CONFERENCE CALL FOR THE YEAR ENDED 31 MARCH 2018

Introduction

Good afternoon and welcome to the investor update conference call to discuss the results for the year ended March 2018, as required under the EMTN Programme Notes issued in July 2017.

The call today will be presented by myself, James Hopkins, Annington's CEO and Andrew Chadd Annington's CFO.

The commentary we are going to give is based on Annington Limited's Consolidated Financial Statements for the year ended 31 March 2018, which were posted on our website on 27 September. The format for this call is that we will provide the update and then the moderator will open the floor to questions starting with any questions that have been submitted in advance of the call. The maximum time that this process will take is 60 minutes.

A link to a digital recording of the call will be on our website for approximately 7 days after this call. There will also be a transcript which will be available for the longer term.

Disclaimer

I trust you will all have received the Annual Report and will have had the opportunity to familiarise yourselves with the contents. It is worth reminding ourselves, however, that 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. Any such statements are made in good faith. By their very nature, forward looking statements involve known and unknown risks, uncertainties and other factors and depend on circumstances that may or may not occur in the future. We caution you that forward looking statements are not guarantees of future performance and may differ materially from what actually happens. Although we believe that the expectations reflected in these forward looking statements are reasonable, we can give NO assurance that they will materialise or prove to be correct. You are cautioned not to place any reliance on such forward looking statements which in any event only reflect any sentiment as of the date of this report. Nor do we have any 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.

Annual update

2017/18 marked an important year for Annington. In July 2017, we completed the whole Group refinancing. This moved the Group from the previous inflexible debt structures and means that Annington now benefits from less onerous covenant requirements, lower interest payments and longer, staggered debt maturities. These benefits grant the Group greater flexibility in its operations, with greater opportunity for growth in the Group's PRS portfolio alongside the main Married Quarters Estate.

At 31 March 2018, the Group owned 40,348 units. Of these, the MQE Retained Estate comprised 38,969 units leased to the MoD, while 14 units were held in the MQE

Surplus Estate and the remaining 1,365 were held in a separate property portfolio of PRS and rented accommodation. The Group was developing a further 378 units which remained under construction at year-end.

The Group generated gross property rental income from this investment property portfolio of £193.1 million for the year to 31 March 2018 [Mar 2017: £188.2m].

The carrying value of the Group's investment properties was £7.1 billion, down from £7.6 billion at 31 March 2017. This downward adjustment reflects revised assumptions regarding long-term house price and rental growth, along with lower expectations for short-term rental growth in the 2019 and 2020 rent reviews.

Additionally, the Group sold 121 properties during the year ended 31 March 2018, generating £34.9 million in sales income. [Mar 2017: sales of 248 properties for £69.8m]. Annington forward funded 207 part complete flats in March 2018, which, when completed later this year, will be privately rented.

Market Performance

Although there was growth in house prices during FY 2017/18 – the Land Registry announced an increase in average annual house prices in the UK of 4.2% and Hometrack 5.5% - 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. According to the Office of National Statistics, average house prices in London decreased by 0.7% in the year to March 2018. In fact, London experienced negative growth across 42% of its postcodes. Wider afield, the RICS in its UK Residential Market Survey noted a distinct drop off in buyer demand as buyers struggled with affordability, deposits, and apprehension of rising interest rates.

More recently, the trend of slowing house price growth has continued. The Nationwide Building Society reported that annual house price growth held steady at 2% in September, the same as at the end of June. Rightmove reported a more subdued 1.2% annual uplift but the Halifax came in with a higher figure for the annual rate of house price growth at 2.5% in September. The regional indices have remained mixed, with the Nationwide reporting annual growth in September ranging from a 5.8% increase in Yorkshire and Humberside to a fall of 1.7% in the North.

For the month of October 2018, the Nationwide reported annual house price growth of 1.6%, the lowest growth since 2013. A similar picture was painted by Rightmove, which reported the annual increase in asking prices was 0.9% and noted that the 1% monthly increase in October 2018 was the lowest price increase in any October since 2010. Rightmove note that the national average was dragged down by a 0.1% monthly price fall for properties of two bedrooms or fewer, which is the usual target market for both buy-to-let investors and affordability-stretched first-time buyers. A fall in demand from individual buy-to-let investors has been attributed to recent tax changes affecting non-corporate property investors.

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 outcome and any resulting clarity to the current Brexit discussions.

Operational Environment

MoD Property Releases:

During 2018, only two units were released to Annington. This is the lowest number of units released in any financial year during Annington's history. In the year to September 2018, we received notices to terminate the lease on 243 MQE units. To date, one of these has been released and sold and a further two have been released and demolished. 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.

The MoD has attributed low release levels to the cost of dilapidation payments. Under the terms of the contractual arrangements with the Group, the MoD has to pay compensation (dilapidations) if it does not return properties to the Group in an appropriate condition, which is defined in the Underlease as "good tenantable repair and decorative order". The MoD estimates the average dilapidation cost per unit to be £14,000. It was observed at the Public Accounts Committee hearing of 14 May 2018, that, if the MoD reduced the void rate by 5%, the rent and maintenance savings on those Released Units would pay back the dilapidation costs within four years.

