

CHIEF EXECUTIVE'S REVIEW

Introduction

Twelve months ago when I took over as Chief Executive, I set out the steps we had taken to position Redrow to meet the short term challenges in the market and the clear strategy we were progressing that would enable us to deliver growth and shareholder value in a market where house price increases were likely to be more modest and in line with earnings growth.

The results for the year ended June 2006 reflect the backdrop of the weaker housing market over the eighteen months to December 2005. This resulted in a reduction in profitability from £139.0m to £120.5m. However, our strategy enabled us to increase legal completions and turnover in our Homes operations and partially mitigate the impact on operating margins of the more challenging market. In addition, we have made demonstrable and tangible progress in each of the principal elements of our growth strategy leaving Redrow well positioned to deliver growth and shareholder value into the future.

Strategy

Twelve months ago we set out our strategy to deliver growth in the medium term.

Our objectives are to:-

- Grow our core Signature and In the City ranges through our existing company structure.
- Deliver incremental profit from our new Debut product that provides open market affordable homes.
- Develop the contribution from additional income streams from our mixed use and regeneration activities.

At present, our Homes operation has thirteen companies in the UK, which delivered just over 4,500 legal completions of our core product in the year to June 2006. Our core product comprises our Signature and In the City ranges.

Over recent years we have expanded our geographical presence and established three new areas of operation in South Midlands at Northampton, West Country at Exeter, and East Midlands at Newark. These were established and investment made to provide us with the capability to increase the output of our core product, in particular of the Signature range. The current Homes structure provides us with the capability of delivering 7,000 units of core product per annum.

The South East of England is a geographical region in which we have historically been underweight in terms of market share and therefore represents an important opportunity for Redrow to drive growth. It is a particular focus of Government policy and through our South Midlands, Eastern and Southern companies we have operations placed to gain maximum benefit from the identified growth areas. To reinforce the framework through which we will deliver growth, we have reviewed our management structure. We are now managing our Homes operations through five regions, namely Scotland, Northern, Midlands, Western and Southern. It gives me great pleasure to welcome David Campbell-

Kelly into the senior management team as Chairman for the Midlands Region. David has been with Redrow for 12 years, and has been Managing Director of Redrow Homes (Midlands) Limited for 7 years.

We continue to expand our Debut initiative across our companies. We commenced developing this innovative and imaginative product providing open market affordable homes primarily for first time buyers as recently as May 2004. In only two years, the product has been taken from concept to reality and in the year to June 2006, 213 Debut customers moved into their new homes. This product has prices as affordable as £50,000. It demonstrates our ability to identify opportunities and respond to issues in the housing market whilst delivering margins and returns on capital in line with our existing business. At 30 June 2006 we had secured in total 10 planning permissions for over 1,100 Debut homes in just 18 months since our first application at Rugby and we are on track to deliver our objective of 2,000 Debut homes per annum by 2010. This will generate incremental profit and value for our shareholders.

Redrow recognises the added value that can be gained from mixed use development. These developments provide additional income streams and also unlock major opportunities for our core housebuilding operations. We continue to build on our historic success in mixed use development with current schemes such as Buckshaw Village. We have also secured new opportunities at Bristol and Plymouth which, as well as providing at least 172,000 sq ft of commercial development, provide over 1,700 plots for our housing operations. In addition, we have now made a planning application jointly with BAE Systems for a development at Bishopton to the west of Glasgow for 2,500 homes, and 1,500,000 sq ft of employment and community development.

To further the benefits we can generate from mixed use development and our involvement in the South East, we established a specialist regeneration business. Redrow Regeneration was established in September 2004 to focus on major projects primarily in London and the South East. These projects involve a wide cross section of stakeholders with different agendas and expectations. They represent a new element in Redrow's long term approach to securing land for development and will contribute to Group performance in the medium term. However, ahead of expectations, Redrow Regeneration is already on site with its first development at Barking which will deliver 246 new homes as well as significant community benefits and is making good progress on other major opportunities in the South East.

Group Performance

	2005/06	2004/05
	£m	£m
Turnover	770.1	780.4
Operating profit	132.8	154.0
Profit before tax	120.5	139.0
Basic earnings per share	52.9p	60.7p

Turnover was £770.1m compared with £780.4m in the year to June 2005. This reduction in turnover was attributable to a lower level of activity in our mixed use operations with turnover in the Homes business increasing marginally during the year. Operating profit reduced to £132.8m (2005: £154.0m) and this was primarily influenced by lower margins in the Homes operations. In addition, the operating result for 2006 includes a provision of £2m relating to a development on Jersey completed in 1999. Financing costs were £11.5m as compared to £12.6m in 2005 and therefore, principally as a result of the reduction in operating profit, the profit before tax and the basic earnings per share reduced by 13.3% and 12.9% to £120.5m and 52.9p respectively.

