

**Transcript of the
Bond Investor Conference Call
Held on 17 May 2023 at 3pm**

Good afternoon and thank you for taking the time for this call.

On 15th May, we made an announcement confirming that the High Court of Justice has handed down its judgment in respect of the combined judicial review and property proceedings that were filed by Annington Property Limited ("Annington") on 11 March 2022 against the Ministry of Defence ("MoD") and heard in the Administrative Court and Chancery Division of the High Court in February 2023.

In the first part of this call we want to take this opportunity to address the judgment and to update you on the further action that Annington will take following delivery of the judgment. We will then go on to answer questions that we have received in advance.

We are unfortunately not able to take any additional questions on this call, however, if there are any clarification questions we are happy to consider these by email.

We will include a transcript of the call on our website.

Before we run through the enfranchisement case, we want to provide a brief update on how Annington is performing operationally.

Operational Update

In relation to our portfolio:

The MoD is our major customer and we continue to have a good day-to-day working relationship with them. In the twelve months to 31 March 2023, the MoD handed over 298 units, with termination notices having been received for a further 69 units on 4 sites, which are due to be released in the 2024 financial year.

Plans are underway to return these units to the national housing supply through rental or sales. At 31 March 2023, the Group held 39,542 residential property units, of which 37,100 are part of the Married Quarters Estate leased to the Ministry of Defence.

To summarise the market in which we operate:

It has been a more challenging year for the UK economy and the residential real estate sector in particular. As a result of high inflation, the Bank of England has continued to increase the base rate and current forecasts suggest that it will reach a peak of 5% by the end of this year. The September 22 mini-budget also had an impact on the sector. Capital values for UK housing have continued to decline with Savills reporting the seventh month of consecutive declining house prices as of March 2023.

Conversely, reflecting market pressures, UK rental prices were reported by the ONS to be up 4.9% per annum in March 2023 and The Royal Institution of Chartered Surveyors reported that tenant demand reached a five-month high in the month. With the continued supply/demand imbalance, rental prices are expected to rise further in the short term.

The Married Quarter Estate rent review process:

We are seeing the strong underlying market rental growth being reflected in higher Beacon Unit Rent Reviews. The Beacon Unit Rent Review process for 25 December 2022 is ongoing - with 82 of 131 sites agreed, the current uplift achieved is approximately 28% compared to circa.11% for the 2021 Beacon review. A 28% uplift means the December 2022 passing rent would increase by circa. £14 million with a further £8 million increase due to the site review.

We expect future Beacon Unit reviews to also benefit from the higher rental growth currently being experienced.

Reviewing our sales during the year:

Annington operates at the more affordable end of the UK market and during the latter part of the financial year Annington has seen continuing demand in the sales market. Reservations and completions have been steady and pricing has followed national trends. The Group sold 398 residential units during the year with proceeds of £98m, including bulk sales of 113 units on two sites. Sales to private individuals have remained steady with the Group holding reservations for 82 units worth over £24 million at 31 March.

To finish this section, a quick note on our financial policies and reporting:

The cash balance at 31 March 23 year-end was £186 million. The Group does not plan to make a distribution from this balance, with cash instead being held to repay the remaining circa. £150m of 2024 bonds and to fund the working capital requirements of the Group. Work on our March 2023 year-end financial reporting is ongoing, with this expected to be completed in late June or July. The annual valuation work stream is not yet complete, and further updates will be provided in the annual report.

Enfranchisement: Judicial Review Update

Summary of the background to the judicial review challenge

On 16 December 2021, Annington received a notice from the MoD stating that it wanted to enfranchise one of Annington's properties, the property in question being at 1 Sycamore Drive in Cranwell. At that time it was unclear what the MoD's plans were beyond this, as no further details were provided. Annington received a second notification for a neighbouring property shortly thereafter.

Annington was well progressed in preparing its formal response to the MoD to these notices when the then Minister for Defence (Procurement) submitted a written statement to Parliament on 27 January 2022 stating that the MoD was exploring enfranchisement of the MQE via two test cases. As reported widely, Annington has received enfranchisement notices from the MoD on a total of 8 units which form part of the Married Quarters Estate.

Annington's position was that the MoD had 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. On 11 March 2022, Annington filed a judicial review application against the MoD. In May 2022, the High Court of Justice granted permission for Annington's judicial review challenge to proceed to a full hearing.

In February 2023, a joint hearing was held in the Administrative Court and Chancery Division to determine whether the MoD is entitled to enfranchise the 8 units which were subject to the notices, both as a matter of public law and property law.

The judgment

On Monday 15 May 2023, the High Court handed down its judgment. The Court held that the MoD had acted lawfully, and found that the MoD enfranchisement notices on the 8 properties are valid and dismissed each of the judicial review and private law claims.

Did the judgment determine how much the MOD would pay for an enfranchised property?

The judgment did not consider how much the MoD would pay. The case related only to the question of whether the MoD had any right at all to enfranchise the properties in question.

If the MoD's enfranchisement claim is ultimately held to be successful, the compensation that the MoD would have to pay is determined by section 9 of the Leasehold Reform Act 1967. This provides that the amount payable should be the "amount which the property, if sold in the open market by a willing seller might be expected to realise" but on the assumptions that the property is not capable of enfranchisement, and is otherwise broadly subject to the same rights and obligations as the lease.

