Company Registration No. 08271384

ANNINGTON LIMITED

Half-Year

Condensed Consolidated Financial Statements

For the six months ended 30 September 2019

ANNINGTON LIMITED

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

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NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

HALF-YEAR REPORT
For the six months ended 30 September 2019 (continued)

FINANCIAL HIGHLIGHTS

- The carrying value of Group investment properties was £7.7 billion (31 March 2019: £7.7 billion).
- Rental income was £99.3 million (30 September 2018: £98.5 million).
- Profit after taxation was £17.1 million (30 September 2018: £33.8 million).
- The Group sold 33 (30 September 2018: 10) properties and recognised £6.7 million (30 September 2018: £5.7 million) in sales income.

Portfolio Summary

At 30 September 2019, investment properties consisted of 40,661 completed units (31 March 2019: 40,383 units):

- the MQE Retained Estate, comprising 38,725 Units ("Retained Units") (31 March 2019: 38,726) and 181 Related Assets (31 March 2019: 181), representing the majority of the MoD's total Service Family Accommodation and the MQE Surplus Estate comprising of 249 Units ("Surplus Estate") (31 March 2019: 251); and
- the "Non-MQE Portfolio", a separate property portfolio of private rented sector ("PRS") accommodation which, as at 30 September 2019, consisted of 1,687 (31 March 2019: 1,607) property units let on bulk or assured shorthold tenancies.

At that date, the Group was constructing a further 150 units (31 March 2019: 256) and held one completed development unit (31 March 2019: 5).

As of 30 September 2019, the carrying value of the Group's portfolio was:

- the MQE Retained Estate was £7,215.7 million (31 March 2019: £7,216.0 million), including £39.8 million (31 March 2019: £40.0 million) relating to the separately recorded utilities provision added back to fair value within the book value;
- the MQE Surplus Estate was £32.1 million (31 March 2019: £32.8 million); and
- the Non-MQE Portfolio was £419.3 million (31 March 2019: £410.3 million).

To take account of the change in value of the portfolio's underlying assets, the Group uses a Special Assumption of Vacant Possession Value ("SAVPV"). Additionally, this measure is used to help gauge whether the Group has been achieving reasonable value upon disposal of units released from the MQE Retained Estate and to provide management with a basis upon which to calculate an estimated value for the Retained Estate and potential value to be realised from future sales. SAVPV is defined by the Group as the value estimated for a property based on the hypothetical assumption that such property is vacant, sold on an individual basis with no costs on disposal and introduced to the market in a phased and orderly manner, such that local markets do not become over-supplied and values are not depressed as a result.

SAVPV is calculated by the Group by indexing the SAVPV estimated at the time of the Group's initial acquisition of the portfolio in 1996 for inflation, using the average of the regional Halifax House Price Index (All House Prices) and the Nationwide House Price Index and adjusting this by a factor representing actual sales performance on disposals from the MQE Retained Estate (99.9% at both March and September 2019).

At 30 September 2019, the SAVPV of the MQE Retained Estate is:

	30 September 2019		31 March 2019	
Region	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**
East Anglia	3,026	561,193	3,026	542,549
East Midlands	2,496	398,388	2,496	398,774
Greater London	1,952	1,104,748	1,953	1,108,288
North	395	46,840	395	47,499
North West	509	66,477	509	63,870
South East	14,993	4,237,079	14,993	4,151,750
South West	9,787	1,980,660	9,787	1,939,318
Wales	850	141,218	850	135,239
West Midlands	1,625	262,550	1,625	254,153
Yorks & Humberside	3,092	462,636	3,092	453,143
Total	**38,725**	**9,261,789**	**38,726**	**9,094,583**

Market Environment

In the six months to September 2019, house price growth remained subdued. Nationwide reported annual house price growth at 0.2% and Halifax reported annual growth to September of 1.1%. Regional price variations persist with further price declines in London and the South East reported by both Nationwide and Halifax. Statistics released by Land Registry in November show annual house price growth of 1.3% at September 2019 vs 3.5% the year before. The ONS reported a similar 1.3% annual increase in prices.

The RICS, in its UK Residential Market Survey, noted a pick-up in buyer demand during the half-year. However, in its September report, the RICS reported its survey results suggested that headline indicators, both demand and supply, had slipped into negative territory. This was anecdotally attributed to heightened economic and political uncertainty.

For the lettings market, the Office of National Statistics reported that private rental prices paid by tenants in the UK increased by 1.3% in the 12 months to September 2019. This percentage had been unchanged since May 2019. Regional variation is still evident, with London private rental prices only showing a 0.9% increase in the year to September 2019 but the South West region recording increases of 2.1% in the same period.

Operational Strategy

In the six months to 30 September 2019, work progressed on the expedited Site Review process. In this time, we have focussed on visiting the 27 beacon sites to determine the physical condition of the units. In addition, work has progressed on identifying and settling legal issues related to the Site Review process and preparations progressed for the sharing of without prejudice opening positions on each of the beacon sites in early October.

