Company Registration No. 08271384

ANNINGTON LIMITED

Half-Year

Condensed Consolidated Financial Statements

For the six months ended 30 September 2020

ANNINGTON LIMITED

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

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NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

HALF-YEAR REPORT
For the six months ended 30 September 2020 (continued)

FINANCIAL HIGHLIGHTS

- The carrying value of Group investment properties was £7.7 billion (31 March 2020: £7.7 billion).
- Rental income was £100.5 million (30 September 2019: £99.3 million).
- Profit after taxation was £24.6 million (30 September 2019: £17.1 million).
- The Group sold 81 (30 September 2019: 29) investment properties and recognised £21.7 million (30 September 2019: £6.7 million) in sales income.

Portfolio Summary

At 30 September 2020, investment properties consisted of 40,568 completed units (31 March 2020: 40,621 units):

- the Married Quarters Estate ("MQE") Retained Estate, comprising 38,361 Units ("Retained Units") (31 March 2020: 38,460) and 181 Related Assets (31 March 2020: 181), representing the majority of the Ministry of Defence's ("MoD") total Service Family Accommodation and the MQE Surplus Estate comprising of 507 Units ("Surplus Estate") (31 March 2020: 445); and
- the "Non-MQE Portfolio", a separate property portfolio of private rented sector ("PRS") accommodation which, as at 30 September 2020, consisted of 1,700 (31 March 2020: 1,716) property units let on bulk or assured shorthold tenancies.

At that date, the Group was constructing a further 87 units (31 March 2020: 117) and held three completed development unit (31 March 2020: three).

As of 30 September 2020, the carrying value of the Group's portfolio was:

- the MQE Retained Estate was £7,199.7 million (31 March 2020: £7,215.9 million);
- the MQE Surplus Estate was £63.1 million (31 March 2020: £53.4 million); and
- the Non-MQE Portfolio was £399.2 million (31 March 2020: £405.9 million).

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

SAVPV is calculated by the Group by indexing the SAVPV estimated at the time of the Group's initial acquisition of the portfolio in 1996 for inflation, using the average of the regional Halifax House Price Index (All House Prices) and the Nationwide House Price Index and adjusting this by a factor representing actual sales performance on disposals from the MQE Retained Estate (97.25% at both March and September 2020).

At 30 September 2020, the SAVPV of the MQE Retained Estate is:

	30 September 2020		31 March 2020	
Region	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**
East of England	4,850	1,153,227	4,850	1,022,393
East Midlands	2,456	424,072	2,456	453,383
Greater London	1,837	1,094,079	1,837	1,059,921
North East	503	62,071	503	60,182
North West	526	71,596	526	69,469
South East	12,804	3,760,336	12,903	3,649,095
South West	9,775	2,136,770	9,775	2,032,583
Wales	1,045	176,053	1,045	171,061
West Midlands	1,625	276,018	1,625	267,092
Yorks & Humberside	2,940	482,785	2,940	467,832
Total	**38,361**	**9,637,007**	**38,460**	**9,253,011**

HALF-YEAR REPORT
For the six months ended 30 September 2020 (continued)

Market Environment

The first half of the financial year began with the country and the world reeling from the emergence of COVID-19 and economic activity effectively grinding to a halt. The consequential impacts upon normal life were significant, with the Government announcing a UK-wide lockdown commencing on 23 March. Due to this announcement, work on 43% of construction sites – including all Annington sites – ceased. The residential sales market came to a stop as estate agents were no-longer able to conduct viewings and mortgage lenders were unable or unwilling to offer mortgages to buyers ready to make offers.

There was swift action to try to get the construction sector back to work starting in early April with the publication by the Construction Leadership Council (CLC) of the Site Operating Procedure (SOP), which was designed to ensure safe conditions on site. The property market officially reopened on 13 May and market commentators considered that eight weeks of construction and sales activity was lost.

House moves and viewings were able to recommence in May and following the easing of the first lockdown at the start of July, the residential housing market, in stark contrast with the rest of the economy, has enjoyed a mini boom, creating a momentum that has surprised many. An initial increase in home purchases and moves might have been fuelled by the release of pent up demand, however, the market undoubtedly has been supported by economic stimuli. In addition to the existing stimulus from the help-to-buy scheme, as part of wider coronavirus support package measures, the Chancellor of the Exchequer’s announced an SDLT holiday until 31 March 2021 and Coronavirus wage support programmes.