If the parties cannot agree the price, it would be determined by an independent tribunal. Annington and the MoD would make submissions to the tribunal as to what the appropriate price should be.

The leases which the MoD are seeking to enfranchise are highly unusual, and there is no precedent as to how the tribunal would determine their value. The MoD has previously indicated that it expects the amount it would have to pay to enfranchise the estate to be broadly equal to market value.

If it was ultimately held that the MoD is entitled to enfranchise the relevant units, each enfranchisement by the MoD would constitute a separate legal action, and each individual unit that was to be enfranchised would need to be valued. We expect that this process would also take significant time to conclude.

What further action will Annington take?

We are surprised and disappointed by the outcome and are of the view that the Court was wrong to conclude that the steps taken by the MoD are lawful. We will appeal the Court's decision.

In our view, the Court's decision risks setting a dangerous precedent for businesses and international investors in the UK and if upheld would mean that the Government can disregard long-term contracts if it believes it is in its interests to do so. We do not consider that the purpose of the legislation was to allow the MoD to unpick deals where it has seller's remorse, and we consider this to be a matter of public importance.

What is the expected time scale for the appeal?

Annington will make a request for permission to appeal from Mr Justice Holgate this week. Should Mr Justice Holgate refuse permission, Annington will apply for permission to the Court of Appeal. We would expect the Court of Appeal to take a decision as to whether an appeal should be allowed to take place within 2-4 months. If permission is granted, the hearing of an appeal would be likely to take place around 12 months after the date on which permission is granted. The Judgment would be expected around 3 months after the hearing. There is also the potential of a further appeal following this to the Supreme Court. In totality these appeals are likely to take several years. Additionally, if the notices are upheld, any decisions on the price payable for units subject to enfranchisement would also be capable of appeal.

What will now happen in relation the 8 test cases?

As stated previously, we intend to appeal to the Court of Appeal. In the event that our appeal is granted, it is possible that these test cases would be stayed pending the resolution of the

appeal. If not, we would expect these cases to proceed to the First Tier Tribunal for valuation, if the parties are not able to agree the amount of the purchase price. We expect that the valuation process will not be concluded until Annington's appeal of the recent High Court decision has been finally determined.

Do you anticipate that there will be further enfranchisement notices?

The MoD has indicated through the press that "No decision has been taken on further enfranchisement cases, but [the MoD] will consider the High Court's decision and the potential implications for securing better value for money for the taxpayer"

Are there any talks taking place to seek a resolution?

Annington has made compromise offers to the MoD on an open basis, which have not been accepted or rejected by the MoD. The MoD is not presently engaging with these offers.

What are the implications on the valuation?

Annington is currently finalising its results for the year ended 31 March 2023. These results will include an updated valuation of the MQE as at 31 March 2023. This valuation will be made by CBRE on a "red book" basis and will establish CBRE's view of the fair market value (i.e. the value achieved between a willing buyer and seller). This is very similar to the valuation standard applied in enfranchisement cases under the Act (albeit among other things that the right to enfranchise is disregarded in enfranchisement valuations), and is the same valuation standard that CBRE has applied in its previous valuations of Annington's portfolio.

Since 31 March 2022 CBRE have included within the valuation an adjustment relating to the uncertainty represented by the enfranchisement proceedings. It is not known at this stage whether CBRE will need to make a further adjustment to the valuation following the decision.

If units are enfranchised how will the proceeds be applied?

At the moment there are only 8 test cases. If the MoD is successful in those test cases and if it decides to enfranchise a large number of properties this will take a significant period of time to conclude.

We will determine what should happen with proceeds at that point in time and will communicate this to bond investors if and when we find ourselves in that position.

Our existing bonds contain additional protection for Investors through the dividend block, which prevents Annington from making distributions where the interest coverage ratio falls below 1.3x.

Are you committed to Baa2/BBB ratings? What measure could you take to protect the ratings?

Annington's policy is to target a Baa2/BBB rating. This has been Annington's policy since 2017 and has not changed. Annington continues to actively engage with the agencies and the company will continue to monitor market conditions closely. The business is not planning to make a distribution from the cash held on balance sheet, with this cash being held to repay the 2024 bonds and fund working capital requirements of the group. Annington continues to generate cash through the sale of released properties and other non-core assets.

What would be the impact on Annington bonds of successful enfranchisement by the MoD on your portfolio? Would it trigger an event of default?

Currently the MoD has only notified Annington in regards to the 8 test cases and the MoD has indicated that no decision has been taken on further enfranchisement notices. As explained above, given that any proceeds received from the enfranchisement of any units would be at market value, Annington expects to be able to continue to comply with its financing arrangements.

Do you think the bond markets are currently available to you?

Annington undertook a successful liability management exercise last summer and the business has sufficient cash to repay the outstanding 2024 bonds. Annington has no other refinancing requirements in the next 24 months. However, Annington continues to monitor the market in order that it can access the market if it is optimal to do so.

What does this mean to plans for a sale by Terra Firma?

The conclusion of the Site Review was intended to provide the certainty required in order to progress towards a sale process. Annington understands that Terra Firma was in the early stages of preparing for this before the MoD launched the test cases. However, the actions by the MoD continue to put all exit plans on hold for now.

That now concludes this call and thank you for taking the time to participate. We have attempted to provide as full an update as we are able to at this time and will provide further updates once there are any further material developments.