Annington

Half-Year Statement 2011

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Following the publication of the Annual Report for the year ended 31 March 2010, I am pleased to provide a half-yearly update on the performance of the Annington Holdings plc Group.

Market Environment

This time last year, the residential property market was stabilising, with modest price increases following the trough caused by the global financial crisis. There was guarded confidence that the worst was over, and there was the prospect that property prices could conceivably continue on an upward trend as demand continued to outstrip supply and banks were being encouraged to relax lending criteria.

However, during the first six months of this financial year, we have had a General Election, resulting in a new Coalition Government, an Emergency Budget and more latterly a Government Spending Review, resulting in the largest cuts in public sector spending for decades. Each of these events have resulted in concern over future employment levels and implanted doubt over future prospects in the minds of potential property purchasers, thereby continuing the general uncertainties within the market. According to Nationwide, house prices nudged up 0.1% in September following a fall of 0.9% in August, whilst Halifax recorded a fall of 3.6% in September. Other commentators included Hometrack recording a 0.4% fall in prices in September and the Land Registry with a 0.3% rise in August. With transaction levels still very low there simply is not sufficient data on which to base any firm conclusions but there is a growing consensus that house prices will be neutral or negative over the next 12 months and in to 2012.

The impact of the financial markets is much the same as this time last year. The official bank interest rate has continued at the historically low level of 0.5% and the Bank of England has continued with its 'quantitative easing' programme, but little of this 'new' money is finding its way in to the mortgage markets. The mainstream mortgage providers have maintained a restricted level of mortgage lending, principally through increased deposit requirements. Gross mortgage lending for both house purchase and remortgaging declined in August and remained largely unchanged in September. This is now 7% below 2009 levels and the lowest September total since 2000.

There is mounting concern about the general housing situation as the barriers to home ownership in the UK continue to widen; this is likely to have profound sociological as well as economic implications. The average age of a first time buyer is now 37 years. The last few months have seen an increase in supply of property to the market, which in itself helps to push prices down when demand is weak but prices are falling anyway.

Operational Strategy

Annington is not immune from these influences in the market place. There has been a distinct slowdown in activity across the majority of Annington sites in the second quarter of the financial year, with average reservations slowing to five per week over the twelve month period. Notwithstanding the seasonal summer holiday slowdown and a programme of price review and price adjustment, activity has continued to deteriorate into September and is forecast to continue well in to Spring 2011. Our first price reductions averaged 5% on the headline pricing, none of which took pricing below budget. Reservations have improved as a result, albeit off a low base. Cancellation rates have not shown any real change of late and the main reasons for cancellation are 'due to a lack of funding' or 'a change in personal circumstances', reflecting concerns over job security and financial stability.

Annington continues to adopt a cautious approach, refurbishing a small number of units on each site, to maintain a sales presence but at the same time conserving cash outflows. This helps to preserve sales values as it reduces the need to offer increased discounts in order to sell fully refurbished stock.

On the 'supply' side, we continue to be surprised at how few units MoD are releasing to Annington, given the apparent high number of unoccupied units within the married quarters estate. The first six months has been characterised by a lack of decision making within government departments as announcements on the outcomes of the Strategic Defence and Security Review and the Comprehensive Spending Review were awaited. This is expected to improve as the strategy direction becomes clearer.

Operational Update
Homes Subgroup

Total sales YTD, at the half year point, amounted to 244 units (2009: 351) for a value of £37,852K (2009: £37,282K), which is 7 (2009: 234) units and £1,100K (2009: £21,298K) ahead of budget. The biggest variances in financial terms arise from sales at Coltishall (where the rate of sale and values have continued steadily, ahead of expectations), and Colchester (Ilex) (where the unbudgeted bulk sale of the entire site was achieved). Much of the 'out-performance' has been through earlier than forecast sales during the first half of the year. Sales rates have inevitably slowed down as stock levels are depleted and during what has been a 'flat' summer period. Full year sales values are expected to be in line with budget although sales volumes are expected to be slightly lower.

The average selling price for private sales YTD was £155,131 (2009: £106,216), compared with a budget of £155,072 (2009: £118,086), Excluding bulk sales, the average selling price is £173,743 (2009: £196,212).

The MoD has provided termination notices in respect of 292 units (2009: 556), to be handed back during the period to 31 March 2011. The MoD has set targets to reduce the number of void properties over coming years. However, it is expected that releases over the next few years will continue at similar levels to that seen this year and at least until the implications of the Strategic Defence and Security Review (announced in October 2010) have filtered in to detailed planning.

