



**PROJECT
ALLENBY/CONNAUGHT**



**Visit to Project Allenby/Connaught by
Bondholders
15 March 2011**



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Programme

10:30	Arrive at Wellington House, Aldershot
10:45 - 12:15	Project briefing & presentation
12:15 - 13:15	Walking Tour of St Omer Barracks
13:15 - 14:00	Q & A session and lunch
14:00	Close/Return to Farnborough



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Strategic Importance to MoD

- The Project covers approximately 35% of Army UK Based Trained Manpower (20% of total manpower)
- Salisbury Plain is the principle All Arms Manoeuvre Training Area in UK
- The Project delivers two key objectives of the 1998 Strategic Defence Review:
 - Improving working and living accommodation
 - Identified as a major factor in morale, effectiveness, recruiting and retention
 - Providing accommodation for Units returning from Germany and reorganising within UK
 - 2nd Royal Tank Regiment in July 2007, a key deliverable which was met on time
 - 5 major units moving onto Salisbury Plain (2,500 soldiers)



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2010 Strategic Defence & Security Review

- New Defence-wide organisation from April 2011
- Will include this contract, but detailed arrangements still to be determined
- Means contract will no longer be answerable to Land Forces
- Our joint intent is to ensure that well established working procedures are maintained
- Detail of SDSR and its impact on the Project being considered



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Shared Purpose and Vision

Purpose

Together, MoD and Aspire will manage and deliver a modern, flexible living and working environment for soldiers in the Aldershot and Salisbury Plain area that will support military fighting power, enhance Army recruitment and retention and provide long-term value for the MoD and for Aspire

Vision

We will improve the quality of life of soldiers by delivering best in class service





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History

- January 2002 Formed Aspire Joint Venture
- 2002-2003 Bidding
- July 2003 Selected as Preferred Bidder
- January 2004 Pre-Contract Activities Letter – mobilised
- April 2006 Financial Close
- July 2006 Service Commencement
- July 2007 2RTR delivered
- 2014 Funding availability period
- 2014 Construction complete
- 2016 Benchmarking/market testing
- 2041 End of contract



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What is the Contract?

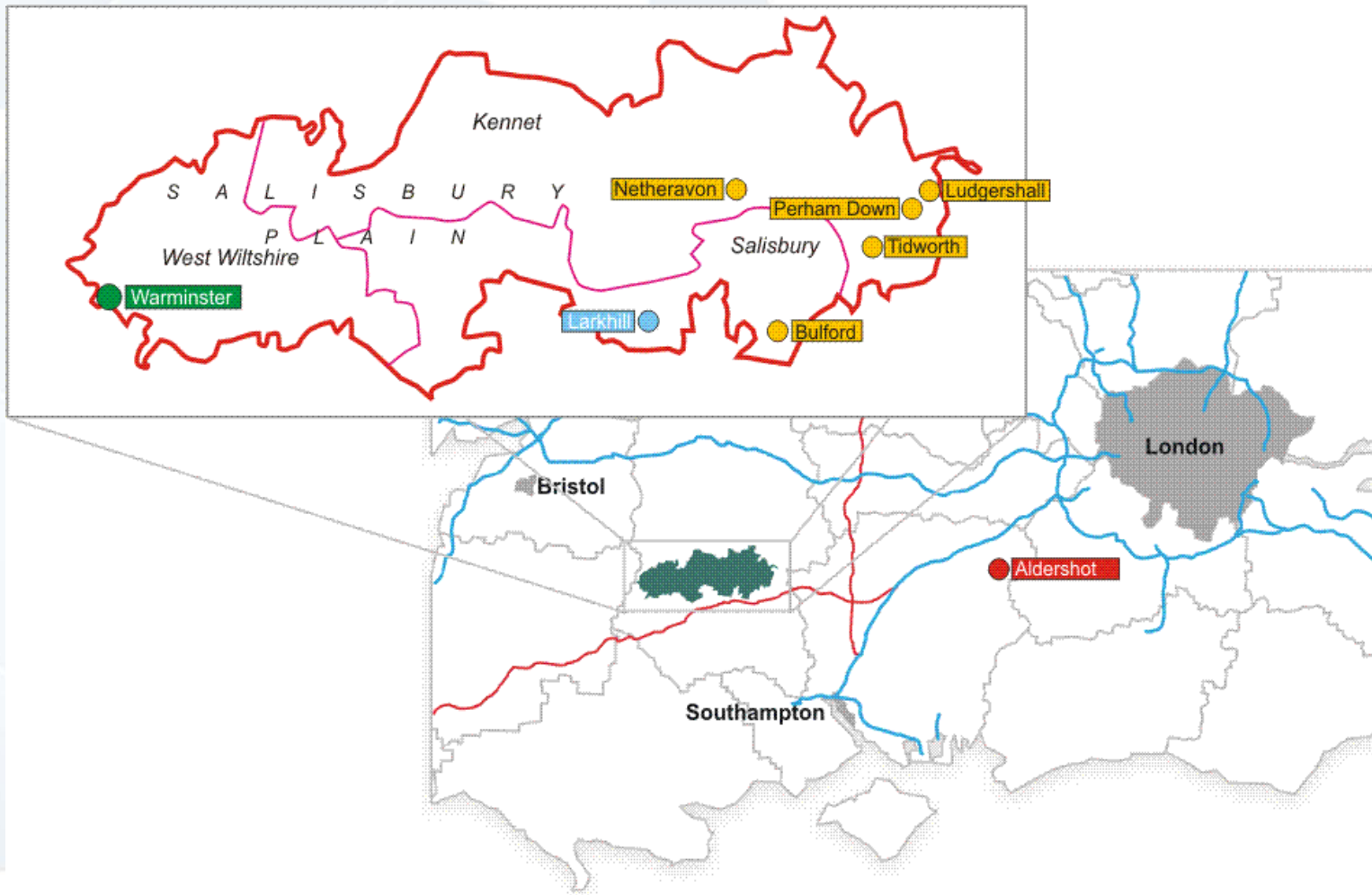
**A 35 year contract to
provide a service**



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Project Locations





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Key Facts

- £8Bn [£11.9Bn] 35 year PFI contract with Aspire Defence.
- Construction Value £1.5Bn, Steady State Unitary Payment £240M pa
- Provides living & working accommodation to 18,700 military personnel, with total dependency more than 21,000
- Originally 10 year, now 8 year construction phase. 375 new buildings and a further 192 refurbished. 457 buildings demolished
- Previously 50+ support contracts. Aspire Defence Services manage/operate service provision – 50% self delivered 50% sub-contracted
- Local Help Desks, available 24/7 365 days a year



