

# *Preliminary Results Presentation*

*Year to 30 June 2009*

*Thursday 10 September 2009*





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# Agenda

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**Introduction**

Steve Morgan

**Financials**

David Arnold

**Strategy and Outlook**

Steve Morgan

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# Chairman's Overview

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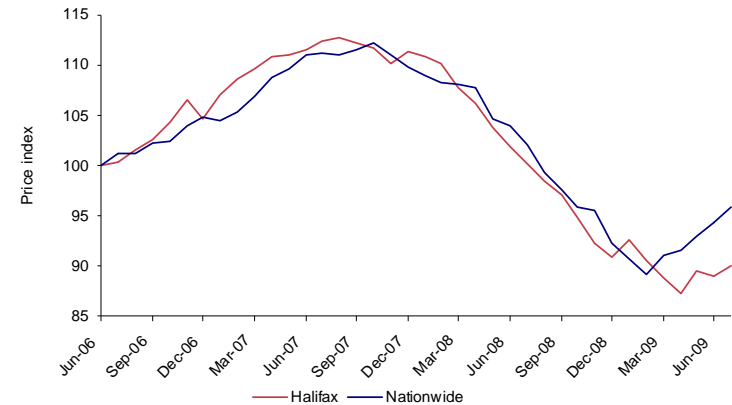
- 2008/09
  - a disappointing set of results in challenging market conditions
  - trading loss before tax and exceptional items £44.2m
  - exceptional costs of £96.6m of which £103.2m relates to land and WIP
  - pre tax loss of £140.8m
- 2009/10
  - a new direction for Redrow
  - focus on ROCE, family housing and land acquisitions
  - sales market improving, activity levels increasing

# Market Trends

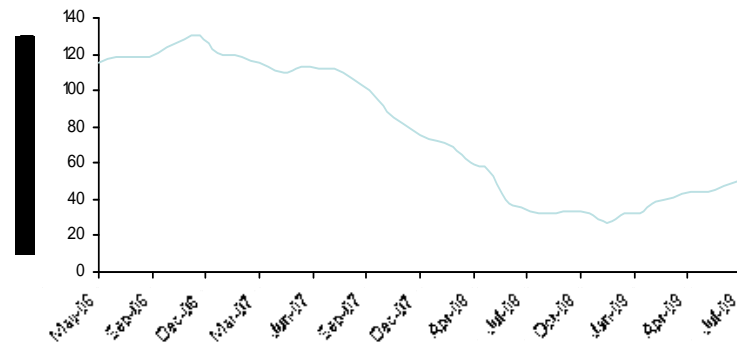


- Overall, stability appears to have returned but the market is at a historically low point in the cycle
- Positive growth in prices has returned over the past 2-3 months following a decrease over the previous 18 months
- Although still at low levels, mortgage approvals for new house purchases have increased over the last six months

Average UK house price movements June 2006 – July 2009



Mortgage approval volume June 2006 – July 2009<sup>(1)</sup>



(1) British Bankers Association

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# Sales Performance

## 2008/09

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- 2008/09 financial year marked by two distinct halves
- Six months ended December 2008
  - private sales volumes very weak (-48.9% on H1 07/08)
  - pricing under significant pressure (c.10% fall in H1 08/09)
- Six months ended June 2009
  - private sales volumes improving (+19.5% on H2 07/08)
  - pricing broadly stable
  - rebuilding forward sales with 1,147 sales at June 2009 (+14.7% on Dec 08)
  - 600 private forward sales at June 2009 (Dec 08 : 328)

**David Arnold**

**Group Finance Director**

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# Financial Overview

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- Income Statement
- Exceptional Items
- Land - Calculation of NRV and Provisions
- Balance Sheet
- Cashflow
- Financing



# Income Statement



	Full Year 09			Full Year 08		
	Pre- except £m	Except £m	Total £m	Pre- except £m	Except £m	Total £m
Revenue	301.8	–	301.8	650.1	–	650.1
Gross (loss)/profit	5.4	(103.2)	(97.8)	120.5	(259.4)	(138.9)
Administrative expenses	(27.8)	6.6	(21.2)	(36.0)	–	(36.0)
Operating (loss)/profit	<u>(22.4)</u>	<u>(96.6)</u>	<u>(119.0)</u>	<u>84.5</u>	<u>(259.4)</u>	<u>(174.9)</u>
Interest	(21.6)	–	(21.6)	(18.0)	–	(18.0)
Share of joint ventures after interest & tax	(0.2)	–	(0.2)	(1.0)	–	(1.0)
(Loss)/profit before tax from continuing operations	<u>(44.2)</u>	<u>(96.6)</u>	<u>(140.8)</u>	<u>65.5</u>	<u>(259.4)</u>	<u>(193.9)</u>
Income tax expense	13.4	27.0	40.4	(19.5)	75.4	55.9
(Loss)/profit for the period from continuing operations	<u>(30.8)</u>	<u>(69.6)</u>	<u>(100.4)</u>	<u>46.0</u>	<u>(184.0)</u>	<u>(138.0)</u>

