PROJECT
ALLENBY/CONNAUGHT

Visit to Project Allenby/Connaught by Bond Holders

29 September 2009

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Programme

10:30	Arrive at the Aspire Business Centre, Tidworth
10:45 - 12:15	Project briefing & presentation
12:15 - 13:15	Windscreen Tour of Tidworth Garrison
13:15 - 14:00	Q & A session and lunch
14:00	Close/Return to Andover

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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)

Source: MOD

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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

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

What is the Contract?

A 35 year contract to provide a service

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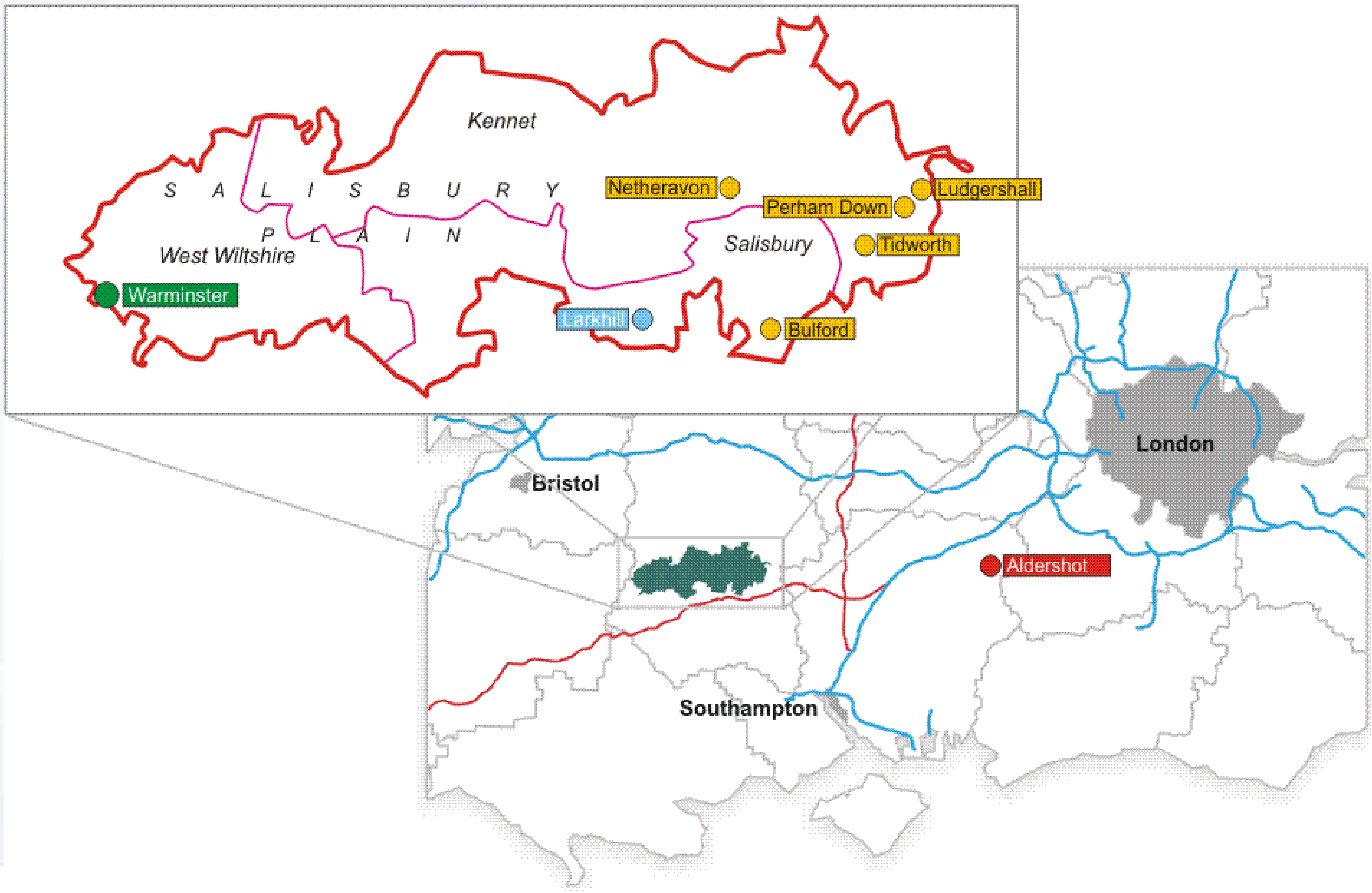
Project Locations



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Key Facts

- £8Bn [£11.9Bn] 35 year PFI contract with Aspire Defence.
- Construction Value £1.3Bn, Steady State Unitary Payment £240M pa
- Provides living & working accommodation to 18,700 military personnel, with total dependency more that 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

