

CHAIRMAN'S STATEMENT

This is the first full year since my return to Redrow and I am pleased to report that the business has made significant progress and is in the best shape it has been for some time. There have been major changes in the overall direction of the business, including both the management team and structure, product and Group finances, all of which I will comment on below.

Financial Results

In the financial year ended 30 June 2010 Group Revenue increased 31.5% to £396.9m (2009: £301.8m). This was due to both a 22% increase in legal completions to 2,587 homes (2009: 2,113) and an 8.7% increase in our average selling price to £149,300 (2009: £137,400).

Gross margin rose to 10.5% from 1.8% in 2009 as a result of mix changes, increased average selling prices and increased volumes. Operating expenses rose slightly during the year as we selectively invested resources in the expansion of the business.

The operating profit for the year was £12.7m, compared to an operating loss before exceptionals of £22.4m and £119.0m after exceptionals in the prior year. We delivered a pre-tax profit of £0.7m in 2010, compared to the 2009 loss of £140.8m.

Putting the Group's finances back on a sound footing was a fundamental requirement on my return to the business and the successful £150m Rights Issue in October 2009 achieved this. Net debt at the end of June 2010 stood at £47.1m, compared to £214.6m in the prior year, due to both the Rights Issue and tighter control of cash. As a result, the Group's year end gearing stood at 11% compared to 73% in June 2009.

No dividend is being declared for the year in line with the Board's stated policy of only paying a dividend once the Group has an appropriate level of earnings cover.

Structure

There have been a number of management changes during the period which led to much simpler and more direct communications between the regional businesses and the Group. The Regional Chairmen posts, together with their infrastructure, have been scrapped and John Tutte, who has been with Redrow since 2002, was appointed Group Managing Director, responsible for day-to-day operations.

I am also pleased to welcome Barbara Richmond, who joined the Board in January 2010 as Group Finance Director. Under Barbara's direction the costing and reporting procedures are being substantially simplified and modernised.

The new, more streamlined, management team is working well and I believe contains the right balance of skill and experience to steer the successful progression of the Group.

During the year, three regional offices in the North West, Yorkshire and South Midlands were re-opened following their closure in 2008. In total Redrow now has nine operational businesses which will provide the infrastructure for substantial further growth.

New Heritage Collection

One of the principle highlights of the year was the successful launch of the New Heritage Collection in February 2010. The New Heritage Collection of predominantly family homes draws its inspiration from the Arts & Crafts movement and re-introduces real character and "kerb appeal" back into our product.

The New Heritage Collection now features in over 30% of our outlets and it will be incorporated in the vast majority of newly acquired sites. The average selling price for the new range during the year was £180,000, 15% higher than the previous product range.

The New Heritage Collection is proving to be extremely popular, both increasing market share in the localities where it has been introduced and margins on the sites where it is incorporated. However it had little financial impact during the year as there were only 67 legal completions. This is set to change significantly during the current year when around 40% of legal completions will be the new product.

Sales and Market Conditions

The housing market continued its recovery during the first half of the financial year and remained steady during the second half. As a result of both the improved market conditions and the change in strategy, we increased our legal completions by 22% year-on-year to 2,587 homes (2009: 2,113).

Weekly sales rates have also grown, averaging 0.58 per outlet in the year, compared to 0.4 in 2009. We do however continue to be constrained by a low number of sales outlets, primarily caused by persistent planning delays. It is a key objective of the current financial year to increase the number of outlets, which stood at 74 at the end of June.

Like for like selling prices increased by 3% during the first half of the financial year. Sales prices in the second half and indeed the calendar year to date, have been stable. Sales per outlet in the second half were comfortably ahead of the previous year. We entered the current period with like for like private sales 18% ahead at £106m.

At the beginning of the financial year we still had significant capital tied up in completed properties from the old Debut and In the City ranges, mainly large apartment schemes. It was important to increase sales momentum on these developments, at appropriate prices, in order to re-employ the capital on new sites. We legally completed 441 of these homes in the 2010 financial year and as I write around 160 remain for sale.

The cancellation rate remained fairly consistent through the year at 17%. Once again the overwhelming cause of cancellations was the chronic shortage of suitable mortgage product, combined with the persistent and ongoing issue of down valuations by valuers acting for the mortgage lenders. Although there has been a marginal improvement in recent months, the issues remain.

