Sovereign Reversions plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 2696924)

THIS IS AN URGENT CIRCULAR AND YOUR BOARD STRONGLY URGES YOU TO VOTE AGAINST ALL THE RESOLUTIONS AT THE FORTHCOMING REQUISITIONED EGM TO CHANGE THE BOARD

Here are a few reasons why you should vote AGAINST the resolutions:

- **Equity release is set to become a mass market product as the British population ages and pension provision falls**
- **Sovereign is well positioned to capitalise on this trend through investing in residential property assets, and advising on, providing and managing equity release plans**
- **Sovereign expects to resume dividend payments in the current financial year**

By contrast:

- **The Requisitioners will close down core Company operations and deny opportunities for growth**
- **The Requisitioners are set to pay their management team an effective signing on fee worth £130,437 in the form of Ordinary Shares to be issued at a significant discount to the current market price in addition to well over £5,000,000 following a successful realisation and distribution of all the Company's assets, 22.0 per cent. of the Company's current market capitalisation**

Directors:
Paul Spencer *(Non-executive Chairman)*
Graeme Marshall *(Chief Executive)*
Rupert Pearce Gould *(Executive Director)*
Rt. Hon. John Gummer M.P. *(Senior Independent Non-executive Director)*
Robert Lo *(Non-executive Director)*

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18 August 2009

To Shareholders and, for information purposes only, to the holders of options over Ordinary Shares

Dear Shareholder,

I am writing to you again further to my letter of 5 August 2009 in which I informed you that a group of shareholders had requisitioned an EGM, which will be held on 2 September 2009, at which resolutions will be put forward to remove our Chairman, Paul Spencer, and Executive Directors, Graeme Marshall and Rupert Pearce Gould and agree to appoint three new directors and in the process agree to a complete change in the direction of your Company. You will by now have received a letter from the Requisitioners dated 11 August 2009, which has caused me to write to you again, as I am concerned that you should have the relevant facts before you decide to cast your vote on these important resolutions.

A Form of Proxy for use at the EGM is enclosed with this document. Should you require further copies of any of my letters or a duplicate Form of Proxy please do not hesitate to call the Company Secretary, Nigel Hare-Scott on +44 (0) 1234 356 300. Capitalised terms in this letter bear the same meaning as defined in my letter dated 5 August 2009.

Our strategy

The Directors strongly believe equity release will become a mass market product as more and more retirees seek to supplement their inadequate pension savings via releasing capital from their principal asset, their homes. The Company has carefully positioned itself to take advantage of this trend, which the Directors believe will be accelerated by the recent general economic decline. Together with your Company's other Non-Executive Directors, I believe that that under the existing executive management the Company will generate significant returns for Shareholders both from the growth of this market and from the recovery of residential property prices. In our view this is not the time to exit the equity release market via a "run-off" strategy as proposed by the Requisitioners. Our marketplace is experiencing reduced competition and residential property prices are near or at their bottom, which we believe creates significant opportunities for Sovereign.

The equity issue and financing

On 21 July 2009, the Company announced a Placing and Open Offer to raise up to £3.69 million at an Offer Price of 118 pence per Ordinary Share. The Requisitioners have asserted that the Placing and Open Offer was "inadequate, ill-timed and highly dilutive". Although the Placing and Open Offer was announced after the receipt of the EGM requisition on 16 July 2009, I wish to emphasise that this equity issue had been contemplated earlier in the year, approved in principle on 8 July 2009 and, but for a technical matter which delayed the announcement by a week, would have been announced together with our Preliminary Results on 14 July 2009. As we considered the equity issue to be a key element in our plans for investment in a market where there is now little competition, we decided, notwithstanding the EGM Requisition, that it was in Shareholders' best interests to proceed with the issue.

The Directors believe that the funds raised from the Placing and Open Offer is of an appropriate quantum to be used to allow the Company to make, or participate in, new investments when suitable opportunities arise. The Company has never as a matter of principle sought to build a 'war chest' from a very large fundraising which would dilute future returns to Shareholders. A larger fundraising would therefore have to be linked to a specific transaction, although we also have other options for funding larger acquisitions, including joint venture and co-investment.

The price at which the new Ordinary Shares have been issued by the Company pursuant to the Placing and Open Offer was 118 pence per Ordinary Share; this is a higher price than the 111.5 pence per share at which the Requisitioners propose to issue shares to their two proposed executive directors.

The Requisitioners assert that the Company can no longer rely on debt financing and that, without debt finance, our growth strategy presents a real risk to the ongoing viability of the Company. The Directors do not share this view; we believe it is erroneous to suggest that banks will not actively return to lending to property companies in the future. This is borne out by our own experiences in our discussions with financiers; the lending environment is already showing some signs of improvement and we will continue to explore other financing options as markets open up.

