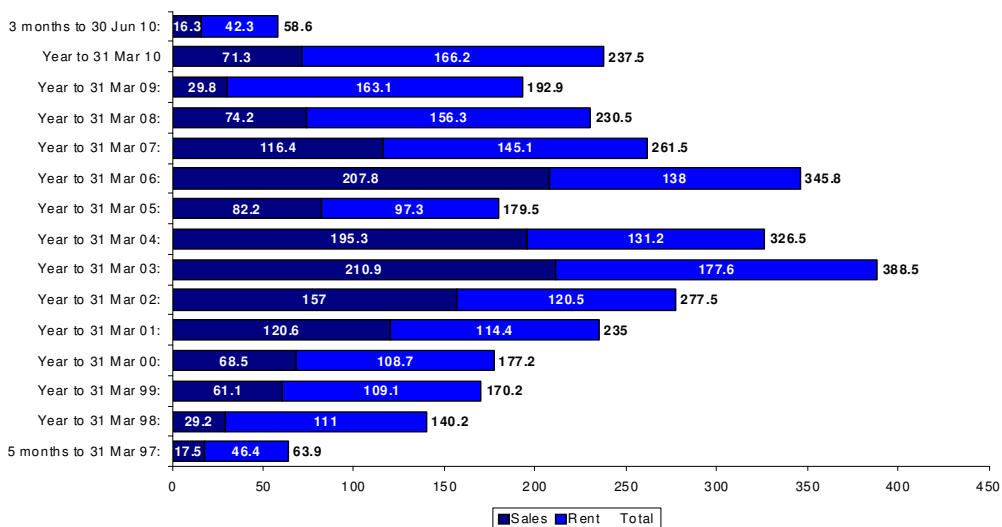


ANNINGTON

- Leading and largest private owner of residential property in the UK.
- Created in November 1996 with the purchase of 57,434 homes (known as the Married Quarters Estate) and a number of related assets from the Ministry of Defence for £1.67 billion.
- Since 1996, the MoD has terminated leases on 17,068 units plus 153 related assets, to which Annington has added 109 new build plots. Of these, Annington has sold nearly 16,400 plots and properties. As of 1st July 2010, the MoD still leases 40,360 properties from Annington.

THE LEGAL FRAMEWORK

- This was a ‘lease and lease back’ purchase, financed by a number of leading banks led by Nomura. Annington purchased a 999 year leasehold interest in the properties with an automatic right to acquire the freehold as properties are released.
- 2,374 homes were immediately released to Annington for disposal, with the remaining 55,060 units leased back to the MoD for 200 years at 42% of open market rent. This discount is reviewed in 2021 and is known as “The Site Review”.



