Company Registration No. 08271384

ANNINGTON LIMITED

Half Year

Condensed Consolidated Financial Statements

For the six months ended 30 September 2017

ANNINGTON LIMITED

HALF YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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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.

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

ANNINGTON LIMITED

HALF YEAR RESULTS
For the six months ended 30 September 2017

FINANCIAL HIGHLIGHTS

- The carrying value of Group investment properties is £7.4 billion, down from £7.6 billion at 31 March 2017.
- At 30 September 2017, the Group owned 40,367 units (31 March 2017: 40,466 units).
- Rental income was £96.2 million (30 September 2016: £93.4 million).
- Loss after taxation was £862.7 million (30 September 2016: Profit after taxation £4.7 million).
- The Group sold 99 (30 September 2016: 103) properties, generating £22.1 million (30 September 2016: £30.7 million) in sales income.
- In July 2017, the Group refinanced the entirety of its existing debt through new equity, new Bond debt and a new term loan.

Market Environment

House price growth in the UK has continued over the last six months, despite the uncertainty regarding the outcome of the Brexit negotiations. According to Nationwide, annual UK house price growth was stable at 2.0% in September, but London has seen house prices fall for the first time in 8 years, down 0.6% year-on-year. Southern England price growth is close to that of the UK as a whole, being 1.9%. Southern England is where the highest concentration by value of the MQE portfolio is located. This continues the trend of regional divergence that has been apparent throughout the year.

The usual autumn price bounce recorded nationally in 2014, 2015 and 2016 has failed to materialise this year as London and the South continue to struggle. Estate agents are reportedly advising sellers to lower their price expectations to fit in with buyers' stretched financial resources in order to generate extra buyer interest.

Across the wider market, we still expect to see modest increases in house prices in the short-term as lack of supply, high demand, relatively low interest rates, strong employment and regional house price adjustments prevail over the political and interest rate uncertainty that is affecting market sentiment.

The UK's private rented sector ("PRS") has expanded rapidly in recent years, driven by the housing and labour markets. High property prices and the need for large deposits create barriers to entry for potential first time home owners. The PRS has been the fastest growing sector in the UK housing market over the last 10 years and is projected to continue that trajectory over the next 10 years.

Refinancing

In early July 2017, the Group completed a refinancing involving an injection of new capital into the Group, the issuance of new debt instruments and the early redemption of all the existing debt within the Group.

The Group issued five tranches of corporate, unsecured bonds totalling £3 billion and drew down a term loan totalling £400 million, also unsecured, with overall borrowing costs significantly lower than the legacy financing structures. Details of the refinancing are set out in Note 6 to the condensed consolidated financial statements.

The refinancing undertaken has meant that the Group will be able to benefit from less onerous covenant requirements, lower interest payments and longer and staggered maturities of debt. These benefits grant the Group greater flexibility in its operations.

Operational Strategy

The overall strategy is largely unchanged from previous years. For any units released by the Ministry of Defence ("MoD"), we will continue to examine and benefit from the best value creating options on a site-by-site basis and will continue to operate dual sales and rental strategies. In recent years, the MoD has released low numbers of units, resulting in reduced property stock available for sale.

We expect the trend of lower volumes of property releases to continue in the near future, at least until the MoD's strategic review has been completed and the implementation of new policy commences.

The various refinancing advantages have meant that there is the possibility of expanding the Group's footprint in the private rented sector ("PRS"). Pursuing these opportunities will diversify the business and enable a growth strategy for the Group, allowing Annington to further contribute to service the demand for housing in the United Kingdom.

HALF YEAR RESULTS
For the six months ended 30 September 2017 (continued)

Portfolio Summary

As at 30 September 2017 the Group's investment properties consisted of:

- the MQE Retained Estate comprised 38,969 Units ("Retained Units") (31 March 2017: 38,971) and 181 Related Assets (31 March 2017: 181), representing the majority of the MoD's total Service Family Accommodation and the MQE Surplus Estate totalling 30 Units ("Surplus Units") (31 March 2017: 120); and
- the "Non MQE Portfolio", a separate property portfolio of PRS accommodation which, as at 31 March 2017, consisted of 1,368 (31 March 2017: 1,375) property units let on bulk or assured shorthold tenancies.

Outside the normal course of business, the directors have obtained an independent third party valuation of the MQE Retained and Surplus Estates at 30 September 2017. As this valuation is subsequent to the previous year end valuation, it has been used as the basis of reporting the value of these property assets at 30 September 2017. For the Non MQE portfolio, the previous year end carrying value of these assets reflects the market value at 31 March 2017 adjusted for acquisitions and disposals in the period.