Organisation and Structures

Aspire defence

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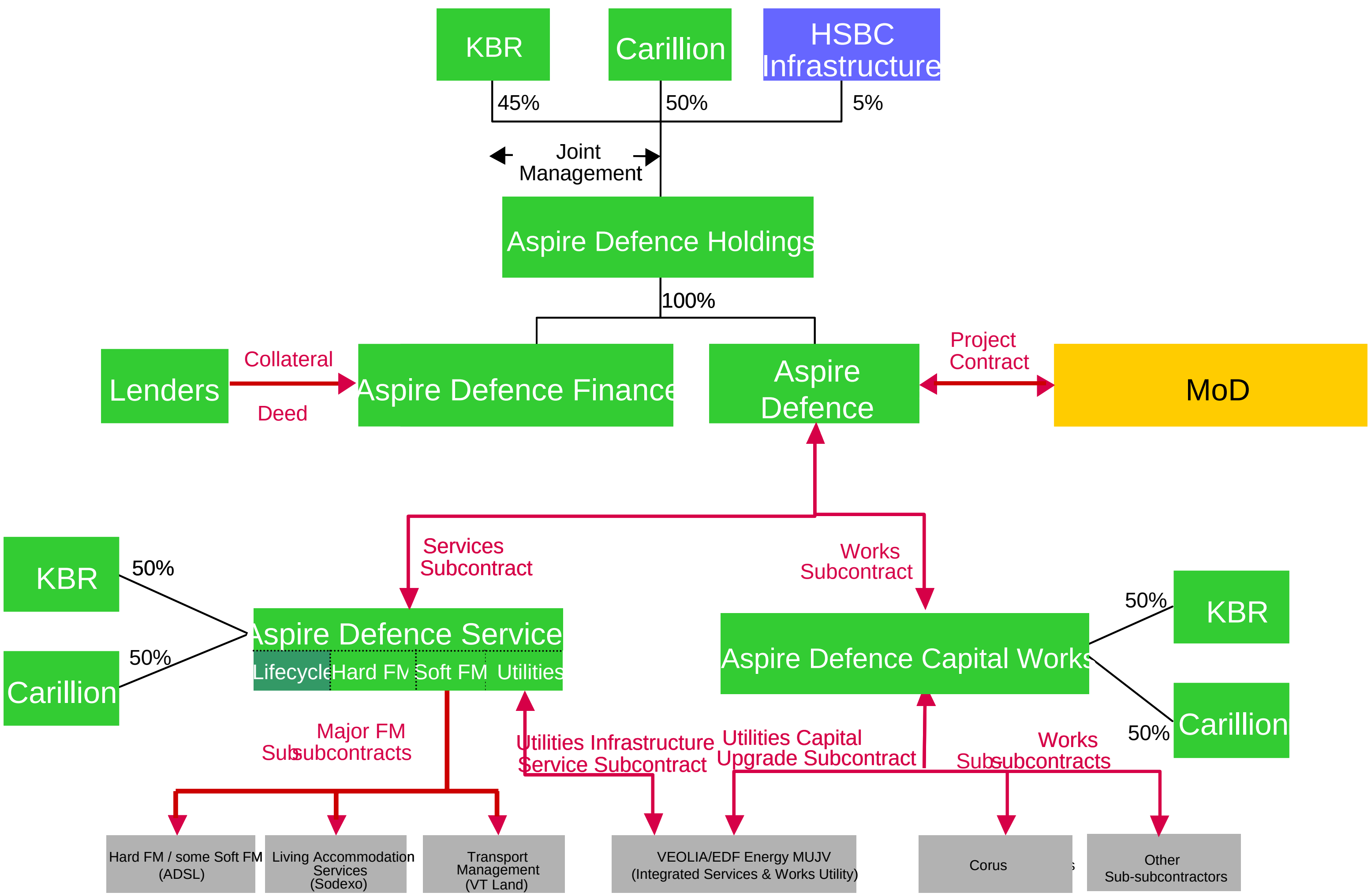
Contractual Framework



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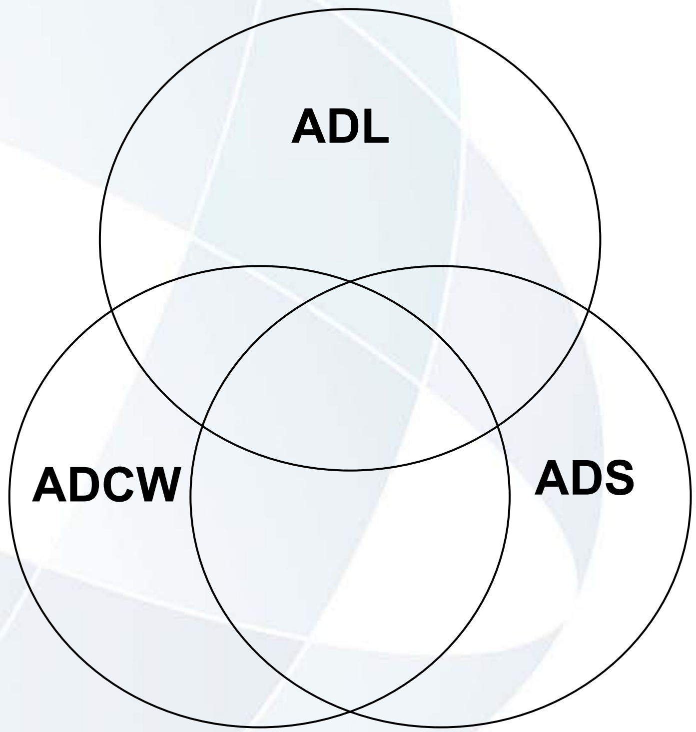
Working Relationships



Aspire defence

Aspire Defence Capital Works

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Construction Overview

- £1.3bn, 8 year construction programme
- Construction of large number low/medium rise, not technically complex but geographically spread accommodation = low risk
- Management of Transition Programme key as provides solution to ensure MoD's operational requirements are met

Three Pricing Categories

- Firm, Fixed and Competed:
  - Firm – £481m
  - Fixed – uplifted for inflation/change in law – £327m
  - Competed – subject to benchmarking or competition in the market with agreed multiplier – c £470m including client's reassessment of the out-turn cost (of which £125m Firmed)
- Appropriate allocation of risk over 8 year construction period

