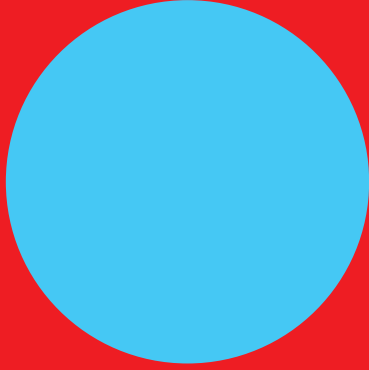


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**Half-Year  
Statement  
2009**

# Half-Year Statement 2009:

Following the publication last September of the Annual Report for the year ended 31 March 2008, I am pleased to provide a half-yearly update on the performance of the Annington Holdings plc Group.

## Market Environment

The worsening global financial crisis, and the effects on the UK housing market, since the beginning of the year, is well documented. A host of statistics point to reduced sales volumes, reduced lending and falling property prices. According to official figures from HMRC, the number of home sales has fallen 60% in a year to September. The Bank of England reports mortgage lending having reduced to just £143M during August 2008 – its lowest since this data was first collected in April 1993. Mortgage approvals are less than a third of the 109,000 recorded in August 2007.

Purchaser confidence is at historically low levels and average new listings per estate agent are the lowest ever measured. Sales are down dramatically and the evidence shows that repossessions are increasing at a similar rate. According to data supplied by the FSA, more than 300,000 homeowners have fallen into mortgage arrears of three months or more, twice last year's figure.

The house price fall over the past year has been the largest fall ever recorded. The value of the average home has reduced by more than £26,000, according to the Halifax. According to its September survey, house prices had fallen 12.4 per cent year-on-year. The average price of a home has dropped from £198,533 a year ago to £172,108 now – around the same level as January 2006.

Nationwide confirmed Halifax's findings. The average UK home lost 1.7 per cent of its value in September according to its data, leaving prices 12.4 per cent lower than a year ago. According to the survey, the average home is now worth £161,797, down from £164,654 in August, and it expects the next two years to be "difficult".

Economists at Capital Economics and Global Insight predict that the economy is set to continue to deteriorate sharply with lending criteria likely to remain tight. On top of this, faster rising unemployment, heightened concerns over the economic outlook and widespread expectations that house prices will continue to fall markedly, seem set to depress housing market activity and prices for some considerable time to come.

The mortgage providers are under pressure to pass on lower interest charges, following The Bank of England's Monetary Policy Committee decision to reduce the official Bank Rate to 3.0%. However, larger deposits are being required and some rates, instead of being relaxed, are hardening, whilst the availability of many special 'deals', including tracker mortgages, has been severely curtailed.

With limited demand, the number of new homes being built will drop below 100,000 next year according to the RICS,

well below the Government's long-term targets. Building by the private sector dropped dramatically in the three months to September, while building in the public sector fell at the fastest pace since the end of 2001. These two factors could cause upward pressure on prices, once confidence returns to the financial markets. This environment obviously impacts on the Group's activities. However, due to the Group's structure the Group is in a strong position to weather the storm and indeed take advantage of opportunities as they arise.

## Operational Strategy

In response to the deteriorating market conditions, and an internal business review we have reduced the number of Regional Property Teams from two to one. The new Property Team will take on a wider number of property responsibilities. We are pleased to have achieved this change through natural wastage across the group and without the need for redundancies.

## Operational Update Homes Sub Group

Total sales YTD, at the half year point, amounted to 91 units for a value of £15,267K, this is 33 units and £9,386K behind budget. The biggest variances in financial terms arise from the lack of

**"The Group is in a strong position to weather the storm and indeed take advantage of opportunities as they arise."**

sales at Coltishall, Haverfordwest and Horrabridge, two of which have large concentrations of units. It is unlikely that this will be reversed in the short term, though every effort continues to promote sales through price reductions and marketing initiatives.

The average selling price for private sales YTD was £160,736, compared with the budget of £170,121, a decrease of 5.52%. However, excluding a recent bulk sale at Aldershot, the average is at £168,980, a decrease of 0.67%. The MoD's intention is to release to us

476 units between April 2008 and March 2009. So far 203 have been handed over. The MoD now simply allocates properties to a 'Potential Disposals Programme', rather than designating specific years for release. This programme currently lists 342 units on 12 sites, but gives no indication of when they may be terminated. It is Annington's view that the low level of releases is unlikely to change in the short term.