As of 30 September 2017, the carrying value of the Group's portfolio was:

- the MQE Retained Estate was £7,051.5 million (31 March 2017: £7,246.5 million), including £42.5 million (31 March 2017: £39.5 million) relating to the separately recorded utilities provision added back to fair value within the book value;
- the MQE Surplus Estate was £13.9 million (31 March 2017: £26.5 million); and
- the Non MQE Portfolio was £296.2 million (31 March 2017: £297.5 million).

As the MQE Retained Estate is rented to the MoD, the valuation of this portfolio is determined on a discounted cash flow basis. Due to changes in certain underlying assumptions, principally a fall in the long-term rate of rental and house price inflation, the carrying value has decreased between 31 March 2017 and 30 September 2017. This is opposite to the inflationary performance of the wider property market, discussed previously, but reflects changing market sentiment regarding the future performance of the housing sector.

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"). 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 each 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 2017). At 30 September 2017, the SAVPV of the MQE Retained Estate is:

	30 September 2017		31 March 2017	
Region	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**
East Anglia	3,029	543,614	3,029	516,217
East Midlands	2,496	382,547	2,496	368,546
Greater London	1,958	1,080,793	1,958	1,075,741
North	395	48,784	395	46,156
North West	509	62,148	509	59,968
South East*	15,439	4,308,180	15,560	4,253,773
South West*	9,575	1,875,485	9,456	1,773,274
Wales	851	131,676	851	127,664
West Midlands	1,625	244,586	1,625	240,289
Yorks & Humberside	3,092	456,337	3,092	435,203
Total	**38,969**	**9,134,150**	**38,971**	**8,896,831**

* During the period, 119 units were reclassified from the South East region to the South West.

HALF YEAR RESULTS
For the six months ended 30 September 2017 (continued)

Financial Performance

The Group's net rental income increased by 7.1%, or £6.2 million, from £87.6 million for the six months ended 30 September 2016 to £93.8 million for the six months ended 30 September 2017. This is due to an increase in rent after the December 2016 rent review as well as a decrease in the property operating expenses. The 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. In the current period, there was a reduction in the net refurbishment costs incurred.

The Group incurred an operating loss of £95.4 million in the six months ended 30 September 2017, compared to a profit of £88.3 million for the six months ended 30 September 2016. This reflects the impact of the property assets' unrealised losses recognised in the income statement. No valuation was performed for the six months ended 30 September 2016.

Finance costs have increased significantly in the six months ended 30 September 2017 compared to the six months ended 30 September 2016. The majority of this increase is the £834.7 million in costs related to the redemption of the bonds in July 2017. These costs represent the majority of the loss before taxation of £1,045.7 million and the taxation credit of £183.0 million for the six months ended 30 September 2017.

Outlook

In terms of the MQE Portfolio, the first Site Review will begin in December 2021 and this will be a key focus area for management. The purpose of each Site Review is to rebase the rent for each individual site as a whole to the full market rental value, reflecting the various features of the underlying lease arrangements with the MoD. We believe there are a number of factors that, together, are likely to yield a significant increase in the level of rent payable by the MoD as a result of the Site Review process.

Through the Non-MQE Portfolio, the Group intends to continue diversifying its property portfolio, by letting at market rates to the MoD or third parties on the open market, and to improve the Group's returns through actively managing its tenancies and rental levels. If it becomes uneconomic to retain such properties, potential options to maximise value will be considered, including refurbishment, redevelopment and disposal. The Group intends to target locations where a particular housing demand is identified or where housing market conditions are anticipated to improve.

The Group will continue to pursue investment opportunities when market conditions and the terms of the Group's financing arrangements permit, including entering into joint venture arrangements where a sharing of skills, assets and resources provides the possibility of increased returns.