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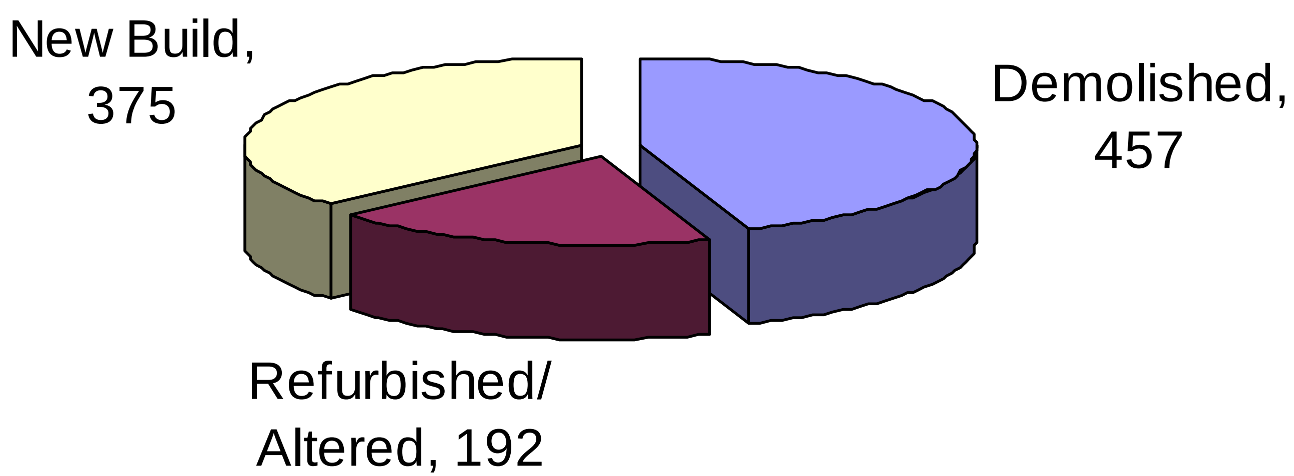
Capital Works – number of units, by building type



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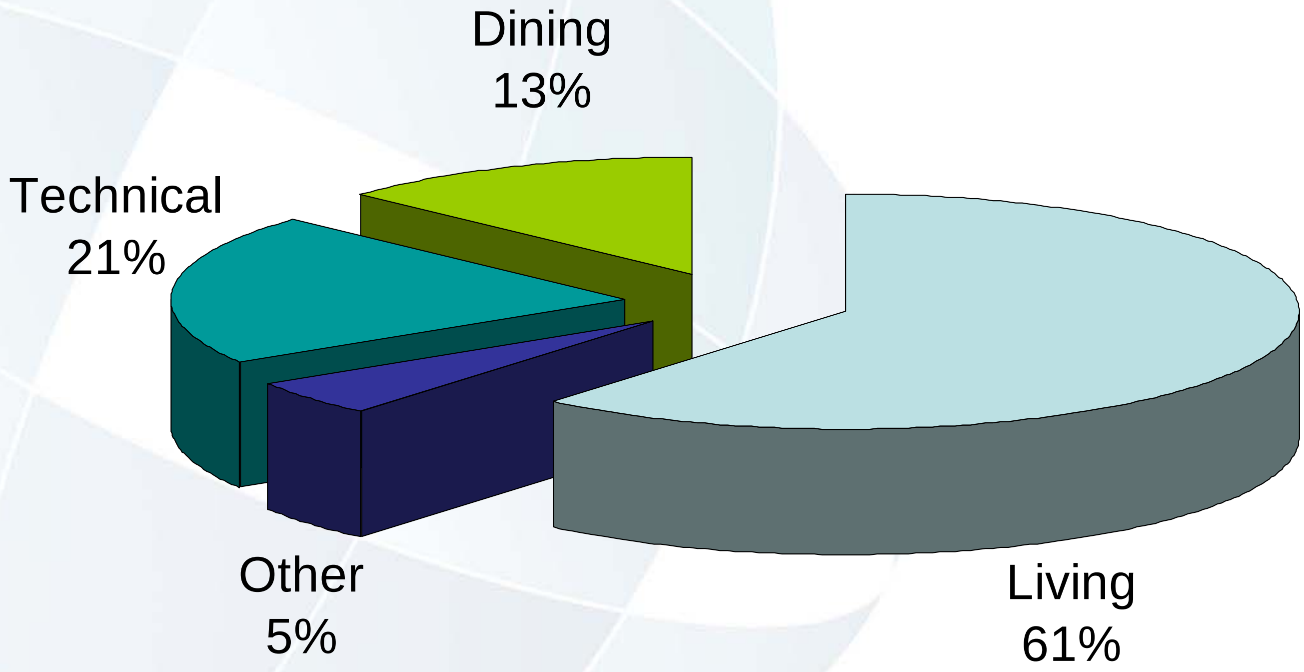
Capital Works - building space by type and use



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Construction Progress (as at end Aug)

- Construction programme is on schedule
- First new build Accepted into Service – 04 May 2007
- 168 new builds completed (45%)
- 45 refurbished buildings completed (23%)
- 3,800 new/refurbished SLA beds (35%)
- 206 demolitions completed (45%)
- 97% re-use of demolition materials

Agreement to 'Advance' and 'Shorten' the construction period

- **Advancing:** Provide 10 SLA £18m buildings in FY 09/10 (2 years early)
- **Shortening:** Complete construction on all sites except Aldershot by end 2013. Aldershot 2014.

