Company Registration No. 08271384

ANNINGTON LIMITED

Half-Year

Condensed Consolidated Financial Statements

For the six months ended 30 September 2018

ANNINGTON LIMITED

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

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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 2018

FINANCIAL HIGHLIGHTS

- The carrying value of Group investment properties is £7.1 billion (31 March 2018: £7.1 billion). At 30 September 2018, the Group owned 40,453 units (31 March 2018: 40,348 units).
- Rental income was £98.5 million (30 September 2017: £96.2 million).
- Profit after taxation was £33.8 million (30 September 2017: Loss after taxation £862.7 million).
- The Group made progress in growing its private rented sector ("PRS") offering, with 111 homes added to the portfolio during the first half of the financial year.

Portfolio Summary

At 30 September 2018 the Group's investment properties consisted of:

- the MQE Retained Estate, comprising 38,966 Units ("Retained Units") (31 March 2018: 38,969) and 181 Related Assets (31 March 2018: 181), representing the majority of the Ministry of Defence's ("MoD") total Service Family Accommodation, and the MQE Surplus Estate totalling 12 Units ("Surplus Units") (31 March 2018: 120); and
- the "Non-MQE Portfolio", a separate property portfolio of PRS accommodation which, as at 30 September 2018, consisted of 1,475 (31 March 2018: 1,365) property units let on bulk or assured shorthold tenancies.

As of 30 September 2018, the carrying value of the Group's portfolio was:

- the MQE Retained Estate was £6,761.3 million (31 March 2018: £6,761.7 million), including £39.7 million (31 March 2018: £39.7 million) relating to the separately recorded utilities provision added back to fair value within the book value;
- the MQE Surplus Estate was £5.1 million (31 March 2018: £8.5 million); and
- the Non-MQE Portfolio was £381.5 million (31 March 2018: £334.7 million).

To take account of changes in value of the MQE Retained Estate'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 2018). At 30 September 2018, the SAVPV of the MQE Retained Estate is:

	30 September 2018		31 March 2018	
Region	**Number of units**	**SAVPV £'000**	**Number of units**	**SAVPV £'000**
East Anglia	3,026	558,434	3,029	540,946
East Midlands	2,496	393,383	2,496	390,369
Greater London	1,958	1,090,849	1,958	1,056,094
North	395	47,047	395	48,285
North West	509	64,232	509	61,089
South East	15,439	4,374,041	15,439	4,269,146
South West	9,575	1,906,747	9,575	1,843,534
Wales	851	137,096	851	130,929
West Midlands	1,625	259,422	1,625	252,020
Yorks & Humberside	3,092	463,345	3,092	457,096
Total	**38,966**	**9,294,596**	**38,969**	**9,049,508**

HALF-YEAR RESULTS
For the six months ended 30 September 2018 (continued)

Market Environment

Although there was growth in house prices during FY 2017/18, as at March 2018 there was a growing consensus that annual house price growth was beginning to slow, particularly in London and the South East.

In the period from March to September, the situation has remained much the same, with Brexit concerns adding to the caution in the market. The trend of slowing house price growth is evident across all main measures of house price inflation. Statistics released by Land Registry in November show annual house price growth as 3.5% at September 2018 vs 4.6% the year before. Nationwide reports an annual growth rate of 2.0% in September 2018. In the period from October to December average asking prices fell by 3.2% according to Rightmove, which showed price drops of 1.7% and 1.5% in November and December respectively. The overall decline across the quarter demonstrates the same directional trend as the UK equity market, supporting the position that Brexit uncertainty is having an impact on market sentiment.

Regional variation has persisted with growth strongest in the East Midlands, Wales and Yorkshire & the Humber while London has fared the worst, with values down 2.2% across 2018.

The RICS, in its UK Residential Market Survey, noted a drop off in buyer demand as buyers struggled with affordability, deposits, and apprehension of rising interest rates. The limited choice of properties for sale has also contributed to a lack of buyer interest as stock levels are reported to be close to record lows. New instructions and enquiries continued to fall in December, reaching their lowest levels since the immediate aftermath of the Brexit vote. Brexit is the most cited cause (RICS survey) for reduced activity, and housing market uncertainty is likely continue until some clarity emerges.

Turning to the lettings market, the Office of National Statistics reports that annual rental price growth for the UK was 0.9% in September. While London private rental prices fell 0.2% over the year to September 2018, other regions fared better, with annual increases of 2.9% in the East Midlands and 1.9% in the South West and the East of England.

