ANNINGTON

Half Year Statement 2018

Half-Year Statement 2018:

Following the publication of the Annual Report for the year ended 31 March 2017, I am pleased to provide a half-yearly update on the performance of the Annington Limited Group.

Market Environment

House price growth in the UK has continued over the last six months, despite the continued uncertainty regarding the outcome of the Brexit negotiations. According to Nationwide, annual UK house price growth was stable at 2.0% in September, but London has seen house prices fall for the first time in 8 years, down 0.6% year-on-year. Southern England prices are close to that of the UK as a whole being 1.9%, being where the highest concentration by value of the MQE portfolio is located. This continues the trend of regional divergence that has been apparent throughout the year.

The usual autumn price bounce recorded nationally in 2014, 2015 and 2016 has failed to materialise this year as London and the South continue to struggle. Estate agents are reportedly advising sellers to lower their price expectations to fit in with buyers' stretched financial resources in order to generate extra buyer interest.

Across the wider market, we still expect to see modest increases in house prices in the short-term as lack of supply, high demand, relatively low interest rates, strong employment and regional house price adjustments prevail over the political and interest rate uncertainty that is affecting market sentiment.

The UK's private rented sector ("PRS") has expanded rapidly in recent years driven by the housing and labour markets. High property prices and the need for large deposits create barriers to entry for potential first time home owners. The PRS has been the fastest growing sector over the last 10 years and is projected to continue that trajectory over the next 10 years.

Refinancing

In early July 2017, the Group completed a refinancing involving an injection of new capital into the Group, the issuance of new debt instruments and the early redemption of all the existing debt within the Group.

The Group issued five tranches totalling £3 billion of corporate, unsecured bonds and drew-down a term loan totalling £400 million, also unsecured, with overall borrowing costs significantly lower than the legacy financing structures.

The refinancing undertaken has meant that the Group will be able to benefit from less onerous covenant requirements, lower interest payments and longer and staggered maturities of debt. These benefits grant the Group greater flexibility in its operations.

Operational Strategy

The overall strategy is largely unchanged from previous years. We will continue to examine and benefit from the best value creating options on a site-by-site basis and will continue to operate dual sales and rental strategies. In recent years, the MoD has released low numbers of units, resulting in reduced property stock available for sale.

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

The various refinancing advantages have meant that there is the possibility of expanding the Group's footprint in the private rented sector. Pursuing these opportunities will diversify the business and mitigate the risk of being dependent on the MQE portfolio, as there is no clarity on future release levels.

Outlook

In terms of the MQE Portfolio, the first Site Review will begin in December 2021 and this will be a key focus area for management. The purpose of each Site Review is to rebase the rent for each individual site as a whole to the full market rental value, reflecting the various features of the underlying lease arrangements with the MoD. We believe there are a number of factors that, together, are likely to yield a significant increase in the level of rent payable by the MoD as a result of the Site Review process.

Outlook (continued)

Through the Non-MQE Portfolio, the Group intends to continue diversifying its property portfolio, by letting at market rates to the MoD or third parties on the open market, and improve the Group's returns through actively managing the Group's tenancies and rental levels. If it becomes uneconomic to retain such properties, potential options to maximise value will be considered, including refurbishment, redevelopment and disposal. The Group intends to target locations where a particular housing demand is identified or where housing market conditions are anticipated to improve.

The Group will continue to pursue investment opportunities when market conditions and the terms of the Group's financing arrangements permit, including entering into joint venture arrangements where a sharing of skills, assets and resources provides the possibility of increased returns.

There is currently uncertainty in the UK housing market, which has made buyers more cautious. It is unknown what the impact of Brexit will be on the UK economy in general and for individuals' wealth and financial security. This uncertainty is in addition to an interest rate and inflation increase all of which have an effect of subduing the market. Savills expects the market to return to positive growth from 2019 onwards with the number of transactions and housing prices recovering.

James Hopkins
Chief Executive