ANNINGTON

Half Year Statement 2017

Half-Year Statement 2017:

Following the publication of the Annual Report for the year ended 31 March 2016, I am pleased to provide a half-yearly update on the performance of the Annington Limited Group.

Market Environment

The last six months has seen the property market holding up relatively well in spite of some dire predictions after the EU Referendum. Up to now there has been no clear evidence of the dramatic slowdown we were led to believe would happen, although there have been recent signs of house price growth slowing.

According to the Halifax House Price Index, annual house price growth has been on a steady downward trend in recent months since reaching a peak of 10.0% in March. Similarly, the Land Registry shows declining rates of house price growth in England and Wales, where month on month increases have fallen from 1.8% in May to 0.2% in September.

Operational Strategy

In recent years, the MoD has released low numbers of units, resulting in fewer properties available for sale. For the financial years ended 31 March 2012 to 31 March 2016, a total of 1,098 units have been released.

In the six months to 30 September 2016, 35 properties had been released. At that date, we had received termination notices from the MoD in respect of 8 further Units to be released by 31 March 2017.

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

The key projects that affect the MQE (the Footprint Strategy, the Basing Plan, the Living Accommodation Strategy Review and the New Employment Model) – were all stalled in the run-up to the General Election. Whilst the Footprint Strategy was released on 7 November in a report entitled "A Better Defence Estate", most of the remaining projects arising out of SDSR are stalled or shelved.

Operational Update

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

As at 30 September 2016, the Retained Estate comprised 38,979 units and the Surplus Estate comprised 328 units ("Surplus Units"). As of the same date, Annington owned an additional 1,301 units outside the Married Quarters Estate in its Rentals Subgroup.

Turnover

Group turnover increased by 3.0%, or £2.8 million, from £90.9 million for the six months ended 30 September 2015 to £93.7 million for the six months ended 30 September 2016.

Turnover in the Homes Subgroup increased by 3.7%, or £3.0 million, from £83.4 million for the six months ended 30 September 2015 to £86.4 million for the six months ended 30 September 2016. This increase in turnover represents the uplift in rental income following negotiations for the second year in the fourth Rent Review cycle concluded in December 2015.

Turnover in the Rentals Subgroup for the six months ended 30 September 2016 decreased by 4.1% or £0.3 million, from £7.6 million for the six months ended 30 September 2015 to £7.3 million for the six months ended 30 September 2016. The decrease in turnover represents reduction in rental income as properties are sold pursuant to the subgroup's strategy.

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 decreased by 19.4%, or £1.9 million, from £9.6 million for the six months ended 30 September 2015, to £7.7 million for the six months ended 30 September 2016, reflecting the individual nature of our major refurbishment projects.

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 3.5%, or £0.2 million, from £6.1 million for the six months ended 30 September 2015 to £6.3 million for the six months ended 30 September 2016.

Operating Profit

As a result of the factors discussed above, operating profit increased by 5.8% from £75.3 million for the six months ended 30 September 2015 to £79.7 million for the six months ended 30 September 2016.

Share of operating profit in joint ventures

Our joint venture holdings represent housing developments in which we partner with either one or more land owners or property development companies. Our share of operating profit in joint ventures was £1.5 million for the six months ended 30 September 2016. These profits primarily reflect our share of the profit on the completion of the sales by The Inglis Consortium LLP, 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 £9.9 million from £15.6 million for the six months ended 30 September 2015 to £5.7 million for the six months ended 30 September 2016. This reflects the decrease in units held for disposal and has resulted in fewer units being sold during the six months to 30 September 2016 (102 units) compared to the same period in 2015 (227 units and one related asset sold).

Interest receivable and similar income

Interest receivable and similar income decreased from £4.4 million for the six months ended 30 September 2015 to £1.6 million for the six months ended 30 September 2016. This is primarily due to fair value gains on interest rate swaps in 2015. A fair value loss was recorded in interest payable and similar charges for the same period in 2016. For the six months ended 30 September 2016 interest receivable largely relates to interest on deferred consideration.