Operational Strategy

During the 2018 financial year, only two Married Quarters Estate units were released to Annington. This is the lowest number of units released in any financial year during Annington's history. However, in the period subsequent to 31 March 2018, we received notices to terminate the leases on 243 MQE units. To date, one of these has been released and sold and a further two have been released and demolished, with the remainder to be released in the period to March 2019. Notwithstanding this, we expect the trend of lower volumes of property releases, as seen over the last five years, to continue in the short term.

It was recently announced that the MoD's pilot of the Future Accommodation Model, a new way of providing living accommodation to personnel and their families which increases opportunities for home ownership and private rental, has been delayed from this year to the end of 2019. Whilst it had been considered that this pilot might have been able to provide some insight into the potential for future releases, this delay means that outcomes from this trial will not be available in the near term.

In the meantime, we continue to prepare for the Site Review and are currently in talks with the MoD around the practical aspects of conducting this exercise. Throughout this process, we remain focused on securing a positive outcome in December 2021 for all stakeholders, including military families and our shareholders.

Our PRS offering has expanded since the year end to include 73 homes purchased under a development agreement, through which acquisitions are phased based on completed properties. To date, 35 homes have been completed and transferred to our PRS portfolio.

Further, in May 2018, the Group completed the purchase of 104 homes from the Mill Group. These units were acquired pre-let, providing an income stream from the point of purchase.

Most recently, the first block of 54 units at Pinn Point in Uxbridge has been completed and has been made available to rent. Two further blocks are scheduled for completion during the next six months, taking the total number of units on the site to 207.

At our key development site at Brize Norton, following completion of the Highways Agreement, there has been significant progress on site in the half-year. The first completions remain scheduled for May 2019.

HALF-YEAR RESULTS
For the six months ended 30 September 2018 (continued)

Financial Performance

The Group's net rental income increased by 2.4%, or £2.2 million, from £93.8 million for the six months ended 30 September 2017 to £96.0 million for the six months ended 30 September 2018. This is partially due to an increase in rent after the December 2017 rent review, but is also a reflection of the expansion of our PRS offering. Property operating expenses, on the whole, remained stable in the first six months of the year compared to the same period in 2017. Property operating expenses comprise the direct operating expenses incurred in connection with the conduct and operation of the business. These include refurbishment costs incurred (net of dilapidation income) in connection with released units (including raw materials, labour costs and professional fees), marketing and property holding costs.

The Group made an operating profit of £97.5 million in the six months ended 30 September 2018, compared to a loss of £95.4 million for the six months ended 30 September 2017. This reflects the impact of the unrealised losses on the revaluation of investment properties recognised in the income statement in 2017. This valuation was performed outside the normal course of business and no valuation was performed for the six months ended 30 September 2018.

Finance costs have decreased significantly in the six months ended 30 September 2018, compared to the six months ended 30 September 2017, which included £834.7 million in costs related to the redemption of the debt that existed at the time of the July 2017 refinancing. Ongoing financing costs are also significantly lower than those that would have existed under the legacy debt structure.

The Group ended the half-year to September 2018 with a profit after tax of £33.8 million (September 2017: loss of £862.7 million) and reflects a return to more "normalised" circumstances, without the distorting effects of a refinancing and an additional investment property revaluation.

Outlook

The overall picture for house prices remains subdued. Market direction will depend on how broader economic conditions evolve, especially in the labour market, but also with respect to interest rates and on the Brexit outcome and any resulting clarity on the impact on the UK Economy.

In the short term, the RICS expects a fall in national house price inflation, with the twelve month outlook broadly flat. Transaction volumes are likely to remain low while we wait for some clarity of the direction of the country after 28 March 19.

Savills predicts that the North-South house price divide will reverse in the next five years as property values rise faster in northern England, Wales and Scotland than those across London. House prices are expected to increase by 14.8% nationally from 2019 to 2023, though regionally they will vary from 4.5% in London to 21.6% in the North West.

The continuing uncertainty surrounding Brexit and the possible economic impact this may have, has required a more cautious approach to our investment strategy. We anticipate this to continue at least through to the end of March, but we will remain focused 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.

