

CHAIRMAN'S STATEMENT

Introduction

In spite of the difficulties facing the home building industry Redrow has delivered a robust performance with pre-tax profits improving from £0.7m to £25.3m. The principal constraint was, once again, the availability of mortgages, particularly for first time buyers. Although Redrow has returned to its traditional position of a middle market home builder, our customers in turn are dependent on the stimulus first time buyers give to the market.

Financial Results

Group revenue increased by 14% in the year to 30 June 2011. This was largely due to a 10.4% increase in our average selling price from £149,300 to £164,800, together with a 1.5% increase in legal completions from 2,587 to 2,626. The average selling price of private homes – 87.5% of completions – increased by 12.5% from £154,800 to £174,100.

Gross margin rose from 10.5% in 2010 to 14.2% primarily as a result of the change in product mix, tight control of build costs and the growing proportion of newer land at more normal margins.

Operating profit increased 146% to £31.2m, generating an operating margin of 6.9% (2010: 3.2%), in spite of the significant investment and additional overhead of our new London Division, which was set up at the beginning of the financial year.

With a much reduced interest charge following the 2009 Rights Issue, we delivered a pre-tax profit of £25.3m compared to £0.7m in 2010, and earnings per share of 4.4p (2010: 0.2p).

Our balance sheet remains strong, with net debt of £75.4m giving gearing of 16% (2010: 11%).

No dividend is being declared for the year in line with the Board's strategy of only paying a dividend once the Group has an appropriate level of earnings cover and taking into account the need to invest in land for our future development.

Structure

We have made two major changes to the structure of the Group in 2011.

Firstly, we set up a Division focused on prime London locations. London is a strong market with considerable international as well as domestic demand. In the first year of operating, we have secured five sites with a total of 342 plots and a gross development value of approximately £200m.

Secondly, in April we announced our intention to withdraw from the Scottish market in which we were a relatively small player in order to increase our investment and management focus on the rest of the business and the South East in particular. The disposal was completed at the end of June with the sale of the business at book value to Springfield plc.

Market and New Heritage

The housing market, which was particularly challenging in the first half of the financial year, improved in the second half with a stronger spring/summer season. Sales rate per outlet increased from 0.47 per week in the first half to 0.60 per week in the second half and the value

of private reservations for the same periods increased from £172m to £244m. Overall underlying selling prices remained stable throughout the financial year.

This was the first full financial year since the launch of our New Heritage Collection in February 2010 and its positive impact is clear from the results. The Collection accounted for 36% of our private turnover in 2011. In the second half, it accounted for 41% of private turnover and over 50% of private reservations by value. The average selling price of a New Heritage home increased by 11% to £201,000 as we continue to focus on delivering what Redrow has built its reputation on – good value, traditional family homes. Homes from the New Heritage Collection are achieving an average selling price around 7% higher than the equivalent size home in the old Signature range.

We have sold virtually all of the remaining plots in our Debut and In the City ranges and have now exited these product lines.

A key priority remains the opening of new sales outlets. On a like for like basis, excluding Scotland, we have increased the number of outlets by 8 to 74 and our end of year private order book increased by 17% to £114m.

Mortgages

Our cancellation rate for 2011 was 18%, similar to that of 2010. Yet again, the overwhelming cause of cancellations was mortgage issues, particularly the poor availability of high loan to value (LTV) mortgages at competitive rates. Whilst the number of high LTV mortgage products on offer has increased during the year, it is still well below historic levels and the stringency of the credit scoring by the lenders, combined with the high interest rates being charged, make them unattainable for all but the more affluent of first time buyers.

Going forward it is essential to find a balance between the regulatory risk weighting of higher LTV mortgages and the aspirations of first time buyers (FTB) who simply don't have the current average deposit requirement of 25% to purchase their first home. Historically, this gap was filled by the lender transferring the top 15-20% credit risk on its loans to a Mortgage Indemnity Guarantee (MIG) provided by a Local Government or insurance company. Generations of home buyers throughout the 20th Century benefited from this policy, with 90-95% mortgages being the norm.

Now that risk assessment and management are rightly back at the forefront of lending, the reintroduction of up to date MIG policies would ensure a better market balance between affordability for first time buyers and the risk taken by the lenders. Unless initiatives such as MIGs are reintroduced, the current low levels of turnover in the housing market are set to stay for some time.

During the 1930s and the post-war years, the significant home building activity of the time not only provided desperately needed new homes, it also provided a huge stimulus to the UK GDP during what were difficult economic periods. With five new jobs being created for every new home built, it is strongly in our country's interest to resolve the FTB mortgage issue, which would once again enable the housing industry to provide urgently needed new homes and a major stimulus to the economy.

Land and Planning

Redrow is well on the way to re-establishing itself as a premium mid market quality home builder with high specification, larger than average family homes. Accordingly, the nature and average plot cost of our land acquisitions has changed to suit this strategy.

During the year we added 2,367 plots which, after legal completions, the disposal of the Scottish business, land sales and replans has resulted in a land bank of 11,190 plots at the end of June 2011. This equates to approximately 4.5 years supply compared to 5 years in June 2010 and our target of c.4 years. The average plot cost has increased from £34,000 to £49,000 to reflect our focus in the marketplace and our investment during the year in prime London locations.

The Group's forward land bank contributed only 200 plots to current land in the year, as planning on many sites stalled due to Local Authorities delaying decisions awaiting new planning guidance from the Government. Now that this guidance is emerging we are hopeful that significant progress will be made in the current year. The forward land bank stands at just over 22,000 plots, little changed from last year.

The Government published the draft National Planning Policy Framework (NPPF) on 25 July for consultation containing 'a presumption in favour of sustainable development' as the golden thread running through the policy. We warmly welcome the objectives of the draft NPPF and fully support its general direction of travel in its attempt to strike a balance into the planning system. Hopefully the NPPF will result in a boost to the number of planning permissions being granted for housing at a time when current permissions are at worryingly low levels.

People

Redrow has made tremendous progress in the last 12 months despite the market conditions, which is a testament to the efforts of the whole Redrow team. I would like to thank all of them for their support as we continue our goal of re-establishing Redrow as the leading premier homebuilder in the UK.

Current Trading

The market remains uncertain, with sales rates broadly similar to last year at just over 0.5 sales per outlet per week. We do, however, have 4 more outlets than this time last year, excluding Scotland, which has resulted in reservations in the first nine weeks of the current year being 8% above last year's levels. Terms have been agreed on a number of new significant land opportunities, which in time will result in further increases in our average selling price.

Outlook

The outlook for the industry remains challenging, with the lack of mortgage supply and general economic uncertainty affecting what is undoubtedly a huge demand for new housing. The under-supply of housing in the UK is reaching chronic proportions as many recent reports have testified. The ongoing stability of house prices despite the economic conditions and the rising cost of renting property, underlines this point.

Redrow has demonstrated over the last two years that we have been able to grow the business substantially by changing Group strategy and particularly the introduction of the New Heritage Collection. The nature of our land acquisitions over recent times will continue to drive the average selling price in an upwards direction. Other than a marked deterioration in the general economy and the housing market in particular, I feel confident that Redrow will make further progress during the current year.

Steve Morgan
Chairman