These offers were shared on time and a five week period of negotiation entered into. No resolution was reached during that time and subsequently the Site Review process has moved onto arbitration of the legal issues between the parties. In early 2020, the process of determining the agreed condition of the sites will continue through arbitration. In May 2020, the arbitral panel will hear the full valuation arguments on the first four sites, with a determination on these sites expected later in 2020.

In the six months to 30 September, termination notices were received for 266 Married Quarters Estate ("MQE") units. Whilst the majority of these units are to be released in March 2020, at 30 September, one unit had been released and a further nine were handed back by the Ministry of Defence ("MOD") in October.

Expansion of the PRS activity within the non-MQE portfolio continued through the completion of build projects already underway at March 2019. Construction work was completed in May on the final block at PinnPoint in Uxbridge, London. This added a further 87 units to the portfolio available for letting on assured shorthold tenancies. At the PinnPoint site, demand has been strong, with 94% of the site let by the end of September and confirmed rental offers being held for a further 2%. Another six units were added to the non-MQE portfolio following the completion of Phase 1 at Brize Norton.

During the half year, 33 units were sold by the Group. The majority of these (17 units) were sales of new build or development units, led by the sale of 13 affordable units at Brize Norton to a local housing association. A further 13 units were sold from the non-MQE portfolio, of which 11 were units no longer required by the MOD under the bulk leasing arrangements. Any rent savings on the early termination of bulk rental arrangement arising on units sold or rented to third parties in this way is calculated and shared 50:50 between the MOD and Annington.

The MOD's pilot of the Future Accommodation Model ("FAM"), a new way of providing living accommodation to personnel and their families which increases opportunities for home ownership and private rental, has commenced. The initial FAM go-live date was 30 September 2019 at HMNB Clyde, with further pilot programmes being run at Aldershot Garrison, commencing on 31 January 2020 and at RAF Wittering, starting on 31 May 2020. With the pilot programmes expected to run for three years, outcomes from this trial may not be available in the near term.

KEY PERFORMANCE INDICATORS

The Group measures KPIs based on the controllable variable drivers of its activities.

The KPIs were revised for the current year and prior year figures are provided for comparison. These are:

KPI	30 Sept 2019 £ millions	30 Sept 2018 £ millions	Basis of calculation
Net rental income			
Six months ended	91.9	97.2	Net rental income is calculated as property rental income less property operating expenses. Property operating expenses are incurred and not recharged to the tenant. These exclude site review costs.
Twelve months ended	187.5	192.2	
This measure is used as an indicator of the returns the Group is achieving. Both the six month and twelve month measures of net rental income have decreased compared to the same periods in the prior period. This is due mainly to increased refurbishment costs arising from a higher volume of MQE unit releases in 2019 compared to 2018.			
Property operating expenses			
Six months ended	7.3	1.3	Property operating expenses as incurred and not recharged to the tenant.
Twelve months ended	10.1	3.1	
Property operating expenses are measured to track the operating costs of the portfolio. Property operating expenses have increased primarily due to higher unit releases from the MQE resulting in increased refurbishment costs, as mentioned above.			
Adjusted EBITDA			
Six months ended	85.3	92.0	Adjusted EBITDA is calculated by adjusting the accounting operating profit/(loss) before financing and tax for: - amortisation, depreciation or impairment (including other non-cash write downs) of assets (Note 3) - revaluation gains/losses on investment properties in the income statement - profits, losses or impairment items attributable to joint ventures in the income statement (Note 9) - charges/credits to the income statement arising from changes to the utilities provision (Note 11) - one-off items (the site review costs shown in the income statement)
Twelve months ended	172.4	182.1	
Adjusted EBITDA is used as a proxy for the normalised earnings of the business. This measure is prepared for management accounts, separate from similar measures that are prepared for covenant compliance. Again, the main driver for the decrease in adjusted EBITDA is the increase in property operating costs as a result of the higher rates of MQE releases.			

KEY PERFORMANCE INDICATORS (CONTINUED)

KPI	30 Sept 2019 £ millions	30 Sept 2018 £ millions	Basis of calculation
Free cash flow			
Six months ended	17.3	41.7	Free cash flow is calculated as the net increase in cash and cash equivalents but adding back cash spent on the purchase of investment properties, as shown in the Investing cash flows and any dividends (none as at 30 September 2019; refer to Note 18 for post balance sheet events).
Twelve months ended	68.3	77.1	
This measure is used to assess the cash generated and available to be utilised on discretionary purchases or dividends. Free cash flow is lower than the comparative period as a result of the higher refurbishment costs described above, as well as site review costs incurred during the year and tax payments made on account. For the twelve months ended 30 September, a number of offsetting factors reduces this decline in free cash flow (residual costs resulting from the 2017 refinancing, higher disposal proceeds and higher joint venture receipts affecting the twelve months to September 2018).			
Net rental yield			
Six months ended	1.2%	1.4%	Net rental yield is calculated as net rental income divided by the investment properties carrying value.
Twelve months ended	2.5%	2.7%	
Net rental yield is used to measure rental yields and, pre-Site Review, is most relevant to the non-MQE portfolio. The six and twelve month net rental yield decreased by 0.2% due to the uplift in the value of the MQE not being matched by a similar uplift in net rental income as a result of increased refurbishment charges mentioned above.			