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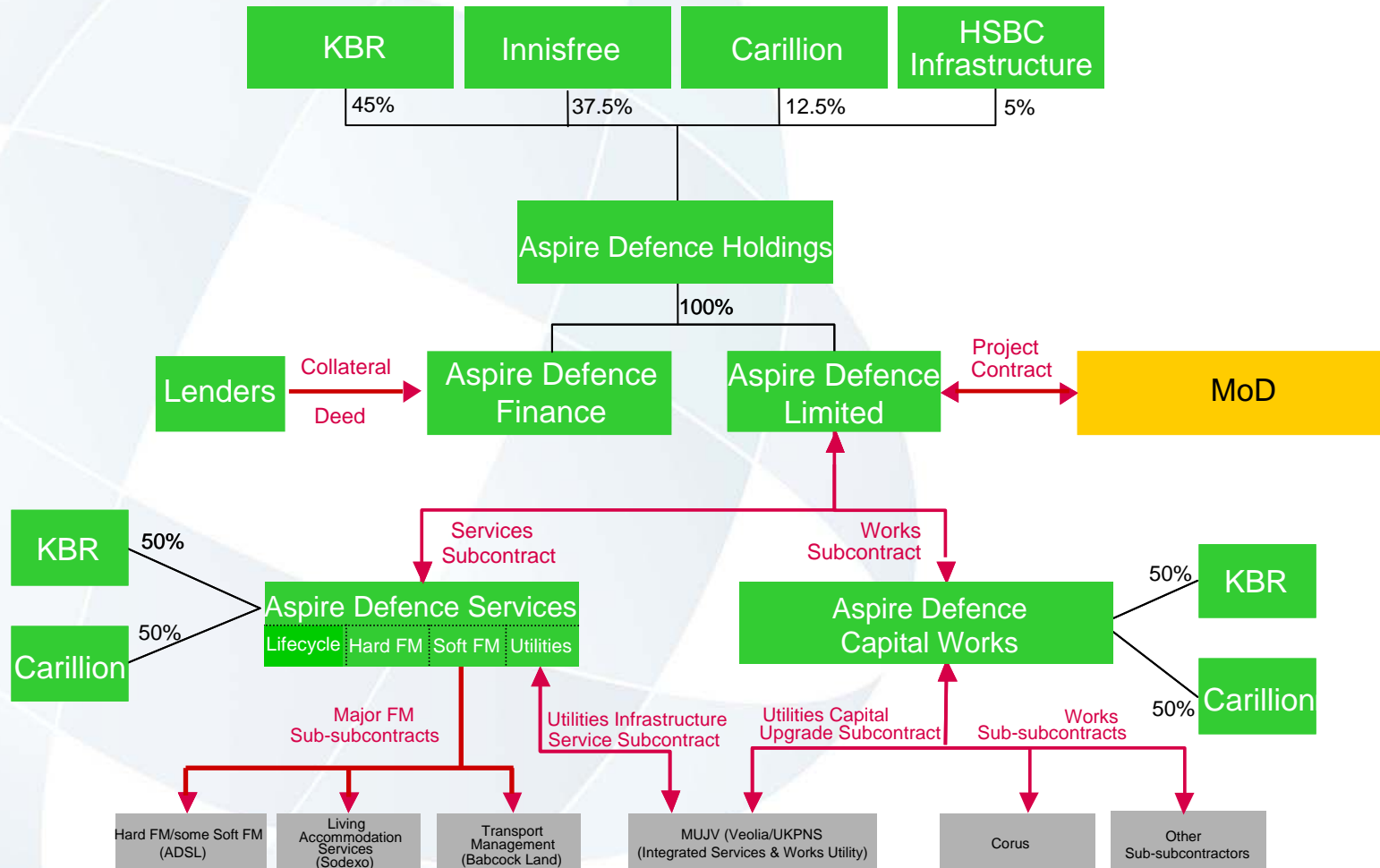
Organisation and Structures



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Contractual Framework

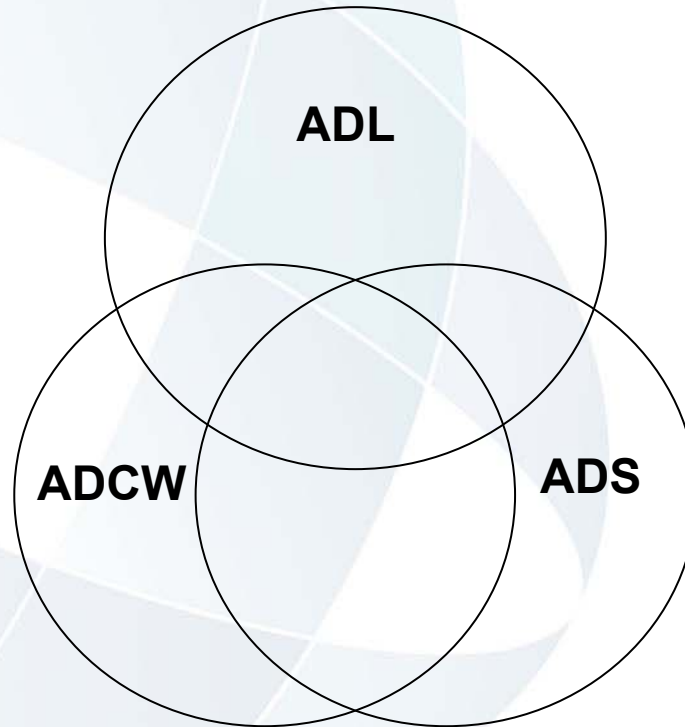




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Working Relationships





Aspire
defence

Aspire Defence Capital Works



Construction Overview

- £1.5bn, 8 year construction programme
- Construction of:-
 - large number low/medium rise
 - not technically complex
 - but geographically spread accommodation
- Management of Transition Programme key

} low
risk



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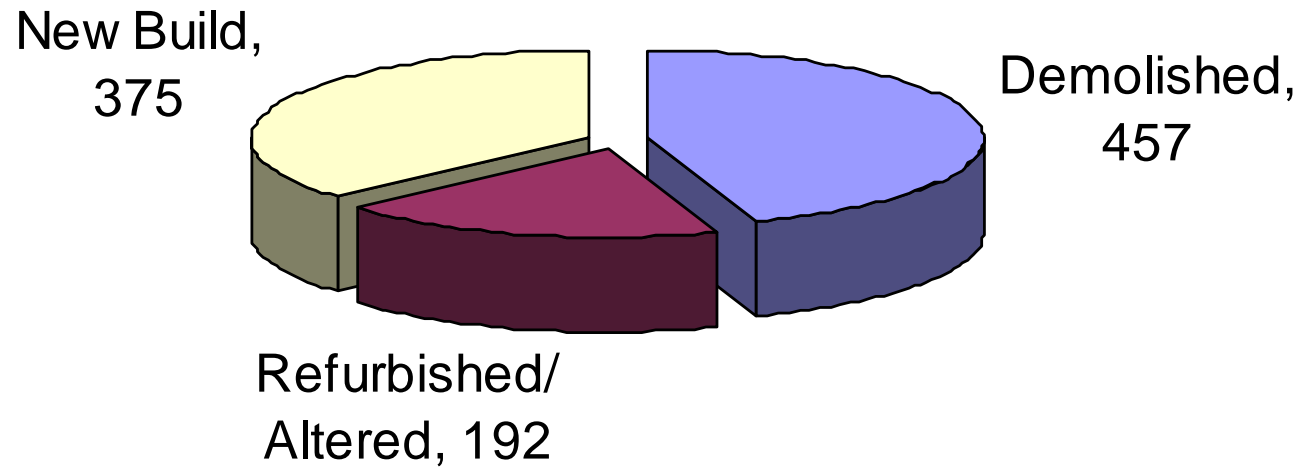