Interest payable and similar charges

Interest payable and similar charges increased by 5.8%, or £7.5 million from £129.3 million for the six months ended 30 September 2015 to £136.8 million for the six months ended 30 September 2016. Interest payable for the six months ended 30 September 2016 included £4.4 million of losses on the revaluation of interest rate swaps (revaluation gains in 2015).

Tax charge on loss on ordinary activities

The tax credit on loss on ordinary activities consists of (i) the current tax charge, which is the expected tax payable on the taxable income for the period, and (ii) the deferred tax charge, which arises on timing differences between the taxation of profits under the UK securities regime and as they arise in the financial statements for the period.

The tax credit on loss on ordinary activities for the six months ended 30 September 2016 was £53.0 million. Included in the period’s deferred tax credit is the effect of a reduction of the corporation tax rate from 18% to 17% from 1 April 2020. These rates were substantively enacted at the current balance sheet date and the effect of the rate change on the deferred tax balances was recognised during the period as a £40.2 million credit to deferred tax.

Profit/(loss) for the period

As a result of the factors discussed above, our profit for the six months ended 30 September 2016 was £4.7 million, compared to a loss of £28.8 million for the six months ended 30 September 2015, representing an overall improvement of £33.5 million over the same period for the prior year.

Investment properties

Investment properties decreased by 0.3%, or £22.8 million, from £6,671.1 million as of 31 March 2016 to £6,648.3 million as of 30 September 2016. 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

The Group has continued to focus on its charitable activities during the half year. Along with the support we provide to local communities, the Group has continued its funding to specific charitable projects, with committed funding of £25k available per project. We will provide support in this way for four charities and overall have donated £64k (2015: £124k) to these projects and various other groups and clubs during the six months ended 30 September 2016.

During the six months ended 30 September 2016, The Annington Trust donated £34k (2015: £17k) 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.

For the fifth consecutive year, the Trust has supported the Annington Challenge, an initiative with the Outward Bound Trust, sponsoring children from service communities on adventure courses. Continuing on from the success of the programme in past years, 38 young people aged 11-19 participated in outdoor adventures during the summer that aim to improve their confidence and promote personal skill building.

We have also recently formalised our Environmental Policy, which sets out guidance as to how the Group should consider its impact on the environment and act accordingly to minimise these impacts where possible.

These actions include, for example, using sustainable materials when refurbishing houses and reducing consumption of energy and other resources.

Outlook

According to the latest Halifax Housing Market Confidence Tracker, confidence in the UK housing market has fallen to its lowest point in three years, but the majority still expect prices to rise.

This reflects the supply and demand fundamentals that have helped maintain house price growth despite negative post EU referendum predictions.

The RICS UK Residential Market Survey for November 2016 reports that the number of prospective buyers in the UK housing market has increased for the third consecutive month, although the figure remains historically low. However, supply shortages remain a constraint and as stock continues to dwindle, price rises are expected to continue.

The shortage in the supply of houses remains a key driver in keeping house prices high. The Home Builders Federation (HBF) has warned that between 220,000 and 250,000 new homes per year are needed over a sustained period to effectively meet demand. Even with the expansion seen in the last two years we are still some way off this target. The HBF reports that during the 2014/2015 year there were 170,690 net additions to the housing stock.

RICS reports that 1.8 million new rental homes are needed by 2025 to keep up with current demand, as home ownership is increasingly unaffordable. However, private buy to let investors have been put off due to stamp duty changes and lower income tax relief. This will probably mean that the private rental sector is likely to continue to grow.

The business continues to operate with low throughput, despite void levels within the MQE running at more than 20%. Previously, the business was able to rely on releases to maintain activity levels, but to date it has only been notified of 43 properties to be released in 2016/17, of which 35 have already been released to Annington.

The Government's Footprint Strategy was released on 7 November in a report entitled "A Better Defence Estate". This review sets out plans to sell or release 91 sites owned or managed by the MoD and will see sites and bases moved to locations that offer better opportunities for military families. The Footprint Strategy is currently being analysed and should provide us with a direction on future accommodation strategy.

James Hopkins
Chief Executive