There is currently uncertainty in the UK housing market, which has made buyers more cautious. It is unknown what the impact of Brexit will be on the UK economy in general and for individuals' wealth and financial security. This uncertainty is in addition to an interest rate and inflation increase, all of which have an effect of subduing the market. Savills expects the market to return to positive growth from 2019 onwards with the number of transactions and housing prices recovering.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six month period ended 30 September 2017

	Note	Six months ended 30 September 2017 (unaudited) £'000	30 September 2016 (unaudited) £'000
Property rental income		96,208	93,362
Property operating expenses		(2,450)	(5,715)
Net rental income		93,758	87,647
Other operating income		37	63
Administrative expenses		(8,264)	(6,299)
Utilities provision release/(expense)	7	295	(308)
Unrealised property revaluation losses	4	(191,881)	-
Profit on disposal of property assets		3,414	5,719
Share of results of joint ventures after taxation	5	7,201	1,510
Operating (loss)/profit		(95,440)	88,332
Finance income	2	2,355	1,636
Finance costs	2	(952,611)	(138,253)
Loss before taxation		(1,045,696)	(48,285)
Taxation	3	182,991	53,033
(Loss)/profit for the period after taxation		(862,705)	4,748
(Loss)/profit attributable to shareholder		(862,705)	4,748

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six month period ended 30 September 2017

	Note	Six months ended 30 September 2017 (unaudited) £'000	30 September 2016 (unaudited) £'000
Items that may subsequently be recycled through the income statement			
Change in fair value of cash flow hedge		1,808	-
Total other comprehensive income		1,808	-
(Loss)/profit for the period		(862,705)	4,748
Total comprehensive (loss)/income for the period		(860,897)	4,748
Total comprehensive (loss)/income attributable to shareholder		(860,897)	4,748

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2017

	Note	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Non-current assets			
Investment properties	4	7,359,215	7,563,065
Plant and equipment		155	142
Investment in joint ventures	5	36,172	25,284
Derivative financial instruments	8	4,189	-
		7,399,731	7,588,491
Current assets			
Inventory		1,156	890
Trade and other receivables		22,821	22,560
Cash, cash equivalents and restricted cash		159,311	131,421
		183,288	154,871
Investment properties held for sale	4	2,340	7,428
Total assets		7,585,359	7,750,790
Current liabilities			
Trade and other payables		(70,961)	(67,590)
Loans and borrowings	6	(50,407)	(56,352)
Provisions	7	(4,396)	(3,412)
		(125,764)	(127,354)
Non-current liabilities			
Other payables		(125)	(22)
Loans and borrowings	6	(3,379,201)	(2,955,618)
Deferred tax	3	(623,565)	(806,556)
Provisions	7	(38,141)	(36,107)
Derivative financial instruments	8	-	(26,074)
		(4,041,032)	(3,824,377)
Total liabilities		(4,166,796)	(3,951,731)
Net assets		3,418,563	3,799,059
Capital and reserves			
Share capital		84,756	84,756
Share premium	10	480,401	-
Merger reserve		(10,000)	(10,000)
Hedging reserve		1,808	-
Retained earnings		2,861,598	3,724,303
Total equity		3,418,563	3,799,059

The accompanying notes (1 to 13) should be read in conjunction with these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six month period ended 30 September 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2016	84,756	-	(10,000)	-	2,963,608	3,038,364
Total comprehensive income for the period	-	-	-	-	4,748	4,748
At 30 September 2016 (unaudited)	84,756	-	(10,000)	-	2,968,356	3,043,112
At 1 April 2017	84,756	-	(10,000)	-	3,724,303	3,799,059
Total comprehensive income/(loss) for the period	-	-	-	1,808	(862,705)	(860,897)
Share issue	-	480,401	-	-	-	480,401
At 30 September 2017 (unaudited)	84,756	480,401	(10,000)	1,808	2,861,598	3,418,563

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six month period ended 30 September 2017

	Note	Six months ended 30 September 2017 (unaudited) £'000	30 September 2016 (unaudited) £'000
Net cash from operating activities	11	72,128	78,878
Net cash inflow from operating activities		72,128	78,878
Investing activities			
Proceeds from sale of property assets		13,731	28,278
Purchase of property assets	4	(1,363)	(1,535)
Purchase of plant and equipment		(22)	(82)
Loans to joint ventures	5	-	(4,018)
Distributions from joint ventures	5	-	1,784
Loan repayments from joint ventures	5	6,475	-
Interest received		23	93
Net cash inflow from investing activities		18,844	24,520
Financing activities			
Issue of share capital	13	164,000	-
Increase in borrowings	6	3,376,189	59,220
Repayment of borrowings	6	(3,461,956)	(84,838)
Purchase of offsetting swaps		(24,544)	(11,405)
Interest and other financing costs		(116,771)	(62,528)
Net cash outflow from financing activities		(63,082)	(99,551)
Net increase in cash, cash equivalents and restricted cash		27,890	3,847
Cash, cash equivalents and restricted cash at the beginning of the period		131,421	115,993
Cash, cash equivalents and restricted cash at the end of the period		159,311	119,840

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2017 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 2017, which can be found on the Group's website www.annington.co.uk. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2017, 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 2017 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.