Three Pricing Categories

- Firm, Fixed and Competed:
 - Firm – £481m
 - Fixed – uplifted for inflation/change in law – £296m
 - Competed – subject to benchmarking or competition in the market with agreed multiplier – £670m
 - Appropriate allocation of risk over 8 year construction period (2006 - 2014)

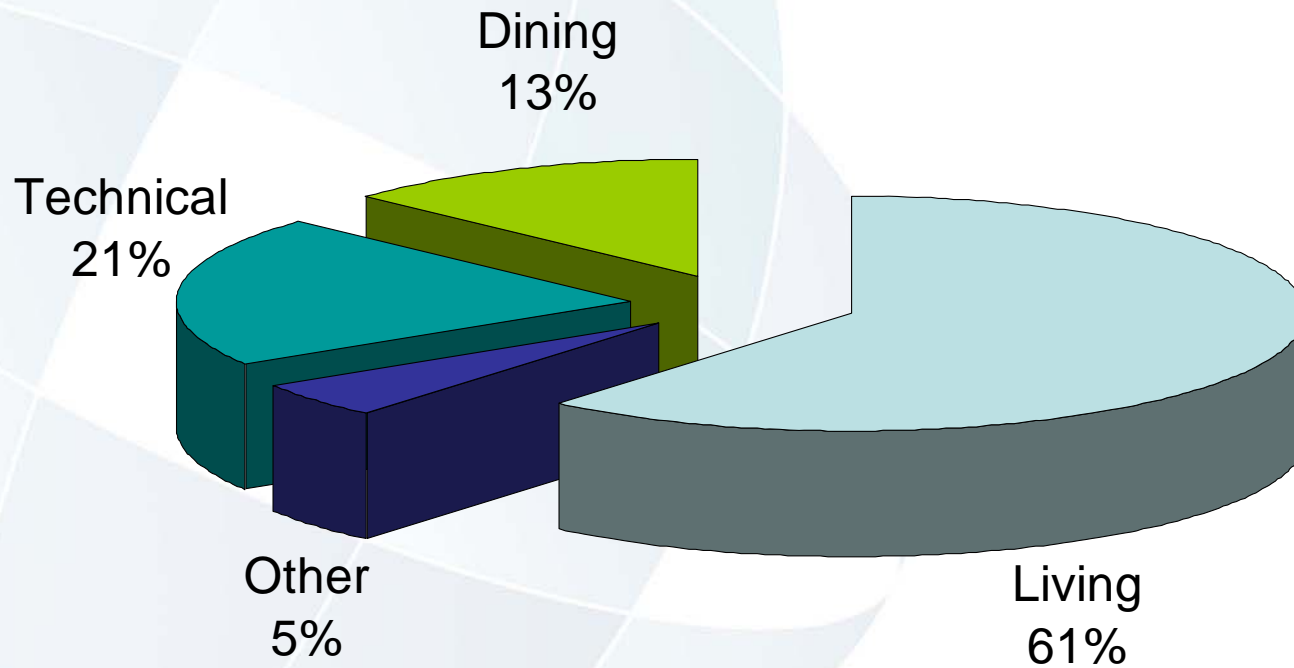


Capital Works – number of units, by building type





Capital Works - building space by type and use





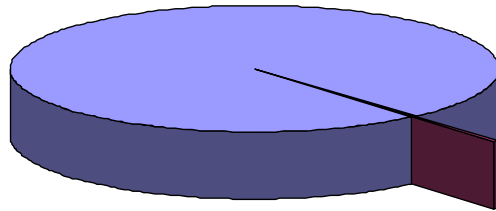
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Pre-Construction Progress to 31 January 2011