Homes Operations

	2005/06	2004/05
Legal completions	4,735	4,372
Average selling price	£161,700	£172,400
	£m	£m
Turnover	765.5	753.8
Gross profit	177.8	189.3
Operating profit	133.8	147.4
Gross margin	23.2%	25.1%
Operating margin	17.5%	19.6%

The UK housing market remained relatively subdued in the first half of our financial year. We experienced a seasonal upturn in the Autumn of 2005, but overall consumer confidence remained relatively weak with 2005 having transaction levels for England and Wales estimated to be 18% below the levels in the previous year and also below those expected in a normal housing market. The reduction in interest rates in August 2005 did help consumer confidence and in October and November there was a significant increase in mortgage approvals, which carried on into 2006. In addition, the market was assisted by more realistic asking prices for second hand homes and there was an increase in transaction levels in the first half of 2006. National house price indices have also been recording increases in house prices and these factors combined to increase homebuyers' confidence.

Against this challenging background, the Homes operations delivered a sound financial and sales performance in the last twelve months. Turnover increased marginally to £765.5m (2005: £753.8m) with operating profit reducing by 9% to £133.8m (2005: £147.4m), primarily due to the reduction in margins from 19.6% to 17.5%. The Homes operations delivered a stronger second half performance in the financial year with turnover up 12% and operating profit up 2% on the corresponding period in the previous year.

Turnover reflected an increase of 8% in legal completions to 4,735 (2005: 4,372), which more than offset a 6% reduction in average selling price from £172,400 to £161,700. This was primarily driven by changes in product and geographical mix. We increased the legal completions of Signature product by 9% to 4,027 homes (2005: 3,703) whilst, due to the timing of construction on the major In the City developments, the number of legal completions on these schemes reduced in line with our expectations to 495 (2005: 667). The overall increase in legal completions was supported by the first significant contribution from the new Debut range, with 213 legal completions (2005: 2) representing 4% of total completions.

The movement in average selling price was significantly influenced by a reduction in the average selling price of In the City homes, which reduced from £207,400 in the previous year to £160,200. The previous year included legal completions from higher priced units at the Odyssey development in London Docklands whereas in the year to June 2006, legal completions were delivered on developments in Manchester, Birmingham, Cardiff and Sovereign Harbour near Eastbourne. The average selling price for the Signature product at £166,200 (2005: £166,200) was unchanged and the Debut homes had an average selling price of £79,200.

In the Northern Region, turnover increased by 4% with legal completions up 2% to 1,876 (2005: 1,832). The average selling price also increased by 2% to £158,800 from £156,000 in the preceding year. The Southern Region delivered 1,394 legal completions (2005: 1,250), an increase of 12% with the average selling price at £163,300 (2005: £196,700). Turnover and average selling price in this region was lower, influenced by the impact of In the City schemes as noted above. In the Western Region, volumes were up 14% to 1,465 legal completions (2005: 1,290) with turnover up 8%. The average selling price was down 5% to £163,800 (2005: £172,200) due to a higher proportion of social housing units.

In recent years, we have consistently indicated that the industry was likely to experience an easing in operating margins as the benefit of house price inflation within the land bank unwound and house price increases moderated. Our strategy has been to carry a higher than historic level of forward sales to help protect our operating margins in more competitive markets. This limited the impact on our margins to a decline of only 2.1% from 19.6% to 17.5%.

Our sales performance in the year was supported by an increase in the number of outlets and the release of Debut sites into the market. Total reservations increased 13% to 4,529 (2005: 4,006). In the first half of the financial year, sales for the core product were approximately 6% higher than the corresponding period primarily reflecting an increase in outlets. In the second half, we benefited from the improved trading conditions and the rate of sale achieved was much closer to a normal market, with the 6.5% increase in sales of core product being almost equally split between an improved sales rate and an increase in outlets. As we entered 2006/07, within the Homes Operations we held a total of 1,772 sales, which included 235 Debut homes, and forward sales for Signature and In the City homes represented some 17 weeks, which is ahead of our historic norms.