Standards issued not yet effective

A number of new standards and amendments have been issued but are not yet effective for the Group. These standards and interpretations have not been early adopted by the Group. These amendments have not had an impact on the condensed consolidated financial information. The Group is in the process of assessing the impact of these new standards and interpretations on its financial reporting.

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, therefore comparatives used for the six month period ended 30 September 2017 consolidated income statement are for the six month period ended 30 September 2016 consolidated income statement. It is therefore not necessary to disclose the consolidated income statement for the full year ended 30 September 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

2. FINANCE INCOME AND COSTS

	Six months ended 30 September 2017 (unaudited) £'000	Six months ended 30 September 2016 (unaudited) £'000
Finance income		
Interest receivable	825	1,636
Fair value gain on interest rate swaps	1,530	-
Total finance income	2,355	1,636
Finance costs		
Interest payable on secured floating and fixed rate notes	64,757	71,789
Amortisation of discount and issue costs and finance expenses	36,479	55,140
Interest payable on bank loans	3,276	3,362
Unwinding of discount of provision	3,754	1,445
Fair value loss on interest rate swaps	-	4,376
Bond redemption costs	834,663	1,214
Undrawn term loan costs	7,852	-
Bond issue costs	563	-
Other finance expenses	1,267	927
Total finance costs	952,611	138,253

3. 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 17.50%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

3. TAXATION (continued)

Deferred tax

The movement in deferred tax is as set out below:

	Employment benefits £'000	Investment properties £'000	Deferred finance costs £'000	Tax losses £'000	Other £'000	Total £'000
At 1 April 2016	(1,639)	798,370	(2,307)	(63,992)	46	730,478
Charge/(credit) to profit or loss	(370)	132,146	(3,674)	(11,463)	21	116,660
Effect of change in tax rate	91	(44,353)	128	3,555	(3)	(40,582)
At 31 March 2017	(1,918)	886,163	(5,853)	(71,900)	64	806,556
Charge/(credit) to profit or loss	1,918	(41,721)	5,771	(148,980)	21	(182,991)
At 30 September 2017	-	844,442	(82)	(220,880)	85	623,565

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

	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Deferred tax liabilities	(845,644)	(887,226)
Deferred tax assets	222,079	80,670
Net deferred tax liabilities	(623,565)	(806,556)

The amount of unused tax losses available for offset against future profits at 30 September 2017 has been calculated to be £1,304.1 million (31 March 2017: £355.5 million). A deferred tax asset of £220.8 million has been recognised in respect of these losses (31 March 2017: £71.9 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

4. PROPERTY ASSETS

In accordance with the Group's property assets accounting policy, the fair value of property assets are determined annually at the Group's financial year end, 31 March. For condensed consolidated financial statements covering a period other than a full financial year, a valuation is not normally obtained and the previous year end carrying value of property assets, reflecting market value at that date, is adjusted for acquisitions and disposals in the period.

Outside the normal course of business, the directors have obtained a valuation of the MQE Retained Estate and MQE Surplus Estate, held within Annington Property Limited, at 30 September 2017. As this valuation is subsequent to the previous year end valuation, it has been used as the basis of reporting the value of these property assets at 30 September 2017. For the other property assets held by the Group, the Non-MQE Estate, the previous year end carrying value of these assets reflect the market value at 31 March 2017 and have been adjusted for acquisitions and disposals in the period.

30 September 2017 (unaudited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2017	7,563,065	7,428	7,570,493
Additions - capital expenditure	1,363	-	1,363
Disposals	(10,992)	(7,428)	(18,420)
Transfer to investment properties held for sale	(1,790)	1,790	-
Unrealised property revaluation (losses)/gains	(192,431)	550	(191,881)
Total carrying value at 30 September 2017	7,359,215	2,340	7,361,555

31 March 2017 (audited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2016	6,699,590	10,686	6,710,276
Additions - capital expenditure	3,049	-	3,049
Disposals	(43,690)	(10,686)	(54,376)
Transfer to investment properties held for sale	(6,146)	6,146	-
Unrealised property revaluation gains	910,262	1,282	911,544
Total carrying value at 31 March 2017	7,563,065	7,428	7,570,493

Properties would have been included on an historical cost basis at £1,386.6 million (31 March 2017: £1,390.6 million).

