ANNUAL INVESTOR CONFERENCE CALL FOR THE YEAR ENDED 31 MARCH 2022

Introduction

Good morning everyone and welcome to the annual investor update conference call for Annington Limited as required under our medium term note programme.

The call today will be presented by myself, Ian Rylatt, Annington's CEO and Stephen Leung, Annington's CFO.

The commentary we are going to give is primarily based on Annington's Consolidated Financial Statements for the year ended 31 March 2022, which were posted on our website in July. As such, the content of this update is similar to that covered as part of the recent refinancing presentation and will be of most benefit for those investors who were unable to participate in the associated roadshow.

The format for this call is that we will provide the annual update and then the moderator will open the floor to questions starting with any questions that have been submitted in advance of the call.

A transcript of the call will be available on our website together with a link to a digital recording of the call which will be available for 7 days.

Disclaimer

I trust you will all have been able to access the Annual Report from our website and will have familiarised yourselves with its contents. The report and this telephone call contain forward looking statements which reflect our current views with respect to future events and anticipated financial and operating performance. Whilst they are made in good faith, any forward looking statements made in this telephone call are subject to the same caveats as those in the note on page 2 of our Annual Report.

Annual update

The 2021/22 financial year was an important year for Annington, with the successful resolution of the first Site Review, which sets a clear path and provides greater revenue certainty for the Group for the next 30 years.

Rent reviews have also continued to result in higher rents reflecting market movements and our Adjusted EBITDA increased to £183.3 million. The Fair Value of the investment properties at 31 March was £8.5bn, up from £8.1bn the year before, with SAVPV at a 29% premium to fair value.

We've undertaken a comprehensive review of our ESG strategy. We've aligned our strategy against sustainability frameworks and standards including the United Nations Sustainable Development Goals.

And finally on Enfranchisement; our position is that the MoD has no legal right to enfranchise any property in our MQE portfolio. Our legal challenge will now proceed to a full hearing – we'll talk more about this later.

Settlement of Site Review

Turning to the Settlement of the Site Review: in December 2021 Annington and the MoD concluded the expedited Site Review process. Agreement was reached with the MoD on a new global discount from open market rents for individual Units set at 49.6%, reduced from 58%. This new discount will be applied to all sites in the MQE on a staggered basis between 2021 and 2024. This equates to an increase of £36m in annual passing rent or a c. 20% uplift. And what's really positive is that this is now locked in for 30 years giving us a high degree of certainty to our rental income.

Annington and the MoD also agreed to a number of additional terms to provide greater certainty to both parties. The agreement includes a revision to the minimum number of releases from 500 to 375 per annum, commencing in the year to March 2023. The 375 releases is calculated on a two-year average within a three-year period with the MoD also agreeing to release a minimum of 250 properties in any one year. Provided this is achieved, the Group has agreed to continue to waive up to £7,000 per Unit of dilapidations, subject to a revised annual cap of £2.6 million. As part of the settlement Annington also agreed to the return of properties at two Sites – Brize Norton (87 properties) and Uxbridge (85 properties) – with a waiver of all associated dilapidations: these units were returned to Annington in May 2022.

Enfranchisement update

As reported widely, Annington has received enfranchisement notices on a total of 8 units from the MoD.

Annington's position is that the MoD has no legal right to enfranchise any properties and that the MoD's decision making in issuing the enfranchisement notices was in breach of its public law duties. Annington is vigorously contesting the MoD's actions.

In May 2022, permission was granted for Annington's judicial review challenge to proceed to a full hearing.

A case management conference was held on 21 July 2022 to determine the timetable and procedure for the proceedings. A joint hearing in the Administrative Court and Chancery Division has now been set for 8-14 February 2023 to determine whether the MoD is entitled to enfranchise the relevant Units (both as a matter of public law and property law).

The decisions of the High Court could be subject to appeal to the Court of Appeal, and potentially further appeal to the Supreme Court. These appeals could take several years.

If it is held that the MoD is entitled to enfranchise the units, each enfranchisement would constitute a separate legal action, which could also take significant time to conclude. Should the MoD be found to have the right to enfranchise and Annington and the MoD can’t reach an agreement on the price, then the capital sum payable by the MoD would be market value as determined by a tribunal.

Operations

In the year to March 2022 the MOD released 742 units across 22 Sites. Annington has successfully scaled up its refurbishment and sales activities to manage the larger number of properties being returned by the MoD and the Group is confident it has the capability to effectively manage these releases.