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Construction Summary

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

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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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Aspire defence

Services

Management & Administration

- Performance Monitoring
- QA Admin
- Helpdesk
- MIS
- HS&E
- HR
- Reporting
- Data Management
- Visitor Management

Assets and Facilities

- Maintenance: M&E
- Building Fabric
- Grounds
- Ducting
- Civil Eng
- Furniture
- Fixtures & Fittings
- Estate Management
- Pest Control
- Utilities Maintenance & Management
- Cleaning
- Waste Management
- Window Cleaning

Office Services

- Mailroom
- Archiving
- Admin and Clerical
- Typing
- PA Services
- Media Services
- Model Making
- Reprographics

Welfare Services

- Leisure Services
- Civilian Catering

Support to Security Services

- Security Passes
- Reception
- Vetting

Supply, Transport and Equipment Support Services

- Weapons & Ammunition Management
- Stores
- Fuel & Lubricants
- Laundry & Dry Cleaning
- Tailoring
- Shoe Repairs
- Travel Booking
- Fleet Management
- Logistics
- Vehicle Servicing

Living Accommodation Services

- Domestic Services
- Parking Space Management
- Mess Management
- Military Catering
- Bar Services
- Function Services

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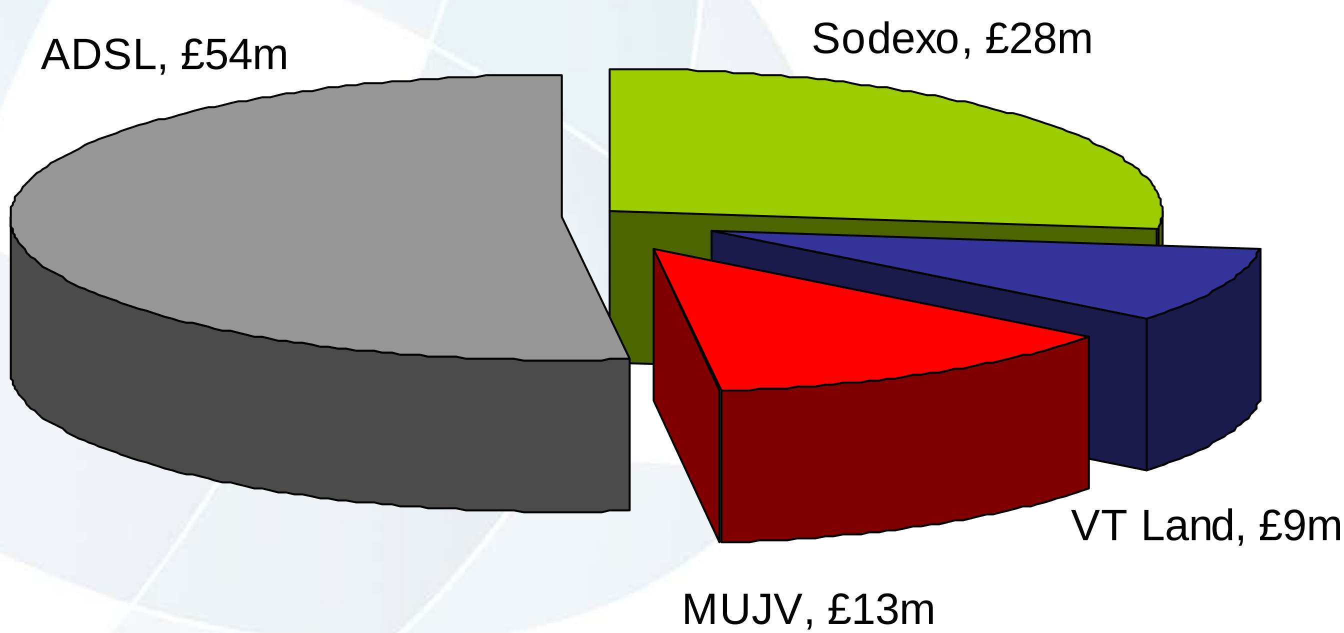
Direct Delivery/Sub-Contract Revenue – averages over years 1-10 at Financial Close prices



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Services Progress

- **Performance**
  - Effective start up
  - No significant PI failures
  - No significant unavailability
- **Help Desk**
  - 24/7 Help Desk handles average of 5,500 calls monthly – 97+% answered within 30 seconds
  - Predominantly Building Maintenance related, reflecting condition of the estate at Financial Close
- **Retained Estate (RE) Acceptance into Service**
  - 75% of RE AIS and subject to availability performance regime
  - Remaining RE to be AIS in 2010.
- **Plan to introduce PAYD in 2010**

Lifecycle

Aspire defence

Lifecycle

- ProjCo budgetary risk, except for utilities
- Pre FC surveys and due diligence
- Cyril Sweet pricing model:-
  - Gross Floor Area
  - Cost /m^2
  - Age of building
- E C Harris opinion as to adequacy

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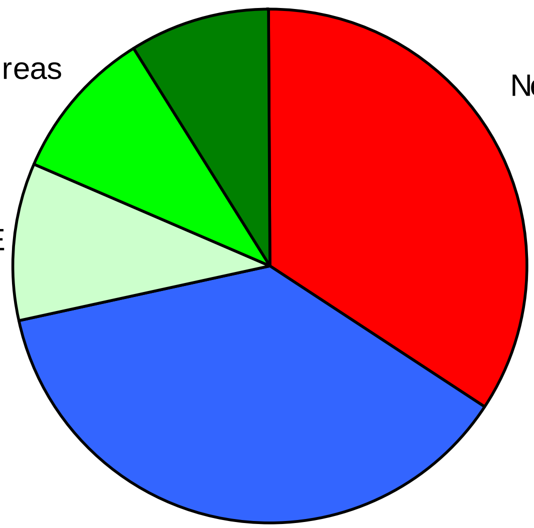
Lifecycle



