CONFERENCE CALL FOR THE YEAR ENDED 31 MARCH 2021

Introduction

Good afternoon everyone and welcome to the investor update conference call covering Annington Limited's results for the year ended March 2021, 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 based on Annington Limited's Consolidated Financial Statements for the year ended 31 March 2021, which were posted on our website in September. As you may be aware, we issued a further £800 million of notes in October. That process provided much of the information we will go through today. Where appropriate, we will endeavour to highlight significant updates.

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 at least 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 been able to access the Annual Report, which is available on 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 past year has presented challenges for all businesses but has provided an opportunity for the Group to demonstrate a number of core strengths, notably our stability and financial resilience.

The Group benefits from a highly reliable cash flow with approximately 94% of income taking the form of Government backed rents which were unaffected by the COVID-19 pandemic.

Whilst the Group was not completely insulated from the operational challenges resulting from COVID-19, business continuity was maintained. This was thanks to a rapid restart of work on refurbishment sites, following the initial lock-down, combined with an efficient transition to home working for office based staff.

The business was able to operate throughout the pandemic without the need to claim from any government support schemes, such as the Coronavirus Job Retention Scheme.

The business saw management changes in the year as both Stephen joined as CFO and I joined as CEO in March and April respectively, with a smooth handover from Andrew and James, and I want to take this opportunity to thank them both for their many years of service. The Company’s continued strategic focus remains the Site review process which I will provide a further update on shortly.

On handbacks, the MoD remains committed to targeting a release profile of 500 units per year, however, the process of identifying units was more challenging for the MoD than anticipated. In the year to 31 March 2021, the MoD released 320 Units. It is worth noting that since then, substantial planning and effort has been made by the MoD and we have currently received termination notices covering 717 units for the current year.

At 31 March 2021, the Group owned 40,427 residential property units. Of these, the Married Quarters Estate, which are units leased to the MoD, comprised 38,140 units, while the non-MQE comprised 2,287 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.

The Group generated gross property rental income from this investment property portfolio of £201.3 million for the year to 31 March 2021 and sold 314 properties during

the year, generating £75.8 million in sales income. Full year sales were very much in line with budget and rental arrears and voids remained low throughout the period.

During the year, CBRE was appointed as valuer for the Group property portfolios. The carrying value of the Group's investment properties was £8.1 billion as at 31 March 2021, an increase of approximately £450 million vs the 31 March 2020 valuation of £7.7 billion.

Having recognised the changing demands of society and the regulatory landscape, particularly in regard to environmental issues, the Group monitors its approach to sustainability to ensure it is aligned with the views of key stakeholders. We are in the process of completing an ESG maturity assessment to help identify and drive future initiatives. The Group currently reports against Streamlined Energy & Carbon Reporting (SECR) and is in the process of adopting Task Force on Climate-Related Financial Disclosure (TCFD) reporting.

Market Performance

When looking at market performance, we operate in a traditionally underserved part of the residential market which is characterised by a fundamental undersupply of new homes. This; coupled with strong demand, and the reduced availability of second hand homes, means the outlook remains strong.

During the year, the UK residential property market fared better than most other parts of the economy, experiencing a robust period of rising prices, particularly in the affordable sector. This was welcomed following a short, shallow reversal in house price growth in

April 2020. The resilience in demand, initially supported by Government intervention via the nil rate band for Stamp Duty, further fuelled house price inflation.

A potential drop off in demand, as had been suggested following removal of these incentives, has not materialised with the continued structural shift of homeowners looking to upsize as working from home has become more prevalent. Low interest rates, renewed availability of high loan-to-value mortgages in the market, led by the Government's mortgage guarantee scheme and a rebounding labour market, all underpinned housing demand and price inflation.

Subsequent to year end, there is no sign of any reduction in demand for homes. UK rental growth as at September is up 6% on the year with some areas in the South West having seen real shortage in the supply of rental properties amid higher demand. The current momentum in the market is expected to slow over 2022 with Hometrack estimating growth to reduce from the current 6.6% annual rate as at September to 3% for 2022.