As at 31 March 2022, Annington owned 39,940 residential property units. Of these, the Married Quarters Estate, which are units leased to the MoD, comprised 37,398 units, while the non-MQE comprised 2,531 units, which mainly includes the Rental Portfolio and the Surplus Estate. The Surplus Estate being units that were previously part of the MQE that have been released to us but not yet sold or transferred to the Rentals Portfolio.

The Group generated gross property rental income from its investment property portfolio of £205.5 million for the year to 31 March 2022 and sold 487 Units during the year generating £111.7 million.

ESG update

As mentioned earlier, we have undertaken a comprehensive review of the Group’s ESG strategy and commissioned a specialist consultancy to undertake an assessment of our environmental and social impact. From this review, we have aligned the Group’s strategy to benchmark sustainability frameworks and standards. This includes the

United Nations Sustainable Development Goals and, as of 31 March 2022, we have disclosed alignment with five of these goals, including the sector-specific goals highlighted by the Royal Institute of Chartered Surveyors. The review resulted in 26 recommendations across Environment, Social and Governance. These recommendations have formed the basis of a timetable of implementation across a 6-18 month timeframe which the Group is measuring its progress against. In addition, recommendations related to climate related risk will be integrated into the Group-wide risk management framework and assessment to ensure robust management measures are in place. Significant strides were made in understanding Annington's environmental performance. Most notably, the Group engaged a nationwide waste contractor to set our recycling/recovery target at 95%, with standardised requirements implemented for the disposal of specialist waste across all Annington's Sites. The Group has also commissioned an exercise to assess its carbon footprint which will help determine the Group's operational and organisational boundaries and understand its key carbon hot-spots. Subsequent to the publication of the Annual Report the Group has also agreed to participate in the Carbon Disclosure Projects' 2022 Climate Change Questionnaire.

The Market

The Group operates in a traditionally underserved part of the residential market. During the financial year, the UK residential property market showed significant growth and resilience. This performance dispelled fears of a market slowdown resulting from the phase out of the expansion of the nil rate band for Stamp Duty Land Tax ('SDLT') as at 30 September 2021. HM Land Registry reported an annual house price growth in the UK of 9.8% in the year to March 2022, the highest annual growth rate since 2007. Undersupply continued to be the primary driver behind strong market momentum.

Whilst UK house price growth is expected to slow as a number of factors weigh on growth, notably the ‘cost-of-living crisis’ and rising mortgage rates, market commentators are forecasting house prices to rise, if at a more modest pace than the recent highs before levelling off in 2023.

Strong rental demand continued with price inflation accelerating through the year. Private rental prices paid by tenants in the UK increased by 2.4% in the 12 months to March 2022, the largest annual growth rate in this Office of National Statistics (‘ONS’) measure since July 2016. Further ahead, Savills forecasts show mainstream UK rents are expected to rise by 19.9% over the 5 years to 2026, with uplifts of 3.7% forecast for 2023.

These market trends were felt in the Group’s sales and market rent reviews conducted during the year – both for the proportion of the MQE subject to review in the year and for properties in the Non-MQE Rentals Portfolio – and provide a positive backdrop for potential rent inflation in the coming year.

I will now hand over to Stephen to discuss the results for the year.

Thank you Ian

Financial Performance

The Group generated gross rental income for the year of £205.5 million, a 2.1% increase on the prior year. The majority of our rental income continues to be from the Married Quarters Estate, which generated £184.8 million in the year, compared to £181.5 million in 2021. This increase reflects the first contribution from the Site Review rent adjustment agreed in December 2021, combined with Beacon Unit Rent Reviews, partially offset by releases of Units during the year.

Rent from the Group's Non-MQE Portfolio increased from £19.8 million in 2021 to £20.7 million in 2022. This reflects the addition of surplus Units to the portfolio over the last two years and a 4.4% increase in like-for-like AST rent, partially offset by the termination of certain bulk unit rentals let to the MoD as agreed via an early surrender programme.

Profitability for the period

The Group uses Adjusted EBITDA to measure the normalised performance for the business. Adjusted EBITDA for the year was £183.8 million, compared to £181.3 million for the prior year. This increase is the result of a combination of factors including the increase in rental income.

Property operating expenses were slightly higher this year at £6.8 million vs £5.8 million in 2021, with the higher number of MoD property releases giving rise to increased survey and investigation costs. Additionally, the higher number of AST rental units led to an increase in the costs of running this portfolio.

The increase in administration costs from £14.3 million in 2021 to £15.3 million this year was due in large part to higher staff costs associated with our executive transition period and an increase in staff numbers from 50 at the start of the year to 55 to support the higher number of property releases.