Financial Performance

The Group's net rental income decreased by 5.5%, or £5.3 million, from £97.2 million for the six months ended 30 September 2018 to £91.9 million for the six months ended 30 September 2019. The decrease in net rental income is the result of increased refurbishment costs following a much higher volume of unit releases from the MQE compared to the prior period. Comparative net rental income for the six months ended 30 September 2018 is higher than previously reported as a result of certain property operating expenses being re-classified as site review costs. Further details of this reclassification can be found in Note 4. Property operating expenses comprise the direct operating expenses incurred in connection with the conduct and operation of the business. These include refurbishment costs incurred (net of dilapidation income) in connection with released units (including raw materials, labour costs and professional fees), marketing and property holding costs.

The Group made an operating profit of £75.5 million in the six months ended 30 September 2019, compared to a profit of £97.5 million for the six months ended 30 September 2018. This reflects the impact of the site review costs following an agreement reached with the MoD on 7 March 2019 to expedite the 2021-2024 Site Review rounds.

Cash expenditure on investing activities has decreased by £29.7 million in the six months ended 30 September 2019, compared to the six months ended 30 September 2018. This reflects the additions to the PRS portfolio during 2018, which included 73 homes purchased under a development agreement, 104 pre-let homes and build costs at PinnPoint, Uxbridge. The majority of the works at these sites were completed by 31 March 2019, although costs were incurred at another of our sites, Brize Norton, during the current year. Capital spending on new units has decreased in order to focus on the sale or short-term rental of the 500 to be units released each year under the arbitration agreement for the next seven years.

The Group ended the half-year to September 2019 with a profit after tax of £17.1 million (September 2018: £33.8 million) and reflects a return to more "normalised" circumstances, without the distorting effects of a refinancing and an additional investment property revaluation.

Principal risks and uncertainties

There are a number of principal risks and uncertainties faced by the Group which could have a material impact on the Group, causing actual results to differ from expected and historical. The principal risks and uncertainties have been reviewed and remain unchanged from those set out in detail on pages 23 to 26 of the Annual Report and Accounts 2019 which is available at www.annington.co.uk.

Outlook

According to Nationwide, house prices rose by 0.1% in December, contributing to a total annual growth rate of 1.4%. Halifax reported a higher growth factor of 1.7% for the month of December, giving rise to an annual housing price increase of 4.0%. Sales activity throughout the year continued to be on broadly stable. Forecasts during the latter part of 2019 in the monthly RICS Residential Market Surveys pointed to continuing short-term subdued activity levels, though sentiment over the twelve-month horizon appeared to be a little more resilient. This correlates to the uncertainties surrounding Brexit, with the property market predicted to recover as greater certainty emerges. Following the UK's December election and the new parliamentary majority held by the Conservative party, the RICS December Residential Market Survey reported an uplift in sentiment, with sharp rises in sales expectations and key market metrics moving in to positive territory for the first time in several months. In a separate report, the outlook from the RICS Housing Market Forecast 2020 report predicts sales volumes to be flat in the coming year despite a new level of certainty around Brexit. Sales prices are expected to rise c.2% in that time frame. The continuing supply and demand imbalance in the renal market is forecast to continue increasing the pressure on residential rental markets, with expectations for rental growth through 2020 of up to 2.5%.

Whilst based on several assumptions about Brexit, Savills predicts UK mainstream house price growth of 1% in 2020 and 15% in the next five years. There is regional variation within this forecast, with London forecast to experience subdued growth of 4% in the next five years, compared to the North West, for which growth of 24% is forecast. This continues Savills previous forecasts that the North-South house price divide will reverse in the next five years as property values rise faster in northern England, Wales and Scotland than those across London.

Operationally, we are gearing up to deal with the remainder of this year's 266 releases from the MQE. With these releases, the MOD reached the required 500 unit annual release target to invoke the £7,000 per unit dilapidations relief permitted in the arbitration agreement. The Group expects that the MOD will reach this 500 unit release target in order for the dilapidations relief to continue up to the agreed period of seven years.

Construction activity continues on the new build sites at Brize Norton, Allington and Little Thetford. With the temporary moratorium on further PRS acquisitions remaining in place at least until there is greater market certainty, the Group intends to review the letting opportunities presented by these sites and units released from the MQE.

In line with the previously announced cautious approach to PRS acquisitions, the Group is to conduct a strategic review of its PRS activities in early 2020. This aims to measure the current strategic performance of these investments against alternative investment strategies. Management will consider stakeholder interests, with the review seeking to determine a future strategy in this area during, and as we emerge from, the current uncertain market conditions.

We will continue to focus on ensuring that we are prepared for the Site Review negotiations and concurrent beacon unit rent reviews. As set out earlier, 2020 will be a key year for the expedited site review process, with the site review outcome for both the initial batch of four beacon sites and the second batch of eight beacon sites set to be negotiated and, if necessary, arbitrated.

