



Property Consultants

Ref: AWW/AC

3 June 2010

The Directors
Sovereign Reversions plc
31 Goldington Road
BEDFORD
MK40 3LH

Fairfax I.S. plc
46 Berkeley Square
LONDON
W1J 5AT

Dear Sirs

SOVEREIGN REVERSIONS PLC – VALUATION AT 30 APRIL 2010

1.0 INSTRUCTIONS

- 1.1 Further to your instructions, confirmed by our Terms of Engagement dated 18 February 2010, we have valued the properties (as defined herein) owned by Sovereign Reversions plc ('the Company') as at 30 April 2010. We understand that our valuation report is required in connection with an Offer for the Company and is in accordance with Rule 29 of the Takeover Code.
- 1.2 This is a regulated purpose valuation having regard to the Royal Institution of Chartered Surveyors Valuation Standards 2010. We are therefore required to make the following disclosure.
 - a) Allsop LLP (or prior to 1 November 2005, Allsop & Co) has continuously been carrying out valuation services to the Company for eight years commencing April 2002. Our policy is to rotate valuers every seven years. The signatory of this valuation, Andrew Wells BSc MBA MRICS has continuously been the signatory to valuations for the Company for a period of one year since April 2009.
 - b) Allsop has had a relationship with the Company for a period in excess of eight years, receiving fee income in respect of valuations.
 - c) In relation to the Allsop financial year ending 31 March 2010, the proportion of the total fees paid by the Company to the total fee income of Allsop, is less than 5%. There has been no material increase in the proportion of fees payable by the Company since the end of the last Allsop financial year.
- 1.3 We are required to confirm the status of the Valuer. We can confirm that the Valuer, Andrew Wells BSc MBA MRICS is an Independent Valuer as defined in the Royal Institution of Chartered Surveyors ('RICS') valuation standards 6th edition ('the Red Book') and is an independent expert. We confirm that the Valuer meets the requirements of the RICS Valuation Standards PS 1.5 and Rule 29.1 (b) (i) of the Takeover Code having sufficient knowledge, skills and

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understanding to undertake this valuation competently. He has no ownership of securities issued by the Company, has no former employment with the Company and no connections with the financial intermediary listed as an addressee of this report.

1.4 We have declared to you and to The Panel on Takeovers and Mergers ('The Panel') that Allsop has for a number of years advised Grainger plc ('Grainger') on valuation and other aspects of their property holdings. Allsop has not advised Grainger in connection with their Offer for the Company. The Panel has consented to Allsop providing the valuation to The Company herewith on the conditions that;

- a) Allsop undertakes any unconnected valuation work for Grainger by a separate team during the period of the takeover,
- b) The Company and Grainger are to confirm in writing to The Panel that they are aware of the services offered by Allsop to the other party and that they consent to Allsop undertaking this valuation and
- c) There is an explicit statement in the valuation report that the consent referred to in 1.4 b) above has been given.

1.4.1 We confirm that we have received the consent of both parties separately and the letters of consent are exhibited herewith at Annex 1.

1.5 The date of valuation is 30 April 2010 ('the Valuation Date').

1.6 The valuation is subject to assumptions which are listed at Annex 2.

1.7 The basis of value is Market Value as defined in the Red Book and this is the same basis as incorporated in the Company's financial statements also at the Valuation Date. The Market Value is subject, where applicable, to the existing tenancy or occupancy and is reported herein as an aggregate of individual Market Values of properties, rather than the entire portfolio of properties as an assumed single disposal in accordance with Guidance Note 3 of the Red Book.

2.0 THE PROPERTIES

2.1 The properties we have valued are the 1,083 residential property assets located in the UK held by the Company as at the Valuation Date. They comprise dwellings occupied mostly by persons of retirement age.

2.2 The great majority of the properties comprise dwellings which are subject to home reversion plans, where the occupant has relinquished all or part of the ownership in their dwelling, in return for a right to remain in the property rent free for the rest of their life or until they voluntarily vacate. In the portfolio, 828 have the benefit of a life tenancy (76.4% of cases) and 208 properties are subject to a shared equity loan (19.2% of cases). There are 47 vacant properties (4.4% of cases)

2.3 In a small number of cases, a rent is payable by the occupier and the rental total at the valuation date from the properties is £7,247 per annum.