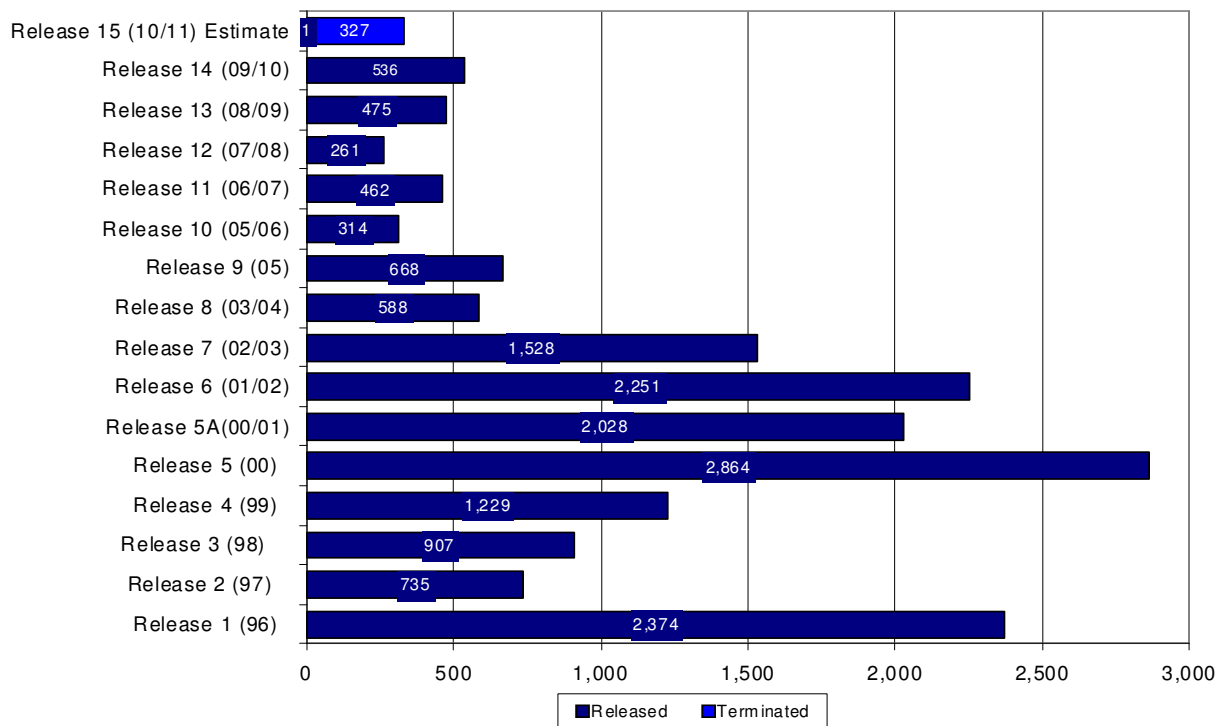
- Individual site rents are reviewed on a 5 year rolling basis with one quarter of the estate reviewed in each of four years and the fifth being a fallow year. The average uplift from the first round of rent reviews, which concluded in 2002, was 44.4% and the second round concluded in December 2007 with an average uplift of 21.6%. The third round of the review commences in 2009 and runs to 2013.
- The MoD provides a Minimum Guaranteed Rental payment which declines over the period to 2021.

THE HOUSING STOCK

- The properties are/were used by the MoD to accommodate service families.
- The properties are in England and Wales only – those in Scotland and Northern Ireland were not included in the sale. The properties range from two bedroom flats to eight bedroom houses, from Cumbria to Cornwall and South Wales to Suffolk.
- 80% of the stock comprises 'Other Ranks' accommodation, predominantly 2 and 3 bed terraced or semi-detached properties, the balance 'Officers'.
- Density averages 10 units/acre or 25/hectare which, under current Government guidelines, provides infill and redevelopment opportunities in some circumstances.
- There are broad differences in the quality and condition of the stock, with 13% of all properties of non-traditional construction with which mortgageability is an issue.
- Annington is able to claim dilapidations from the MoD if properties are not handed back in 'good and tenantable' repair.
- Apart from condition, other principle issues include title and the condition and routing of utility services.
- Under the Minimum Release Schedule, Annington was guaranteed a total cumulative release of 13,213 surplus properties by the MoD up to 2021; an average of 600-700 units per annum. This has been substantially

exceeded and with effect from 1st January 2010, the MoD had, in addition to the Surplus Estate of 2,374 properties, released 14,452 units.

- Current releases:



17,221 units have been released to date. A further 69 units have been terminated and are awaiting release. The total number of units in Release 15 is estimated to be 328.

THE MOD

- Up until March 2004, the Defence Housing Executive (“DHE”), an agency of the MoD, managed and maintained the properties leased from Annington. As of that date, the DHE merged with Defence Estates to form one single property organisation within the MoD.
- Annington has no control over which properties are released to it by the MoD – the number, location and timing of any release is at the **sole** discretion of the MoD.
- The MoD has the right to terminate its lease (on individual units or blocks of units) by giving Annington 6 months’ notice.