Whilst low deposit mortgages have disappeared from the market, overall mortgage approvals are now close to pre-pandemic levels. With so many working from home for an extended period there has been time to consider requirements such as proximity to work and lifestyle. With the potential for further lockdowns, there is a determination in purchasers to act. A key driver has been the pursuit of more space, a garden and greenery; a two-tier market is developing with strong demand for smaller three- and four-bedroom houses in particular, something that looks increasingly like it will become an established trend. First-time buyers, historically a driving force for sales, are struggling amid growing economic uncertainty and reduced availability of higher LTV mortgages. This has led to a slight shift in the mix of moving households towards second-steppers.

Pricing has been resilient and volumes have recovered in the latter part of the year. Per the Land Registry, the average price of a property in the UK was £244,513 in September 2020, reflecting a 4.7% increase from the year before and a 5.5% increase from the £231,855 average price reported for March 2020. Property market transaction volumes decreased during the period but by September had returned to pre-Covid levels, with residential transactions with a value of £40,000 or more being at a higher level in October 2020 than any time since March 2016, when changes to Stamp Duty legislation caused unusually large transaction volumes.

This has led to some commentators urging caution about the market prospects. Rightmove has estimated that there are nearly 40% more sales going through the buying and selling process compared to last year, leading to congestion of sales in progress – something that may affect the buying power of those looking to take advantage of the stamp duty holiday over the next few months.

There has been strong demand in the rental market since May, when many renters took the first opportunity to move and where possible obtain more space. This has been tempered by concerns in the market relating to an increase in rental arrears brought on by the moratorium on rental evictions which extended until 20 September, with courts now facing a substantial backlog of cases. The Office of National Statistics reported that private rental prices paid by tenants in the UK increased by 1.5% in the 12 months to September 2020. Regional variation is still evident, with private rental prices in the South East only showing a 1.0% increase in the year to September 2020 but the East Midlands region recorded increases of 2.6% in the same period.

Operational Update

In spite of the COVID-19 pandemic, Annington, for the most part, has continued conducting business as usual. With more than 94% of rental income being Government backed and derived from the MQE and bulk leasing arrangements, the Group has been less affected by the pandemic than many other businesses. Consequently, the Group’s only real financial exposure during the COVID-19 pandemic has been to bad debts and arrears arising from the Group’s AST rental properties.

Acknowledging the impact of COVID-19, our AST portfolio has performed steadily. Whilst there was an increase in void and arrears levels during the initial lockdown, Annington's exposure remained insignificant within the context of the total portfolio. Voids and arrears within the portfolio have reduced more recently to levels comparable with pre-COVID-19 periods. These areas continue to be closely monitored.

Importantly, progress continued on the expedited Site Review with the MoD, albeit with hearings on the first batch of four sites being delayed to July as a result of COVID-19, with final awards for that batch being made in early October. Work continues on the second batch of eight sites, for which hearings are scheduled during February 2021.

Operating sites were back to full working capacity by the end of June, although the impact of COVID-19 on the supply chain did lead to some materials shortages and minor delays on a few of our sites. This did not prevent Annington from completing the refurbishment of 136 ex-MQE properties across seven sites and 34 new build units on sites at Brize Norton and Little Thetford.

During the first half of the year, 83 units were sold (81 investment properties and 2 units from inventory). This compares to 33 units in the comparative period last year. The increase is largely reflective of the higher volume of MQE releases since the signing of the Arbitration Agreement in March 2019, incentivising the MoD to release 500 units annually. A further 24 units were sold on our new build site at Brize Norton, where the strategic decision for those units was to sell, rather than to rent them.

In the six months to 30 September, the MoD handed over 99 units, with termination notices received for a further 223 units, taking the forecast number of releases to 322 for the 2020-21 financial year.

