Company Registration No. 08271384

ANNINGTON LIMITED

Half-Year

Condensed Consolidated Financial Statements

For the six months ended 30 September 2022

ANNINGTON LIMITED

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

CONTENTS

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.

ANNINGTON LIMITED

HALF-YEAR REPORT
For the six months ended 30 September 2022

HIGHLIGHTS

- The carrying value of the Group's investment properties was £8.0 billion (31 March 2022: £8.5 billion).
- Rental income was £107.5 million (30 September 2021: £101.8 million).
- Adjusted EBITDA was £96.4 million (30 September 2021: £92.1 million).
- Loss after taxation was £464.2 million (30 September 2021: Profit of £385.5 million).
- The Group sold 93 (30 September 2021: 225) properties and recognised total sales proceeds of £22.2 million (30 September 2021: £53.2 million).
- A hearing to determine the joint proceedings in the High Court and the Administrative Court in relation to the notices of enfranchisement received from the MoD is scheduled for 8-14 February 2023.
- The Group refinanced €426.7 million 2024 Euro bonds and £143.5 million 2025 Sterling bonds, funded by a new £400 million 11 year bond and a £135 million tap issue of the 2047 bonds.

Portfolio Summary

As at 30 September 2022 (unless otherwise noted), the Group's portfolio consisted of:

	MQE Portfolio	Non-MQE Portfolio
Properties	37,201 (31 March 2022: 37,398) homes leased to the MoD and 175 related assets on 502 Sites	2,646 (31 March 2022: 2,531) homes owned and rented to the general public, the MoD and local authorities, including homes released from the MQE Estate.
Activity	• Provision of Service Family Accommodation	• Refurbishment and sale or rent of properties released by the MoD • Residential investment portfolio • Properties rented on market terms, both individually and in bulk • Redevelopment capability
Lease length	200 year leases – 174 years unexpired	Assured Shorthold Tenancies ("AST") and flexible leases
Lease type	Repairs and maintenance paid by tenant	Repairs and maintenance paid by tenant or landlord
Fair value	At 30 September 2022: £7,461.3 million (31 March 2022: £7,966.4 million)	At 30 September 2022: £568.5 million (31 March 2022: £559.2 million)

ANNINGTON LIMITED

HALF-YEAR REPORT
For the six months ended 30 September 2022

Introduction

Annington is one of the largest providers of privately rented housing in the UK, owning almost 40,000 homes with an asset value of £8.0 billion. The portfolio is unique in that over 93% of our properties are rented to the Ministry of Defence ('MoD') under a 200 year lease entered into in 1996. As the MoD releases surplus properties back to the Group they are either sold or rented in the open market. To date the Group has helped over 17,000 people purchase a home, many of whom were first time buyers, service personnel or key workers. We have also let thousands of homes to private individuals.

This review covers the key areas of the business and updates performance subsequent to our last annual report.

Market Environment

Over the period, the economic backdrop to the housing market has deteriorated with inflation rising above long-term central bank targets in many nations, including the United Kingdom. The Office of National Statistics ("ONS") reported that the Consumer Price Index ("CPI") reached 10.1% in the 12 months to September, significantly above the Bank of England ("BoE") target of 2%. This is largely driven by higher energy prices and food costs, partly attributable to the situation in Ukraine. In response to the higher inflationary environment, the BoE increased the bank rate to 2.25% at the end of September, up from 0.75% at the end of March, with the potential for further rises, the first of which was delivered in November, increasing the bank rate to 3%, with a further increase of 0.5% in December.

The increase in interest rates directly affected the cost of mortgage borrowing as the changes were reflected in new mortgage offers. Of more immediate impact on the mortgage market was the September Mini Budget, which resulted in disruption in the mortgage market as lenders reflected market uncertainty in the Government's economic stewardship. Forty per cent of mortgage products were withdrawn and the average rates for fixed rate mortgages jumped. The effect was not immediately visible in the dynamics of the housing market as most buyers transacting in the six months to September were doing so based on mortgage offers agreed prior to the most recent rate rises. However, it is expected to affect the pipeline of transactions over the period following this report.

At the end of September, the average house price in the UK was reported by the ONS to be £294,559, a 6.8% increase over March 2022, when the average home cost £275,753. Whilst this continues the previous trend of strong growth, the statistics show a slowing of growth from a peak in July 2022, with a small decrease in average prices recorded in the month of September 2022. Following the period, further price declines have been reported, with Halifax showing falls of 0.4% in October and 2.3% in November. Undersupply and mortgage availability - both in terms of the number of products and the rates available which lagged the BoE rate rises - underpinned growth during the period even as sentiment softened and the wider economic picture evolved.

The November Autumn Statement reversed many of the policies announced in September as the new Government sought to calm market sentiment and project an air of fiscal responsibility. In response, Government borrowing rates have fallen and mortgage availability has increased, but mortgage costs remain high, particularly when compared with the low rates that have been the market norm over the past decade.

Britain is reported to be heading towards a recession, with negative growth in the September quarter and the Confederation of British Industry ("CBI") forecasting that the economy will contract by 0.4% next year. Housebuilders have reported a slowdown in sales and an increase in cancellations in the post-reporting period. Annington is not immune to overall market conditions, though demand is still evident in the more affordable sector of the market and the continuing supply-demand imbalance is supportive of future demand side pressures.

In contrast, rents have risen steadily over the six months to September 2022 due to shortage of supply and additional demand in the rental market, as would-be buyers rethink entering the market. Demand for Annington's rental properties has reflected this trend. In March the ONS Index of Private Housing Rental Prices reported an annual inflation rate of 2.4% which had increased to 3.7% in September. The Royal Institute of Chartered Surveyors ("RICS") reported that tenant demand remains firm and the Association of Residential Letting Agents ("ARLA") noted that supply of rental properties has not grown in the last quarter whilst demand and consequently rents achieved have both increased.

Valuation

In light of the market volatility around the period-end, it was considered appropriate for a full valuation of investment properties to be undertaken as at 30 September 2022. At that date, the Group's investment properties are valued at £8.0 billion (31 March 2022: £8.5 billion) with an unrealised property revaluation loss of £495.9 million being recognised in the income statement for the period (six months to 30 September 2021: gain of £344.0 million), a reduction of 5.8%. The valuation is discussed in more detail in the Finance Report, later in this document.