# Revenue Analysis



	Six months ended			Six months ended		
	Jun-09	Dec-08	Full Year	Jun-08	Dec-07	Full Year
	£m	£m	£m	£m	£m	£m
Revenue						
Private	118.1	126.5	244.6	235.4	324.5	559.9
Social	25.8	19.9	45.7	36.5	19.0	55.5
Homes	<u>143.9</u>	<u>146.4</u>	<u>290.3</u>	<u>271.9</u>	<u>343.5</u>	<u>615.4</u>
Commercial	7.3	0.8	8.1	2.6	2.8	5.4
Land sales	1.0	2.4	3.4	22.5	6.8	29.3
	<u>152.2</u>	<u>149.6</u>	<u>301.8</u>	<u>297.0</u>	<u>353.1</u>	<u>650.1</u>

# Income Analysis

## Pre Exceptional Items



	Six months ended			Six months ended		
	Jun-09	Dec-08	Full Year	Jun-08	Dec-07	Full Year
	£m	£m	£m	£m	£m	£m
Gross profit	(3.0)	8.4	5.4	55.0	65.5	120.5
Administration expenses	(10.7)	(17.1)	(27.8)	(15.4)	(20.6)	(36.0)
Operating profit	(13.7)	(8.7)	(22.4)	39.6	44.9	84.5
Financing costs	(9.2)	(12.4)	(21.6)	(9.3)	(8.7)	(18.0)
Share of JVs	(0.1)	(0.1)	(0.2)	(0.6)	(0.4)	(1.0)
	(23.0)	(21.2)	(44.2)	29.7	35.8	65.5

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# Costs

## Overheads

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- Offices closed and headcount reduced during year from 1,154 at 30 June 2008 to low of 652 at April 2009 – impact reflected as exceptional cost
- With re-commencement of construction generally across the business in Q4 08/09 we have
  - re-introduced small management teams to cover the North West, Yorkshire and South Midlands
  - added to our site teams
- Headcount currently c.690

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# Costs

## Build Costs

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- Materials prices overall are very modestly lower over the last 12 months
- Manufacturers have significantly de-stocked
- Sub-contractor base for UK housing industry has significantly downsized
- Sub-contractor prices influenced by level of work locally

# Exceptional Items



	Full Year 09	
	£m	£m
<u>Restructuring</u>		
Redundancy costs	4.3	
Impairment for surplus offices	1.2	
March 2009 Board changes	2.4	
Pensions curtailment benefit	<u>(14.5)</u>	
Net cost of restructuring		(6.6)
<u>Land and WIP Provisions</u>		
Type 1	185.4	
Type 2	<u>(88.9)</u>	
Total NRV provisions		96.5
Provision for onerous contracts		<u>6.7</u>
		<u>96.6</u>

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# Land – Net Realisable Value



- 
- Full review undertaken as at 30 June 2009 to consider net realisable value (NRV) of land as required under IAS 2 ‘Inventories’
  - Directors commissioned independent review to support process
  - Provisions reflect updated estimate of revenues and costs as at 30 June 2009
  - Increased market stability has enabled us to have more confidence in development of our land holdings, resulting in increased proportion of Type 1 plots

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# Land – Net Realisable Value Calculation of Provisions

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Lower of cost and net realisable value

- Type 1 land : land to be developed
  - allowance for pricing uncertainty
  - sales and marketing/site prelim costs reflective of 2008/09 experience
  - allowance for proportion of overhead
- Type 2 land : land where not committed to development
  - appraisal assuming appropriate developer returns to estimate residual land value



# NRV Provisions



	Type 1	Jun-09 Type 2	Total	Type 1	Jun-08 Type 2	Total
Number of plots	9,300	3,200	12,500	5,400	9,500	14,900
	£m	£m	£m	£m	£m	£m
Land at cost (pre provision)	425.9	144.5	570.4	195.0	413.8	608.8
NRV provision	(167.7)	(102.8)	(270.5)	(27.8)	(195.6)	(223.4)
Land post NRV provision	<u>258.2</u>	<u>41.7</u>	<u>299.9</u>	<u>167.2</u>	<u>218.2</u>	<u>385.4</u>
NRV provision as percentage of cost	(39.4%)	(71.1%)	(47.4%)	(14.3%)	(47.3%)	(36.7%)
	£000	£000	£000	£000	£000	£000
Average plot cost post NRV provision*	28	13	23	31	23	25