Total £613 million Real 2004

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Lifecycle

- Post FC
- Retained Estate (circa ⅓ 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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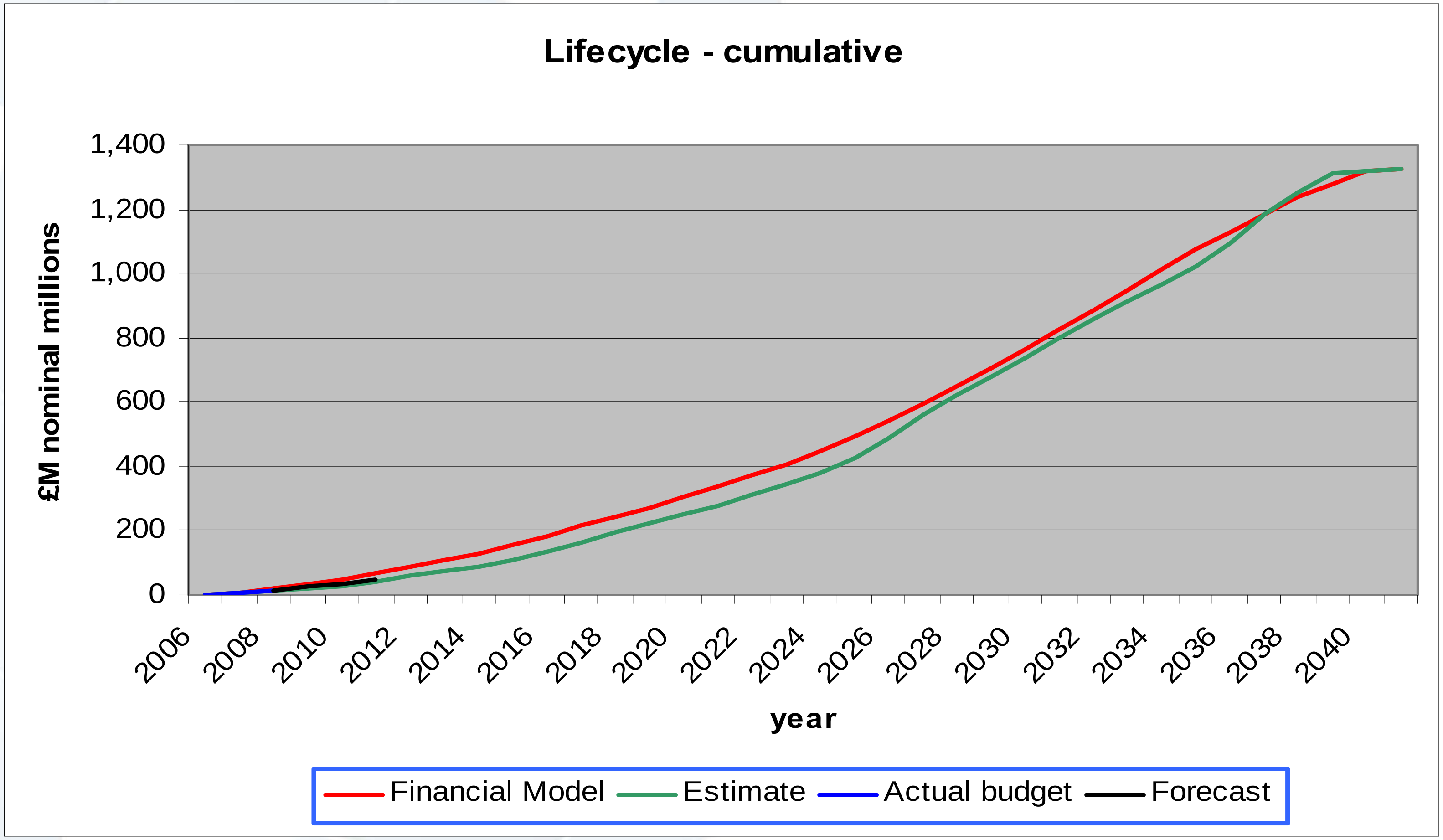
Lifecycle



Financial

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: • Series A (Ambac): £ 731 million • Series B (MBIA): £ 731 million
Type	Fixed Rate Sterling
Underlying Rating	S&P: BBB- Moody's: Baa3
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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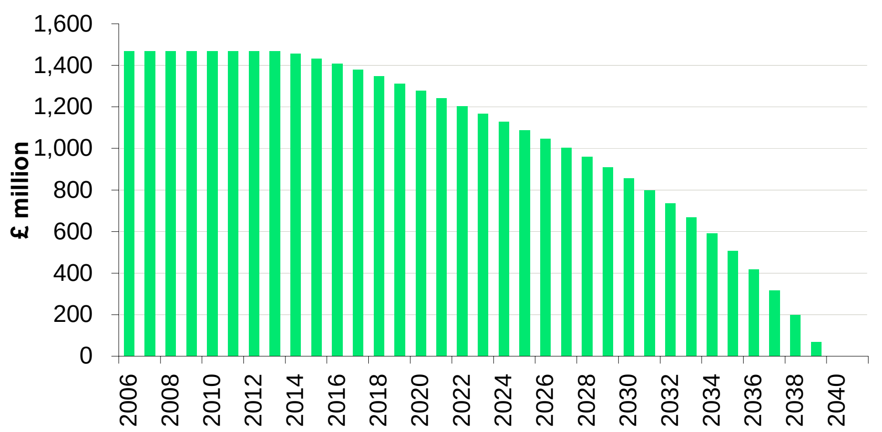
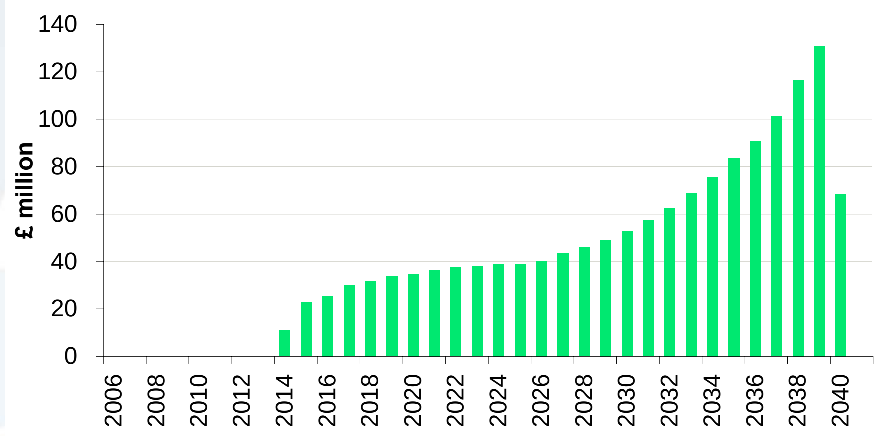
Bond Outstanding Principal and Amortisation Profile