Update on Enfranchisement

As previously reported, Annington has received notices from the MoD attempting to enfranchise a total of 8 units within the MQE ("Married Quarters Estate"). Annington's position is that the MoD has no legal right to enfranchise any properties within the MQE and that the MoD's decision-making in issuing the enfranchisement notices was in breach of its public law duties. The Group is contesting the MoD's actions in both public and property law proceedings (the "Enfranchisement Proceedings") and, in May, was granted permission by the Administrative Court to proceed with a Judicial Review of the MoD's decision making. Following a case management conference, a joint hearing in the Administrative Court and the Chancery Division of the High Court has been set for 8-14 February 2023 to determine whether the MoD is entitled to enfranchise the relevant units. It is anticipated that judgment will be handed down by summer 2023, though the timing of the decision will be a matter for the Court to determine.

In February 2022, Annington offered to make a significant contribution to improve MoD homes for Service families living in the Married Quarters Estate through the creation of a £105 million fund. This offer was made as an attempt to rebalance our relationship with the MoD, improve housing conditions on the estate and to avoid protracted and expensive legal proceedings in relation to the enfranchisement notices. In November 2022, as no formal response had been received from the MoD, Annington withdrew this offer.

Operational Update

Rent Review

With the settlement of the Site Review in December 2021, attention this year was focused on the completion of the 2021 Beacon Unit Rent Review. This was settled in July, with an aggregated uplift of 10.8% on the sites in that tranche, an annualised uplift of £4.6m. In addition, the rent in this tranche is the first to apply the recently agreed Site Review discount factor of 49.6%, which translates to an annualised uplift of £8.4 million were it to be applied to retained estate units as at December 2021. The Beacon Unit Rent Review process for 2022 is underway and offers on a number of sites have been made to the MoD.

MoD Property Releases

In the six months to 30 September 2022, the MoD handed over 197 units, with termination notices received for a further 161 units to be released before the end of the financial year, taking the forecast number of releases to 358 for the 2022-23 financial year. The Group is currently conducting site visits as part of our process of determining the optimal strategy for each site being released. Since the year-end we have agreed a further 13 dilapidations claims, with the average value of dilapidations agreed with the MoD being maintained at c.£18,000 per unit over a ten year period

Refurbishment Costs

The Group incurred £15.4 million of refurbishment costs on investment properties in the six months to 30 September 2022 (30 September 2021: £8.5 million), with the higher expenditure in the period attributed to the number and condition of recently released units. Given the nature of refurbishment works typically undertaken by Annington, the Group does not have significant exposure to project cost inflation. In addition, Annington renewed a fixed schedule of rates with suppliers of refurbishment services to mitigate pressure on prices and provide certainty for short term forecasting.

Disposals

The Group sold 93 properties during the first half of the year compared to 225 units in the prior comparative period, reflecting the phasing of releases from the MQE and the completion of associated refurbishment activity as well as the level of churn in our PRS portfolio. Sales proceeds totalled £22.2 million (30 September 2021: £53.2 million) with an average sales price per unit of approximately £239,000 (30 September 2021: £236,000).

ESG

The Group is committed to having a positive social and environmental impact and following the completion of an externally administered ESG maturity assessment, it has made significant progress in adopting the recommendations resulting from the assessment. Annington is now in its second year of aligning against the Task Force on Climate Related Financial Disclosure ("TCFD") and the United Nations Sustainable Development Goals ("SDG") and reported alignment against an additional UN SDG in the current financial year. Since March, the Group has completed a Carbon Footprinting exercise, which defined the Group's operational boundaries using an operational control approach aligned with the Global Real Estate Sustainability Benchmark ("GRESB"), and for the first time has measured and disclosed its Scope 3 emissions with the intention of setting meaningful reduction targets based on this data. Subsequent to the period end, the Group has published its first ESG report which discloses our progress to date and will embark on its first Materiality Assessment in the current financial year, the outcomes of which will be reported upon in subsequent Annual Reports and ESG Reports.

Outlook

Operationally, Annington continues to be well positioned and somewhat insulated from the more challenging economic circumstances that are anticipated during the year ahead. The Group benefits from certainty of income, with a high proportion being consisting of rental receipts from the MQE, which benefits from clarity on the rental discount to open market resulting from last year's Site Review and an established process for rolling Beacon Unit Rent Reviews.

Whilst higher mortgage rates and the potential for house price falls are likely to reduce the number of transactions in the market in 2023, there remains a persistent state of undersupply in the housing market. Annington expects continuing, if slower, demand in the segment of the market in which it operates, with the risk that there may be some impact on market values for the properties it sells, dependent on the type, timing, location and disposal method.

However, the Group expects continuing strong rental market growth as those buyers, particularly first-time buyers, delay purchasing their own home and are therefore looking to the rental market for good quality, well managed, rental alternatives.

The Group will continue to proactively manage properties released by the MOD, determining the best strategy for each site before returning them to the national housing stock, whether through the rental market or by making them available for purchase. Active management of the Group's operations, including procurement of fixed schedules of rates to give certainty and cost transparency on refurbishment and redevelopment projects, assessment of opportunities to enhance values, active management of tenancies and rental levels and a dynamic approach to disposal route and pricing, will continue to be the primary focus.

Key Performance Indicators
The Group measures Key Performance Indicators ('KPI's) based on the controllable variable drivers of its activities.

Financial KPI	30 September 2022 £ millions	30 September 2021 £ millions	Management commentary
Gross rental income	107.5	101.8	Gross rental income has increased by £5.7 million or 5.6% in the six months ended 30 September 2022 with rent increases arising from the 2021 Beacon Unit Rent Review and the new Site Review Discount applied to the first tranche of the MQE; offset by unit sales and releases.
Net rental income margin	96.2%	97.5%	Net rental income margin measures the profitability of the Group's rental operations, expressing net rent as a percentage of gross rental income. The margin is slightly lower than the prior period mostly due to increased level of released units in March 2022 leading to higher holding costs during refurbishment.
Adjusted EBITDA	96.4	92.1	Adjusted EBITDA is used to measure the normalised earnings of the business by removing exceptional and irregular items of profit and loss and aims to make comparisons more meaningful across different periods. Adjusted EBITDA has increased mainly due to the increase in gross rental income.
Adjusted EBITDA margin	89.7%	90.5%	Similar to the Adjusted EBITDA, Adjusted EBITDA margin is used to measure the normalised earnings of the business. This metric measures the rate of conversion of gross rental income into Adjusted EBITDA. The margin has decreased slightly due to the above-mentioned reasons.
Free cash flow	31.8	70.3	This measure is used to assess the cash generated to be utilised on discretionary purchases or dividends. Free cash flow has decreased by £38.5 million, principally driven by lower proceeds from sale of investment properties, as 133 fewer properties have been sold in the current period compared to the same period in the prior year. More details are provided in the finance report.