Scheme Design Reports

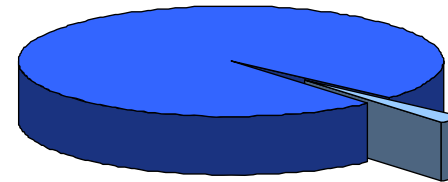
Completed, 512



Remaining, 2

Full Design

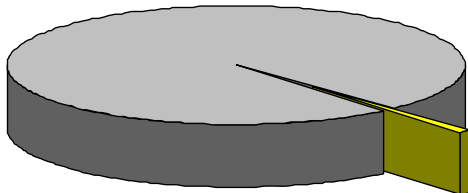
Assets
Complete, 502



Assets to
complete, 12

Planning Consents

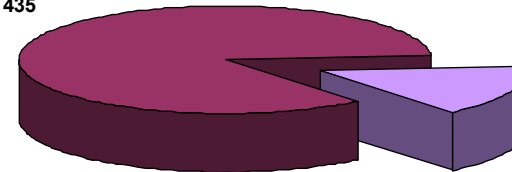
Granted, 366



Required, 4

Procurement

Procured, 435



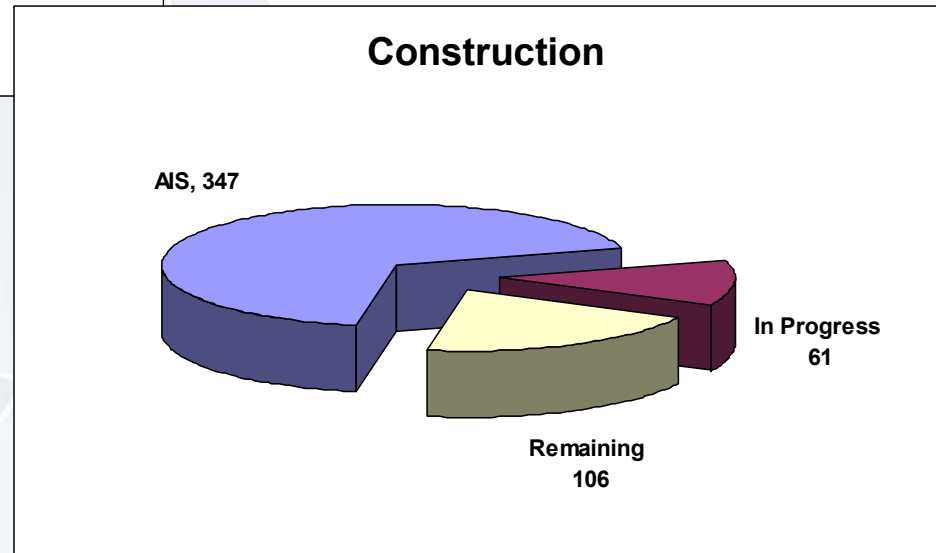
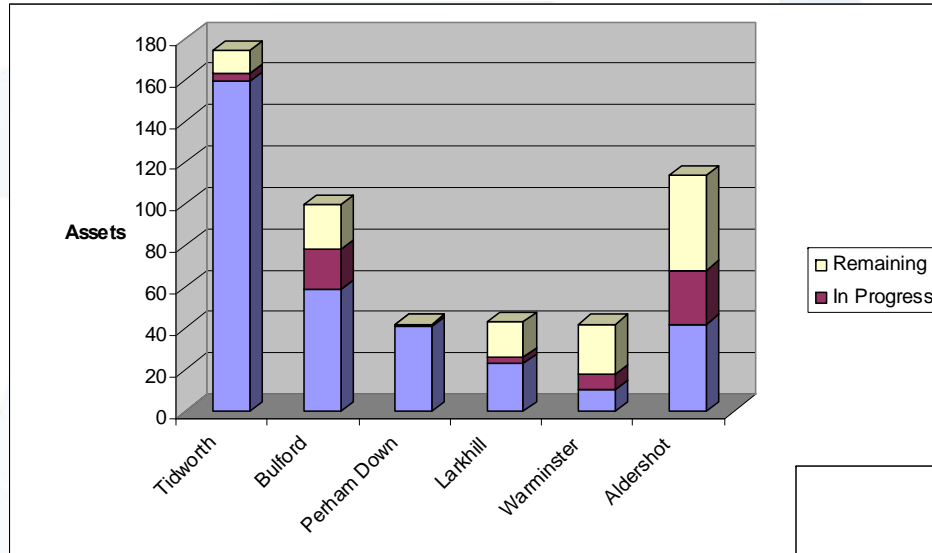
Remaining , 79



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Construction Progress to 31 January 2011





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Construction Summary

- Construction not complex
- Lessons learned/continuous improvement
- Appropriate pricing risk – Firm, Fixed and Competed
- Shorter programme
- On programme
- 65% complete



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Aspire Defence Services



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Hard and Soft FM Services

- £4.2bn over 35 years
- Management and administration
- Assets facilities maintenance
- Living accommodation services
- Transport services
- Stores services
- Office services
- Welfare services
- Support to security



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Services

Management & Administration	Assets and Facilities	Office Services	Welfare Services	Support to Security Services	Supply, Transport and Equipment Support Services	Living Accommodation Services
Performance Monitoring	Maintenance: M&E	Mailroom	Leisure Services	Security Passes	Weapons & Ammunition Management	Domestic Services
QA Admin	Building Fabric	Archiving	Civilian Catering	Reception	Stores	Parking Space Management
Helpdesk	Grounds Ducting	Admin and Clerical		Vetting	Fuel & Lubricants	Mess Management
MIS	Civil Eng Furniture	Typing			Laundry & Dry Cleaning	Military Catering
HS&E	Fixtures & Fittings	PA Services			Tailoring	Bar Services
HR	Estate Management	Media Services			Shoe Repairs	Function Services
Reporting	Pest Control	Model Making			Travel Booking	
Data Management	Utilities Maintenance & Management	Reprographics			Fleet Management	
Visitor Management	Cleaning				Logistics	
	Waste Management				Vehicle Servicing	
	Window Cleaning					

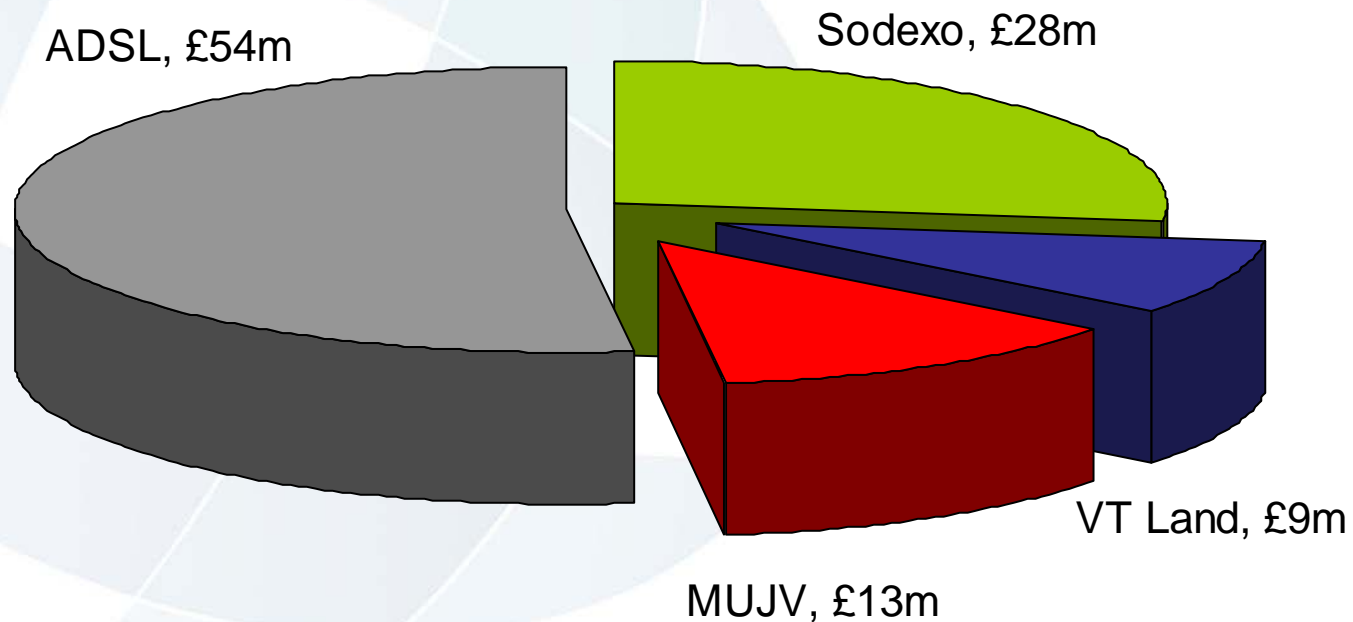
Black – Self delivered
Red – MUJV
Green – Sodexo
Blue – Babcock



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Direct Delivery/Sub-Contract Revenue – averages over years 1- 10 at Financial Close prices