Financial Performance

The Group's primary key performance indictor, net rental income, has decreased by 1.1% or £1.0m, from £91.9 million for the six months ended 30 September 2019 to £90.9 million for the six months ended 30 September 2020. Gross rental income increased in the six months ended 30 September 2020 compared to the same period last year, driven in part by the Non-MQE Portfolio, where gross rents increased due to the expansion of the Group's PRS portfolio through the Taylor Wimpey and Uxbridge development projects being included fully within the current year performance. Rent from the MQE has also slightly increased following the 2019 Rent Review. However, the increased rental income was offset by increased refurbishment costs, included within property operating expenses, as a result of the MoD releasing a much higher volume of units in March 2020.

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. Refurbishment costs on released units to bring them to a condition fit for private rent or sale, and the utilities provision increasing to reflect the obligation arising from further termination notices received. The amount spent on refurbishment is derived from the condition of units released from the MQE vary from site-to-site and year-to-year. Further detail of the property operating expenses is disclosed in Note 2.

There was a higher volume of properties sold in the six months ended 30 September 2020, discussed above in the operational review. The Group realising a profit on the disposal of investment properties of £4.2 million, compared to a loss on disposal of £0.7 million for the six months ended 30 September 2019.

The Group's expenditures in relation to the site review have decreased by £1.6 million or 15.6% in the six months ended 30 September 2020 compared to the same period in the prior year. This is a reflection on the timing of work related to the site review. In the current year, hearings were completed during the summer and a comparative lull was experienced whilst awards were being deliberated by the arbitral panel, whereas in the 2019 year, preparations were focussing on condition reports and wider preparations for the then forthcoming hearings.

Administrative expenses increased by £1.4 million as a result of a number of factors. The group's response to the greater release profile and consequent additional workload required promised by the Arbitration Agreement's target of 500 units released per year has been a significant factor, as has been an increase in professional fees. Additionally, we have committed to increased support to our charity partners during the COVID-19 pandemic, when many of our charitable partners struggled with fundraising through the lockdown period, even as demand for their services increased.

Finance costs were marginally below that of the comparative period as a result of the term loan amendment which became effective 1 April 2020. Additional deferred tax assets of £4.2 million were recognised in the period as a result of the movement in the three year window, the period over which the Group is currently forecasting the utilisation of tax losses.

Principal risks and uncertainties

There are a number of principal risks and uncertainties faced by the Group which could have a material impact on the Group, causing actual results to differ from expected and historical. The principal risks and uncertainties have been reviewed and remain unchanged from those set out in detail within the Strategic Report of the Annual Report and Accounts 2020 which is available at www.annington.co.uk.

Outlook

With the stronger than expected rebound in the housing market after the initial nationwide lockdown, market commentators have revised short-term forecasts upwards. At the end of September, Savills was predicting 4% price increases in the 2020 calendar year. As recently as June, Savills were predicting price falls of 7.5% for the same period.

At the same time, caution prevails over medium-term forecasts. The RICS noted in their November 2020: UK Residential Market Survey that “near-term expectations for both prices and transactions point to a more moderate picture emerging over the coming months”. Similarly Savills currently forecasts flat house prices for the 2021 calendar year, where in June they had been forecasting a 5% increase. Beyond the impacts of Covid-19, these sentiments are also attributed to the impact of the Brexit negotiations.

Rental demand has remained buoyant throughout the tail end of 2020, with the RICS reporting steady demand. Rental inflation forecasts are mixed, with Savills forecasting 5.5% growth through the 2021 calendar year but JLL predicting a fall of 1.5%. Savills notes that household income will be the main constraint on rental growth.

The medium- to long-term impacts of the COVID-19 pandemic remain uncertain. There are shifts in demand being experienced due to the impacts of homeworking brought about by the COVID-19 lockdowns, with shifts towards larger properties and moving away from city centres. In addition, the pandemic has delayed housebuilding within the UK, a market that was already not building sufficient houses to keep up with forecast demand. As such, the supply and demand imbalance may be further impacted, with consequential impacts on pricing and affordability.

Operationally, we are working on the remainder of last year’s 266 releases and the 99 units released from the MQE during the first half. We are preparing for the remainder of the 322 units to be released before the end of March. The new build sites at Brize Norton and Allington are forecast to be completed during the 2021 calendar year.