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
Fixed Rate Guaranteed Bonds	1,463	92.4%
Shareholder Financing	120	7.6%
Operating Revenues	1,534	-
Interest Income	180	-
Additional Authority Funding	86	-
Total	**3,383**	**100%**

Uses of Funds (First 8 years)	£m
Capital Expenditure	1,336
Hard & Soft Facilities Mgmt	876
Financing Fees and Interest	593
Lifecycle	101
Overheads, insurance and tax	130
Direct funded Change	81
Loan Stock Interest	52
Cash/Reserves	214
Total	**3,383**

Source: Mar 2009 Operating Financial model

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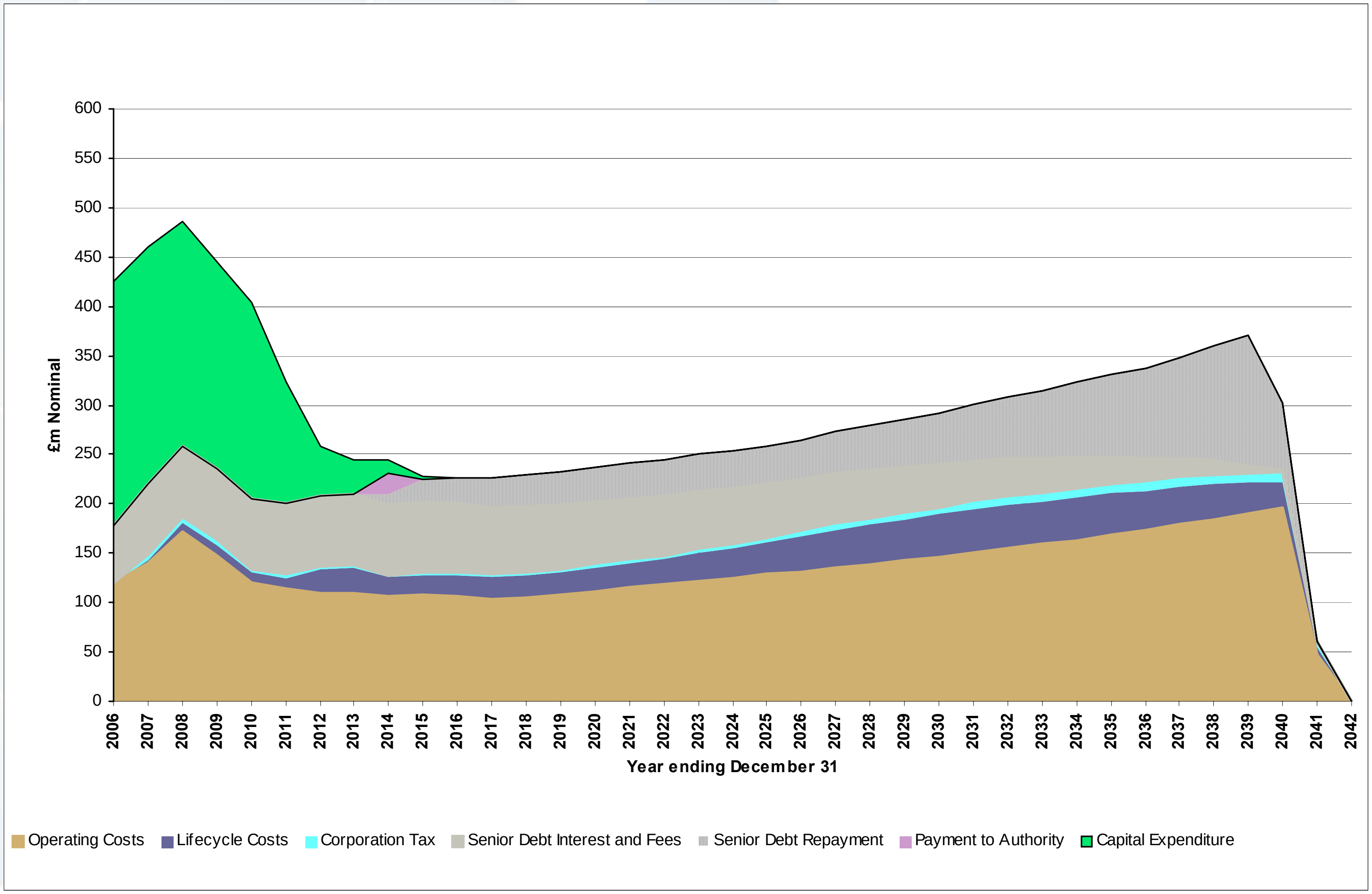
Main cash out-flows over project life



