ANNINGTON

Half–Year Statement

2014

Half-Year Statement 2014:

Following the publication of the Annual Report for the year ended 31 March 2013, I am pleased to provide a half-yearly update on the performance of the Annington Limited Group.

Market Environment

In the quarter ending 30 September, we have seen the housing market continue to gain momentum. By September 2013, key market indicators were at their strongest for 6 years as the recovery spread beyond London and the South East. Despite this, London and the greater South East continue to account for the clear majority of the increase. This is clearly a positive for Annington with its concentration of properties in those areas best placed for growth, both in terms of values and transaction volumes.

Government initiatives, particularly Funding for Lending and Help to Buy, are being cited as catalysts for this turnaround but the situation is more complex than that with the fundamental demand/supply imbalance at the heart of the issue. A lack of housing for sale and an increase in demand has combined to cause prices to continue to increase mainly in the Southern regions in England, especially in London, but there is further evidence of a broader recovery in the UK as the majority of regions recorded rises again this quarter.

All the major indices recorded average monthly and annual price increases in September and July. For the month ending October 2013, the Nationwide reported price increases of 1% in Oct and 5.8% year on year, although prices are still 7% below their 2007 peak; the Halifax reported a 0.7% increase in the month and 6.2% increase for the year.

Several market observers have improved their growth predictions, with one recent example being Knight Frank which has raised its expectation for 2013 from a 2% decline to a 7% increase. Having said that, regional discrepancies in performance are providing evidence of the continued and possibly growing north-south divide.

Operational Strategy

In recent years, the MoD has released a relatively low number of units, resulting in reduced property stock available for sale. For the financial years ended 31 March 2013 and 2012, the MoD released only 22 and 143 properties respectively. In the six months to 30 September 2013, 259 properties had been released. At that date, we had received termination notices from the MoD in respect of a further 63 further units for release by 31 March 2014.

Annington's operational strategy will be largely unchanged from previous years. The business will continue to examine and benefit from the best options on a site-by-site basis and continue to operate dual sales and rental strategies where appropriate.

Operational Update

As at 30 September 2013, the Retained Estate comprised 39,688 Units and the Surplus Estate comprised 511 units ("Surplus Units"). As of the same date, Annington owned an additional 1,593 units outside the Married Quarters Estate in its Rentals Subgroup.

Turnover

Group turnover increased by 1.1%, or £1.0 million, from £89.1 million for the six months ended 30 September 2012 to £90.1 million for the six months ended 30 September 2013.

Turnover in the Homes Subgroup increased by 1.3%, or £1.1 million, from £81.3 million for the six months ended 30 September 2012 to £82.4 million for the six months ended 30 September 2013. This increase was primarily due to an increase in passing rent on the Retained Estate as a result of the December 2012 Rent Review.

Turnover in the Rentals Subgroup decreased by 1.4%, or £0.1 million, from £7.8 million for the six months ended 30 September 2012 to £7.7 million for the six months ended 30 September 2013. This decrease was primarily due to the withdrawal of certain bulk rentals from the portfolio during the second quarter of this year.

The Developments Subgroup's share of turnover from joint ventures decreased by 22.0%, or £2.3 million, from £10.2 million for the six months ended 30 September 2012 to £7.9 million for the six months ended 30 September 2013 reflecting the underlying sales by our joint ventures.

Cost of Sales

Cost of sales comprises the direct operating expenses incurred in connection with the conduct and operation of the business of each of our subgroups, including, in particular, 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.

Cost of sales increased by 130.8%, or £3.8 million, from £2.9 million for the six months ended 30 September 2012 respectively, to £6.7 million for the six months ended 30 September 2013, primarily due to a reduction of dilapidation claims and a higher level of refurbishment costs arising from increased operations.

Administration Expenses

Administration expenses primarily consist of management and staff costs (including salaries and benefits), depreciation of our fixed assets, communications and systems costs, premises costs and certain professional services costs. Overall, our administration expenses increased by 2.3%, or £0.1 million, from £5.4 million for the six months ended 30 September 2012 to £5.5 million for the six months ended 30 September 2013.

Operating Profit

As a result of the factors discussed above, operating profit decreased by 3.6% from the six months ended 30 September 2012 to the six months ended 30 September 2013.

Share of operating profit in joint ventures

Our share of operating profit in joint ventures decreased £1.0 million from a profit of £4.1 million for the three and six months ended 30 September 2012 to a profit of £3.1 million for the three and six months ended 30 September 2013. These profits primarily reflect our share of the profit in The Inglis Consortium LLP on the completion of the sales, of properties at the Millbrook Park development at Mill Hill in North London.

Profit on disposal of properties

Our profit on disposal of properties decreased by 95.3%, or £6.1 million, from £6.4 million for the quarter ended 30 September 2012 to £0.3 million for the quarter ended 30 September 2013, and by 79.6%, or £7.9 million, from £9.9 million for the six months ended 30 September 2012 to £2.0 million from the six months ended 30 September 2013, primarily due to lower sales volumes and the higher margins achieved at Mill Hill and Rowner in 2012.