We continue to focus on ensuring that we are prepared for the next batches of the Site Review negotiations and concurrent Beacon Unit Rent Reviews. With the receipt of the first batch of Site Review awards early in October, our focus has shifted to preparation for the second batch hearings due to take place in February 2021.

The eventual awards of the Panel will be key to the path Annington takes in the future. We understand that the General Partner to the Terra Firma funds that form a majority of the Group’s equity investor base is considering exit options, with the end of these funds lives drawing nearer. Annington management continues to consider what it needs to do to make itself ready for all exit eventualities and this will become an increasing focus.

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

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2020

	Note	Six months ended 30 September 2020 (unaudited) £'000	30 September 2019 (unaudited) £'000
Property rental income	2	**100,458**	99,295
Property operating expenses	2	**(9,586)**	(7,346)
Net rental income		**90,872**	91,949
Other operating income		**20**	84
Other operating expenses		**(372)**	(529)
Administrative expenses		**(7,259)**	(5,928)
Site review costs	3	**(8,890)**	(10,532)
Utilities provision (expense)/release	12	**(1,881)**	357
Profit/(loss) on disposal of investment properties	4	**4,226**	(707)
Profit/(loss) on disposal of inventory		**46**	(50)
Share of results of joint ventures after taxation	9	**(291)**	883
Operating profit	3	**76,471**	75,527
Finance income	5	**40**	367
Finance costs	5	**(54,699)**	(57,161)
Profit before taxation		**21,812**	18,733
Taxation	6	**2,765**	(1,678)
Profit for the period after taxation		**24,577**	17,055
Profit attributable to shareholder		**24,577**	17,055

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six month period ended 30 September 2020

	Note	Six months ended 30 September 2020 (unaudited) £'000	30 September 2019 (unaudited) £'000
Profit for the period		**24,577**	17,055
Items that may subsequently be recycled through the income statement			
Fair value gains on cash flow hedge	13	**7,100**	16,453
Reclassification of fair value gains included in profit and loss		**(13,947)**	(13,816)
Total other comprehensive (loss)/income		**(6,847)**	2,637
Total comprehensive income for the period		**17,730**	19,692
Total comprehensive income attributable to shareholder		**17,730**	19,692

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2020

	Note	30 September 2020 (unaudited) £'000	31 March 2020 (audited) £'000
Non-current assets			
Investment properties	7	**7,636,352**	7,659,407
Plant and equipment		**301**	320
Right-of-use assets	8	**1,917**	2,255
Investment in joint ventures	9	**2,431**	2,722
Deferred tax assets	6	**24,115**	19,910
Derivative financial instruments	13	**11,723**	4,623
		7,676,839	7,689,237
Current assets			
Inventory		**11,807**	10,352
Trade and other receivables		**8,564**	12,500
Cash and cash equivalents		**135,227**	103,695
		155,598	126,547
Investment properties held for sale	7	**25,658**	15,742
Total assets		**7,858,095**	7,831,526
Current liabilities			
Trade and other payables		**(31,072)**	(38,630)
Rental income received in advance		**(41,735)**	(40,757)
Lease liabilities	11	**(719)**	(729)
Provisions	12	**(7,606)**	(8,576)
		(81,132)	(88,692)
Non-current liabilities			
Other payables		**(402)**	(960)
Loans and borrowings	10	**(3,399,818)**	(3,385,121)
Lease liabilities	11	**(967)**	(1,260)
Deferred tax liabilities	6	**(45)**	(45)
Provisions	12	**(14,282)**	(11,729)
		(3,415,514)	(3,399,115)
Total liabilities		**(3,496,646)**	(3,487,807)
Net assets		**4,361,449**	4,343,719
Capital and reserves			
Share capital		**84,756**	84,756
Share premium		**480,401**	480,401
Merger reserve		**(10,000)**	(10,000)
Hedging reserve		**(10,078)**	(3,231)
Retained earnings		**3,816,370**	3,791,793
Total equity		**4,361,449**	4,343,719