- The MoD is entitled to profit share on disposal of individual units as well as on a change of control of the Company. This is 13% until 5 November 2010 when it reduces to 10%. With effect from 5 November 2011 it falls away. To end June 2010, the Treasury had been paid £161.2 million in profit share.
- The MoD now has a stock of approximately 49,000 units in the United Kingdom of which 40,360 are leased from Annington.
- It is reported that there are more than 9,000 void units in the MoD Estate. Units are left empty for a number of reasons; substandard properties, a lack of funds for upgrade or redevelopment, vacancies awaiting redeployments of troops, temporary accommodation while properties are upgraded, genuine voids arising from a lack of demand etc. The MoD's housing requirement is dependent on MoD's long-term defence strategy which dictates force movements and deployments. With Iraq, Afghanistan and a number of commitments abroad, this is complicated. Financial constraints on capital expenditure also mean that, even when a strategy is clear, the policy cannot always be implemented without resorting to alternative funding mechanisms such as PFI.

THE PHILOSOPHY

- Annington believes in providing good quality, value for money homes.
- Annington always tries to offer its homes at competitive prices with the most appropriate financial incentives and, by doing this, aims to make house purchase accessible to more people.
- Annington aims to create environments in which people want to live. This may involve modifying the streetscene through landscaping or altering the external appearance of the homes, the aim being to create interesting streetscapes that previously had lacked either individuality or variety.
- Annington will normally ensure that the homes it sells meet its 'Safe and Sound' specification before a sale is completed, meaning electric, plumbing and heating systems are thoroughly checked and any defects or issues that might affect a mortgage are dealt with.

THE PURCHASERS

- More than 60% of those buying an Annington home have been first time buyers. For the 12 months to end of March 2010, this had dropped to 29%.
- Until recently, 30% of Annington's homes had been sold to Service or ex-Service personnel but this is reducing steadily.
- Service and ex-service personnel have benefited from a variety of discounts totalling just under £13m.

SALES

- Sales values vary widely and are dependent on a range of factors from location and house type to age and condition. The average net sales price for all private sales in the year to end March 2010 is £117,231 per unit.
- Whilst some properties are rented and others held for redevelopment, the majority of properties are refurbished and sold privately in the open market.
- Sites may be sold in 'bulk' where this option exceeds the value of all other options. Purchasers of such sites have traditionally been housing associations.

RENTALS

- ARHL (Annington Rentals Holdings Ltd) owns 1,523 units, comprising flats and houses let on individual and bulk leases. Some, but not all, of these are held to provide evidence of rents in the rent review process.
- ARHL manages, on behalf of APL (Annington Properties Ltd) and ADL (Annington Developments Ltd), a further 405 units. These units are rented pending the resolution of legal and utilities issues and the outcome of planning applications. Not all are available for rent.
- ARL currently outsources the day to day management of its rental portfolio to Touchstone Corporate Property Services Ltd based in Bath.