Set out above are a number of measures the Group uses to monitor performance against its objectives. Certain of these measures are not defined within IFRS and are defined and reconciled in Appendix 1.

Finance Report

Gross rental income

Gross rental income for the six months ended 30 September 2022 has increased by 5.6% or £5.7m, from £101.8 million for the six months ended 30 September 2021 to £107.5 million for the six months ended 30 September 2022.

	2022 (£m)	2021 (£m)	Increase %
MQE	**97.1**	91.5	6.1%
Non-MQE	**10.4**	10.3	1.0%
Total	**107.5**	**101.8**	**5.6%**

MQE rent increased by £5.6 million (6.1%) over the same period last year. This is mainly a result of the Site Review uplift (£4.3 million) and the Beacon Unit Rent Reviews for 2020 and 2021 (£3.3 million), partially offset by loss of rent on released units (£2.0 million).

Non-MQE rent has increased slightly from £10.3 million for the six months ended 30 September 2021 to £10.4 million for the six months ended 30 September 2022. An increase in income has been seen as a result of rental inflation, with like-for-like growth of 3.8% observed for the six months versus the same period last year. This increase was offset by a reduction in income as a result of the decline in the number of bulk rental units, as well as natural churn in the rest of the Non-MQE portfolio.

Adjusted EBITDA

Adjusted EBITDA for the six months ended 30 September 2022 was £96.4 million, an increase of 4.6% over the same period last year at £92.1 million. The increase reflects the changes in gross rental income discussed above but is partly offset by increased property holding costs due to the higher number of released units held during the period. Administrative costs for the six months ended 30 September 2022 were £7.3 million, in line with the prior period.

Property disposals

Property disposals	**30 September 2022**		**30 September 2021**	
	Units	Sales (£m)	Units	Sales (£m)
Non-MQE Portfolio – Surplus Estate	79	18.0	138	29.3
Non-MQE Portfolio – Rentals Portfolio	12	2.9	86	23.3
Total investment properties	**91**	**20.9**	**224**	**52.6**
Inventory units	2	1.3	1	0.6
Total properties	**93**	**22.2**	**225**	**53.2**

The sales profile is a function of units held and available for sale. This, in turn, largely depends on timing of MQE releases and the extent of refurbishment works to be carried out to bring houses back to market. The Group sold 93 properties for a total of £22.2 million during the first half of the year at an average sales price of c.£239,000 compared to 225 units in the prior comparative period for £53.2 million (average sales price c.£236,000). Of these, 91 were sold from investment properties with the majority relating to properties released from the MQE portfolio. This compares to 224 properties for the comparative period, where the majority of sales took place at larger sites. Additionally, the prior year benefitted from sales out of the Rentals Portfolio where the last units were sold from our Brize Norton development and a number of units were sold out of the bulk rental portfolio.

New build properties, developed with the intention of a sale by the group are separately accounted for as inventory, with the two units sold during the current period being part of the Group's new build project at Allington, Wiltshire.

Exceptional item: Enfranchisement Proceedings costs

As a result of the Enfranchisement Proceedings, in the last quarter of the 2021-22 financial year, the Group began to incur legal costs that are both material and outside the scope of normal operations. In the first six months of the current year, costs of £2.3 million (30 September 2021: £nil) related to the Enfranchisement Proceedings have been (and further costs will continue to be) disclosed separately in the income statement due to their exceptional nature.

Free cash flow

Free cash flow for the six months ended 30 September was £31.8 million (30 September 2021: £70.3 million). The decrease in free cash flow primarily reflects the lower cash receipts from property disposals in the current period, with higher rent receipts being largely offset by increased refurbishment spend due to the large volume of MQE units released in February and March 2022. The six months to 30 September 2022 also saw higher interest payments, with the first interest payments of the bonds issued in October 2021 made in April 2022.

Based on the free cash flow from the prior financial year, ended 31 March 2022, and an assessment of the ongoing requirements for cash within the business, a dividend of £100 million (30 September 2021: £170 million) was approved by the Board and paid in June. No interim dividend is proposed by the Board.

Half year property valuation

The Group's policy is to complete an external valuation of the portfolio as part of the year end and does not normally undertake an external valuation for half-year reporting. For 30 September 2022, in light of market volatility around the period-end it was considered appropriate to obtain an interim valuation to support the half-year results. As at 30 September, the book value was £8.0 billion (31 March 2022: £8.5 billion), with a downwards revaluation of £495.9 million being recorded within the income statement, a reduction of 5.8%. This principally reflects wider market trends impacting yields and discount rates applied to property and other long-term investments over the last six months. Offsetting this have been increases in the underlying rental income streams and vacant possession values.

In the prior year, as part of a debt raising process, the Group carried out an updated valuation as at 31 July 2021. With the market being relatively stable, this valuation was incorporated into the half-year results and a revaluation gain of £344.0 million was recognised for the six months to 30 September 2021.

The Special Assumption of Vacant Possession Value ('SAVPV') was also updated at the same date. At 30 September 2022, the SAVPV of the Group's MQE portfolio was estimated at £10,592.8 million (31 March 2022: £10,285.1 million), based on underlying market trends in house prices over that period. The SAVPV of the MQE reflects a 42.0% premium over market value (31 March 2022: 29.1% premium).