- 2.4 The occupier is in all cases responsible in full for repairs, maintenance and insurance either directly or through a service charge.
- 2.5 For the life tenancy interests the Company is entitled to 100% of the equity upon vacant possession in 32.0% of cases. In situations where the Company owns less than 100% of equity, the Company has confirmed that the Company has an absolute right upon obtaining vacant possession to sell the vacant property and receive that portion of the sales proceeds equivalent to their proportionate interest in the relevant property.
- 2.6 For the shared equity loan interests the Company has a financial interest only in each property. This is secured by way of a Charge on Title and a right to a share of the proceeds of a sale of the property following the death or voluntary vacation by the Title holder.
- 2.7 The properties are located across the UK with a broad regional spread as shown below:

	Life Tenancies	Shared Equity Loans	Vacant	TOTAL
East Anglia	45	19	2	66
East Midlands	59	7	2	68
Greater London	22	12	2	36
North	17	0	0	17
North West	75	28	7	110
Northern Ireland	1	0	0	1
Scotland	18	0	0	18
South East	284	98	11	393
South West	125	22	10	157
Wales	35	0	1	36
West Midlands	76	22	7	105
Yorkshire	71	0	5	76
Grand Total	828	208	47	1,083

- 2.8 We have not valued property interests held by the Company for their own occupation and properties held in funds and vehicles in which the Company may have an interest.

3.0 INFORMATION RELIED UPON

- 3.1 We have received from the Company a schedule of addresses, accommodation, tenure, tenancies, tenancy type and rental income as at 1 April 2010 which has been updated to reflect the portfolio as at 30 April 2010 and we have relied upon this entirely in arriving at our valuations. We have undertaken no separate verification of the accuracy of the information and have therefore assumed that it is complete and correct.

3.2 Our inspections have been on an external basis only in view of the significant numbers of properties and the existence of tenancies.

3.3 In relation to internal condition and presentation we have made the assumption that the properties were last redecorated internally five years ago; that they each benefit from a gas central heating system and that kitchen and bathroom fittings are ten years old and in fair/good condition. We have discussed these assumptions with the Company who agree that overall these are reasonable assumptions to make.

4.0 EXTENT OF INSPECTION

4.1 We have undertaken external inspections of 34% of the properties between 18 February and 30 April 2010. The sample has been chosen so that it is representative by geography. For the purposes of the Company's financial statements at 30 April 2009 and 30 April 2008 we also inspected a one-third sample being a different sample in each case and different from those chosen for the current valuation.

4.2 In the last three years we have therefore inspected externally all of the properties which are the subject of this valuation.

5.0 VALUATION APPROACH

5.1 Vacant possession value methodology

5.1.1 In order that we may arrive at a Market Value of the dwellings subject to existing occupancy, it is first necessary for us to arrive at a vacant possession value ('VPV') of each dwelling at the Valuation Date. The Market Value is arrived at by applying a discount to the VPV to reflect the existence of the tenancy, in accordance with market practice.

5.1.1 For the 34% of properties that we have inspected and valued for the purposes of this report (the 'inspected properties') we have adopted those VPVs for this valuation. Each VPV is supported by comparable evidence of similar sales of properties in the open market and is as at the Valuation Date. The other 66% have been indexed from our previous valuations ('the indexed properties') before the appropriate current market investment discounts are applied.

5.1.2 The indexation we use to value the indexed properties is a blend of a) the Halifax regional house price index ('Halifax index'), b) the Nationwide regional house price index ('Nationwide index') and c) the movement between the reported values of properties that have been inspected by us in 2010 and their equivalent reported values in 2009. We have weighted the indexation from April 2009 where 25% is based on the Halifax index, 25% on the Nationwide index and the remaining 50% based upon the regional change in value seen in our sample.

5.1.3 Our view is that the Halifax index and Nationwide index merit equal weight, whilst a 50% weighting based on our experience of the Company's own stock would more accurately reflect the fact that the majority of the Company's properties are occupied by equity release planholders and therefore not wholly representative of the type of properties which would fall into the Nationwide/Halifax database.