Operational Environment

Site review:

We are continuing to work through the expedited process, as agreed with the MoD in 2019.

As a reminder, under the original terms of the lease, each Site's original adjustment factor of 58% to open market rent, would be reviewed over a four-year period, commencing in December 2021.

Under the Expedited Process, all the Sites in the MQE were divided into 27 baskets of Sites; that share similar characteristics and each basket has similar total passing rent. A new rental adjustment will be determined for each of those Baskets, in place of the original 58%, based on a representative Site selected for each Basket. Each basket's new rental adjustment will then be applied to all of the sites within that basket. The MoD will continue to pay rent at the current rate until the dates on which new rents are payable under the terms of the Underleases, which fall between 2021 and 2024.

So far, two Site Review arbitration hearings have been convened which have determined the rental adjustment for 12 of the 27 representative Sites. The first hearing took place in June and July 2020, and addressed the first four representative Sites. The second hearing took place in February and March 2021, and addressed the next eight representative Sites.

We're delighted that the first two hearings resulting in an increase in average aggregate rent levels for the 12 Sites and has provided welcome certainty and clarity. We will see a significant reduction in the average rental adjustment factor for those sites from 58% down to 49%. Applying these agreed uplifts to the passing rent for 31 March 2021 will equate to additional annualised rental income of approximately £18 million by December 2024.

The rental adjustments that have been determined are highly site-specific, and due to the nature of the remaining 15 representative Sites for the remaining 15 Baskets, the results to date cannot be extrapolated on a site by site basis for the remainder of the MQE. Based on past hearings, the arbitration outcome in respect of the remaining 15 representative Sites left to be reviewed, is estimated to be completed by mid-2023. We look forward to concluding the review as quickly as possible and this remains the primary strategic focus for the business.

MoD Property Releases:

During the year, 320 units were released to Annington by the MoD. As a consequence of the Dilapidations and Handback Agreement signed in March 2019, the MoD remains focussed on releasing units. For the current year, we have received termination notices covering 717 units.

The arrangements concerning releases and dilapidations materially improves the predictability of the timing, and number, of released units and incentivises the MoD to continue with releases.

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

Financial Performance

Rental income:

As mentioned earlier, gross property rental income for the year to 31 March 2021 amounted to £201.3 million, a 1% increase compared to £199.4 million in 2020.

The majority of our rental income continues to be in relation to the Married Quarters Estate which generated rental income of £181.5 million in the year compared to £180.2 million in the prior year, with uplifts from the December 2019 Beacon Unit Rent Review partially offset by releases of units during the year.

The Group's Non-MQE Portfolio also saw a small increase in rental income from £19.2 million in 2020 to £19.8 million in 2021. This reflects an increase in surplus units released from the MQE being rented, together with a full year's revenue at a recently completed development.

Profitability for the period:

Reported IFRS profits for the year, which includes revaluation gains, was £559.5 million compared to £770.2 million for the prior year.

The Group uses Adjusted EBITDA to measure the normalised performance for the business. The Adjusted EBITDA calculation has been updated in the current year to reflect the Group's capitalisation of refurbishment costs and bring it more in line with the calculation of EPRA earnings.

Adjusted EBITDA for the year ended 31 March 2021 was £181.3 million compared to £182.6 million for the prior year. The EBITDA margin is 90% which demonstrates the high level of conversion of rental income into Adjusted EBITDA.

The small reduction in EBITDA for the year is the result of a combination of factors including the increase in rental income; an increase in administration costs; and the loss of one off items of other income in 2020.

During the current year, there was a small increase in administrative expenses to £14.3 million for the year compared to £13.5 million in the prior year. Staff numbers were increased during the year to ensure the Group is able to efficiently manage the higher level of MQE releases relative to prior years.