Board Remuneration

The Requisitioners have criticised the annual running cost of the Board and have suggested that the cost of operating their own proposed board will be significantly cheaper. We would suggest that you read carefully the Requisitioners' proposed executive remuneration scheme as detailed in their letter to Shareholders dated 11 August 2009. They state that if all the Embedded Value of the Company were realised and distributed then the Requisitioners' proposed executive directors would receive 36 pence per share or 8 per cent. of everything by their own calculations over the next 5 years; **this would equate to your Company having to pay performance rewards in excess of £5 million to the proposed new executive directors, which the Directors believe is totally disproportionate for a Company with a market capitalisation of £22.7 million as at yesterday's close and certainly not in the interests of Shareholders as a whole**. Indeed, were the Company's assets to be sold as a portfolio and realised at the pro forma net asset value of 226 pence per share after the completion of our Placing and Open Offer, the Requisitioners' proposed executive directors would still receive a performance bonus of £2.54 million, or 11.2 per cent. of the

Company's current market value. This is additional to the Ordinary Shares to be issued to them at a significant discount to the current share price, which at the current share price provides them with a profit of £130,437 before they start work.

Having been frustrated in agreeing a change in the remuneration packages of the Executive Directors, by two of the Requisitioners, the Board intends, subject to the EGM Resolutions having been rejected, to move rapidly to propose long-term incentive packages for the Executive Directors which will be clearly aligned to Shareholders' interests; this will allow their base salaries to be reduced significantly with immediate effect. It is expected that the result will be substantially more favourable to Shareholders than the bonus arrangements and discounted share awards proposed by the Requisitioners.

Dividends

The Company is intending to resume paying dividends during the current financial year and we are targeting to return to previous dividend levels. Although the level of dividend with a run-off strategy would be higher than under our strategy, the Requisitioners' strategy will progressively reduce value for Shareholders over and above Sovereign's current portfolio; your Board's strategy will pay dividends as well as continuing to build value for Shareholders.

Share price performance

The Directors recognise that absolute share price performance is key and the Company's depressed share price and NAV discount is a serious concern. Over the last twelve months Sovereign's share price has fallen 26.8 per cent. from 205 pence to 150 pence per share, being the closing mid-market share price on 14 August 2009, the last practicable business day prior to the date of this document, in a very challenging market for all companies. However, Sovereign's share price has not fallen in isolation; over the same period the FTSE AIM All Share Index, the index in which Sovereign is a constituent member, has fallen 27.5 per cent. from 789 to 572. We believe that as the success of the Company's equity release services becomes apparent, its share price will appreciate and the NAV discount will thereby diminish. The Company's share price has previously traded at above NAV and there is no intrinsic reason why it should not do so again. The Requisitioners' strategy, built entirely on asset realisations, does not have the capacity to create premium share value; indeed, as proceeds are distributed and the size of the portfolio reduces, Net Asset Value is likely to decline.

Pension Insurance Corporation ("PIC")

The Requisitioners' recent letter contains a number of statements with which we disagree, but we are not intending to respond on every point of detail. Among these is an allegation that there is a business relationship with PIC which may not be in the interests of other non-management Shareholders.

PIC's business is to remove pension risks from the trustees and sponsors of defined benefit pension funds. As such, it manages substantial long-term funds, making it a potential partner for portfolio acquisitions. It is also building a pensioner customer base that may at some point wish to access equity release advice or products. We think this is a logical relationship to develop with a party who clearly supports our strategy and we are delighted that their associate, Rockhopper Investments Limited offered to support our recent Placing and Open Offer. We have no formal commercial relationship with PIC and therefore nothing which precludes us from completing transactions with other parties. We believe that our relationship with PIC is therefore entirely in the interests of all Shareholders who agree with our strategy.

Recommendation

As the Senior Independent Non-executive Director, I consider that the proposals put forward by the Requisitioners are not in the best interests of the Company or its Shareholders as a whole. I recommend that Shareholders complete and return the enclosed proxy card to vote AGAINST all of the Resolutions to be proposed at the EGM.

The Directors believe that the EGM Requisition served on the Company represents a significant cost and major distraction to Sovereign at a time when there are numerous opportunities presenting themselves in the

equity release and home reversion market. Shareholders are encouraged to contact the Directors to communicate their views and discuss the Company's strategy and future prospects. I believe that there is a real opportunity to create a viable, moderately geared equity release business with an exciting long term future. Let's put this dissension behind us.

The Board urges Shareholders not to use the pre-populated proxy card which was sent by the Requisitioners and instead to use the Form of Proxy enclosed with this document.

Your vote is important. Please exercise it.

Yours sincerely

Rt. Hon. John Gummer M.P.
Senior Independent Non-executive Director