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Service Delivery

- High customer satisfaction
- 24/7 Help Desks successful
- 100% of Retained Estate now in availability regime
 - 4 year transitional period has now ended
- Minimal performance/availability deductions
 - 0.06% of revenue since FC
- Changes in ownership in supply chain but no material impact
- liP accreditation (top 3%)



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Lifecycle



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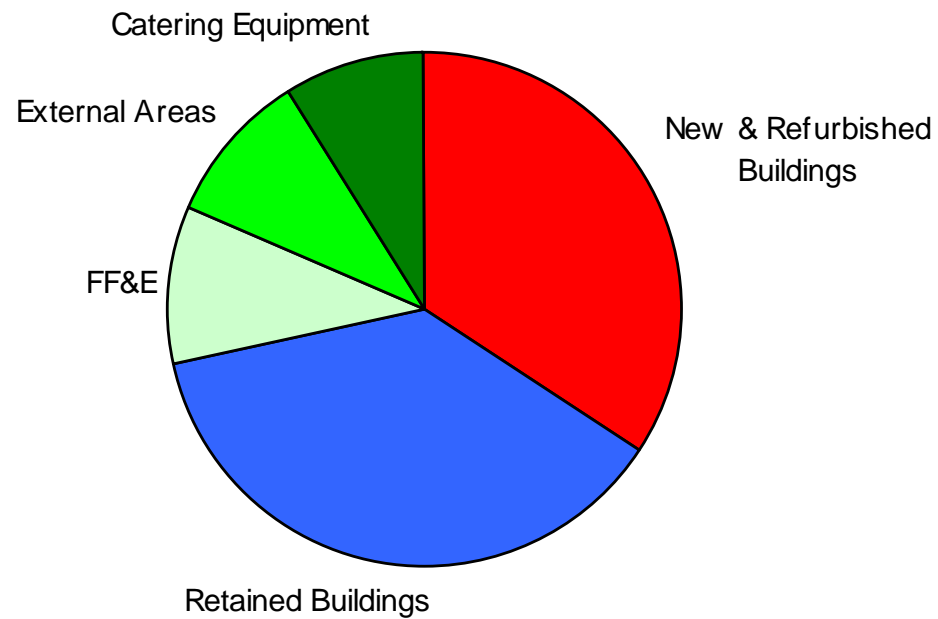


Lifecycle

- **ProjCo budgetary risk, except for utilities**
- **Pre FC surveys and due diligence**
- **Cyril Sweet pricing model:-**
 - **Gross Floor Area**
 - **Cost /m²**
 - **Age of building**
- **E C Harris opinion as to adequacy**



Lifecycle



Total £613 million Real 2004



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Lifecycle

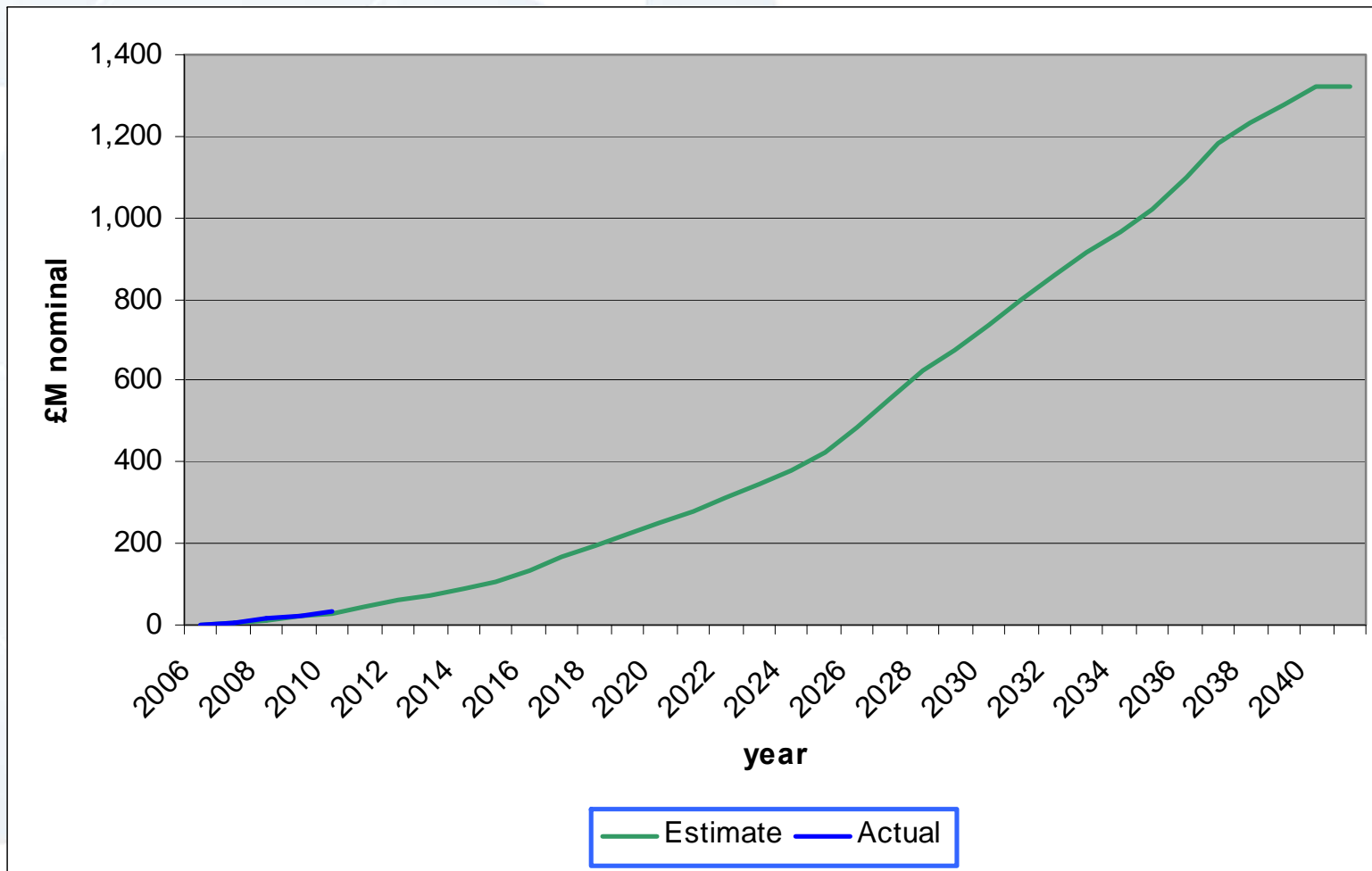
- **Post FC**
- **Retained Estate (circa $\frac{1}{3}$ of total)**
- **Extensive surveys**
 - **69 assets**
 - **16 space types**
 - **Detailed pricing :-**
 - **Individual quantities**
 - **Cost per element**
 - **Remaining life of each component**
 - **Extrapolated**
- **Reconfirms adequacy of Retained Estate estimate**