Rent receivable from the MoD is on budget at £76,303K (2009: £74,999K). The rent received from MoD continues to be sufficient to cover the subgroup's quarterly debt servicing requirements, without the need for sales. This means the subgroup is in a robust financial position with no liquidity risk. Negotiations in respect of the December 2010 rent review have commenced and it is expected that all negotiations will be settled before the review date.

Annington Property Limited ('APL') has continued to generate sufficient funds to enable Annington Finance No4 plc ('AF4') to repurchase and cancel further Class B3 Notes with a nominal value of £43,081K (2009: £49,398K) between April and 12 October 2010.

In July 2009, AF4 reached the point where it is required to set aside funds for the ultimate redemption of the Class A and Class B Zero Coupon Notes. These investments are made quarterly, based on the number of units sold. Payments to date have been as follows:

	Class A	Class B
April - October 2010	£7,622K	£3,467K
April - October 2009	£8,005K	£5,377K

Developments Subgroup

The 'new build' project known as Fortuna Park at Colchester has been managed successfully through very difficult market conditions. At the end of September, 136 (2009: 119) market sales and 58 (2009: 50) RSL sales had completed. The JV is in a good financial position, with all bank debt repaid. The remainder of the development will be financed from equity funds alone.

At Mill Hill, 110 (209: 76) unit sales have completed, a further 11 (2009: 20) units exchanged, 4 (2009: 4) reserved and 17 (2009: 4) in build. There has been a noticeable improvement in the market since the beginning of April, with asking prices increasing with each release.

The Group continues to hold strategic investments in both Deutsche Annington Immobilien GmbH ('Deutsche Annington') and Autobahn Tank & Rast Holdings GmbH ('Autobahn Tank & Rast').

Deutsche Annington has continued its rationalisation programme to reduce 'back office' costs and increase efficiency. The programme has achieved target savings and although there have been some operational issues to resolve, these have all been dealt with and the overall performance is expected to remain on budget for the year as a whole.

In Autobahn Tank & Rast, year to date figures for EBITDA and revenue are more or less on budget and marginally ahead of prior year performance, which is a key measure. Performance in all areas has been affected by the economic downturn but strong control of capital expenditure has helped to improve cash balances.

Rentals Subgroup

Annington Rentals Holdings Limited ('ARHL'), through its subsidiaries, now owns 1,568 units (2009: 1,409). A further 2 (2009: 81) purchases are exchanged and another 10 (2009: 32) under offer with a total purchase value of £2.8m (2009: £14.4m).

ARHL also controls and manages 404 (2009: 219) rental units on behalf of Annington Property Limited and associated companies.

This time last year, ARHL recognised that the further reduction in the loan to value ratio, scheduled for September 2009, would result in a breach of this covenant. ARHL remedied the position, by providing added security by way of additional charged properties and a refundable cash deposit. I am pleased to state that the improvement seen in property values has resulted in the cash Security Deposit being returned to the Group and it is not anticipated that the LTV covenant will be breached in the next twelve months.

The rental businesses have performed well this year. Demand for rental properties has increased as a result of more potential buyers being priced out of the market and the opportunity to become home owners. In particular, rental levels are improving as the year goes by and this provides a sound base for our rent review negotiations which are currently ongoing.

Corporate Responsibility

During the six months ended 30 September 2010, The Annington Trust has donated £15k (2009: £13k) to a variety of causes associated with the Married Quarters Estate. The Group has agreed to provide further funding to the Annington Trust by pledging a fixed amount per annum to compensate for the reduced interest returns achievable on the Trust's cash deposits. In the six months to 30 September 2010 the Group paid £17k to the Annington Trust. This will help to maintain the level of donations over the next two years. Separately the Group has continued to support local communities by donating £13k (2009: £23k) to various groups and clubs.

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Outlook

The market remains in a depressed state with weak interest and activity levels. This is not something that we can control but efforts to revive sales through price reviews have been partially successful and performance levels have largely been maintained. We suspect that the next 12 – 18 months will not be very different. Rental markets have performed strongly though and this provides a worthwhile alternative to selling when activity becomes tough.

Everything since the election has been leading up to the Comprehensive Spending Review and the details of the Strategic Defence and Security Review. Now that this is in the public domain it is hoped that minds might be focused at the MoD on how to deal with its accommodation plans. It may be 12 – 18 months before any positive plans start to filter through, although it is clear that senior ministers are intent on making an impact quickly. The next few months will tell us just how fast changes will occur and whether this will have any impact on MoD release levels.

Annington's robust financial structure, strategies and plans are expected to enable the group to meet the challenges of the short term uncertainties in the market.

James Hopkins

Chief Executive