Product

Our Signature product range represents our primary offering to our customers. The range is based upon approximately 50 core housetypes from just over 400 sq ft up to approximately

3,000 sq ft and they are capable of being elevated to suit local vernacular to create powerful and interesting street scenes. We continue the drive to increase the use of these core housetypes to further improve cost control and efficiency of construction on our sites. In 2005/06, 70% of our Signature legal completions used standard house type designs and we expect to further increase this proportion in 2006/07 to 80%. The repetition of building core housetypes enables us to deliver continuing improvement in both the value engineering of our product and the efficiency of its delivery, thereby helping mitigate other pressures on our cost base. This is supported by our central procurement strategy whereby approximately 80% of materials used in our product are secured under Group arrangements.

We continue to embrace the principles of improving the design quality of our developments, not only in terms of the individual house but, as importantly, the quality of the environment in which the house is set. This requires detailed attention in the layout of homes on the development to deliver attractive street scenes whilst generating appropriate coverage. We are also paying increased attention to the public realm on developments including greater focus on hard and soft landscaping. This strategy is aimed at delivering a premium home whilst using core product to control our cost base. We have Directors of Design in each Region to promote and embrace this strategy and in our Southern and Midlands Regions we are establishing an Urban Design Centre of Excellence to drive this process.

The Government continues to challenge the industry in terms of enhancing the sustainability of our activities. Redrow recognised the importance of sustainable development in its new Debut range aimed at first time buyers. The first three Debut sites all achieved EcoHomes 'excellent' under the 2005 Building Research Establishment (BRE) classification and Willans Green, Rugby, as the highest EcoHomes rated development, secured the only BRE award to a residential developer in 2006. The new Code for Sustainable Development, together with the updated EcoHomes rating classification set by the BRE provide for even higher standards for sustainable development. Our Product Development team are progressing commercial solutions to meet these objectives using our core Signature housetypes and Debut range.

Our Product Development team continues to investigate ways in which modern methods of construction can add value to our business. We are working with Framing Solutions, our joint venture company, to secure further efficiencies in the delivery of lightweight steel frame construction. We are now using modern methods of construction on Debut and apartment schemes where benefits for the Group, primarily in terms of speed and quality of construction, can be generated. Despite the increased cost of raw materials, Framing Solutions has reduced its operating loss during the last twelve months from £1.2m to £0.8m, principally through driving efficiency in its operations.

Customers

We recognise the need to deliver quality in both our product and the level of service to our customers. During the last twelve months we have introduced a third party telephone survey to secure independent feedback on the satisfaction levels of our customers. Over the first six months of the survey, 75% of customers responding indicated they were satisfied, with 80% indicating they would recommend Redrow. The Barker Report challenged the industry to reach targets of 85% in respect of satisfaction and 75% in respect of

recommendation. As part of our ongoing focus in delivery of good customer service, an element of all employees' bonus schemes will relate to customer service performance levels. In addition, we support the Home Builders Federation's initiative in customer service and have published the Redrow Customer Service Charter which clearly sets out customer service objectives.

Mixed Use and Regeneration

Turnover in these activities during the year to June 2006 was £4.6m (2005: £26.6m) with operating profits of £0.7m (2005: £4.5m). This was in line with our expectations with the income generated from existing mixed use developments, in particular Matrix Park at Buckshaw Village offsetting our ongoing investment into the pre-development phases of the major regeneration developments we are progressing. In the previous financial year, the turnover and operating profit included the disposal of our remaining interest in land and work in progress at Western Approach Distribution Park near Bristol.

Land

Redrow continues to invest in both its current and forward land banks to support the future growth of the operations. The total investment in land increased to £523.0m during the year from £459.6m as at June 2005.

We have made significant progress during the last twelve months in growing our current land bank and progressing major sites within our forward land bank. Our current land bank increased by over 20% to 21,000 plots (June 2005: 17,300) with some 8,400 new plots brought into the land bank. The current land bank comprises 16,750 plots (June 2005: 15,800) which are owned with planning, including 250 plots in Redrow Regeneration at Barking. The average plot cost in the Homes land bank was £31,000 (2005: £28,500), and this represented 18.3% of the estimated average selling price relating to those plots (2005: 17.0%). Our average plot cost in relation to average selling price remains one of the lowest in the industry. As we expand our operations in the South of England, we expect an increase in both the average plot cost and plot cost to average selling price ratio.

The balance of the current land bank relates to plots held under contract. These increased to 4,250 plots (2005: 1,500) and this reflects our strategy of securing land under contract where we can use our skills in planning and resolving technical issues to add value to the development process.