As always, we will continue to focus on actively managing the Group's current operations and developments. We will continue to manage tenancies and rental levels, and assess potential options to enhance value, including refurbishment, redevelopment and disposal.

Restructuring

On 5 April 2019, Annington Limited's immediate parent entity, Annington Holdings (Guernsey) Limited (AHGL), restructured itself to become an Open Ended Investment Company (OEIC). This will permit new classes of shareholders to invest in the Annington Group. As a result of its conversion to an OEIC, AHGL is advised that it will qualify as a Collective Investment Vehicle (CIV) under the Non Resident Capital Gains Tax (NRCGT) legislation. Groups headed by a CIV which have a genuine diversity of ownership (GDO) pursuant to the Authorised Investment Funds (Tax) Regulations 2006 may apply for an exemption under the NRCGT rules from paying capital gains tax on property disposals, electing instead to pay capital gains tax on distributions by the CIV (an Exemption Election). AHGL has confirmed to the Board of Annington Limited that it is an OEIC and qualifies as a CIV under the NRCGT legislation. AHGL has also confirmed that it is anticipated that it will meet the GDO condition in the near term. Once the GDO condition has been met, AHGL has confirmed that it is intended that an exemption election will be made. Following the election, Annington Limited and its subsidiaries will be exempt from capital gains tax on property disposals, as the obligation to pay capital gains tax will be transferred to Annington Holdings (Guernsey) Limited. A consequence of this will be the deferred tax liability, being £873 million at 30 September 2019, will be derecognised. Removing the deferred tax liability would have the additional effect of removing the deferred tax asset to the extent that it is not recoverable in the foreseeable future.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2019

	Note	Six months ended 30 September 2019 (unaudited) £'000	30 September 2018 (unaudited) £'000
Property rental income	2	**99,295**	98,479
Property operating expenses	2	**(7,346)**	(1,290)
Net rental income		**91,949**	97,189
Other operating income		**84**	2,987
Other operating expenses		**(579)**	(394)
Administrative expenses		**(5,928)**	(6,125)
Site review costs	4	**(10,532)**	(1,208)
Utilities provision release/(expense)	11	**357**	(50)
(Loss)/profit on disposal of investment properties		**(707)**	1,282
Share of results of joint ventures after taxation	9	**883**	495
Reversal of impairment of joint ventures	9	**-**	3,306
Operating profit	3	**75,527**	97,482
Finance income	5	**367**	257
Finance costs	5	**(57,161)**	(56,682)
Profit before taxation		**18,733**	41,057
Taxation	6	**(1,678)**	(7,226)
Profit for the period after taxation		**17,055**	33,831
Profit attributable to shareholder		**17,055**	33,831

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six month period ended 30 September 2019

	Note	Six months ended 30 September 2019 (unaudited) £'000	30 September 2018 (unaudited) £'000
Profit for the period		**17,055**	33,831
Items that may subsequently be recycled through the income statement			
Fair value gains on cash flow hedge	12	**16,453**	11,060
Reclassification of fair value gains included in profit and loss		**(13,816)**	(8,525)
Total other comprehensive income		**2,637**	2,535
Total comprehensive income for the period		**19,692**	36,366
Total comprehensive income attributable to shareholder		**19,692**	36,366

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2019

	Note	30 September 2019 (unaudited) £'000	31 March 2019 (audited) £'000
Non-current assets			
Investment properties	7	**7,651,345**	7,656,911
Plant and equipment	8	**2,936**	572
Investment in joint ventures	9	**3,782**	6,039
Derivative financial instruments	12	**11,806**	-
		7,669,869	7,663,522
Current assets			
Inventory		**9,878**	8,576
Trade and other receivables		**2,536**	3,636
Cash and cash equivalents		**164,888**	162,783
		177,302	174,995
Investment properties held for sale	7	**15,741**	2,225
Total assets		**7,862,912**	7,840,742
Current liabilities			
Trade and other payables		**(72,442)**	(83,448)
Loans and borrowings	10	**(759)**	(117)
Provisions	11	**(6,007)**	(6,865)
		(79,208)	(90,430)
Non-current liabilities			
Other payables		**(898)**	(127)
Loans and borrowings	10	**(3,387,736)**	(3,371,196)
Deferred tax liabilities	6	**(663,306)**	(663,306)
Provisions	11	**(34,180)**	(33,144)
Derivative financial instruments	12	**-**	(4,647)
		(4,086,120)	(4,072,420)
Total liabilities		**(4,165,328)**	(4,162,850)
Net assets		**3,697,584**	3,677,892
Capital and reserves			
Share capital		**84,756**	84,756
Share premium		**480,401**	480,401
Merger reserve		**(10,000)**	(10,000)
Hedging reserve		**3,764**	1,127
Retained earnings		**3,138,663**	3,121,608
Total equity		**3,697,584**	3,677,892