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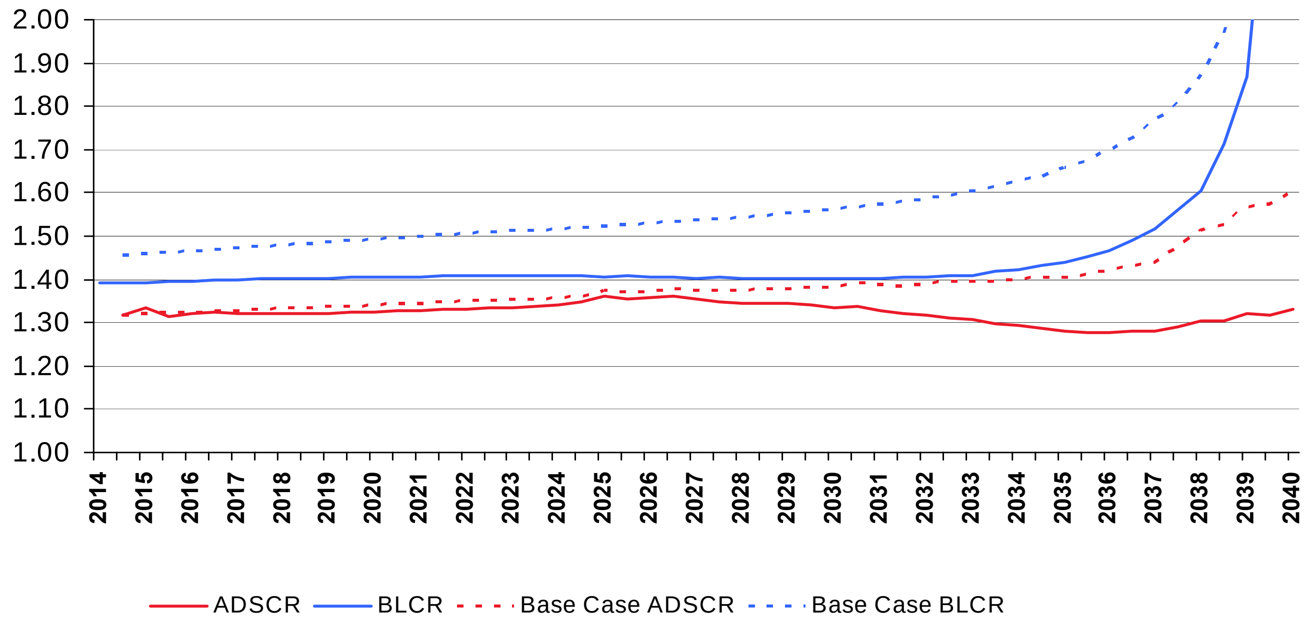
Senior Debt Cover Ratios

- FC Base case ADSCR min 1.32 (2014) average 1.39, BLCR 1.46
- Current forecast ADSCR min 1.28 (2036) average 1.32, BLCR 1.39
- Distribution lock-ups at ADSCR <1.12, BLCR <1.15



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
    - No remaining financial exposure to both monolines
    - 3 of 4 exposures now fully collateralised
  - Secondary Arrangements – LCs
    - LC issuer downgraded
    - Alternative arrangements now in place

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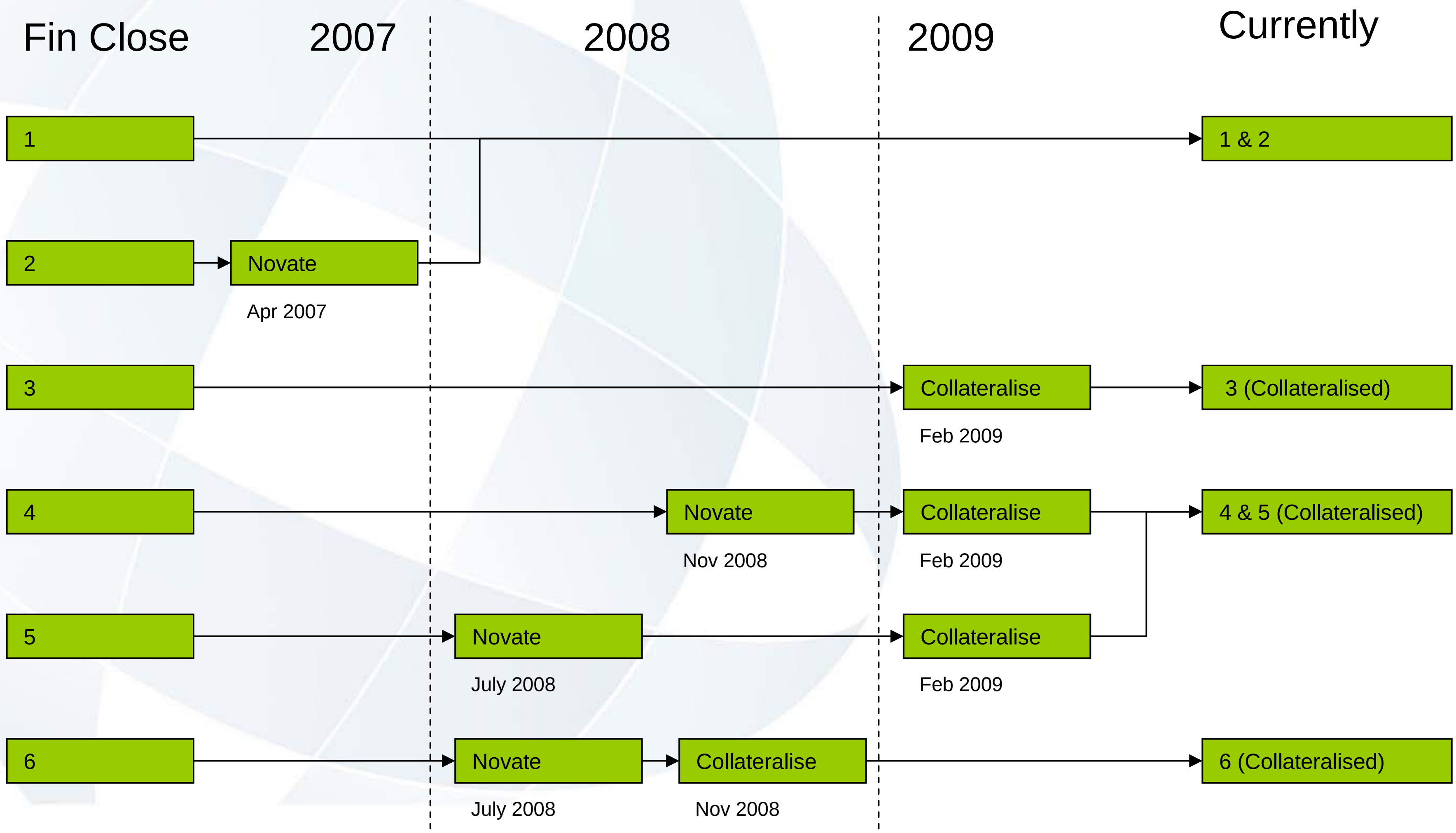
GICs