As at 30 September 2017 there were six (31 March 2017: 29) property assets classified as held for sale, with disposal expected within the next 12 months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

4. PROPERTY ASSETS (continued)

	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Reconciliation of fair value/market value to carrying value:		
Market value as estimated by the external valuer	7,022,850	7,233,476
Assured shorthold and other bulk tenancies	296,168	297,498
Add: amounts included in utilities provision (Note 7)	42,537	39,519
Carrying value for financial reporting purposes	7,361,555	7,570,493

IFRS requires the market value of investment properties be adjusted for assets or liabilities recognised separately on the balance sheet. Due to the method used by the external valuer in calculating market value, when arriving at carrying value, the Group has adjusted the market valuation of investment properties to exclude the utilities provision (Note 7).

	2017 £'000	2016 £'000
Property rental income from investment properties:	96,208	93,362
Property rental expenses:		
Refurbishment costs	(1,578)	(3,991)
Dilapidations recovered from tenants	1,379	754
Rental running expenses	(2,251)	(2,478)
	(2,450)	(5,715)

Refurbishment costs are incurred where significant repairs are required to bring vacated properties back up to tenantable standard. Dilapidations recovered from tenants are used to defray these costs.

All of the Group's property assets generated rental income in the current and prior year, with the exception of the plots and infill areas held in the MQE Surplus Estate that have future long-term development potential.

Allsop Valuations Limited ("Allsop") has prepared a market valuation of the property assets held by Annington Property Limited in alignment with the requirements of IFRS 13, *Fair Value Measurement*. This is a 'Regulated Purpose Valuation'.

The valuer's opinion was derived on a portfolio basis, primarily using comparable recent market transactions on arm's length terms. The valuation was carried out by an independent valuer in accordance with the requirements of the RICS Valuation Standards (sixth edition, as subsequently amended), except where it is not, in practical terms, feasible to comply due to the large number of properties involved.

The valuation techniques which have been applied to the MQE Retained Estate (units leased by the MoD under the original MQE that have not yet been released), the MQE Surplus Estate (units released from the Retained Estate but not yet disposed of by the Group) are set out in the table following.

Under the discounted cash flow method, forecast cash flows are discounted using an appropriate rate to arrive at a fair value for the portfolio. These forecasts are based on data including current rents, rental growth rates, vacancy rates, operating costs, terms and conditions of leases agreements and capital expenditure.

The fair value measurement hierarchy level for all property assets as at 30 September 2017 was Level 3 significant unobservable inputs (31 March 2017: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

4. PROPERTY ASSETS (continued)

This fair value measurement hierarchy level is specified in accordance with IFRS 13 'Fair Value Measurement'. The levels are defined below:

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

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

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

Property asset valuations are inherently subjective, depending on many factors, including property location, expected future net rental value and market yields. In valuing the properties, the following assumptions have been adopted and incorporated into the valuation model. This model shows the Retained Estate and Surplus Estate only, despite all property assets being fair valued as at 31 March 2017.

30 September 2017	**Fair value £'000**	**Unobservable inputs**	**Input**
Retained estate			
Fair value	7,009,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	177,748
		Estimated future rent increase (20 year average - %)	2.7% p.a.
		Long-term House Price Index (%)	2.8% p.a.
		IRR (%)	5.9%
Surplus estate			
Fair value	13,850		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Bulk rental discount rate (%)	12.5%
Fair value at 30 September 2017	7,022,850		

31 March 2017	**Fair value £'000**	**Unobservable inputs**	**Input**
Retained estate			
Fair value	7,207,000		
Valuation technique		Discounted cash flow	
		Annualised gross rent (£'000 p.a.)	177,757
		Estimated future rent increase (20 year average - %)	3.1% p.a.
		Long-term House Price Index (%)	3.0% p.a.
		IRR (%)	6.0%
Surplus estate			
Fair value	26,476		
Valuation technique		Discounted cash flow & vacant possession market comparison	
		Bulk rental discount rate (%)	12.5%
Fair value at 31 March 2017	7,233,476		

All other factors remaining constant, the valuation would increase with an increase in gross rent, estimated future rent increase, long-term HPI and blended HPI, while increases in discount rates would result in a fall in the valuation and vice versa. There are interrelationships between unobservable inputs as they are determined by market conditions, and so the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions, (i.e. gross rents increase and discount rates decrease), valuation movements can be amplified whereas if they move in the same direction they may offset reducing the overall net valuation movement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