5.1.4 The table below shows the comparison by region of the change in value from 30 April 2009 of the Allsop one-third sample and the blended Halifax/Nationwide indexed figure together with the weighted change adopted:

	Allsop Sample	Halifax/Nationwide	Weighted change adopted
East Anglia	10.99%	12.26%	11.63%
East Midlands	-1.55%	6.59%	2.52%
Greater London	15.43%	13.56%	14.49%
North	-0.78%	7.70%	3.46%
North West	1.98%	5.14%	3.56%
Northern Ireland	-12.81%	-5.68%	-2.84%
Scotland	5.57%	7.34%	6.46%
South East	9.76%	9.73%	9.75%
South West	8.59%	9.87%	9.23%
Wales	2.88%	6.16%	4.52%
West Midlands	4.47%	8.30%	6.39%
Yorkshire	2.05%	5.40%	3.73%

5.1.5 It is our opinion that at the Date of Valuation the aggregate of the vacant possession values of the shares of equity in the properties owned by the Company totalled £111,333,601. The additional value of the Company's share in the vacant dwellings is £3,768,913. This gives an aggregate vacant value of £115,102,514.

5.2 Investment value methodology

- 5.2.1 To arrive at the Market Value subject to the existing occupancies of dwellings we have used 'term and reversion' methodology. This first places a value on the period until the tenant or owner can be expected to vacate (voluntarily or through death) and this is the 'term'. In most cases no rent is payable so the term value is nil. The value of the right to receive vacant possession (or a portion of it) upon voluntary vacation or death is the 'reversion'. This reversion is almost without exception, vastly the more valuable element of the two.
- 5.2.2 For the life tenancies and shared equity loans we were supplied by the Company with the ages of the tenants and are thus able to identify the average life expectancy of each using the latest Government Actuary's Department interim life tables which, for the subject valuation, are for the years 2006-2008. For each dwelling, we adopt the average life expectancy of the tenant (or in the case of joint tenants, the longer of the two life expectancies) when considering the likely proximity of the reversion.
- 5.2.3 The Company's right to the vacant reversion of a property does not just arise on the death of the last surviving tenant of a property. It could be earlier, for example, by the tenant going into care or leaving to live with a family member. This is known as 'morbidity'. We therefore shorten our life expectancy

assumption by adopting the data supplied by the Company on morbidity for their properties.

- 5.2.4 In each case, the current value of the reversion is calculated by application of a discount rate to the current VPV which gives us the net present value ('NPV') of the future right to receive that reversion. The real discount rate adopted by us varies, depending upon our judgement of the quality of the property. The average NPV discount rate applied in relation to the properties is a real discount rate of 6.8%.
- 5.2.5 Properties which are subject to joint rather than single tenancies are slightly less attractive to the market and we reflect this in our valuation modelling.
- 5.2.6 For properties subject to shared equity loans, we apply a discount to VPV (as we are not supplied with age information) based on our experience and judgement. To assist in this process we model different assumptions on occupation length, extent of current equity owned and house price inflation. We check the results of our modelling against the Company's recent experience of redemptions.
- 5.2.7 Although every dwelling has its individual resultant discount, the average is 58.9% of VPV for properties which are owned by the Company and which are tenanted and subject to a home reversion plan. In this context, we have valued the properties on the basis of the VPV which corresponds to the share of VPV that the Company is entitled to upon reversion.
- 5.2.8 Properties which are vacant at the Valuation Date have been valued at the appropriate share of VPV.
- 5.2.9 The market for portfolios of life tenancies or home reversion products is specialist and fairly limited at present. A purchaser must be regulated by the FSA and this reduces the market size substantially. Transactions in the life tenancy sector in the last 12 months have been virtually non-existent. Other than the VPVs (which are supported by comparable evidence), we must state that there is no recent comparable evidence to support our discount to VPV. We believe that we have used assumptions consistent with those used in the market when arriving at our NPVs and hence Market Values. We have compared the resultant percentage of VPV with those observed for regulated tenancies. The current relativity between the two is consistent with the relativities we observed when there were a greater number of comparable transactions in the life tenancy market.

8.0 MARKET VALUE

- 8.1 Our valuations are on the basis of Market Value which is defined as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion."

- 8.2 In accordance with the above and the methodology described herein, we are of the opinion that the aggregate Market Values of the Company's share in freehold and leasehold properties subject to their existing tenancies (where relevant), the vacant properties and the properties subject to shared equity

loans as at the Valuation Date totalled **£69,301,271 (Sixty Nine Million Three Hundred and One Thousand Two Hundred and Seventy One Pounds)**.