DEVELOPMENTS

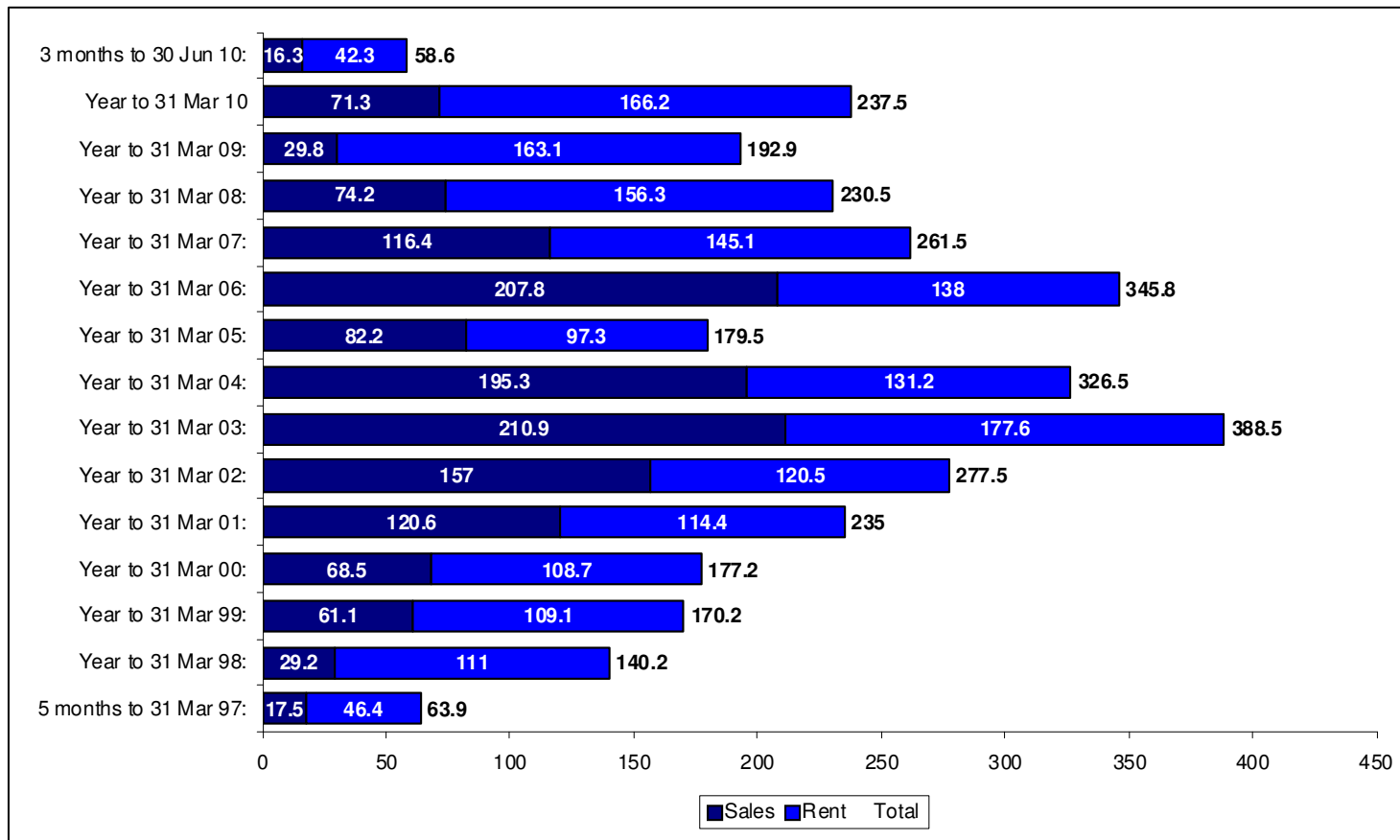
- ADL will always appraise opportunities for infill or wholesale redevelopment on all sites. ADL, as a priority, aims to maximise added value through planning consent where appropriate. Thereafter, ADL will either sell the land, carry out infrastructure works, build out or partner developments if there is demonstrable added value and benefit in doing so.
- Annington has joint ventures with Countryside Properties plc on sites at Colchester (261 units) and Mill Hill (360 units).

