i>2017</i> <i>Company</i> £	<i>2016</i> <i>Group</i> £	<i>2016</i> <i>Company</i> £
Other debtors	<u>5,801,555</u>	<u>-</u>	<u>18,584,419</u>	<u>5,307,796</u>

Other debtors relates to amounts due from the sale of development sites in the previous year.

Notes to the financial statements

at 31 March 2017

10. Stocks

	2017 Group £	2017 Company £	2016 Group £	2016 Company £
Development sites	13,003,240	4,881,426	19,420,632	7,264,943

11. Creditors: amounts falling due within one year

	2017 Group £	2017 Company £	2016 Group £	2016 Company £
Bank loans	1,106,878	396,908	1,018,726	396,908
Trade creditors	1,457,571	683,823	1,482,534	421,527
Amounts owed to subsidiary undertakings	-	29,900,004	-	11,244,784
Amounts owed to related parties	52,135,371	47,989,787	47,882,344	46,830,913
Northumberland Estates Inter Trust Account (note 15)	1,573,983	-	2,646,661	-
Amounts owed to joint ventures	2,075,096	-	238,590	-
Derivative financial instruments (note 16)	12,613,143	12,613,143	11,682,656	11,682,656
Other creditors	1,274,599	103,556	1,679,675	1,016,533
Corporation tax	1,667,458	66,632	3,879,887	968,392
Accruals	2,204,772	1,922,691	11,510,513	898,654
Deferred income	2,720,952	1,664,475	1,715,588	1,014,027
	<u>78,829,823</u>	<u>95,341,019</u>	<u>83,737,174</u>	<u>74,474,394</u>

12. Creditors: amounts falling due after more than one year

	2017 Group £	2017 Company £	2016 Group £	2016 Company £
Accruals	8,225,060	2,050,963	12,242,980	4,157,358
Bank loans	137,076,895	93,614,685	124,995,809	85,670,844
	<u>145,301,955</u>	<u>95,665,648</u>	<u>137,238,789</u>	<u>89,828,202</u>

Included within bank loans is a loan of £33.7 million that is due to be repaid by 30 April 2031. Interest is charged at a rate of base plus 1% or if the group selects, LIBOR plus 1% plus a LIBOR option rate. In January 2011 the group entered into an interest rate swap arrangement and interest is charged at 3.56%. The loan is secured with property owned by the part of Northumberland Estates known as the Traditional Estates which is not part of Northumberland Estates Limited statutory group and the company is the borrower.

Included within bank loans is a revolving credit facility that is repayable when the borrower chooses, but at the latest five years from 30 October 2014, bearing interest at LIBOR plus 1.95%. In October 2014 the group entered into two interest rate swap arrangements with two banks for £15 million each which bear interest at fixed and floating rates and nets to 1.19% and 1.17% respectively. The revolving credit facility loan is secured on various investment properties owned by the group.

Included within bank loans is a loan of £4.2 million that is due to be repaid by 23 February 2027. Interest is charged at a fixed rate of 3.70% and is secured on specific investment property owned by the group.

Notes to the financial statements

at 31 March 2017

12. Creditors: amounts falling due after more than one year (continued)

Borrowings: Maturity analysis

	2017 Group £	2017 Company £	2016 Group £	2016 Company £
Bank loans				
Less than one year	1,239,194	525,000	1,146,819	525,000
Within one to two years	1,239,194	525,000	1,146,819	525,000
Within two to five years	62,207,299	61,493,105	53,774,173	53,152,355
After five years	74,183,996	32,112,500	70,718,827	32,637,500
	138,869,683	94,655,605	126,786,638	86,839,855
Less: issue costs	(685,910)	(644,012)	(772,103)	(772,103)
	<u>138,183,773</u>	<u>94,011,593</u>	<u>126,014,535</u>	<u>86,067,752</u>

13. Issued share capital

	2017 No.	2017 £	2016 No.	2016 £
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	30,000,000	<u>30,000,000</u>	30,000,000	<u>30,000,000</u>

14. Notes to the statement of cash flows

(a) Reconciliation of group profit to net cash flow from operating activities

	2017 £	2016 £
Group (loss) / profit for the year	(3,422,367)	28,686,119
Impairment of development sites	(100,749)	(82,567)
Share of profit in joint venture	(620,064)	(576,511)
Loss/(gain) on revaluation of investment properties	17,098,282	(6,146,737)
Net finance costs	4,328,753	4,236,079
Fair value movement on forward contracts	930,487	2,242,200
Profit on disposal of investment properties	(945,431)	(275,788)
<i>Working capital movements</i>		
Change in stocks	2,625,611	(12,347,737)
Change in debtors	9,716,101	(32,886,068)
Change in creditors	(8,583,926)	27,124,325
Corporation tax paid	(4,370,261)	(278,996)
Net cash inflow from operating activities	<u>16,656,437</u>	<u>9,694,319</u>

Notes to the financial statements

at 31 March 2017

15. Related party transactions

Group

The company has taken advantage of the exemption as provided by paragraph 33.1A of FRS102 not to disclose transactions with wholly owned subsidiaries.