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.

Site Review:

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.

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

Financial Performance

Rental income:

As mentioned earlier, gross property rental income for the year to 31 March 2018 amounted to £193.1 million, a 3% increase over 2017 [(2017 188.2 m)]. The majority of this was through APL, where the MQE Portfolio (including Surplus Estate) generated rental income of £178.6 million in the year [(2017: £173.9 m)]. The increase in rental income is driven by the Rent Review concluded in December 2016, which resulted in a rental uplift. In the Non-MQE Portfolio, gross rents for the year to March 2018 have remained stable at £14.3 million [(2017: £14.3 million)].

Property Disposals:

During the year, the group generated a profit of £6.4 million from property disposals. This profit was generated on £34.9 million of gross sales proceeds, which was down from the gross proceeds in the prior year of £69.8 million due to lower volumes of disposals. In the year to March 2018, 121 properties were sold by the Group, compared to 248 properties in 2017. Annington Property Limited, the owner of the Married Quarters Estate, generated income of £27.4 million (2017: £46.6 million) through the external sale of 111 units (2017: 136 units). A further 10 properties (2017: 112 properties) in the Non-MQE Portfolio were sold, resulting in income of £2.3 million (2017: £23.1 million). Also, as the result of the sales achieved by the Countryside Annington (Mill Hill) Limited joint venture, the Group recognised sales income of £5.2m relating to the initial land disposal to the joint venture in 2007.

Loss for the period

A loss of £1,059.8 million was incurred for the year to 31 March 2018, compared to a profit of £760.7 million during the prior year. This is due to two main reasons.

The Group incurred significant costs during the year to redeem the legacy bonds and to issue the new debt during the refinancing. The loss on the bonds redeemed amounted to £838.0 million and the cost related to the issuance of the bonds and the term loan facilities were £33.6 million, with £25.1 million being capitalised as unamortised costs.

Unrealised investment property losses of £481.9 million were also recognised in the current financial year (2017: £911.5 million gain). The lower valuation is driven by a reduction in the value of the MQE following changes to three key inputs to the cash flow forecast model, which are a lower HPI forecast, higher anticipated investment returns and lower rent expectations when compared to the prior year.

Balance Sheet Items:

The Group's total assets amounted to £7,285.9 million (2017: £7,750.8 million).

The fair value of all the Group's investment properties, which are located in England and Wales. is reassessed annually. The Group's total investment properties were carried at £7.1 billion at 31 March 2018 (2017: £7.6 billion). The fair market value of the Married Quarters Estate was just over £6.7 billion, with a further £39.7 million being accounted for in the book value to avoid a double count of the utility provision in the financial statements. The fair value of this portfolio fell £503.0 million, just under 7%, from £7.2 billion. This downward adjustment reflects revised assumptions regarding long-term house price and rental growth, along with lower expectations for short-term rental growth.

The 2017 Rent Review finally concluded at 7.77% for this tranche of the estate, lower than previously forecast. This Rent Review outcome, combined with similarly reduced forecast uplifts in the 2019 and 2020 Rent Reviews, has been the primary reason for the independent valuation, carried out by Allsop, to have fallen. Other, longer term, inputs to the discounted cash flow model used by the valuer have been revised downward in line with market forecasts. This has resulted in the long term house price growth reducing to 2.75%, from 3.0% at March 2017 and the assumptions of rental growth over the next 20 years falling to 2.75% from 3.1% at March 2017.

The Non MQE portfolio's fair value of £334.7 million includes the both the 1,365 completed units and the units under construction which we intend to rent in the future as part of our PRS expansion. The uplift is mainly caused by the purchases in the period. The key purchase in the period was 207 units in three blocks acquired from St Modwen at Uxbridge, North London, by way of forward funding transaction worth £75m. The first block is nearing completion and being marketed, and we have some prospective tenants already registering an interest. The other two blocks are due to be completed during 2019.

The Group also uses a Special Assumption of Vacant Possession Value ("SAVPV") 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. At 31 March 2018, the SAVPV of the MQE Retained Estate was £9.0 billion, compared to £8.9 billion at 31 March 2017.

The Group held £162.9 million (2017: £154.9 million) of current assets, excluding investment property held for sale, mainly comprising cash and other short-term investments.

The Group's combined liabilities totalled £4,065.7 million (2017: £3,951.7 million), comprising a mixture of long-term debt and exposure to deferred tax, mostly arising on the revaluation of investment properties. The Group's long-term funding is arranged through AFP in the form of bonds and a term loan.

The Group benefitted from an equity injection of £480.4 million as part of the refinancing that took place in July 2017.

The major cash flows during the year relate to the refinancing. £3.4 billion was received through the bond issue with the legacy debt repayment amounting to £3.3 billion. Due to the decrease in sales, the cash inflow from property sales decreased to £37.5 million (2017: £90.2 million).

Closing

That concludes the annual update. I will now hand back to the call moderator who will open for questions.