5. INVESTMENT IN JOINT VENTURES

The Group's joint venture undertakings at 30 September 2017 are shown below:

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

The Group'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 2016	18,588	14,815	33,403
Additions	-	4,018	4,018
Interest on loans	-	856	856
Repayments	-	(6,133)	(6,133)
Distributions	(10,820)	-	(10,820)
Share of profit for the year	3,960	-	3,960
Capital contribution	856	(856)	-
At 31 March 2017	12,584	12,700	25,284
Additions	10,162	-	10,162
Repayments	-	(6,475)	(6,475)
Share of profit for the period	7,201	-	7,201
At 30 September 2017	29,947	6,225	36,172

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

6. LOANS AND BORROWINGS

	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Amounts falling due within one year		
Secured notes	50,407	36,571
Drawn liquidity facility	-	19,781
	50,407	56,352
Amounts falling due between one and five years		
Unsecured term loan	395,628	-
Secured notes	-	140,320
Bank loans	-	140,919
	395,628	281,239
Amounts falling due after five years		
Unsecured notes	2,983,573	307,086
Secured notes	-	2,367,293
	2,983,573	2,674,379
	3,379,201	2,955,618
Total loans and borrowings	3,429,608	3,011,970

In early July 2017, the Group completed a refinancing transaction, involving an injection of new capital into the Group, the issuance of new debt instruments and the early redemption of all the existing debt within the Group. Annington Limited issued new share capital for cash consideration of £164 million and an amount that offset the £316.4 million liability under the Zero Coupon Notes due to Annington Limited's 100% parent.

Annington Funding plc ("AFP") issued five tranches totalling £3 billion of corporate, unsecured bonds under a Euro Medium Term Note ("EMTN") programme and drew down a term loan totalling £400 million, also unsecured, with overall borrowing costs significantly lower than the legacy financing structures. Arranged as part of the refinancing, a £300 million five-year revolving credit facility, which is currently undrawn, is available to Annington Funding plc.

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

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

Cross currency swaps are in place for the EUR €600 million bond, converting the nominal balance to £526.26 million. These swaps also mitigate volatility of foreign currency movements in future interest and capital repayments. The function of these swaps increases the effective interest rate of the Euro Tranche debt to 2.764%, fixed for the life of the bond.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

6. LOANS AND BORROWINGS (continued)

Of the Group's existing debt, the following transactions took place in July and October 2017:

Company	Tranche of Debt	Event	Date
Annington Limited	11% Unsecured Zero Coupon Notes 2024	Redeemed	12 July 2017
Annington Finance No. 1 plc	8% Secured Bonds 2012/2021	Redeemed	13 July 2017
Annington Finance No. 4 plc	Zero Coupon Notes 2022 Class A	Redeemed	13 July 2017
Annington Finance No. 4 plc	Zero Coupon Notes 2023 Class B	Redeemed	13 July 2017
Annington Finance No. 4 plc	Floating Rate Notes 2023 Class B3	Defeased; and Redeemed post period end	12 July 2017; 10 October 2017
Annington Finance No. 4 plc	Fixed Rate Notes 2023 Class C	Redeemed	13 July 2017
Annington Finance No. 4 plc	Fixed Rate/FRN 2023 Class M	Defeased; and Redeemed post period end	12 July 2017; 10 October 2017
Annington Finance No. 5 plc	PIK Notes 2023	Defeased; and Redeemed	12 July 2017; 28 July 2017
Annington Rentals (Holdings) Limited	Royal Bank of Scotland – 5yr loan	Repaid	12 July 2017

Critical to the Group's future as a going concern is the ability to service and repay this debt. For the foreseeable future, at least until the maturity of the term loan in 2022, the Group only needs to pay the interest on the debt. The new debt has a number of covenants to comply with under both the bonds and loan facility. The covenants attaching to the debt are:

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

The Group's forecasts do not indicate any of these covenants will be breached in the foreseeable future. Forecasts indicate that sufficient cash flow will be generated to cover payments of interest on its debt and generate significant additional free cash flows to allow for reinvestment or potential dividends to shareholders. Furthermore, if this is not possible, the undrawn revolving credit facility provides additional liquidity to the Group to allow the continued operation for the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