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Lifecycle

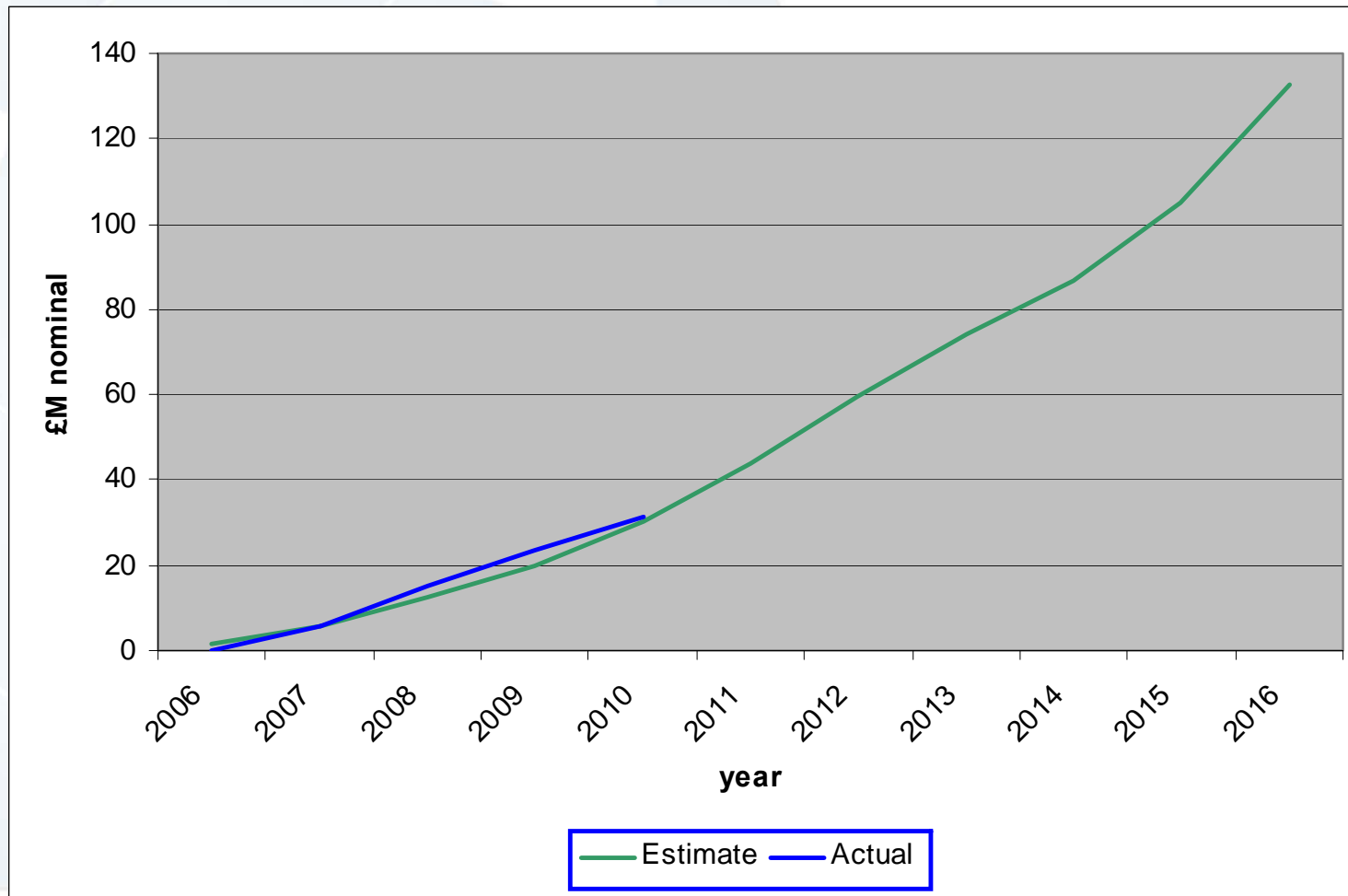




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Lifecycle – early years





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Financial



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Issuance Structure

The 2006 issuance for the financing of the project consisted of two fixed rate, wrapped, amortising Sterling debt tranches:-

Debt Issuance	
Total Issuance	£ 1,463 million (plus additional £305 million of Variation Bonds) sold as: <ul style="list-style-type: none"> • Series A (Ambac): £ 731 million • Series B (MBIA): £ 731 million
Type	Fixed Rate Sterling
Underlying Rating	S&P: BBB Moody's: Baa2
Legal Maturity	34 years (1 year tail on the Project Agreement)
Grace Period	8.5 years until amortisation commences
Weighted Average Life	25 years

Debt Security Package

- Fixed and floating charges
- Security over project accounts and contracts
- Assignment of insurance policies
- Step-in rights



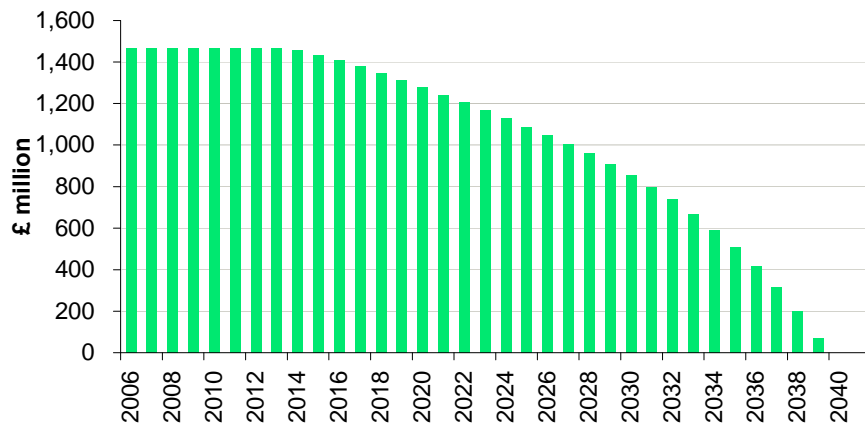
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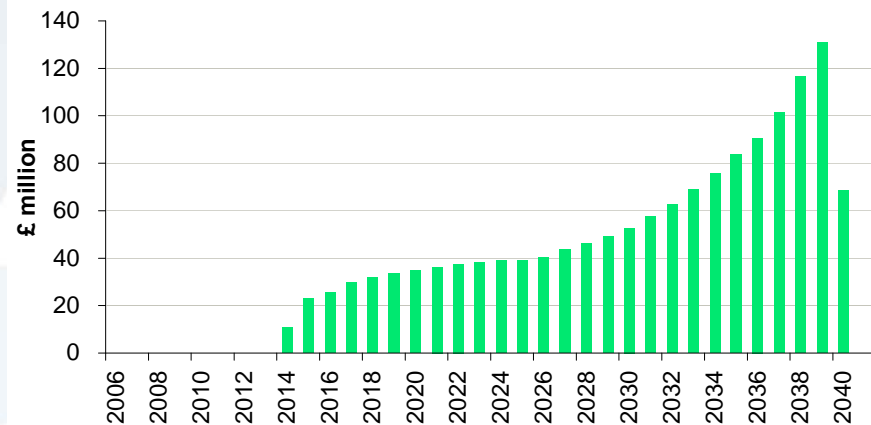
Bond Outstanding Principal and Amortisation Profile