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GICs

	Exposure	Collateral	
1	£ 85m	n.a.	
2	£ 82m	£ 87m	UK Gilts
3	£ 57m	£ 64m	CDs
4	£ 43m	£ 44m	US Treasuries
Total	£267m	£195m	

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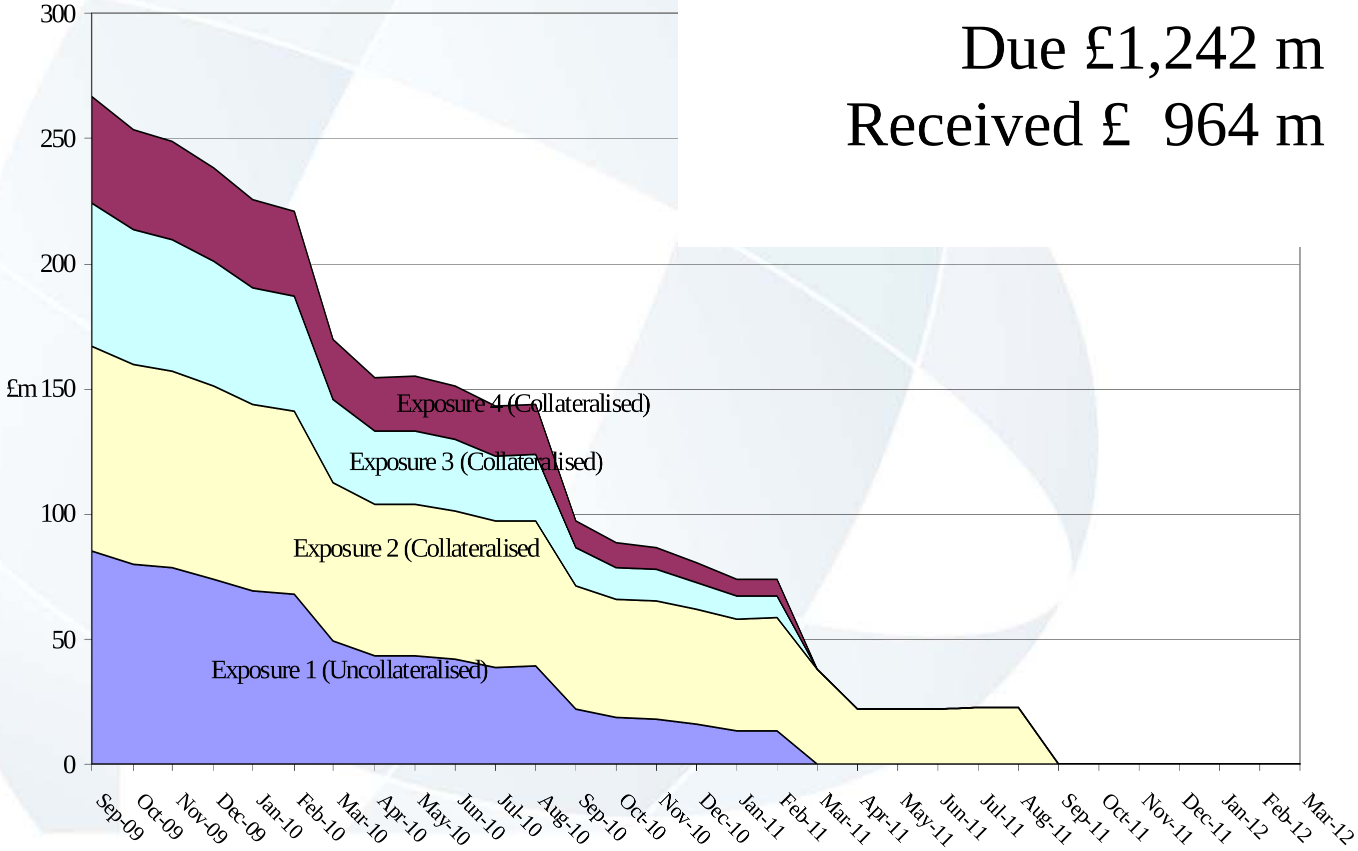
GICs

Due £1,242 m
Received £ 964 m



Letters of Credit

- Letters of Credit:
  - Form part of ADCW credit support package
  - Guarantee receipt of shareholder loan stock subscriptions
- FC £170m: £60m Letters of Credit, £110m Surety Bond
- Total requirement
  - Increases as Competed works are Firmed
  - Reduces as works Accepted into Service
- Currently £73m: £60m Letters of Credit, £13m Surety Bond
- Letter of Credit provider downgraded, alternative arrangements in place
  - LCs re-issued
  - Partially Cash Collateralised

Conclusion

Project Summary – and Achievements

- Effective robust contract structure – issues of detail but effective
- Successful service delivery from the start – better than could have hoped for
- Construction programme that delivers the Transition Programme – Achievable, including 2RTR
- Effective management of changing MoD requirements – high volume but process is working
- Strong partnering relationships – a real strength

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Visit to Project Allenby/Connaught by Bond Holders

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