Financing

The Group's debt was maintained at £4.2 billion (31 March 2022: £4.2 billion), mainly consisting of bonds issued on the London Stock Exchange through Annington Funding plc ("AFP"). During August 2022, the Group undertook a liability management exercise, whereby €426.7 million 2024 Euro bonds and £143.5 million 2025 Sterling bonds were refinanced, funded by a new £400 million 11 year issue maturing in 2033 and a £135 million tap issue of the 2047 bonds. Following the refinancing, the weighted average maturity of the Group's debt increased to 12.5 years (from 11.5 years at 31 March 2022) with a weighted average cost of 3.4% (31 March 2022: 3.00%).

The Group's covenants attaching to the bonds are set out below. These ratios incorporate the effect of the new debt issue referred to above and remain inside covenant thresholds.

Covenant	**Test**	**Limit for Bonds**	**Limit for Loans**	**30 September 2022**	**31 March 2022**
Limitation on Debt	Total debt / Total assets	<65%	<65%	50.6%	46.7%
Limitation on Secured Debt	Secured debt / Total assets	<40%	<40%	-	-
Interest Cover Ratio	Consolidated EBITDA / Interest	1.0x (dividend lockup at 1.3x)	1.15x (dividend lockup at 1.3x)	1.42x	1.54x
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%	196.0%	212.4%

The Group's LTV as of 30 September is 50.6% (31 March 2022: 46.7%). The Group's policy continues to be the maintenance of a BBB equivalent rating. No interim dividend is proposed by the Board and any decision in relation to future dividends will be made after year-end, taking into account the Group's forecasted operational requirements and the maintenance of financial policies.

Subsequent Events

The Group is owned by two Terra Firma funds. Shareholders remain supportive of the Group and these funds have been recently extended, initially for a term of one year.

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 performance. These principal risks and uncertainties have been set out in detail within the Strategic Report of the Annual Report and Accounts 2022 and further, detailed risks were provided in the subsequent Offering Circular issued by Annington Funding plc on 27 July 2022. The risks and uncertainties previously disclosed have been reviewed and the risks themselves remain unchanged, however, in the current economic environment, there is increased uncertainty surrounding the broader market environment and a heighted risk of occurrence for certain of the items. Both the Annual Report and Accounts and the Offering Circular referenced above are available at www.annington.co.uk.

ANNINGTON LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2022

	Note	Six months ended 30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
Property rental income	2	**107,485**	101,805
Property operating expenses	2	**(4,098)**	(2,548)
Net rental income		**103,387**	99,257
Other operating income	3	**1,585**	19
Administrative expenses		**(7,291)**	(7,301)
Other operating expenses		**(232)**	(341)
Site Review costs	3	**-**	(4,678)
Enfranchisement Proceedings costs	3	**(2,316)**	-
(Loss)/profit on disposal of investment properties	4	**(1,323)**	3,481
Unrealised property revaluation (losses)/gains	7, 11	**(495,864)**	343,989
Profit on disposal of inventory		**507**	91
Share of results of joint ventures after taxation	8	**156**	112
Operating (loss)/profit	3	**(401,391)**	434,629
Finance income	5	**7,056**	9
Finance costs	5	**(69,336)**	(54,906)
(Loss)/profit before taxation		**(463,671)**	379,732
Taxation	6	**(553)**	5,809
(Loss)/profit for the period after taxation		**(464,224)**	385,541
(Loss)/profit attributable to shareholder		**(464,224)**	385,541

The accompanying Notes (1 to 17) should be read in conjunction with these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2022

	Note	Six months ended 30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
(Loss)/profit for the period		**(464,224)**	385,541
Items that may subsequently be recycled through the income statement			
Fair value gains on cash flow hedge	12	**10,326**	8,922
Reclassification of fair value gains included in profit and loss		**(6,138)**	(4,752)
Reclassification of discontinued cash flow hedge		**(3,144)**	-
Total other comprehensive income		**1,044**	4,170
Total comprehensive (loss)/income for the period		**(463,180)**	389,711
Total comprehensive (loss)/income attributable to shareholder		**(463,180)**	389,711

The accompanying Notes (1 to 17) should be read in conjunction with these financial statements.

ANNINGTON LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2022

	Note	30 September 2022 (unaudited) £'000	31 March 2022 (audited) £'000
Non-current assets			
Investment properties	7	**7,994,823**	8,518,259
Plant and equipment		**352**	417
Right-of-use assets		**697**	1,045
Investment in joint ventures	8	**2,194**	2,053
Deferred tax assets		**53,774**	51,364
Derivative financial instruments	12	**4,679**	-
		8,056,519	8,573,138
Current assets			
Inventory		**1,338**	6,128
Trade and other receivables		**9,012**	10,795
Cash and cash equivalents		**116,827**	181,787
		127,177	198,710
Investment properties held for sale	7	**44,363**	15,105
Total assets		**8,228,059**	8,786,953
Current liabilities			
Trade and other payables		**(47,461)**	(48,896)
Rental income received in advance		**(44,022)**	(42,820)
Lease liabilities	10	**(442)**	(703)
Provisions	11	**(16,754)**	(15,220)
		(108,679)	(107,639)
Non-current liabilities			
Loans and borrowings	9	**(4,176,573)**	(4,160,229)
Lease liabilities	10	**(127)**	(185)
Deferred tax liabilities		**(88)**	(88)
Provisions	11	**(10,049)**	(8,466)
Derivative financial instruments	12	**-**	(14,623)
		(4,186,837)	(4,183,591)
Total liabilities		**(4,295,516)**	(4,291,230)
Net assets		**3,932,543**	4,495,723
Capital and reserves			
Share capital		**84,756**	84,756
Share premium		**480,401**	480,401
Merger reserve		**(10,000)**	(10,000)
Hedging reserve		**2,294**	1,250
Retained earnings		**3,375,092**	3,939,316
Total equity		**3,932,543**	4,495,723

The accompanying Notes (1 to 17) should be read in conjunction with these financial statements.

