

2012

Half-Year Statement 2012:

Following the publication of the Annual Report for the year ended 31 March 2011, I am pleased to provide a half-yearly update on the performance of the Annington Holdings plc Group.

Market Environment

There has been little change in the UK housing market over the last 12 months. Modest movements, both up and down, have been experienced in average house price indices. Over the full year, house prices have fallen slightly by most measures but are materially unchanged. This is evidenced by the annual movements in the HPI indices of Nationwide (down 0.3%), the Land Registry (down 2.6%) and Halifax down (2.3%) to the end of September.

One year ago we noted several factors that were impacting on potential purchasers and leading to uncertainties in the housing market, such as the Emergency Budget and Government Spending Review. Similar elements of concern have emerged over the past year, with the uncertainty in the economy also being reflected in the housing market. Worries about the broader economy have been accentuated by the government debt crises of several Euro-zone countries, which have led to further austerity measures in those countries and forecasts of lower than expected growth in the UK which, in turn, may lead to further spending cuts and job losses in the UK public sector. These sentiments were reflected by the Monetary Policy Committee of the Bank of England on 6 October 2011 when it voted to maintain the official Bank Rate of interest at 0.5% and to increase the size of its quantitative easing programme by £75 billion to a total of £275 billion.

Barriers to home ownership have continued with the ability to fund a deposit being one of the key obstacles. Factors such as high ratios of average house prices versus average salaries,

along with limited availability of new housing stock have continued to place pressure on the ability of first time buyers to enter the market. Mortgage availability is still restricted, with high deposits required to obtain lower interest rates. Notwithstanding this, gross mortgage lending has increased slightly in the last six months. Gross mortgage lending in the six months ending September 2011 was £72.9 billion (CML), which represents only a 1% increase over the same period one year before.

While the house sales market has been negatively impacted by the above factors, the residential lettings market has strengthened. LSL Property Services plc reported that in September 2011 the average rent in England and Wales was £718 per month, 4% higher than one year before.

Operational Strategy

In light of the current market conditions, the main rental businesses of the Annington group continue to perform strongly. Where sales rates are slow due to the current market conditions and for stock not ready for sale, the Group utilises its strategy of short term rental. The Group continues to look for suitable growth opportunities, with the key opportunity in this area being the Annington Rentals group's investment programme.

Sales activity continues on a reduced basis in comparison to previous years. We are continuing with our strategy of 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 and prevents flooding the market in any one area with stock.

The ability of the group to balance its sale, rental and development strategies allows it to be flexible in the current challenging market. Opportunities that arise are assessed on a case by case basis, with the best strategy being implemented in each individual circumstance.

Operational Update

Homes Subgroup

Total sales, at the half year point, amounted to 253 units (2010: 244) for a value of £24,226K (2010: £37,852K), which is 115 (2010: 7) units and £441K (2010: £1,100K) ahead of budget. The biggest variances in financial terms arise from an unbudgeted bulk sale at St Eval, where almost the entire site was sold in one transaction. Without this sale, the subgroup's sales are marginally below budget, which reflects the challenging market conditions. Total sales values and volumes for the full year are expected to be above budget.

The average selling price for private sales YTD was £95,754 (2010: £155,131), compared with a budget of £172,350 (2010: £155,072). Excluding bulk sales, the average selling price is £146,401 (2010: £173,743).

The MoD has provided termination notices in respect of 143 units (2010: 292), to be handed back during the period to 31 March 2012. It is expected that releases over the next few years will continue at similar levels to that seen this year, at least until the completion of the current Future Accommodation Project and the full impacts of implementing the Strategic Defence and Security Review have filtered in to detailed planning.

Rent receivable from the MoD is on budget at £78,039K (2010: £76,303K). 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 2011 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 £45,340K (2010: £43,081K) between April and 10 October 2011.