Included within administration expenses and amounts owed to related parties is a cost allocation from the Traditional Estates of £1,658,875 (2016 - £1,510,408) (note 3). It is payable on each 31 March and does not accrue any interest.

The group has entered into various unsecured loan arrangements with other related parties which are not wholly owned and amounts outstanding at 31 March 2017 was £45,387,739 (2016 – £45,387,739). One loan of £3,000,000 (2016 - £3,000,000) bears interest at a rate of 5% per annum and the interest for the year was £150,309 (2016 - £150,000) (note 5), no interest is charged on all other loans. Interest accrued and not yet paid on these loans totalled £2,388,757 (2016 - £2,388,757). These loans are not repayable before 1 April 2018 and there is no fixed repayment date.

At 31 March 2017 the group owed £2,700,000 (2016 - £720,000) to the Traditional Estate in relation to land sales.

At 31 March 2017 the group was owed £125,216 (2016 – £125,216) by the Traditional Estate which relates to loan interest.

During the year, certain land held for development was acquired from the Traditional Estate with a combined value of £3,550,000.

Amounts owed by joint ventures at 31 March 2017 of £173,795 (2016 – £149,893) represents balances due from the group's joint venture partner Regen NE Limited of £100,000 and Prudhoe Estates LLP of £73,795. The amounts are repayable on demand and interest is charged at prevailing market rates.

Amounts owed to joint ventures at 31 March 2017 of £2,075,096 (2016 – £238,590) represents a loan from the group's joint venture partner Buccleuch Property (Germany) Limited of €2,100,000 (2016 – €300,000). The amount is repayable on demand and interest is charged at prevailing market rates.

Notes to the financial statements

at 31 March 2017

16. Financial instruments

	2017 Group £	2017 Company £	2016 Group £	2016 Company £
<i>Financial assets measured at amortised cost:</i>				
Trade debtors	5,424,334	810,332	12,162,877	1,009,089
Other debtors	22,786,602	123,013,564	25,740,259	96,659,260
<i>Financial liabilities at fair value through income statement:</i>				
Interest rate swaps	(12,613,143)	(12,613,143)	(11,682,656)	(11,682,656)
<i>Financial liabilities measured at amortised cost:</i>				
Bank loans	(138,183,773)	(94,011,593)	(126,014,536)	(86,067,752)
Trade creditors	(1,457,571)	(683,823)	(1,482,534)	(421,527)
Other creditors	(71,877,291)	(83,698,108)	(79,398,885)	(61,973,303)

The group purchase interest rate swaps to manage interest rate risk volatility. Interest rate swaps expire in October 2019 and December 2030. The fair values of the interest rate swaps at 31 March 2017 and 31 March 2016 are determined by reference to their market value.

17. Controlling party

The Duke of Northumberland is regarded the ultimate controlling party at 31 March 2017 as he is a shareholder and trustee of various trusts within the Traditional Estate.

18. Reserves

Other reserve

This reserve relates to the groups subsidiary Swiss Land Estates SA. Under Switzerland corporate law a minimum of 5% of the Switzerland company's annual net income must be retained in a legal reserve until this legal reserve equals 20% of the Switzerland Company's issued and outstanding aggregate par value share capital. At 31 March 2017 this percentage amounted to 11% (2016 – 11%). As Swiss Land Estates previously had negative reserves it was not required to make the transfer up to the minimum of 20% until it has positive reserves out of which to make a transfer. This legal reserve represents an appropriation of retained earnings and is not available for distribution.

Translation reserve

This reserve records the translating of the financial statements of foreign subsidiaries from the functional currency into the presentational currency using the exchange rate at the balance sheet date and gains and losses arising on these translations are taken to reserves.

Non-distributable reserve

This reserve is used to record increases in the fair value of investment properties and decreases to the extent that such decrease relates to an increase on the same asset. To the extent that a property has a fair value below cost that decrease is shown within the profit and loss reserve.

Notes to the financial statements

at 31 March 2017

19. Events after the reporting period

In June 2017 the group purchased 50% of Buccleuch Property (Germany) Limited which resulted in that company becoming a wholly owned subsidiary.