The financial statements on pages 10-28 were approved by the Board of Directors on 16 December 2022 and signed on its behalf by:

S Leung
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2022

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021	84,756	480,401	(10,000)	(6,974)	4,351,260	4,899,443
Total comprehensive income for the period	-	-	-	4,170	385,541	389,711
Dividends paid	-	-	-	-	(170,000)	(170,000)
At 30 September 2021 (unaudited)	84,756	480,401	(10,000)	(2,804)	4,566,801	5,119,154
At 1 April 2022	**84,756**	**480,401**	**(10,000)**	**1,250**	**3,939,316**	**4,495,723**
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**1,044**	**(464,224)**	**(463,180)**
Dividends paid	**-**	**-**	**-**	**-**	**(100,000)**	**(100,000)**
At 30 September 2022 (unaudited)	**84,756**	**480,401**	**(10,000)**	**2,294**	**3,375,092**	**3,932,543**

The accompanying Notes (1 to 17) should be read in conjunction with these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 September 2022

	Note	Six months ended 30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
Cash generated from operations	14	**94,766**	85,224
Tax paid		**(2,600)**	(4,600)
Net cash inflow from operating activities		**92,166**	80,624
Investing activities			
Proceeds from sale of investment properties		**19,908**	51,356
Development and acquisition of investment properties	7	**(95)**	(696)
Refurbishment expenditure on investment properties	7	**(15,411)**	(8,524)
Purchase of plant and equipment		**(22)**	(72)
Distributions from joint ventures	8	**15**	-
Interest received		**551**	9
Net cash inflow from investing activities		**4,946**	42,073
Financing activities			
Debt issuance costs		**(4,004)**	-
Proceeds from new borrowings		**515,104**	-
Repayment of borrowings		**(497,567)**	-
Amount paid on swap termination		**(10,188)**	-
Dividends paid		**(100,000)**	(170,000)
Interest and other financing costs		**(65,065)**	(52,709)
Interest payments on lease obligations		**(24)**	(12)
Principal payments on lease obligations		**(363)**	(384)
Net cash outflow from financing activities		**(162,107)**	(223,105)
Net decrease in cash and cash equivalents		**(64,995)**	(100,408)
Cash and cash equivalents at the beginning of the period		**181,787**	197,509
Exchange differences on cash and cash equivalents		**35**	(71)
Cash and cash equivalents at the end of the period		**116,827**	97,030

The accompanying Notes (1 to 17) should be read in conjunction with these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2022

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2022 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the United Kingdom and the accounting policies, significant judgements and key estimates, as set out in the Group's Annual Report and Accounts 2022. The Group's Annual Report and Accounts 2022 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 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the United Kingdom.

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 2022 has been released/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 and amended standards applicable to the reporting period

There are no new accounting standards, interpretations or amendments, that became effective for the current reporting period that would have a material impact on the Group's financial statements. As a result, there have been no adjustments or changes to the Group's accounting policies.

New standards, interpretations and amendments not yet effective

The following new and revised IFRSs have been issued, but not yet endorsed by the UKEB and not yet effective:

New/Amended Standards and Interpretations		**Effective date (annual periods beginning on or after)**
IAS 1 and IFRS Practice Statement 2	Amendments to Disclosure of Accounting Policies	1 January 2023
IAS 1 Amendments	Amendments to the Classification of Liabilities as current or Non-current	1 January 2023
IAS 8 Amendments	Amendments to Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Amendments to Deferred Tax from Single Transactions	1 January 2023

These standards and interpretations have not been early adopted by the Group and are not expected to have a material impact on its financial statements in future periods.

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 2022.

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 2022 (unaudited) £'000	Six months ended 30 September 2021 (unaudited) £'000
Property rental income	**107,485**	101,805

Net rental income

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

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. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after other operating income, charging depreciation, and before finance income and finance costs.

	Six months ended 30 September 2022 (unaudited) £'000	Six months ended 30 September 2021 (unaudited) £'000
Depreciation of plant and equipment	**87**	46
Depreciation of right-of-use assets	**410**	424
(Gain)/loss on disposal of right-of-use assets	**(1)**	2
Other operating income		
Dilapidation income	**1,565**	-
Net profit from property management	**2**	19
Sundry income	**18**	-
Total other operating income	**1,585**	19

3. OPERATING (LOSS)/PROFIT (continued)

Site Review costs

As previously reported, in December 2021, Annington reached an agreement with the MoD to settle the Site Review process to replace the previous discount rate of 58% with the new discount rate of 49.6%. It was also agreed that this new discount rate will be applied at the next scheduled Site Review in 15 years' time, meaning the next full Site Review will take place between 2051 and 2054.

As the Site Review was concluded in December 2021, no Site Review costs have been incurred in the six months to 30 September 2022. However, 2021 comparative period costs amounting to £4.7 million have been separately disclosed in the income statement as they were considered exceptional in nature due to their size and infrequent occurrence.

Enfranchisement Proceedings costs

As previously reported, Annington has received notices from the MoD attempting to enfranchise a total of 8 units within the MQE. Annington's position is that the MoD has no legal right to enfranchise any properties within the MQE and that the MoD's decision-making in issuing the enfranchisement notices was in breach of its public law duties. The Group is contesting the MoD's actions in both public and property law proceedings (the "Enfranchisement Proceedings") and, in May, was granted permission by the Administrative Court to proceed with a Judicial Review of the MoD's decision making. A joint hearing in the Administrative Court and the Chancery Division of the High Court has been set for 8-14 February 2023 to determine whether the MoD is entitled to enfranchise the relevant units.

The costs relating to the Enfranchisement Proceedings are outside the normal scope of the Group's operations and are expected to be material. Legal costs of £2.3 million (30 September 2021: £nil) have been incurred in the six months to 30 September 2022 and have been (and further costs will continue to be) disclosed separately in the income statement due to their exceptional nature.

4. (LOSS)/PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

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

	Six months ended	
	30 September 2022 (unaudited) £'000	**30 September 2021 (unaudited) £'000**
Sales income	**20,875**	52,596
Selling costs	**(573)**	(1,324)
Net income from disposals	**20,302**	51,272
Carrying value of properties disposed	**(18,169)**	(47,791)
Profit on disposal of current period sales	**2,133**	3,481
Change in estimated costs provided on sold units	**(3,456)**	-
(Loss)/profit on disposal of investment properties	**(1,323)**	3,481

During the year, disposals of 91 properties (30 September 2021: 224 properties) were completed.