The accompanying notes (1 to 18) should be read in conjunction with these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018	84,756	480,401	(10,000)	499	2,664,501	3,220,157
Total comprehensive income for the period	-	-	-	2,535	33,831	36,366
At 30 September 2018 (unaudited)	84,756	480,401	(10,000)	3,034	2,698,332	3,256,523
At 1 April 2019	**84,756**	**480,401**	**(10,000)**	**1,127**	**3,121,608**	**3,677,892**
Total comprehensive income for the period	**-**	**-**	**-**	**2,637**	**17,055**	**19,692**
At 30 September 2019 (unaudited)	**84,756**	**480,401**	**(10,000)**	**3,764**	**3,138,663**	**3,697,584**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 September 2019

	Note	Six months ended 30 September 2019 (unaudited) £'000	30 September 2018 (unaudited) £'000
Cash generated from operations	14	**66,597**	83,213
Tax (paid)/received		**(4,338)**	108
Net cash inflow from operating activities		**62,259**	83,321
Investing activities			
Proceeds from sale of investment properties		**6,532**	5,578
Purchase of investment properties	7	**(15,189)**	(47,180)
Purchase of plant and equipment		**(34)**	(24)
Distributions from joint ventures	9	**3,140**	5,447
Loan repayments from joint ventures	9	**-**	1,000
Interest received		**367**	257
Net cash outflow from investing activities		**(5,184)**	(34,922)
Financing activities			
Interest and other financing costs		**(54,327)**	(53,831)
Payments of obligations under finance lease		**(598)**	-
Net cash outflow from financing activities		**(54,925)**	(53,831)
Net increase /(decrease) in cash and cash equivalents		**2,150**	(5,432)
Cash and cash equivalents at the beginning of the period		**162,783**	156,607
Exchange differences on cash and cash equivalents		**(45)**	1
Cash and cash equivalents at the end of the period		**164,888**	151,176

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2019 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union and the accounting policies, significant judgements and key estimates, as set out in the Group's Annual Report and Accounts 2019, except for new standards and amendments adopted below. The Group's Annual Report and Accounts 2019 can be found on the Group's website www.annington.co.uk. The half-year condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The condensed consolidated financial statements have not been audited. The financial information included in this report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the Group's audited statutory accounts for the year ended 31 March 2019 has been delivered to the Registrar of Companies. The independent auditor's report on those accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed financial statements are presented in pound sterling, which is the functional currency of the Company. All values are rounded to the nearest thousand (£'000), except where otherwise indicated.

New Standards adopted as at 1 April 2019

The Group has adopted the new accounting standards, interpretations and amendments, which have become effective as at 1 April 2019. Those that have impacted the Group's current accounting policies are described below:

IFRS 16 *Leases*

IFRS 16 replaces IAS 17. Under the previous accounting requirements, the Group as lessee, classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, must recognise on the balance sheet its right of use assets and financial lease liabilities representing its lease payments discounted to present value. Optional exemptions are available for short-term leases and low-value assets that can be expensed on a straight-line basis over the lease term. As a lessor, lease accounting is largely unchanged from IAS 17.

The Group, as lessor, leases out its investment properties. These leases were classified as operating leases under IAS 17. As the accounting requirements for lessors remain largely unchanged, there has been no change in lessor accounting treatment and no transition adjustments on adoption of IFRS 16.

As lessee, the Group has recognised right of use assets and lease liabilities at 1 April 2019 for its leases, except where it has elected to apply the recognition exemption for leases of low-value assets.

Lease liabilities are measured at the present value of the remaining lease payments at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Right of use assets are measured by reference to the lease liability, adjusted by the amount of any prepaid or accrued lease payments at date of application. Any costs to dismantle, remove or restore the site on which the asset is located to the condition required by the terms and conditions in the lease is recognised as part of the cost of the right of use asset. Additionally, a provision is recognised and measured under IAS 37. Right of use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

The Group has applied the modified retrospective approach. The comparative figures have not been adjusted as is permitted under the specific transitional provisions in the standard.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

The impact of the transition at the date of adoption is summarised below:

Lease liabilities	**1 April 2019 (unaudited) £'000**
Operating lease commitments as disclosed in financial statements 31 March 2019	2,678
Recognition exemption for low value assets	(4)
Effect of discounting using the incremental borrowing rate at date of initial application	(74)
Finance leases recognised under IAS 17 as at 31 March 2019	236
Lease liabilities recognised as at 1 April 2019	**2,836**
Of which are:	
Current lease liabilities	945
Non-current lease liabilities	1,891
	2,836

On transition to IFRS 16 the Group's weighted average incremental borrowing rate applied to lease liabilities was 2.8%. The Group presents lease liabilities within loans and borrowings (Note 10) in the statement of financial position.

Right of use assets	**1 April 2019 (unaudited) £'000**	**31 March 2019 (audited) £'000**
Computer equipment	257	257
Buildings	2,374	-
Motor vehicles	356	-
Total right of use assets	**2,987**	**257**

At the date of application, right of use assets were adjusted by accrued lease liabilities of £0.3 million relating to the building leases and adjusted by estimated restoration costs of £0.4 million. Right of use assets are presented within property, plant and equipment in the statement of financial position.