In terms of the MQE Portfolio, the first Site Review will remain a key focus area for management. Our ongoing talks with the MoD around the practical aspects of conducting the site review remain high on our agenda, so that the process for completing the site review is clear on both sides and the Site Review can be completed as efficiently as possible, securing a positive outcome for all stakeholders.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six month period ended 30 September 2018

	Note	Six months ended 30 September 2018 (unaudited) £'000	30 September 2017 (unaudited) £'000
Property rental income	5	98,479	96,208
Property operating expenses	5	(2,498)	(2,450)
Net rental income		95,981	93,758
Other operating income		2,987	37
Administrative expenses		(6,125)	(8,264)
Other operating expenses		(394)	-
Utilities provision (expense)/release	8	(50)	295
Unrealised property revaluation losses	5	-	(191,881)
Profit on disposal of property assets		1,282	3,414
Share of results of joint ventures after taxation	6	495	7,201
Reversal of impairment of joint ventures		3,306	-
Operating profit/(loss)	2	97,482	(95,440)
Finance income	3	257	2,355
Finance costs	3	(56,682)	(952,611)
Profit/(loss) before taxation		41,057	(1,045,696)
Taxation	4	(7,226)	182,991
Profit/(loss) for the period after taxation		33,831	(862,705)
Profit/(loss) attributable to shareholder		33,831	(862,705)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six month period ended 30 September 2018

	Note	Six months ended 30 September 2018 (unaudited) £'000	30 September 2017 (unaudited) £'000
Profit/(loss) for the period		33,831	(862,705)
Items that may subsequently be recycled through the income statement			
Fair value gains on cash flow hedge	9	11,060	4,189
Reclassification of fair value gains included in profit and loss		(8,525)	(2,381)
Total other comprehensive income		2,535	1,808
Total comprehensive income/(loss) for the period		36,366	(860,897)
Total comprehensive income/(loss) attributable to shareholder		36,366	(860,897)

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2018

	Note	30 September 2018 (unaudited) £'000	31 March 2018 (audited) £'000
Non-current assets			
Investment properties	5	7,146,795	7,102,224
Plant and equipment		223	217
Investment in joint ventures	6	11,552	14,198
Derivative financial instruments	9	14,619	3,559
		7,173,189	7,120,198
Current assets			
Inventory		7,527	5,732
Trade and other receivables		1,347	607
Cash, cash equivalents and restricted cash		151,176	156,607
		160,050	162,946
Investment properties held for sale	5	1,024	2,711
Total assets		7,334,263	7,285,855
Current liabilities			
Trade and other payables		(68,004)	(73,773)
Provisions	8	(7,422)	(3,635)
		(75,426)	(77,408)
Non-current liabilities			
Other payables		(74)	(202)
Loans and borrowings	7	(3,387,226)	(3,377,499)
Deferred tax	4	(581,895)	(574,561)
Provisions	8	(33,119)	(36,028)
		(4,002,314)	(3,988,290)
Total liabilities		(4,077,740)	(4,065,698)
Net assets		3,256,523	3,220,157
Capital and reserves			
Share capital		84,756	84,756
Share premium		480,401	480,401
Merger reserve		(10,000)	(10,000)
Hedging reserve		3,034	499
Retained earnings		2,698,332	2,664,501
Total equity		3,256,523	3,220,157

The accompanying notes (1 to 12) should be read in conjunction with these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six month period ended 30 September 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
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
At 1 April 2018	84,756	480,401	(10,000)	499	2,664,501	3,220,157
Total comprehensive income for the period	-	-	-	2,535	33,831	36,366
At 30 September 2018 (unaudited)	84,756	480,401	(10,000)	3,034	2,698,332	3,256,523

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six month period ended 30 September 2018

	Note	Six months ended 30 September 2018 (unaudited) £'000	Six months ended 30 September 2017 (unaudited) £'000
Net cash from operating activities	11	83,213	72,128
Tax paid		108	-
Net cash inflow from operating activities		83,321	72,128
Investing activities			
Proceeds from sale of property assets		5,578	13,731
Purchase of property assets	5	(47,180)	(1,363)
Purchase of plant and equipment		(24)	(22)
Distributions from joint ventures	6	5,447	-
Loan repayments from joint ventures	6	1,000	6,475
Interest received		257	23
Net cash (outflow)/inflow from investing activities		(34,922)	18,844
Financing activities			
Issue of share capital		-	164,000
Increase in borrowings	7	-	3,376,189
Repayment of borrowings	7	-	(3,461,956)
Purchase of offsetting swaps		-	(24,544)
Interest and other financing costs		(53,831)	(116,771)
Net cash outflow from financing activities		(53,831)	(63,082)
Net (decrease)/increase in cash and cash equivalents		(5,432)	27,890
Cash and cash equivalents at the beginning of the period		156,607	131,421
Exchange differences on cash and cash equivalents		1	-
Cash and cash equivalents at the end of the period		151,176	159,311

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2018 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 2018, which 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 2018, 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 2018 has been delivered to the Registrar of Companies. The independent auditor's report on those accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

New Standards adopted as at 1 April 2018

The Group has adopted the new accounting pronouncements which have become effective this year, being:

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The adoption of IFRS 15 has not resulted in any adjustments to opening retained earnings at 1 April 2018 and has had no impact on the condensed consolidated financial statements for the six months ended 30 September 2018.