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	84,756	480,401	(10,000)	1,127	3,121,608	3,677,892
Total comprehensive income for the period	-	-	-	2,637	17,055	19,692
At 30 September 2019 (unaudited)	84,756	480,401	(10,000)	3,764	3,138,663	3,697,584
At 1 April 2020	**84,756**	**480,401**	**(10,000)**	**(3,231)**	**3,791,793**	**4,343,719**
Total comprehensive (loss)/income for the period	**-**	**-**	**-**	**(6,847)**	**24,577**	**17,730**
At 30 September 2020 (unaudited)	**84,756**	**480,401**	**(10,000)**	**(10,078)**	**3,816,370**	**4,361,449**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 September 2020

	Note	Six months ended 30 September 2020 (unaudited) £'000	30 September 2019 (unaudited) £'000
Cash generated from operations	15	**70,479**	66,597
Tax paid		**(1,600)**	(4,338)
Net cash inflow from operating activities		**68,879**	62,259
Investing activities			
Proceeds from sale of investment properties		**21,019**	6,532
Purchase of investment properties	7	**(3,785)**	(15,189)
Purchase of plant and equipment		**(16)**	(34)
Distributions from joint ventures	9	**1,409**	3,140
Interest received		**40**	367
Net cash inflow/(outflow) from investing activities		**18,667**	(5,184)
Financing activities			
Debt issuance costs		**(2,112)**	-
Interest and other financing costs		**(53,556)**	(54,327)
Payments of obligations under finance lease		**(400)**	(598)
Net cash outflow from financing activities		**(56,068)**	(54,925)
Net increase in cash and cash equivalents		**31,478**	2,150
Cash and cash equivalents at the beginning of the period		**103,695**	162,783
Exchange differences on cash and cash equivalents		**54**	(45)
Cash and cash equivalents at the end of the period		**135,227**	164,888

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2020 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 2020, except for new standards and amendments adopted below. The Group's Annual Report and Accounts 2019 can be found on the Group's website www.annington.co.uk. The half year condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2020, 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 2020 has been released. The independent auditor's report on those accounts was unqualified, included an emphasis of matter (regarding uncertainties around the investment property valuation due to the COVID-19 pandemic) without qualifying the report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

New Standards adopted as at 1 April 2020

The Group has adopted the new accounting standards, interpretations and amendments, which have become effective as at 1 April 2020. Those that have impacted the Group's current accounting policies are described below:

Amendment to IFRS 9 *Financial instruments; Interest Rate Benchmark ("IBOR") Reform Phase 1*

The Phase 1 amendments provide relief to specific hedge accounting requirements for hedging relationships that are affected by the IBOR reform. The Group's £400 million unsecured term loan incurs interest at a floating interest rate of LIBOR + 1.6%. However, the Group has not entered into any interest rate hedging relationships, therefore no new or additional disclosure requirements are required as a result of the reliefs provided under Phase 1 of the IBOR reform. Phase 2 of the project will address any issues that arise once the existing Interest Rate Benchmarks have been replaced with an alternative rate. Phase 2 comes into effect on periods beginning on or after 1 January 2021.

The Group, and its loan issuers, currently expect that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR. The impact of this transition has not yet been determined and the Group will continue to review new information as it becomes available from the reform project.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and interpretations issued but not yet effective

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

New and Amended Standards		Effective date (annual periods beginning on or after)
IFRS 9, IAS 39, and IFRS 7 Amendments	Interest Rate Benchmark Reform Phase 2	1 January 2021*
IFRS Improvements	2018-2020 Annual Improvements Cycle	1 January 2022*
IAS 1 Amendments	Amendments to the Classification of Liabilities as Current or Non-current	1 January 2023*

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

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

Going concern

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

Seasonality

The Group’s business is not deemed to be highly seasonal. It is therefore not necessary to disclose the consolidated income statement for the full year ended 31 March 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

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 2020 (unaudited) £'000	**30 September 2019 (unaudited) £'000**
Property rental income	**100,458**	99,295

Net rental income

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

	Six months ended	
Property rental expenses:	**30 September 2020 (unaudited) £'000**	**30 September 2019 (unaudited) £'000**
Refurbishment costs on MQE units released	**8,335**	5,158
Refurbishment costs on Non-MQE rental units	**134**	265
Dilapidation income	**(1,370)**	-
Letting and management costs	**2,165**	1,450
Other repairs and maintenance	**322**	473
	9,586	7,346

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

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 PROFIT

Operating profit is stated after charging depreciation, charging short term and low value leased assets, loss on disposal of plant and equipment, and before finance income and finance costs.