- 8.3 Within the aggregate valuation at 8.2 above, we are of the opinion that the aggregate Market Values of the Company's share in properties subject to shared equity loans as at the Valuation Date totalled **£5,146,449 (Five Million One Hundred and Forty Six Thousand Four Hundred and Forty Nine Pounds)**.
- 8.4 Within the aggregate valuation at 8.2 above, we are of the opinion that the aggregate Market Values of the Company's share in properties held with vacant possession at the Valuation Date totalled **£3,768,913 (Three Million Seven Hundred and Sixty Eight Thousand Nine Hundred and Thirteen Pounds)**.
- 8.5 No individual property has a value in excess of 5% of the aggregate valuation.

9.0 LIABILITY AND PUBLICATION

- 9.1 This report has been prepared for publication in a Circular to shareholders and is given on the assumption that all the information and assurances given to us and upon which we have relied, are correct. The valuation may be subject to monitoring under the RICS Conduct and Disciplinary Regulations.
- 9.2 The valuation has been made in accordance with the Practice Statements in the Red Book and any subsequent amendments. The valuation has been undertaken by an Independent Valuer who is an independent expert who conforms to the requirements of the Practice Statements.
- 9.3 We hereby give our consent to the inclusion of this report in any Circular in respect of the Offer in the form and context in which they appear. You have our consent to put this Valuation on display in accordance with Rule 26 together with the schedule containing details of the aggregate valuation.
- 9.4 We authorise and accordingly take responsibility for the contents of this report and confirm that, having taken all reasonable care to ensure that such is the case, the information contained within this report is in accordance with the facts and contains no omissions likely to affect its import. This report complies with Rule 29 of the Ninth Edition of the City Code on Takeovers and Mergers published by The Panel on Takeovers and Mergers.

Yours faithfully



Andrew Wells BSc MBA MRICS
ALLSOP LLP

ANNEX 1 – CONSENT LETTERS



The Takeover Panel
10 Paternoster Square
London EC4M 7DY

For the attention of Ms Dipika Shah

2 June 2010

Dear Ms Shah

Offer for Sovereign Reversions PLC ("Sovereign")

I write in connection with the appointment of Allsop LLP to provide a valuation of Sovereign's property portfolio which we propose to refer to in connection with the proposed acquisition of Sovereign by Grainger PLC ("Grainger").

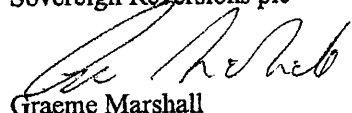
Allsop LLP also provide services for Grainger PLC, which led to our financial adviser seeking your approval for Allsop LLP to act for Sovereign in relation to a 30 April 2010 property valuation notwithstanding the requirement in Rule 29 of the Code for the valuer to be independent of the offeror.

We understand that you have given this consent subject to:

1. The division of responsibilities within Allsop LLP such that no services are provided to Grainger by the Leeds based valuation team which acts for Sovereign during the offer period
2. The receipt by you of written consents to Allsop LLP acting for Sovereign in these circumstances from both Sovereign and from Grainger; and
3. Reference being made in the valuation report, firm offer announcement and scheme or offer document to the fact that Allsop LLP provides services to both parties to the scheme or offer and that both parties and the Takeover Panel have consented to Allsop LLP providing their valuation report in these circumstances.

This letter is intended to satisfy condition 2 above in respect of Sovereign. We hereby consent to the appointment of Allsop LLP to provide a valuation report in accordance with Rule 29 of the Code, notwithstanding the fact that Allsop LLP also provides services to Grainger.

For and on behalf of
Sovereign Reversions plc



Graeme Marshall
Chief Executive

2 June 2010

grainger plc

For the attention of Ms Dipika Shah
The Takeover Panel
10 Paternoster Square
London EC4M 7DY

Our Ref PC/mw/2June

Direct Line 020 7795 4751

Email pcouch@graingerplc.co.uk

Dear Ms Shah

Offer for Sovereign Reversions PLC ("Sovereign") by Grainger PLC ("Grainger")

I write in connection with the appointment of Allsop LLP to provide a valuation of Sovereign's property portfolio which is expected to be referred to in connection with the proposed acquisition of Sovereign by Grainger PLC ("Grainger").

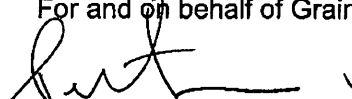
Allsop LLP also provide services for Grainger PLC, which led to Sovereign's financial adviser seeking your approval for Allsop LLP to act for Sovereign in relation to a 30 April 2010 property valuation notwithstanding the requirement in Rule 29 of the Code for the valuer to be independent of the offeror.