The outstanding principal and the amortisation profile for the combined Series A and Series B bonds over time is shown below on an annual basis. Series A and Series B are repaid pro-rata

Outstanding Principal



Amortisation Profiles





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Sources and Anticipated Uses of Funds – first 8 years

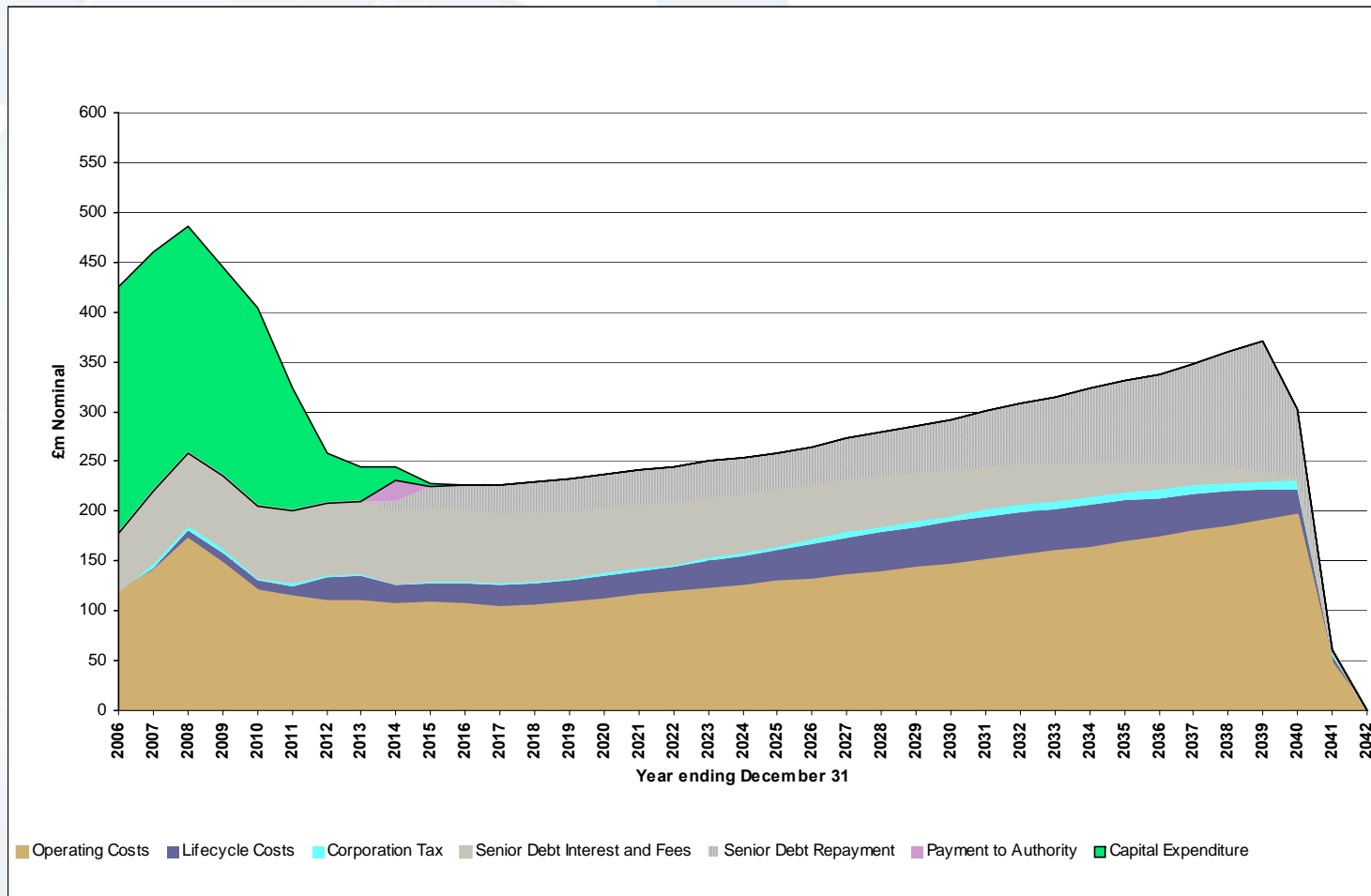
Sources of Funds (First 8 years)	£m	% External Funding	Uses of Funds (First 8 years)	£m
Fixed Rate Guaranteed Bonds	1,463	92.4%	Capital Expenditure	1,493
Shareholder Financing	120	7.6%	Hard & Soft Facilities Mgmt	920
Operating Revenues	1,542	-	Financing Fees and Interest	593
Interest Income	173	-	Lifecycle	72
Additional Authority Funding	243	-	Overheads, insurance and tax	133
Direct funded Change	129		Direct funded Change	129
			Loan Stock Interest	52
			Cash/Reserves	278
Total	3,670	100%	Total	3,670



