CONFERENCE CALL ON Monday 11th March 2019

Introduction

- Good afternoon, the call today will be taken by James Hopkins, CEO and Andrew Chadd, CFO of Annington.
- This is the fourth call under the EMTN programme notes issued in July 2017, following on from the previous call in November 2018, which specifically addressed the Full Year results to March 2018.
- The commentary that we are going to give is to provide an update on recent developments with regards to the arrangements between Annington and the MoD and, in particular, the mechanics of the Site Review and other commercial arrangements.
- 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, several of which have already been received. The maximum 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, and a transcript of the call will also be made available on the website.

Disclaimer

We would like to remind you all that this call may 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 call. 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.

Site Review and announcement of the Arbitration Agreement

As was referenced in the Public Accounts Committee in May 2018 and also referred to in the Bondholder update call of November 2018, Annington and the MoD have been in dialogue for eighteen months over the practical aspects of conducting the Site Review exercise scheduled to run on 488 sites over a four year period from 2021. Throughout this process, we have remained focused on securing a positive outcome in December 2021 for all stakeholders, including military families and our shareholders.

Annington is pleased to announce the results of this dialogue, which concluded with the signing of an agreement and relevant governing documentation on Thursday 7th March 2019.

I trust you will understand that what follows comprises a form of Announcement that has been jointly agreed with the MoD as counterparty and, therefore, what we are going to say inevitably closely follows the form of words that are in the RNS disclosure. I will now hand over to James.

Agreement reached between Annington and the MOD in relation to the Service Family Accommodation Estate Site Review process.

We are pleased to announce that Annington and the Ministry of Defence (MOD) have agreed to an expedited process in place of the planned Site Review process.

The leases between Annington and the Ministry of Defence (MOD) provide that the rents paid by the MOD in respect of the Married Quarters Estate (MQE) will be reviewed between 2021 and 2024 (the Site Review), and that new rents will be applied from 2021 to 2024. The MOD currently pays rent at a 58% discount to open market rental, a level set as part of the original deal for a term of 25 years. The Site Review will determine the revised rental level that is to be paid by the MOD on each of the sites within the MQE.

The Site Review, as provided for in the leases, requires 488 separate site reviews to be conducted over a four year period to produce a New Rental Adjustment for each site. Annington and the MOD have agreed to an expedited process in place of the Site Review (the "Accelerated Process"). The Accelerated Process is designed to produce an equivalent result to the Site Review, but in a shorter period and at a significantly lower cost for both parties. It will also give Annington and the MOD certainty in relation to the future rents payable for the MQE sooner. The Accelerated Process includes the following characteristics:

- The 488 sites in the MQE have been divided into 27 baskets of sites which share similar characteristics. The Accelerated Process will produce a new Rental Adjustment for each of the baskets. That New Rental Adjustment for each basket will apply to all of the sites within it. The New Rental Adjustment for each basket will depend on the basket's particular characteristics.
- The Accelerated Process is intended to produce New Rental Adjustments for the SFA Estate as a whole within approximately 24 months. The MOD will continue to pay rent at the current prevailing rate until the dates on which new rents are payable under the Underleases which fall between 2021 and 2024.
- If Annington and the MOD cannot agree the New Rental Adjustment for some or all of the baskets between them, they will be determined by a panel of three arbitrators with significant experience in rent reviews.

In addition to the agreement to resolve the Site Review outcome, Annington and the MOD have taken the opportunity to review the relationship between the parties and to examine the unique challenges faced by the MOD in managing the SFA Estate. Both parties strongly believe that there are many areas in which they can work more effectively together to improve the management of housing stock. Importantly, the parties have agreed a mechanism that will allow the MOD to reduce the number of vacant properties, and provide Annington greater certainty of a future release stream:

1. Annington will waive up to £7,000 of dilapidations for each property released, on 500 properties per annum for an initial period of seven years. £7,000 is approximately 50% of the average assumed dilapidation payment per unit in the MQE, as calculated by the MOD.
2. In return, the MOD will release a minimum of 3,500 properties to Annington over the next seven years, at the rate of at least 500 homes each year.
3. Annington will continue to provide dilapidations relief on this basis beyond the initial seven year period, provided the MOD continues to release units at a rate of 500 or more per annum.

Annington and the MOD have also committed to work more closely together in other areas that are of mutual benefit, including:

- Bulk lettings
- Redevelopments
- Utilities Agreement
- Sub-letting
- Estate planning

Annington and the MOD look forward to a closer, more collaborative working relationship as they seek to improve the provision of housing to Service personnel and better meet the commercial needs of each party.

Annington believes that this new agreement will deliver certainty on the outcome of the Site Review much earlier than had been envisaged by the original Underlease provisions, and at considerably reduced cost in both time, legal and advisory costs. The accelerated process does not alter Annington's expectation of the final Site Review outcome, but brings forward the date upon which that final outcome will be known by some 4 years.

Furthermore, the revised arrangements concerning releases and dilapidations provide considerably improved certainty about the timing and number of released units. This both enables the MoD to address the long standing voids issue that it has faced, and substantially reduces the possibility of Annington having to deal with large or volatile release numbers.

Other

That concludes the update call. We have received a number of questions in advance of this conference call which we will deal with by reading out the questions then providing an answer. At the end of this process, we will hand back to the call moderator who will open the lines for any further questions.