Site review costs:

Costs in relation to the ongoing Site Review are disclosed separately as an Exceptional item and will fall away once the site review process has been completed.

Costs for the year were £24.4 million, [up from the £20.2 million in the prior year] and is a reflection of the substantial amount of work involved in the preparation and execution of supporting evidence presented to the arbitral panel.

Property Disposals:

The larger volume of releases in recent years has provided a greater stock of properties available for sale compared to previous years where relatively low levels of releases have effectively capped the number of units available.

During the year, 314 residential units were sold by the Group compared to 104 in the prior year. Of these, 302 investment properties were sold for £70.6 million, of which approximately 45% were from the early surrender programme, compared to 94 properties for £32.1 million in 2020. Profit on disposal of these properties amounted to £12.6 million in the current year a £3.0 million increase compared to £9.6 million in 2020.

Balance Sheet:

The Group's total assets amounted to £8.4 billion up from the £7.8 billion for the prior year.

Starting with valuation, the fair value of all the Group's investment properties, which are located in England and Wales, is reassessed annually. Following a competitive tender process, CBRE Limited ('CBRE') was appointed as valuer of the MQE and the Non-MQE Portfolios for the current year. As in previous years, the valuation of the MQE portfolio is determined on a discounted cash flow basis, given the MQE is let on a long leasehold basis to the MoD.

The Group's total investment properties were valued at £8.1 billion at 31 March 2021, compared to £7.7 billion for the prior year, with the majority of this increase being seen

in the MQE. The Married Quarters Estate remains the bulk of the investment properties valuation with a fair value of £7.6 billion as at 31 March 2021. (c.94%)

Subsequent to the year end an updated valuation was undertaken in conjunction with the bond issue. As at 31 July 2021, investment properties were valued at £8.4 billion with the increase driven by the unwind of a discount applied in relation to the second site review hearing results assumed in the 31 March 2021 valuation for which we received final awards by July 2021.

The Group has historically used a Special Assumption of Vacant Possession Value (‘SAVPV’) to provide a measure of what the properties would be worth were they to be released. The historical methodology used the SAVPV estimated in 1996 at the time of the initial acquisition indexed for house price inflation.

For the March 2021 year end, a project was undertaken by CBRE to ‘realign’ the SAVPV to the current market. CBRE using a “beacon” approach, employing representative samples to arrive at market estimates of unit values which were then extrapolated to comparable units within the portfolio. As at 31 March the aggregate Portfolio SAVPV was £10.2 billion which represents a 26% premium to the fair value.

At the year end the Group held £197.5 million of cash compared to £103.7 million in the prior year. 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. In light of the pandemic, no dividend was paid during the 20/21 financial year in relation to the prior 19/20 financial year. However, given strong consistent performance of the

business, subsequent to year end, in May 2021 Annington Limited declared and paid a dividend of £170.0 million in relation to the prior two financial years.

The Group's combined liabilities totalled £3.5 billion (2020: £3.5 billion), the majority of which relates to our long-term debt. The Group continues to operate an unsecured debt strategy and there were no changes in the £3.4bn of debt during the financial year. The £100m RCF remains undrawn.

Subsequent to year end, as you will be aware, we raised a further £800m of long-term debt which was used to fund a partial return of capital by way of special dividend. The rating agencies have both affirmed a BBB equivalent rating with stable outlook. Following the new issuance the weighted average life of our debt increased from 10.2 to 12 years and the weighted average cost of debt reduced from 3.1% to 3.0%.

[The Group recognised a deferred tax asset of £44.2 million (2020: £19.9 million) in respect of unutilised tax losses available for offset against expected future profits over the next five years. A further £179.7 million of deferred tax asset arising from unused tax losses remains unrecognised.]

I will now hand back to Ian to wrap up.

Closing:

Annington has a tremendously strong credit story, continues to operate in a market with attractive fundamentals and strong demand, we have been delighted with the progress made to date on the site review and look forward to largely concluding that over the next year.

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