

## CHAIRMAN'S STATEMENT

### Introduction

The Summer of 2004 witnessed significant change in the housing market, which became more challenging and competitive as overall transaction levels fell. Redrow was positioned for this adjustment through the strengthening of our forward sales position and the expansion of the number of sales outlets. This strategy has served the Group well over the last eighteen months and as we begin to see encouraging signs in the housing market, it is equally important to position Redrow for growth. This will be achieved through:

- Developing our regional structure to increase output through further investment in our current and forward land bank
- Capitalising on our skills in mixed use and regeneration projects
- Expanding our Debut initiative to provide affordable open market homes for first time buyers

Consequently, the Board remains confident of continuing to deliver value for shareholders and confirms its intention to increase the dividend for the year to 30 June 2006 by 20% to 13.0 pence per share. The interim dividend has been increased to 4.3 pence per share (H1 2004/05: 3.6p).

In February 2006, Redrow welcomed its 50,000th customer into their new home. To recognise this significant milestone, and to further Redrow's commitment to the communities in which it operates, we have launched the Redrow Foundation. This is an independent charitable fund with the purpose of providing accommodation and related assistance to those in need.

The results for the six months to December 2005 have been prepared under International Financial Reporting Standards (IFRS). These are the first results by Redrow under IFRS and all relevant comparatives have been restated.

### Financial Performance

In the first half of the financial year, Redrow delivered 2,077 legal completions (H1 2004/05: 2,111). Overall volumes were broadly maintained and completions from the core Signature range, which accounted for nearly 90% of first half legal completions, increased by 9% to 1,820 (H1 2004/05: 1,665) reflecting our strategy of maintaining a strong forward sales position and increasing our sales outlets. This increase partially mitigated the anticipated second half weighting on the In the City developments. Due to the timing of construction completion of these schemes, 152 legal completions were achieved in the first half, compared with 446 units in the corresponding period last year. It was pleasing to deliver 105 legal completions from the Group's first two Debut developments at Willans Green, Rugby and Buckshaw Village, Chorley in line with our expectations.

The average selling price in the six months ended December 2005 was £163,100 (H1 2004/05: £176,700) and reflected changes in both geographic and product mix. The average selling price of Signature homes was £165,800 compared with £168,200 last year, influenced by a reduction in the average size of homes completed. The proportion of higher priced In the City completions was significantly reduced and the average selling price of these properties at £189,500 (H1 2004/05: £208,500) was also lower reflecting the geographical mix. In addition, 5% of legal completions in the first half were Debut homes with an average selling price of £77,900. As a result of the influence of In the City schemes, turnover in the Homes business reduced to £338.8m (H1 2004/05: £373.1m).

The gross margin in the Homes operations for the period was 23.9%. This was 0.8% lower than in the second half of the last financial year and 1.6% lower than in the corresponding period last year, reflecting the market conditions experienced in 2005. Redrow has consistently maintained that gross margins would decline as the benefit of the significant sales price inflation of recent years within the existing land bank unwinds. Additionally, we continued to invest in our structure as part of our strategy for future growth and as a result of the impact of overhead recovery, the operating margin was 17.4% compared with 19.9% last year. Improved overhead recovery in the second half of the financial year should largely offset any further anticipated gross margin reduction in that period. The operating profit for the six months ended December 2005 in Homes was £59.1m (H1 2004/05: £74.2m). We anticipate that the operating profit for the Homes operations will be more weighted towards the second half than in 2004/05 primarily due to the timing of In the City completions which are virtually all forward sold.

Our Mixed Use and Regeneration activities achieved the expected break even position in the first six months (H1 2004/05: £0.4m) as pre-development expenditure in Redrow Regeneration was offset by profit generated by our mixed use activities. We currently expect the second half result for Mixed Use and Regeneration to be similar to the first half of this financial year.

After charging interest of £5.3m (H1 2004/05: £5.9m), the profit before tax for the six months ended December 2005 was £53.4m (H1 2004/05: £68.3m) with earnings per share at 23.5p (H1 2004/05: 30.0p). Interest cover remains strong at 11.2 times and with net debt as at 31 December 2005 of £116.1m (Dec 2004: £152.1m), gearing fell to 24% (Dec 2004: 37%). We continue to invest in our land bank and work in progress to support the future growth of our business which, coupled with the impact of the increased weighting of profits towards the second half, are the principal factors in the return on capital employed being lower at 20.4% (H1 2004/05: 27.9%).

## Land

Redrow has been active in the land market in the six months to December 2005 as we secured plots to grow our regional operations with the current land bank increasing to 18,400 plots (Dec 2004: 17,500), representing over four years' supply. As the industry looks to increase sales outlets, land capable of short term conversion into an outlet continues to trade at a premium. However, we remain focused on securing plots under contract where we can use our skills to add value and, as a result, land controlled under contract increased to 3,300 plots (Dec 2004: 2,300 plots). Our land owned with planning as at December 2005 was 15,100 plots (Dec 2004: 15,200 plots) with an average plot cost of £29,400 (Dec 2004: £28,000). The competitiveness of our land bank has been sustained as this plot cost still represents only 17.3% of the estimated average selling price.

Forward land remains an integral element of our business and 36% of additions to our owned land bank were generated from this source. Forward land either with planning or as allocations totalled 8,500 plots as at December 2005 and increased by 500 plots over the same time last year despite the considerable success in conversion of plots into the current land bank. A number of major opportunities are progressing through the planning system and we are confident that forward land will make a strong contribution to our land bank over the coming years.