	Six months ended	
	30 September 2020 (unaudited) £'000	**30 September 2019 (unaudited) £'000**
Short-term and low value leases expensed	3	5
Depreciation of plant and equipment	35	40
Depreciation of right-of-use assets	413	419
Loss on disposal of right-of-use assets	1	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

3. OPERATING PROFIT (continued)

Site Review costs

Included in operating profit are costs relating to the Site Review, which are considered exceptional in nature, due to the size and infrequent occurrence of Site Reviews. Site Reviews will reset rent on the MQE Retained Estate to the relevant open market rate. The first applies in four annual tranches starting in December 2021, marking the 25th anniversary of the initial sale and leaseback agreement of the MQE. The Site Review will then be performed on a 15 year rolling basis for the remainder of the lease back to the MoD. The Arbitration Agreement with the MoD sets out a two year process for reaching agreement on the future discount to be applied to sites following the 2021-2024 site review adjustments. Having entered into this agreement and confirming the mechanisms to be applied in determining the uplifts, Annington has determined that a significant sum will need to be spent in this round of negotiations, as precedents will need to be developed between the parties as to the way in which a site review will operate. The Group estimates that the costs associated with this are of such a material nature as to require separate disclosure on the face of the Consolidated Income Statement. The £8.9 million of site review costs incurred in the six months to 30 September 2020 have been disclosed separately in the income statement (30 September 2019: £10.5 million).

4. 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 2020 (unaudited) £'000	30 September 2019 (unaudited) £'000
Sales proceeds	21,732	6,718
Selling costs	(464)	(103)
Net disposal proceeds	21,268	6,615
Carrying value of properties disposed	(17,042)	(7,332)
Profit/(loss) on disposal of investment properties	4,226	(707)

During the year, disposals of 81 properties (30 September 2019: 33 properties) were completed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

5. FINANCE INCOME AND COSTS

	Six months ended 30 September 2020 (unaudited) £'000	30 September 2019 (unaudited) £'000
Finance income		
Interest receivable	**40**	367
Total finance income	**40**	367
Finance costs		
Interest payable on secured floating and fixed rate notes	**48,676**	49,076
Amortisation of discount and issue costs and finance expenses	**1,201**	1,235
Interest payable on bank loans	**3,934**	4,642
Foreign exchange (gains)/losses on financing	**13,893**	(13,772)
Transfer from equity for cash flow hedge	**(13,947)**	13,816
Unwinding of discount on provisions	**719**	1,369
Gain on debt modification	**(130)**	-
Other finance expenses	**353**	795
Total finance costs	**54,699**	57,161

6. TAXATION

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

Within the United Kingdom, the Group's effective tax rate has been assessed as 6.60%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

7. INVESTMENT PROPERTIES

In accordance with the Group's accounting policy on investment properties, the fair value of these assets are determined annually at the Group's financial year end, 31 March. Therefore, for the condensed consolidated financial statements ended 30 September 2020 (covering a period other than a full financial year), a valuation was not obtained and the previous year end carrying value for investment properties, reflecting fair value at that date, is adjusted for acquisitions and disposals in the period. At the previous financial year end the fair value measurement hierarchy level was Level 3 significant unobservable inputs.

30 September 2020 (unaudited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2020	**7,659,407**	**15,742**	**7,675,149**
Additions - capital expenditure	**3,785**	**-**	**3,785**
Disposals	**(6,083)**	**(10,841)**	**(16,924)**
Transfer to investment properties held for sale	**(20,757)**	**20,757**	**-**
Total carrying value at 30 September 2020	**7,636,352**	**25,658**	**7,662,010**

31 March 2020 (audited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2019	7,656,911	2,225	7,659,136
Additions - capital expenditure	20,669	-	20,669
Disposals	(19,463)	(2,225)	(21,688)
Transfer to investment properties held for sale	(13,451)	13,451	-
Unrealised property revaluation gains	14,741	2,291	17,032
Total carrying value at 31 March 2020	7,659,407	15,742	7,675,149

Properties would have been included on an historical cost basis at £1,484.0 million (31 March 2020: £1,491.5 million).