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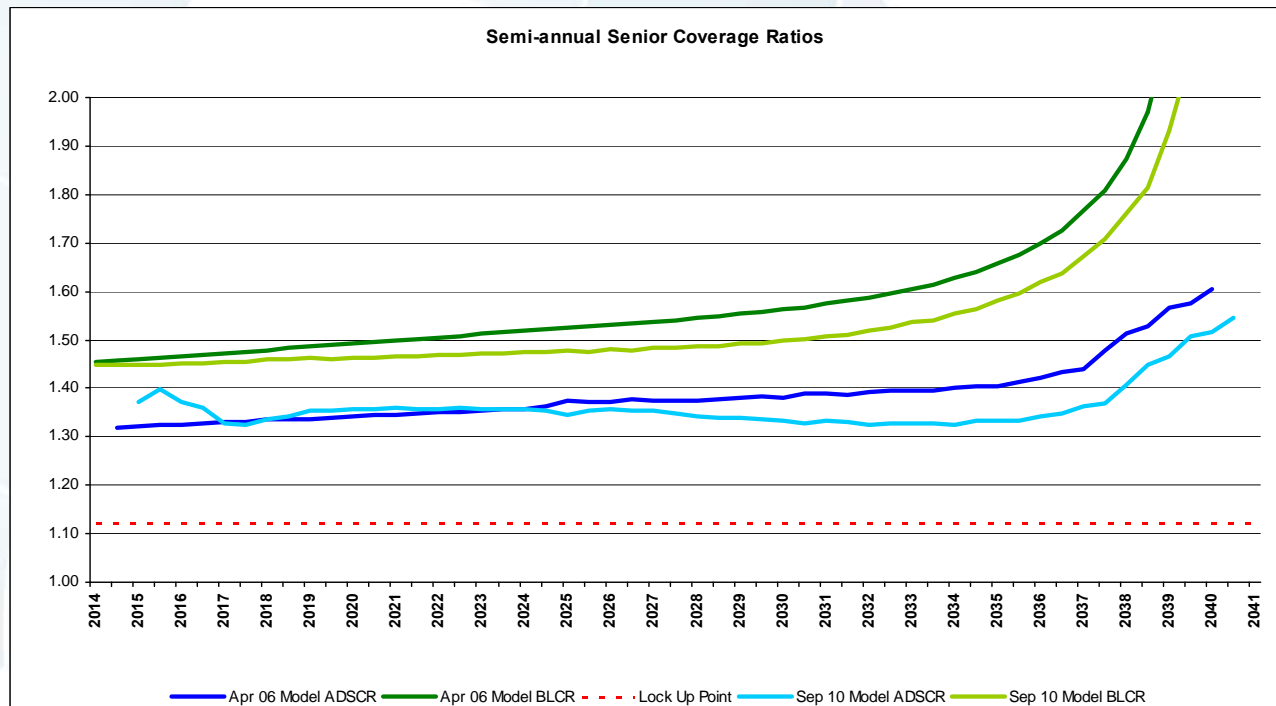
Main cash out-flows over project life





Senior Debt Cover Ratios

- FC Base case ADSCR min 1.32 (2014) average 1.39, BLCR min 1.46
- Current forecast ADSCR min 1.32 (2031) average 1.36, BLCR min 1.45
- Distribution lock-ups at ADSCR <1.12, BLCR <1.15





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Credit Crisis

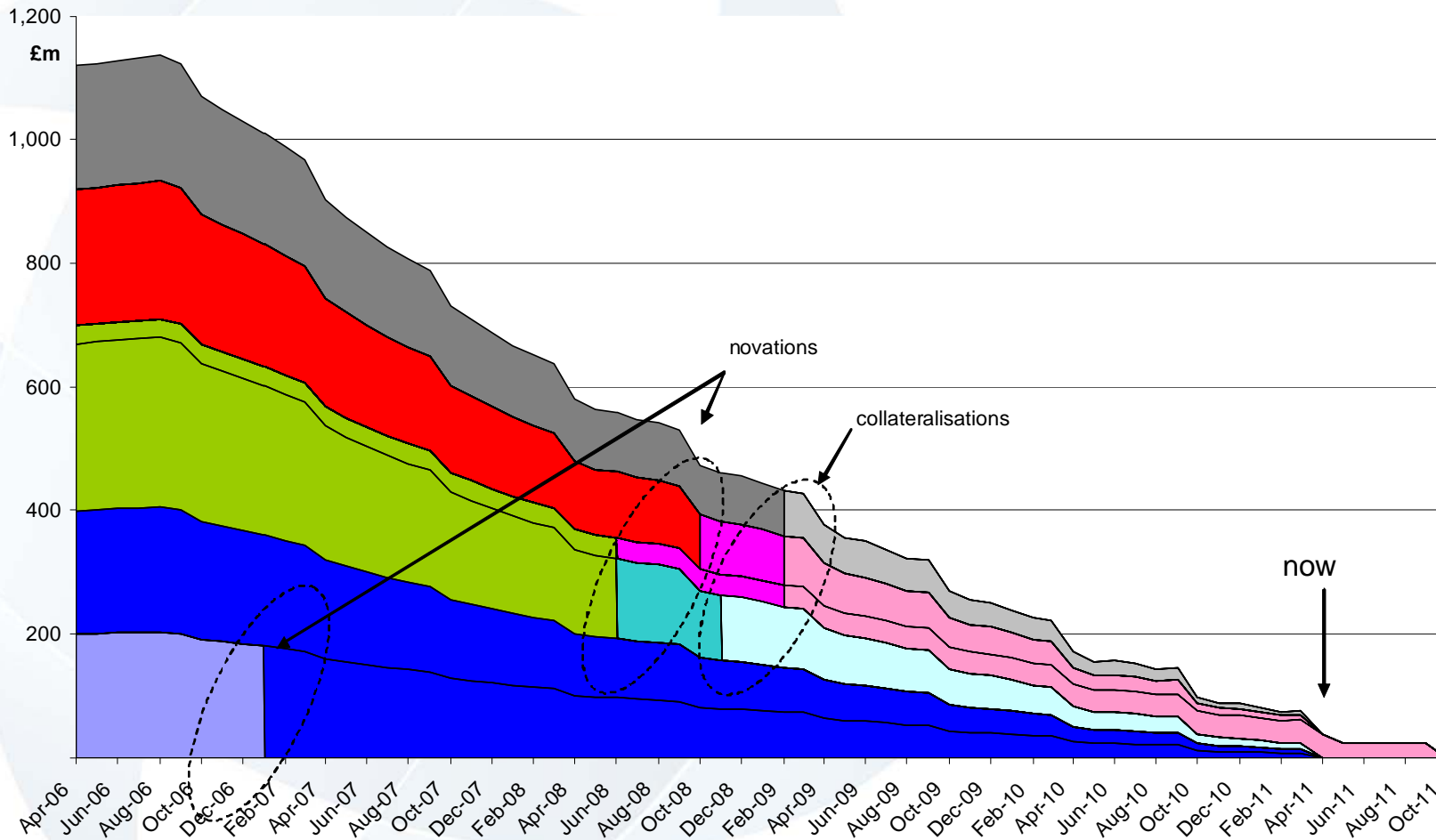
- Credit crisis impacted the Project:
 - Primary Arrangements – GICs and Authorised Investments
 - 6 significant GIC deposits at FC, balances reduce monthly
 - Protective provisions called up; series of novations then collateralisations
 - 5 of 6 exposures now fully repaid
 - Final GIC is fully collateralised with gilts
 - Secondary Arrangements – LCs
 - LC issuer downgraded
 - Alternative arrangements in place



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GICs





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Summary



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Project Summary

- Effective robust contract structure
- Successful service delivery from the start continues
- Construction programme delivering; 65% complete
- Effective management of changing requirements
- Strong partnering relationships

Cautionary Statement

This presentation may contain indications of future developments and other forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the sector of the economy within which the company operates. These and other factors could adversely affect the Project companies' results and prospects. Forward looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause the results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward looking statements, whether as a result of new information, future events or otherwise.



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Time lapse





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