The impact from the application of IFRS 16 resulted in a decrease in other operating expenses and an increase to depreciation and finance costs compared to IAS 17. During the six months ended 30 September 2019, in relation to leases under IFRS 16, the Group recognised the following amounts in the condensed consolidated income statement:

	30 September 2019 (unaudited) £'000
Depreciation	419
Finance costs	30

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

Standards issued not yet effective

A number of new standards and amendments have been issued but are not yet effective for the Group, these include:

New and Amended Standards		**Effective date (annual periods beginning on or after)**
Conceptual Framework Amendments	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020*
IFRS 3 Amendments	Amendment to Business Combinations – Definition of Business	1 January 2020*
IAS1 and IAS8 Amendments	Amendment to Definition of Material	1 January 2020*
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform	1 January 2020*

* These amendments are not yet adopted by IFRS under the EU.

These standards and interpretations have not been early adopted by the Group.

Going concern

Having made appropriate enquiries, the Directors have a reasonable expectation the Group has adequate resources to continue for a period of not less than 12 months from the date of this report and, for this reason, have continued to adopt the going concern basis in preparing the condensed consolidated financial statements.

Seasonality

The Group's business is not deemed to be highly seasonal. It is therefore not necessary to disclose the consolidated income statement for the full year ended 31 March 2019.

2. PROPERTY AND NET RENTAL INCOME

Property rental income – Revenue recognition

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

	Six months ended	
	30 September 2019 £'000	**30 September 2018 £'000**
Property rental income	**99,295**	98,479

Net rental income

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

2. PROPERTY AND NET RENTAL INCOME (continued)

	Six months ended 30 September 2019 £'000	Six months ended 30 September 2018 £'000
Property rental expenses:		
Refurbishment costs on MQE units released:		
Within the last 12 months	**5,148**	-
Beyond the last 12 months	**10**	36
Refurbishment costs on rental units	**265**	9
Letting and management costs	**1,450**	686
Other repairs and maintenance	**473**	559
	7,346	1,290

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

In the previous year Site Review costs were included within rental running costs. These have since been reclassified to be disclosed separately within the financial statements, reducing rental running expenses for the six months ended 30 September 2018 by £1.2 million. Refer to Note 4 for information on the reclassification of site review costs.

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

3. DEPRECIATION

Operating profit for the period includes £454,917 of depreciation (30 September 2018: £18,787).

4. SITE REVIEW COSTS

Included in operating profit are costs relating to the Site Review, which are considered exceptional in nature, due to the size and infrequent occurrence of Site Reviews. Site Reviews will reset rent on the MQE Retained Estate to the relevant open market rate. The first applies in four annual tranches starting in December 2021, marking the 25th anniversary of the initial sale and leaseback agreement of the MQE. The Site Review will then be performed on a 15 year rolling basis for the remainder of the lease back to the MoD.

The Arbitration Agreement with the MoD sets out a two year process for reaching agreement on the future discount to be applied to sites following the 2021-2024 site review adjustments. Having entered into this agreement and confirming the mechanisms to be applied in determining the uplifts, Annington has determined that a significant sum will need to be spent in this round of negotiations, as precedents will need to be developed between the parties as to the way in which a site review will operate. The Group estimates that the costs associated with this are of such a material nature as to require separate disclosure on the face of the Consolidated Income Statement. The £10.5 million of site review costs incurred in the six months to 30 September 2019 have been disclosed separately in the income statement. As required by IAS 1 Presentation of Financial Statements, comparative figures have been reclassified, with £1.2 million of cost being re-presented separately as Site Review costs. These were previously classified under Property operating expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

5. FINANCE INCOME AND COSTS

	Six months ended 30 September 2019 (unaudited) £'000	Six months ended 30 September 2018 (unaudited) £'000
Finance income		
Interest receivable	**367**	257
Total finance income	**367**	257
Finance costs		
Interest payable on secured floating and fixed rate notes	**49,076**	49,082
Amortisation of discount and issue costs and finance expenses	**1,235**	1,202
Interest payable on bank loans	**4,642**	4,514
Foreign exchange (gains)/losses on financing	**(13,772)**	8,525
Transfer from equity for cash flow hedge	**13,816**	(8,525)
Unwinding of discount on provisions	**1,369**	1,181
Other finance expenses	**765**	703
Finance lease costs	**30**	-
Total finance costs	**57,161**	56,682

6. TAXATION

The Group has estimated the effective annual tax rate in each jurisdiction in which it is taxed. The effective tax rate for the interim period is calculated with reference to the anticipated operations and result of the Group for the full tax year. Any known adjustments to the opening figure, based on additional work performed on the closing tax losses reported in the preceding annual report and accounts, are also reflected in the movement for the period.

Within the United Kingdom, the Group's effective tax rate has been assessed as 8.96%.