6. LOANS AND BORROWINGS (continued)

Reconciliation of movement

	30 September 2017 (unaudited) £'000	Revaluation adjustment £'000	Amortisation bond issue costs and write offs £'000	Issue costs £'000	Issued/ Drawn/ (Repaid) £'000	31 March 2017 (audited) £'000
Annington Limited						
11% Unsecured Zero Coupon Notes 2024	-	-	-	-	(307,086)	307,086
Annington Finance No. 1 plc						
8% Secured Bonds 2012/2021	-	-	1,108	-	(177,998)	176,890
Drawn liquidity facility	-	-	-	-	(14,100)	14,100
	-	-	1,108	-	(192,098)	190,990
Annington Finance No. 4 plc						
Zero Coupon Notes 2022 Class A	-	-	447,028	-	(1,391,100)	944,072
Zero Coupon Notes 2023 Class B	-	-	337,855	-	(936,930)	599,075
Floating Rate Notes 2023 Class B3	3,811	-	273	-	-	3,538
Fixed Rate Notes 2023 Class C	-	-	1,164	-	(150,000)	148,836
Fixed Rate/FRN 2023 Class M	46,596	-	2,540	-	(47,660)	91,716
Drawn liquidity facility	-	-	-	-	(5,681)	5,681
	50,407	-	788,860	-	(2,531,371)	1,792,918
Annington Finance No. 5 plc						
PIK Notes 2023	-	-	16,742	-	(596,799)	580,057
Annington Rentals (Holdings) Limited						
Royal Bank of Scotland – 5yr	-	-	769	-	(141,688)	140,919
Annington Funding plc						
Fixed Rate GBP Notes 2025	620,700	-	109	(4,409)	625,000	-
Fixed Rate GBP Notes 2029	595,921	-	63	(4,142)	600,000	-
Fixed Rate GBP Notes 2034	620,726	-	40	(4,314)	625,000	-
Fixed Rate GBP Notes 2047	620,703	-	17	(4,314)	625,000	-
Fixed Rate Euro Notes 2024	525,523	2,421	98	(3,256)	526,260	-
Term Loan 2022	395,628	-	264	(4,636)	400,000	-
	3,379,201	2,421	591	(25,071)	3,401,260	-
Total loans and borrowings	3,429,608	2,421	808,070	(25,071)	(367,782)	3,011,970

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

7. PROVISIONS

	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Utilities provision		
At 1 April	39,519	39,227
Unwinding of discount	3,754	2,894
Amounts credited to income statement	(295)	(2,449)
Utilised	(441)	(153)
At period end	42,537	39,519
Current provision	4,396	3,412
Non-current provision	38,141	36,107
	42,537	39,519

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 liability to provide for the adoption of certain utilities on certain sites which are not base dependent. Full provision has been made on the base dependent sites in accordance with the legal agreement and for all obligations which have crystallised on non-base dependent sites. 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 where properties have not been released.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Financial asset		
Measured at fair value through other comprehensive income (OCI)		
Cross currency swaps that are designated in hedge accounting relationships	4,189	-
Financial liabilities		
Measured at fair value through profit or loss (FVTPL)		
Interest rate swaps that are not designated in hedge accounting relationships	-	26,074

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Reconciliation of movements

	30 September 2017 (unaudited) £'000	Revaluation adjustment £'000	Issued/ Drawn/ (Repaid) £'000	31 March 2017 (audited) £'000
Annington Finance No. 4 plc				
Interest rate swaps	-	(847)	(21,403)	22,250
Annington Rentals (Holdings) Limited				
Interest rate swaps	-	(683)	(3,141)	3,824
Annington Funding plc				
Cross currency swaps	(4,189)	(4,189)	-	-
Total derivative financial liabilities/(assets)	(4,189)	(5,719)	(24,544)	26,074

Further details of derivative financial instruments are provided in Notes 6 & 9.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has the following financial instruments:

	Note	30 September 2017 (unaudited) £'000	31 March 2017 (audited) £'000
Financial assets			
Cash and receivables:			
Trade and other receivables		22,165	22,215
Cash, cash equivalents and restricted cash		159,311	131,421
Assets measured at fair value through OCI:			
Cross currency swaps	8	4,189	-
Total financial assets		185,665	153,636
Financial liabilities			
Liabilities measured at fair value through profit and loss:			
Interest rate swaps	8	-	26,074
Liabilities measured at amortised cost:			
Trade and other payables		29,949	26,406
Loans and borrowings	6	3,429,608	3,011,970
		3,459,557	3,038,376
Total financial liabilities		3,459,557	3,064,450

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values

The fair values of the Group's borrowings and cross currency swaps are determined by a Level 2 valuation technique. The fair value measurement hierarchy levels have been defined in Note 4.