\* includes show homes and excludes sundry and mixed use land

# Balance Sheet

## Capital Employed Summary



	Jun-09	Jun-08
	£m	£m
Fixed Assets and investments	16.9	25.1
Stocks	566.3	755.9
Land creditors < 1 year	(27.1)	(68.5)
Land creditors > 1 year	(26.3)	(24.1)
Other (net liabilities) excl. net debt	(95.9)	(127.2)
Net deferred tax asset	75.3	31.4
Current tax asset/(liability)	(3.9)	35.5
Pensions	2.8	(0.2)
Capital employed	<u>508.1</u>	<u>627.9</u>
Net debt	<u>(214.6)</u>	<u>(223.3)</u>
Net assets	<u>293.5</u>	<u>404.6</u>

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# Balance Sheet

## Net Assets

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	Jun-09 £m	Dec-08 £m	Jun-08 £m
Capital employed	508.1	637.5	627.9
Net debt	<u>(214.6)</u>	<u>(269.1)</u>	<u>(223.3)</u>
Net assets	<u>293.5</u>	<u>368.4</u>	<u>404.6</u>
Net assets per share (p)	183.4	230.2	252.9
Gearing	73%	73%	55%

# Cash Flow



	Full Year 09		Full Year 08	
	£m	£m	£m	£m
Operating (loss)/profit (pre-exceptional items and JVs)		(22.4)		84.5
Cash restructuring cost		(6.7)		–
Land payments		(79.2)		(113.1)
Decrease in land - completions/sales	43.1		114.1	
Decrease/(increase) in WIP	91.2		(59.2)	
Movement in other assets/(liabilities)	<u>(40.7)</u>		<u>(6.5)</u>	
		93.6		48.4
Capex and investments net of depreciation		4.0		2.4
Tax		40.4		(24.4)
Interest		(23.8)		(16.2)
Dividends		–		(27.3)
Net cash flow		<u>5.9</u>		<u>(45.7)</u>
Net debt brought forward		(223.3)		(177.6)
Unamortised bank fees		<u>2.8</u>		<u>–</u>
Net debt carried forward		<u>(214.6)</u>		<u>(223.3)</u>

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# Financing



- 
- All covenants complied with as at June 2009
  - Current committed facilities £425m
  - Current facilities
    - Final maturity date 30 September 2011
    - Significant facility headroom
    - Current blended interest rate (including amortisation of fees and swaps) of c.7%

**Steve Morgan**

**Chairman**

- ROCE
  - increasing speed of build
  - landbank optimisation
  - move away from capital hungry developments
- New Heritage Collection
  - return to family housing
  - increase average selling price
  - site re-planning
- Re-entering the land market
  - capital structure kept under review

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# Redrow's Product History

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- In 1990s, Redrow had strongly differentiated its product through the Heritage and Harwood ranges
- Heritage was introduced in January 1993 at the time of last housing recession
- Redrow's competitive product edge waned in recent years as it substantially increased proportion of apartments, three storey homes and Debut range
- Average selling price has fallen from top quartile to bottom



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# New Heritage Collection



- 
- Complete review of product range undertaken
  - House types reduced from over 80 to 32 core housetypes in the range
  - New design introduced to differentiate from competition
  - New Heritage Collection planned for launch in January 2010 across the business
  - Architectural themes inspired by 'Arts and Crafts' era
  - Internal layouts and specification to suit modern living



The New  
Heritage  
Collection

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# New Heritage Collection

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*The Broadway & The Evesham*

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# New Heritage Collection

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The Stratford

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# New Heritage Collection

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The Cambridge

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# New Heritage Collection

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The Richmond

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# Optimise Existing Land Assets

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- Sites being re-planned to reduce apartments and three storey homes
- Re-planning exercise has reduced plot numbers by 8%
- New Heritage applications being submitted

	Jun-09	Jun-08
Land owned with planning	12,500	14,900
Contracted plots	630	1,550
	<u>13,130</u>	<u>16,450</u>

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# Re-entering the Land Market

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- Land teams fully engaged in considering new land opportunities suitable for New Heritage Collection and which deliver appropriate financial returns
- Land market remains relatively illiquid at present
- Some land owners retain unrealistically high expectations
- As confidence that house prices have stabilised spreads, the land market will slowly recover



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# Forward Land



- Provides capacity for better financial returns in the long term
- Forward land bank reviewed on viability grounds
- Current planning environment looks more encouraging for forward land but uncertainties may follow General Election