Rent receivable from the MoD is marginally below budget at £75,943K (2007: £72,828K). Since January 2008, the rent received from MoD is sufficient to cover the sub-group's quarterly debt servicing requirements, without the need for sales. This means the sub-group is in a robust financial position with no liquidity risk. There is no rent review in 2008. However, work has started in preparing data for the review which will take place in December 2009.

Annington Property Limited ('APL') generated sufficient funds to enable Annington Finance No4 plc ('AF4') to repurchase and cancel further Class B3 Notes as follows:

#### Nominal value

April 2008	£12,087,510
July 2008	£4,122,330
October 2008	£11,996,679

#### Developments Sub Group

After a strong sales performance earlier in the year, sales have slowed dramatically at Colchester Breachfield. At the end of September, of 117 sales, 87 had completed and there were 30 reservations. Only 2 properties remain to be sold. No further commitment to build has been made. The JV is evaluating a range of build and sales strategies. At Mill Hill, sales to date of 40 units consist of 12 reservations, 20 exchanges and 8 completions. There has been no noticeable improvement in the market since the launch on 17 August. Visitor levels are good, but the conversion rate into reservations is poor, notwithstanding marketing initiatives, incentives and price reductions. Many people are simply not in a position to commit, reflecting the general malaise in the market and their inability to sell their current properties.

Deutsche Annington: Whilst the German housing market has not been subjected

to the dramatic falls in value experienced in other Western European countries and the US, prices are not increasing either. Sensibly priced acquisition opportunities are thin on the ground, but Deutsche Annington remains poised to make further acquisitions as they arise.

Autobahn Tank & Rast: Revenues have been adversely affected by the increase in oil prices – T&R takes a commission on sales, which are below expected volumes. Similarly, other revenues (food, refreshment and retail) are lower than expected as a result of fewer visits and lower public consumption.

#### Rentals Sub Group

Annington Rentals Holdings Limited ('ARHL'), through its subsidiaries, now owns 1,339 units. A further 78 purchases are exchanged and another 21 under offer with a total purchase value of £20.3m.

ARHL also controls and manages 68 rental units on behalf of Annington Property Limited.

In September, Annington Rentals No6 Limited ('AR6') completed a £120m loan with Royal Bank of Scotland plc and Bank of Ireland. The facility is for five years and following an initial draw of £48.75m, to repay intra-group loans, provides further funds to enable AR6 to acquire further properties.

#### Central Operations

We are in the process of redesigning our website layout and content, and creating a different operating platform which should increase security and flexibility in the future. The website is used extensively by prospective purchasers.

A new e-mail and web marketing platform is being adopted and will be operational shortly.

#### Corporate Responsibility

During the six months ended 30 September 2008, the Annington Trust has donated £22k (2007:£14k) to a variety of causes associated with the Married Quarters Estate. As stated in the Annual Report and Accounts for 2007/8, the Group has agreed to provide further funding to the Annington Trust by matching the income it receives from its capital fund for a period of three years.

Separately the Group has continued to support local communities by donating £27k (2007:£4k) to various groups and clubs.

#### Outlook

House prices are continuing to fall. The market is very thin, and interested purchasers cannot find the funds to proceed with house purchases. Notwithstanding new marketing initiatives and price reductions, sales are at low levels. The banking sector's confidence has been severely dented, and the outlook for the housing sector is unlikely to improve until this is repaired. Whilst there is currently little good news in the market, Annington is better positioned than most businesses in the residential sector.

**"The Group is in a robust financial position given its strong rental cashflows."**

From January 2008, Annington reached a point where it was no longer reliant on sales to service its loans, putting the Group in a robust financial position given its strong rental cashflows. The first phase of a reorganisation plan has been implemented which brings cost savings and a more effective operational team. Annington remains well placed to adapt to a sudden change in circumstances. In addition, Annington has equity to invest in opportunities which may arise through this period of market turbulence.

**James Hopkins**  
Chief Executive