We understand that you have given this consent subject to:

1. The division of responsibilities within Allsop LLP such that no services are provided to Grainger by the Leeds based valuation team which acts for Sovereign during the offer period
2. The receipt by you of written consents to Allsop LLP acting for Sovereign in these circumstances from both Sovereign and from Grainger; and
3. Reference being made in the valuation report, firm offer announcement and scheme or offer document to the fact that Allsop LLP provides services to both parties to the scheme or offer and that both parties and the Takeover Panel have consented to Allsop LLP providing their valuation report in these circumstances.

This letter is intended to satisfy condition 2 above in respect of Grainger PLC. We hereby consent to the appointment of Allsop LLP to provide a valuation report in accordance with Rule 29 of the Code, notwithstanding the fact that Allsop LLP also provides services to Grainger PLC.

For and on behalf of Grainger PLC


Peter Couch
Chief Operating Officer

ANNEX 2 - ASSUMPTIONS

1. The Properties have been inspected only externally and often only the front elevation has been visible to us. No internal inspections have been undertaken.
2. The internal condition, layout and room sizes may differ from what we envisage. If we undertook internal inspections there is every likelihood that our valuations would change – some would increase and some would decrease. However, given the size of the overall portfolio, the cumulative effect of these variations may reasonably be expected to cancel each other out. This should therefore suggest that the aggregate valuation is accurate.
3. We have assumed good title which is not subject to any adverse easements, restrictive covenants or unusual or unduly onerous provisions which would otherwise depress the values reported. We have assumed that there are no disputes relating to any of the properties and that all covenants have been complied with in the case of leasehold properties. We have also assumed that the properties and their value are unaffected by any matters which would be revealed by a local search and replies to the usual enquiries, or by a statutory notice.
4. Unless advised separately we have assumed that all houses are held freehold and all flats have leases of at least 80 years un-expired at low ground rents. We were not supplied with copies of the leases, title documents or tenancy agreements. We have therefore assumed that the Properties are not subject to easements, restrictive covenants or unusual provisions that would be regarded as unusually onerous by prospective lessees or their mortgagees, and might thus depress the value of the Properties. Interpretation of legal documents is the responsibility of your solicitors and any comments in our report should be confirmed by your legal advisers.
5. We have assumed that the Properties comply with all relevant statutory requirements (including, but not limited to fire regulations, by-laws and environmental health) and that their values are unaffected by any adverse matters which would be revealed by a local search, replies to the usual enquiries or a statutory notice.
6. Properties constructed within the last 10 years, have been assumed to have the benefit of NHBC, Zurich Municipal or other warranties against defect of equivalent status.
7. Plant, machinery and furniture has not been included in the valuation unless it forms part of the structure and is normally valued as part of such buildings.
8. In relation to each of the Properties, we have assumed that the ground is not subject to flooding, subsidence, shrinkage or any other such hazards and that the dwellings are not constructed on land filled ground. We have also assumed that there are no underground mineral or other workings beneath the Properties or in the vicinity. We have also assumed that the Properties are not affected by nor comprise contaminated land. This assumption could only be verified by specialist sampling and analysis which is outside our expertise. We have not carried out any investigation into the former uses of any of the Properties.

9. We stress that we have not undertaken any form of structural survey or internal inspection of the Properties and except to the extent apparent from the front elevation we have assumed that they are in sound structural condition.

10. We have assumed that reversions held by you for more than 10 years have not been redecorated in that time or had new or replacement bathroom fittings. For the remainder we have assumed that the properties were last redecorated internally 5 years ago; that they each benefit from a gas central heating system and that kitchen and bathroom fittings are 10 years old and in fair/good condition. We cannot accept responsibility for any existing defects or for those that might arise in the future. For the purpose of the report we have assumed that the buildings are free from high alumina cement, blue asbestos and any other deleterious materials. We have assumed that all services are 'mains' connected or have satisfactory alternatives. We have not tested or inspected the services and have assumed that they are in satisfactory working order and that the Properties have access to these services on normal commercial terms.

11. We have not inspected planning consents and have assumed that all the Properties have been erected and are used in accordance with all requisite consents, that all conditions attached to such consents have been complied with in full and that the subject Properties are free from any enforcement action. We have also assumed that there are no current planning proposals relating to any of the immediate areas surrounding the Properties which are likely to materially affect their values.

12. No allowance has been made in our valuation for the incidence of tax, disposal or letting costs which may be incurred on the disposal (or letting) of the Properties.