CHARITABLE ACTIVITY

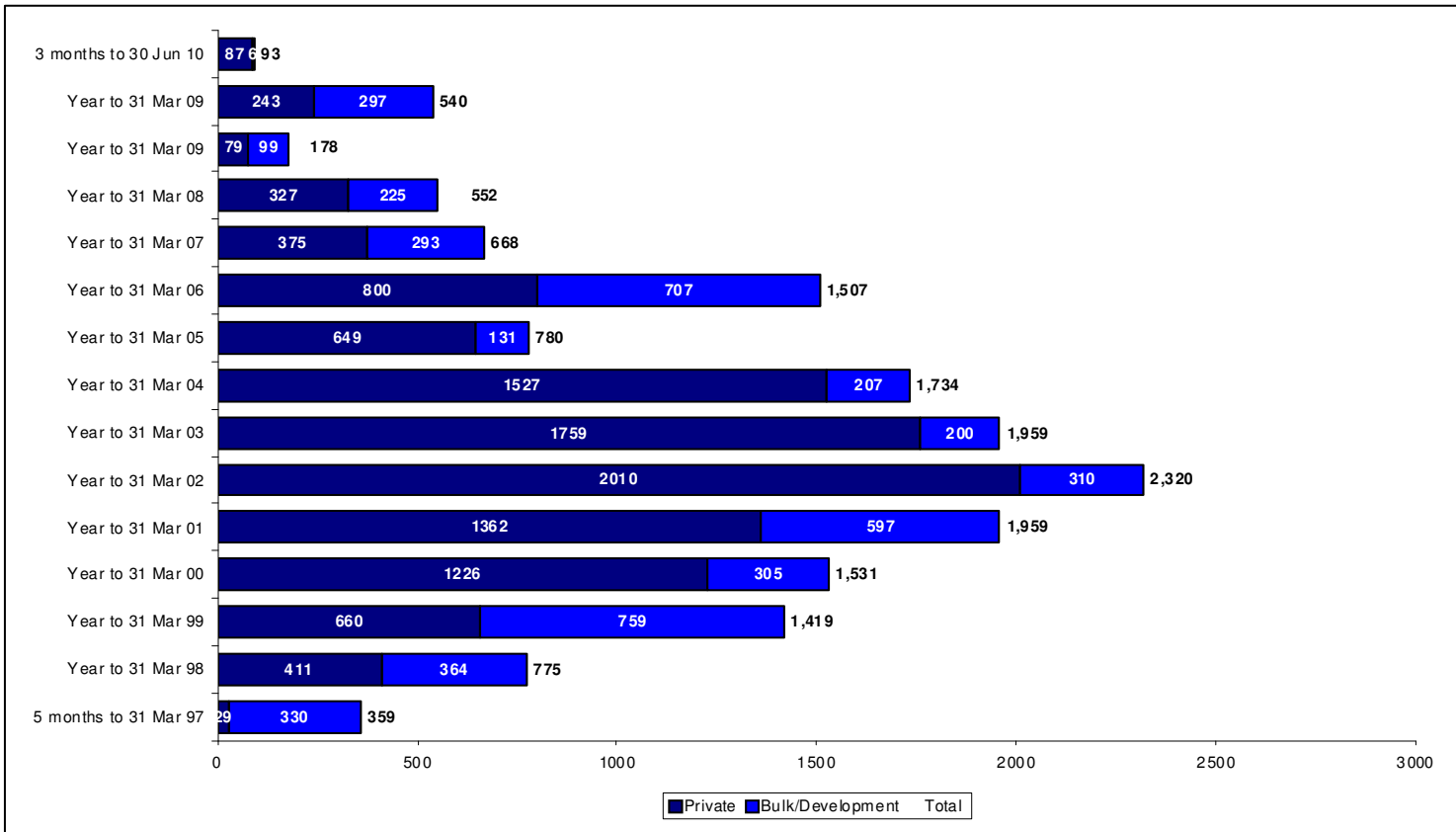
- The **Annington Trust** was established in 1996 “for the benefit of service families living on the patch, with the objective of sponsoring community activities and projects”. Since then, the trustees, who include the chairmen of the three Services’ Families Federations, have disbursed over £210,000 to support over 300 projects. The grants have varied in size from a few hundred pounds for pre-school activities or sports clubs, to major awards of several thousand pounds to provide much needed support for families at a time when the services are heavily engaged in overseas operations.
- Quite separately, the company itself has supported a range of diverse projects and activities that do not fall directly within the trust’s charitable objects. As a result, either in cash or kind, the company has made possible the advertising and mounting of events by services clubs and charities. It has responded generously to many appeals by such bodies and, for example, has ensured the continued availability and use of community centres worth several thousands of pounds. A conservative estimate of such ‘goodwill support’ since 1998 is more than £600K.

FACTS AND FIGURES

- Turnover £m



- **Units Sold (completed)**



16,374 units have been sold (11,544 private and 4,830 bulk/development).

JCH - Updated July 2010