Interest receivable and similar income

Interest receivable and similar income increased by 79.6%, or £30.1 million, from £0.6 million for the six months ended 30 September 2012 to £30.7 million for the six months ended 30 September 2013. This is primarily due to gains of £30.5 million for the six months ending 30 September 2013, arising upon revaluation of the interest rate swaps to their accounting fair value at that date.

Interest payable and similar charges

Interest payable and similar charges increased by 6.7%, or £7.5 million, from £112.3 million for the six months ended 30 September 2012 to £119.8 million for the six months ended 30 September 2013. This was primarily due to additional PIK note interest of £36.7 million for the six months ended 30 September 2013, and the effect of the interest rate swap losses (gains in 2012), partially offset by the £34.7 million losses on the revaluation of those interest rate swaps for the six months ended 30 September 2012 not being repeated.

Tax charge on loss on ordinary activities

The tax credit on loss on ordinary activities relates mainly to our joint venture enterprises. The tax credit for the six months ended 30 September 2013 is £51k, compared to the tax charge for the six months ended 30 September 2012 of £75K.

(Loss)/profit for the period

As a result of the factors discussed above, our loss for the six months ended 30 September 2013 was £6.0 million, compared to a profit after minority share of losses of £90.3 million for the six months ended 30 September 2012, representing an overall decline of £96.3 million, or 106.6%, over the same period for the prior year. Following the group reorganisation in December 2012, there is no longer a minority interest in the Group. However, the reported comparative figures include a £147.0 million gain for the group due to the effect of the minority interest in the group up until that time.

Investment properties

Investment properties decreased by 0.3%, or £14.4 million, from £4,872.3 million as of 31 March 2013 to £4,857.9 million as of 30 September 2013. This decrease was primarily due to disposals during the period. In accordance with the Group's accounting policy on revaluation of investment properties, investment properties are revalued annually at the Group's financial year end, 31 March. For interim periods, a valuation is not normally obtained and the previous year-end carrying value of investment properties, reflecting market value at that date, is adjusted for acquisitions and disposals in the period.

Corporate Responsibility

In the six months ended 30 September 2013, the Group paid £16k to The Annington Trust (2012: £33k) and remains committed to providing funding from the Group of £50k in the year ended 31 March 2014. Thereafter, the Group will suspend its donations to the Trust. Separately the Group has continued to support local communities by donating £14k (2012: £17k) to various groups and clubs.

During the six months ended 30 September 2013, The Annington Trust donated £7k (2012: £16k) to a variety of causes associated with the Married Quarters Estate. During this time, the Trust has maintained membership of the Confederation of British Service Charities (COBSEO), an organisation that exists to work for the interests of the Armed Forces community and to bring together the work of the many and varied military charities.

The Trust has been making efforts to raise its profile within the service community and in 2012 instigated an initiative with the Outward Bound Trust, the Annington Challenge, to sponsor children from service communities on adventure courses. Continuing on from the success of the programme in 2012, during the Summer of 2013, The Annington Trust sponsored 23 young people from across the UK on 8-day adventure courses at the Outward Bound Trust's centres at Ullswater, Loch Eil and Aberdovey.

Outlook

Various indices over the last quarter confirmed that the property market is seeing increased activity, supported by the Government's Help to Buy scheme, which has boosted construction activity and the new build sector of the market and generated increased mortgage applications and lending. With the extension of the Help to Buy scheme to pre-existing properties, it is widely expected that the market will continue to see price and activity levels increase further. September 2013 market indicators were at the strongest for six years.

The private rental sector will likely continue to perform strongly as, despite these initiatives, property purchase affordability will continue to be an issue particularly in Greater London and the Home Counties where renting from the private sector remains the only option for many low to middle income families.

The business started 2013 with low stock levels, and these continue at historic lows, despite void levels within the MQE running at more than 16%. Previously, the business was able to rely on releases to replenish stock, but to date it has only been notified of 322 properties to be released in 2013/14. During the last quarter, 154 properties were released to Annington. It had been hoped that greater clarity on the MoD's housing demand would start to emerge from the various studies arising from the Government's 2010 SDSR and in early March 2013, preliminary details of the Army Basing Plan were published. These highlighted the earlier than previously expected repatriation of UK troops from German bases, as well as outlining the future disposition of the Army's UK-based forces. Early analysis indicates that seven existing Army bases will no longer be occupied by the Army and confirms previous assumptions about the concentration of forces around a number of regional 'superbases'; however, it remains to be clarified how the RAF base rationalisation interacts with these changes, despite some clarifications about RAF aircraft basing decisions being issued in March 2013.

The various studies have coalesced into the Living Accommodation Strategy Review ('LASR'), which is scheduled to report in April 2014, and has the remit to "provide costed accommodation options that are affordable and to bring Service Personnel Living Accommodation up to an agreed target condition and sustain the portfolio over time". Discussions with the Defence Infrastructure Organisation ('DIO') suggest this includes assessing demand, reviewing existing supply and the forward programme for investment and divestment, as well as condition standards and associated costs. Annington is hopeful that the LASR will provide greater clarity on release levels and continued demand for the MQE.

James Hopkins
Chief Executive