	30 September 2017		
	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	3,001,260	2,983,573	2,994,645
Secured notes	87,413	50,407	50,407
Unsecured term loan	400,000	395,628	400,000
	3,488,673	3,429,608	3,445,052
Derivative financial assets			
Cross currency swaps	-	(4,189)	(4,189)
	3,488,673	3,425,419	3,440,863

	31 March 2017		
	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	277,580	307,086	333,133
Secured notes	3,303,816	2,544,184	3,226,979
Drawn liquidity facility	19,781	19,781	19,781
Secured bank loan	141,688	140,919	141,688
	3,742,865	3,011,970	3,721,581
Derivative financial liabilities			
Interest rate swaps	-	26,074	26,074
	3,742,865	3,038,044	3,747,655

Secured notes

These Notes were defeased on 12 July 2017 and redeemed on 10 October 2017 and have been valued at their defeasance value. This represents a Level 2 fair value measurement.

Unsecured notes

Listed Notes have been valued based on the indicative price contributed by market participants at balance sheet date. At 31 March 2017, Notes that were not listed had been valued by determining pricing based on future yield, using the market yield of a comparable of Treasury 8% 2021 Notes yielding 0.24%, and applying an appropriate market discount rate. This represents a Level 2 fair value measurement. Further details, including covenant information is included in Note 6.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Cross currency swaps
The fair value of derivative financial instruments is based on the present value of estimated future cash flows.

Interest rate swaps
The fair value of derivative financial instruments is based on counterparty valuations using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at the balance sheet date.

Unsecured term loan
This loan relates to a £400 million term loan ending in July 2022 that is unsecured. Further details, including covenant information is included in Note 6.

10. SHARE PREMIUM ACCOUNT

	2017 £'000
Balance at 1 April	-
Premium arising on issue of equity shares	480,401
Balance at 30 September	480,401

11. NOTE TO THE CONDENSED CASH FLOW STATEMENT

	Six months ended	
	30 September 2017 (unaudited) £'000	**30 September 2016 (unaudited) £'000**
(Loss)/profit after taxation	(862,705)	4,748
Adjustment for:		
Taxation	(182,991)	(53,033)
Finance costs	952,611	138,253
Finance income	(2,355)	(1,636)
Share of results of joint ventures after taxation	(7,201)	(1,510)
Profit on disposal of property assets	(3,414)	(5,719)
Unrealised property revaluation losses	191,881	-
Utilities provision release	(295)	308
Depreciation expense	10	41
Movements in working capital:		
Increase in inventory	(265)	-
Decrease/(increase) in debtors	336	(840)
Decrease in creditors	(13,043)	(1,694)
Decrease in provisions	(441)	(40)
Net cash inflow from operating activities	72,128	78,878

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2017 (continued)

12. INVESTMENT IN GROUP COMPANIES

During the period, Annington Homes Limited, a direct subsidiary of Annington Limited, acquired a new subsidiary undertaking, which is wholly owned and incorporated in the United Kingdom. The address of the registered office for the new subsidiary undertaking is 1 James Street, London W1U 1DR.

Name of subsidiary undertaking	Principal activity
Annington Funding plc	Finance

All shares in this undertaking are ordinary shares.

13. RELATED PARTY DISCLOSURES

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

On 12 July 2017, Annington Limited redeemed the Zero Coupon Subordinated and Unsecured Loan Notes entered into with its parent company, Annington Holdings (Guernsey) Limited, as part of the Group's refinancing of its debt. The book value of the debt was £316.4 million at the date of redemption, including accreted interest totalling £9.3 million accrued during the period.

In addition, on this date, Annington Holdings (Guernsey) Limited acquired two parcels of shares. The first, 100 new shares for £1 issued by Annington Limited for total cash consideration of £164,000,000, generating a share premium of £163,999,999. The second, 100 new shares for £1 issued by Annington Limited for a total consideration of £316,401,137, generating a further share premium of £316,401,136, with the consideration for this being offset against the liability under the Zero Coupon Notes due by Annington Limited to Annington Holdings (Guernsey) Limited.

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 5.

In addition, during the period ended 30 September 2017 Annington Property Limited sold one parcel of land to the Inglis Consortium LLP for £10.2 million.

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.

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

26 January 2018

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