7. INVESTMENT PROPERTIES

In accordance with the Group's accounting policy on investment properties, the fair value of these assets are determined annually at the Group's financial year end, 31 March. Therefore, for the condensed consolidated financial statements ended 30 September 2019 (covering a period other than a full financial year), a valuation was not obtained and the previous year end carrying value for investment properties, reflecting fair value at that date, is adjusted for acquisitions and disposals in the period. At the previous financial year end the fair value measurement hierarchy level was Level 3 significant unobservable inputs.

30 September 2019 (unaudited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2019	**7,656,911**	**2,225**	**7,659,136**
Additions - capital expenditure	**15,189**	**-**	**15,189**
Disposals	**(5,980)**	**(1,259)**	**(7,239)**
Transfer to investment properties held for sale	**(14,775)**	**14,775**	**-**
Total carrying value at 30 September 2019	**7,651,345**	**15,741**	**7,667,086**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

7. INVESTMENT PROPERTIES (continued)

31 March 2019 (audited)	Investment properties £'000	Investment properties held for sale £'000	Total £'000
Valuation			
Carrying value at 1 April 2018	7,102,224	2,711	7,104,935
Additions - capital expenditure	86,539	-	86,539
Disposals	(10,873)	(2,711)	(13,584)
Transfer to investment properties held for sale	(2,357)	2,357	-
Unrealised property revaluation gains/(losses)	481,378	(132)	481,246
Total carrying value at 31 March 2019	7,656,911	2,225	7,659,136

Properties would have been included on an historical cost basis at £1,502.4 million (31 March 2019: £1,491.2 million).

As at 30 September 2019 there were 65 (31 March 2019: 6) investment properties classified as held for sale, with disposal expected within the next 12 months.

8. PLANT AND EQUIPMENT

	30 September 2019 £'000 (unaudited)	31 March 2019 £'000 (audited)
Plant and equipment	**322**	324
Right-of-use plant and equipment	**2,614**	248
Total	**2,936**	572

Refer to Note 1 for information regarding the initial application of IFRS 16.

9. INVESTMENT IN JOINT VENTURES

There has been no change to the Group's joint venture undertakings since year end. At 30 September 2019 these 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%

Each of these entities operates within the United Kingdom.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

9. INVESTMENT IN JOINT VENTURES (continued)

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

	Share of net assets £'000	Loans £'000	Total £'000
At 1 April 2018	9,273	4,925	14,198
Repayments	-	(3,925)	(3,925)
Distributions	(8,660)	-	(8,660)
Share of profit for the year	1,120	-	1,120
Impairment	3,306	-	3,306
At 31 March 2019 (audited)	5,039	1,000	6,039
Distributions	**(3,140)**	**-**	**(3,140)**
Share of profit for the period	**883**	**-**	**883**
At 30 September 2019 (unaudited)	**2,782**	**1,000**	**3,782**

The Group's share of profits from joint ventures represents profits from continued operations. There are no discontinued operations within the joint ventures. The joint ventures have not recorded any other comprehensive income and the share of profits disclosed in the above table also represents the Group's share of total comprehensive income.

10. LOANS AND BORROWINGS

	30 September 2019 (unaudited) £'000	31 March 2019 (audited) £'000
Amounts falling due within one year		
Finance lease liabilities	**759**	117
Total current loans and borrowings	**759**	117
Amounts falling due between one and five years		
Unsecured bank loans	**397,360**	396,904
Finance lease liabilities	**1,563**	119
	398,923	397,023
Amounts falling due after five years		
Unsecured notes	**2,988,813**	2,974,173
	2,988,813	2,974,173
Total non-current loans and borrowings	**3,387,736**	3,371,196
Total loans and borrowings	**3,388,495**	3,371,313

The Group has a number of covenants to comply with under the terms of the unsecured notes and bank loans as set out in the annual report. The Group's forecasts do not indicate any of the covenants will be breached in the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

11. PROVISIONS

	Utilities provision £'000	Make good provision £'000	Total £'000
At 1 April	40,009	-	40,009
Additional provisions recognised	-	428	428
Unwinding of discount	1,363	6	1,369
Amount credited to income statement	(357)	-	(357)
Utilised	(1,262)	-	(1,262)
At 30 September 2019 (unaudited)	**39,753**	**434**	**40,187**
Current provision	6,007	-	6,007
Non-current provision	33,746	434	34,180
	39,753	**434**	**40,187**

There is a legal agreement to provide for the adoption of private utilities on sites where there have been releases of property that are currently dependent, for the supply of water and/or certain sewage treatment, on adjacent MoD bases. In addition, there is a constructive obligation 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 been crystallised on non-base dependent sites. The provision has been discounted in accordance with the relevant borrowing costs of the Group. There is a contingent liability in respect of base dependent sites (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 £134.6 million (March 2019: £134.4 million).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2019 (unaudited) £'000	31 March 2019 (audited) £'000
Financial assets/(liabilities) carried at fair value through OCI		
Cross currency swaps that are designated in hedge accounting relationships	**11,806**	(4,647)