	QUESTION	SUMMARISED RESPONSES
Q1	Has the MoD identified the properties to be released in the next few years? Do you have agreement on where the 500 p.a. releases will come from (location/site by site)?	***RELEASES:*** • No releases have been identified • Releases are entirely at the discretion of the MoD
Q2	Does the MoD have an obligation to release? What happens if they don't?	***MoD OBLIGATION TO RELEASE:*** • There is no obligation on the MoD • If the releases are not forthcoming then the agreement falls away and the MoD does not receive any dilapidations credit
Q3	What do you expect to do with the increased proceeds of sales? – Reinvest / Dividends / Debt reduction. What is your plan with the releases? Will you be selling some and re-investing the cash into refurbishing the remainder for your PRS business?	***USE OF FUNDS ARISING FROM INCREASED SALES:*** • Reminder, that the Shareholder has agreed to suspend any Dividend until Jan 2020 at the earliest • There is a broad assumption in the management forecast will sell 50% and keep 50% for PRS • The Dividend policy is up to 50% of free cash flow
Q4	Aside from providing greater certainty on a more compressed timetable, what are the benefits to Annington of the new Site Review arrangements?	***BENEFITS OF THE NEW SITE REVIEW ARRANGEMENTS:*** • A binding agreement • An agreed protocol to use an arbitral panel which is binding within a 24 month period • More controlled as there is a specified and detailed timetable • The new rental discount to be agreed within a 24 month period rather than the existing 48 month period, therefore anticipate some cost saving verses the existing prescribed process
Q5	What range of discounts to OMV are you expecting?	***RANGE OF DISCOUNT EXPECTED:*** • The agreement recently signed does not vary the management expectation of the outcome. • The OMV predicated on the third party independent valuation which takes the management assumption based on 37.5% discount
Q6	What is the current vacancy level in the MQE estate (retained units)?	***CURRENT VACANCY LEVEL IN THE MQE:*** • Overall cruising to 23% which is 11,500 voids in the MoD UK SSA Estate of 50k units of which 8k relates to Annington • The revised process should see the voids reduce significantly • No ceiling on what the MoD can release but there is a minimum required

	QUESTION	SUMMARISED RESPONSES
Q7	Do you expect this new agreement, along with the likely release of 3,500 units to have an impact on the fair value of the portfolio? It would be very helpful to understand if the inputs to the DCF methodology would be impacted and how.	***IMPACT ON FAIR VALUES AND THE DCF METHODOLOGY:*** • Our Independent Valuer (Allsop) will take the new agreement into account as part of the valuation process • Other variables also taken into account, increased certainty of releases offset by slightly elevated cost of dilapidations waiver • The long term impact of the agreement expected to be positive
Q8	Please can you describe how the 27 baskets were formed and how the 24-month review process will go through these sites (in any particular order)?	***REVISED SITE REVIEW PROCESS:*** • Annington and the MoD arrived at an iterative process to agree an expedited process • Start with 510 sites in total which results in 488 site reviews because some of those are duplicates. This number of reviews would not result in an expedited process. • Started looking at housing clusters in areas which there are several sites where the estate shares the same market/ geographical characteristics. • 27 "baskets" have been arrived at by further grouping property types • This issue has been slightly forced as the main priority was to agree an expedited process • We will be inspecting all of the representative sites in considerable detail • Also there will be inspections all of the sites within a basket • During the process all 488 sites will be visited
Q9	(1) When would arbitration start? Would it be at the end of the two-year review period on a collective basis for all sites where agreements were not reached? (2) How long do you envisage arbitration would take? Is the process standard or will it depend on the site size or characteristics?	***DESCRIBE THE ARBITRATION PROCESS:*** • Anything that any party disagrees with during the process, it can be elevated to the arbitral panel for a decision and their decision will be binding • Rather than valuing the 27 sites at the same time, each party has agreed to select two sites each which will go forward for the valuation process • If the level of rent cannot be agreed then it will be referred to the arbitral panel • A further eight sites (four from each party) will then be processed • The final fifteen will be agreed in accordance with the agreement which allows for some flexibility • Very defined time line to keep the process on track

	QUESTION	SUMMARISED RESPONSES
Q10	Please can you shed more light on the other areas you mention where you will be working more closely (bulk lettings, redevelopments, etc.)? How exactly will Annington benefit from MoD's "commitment" in these areas?	***DESCRIBE THE BENEFIT TO ANNINGTON FROM THE MOD COMMITMENT:*** • Annington has bulk letting with the MoD dating back to 2006/7 • There is a current portfolio of 730 of which the MoD will continue with some but on others may wish to terminate early, as their requirements change. In such a situation where there is time to run on the lease Annington will be flexible as it receives the property back early so that Annington can adopt an alternative strategy. • It is common sense for Annington to be flexible and also to share any saved rent 50/50 up to the date of termination • The MoD is involved in an exercise of subletting around the country where they have longer term needs. Where properties are currently void Annington is prepared to be more flexible in our approach and assist where we can. • The Utilities agreement defines the process that governs the supply of water, electricity and the requirements for sewers and sewerage disposal provided by the MoD • Both parties agree it is It is impractical to terminate this agreement • The Utilities agreement ends 2021/24 (depending on the sites returned). Annington and MoD have agreed to form a working party that meets regularly to either extend the agreement or find an alternative working arrangement. • On redevelopment Annington is already working with the MoD at Uxbridge, there is a commitment by both parties to work together more constructively and to achieve better value. A working party will be formed to focus on redevelopment opportunities to meet the MoD accommodation requirements
Q11	As part of your investor disclosure in the future periods, please can you report on the progress of the site reviews with the level of rental uplift agreed along the way, including if any sites (by rental value / basket type) go into arbitration	***SITE REVIEW PROCESS:*** • Annington will keep Investors and Stakeholders informed with the appropriate level of communication. There is no intention to announce progress on individual site review