5. FINANCE INCOME AND COSTS

	Six months ended 30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
Finance income		
Interest receivable	**551**	9
Gain on bond refinance (refer to Note 9)	**6,505**	-
Total finance income	**7,056**	9
Finance costs		
Interest payable on unsecured fixed rate notes	**60,998**	48,826
Amortisation of discount and issue costs and finance expenses	**1,213**	1,258
Interest payable on bank loans	**5,865**	3,370
Foreign exchange losses on financing	**6,129**	4,824
Transfer from equity for cash flow hedge	**(6,138)**	(4,752)
Unwinding of discount on provisions	**726**	756
Other finance expenses	**536**	612
Finance costs on lease transactions	**7**	12
Total finance costs	**69,336**	54,906

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.

The Group's effective tax rate has been assessed as 8.76% (30 September 2021: 1.19%). An adjustment of £2.4 million has been recorded relating to deferred tax assets as a result of the change in the UK corporation tax rate from 19% to 25% from 1 April 2023.

7. INVESTMENT PROPERTIES

The Group's accounting policy is to complete an external valuation of the portfolio as part of the year end and does not normally undertake an interim valuation for the half-year results. IFRS allows for a higher degree of estimation for interim reporting and historically, the Group has used previous year end valuations adjusted for additions and disposals as an estimate of book values for interim reporting. For this year, due to the volatility in the market during recent months and particularly around the end of the half-year period, it was considered appropriate for a full valuation to be undertaken as at 30 September 2022 to ensure the reported value of the investment properties reflect the market conditions at that date.

30 September 2022 (unaudited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2022	**8,518,259**	**15,105**	**8,533,364**
Additions – development and acquisitions	**95**	**-**	**95**
Additions - refurbishment expenditure	**15,411**	**-**	**15,411**
Transfer from inventory	**4,025**	**-**	**4,025**
Disposals	**(4,965)**	**(13,204)**	**(18,169)**
Change in utilities obligation	**324**	**-**	**324**
Transfer to investment properties held for sale	**(43,381)**	**43,381**	**-**
Unrealised property revaluation losses	**(494,945)**	**(919)**	**(495,864)**
Total carrying value at 30 September 2022	**7,994,823**	**44,363**	**8,039,186**

31 March 2022 (audited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2021	8,087,751	35,531	8,123,282
Additions – development and acquisitions	999	-	999
Additions - refurbishment expenditure	13,433	-	13,433
Disposals	(60,127)	(35,531)	(95,658)
Change in utilities obligation	1,034	-	1,034
Transfer to investment properties held for sale	(13,734)	13,734	-
Unrealised property revaluation gains	488,903	1,371	490,274
Total carrying value at 31 March 2022	8,518,259	15,105	8,533,364

Properties would have been included on an historical cost basis at £1,427.9 million (31 March 2022: £1,427.9 million).

7. INVESTMENT PROPERTIES (continued)

As at 30 September 2022 there were 236 (31 March 2022: 70) investment properties classified as held for sale, with disposal expected within the next 12 months.

	30 September 2022 (unaudited) £'000	31 March 2022 (audited) £'000
Reconciliation of fair value to carrying value:		
Fair value as estimated by the external valuer	**8,029,825**	8,525,603
Add: amounts included in utilities provision	**9,361**	7,761
Carrying value for financial reporting purposes	**8,039,186**	8,533,364

IFRS requires the fair value of investment properties be adjusted for assets or liabilities recognised separately on the balance sheet. Due to the method used by the external valuer in calculating fair value, when arriving at carrying value, the Group has adjusted the valuation of investment properties to exclude that portion of the utilities provision (Note 11) relating to properties still held by the Group.

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

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

The Group's freehold and long leasehold interests in its investment properties were valued as at 30 September 2022 by an external valuer, Rupert Driver BSc MRICS of CBRE Limited ('CBRE').

The valuation, which was prepared on a portfolio basis, was subject to the existing leases, underleases and tenancies as advised but otherwise with vacant possession.

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

This is a 'Regulated Purpose Valuation'. CBRE has a policy of rotating the Lead Valuer of the portfolio at least every five years. This is CBRE and Rupert Driver's second year conducting the valuation for the Group. CBRE have confirmed that the total fees earned from the Annington group of companies is less than 5.0% of its total UK revenues, which may be deemed as minimal.

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

The fair value measurement hierarchy level for all investment properties as at 30 September 2022 was Level 3 significant unobservable inputs (31 March 2022: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior period.

Had the MQE Portfolio valuation discount rates increased by 0.2%, the valuation, all other factors remaining constant, would have decreased by £286.0 million. Conversely, had the MQE Portfolio valuation discount rates decreased by 0.2%, the valuation, all other factors remaining constant, would have increased by £306.0 million.

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

7. INVESTMENT PROPERTIES (continued)

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

30 September 2022 (unaudited)	**Fair value £'000**	**Unobservable inputs**	**Input**
MQE			
Fair value	**7,461,340**		
Valuation technique		**Discounted cash flow**	
		Annualised gross rent (£'000 p.a.)	**191,130**
		Estimated future rent increase (20 year average on passing rent) (%)	**3.93% p.a.**
		Long-term House Price Inflation (%)	**3.00% p.a.**
		Discount rates (%)	**5.30 – 7.00%**
Non-MQE - Surplus Estate			
Fair value	**195,585**		
Valuation technique		**Discounted cash flow & vacant possession market comparison**	
		Discount rate for bulk disposal (%)	**6.00%**
		Net yield on rented units (%)	**4.00 – 5.00%**
		Discount to SAVPV (%)	**15.00%**
Non MQE – Rentals Portfolio			
Fair value	**372,900**		
Valuation technique		**Vacant possession market comparison**	
		Net yield (%)	**3.75 – 5.20%**
		Discount to SAVPV (%)	**7.50 – 12.50%**
Fair value at 30 September 2022	**8,029,825**		

31 March 2022 (audited)	**Fair value £'000**	**Unobservable inputs**	**Input**
MQE			
Fair value	7,966,414		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	190,318
		Estimated future rent increase (20 year average on passing rent) (%)	3.12% p.a.
		Long-term House Price Inflation (%)	3.00% p.a.
		Discount rates (%)	4.30 – 6.50%
Non-MQE - Surplus Estate			
Fair value	181,177		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Discount rate for bulk disposal (%)	6.00%
		Net yield on rented units (%)	3.85 – 4.75%
		Discount to SAVPV (%)	10.00%
Non MQE – Rentals Portfolio			
Fair value	378,012		
Valuation technique		Vacant possession market comparison	
		Net yield (%)	3.60 – 4.70%
		Discount to SAVPV (%)	3.50 – 7.00%
Fair value at 31 March 2022	8,525,603		

Within the above discount rates for the MQE Portfolio, a factor of 0.25% (31 March 2022: 0.25%) was included to reflect the risk associated with the liquidity and marketability of the MQE during the Enfranchisement Proceedings. This adjustment amounts to a £360 million (31 March 2022: £415 million) reduction, circa 4.7% (31 March 2022: circa 5%) of the overall value.