Reconciliation of movements

	30 September 2019 (unaudited) £'000	Revaluation adjustment £'000	31 March 2019 (audited) £'000
Cross currency swaps	**11,806**	16,453	(4,647)
Total derivative financial assets/(liabilities)	**11,806**	16,453	(4,647)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has the following financial instruments:

	Note	30 September 2019 (unaudited) £'000	31 March 2019 (audited) £'000
Financial assets			
Cash and receivables:			
Trade and other receivables		**846**	3,107
Cash and cash equivalents		**164,888**	162,783
Assets measured at fair value through OCI:			
Cross currency swaps	12	**11,806**	-
Total financial assets		**177,540**	165,890
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables		**31,828**	37,310
Loans and borrowings	10	**3,388,495**	3,371,313
Liabilities measured at fair value through OCI:			
Cross currency swaps	12	**-**	4,647
Total financial liabilities		**3,420,323**	3,413,270

Fair values

There have been no transfers of assets or liabilities between levels of the fair value hierarchy. The fair values of the Group's borrowings and cross currency swaps are determined by a Level 2 valuation technique.

The Group held the following derivative and non-derivative financial assets and liabilities at 30 September 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	30 September 2019 (unaudited)		
	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	**3,001,260**	**2,988,813**	**3,258,329**
Unsecured term loan	**400,000**	**397,360**	**400,000**
	3,401,260	**3,386,173**	**3,658,329**
Derivative financial asset			
Cross currency swaps	**-**	**(11,806)**	**(11,806)**
	3,401,260	**3,374,367**	**3,646,523**

	31 March 2019 (audited)		
	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	3,001,260	2,974,173	3,029,517
Unsecured term loan	400,000	396,904	400,000
	3,401,260	3,371,077	3,429,517
Derivative financial liability			
Cross currency swap	-	4,647	4,647
	3,401,260	3,375,724	3,434,164

Unsecured bonds

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

Cross currency swaps

The fair value of derivative financial instruments is based on valuations by an independent valuer using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 30 September 2019.

Unsecured term loan

This loan relates to a £400 million term loan ending in July 2022 that is unsecured. Further details, including covenant information can be found in the Group's annual report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

14. NOTE TO THE CONDENSED CASH FLOW STATEMENT

	Six months ended 30 September 2019 (unaudited) £'000	Six months ended 30 September 2018 (unaudited) £'000
Profit after taxation	**17,055**	33,831
Adjustment for:		
Taxation	**1,678**	7,226
Finance costs	**57,161**	56,682
Finance income	**(367)**	(257)
Share of results of joint ventures after taxation	**(883)**	(495)
Impairment of joint ventures	**-**	(3,306)
Loss/(profit) on disposal of property assets	**707**	(1,282)
Unrealised property revaluation losses	**-**	-
Utilities provision (release)/expense	**(357)**	50
Depreciation expense	**455**	18
Movements in working capital:		
Increase in inventory	**(1,302)**	(1,795)
Increase in debtors	**(1,326)**	(740)
Decrease in creditors	**(4,962)**	(6,366)
Decrease in provisions	**(1,262)**	(353)
Net cash inflow from operating activities	**66,597**	83,213

15. ANALYSIS OF CHANGES IN NET DEBT

	30 September 2019 (unaudited) £'000	Cash flow £'000	Non-cash items: Amortisation of bond issue costs and interest accrued £'000	Non-cash items: Fair value adjustments and exchange movements £'000	Non-cash items: Finance lease liability additions £'000	31 March 2019 (audited) £'000
Cash and cash equivalents	**164,888**	2,150	-	(45)	-	162,783
Unsecured notes	**(2,988,813)**	-	(779)	(13,861)	-	(2,974,173)
Unsecured term loan	**(397,360)**	-	(456)	-	-	(396,904)
Finance lease liabilities	**(2,322)**	598	(30)	-	(2,654)	(236)
Total loans and borrowings	**(3,388,495)**	598	(1,265)	(13,861)	(2,654)	(3,371,313)
Net debt	**(3,223,607)**	2,703	(1,265)	(13,861)	(2,654)	(3,208,530)

16. RELATED PARTY DISCLOSURES

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

During the period, 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 9.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2019 (continued)

17. SUBSIDIARIES AND RELATED UNDERTAKINGS

On the 21 September 2018 the following subsidiaries entered into liquidation and this was completed 27 September 2019.

Name of subsidiary undertakings	Principal activity
Annington Finance No. 1 plc	Finance
Annington Finance No. 2 Limited	Finance
Annington Finance No. 4 plc	Finance
Annington Finance No. 5 plc	Finance

18. POST BALANCE SHEET EVENTS

On 12 December 2019, the Board declared a dividend of 1.2 cents per ordinary share. On the same day, Annington Limited paid the £100.0 million dividend to Annington Holdings (Guernsey) Limited.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the half-year condensed consolidated financial statements in accordance with applicable law and regulations. The directors confirm that to the best of their knowledge these half-year condensed consolidated financial statements:

- have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union; and
- the half-year report includes a fair review of important events and their impact during the six months.

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 information differs from legislation in other jurisdictions.

Approved by

A P Chadd

Director

28 January 2020

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