The EBITDA margin was 89.5% just below that of last year's 90.0%. The high level of conversion of rental income into Adjusted EBITDA reflects the fact that we are not responsible for the operation of the MQE.

Exceptional items

Costs in relation to the now settled Site Review and the ongoing enfranchisement proceedings are disclosed separately in the income statement due to their one-off nature.

As mentioned by Ian, Site Review negotiations concluded in December 2021, with the costs for this year being £7.4 million – significantly below the £24.4 million incurred last year.

During the year, Annington began incurring costs relating to the MoD's enfranchisement notices. Because of the unusual circumstances surrounding this case, these costs have been shown separately as an exceptional item. Costs incurred during the year amounted to £4.1 million.

Property Disposals:

The larger volume of releases in recent years has provided a greater stock of properties available for sale compared to previous years which had relatively low levels of releases.

Annington sold 487 properties during the year compared to 314 in the prior year. The majority of these sales relate to Non-MQE Surplus properties and to units sold out of the early surrender programme of bulk units in the Non-MQE Rentals portfolio. Six units were sold from our inventory of new build units, reflecting the reduction in this area of our business.

A total of £111.7 million was recognised on these sales compared to £75.8m in the prior year, with a profit of disposal of £7.7 million. The profit on investment property disposals is reflective of housing market movements during the year, with the profit representing the increase in house prices between the previous year-end valuation and the sales throughout the year.

Balance Sheet:

The Group's total assets amounted to £8.8 billion, up from £8.4 billion for the prior year.

Investment properties

The fair value of all the Group's investment properties, which are located in England and Wales, is reassessed annually. CBRE continued as valuer of both the MQE and the Non-MQE Portfolios, following their appointment last year.

The carrying value of the Group's investment property portfolio has increased from £8.1 billion at 31 March 2021 to £8.5 billion at 31 March 2022 and takes into account the new 49.6% rent adjustment agreed as part of the settlement agreement.

The March 2022 value has been reduced by a £415m adjustment for CBRE's view of the risk associated with the liquidity and marketability of the MQE during Enfranchisement Proceedings, which represents c. 5% of the Portfolio Fair Value.

The Group has historically used Special Assumption Vacant Possession Value or "SAVPV" to account for the change in value of the portfolio's underlying assets and as a measure of what the properties would be worth were they to be released. MQE SAVPV was calculated by CBRE using market values for a representative sample of units, which were extrapolated over the total portfolio at the valuation date. This resulted in an SAVPV for the MQE of £10.3 billion, compared to £9.7 billion in 2021. This equates to an average SAVPV of £275,000 per Unit vs £255,000 in 2021, and this represents a 29.1% premium on Fair Value.

Financing

In October 2021, the Group issued two £400m tranches of fixed rate notes under our Euro Medium Term Note ('EMTN') Programme. The notes mature in 2032 and 2051 and carry coupon rates of 2.3% and 2.9%, respectively.

We continue to operate an unsecured debt strategy and a policy of retaining a BBB rating. Net debt at the March 22 year end was £4.0 billion an LTV of 47%. The £100m RCF remains undrawn.

At 31 March 2022, the weighted average cost of debt was 3.00%, compared to 3.09% at 31 March 2021, with a weighted average life of 11.5 years vs 10.2 years for 2021.

Cash and dividends

Free cash generated in the 2022 financial year was £155m resulting in a year end cash balance of £181.8 million. Our policy is to distribute free cash flow subject to maintaining financial policies and suitable cash reserves to ensure the Group's operational needs are met. Subsequent to year end, a dividend of £100 million was approved by the board in relation free cash flows generated in the 2022 financial year.

Refinancing

And finally, we would like to thank those bond investors who participated in the recent refinancing. €426.7m of the Euro 2024 and £143.5m of the 2025 Sterling bonds were refinanced funded by a new £400m 11 year issue maturing in 2033 and a £135m tap of the 2047 bonds. Following the refinancing the weighted average maturity of our debt increases to 12.6 years with a weight average cost of 3.4%.

I will now hand back to Ian to wrap up.

Thanks Stephen.

Closing Comments:

Annington continues to operate in a market with attractive fundamentals. As I referred to earlier, whilst UK house price growth is expected to slow given the current cost of living crisis and rising mortgage rates, the continued shortage of housing supply and the Group's ability to flex rental and disposal strategies means that Annington is well positioned to adapt to changes in market conditions.

As Stephen summarised, we are proactively managing our debt maturity profile. We were particularly pleased to have completed the August refinancing and we will continue to monitor the markets going forward.

Many thanks.

I will now hand back to the moderator who will open for questions.