Standards issued not yet effective

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

New and Amended Standards		**Effective date (annual periods beginning on or after)**
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(*)
IFRS 16	Leases	1 January 2019

(*) The IASB decided in December 2015 to defer the effective date indefinitely; nevertheless, the amendments are available for earlier adoption.

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

The Group has assessed the impact of IFRS 16 and has concluded that there will be no significant impact on the income statement or balance sheet upon adoption of this standard.

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 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018 (continued)

2. OPERATING PROFIT/(LOSS)

Operating profit for the period includes £18,000 of depreciation (2017: £ 10,000).

3. FINANCE INCOME AND COSTS

	Six months ended 30 September 2018 (unaudited) £'000	Six months ended 30 September 2017 (unaudited) £'000
Finance income		
Interest receivable	257	825
Fair value gain on interest rate swaps	-	1,530
Total finance income	257	2,355
Finance costs		
Interest payable on secured floating and fixed rate notes	49,082	64,757
Amortisation of discount and issue costs and finance expenses	1,202	36,479
Interest payable on bank loans	4,514	3,276
Foreign exchange losses on financing	8,525	2,381
Transfer from equity for cash flow hedge	(8,525)	(2,381)
Unwinding of discount of provision	1,181	3,754
Bond redemption costs	-	834,663
Debt issue costs	-	8,415
Other finance expenses	703	1,267
Total finance costs	56,682	952,611

4. 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 17.6%.

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 2018 (unaudited) £'000	31 March 2018 (audited) £'000
Deferred tax liabilities	(791,946)	(791,946)
Deferred tax assets	210,051	217,385
Net deferred tax liabilities	(581,895)	(574,561)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018 (continued)

5. 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 2018 (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.

30 September 2018 (unaudited)	**Investment properties £'000**	**Investment properties held for sale £'000**	**Total £'000**
Valuation			
Carrying value at 1 April 2018	7,102,224	2,711	7,104,935
Additions - capital expenditure	47,180	-	47,180
Disposals	(1,585)	(2,711)	(4,296)
Transfer to investment properties held for sale	(1,024)	1,024	-
Total carrying value at 30 September 2018	7,146,795	1,024	7,147,819

31 March 2018 (audited)	**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	39,438	-	39,438
Disposals	(15,710)	(7,428)	(23,138)
Transfer to investment properties held for sale	(2,567)	2,567	-
Unrealised property revaluation gains	(482,002)	144	(481,858)
Total carrying value at 31 March 2018	7,102,224	2,711	7,104,935

Properties would have been included on an historical cost basis at £1,465.9 million (31 March 2018: £1,421.0 million).

As at 30 September 2018 there were four (31 March 2018: 11) 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 2018 (continued)

5. INVESTMENT PROPERTIES (continued)

	30 September 2018 £'000	30 September 2017 £'000
Property rental income from investment properties:	98,479	96,208
Property rental expenses:		
Refurbishment costs	(45)	(1,578)
Dilapidations recovered from tenants	-	1,379
Rental running expenses	(2,453)	(2,251)
	(2,498)	(2,450)

Refurbishment costs are incurred where significant repairs are required to bring vacated properties back up to tenantable standard. Included in refurbishment costs are £nil (2017: £426,000) spent on former MQE properties which were released within one year prior to the expenditure. Dilapidations recovered from tenants are used to defray these costs.

Substantially 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.

6. INVESTMENT IN JOINT VENTURES

The Group's joint venture undertakings at 30 September 2018 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 2017	12,584	12,700	25,284
Additions	13,920	-	13,920
Repayments	-	(7,775)	(7,775)
Distributions	(28,978)	-	(28,978)
Share of profit for the year	15,053	-	15,053
Impairment	(3,306)	-	(3,306)
At 31 March 2018	9,273	4,925	14,198
Repayments	-	(1,000)	(1,000)
Distributions	(5,447)	-	(5,447)
Share of profit for the period	495	-	495
Reversal of impairment	3,306	-	3,306
At 30 September 2018	7,627	3,925	11,552

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 2018 (continued)

7. LOANS AND BORROWINGS

	30 September 2018 (unaudited) £'000	31 March 2018 (audited) £'000
Amounts falling due between one and five years		
Bank loans	396,456	396,010
	396,456	396,010
Amounts falling due after five years		
Unsecured notes	2,990,770	2,981,489
	2,990,770	2,981,489
	3,387,226	3,377,499
Total loans and borrowings	3,387,226	3,377,499

In 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 2018 (continued)

7. LOANS AND BORROWINGS (continued)

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.