8. INVESTMENT IN JOINT VENTURES

The Group's joint venture undertakings as at 30 September 2022 are shown below:

Name of joint venture	Principal activity	Holding
Annington Wates (Cove) 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. On 30 March 2021, Annington Wates (Cove) Limited passed a resolution to begin voluntarily winding up the Company.

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 2021	1,262	1,000	2,262
Share of loss for the year	(209)	-	(209)
At 31 March 2022 (audited)	1,053	1,000	2,053
Dividends paid	**(15)**	**-**	**(15)**
Share of profit for the period	**156**	**-**	**156**
At 30 September 2022 (unaudited)	**1,194**	**1,000**	**2,194**

The Group's share of profits from joint ventures represents profits from continued operations. The joint ventures have not recorded any other comprehensive income and the share of profits disclosed in the above table represents the Group's share of total comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2022 (continued)

9. LOANS AND BORROWINGS

	30 September 2022 (unaudited) £'000	31 March 2022 (audited) £'000
Amounts falling due between one and five years		
Unsecured notes	**633,430**	1,128,943
Unsecured bank loans	**397,762**	397,565
	1,031,192	1,526,508
Amounts falling due after five years		
Unsecured notes	**3,145,381**	2,633,721
Total non-current loans and borrowings	**4,176,573**	4,160,229
Total loans and borrowings	**4,176,573**	4,160,229

In August 2022, the Group undertook a liability management exercise, whereby €426.7 million 2024 Euro bonds and £143.5 million 2025 Sterling bonds were refinanced and the associated cross currency swaps part redeemed. This was funded by a new £400 million 11 year issue maturing in 2033 and a £135 million discounted tap issue of the 2047 bonds. Following the refinancing, the weighted average maturity of the Group's debt increased to 12.5 years (from 11.5 years at 31 March 2022) with a weighted average cost of 3.4% (31 March 2022: 3.00%). The refinanced bonds were redeemed via a tender offer at a slight discount to par value and a profit of £6.5 million has been recorded in finance income as a result of the refinancing.

At 30 September 2022, the Group held eight tranches of corporate, unsecured bonds totalling c.£3.8 billion and a term loan of £400.0 million, also unsecured. A revolving credit facility of £100.0 million is also available to the Group, which has never been drawn against.

The Group must comply with a number of covenants attaching to the debt under both the bonds and loan facility 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.

10. LEASE LIABILITIES

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

	30 September 2022 (unaudited) £'000	31 March 2022 (audited) £'000
Maturity analysis		
Amounts falling due within one year	**448**	714
Amounts falling due between one and five years	**128**	186
Minimum lease payments	**576**	900
Less: future finance charges	**(7)**	(12)
Present value of lease obligations	**569**	888
Current	**442**	703
Non-current	**127**	185
Total lease liabilities	**569**	888

A reconciliation of the lease liability movement is provided in Note 15.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2022 (continued)

11. PROVISIONS

	Warranty Provision £'000	Make good provision £'000	Utilities provision £'000	Total £'000
At 1 April 2022	143	463	23,080	23,686
Unwinding of discount	-	6	720	726
Change in estimated obligation				
- through profit and loss	7	-	3,449	3,456
- through investment properties	-	-	324	324
Utilised	(7)	-	(1,382)	(1,389)
At 30 September 2022 (unaudited)	**143**	**469**	**26,191**	**26,803**
Current provision	143	469	16,142	16,754
Non-current provision	-	-	10,049	10,049
	143	**469**	**26,191**	**26,803**

Utilities provision

At the point of purchase in 1996 the Married Quarters Estate included certain sites that are dependent on the related technical base for the provision of utilities. The MoD undertook to supply utilities to those sites for the period they are rented to the MoD and for released units, until at least the 25th anniversary of the purchase. Where there have been releases of property that are currently base dependent or there is a constructive obligation to provide for the adoption of certain utilities on units which are not base dependent, a provision has been made to separate these units where the Group has a committed present obligation to separate these units, including units that have already been sold to third parties. 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 units for their supply of water and sewage treatment and where it is possible that an obligation to separate these units may arise in the future. No obligation currently exists with respect to these properties as they have not been released by the MoD. Instead, there is a possible future obligation should releases occur and we become obligated to provide for the private utilities adoption. This amounts to £255.4 million (31 March 2022: £223.8 million). Upon technical completion of utilities adoption, the Group is eligible to a refund from the MoD for each utility until such point as the MoD is no longer obliged to supply the relevant utilities. At the balance sheet date, the total potential value of these refunds amounted to £8.9 million (31 March 2022: £13.4 million).

Warranty provision

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

Make good provision

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2022 (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2022 (unaudited) £'000	31 March 2022 (audited) £'000
Financial assets/(liabilities) carried at fair value through OCI		
Cross currency swaps that are designated in hedge accounting relationships	**4,679**	(14,623)

Reconciliation of movements

	30 September 2022 (unaudited) £'000	Swap terminations £'000	Revaluation adjustment £'000	31 March 2022 (audited) £'000
Cross currency swaps	**4,679**	8,976	10,326	(14,623)
Total derivative financial assets/(liabilities)	**4,679**	8,976	10,326	(14,623)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has the following financial instruments:

	Note	30 September 2022 (unaudited) £'000	31 March 2022 (audited) £'000
Financial assets			
Cash and receivables:			
Trade and other receivables excluding prepayments		**6,348**	7,824
Cash and cash equivalents		**116,827**	181,787
Assets measured at fair value through OCI			
Cross currency swaps	12	**4,679**	-
Total financial assets		**127,854**	189,611
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables		**47,159**	48,604
Loans and borrowings	9	**4,176,573**	4,160,229
Liabilities measured at fair value through OCI			
Cross currency swaps	12	**-**	14,623
Total financial liabilities		**4,223,732**	4,223,456