I am particularly concerned with the plight of first time buyers, who, unless assisted by their parents, are forced into saving upwards of 20% of the value of their first home by way of deposit, which compares to an historic first time buyer deposit of around 6%. Until this issue is resolved it will remain the major constraint to the full recovery of the UK housing market with overall transactions set to continue at the current historically low levels.

A healthy housing market is necessary for the UK economy as it generates substantial economic activity, helps mobility of labour and increases Government revenues through taxes and stamp duty. Market improvement cannot be achieved without the first time buyer stimulating the chain and I strongly urge the Government to intervene, possibly by way of an insurance indemnity scheme to enable lenders to provide up to 90-95% mortgages once again to first time buyers, or at the very least, provide a first time buyer tax break.

Young people need help to get onto the housing ladder one way or another and it is a sad reflection of our society that the average age of an unassisted first time buyer is now 37 years old, with the latest report from the National Housing Federation suggesting that this will increase to 43 for today's 21 year olds.

Land and Planning

A total of 3,281 plots were acquired during the year, which was heavily weighted towards second half purchases following the re-engagement of land teams in our regional businesses. As a result of legal completions, replans and the sale of a site which no longer met our corporate objectives, the current land bank stands at 13,170 plots, little change from last year, with the forward land bank standing at circa 22,000 plots.

The length of time taken to obtain planning permission has become the principal obstacle to the adequate supply of new homes in the UK. I have long been critical of the unwieldy and grossly over-bureaucratic planning system, which has become surrounded by so much red tape that the sheer volume of paper accompanying planning applications often requires submission by delivery van.

It has now become the norm that more people are involved in the preparation of the countless reports required to accompany planning applications than are employed on site building the houses. Indeed Redrow, as the fifth largest house builder in the UK by volume, last year spent more money on planning and planning related fees than it did on bricks.

One of the first acts of the new Coalition Government was to abolish Regional Housing Targets in preparation for its 'Localism' agenda and what is trailed to be a period of radical change to the planning system. If the proposed changes bring a speedier process and reduced bureaucracy they will be welcomed by all.

Unfortunately at a time when the industry is crying out for certainty and is desperate for more outlets, the Government has yet to announce the details. As there has been little in the way of transitional guidance, planning is currently in a state of limbo, with many local authorities using this vacuum to slow down even further, often refusing to process applications.

Harrow Estates

The acquisition of the Harrow business in October 2009 brought with it a strong management team, expert in the purchasing, remediating and replanning of brownfield sites. Since the acquisition Harrow has purchased two additional sites and the business is actively pursuing further land opportunities.

The five sites Harrow owned when it was acquired by Redrow are all now in production and progress is being made on a pipeline of option sites.

Redrow Commercial Developments has now been absorbed into the Harrow team and as such Harrow has taken responsibility for all commercial property within the Group.

People

The last year in Redrow has been one of monumental change within the business, together with some incredibly challenging trading conditions. The considerable advances which have been made could not have been achieved without the dedication and commitment of all of the members of the Redrow team. I would like to express my sincere gratitude to all of them for their efforts in helping return Redrow once again to be one of the leading builders in the sector.

In September 2009 Colin Lewis, who was the Western Regional Chairman, resigned from the business following the Group reorganisation. In December 2009 David Arnold resigned as Group Finance Director and was replaced in January 2010 by Barbara Richmond. I would like to thank both Colin and David for their efforts over the years.

We continue to regard Health and Safety as key to our business and this has again been recognised as we received a gold RoSPA for the fifth year running.

Outlook

We remain in a period of tough economic conditions and uncertainty. The new Coalition Government has announced a programme of considerable spending cuts and tax increases which will have a negative impact on everybody in the UK. The housing market has seen a reduction in the volume of transactions since the election, both as a result of the economic uncertainty and the lack of available mortgage finance.

In volume terms Redrow has seen a small reduction in the number of reservations in the first ten weeks of our financial year. This has been offset however by the increase in average selling price as a result of the growing influence of The New Heritage Collection. Overall like for like sales in the year to date are marginally ahead of the same period last year.

Redrow is in good shape with a low level of gearing, a strong and more streamlined management team, improving margins and an excellent new product. Short of a collapse of market conditions from those we have experienced to date, I expect the Group to make further progress during the current year.

Steve Morgan
Chairman