Reconciliation of movement

	30 September 2018 (unaudited) £'000	Revaluation adjustment £'000	Amortisation bond issue costs and write offs £'000	31 March 2018 (audited) £'000
Annington Funding plc				
Fixed Rate Euro Notes 2024	531,664	8,525	222	522,917
Fixed Rate GBP Notes 2025	621,203	-	254	620,949
Fixed Rate GBP Notes 2029	596,210	-	146	596,064
Fixed Rate GBP Notes 2034	620,914	-	95	620,819
Fixed Rate GBP Notes 2047	620,780	-	39	620,741
Term Loan 2022	396,455	-	446	396,009
Total loans and borrowings	3,387,226	8,525	1,202	3,377,499

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018 (continued)

8. PROVISIONS

	30 September 2018 (unaudited) £'000	31 March 2018 (audited) £'000
Utilities provision		
At 1 April	39,663	39,519
Unwinding of discount	1,181	4,958
Amounts credited to income statement	50	(4,069)
Utilised	(353)	(745)
At period end	40,541	39,663
Current provision	7,422	3,635
Non-current provision	33,119	36,028
	40,541	39,663

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.

9. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2018 (unaudited) £'000	31 March 2018 (audited) £'000
Financial assets carried at fair value through OCI		
Cross currency swaps that are designated in hedge accounting relationships	14,619	3,559

Reconciliation of movements

	30 September 2018 (unaudited) £'000	Revaluation adjustment £'000	31 March 2018 (audited) £'000
Cross currency swaps	14,619	11,060	3,559
Total derivative financial assets	14,619	11,060	3,559

Further details of derivative financial instruments are provided in Notes 7 and 10.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018 (continued)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has the following financial instruments:

	Note	30 September 2018 (unaudited) £'000	31 March 2018 (audited) £'000
Financial assets			
Cash and receivables:			
Trade and other receivables		297	55
Cash, cash equivalents and restricted cash		151,176	156,607
Assets measured at fair value through OCI:			
Cross currency swaps	9	14,619	3,559
Total financial assets		166,092	160,221
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables		26,371	32,649
Loans and borrowings	7	3,387,226	3,377,499
Total financial liabilities		3,413,597	3,410,148

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 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).

	30 September 2018		
	Par value of debt £'000	Balance sheet value £'000	Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured notes	3,001,260	2,990,770	3,008,913
Unsecured term loan	400,000	396,456	400,000
	3,401,260	3,387,226	3,408,913
Derivative financial asset			
Cross currency swaps	-	(14,619)	(14,619)
	3,401,260	3,372,607	3,394,294

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018 (continued)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	31 March 2018		
	Par value of debt £'000	**Balance sheet value £'000**	**Fair value £'000**
Level 2			
Non-derivative financial liabilities			
Unsecured notes	3,001,260	2,981,489	3,020,152
Unsecured term loan	400,000	396,010	400,000
	3,401,260	3,377,499	3,420,152
Derivative financial asset			
Cross currency swap	-	(3,599)	(3,599)
	3,401,260	3,373,900	3,416,553

Unsecured notes
Listed Notes have been valued based on the indicative price contributed by market participants at balance sheet date. This represents a Level 2 fair value measurement. Further details, including covenant information is included in Note 7.

Cross currency swaps
The fair value of derivative financial instruments is based on valuations by an independent valuer using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 30 September 2018.

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 7.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018 (continued)

11. NOTE TO THE CONDENSED CASH FLOW STATEMENT

	Six months ended	
	30 September 2018 (unaudited) £'000	**30 September 2017 (unaudited) £'000**
Profit/(Loss) after taxation	33,831	(862,705)
Adjustment for:		
Taxation	7,226	(182,991)
Finance costs	56,682	952,611
Finance income	(257)	(2,355)
Share of results of joint ventures after taxation	(495)	(7,201)
Impairment of joint ventures	(3,306)	-
Profit on disposal of property assets	(1,282)	(3,414)
Unrealised property revaluation losses	-	191,881
Utilities provision expense/(release)	50	(295)
Depreciation expense	18	10
Movements in working capital:		
Increase in inventory	(1,795)	(265)
(Increase)/decrease in debtors	(740)	336
Decrease in creditors	(6,366)	(13,043)
Decrease in provisions	(353)	(441)
Net cash inflow from operating activities	83,213	72,128

12. 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 6.

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

25 January 2019

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