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2022 (continued)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Group held the following derivative and non-derivative financial assets and liabilities at 30 September 2022

	30 September 2022 (unaudited)		
	Par value of debt £'000	**Balance sheet value £'000**	**Fair value £'000**
Level 2			
Non-derivative financial liabilities			
Unsecured notes	**3,818,552**	**3,778,811**	**2,841,234**
Unsecured term loan	**400,000**	**397,762**	**400,000**
	4,218,552	**4,176,573**	**3,241,234**
Derivative financial asset			
Cross currency swaps	**-**	**(4,679)**	**(4,679)**
	4,218,552	**4,171,894**	**3,236,555**

	31 March 2022 (audited)		
	Par value of debt £'000	**Balance sheet value £'000**	**Fair value £'000**
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	3,801,260	3,762,664	3,717,708
Unsecured term loan	400,000	397,565	400,000
	4,201,260	4,160,229	4,117,708
Derivative financial liabilities			
Cross currency swap	-	14,623	14,623
	4,201,260	4,174,852	4,132,331

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 with reference to comparable sector bond pricing.

Cross currency swaps

The fair value of derivative financial instruments is based on 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 2022.

Unsecured term loan

This loan relates to a £400.0 million term unsecured bank loan, maturing in March 2025. 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 2022 (continued)

14. NOTE TO THE CONDENSED CASH FLOW STATEMENT

	Six months ended 30 September 2022 (unaudited) £'000	Six months ended 30 September 2021 (unaudited) £'000
(Loss)/profit after taxation	**(464,224)**	385,541
Adjustment for:		
Taxation	**553**	(5,809)
Finance costs	**69,336**	54,906
Finance income	**(7,056)**	(9)
Share of results of joint ventures after taxation	**(156)**	(112)
Loss/(profit) on disposal of property assets	**1,323**	(3,481)
(Gain)/loss on disposal of right-of-use assets	**(1)**	2
Unrealised property revaluation losses/(gains)	**495,864**	(343,989)
Depreciation expense	**497**	470
Movements in working capital:		
Decrease in inventory	**1,151**	133
Increase in debtors	**(1,459)**	(349)
Increase/(decrease) in creditors	**320**	(905)
Decrease in provisions	**(1,382)**	(1,174)
Net cash inflow from operating activities	**94,766**	85,224

15. ANALYSIS OF CHANGES IN NET DEBT

	30 September 2022 (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 2022 (audited) £'000
Cash and cash equivalents	**116,827**	(64,995)	-	35	-	181,787
Unsecured notes	**(3,778,811)**	(8,960)	(1,016)	(6,171)	-	(3,762,664)
Unsecured term loan	**(397,762)**	-	(197)	-	-	(397,565)
Lease liabilities	**(569)**	387	(7)	-	(61)	(888)
Total loans and borrowings	**(4,177,142)**	(8,573)	(1,220)	(6,171)	(61)	(4,161,117)
Net debt	**(4,060,315)**	(73,568)	(1,220)	(6,136)	(61)	(3,979,330)

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.

In June 2022 loans attracting a below market rate of interest were made by the Group's parent entity, Annington Holdings (Guernsey) Limited, to a Non-Executive Director of the company and two directors of the Company's subsidiaries. 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 8.

17. SUBSEQUENT EVENTS

The Group is owned by two Terra Firma funds. These funds have been recently extended, initially for a term of one year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 United Kingdom; 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

S Leung

Director

16 December 2022

APPENDIX 1: ALTERNATIVE PERFORMANCE MEASURES – DEFINITIONS AND CALCULATION

Alternative Performance Measures

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

	Reference	30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
Gross rental income			
Gross rental income is derived from rentals earned on investment properties and is presented on the face of the income statement.	I/S	**107,485**	101,805
Net rental income margin			
Gross rental income as presented on the face of the income statement	I/S	**107,485**	101,805
Property operating expenses as presented on the face of the income statement.	I/S	**(4,098)**	(2,548)
Net rental income		**103,387**	99,257
Divided by Gross rental income		**107,485**	101,805
Expressed as a percentage		**96.2%**	97.5%
Adjusted EBITDA			
Adjusted EBITDA is calculated as:			
Operating (loss)/profit before financing and tax as presented on the face of the income statement, adjusted for:	I/S	**(401,391)**	434,629
Amortisation, depreciation or impairment (including other non-cash write downs) of assets	Note 3	**497**	470
Revaluation losses/(gains) on investment properties	I/S	**495,864**	(343,989)
Profits attributable to joint ventures	I/S	**(156)**	(112)
Dilapidation income	Note 3	**(1,565)**	-
Loss/(profit) on disposal of investment properties	I/S	**1,323**	(3,481)
Profit on disposal of inventory	I/S	**(507)**	(91)
One-off items (Site Review & Enfranchisement Proceedings costs shown in the income statement)	I/S	**2,316**	4,678
		96,381	92,104

APPENDIX 1: ALTERNATIVE PERFORMANCE MEASURES – DEFINITIONS AND CALCULATION

Appendix 1: Alternative Performance Measures – Definitions and Calculation (continued)

	Reference	30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
Adjusted EBITDA Margin			
Adjusted EBITDA margin is calculated as:			
Adjusted EBITDA as calculated above	Above	**96,381**	92,104
Divided by gross rental income as presented on the face of the income statement	I/S	**107,485**	101,805
Expressed as a percentage		**89.7%**	90.5%

	Reference	30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000
Free cash flow			
Free cash flow is calculated as:			
Net decrease in cash and cash equivalents, adjusted for:	C/F	**(64,995)**	(100,408)
Purchase of investment properties, as shown in the investing cash flows	C/F	**95**	696
Increase in borrowings net of debt issuance costs, as shown in the Financing cash flows	C/F	**(511,100)**	-
Repayment of borrowings and swap terminations, as shown in the Financing cash flows	C/F	**507,755**	-
Dividends paid	C/F	**100,000**	170,000
		31,755	70,288
Net rental yield			
Net rental yield is calculated as:			
Net rental income, as calculated above	Above	**103,387**	99,257
Divided by carrying value of investment properties	B/S	**8,039,186**	8,428,700
Expressed as a percentage		**1.3%**	1.2%

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