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. The transfers of funds into this holdback mechanism are made quarterly, based on the number of units sold. Payments in the first six months have been as follows:

	Class A	Class B
April – October 2011	£5,370K	£3,298K
April - October 2009	£7,622K	£3,467K

Developments Subgroup

The 'new build' project at Fortuna Park, Colchester has been managed successfully through very difficult market conditions. At the end of September, 163 (2010: 136) market sales and 58 (2010: 58) RSL sales had completed. At Mill Hill, with the first phase build complete, the sales position at 30 September was 155 (2010: 110) unit sales completed and 2 (2010: 4) reserved. Both joint ventures are in a good financial position, with all bank debt repaid. The remainder of both developments will be financed from equity funds alone.

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. A new programme has commenced to identify savings in the external cost base of Deutsche Annington.

In Autobahn Tank & Rast, year to date figures for EBITDA and revenue are marginally lower than budget and marginally ahead of prior year performance, which is a key measure. Performance in all areas has been affected by high fuel prices and ongoing economic uncertainty but strong control of capital expenditure has helped to maintain cash balances.

Rentals Subgroup

Annington Rentals Holdings Limited ('ARHL'), through its subsidiaries, now

owns 1,594 units (2010: 1,568). A further 49 (2010: 10) properties are under offer with a total purchase value of £10.3m (2010: £2.8m).

ARHL also controls and manages 507 (2010: 404) rental units on behalf of Annington Property Limited and associated companies.

During November 2011, Annington Rentals (No. 6) Limited was notified that its Facility Agreement with the Bank of Ireland was to be novated to KW UK Loan Partners Limited, a Private Irish Limited Company formed by Kennedy-Wilson Holdings, Inc. which is a publicly traded (NYSE: "KW") international real estate investment services company. This novation occurred on 5 December 2011. With the role of The Royal Bank of Scotland plc as Arranger and Agent to the Facility Agreement remaining unchanged, the Group is not expected to be impacted by this change.

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 MoD rent review negotiations which are currently ongoing.

Corporate Responsibility

During the six months ended 30 September 2011, The Annington Trust has donated £37k (2010: £15k) to a variety of causes associated with the Married Quarters Estate. During this time, the Trust has joined the Confederation of British Service Charities (COBSEO), an organisation that exists to work for the interests of the Armed Forces community.

The Trust is aiming to raise its profile within the service community. To enable it to do this, the Trust has embarked on further fundraising. It has secured funding from Annington Holdings plc of £50K per annum for the next 3 years. In the six months to 30 September 2011 the Group paid £50k to the Annington Trust (2010: £17k). The Trust is to expand its operations by sponsoring some larger projects, and is currently working in partnership with the Outward Bound Trust on a pilot scheme to fund courses for 30 children of service personnel on residential outward bound adventure programmes starting

in 2012. If successful, this could be extended.

Separately the Group has continued to support local communities by donating £29k (2010: £13k) to various groups and clubs.

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Outlook

The sales market remains in a depressed state and with so much uncertainty, sentiment is not strong. The group continues to manage sales through limiting the stock brought to market and regularly reviewing prices. In the year to date, performance levels have largely been in line with budget. We suspect that the next 6-9 months will be difficult and the 12 months thereafter are unlikely to be very different.

Rental markets have performed strongly and this is expected to continue into the future. The December 2011 rent review is expected to be concluded broadly in line with budgeted expectations. Rental on short term leases of units released by the Ministry of Defence but not yet sold is considered as an alternative to selling and this strategy is increasingly attractive when times are tough.

The results of the Future Accommodation Project and the full impacts of the Strategic Defence and Security Review are expected to filter through over the next 12-18 months, although it may be longer before we see some positive result in the form of increased unit releases.

Annington relies on its robust financial structure, strategies and plans to enable the group to meet the challenges of the short term uncertainties in the market. The flexibility to alternate between strategies is seen as key to protecting value within the group over the next year.

James Hopkins
Chief Executive