We continue to invest in forward land to secure land at enhanced margins and to provide a source of opportunity for the future. In the last 12 months, nearly 25% of the plots taken into our owned land bank came from our forward land bank. However, it is the significant potential of our forward land bank that continues to provide us with an important element in the capability to grow our business in the medium term. Our forward land bank comprises some 24,700 plots (2005: 22,100), which have at least a realistic prospect of achieving planning for development. In particular, there are a number of major sites which are making significant progress within the planning system. Within our forward land bank, 37% of plots either have achieved planning or are allocated in plans which underlines the quality of our potential sites. We anticipate having ten major sites with applications in progress over the next 18 months providing the potential for over 6,500 plots to enhance our current land bank, contributing to the future growth of our business.

New forward land opportunities are being secured to maintain the quality of opportunity for the future. We are paying particular attention to securing new options and agreements in the Southern Region within the key Government growth areas and we have secured new forward land opportunities for over 3,000 plots in this area in the last twelve months. In addition, Redrow Regeneration reinforces our policy of taking a long term approach to sourcing land. Major schemes being progressed by Redrow Regeneration have the capability to deliver over 3,000 homes together with 300,000 sq ft of commercial development in the medium term.

Business Development

Within the Homes operations, the increase in our current land bank provides us with a solid base to deliver growth in legal completions. As at June 2006, 96% of anticipated output for 2006/07 was from sites owned with planning with the balance expected from sites controlled. We have a forward sales position ahead of our historic norm and expect to further increase our outlets in 2006/07. We therefore anticipate a further increase in Signature legal completions, albeit at a slightly lower growth rate than in 2005/06. The status of build completion on the In the City developments gives us the capability to maintain volumes in 2006/07 at similar levels to last year, although the anticipated change in product mix should result in a higher average selling price.

With regard to Debut, we entered the new financial year with 235 forward sales and planning in place for 891 homes. Since then we have secured planning for a further 192 Debut homes. This leaves us well placed to more than double the output of Debut homes in the coming year and, with an undoubted demand for open market affordable new homes, puts us well on track to deliver our objective of 2,000 Debut homes per annum by 2010.

We remain of the view there will be some modest house price inflation over the next twelve months and that this, together with our pro-active management of our operational cost base, should be sufficient to largely offset the impact of build cost increases which continue to be affected by higher input costs of raw materials and energy. In addition, we continue to scrutinise our operating cost base and value engineer our product to maximise margins. Looking further ahead, our current and forward land bank provides us with the capability to deliver growth of legal completions from our core product.

In the next few years, the income generated from the commercial element of our mixed use developments is expected largely to offset our continued investment in developing our portfolio of projects in Redrow Regeneration. Further profits from our activities at Buckshaw Village will be supported in due course by mixed use schemes at Plymouth and Bristol. We expect contribution from these developments to commence from 2008. Redrow Regeneration is already on site at its first development at Barking where all 246 residential units with a total value approaching £40m have been sold under contract. These should start to be delivered from the summer of 2007 through to Spring 2008.

Future Prospects

In the medium term there is an undoubted need to increase the supply of new homes in the UK. This is clearly recognised by the focus in Government policy towards the housebuilding industry which we welcome. However, it is important that Government and

the industry engages to find solutions to issues particularly in relation to the planning system and the provision of infrastructure to enable development. These solutions need to provide improvements and not impediments to the delivery of an increased number of new homes. In particular, we would encourage Government to embrace the innovative and imaginative solutions being developed by the industry to address the first time buyer market and that support the Government's objectives of increasing home ownership.

Consumer confidence plays a significant role in our industry in determining demand and the overall level of activity in the housing market. In 2006, we have to date experienced improved levels of confidence reflected in higher levels of mortgage approvals, modest increases in house prices and increased activity levels in terms of transactions. Reservations in the first 9 weeks of 2006/07 are up over 10% in respect of Signature and In the City homes.

Overall, whilst noting the increased levels of unemployment, the strength of the economy as regards growth, which is reflected in numbers of people in employment and indeed the confidence levels of those in employment, is positive for our sector. The recent increase in interest rates by the Bank of England should not in itself be a significant factor influencing demand. However, it is still too early to fully assess the impact of this increase and the effect that associated current expectations of future interest rate movements might have on the market as we move into the Autumn selling season.

Redrow has made significant progress over the last twelve months in progressing each element of its strategy to deliver growth in the medium term. The skill base in the Redrow Team, our high quality land bank and product range provide us with the capability to capitalise on the opportunities provided by a stable economic environment and the need to satisfy the requirement for more new homes. We anticipate that 2006/07 will be a year of growth for Redrow and we are confident that we can continue to deliver value for our shareholders into the future.

Neil Fitzsimmons
Chief Executive