As at 30 September 2020 there were 170 (31 March 2020: 82) investment properties 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 2020 (continued)

8. RIGHT-OF-USE ASSETS

	30 September 2020 £'000 (unaudited)	31 March 2020 £'000 (audited)
Computer equipment	**163**	186
Buildings	**1,507**	1,796
Motor vehicles	**247**	273
Total Right-of-use assets	**1,917**	2,255

9. INVESTMENT IN JOINT VENTURES

On 21 August 2020, the Group's investment in joint venture Countryside Annington (Colchester) Limited was disposed of as the Company was formally dissolved. The Group's remaining joint venture undertakings as at 30 September 2020 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.

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 2019	5,039	1,000	6,039
Distributions	(4,282)	-	(4,282)
Share of profit for the year	965	-	965
At 31 March 2020 (audited)	1,722	1,000	2,722
Share of loss for the period	**(291)**	**-**	**(291)**
At 30 September 2020 (unaudited)	**1,431**	**1,000**	**2,431**

On 29 May 2020, The Inglis Consortium LLP made a cash distribution of £1.4 million to the Group, which, at this point in time, has not been declared as a dividend. The Group holds the cash with the intention of reinvesting the cash back to the joint venture in the event they require the funds.

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 2020 (continued)

10. LOANS AND BORROWINGS

	30 September 2020 (unaudited) £'000	31 March 2020 (audited) £'000
Amounts falling due between one and five years		
Unsecured notes	**1,164,763**	528,656,
Unsecured bank loans	**395,984**	395,710
	1,560,747	924,336
Amounts falling due after five years		
Unsecured notes	**1,839,071**	2,460,775
Total non-current loans and borrowings	**3,399,818**	3,385,121
Total loans and borrowings	**3,399,818**	3,385,121

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to that transaction, totalling £2.1 million, have been capitalised in advance of the effective date as these were incurred during the year ended 31 March 2020. These costs were subsequently paid during the six months ended 30 September 2020.

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.

11. 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 2020 (unaudited) £'000	31 March 2020 (audited) £'000
Maturity analysis		
Amounts falling due within one year	752	770
Amounts falling due between one and five years	988	1,294
Minimum lease payments	1,740	2,064
Less: future finance charges	(54)	(75)
Present value of lease obligations	1,686	1,989
Current	719	729
Non-current	967	1,260
Total lease liabilities	1,686	1,989

A reconciliation of the lease liability movement is provided in Note 16.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

12. PROVISIONS

	Make good provision £'000	Utilities provision £'000	Total £'000
At 1 April	439	19,866	20,305
Unwinding of discount	6	719	725
Amount expensed in income statement	-	1,881	1,881
Utilised	-	(1,023)	(1,023)
At 30 September 2020 (unaudited)	**445**	**21,443**	**21,888**
Current provision	-	7,606	7,606
Non-current provision	445	13,837	14,282
	445	**21,443**	**21,888**

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 has undertaken 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. The provision has been discounted in accordance with the relevant borrowing costs of the Group. The provision for utilities takes into account only units that have been previously released or terminated, rather than whole sites, unless specifically agreed by the MoD.

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 £184.5 million (31 March 2020: £177.5 million). Upon technical completion of utilities adoption, the Group is eligible to a refund from the MOD for each utility. We have estimated these refunds to amount to £16.9 million (31 March 2020: £16.7 million).

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 2020 (continued)

13. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2020 (unaudited) £'000	31 March 2020 (audited) £'000
Financial assets carried at fair value through OCI		
Cross currency swaps that are designated in hedge accounting relationships	**11,723**	4,623

Reconciliation of movements

	30 September 2020 (unaudited) £'000	Revaluation adjustment £'000	31 March 2020 (audited) £'000
Cross currency swaps	**11,723**	7,100	4,623
Total derivative financial assets	**11,723**	7,100	4,623

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has the following financial instruments:

	Note	30 September 2020 (unaudited) £'000	31 March 2020 (audited) £'000
Financial assets			
Cash and receivables:			
Trade and other receivables		**5,522**	11,638
Cash and cash equivalents		**135,227**	103,695
Assets measured at fair value through OCI:			
Cross currency swaps	13	**11,723**	4,623
Total financial assets		**152,472**	119,956
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables		**31,143**	39,222
Loans and borrowings	10	**3,399,818**	3,385,121
Lease liabilities	11	**1,686**	1,989
Total financial liabilities		**3,432,647**	3,426,332

Fair values

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

The Group held the following derivative and non-derivative financial assets and liabilities at 30 September 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2020 (continued)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	30 September 2020 (unaudited)		
	Par value of debt £'000	**Balance sheet value £'000**	**Fair value £'000**
Level 2			
Non-derivative financial liabilities			
Unsecured notes	**3,001,260**	**3,003,834**	**3,378,113**
Unsecured term loan	**400,000**	**395,984**	**400,000**
	3,401,260	**3,399,818**	**3,778,113**
Derivative financial asset			
Cross currency swaps	**-**	**(11,723)**	**(11,723)**
	3,401,260	**3,388,095**	**3,766,390**

	31 March 2020 (audited)		
	Par value of debt £'000	**Balance sheet value £'000**	**Fair value £'000**
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	3,001,260	2,989,411	2,979,678
Unsecured term loan	400,000	395,710	400,000
	3,401,260	3,385,121	3,379,678
Derivative financial asset			
Cross currency swap	-	(4,623)	(4,623)
	3,401,260	3,380,498	3,375,055

Unsecured bonds

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

Cross currency swaps

An independent valuer using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 30 September 2020, bases the fair value of derivative financial instruments on valuations.

Unsecured term loan

This loan relates to a £400 million term unsecured bank loan, originally maturing in July 2022. On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022. Whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to the transaction have been capitalised in advance of the effective date as they were incurred during the 31 March 2020 fiscal year. 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 2020 (continued)

15. NOTE TO THE CONDENSED CASH FLOW STATEMENT

	Six months ended 30 September 2020 (unaudited) £'000	Six months ended 30 September 2019 (unaudited) £'000
Profit after taxation	**24,577**	17,055
Adjustment for:		
Taxation	**(2,765)**	1,678
Finance costs	**54,699**	57,161
Finance income	**(40)**	(367)
Share of results of joint ventures after taxation	**291**	(883)
(Profit)/loss on disposal of property assets	**(4,226)**	707
Loss on disposal of right-of-use assets	**1**	-
Utilities provision expense/(release)	**1,881**	(357)
Depreciation expense	**448**	455
Movements in working capital:		
Increase in inventory	**(1,455)**	(1,302)
Decrease/(increase) in debtors	**1,295**	(1,326)
Decrease in creditors	**(3,204)**	(4,962)
Decrease in provisions	**(1,023)**	(1,262)
Net cash inflow from operating activities	**70,479**	66,597

16. ANALYSIS OF CHANGES IN NET DEBT

	30 September 2020 (unaudited) £'000	Cash flow £'000	Non-cash items: Amortisation of bond issue costs and interest accrued £'000	Non-cash items: Accrued costs and gain on debt modification £'000	Non-cash items: Fair value adjustments and exchange movements £'000	Non-cash items: Finance lease liability additions £'000	31 March 2020 (audited) £'000
Cash and cash equivalents	**135,227**	31,478	-	-	54	-	103,695
Unsecured notes	**(3,003,834)**	-	(798)	-	(13,625)	-	(2,989,411)
Unsecured term loan	**(395,984)**	2,112	(403)	(1,983)	-	-	(395,710)
Lease liabilities	**(1,686)**	400	(22)	-	-	(75)	(1,989)
Total loans and borrowings	**(3,401,504)**	2,512	(1,223)	(1,983)	(13,625)	(75)	(3,387,110)
Net debt	**(3,266,277)**	33,990	(1,223)	(1,983)	(13,571)	(75)	(3,283,415)

17. RELATED PARTY DISCLOSURES

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

During the period, the Group has had transactions with joint ventures that include distributions, loans and associated interest. These transactions form the basis for the movements disclosed in Note 9.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Approved by

A P Chadd

Director

28 January 2021

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