Redrow's land bank remains one of the most effective in the industry and 85% of 2006/07 projected legal completions are from sites owned with planning and a further 10% are from controlled sites. Over 75% of 2007/08 projected legal completions are from sites either owned or controlled providing a solid base for growth.

## Sales

The Autumn 2005 market displayed a seasonal upturn but consumer confidence remained relatively weak and liquidity in the second hand market was below the levels expected in a normal housing market. We accelerated investment in work in progress and showhomes to provide our customers with greater opportunity to see the quality and range of our product offering. Redrow continued to increase its outlets which were, on average, approximately 12% higher than in the first half of the previous financial year. This was a major factor in reservations increasing by 12% as the sales rate per outlet was maintained in line with the corresponding period last year. Rather than aggressively seeking sales in a challenging market where incentives were being widely used to generate activity, we used our strong forward sales to support our sales performance. As a consequence, forward sales continued to unwind in line with our sales strategy and as at December 2005 totalled 1,816 (Dec 2004: 1,948). This still represents a strong position of over 4.5 months sales which is in excess of both Redrow and industry norms.

Web-site traffic and visitor levels in October and November were more encouraging and mortgage approval data also provided a more positive

outlook as we moved into 2006. Our web-site traffic has shown a further significant increase during January and February, being 50% higher than in the corresponding period last year.

Pricing in 2006 has been more robust though customers still remain cautious. Our sales rate per outlet has increased by over 10% since the start of the new calendar year compared with the same period last year with approximately 6% more outlets in the marketplace. We now have approximately 85% of properties for 2005/06 sold on a plot specific basis and have already secured over 600 sales to take into the next financial year. Despite Government initiatives, the planning system continues to frustrate our industry and we currently expect our average number of outlets for the second half of the financial year to be slightly lower than previously anticipated, however this should be mitigated by the increased rate of sale per outlet currently being achieved.

### Product and Design

A key element of Redrow's offering to our customers is the quality of the product in the widest sense. This not only encompasses the homes themselves but the totality of the development; the way the homes relate to each other, the elevational treatments and the quality of the public realm. Our objective is to deliver developments of superior design aimed at achieving enhanced sales values whilst controlling the cost base.

We continue to develop our product range to maximise the value generated from our land bank. Through ongoing re-evaluation of our housing range, we continue to drive cost out of our Signature and Debut product ranges whilst maintaining the overall quality and flexibility of design. We expect an increasing proportion of standard product to be used, with almost 85% of output in 2006/07 being either from these ranges or procured through our central project management team on our In the City developments.

### Mixed Use and Regeneration

Our mixed use capability has historically unlocked opportunities for residential development and continues to be important in generating new opportunities. Bishopton near Glasgow, a potential development in excess of 2,000 new homes and 90 acres of commercial property, is making progress through the planning system and we will be looking to make a planning application during 2006. We are also pleased to have secured preferred developer status with English Partnerships for the £70m regeneration of part of Devonport, Plymouth which it is anticipated will include over 450 new homes together with 100,000 sq. ft. of office and retail space and

additional community benefits. This, together with the emerging forward land at Exeter and Taunton, will provide us with a significant opportunity to grow our new business in the West Country.

Redrow Regeneration has continued to make excellent progress and has assembled a portfolio of potential projects with a development value of over £750m. In addition to the joint venture entered into in 2004/05 to redevelop Watford Junction railway station at an estimated development value of £500m, the company has now secured two further projects. At Barking, we are delivering a major regeneration of the Town Square which in the first phase includes the provision of approximately 250 new homes and a Life-Long Learning Centre. This whole project has a total estimated development value of £90m with the first income expected to be generated in the Summer of 2007. Redrow Regeneration has also recently secured preferred developer status with Network Rail for the £190m regeneration of Guildford Station which will include approximately 500 new homes together with 130,000 sq. ft. of office and 15,000 sq. ft. of retail space as well as significant enhancements to station facilities.

#### Debut by Redrow

We expect to deliver over 200 new Debut homes in the current financial year from our first three projects at Rugby, Chorley and Castle Vale, Birmingham. We are delighted to have now secured planning for further Debut developments at Stoke, St David's Park and Sittingbourne for a further 300 units. We now have planning permission for 380 units capable of delivery in 2006/07 and are progressing applications on a further 4 sites for 450 units which should provide the Group with a firm base to increase the contribution from Debut in future years.

We continue to evolve the product and remain convinced that Debut offers a significant opportunity for Redrow in a segment of the market largely unaddressed by the new homes industry. Our recent experience in Bristol supports this view as an exhibition to promote a potential new Debut development was attended in a single day by over 700 people. Registrations for all 106 proposed Debut homes were taken further underlining the demand and appeal of this innovative product.

#### Summary

The increase in our sales rate per outlet in the early weeks of 2006 is encouraging and we are well placed to benefit from improvements in the market over the coming months. We have continued to progress opportunities to deliver growth through our regional structure, our mixed use and regeneration skills and our Debut homes. The high quality current and forward land bank we have assembled, coupled with a product offering that maximises the profitability inherent in this land bank, gives Redrow the capability to continue to generate high quality returns. We remain confident in our ability to deliver value for our shareholders.

Robert Jones  
Chairman