<b>Potential Plots</b>	Jun-09	Jun-08
Land owned without planning	400	900
Options – Allocations	9,000	8,700
– Realistic prospect	13,400	16,550
	<u>22,800</u>	<u>26,150</u>

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# Current Sales Market Mortgage Availability

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- Little change in mortgage availability for mortgages where loan to value >75%
- Rates on mortgages where loan to value <75% remain very attractive
- Down valuations impede transactions by requiring even bigger deposits by purchasers
- Remains biggest impediment to full recovery in housing market
- Stability in pricing should assist in providing greater confidence to valuers and lenders

# Current Sales Market



- Sales in first 10 weeks

	2009/10	2008/09	
Private	443	258	+71.7%
Social	22	20	
	<u>465</u>	<u>278</u>	
Cancellation rate in last 10 weeks	18.0%	28.3%	

- Pricing slightly ahead of expectation
- Private ASP rising – sales in first 10 weeks at c.£149,000 (H2 09: £138,100) although still diluted by In the City and Debut

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# Outlook



- 
- New financial year has started positively – private sales comfortably ahead of last year
  - Mortgage availability and down valuations remain most significant constraints to a full recovery in housing market
  - Land supply remains tight – land opportunities will emerge
  - Capital structure kept under review to ensure we are appropriately placed to take advantage of opportunities
  - New Heritage Collection to be launched in January 2010
  - Recent stability gives cause for optimism

# APPENDICES

# Redrow Sales Performance



	Full Year Jun-09			Full Year Jun-08		
	Private Homes	Social Homes	Total Homes	Private Homes	Social Homes	Total Homes
Brought forward July	492	697	1,189	1,549	599	2,148
Sales	683	170	853	1,336	321	1,657
Completions - H1	(847)	(195)	(1,042)	(1,903)	(208)	(2,111)
Carried forward December	<u>328</u>	<u>672</u>	<u>1,000</u>	<u>982</u>	<u>712</u>	<u>1,694</u>
Sales	1,127	91	1,218	943	366	1,309
Completions - H2	(855)	(216)	(1,071)	(1,433)	(381)	(1,814)
Carried forward	<u>600</u>	<u>547</u>	<u>1,147</u>	<u>492</u>	<u>697</u>	<u>1,189</u>
Percentage of total forward sales	52.3%	47.7%		41.4%	58.6%	

# Product Profile



	Legal Completions			Average Size		
	Jun-09 Homes	Jun-08 Homes	%	Jun-09 Sq ft	Jun-08 Sq ft	%
Private	1,702	3,336	-49.0	888	832	+6.7
Social	411	589	-30.2	713	684	+4.2
	<u>2,113</u>	<u>3,925</u>	<u>-46.2</u>	<u>854</u>	<u>810</u>	<u>+5.4</u>

	Average Selling Prices			Average Selling Price Per Sq Ft		
	Jun-09 £000	Jun-08 £000	%	Jun-09 £psf	Jun-08 £psf	%
Private	143.7	167.9	-14.4	161.8	201.8	-19.8
Social	111.1	94.2	+17.9	156.0	137.7	+13.3
	<u>137.4</u>	<u>156.9</u>	<u>-12.4</u>	<u>160.9</u>	<u>193.7</u>	<u>-16.9</u>

# Product Profile



	Legal Completions			Average Size		
	Jun-09 Homes	Jun-08 Homes	%	Jun-09 Sq ft	Jun-08 Sq ft	%
Signature	1,840	3,038	-39.4	902	889	+1.5
In the City incl Regeneration	167	462	-63.9	592	641	-7.6
Debut	106	425	-75.1	435	428	+1.6
Group	<u>2,113</u>	<u>3,925</u>	<u>-46.2</u>	<u>854</u>	<u>810</u>	<u>+5.4</u>

	Average Selling Prices			Average Selling Price Per Sq Ft		
	Jun-09 £000	Jun-08 £000	%	Jun-09 £psf	Jun-08 £psf	%
Signature	141.2	163.8	-13.8	156.5	184.3	-15.1
In the City incl Regeneration	139.1	180.5	-22.9	235.0	281.6	-16.5
Debut	69.1	81.9	-15.6	158.9	191.4	-17.0
Group	<u>137.4</u>	<u>156.9</u>	<u>-12.4</u>	<u>160.9</u>	<u>193.7</u>	<u>-16.9</u>



# Legal Completions ASP Profile



	Six months ended					
	Jun-09		Dec-08		Jun-08	
	Homes	%	Homes	%	Homes	%
Completions						
Less than £100k	319	29.8	283	27.2	484	26.7
£100k - £125k	214	20.0	178	17.1	282	15.5
£125k - £150k	198	18.5	191	18.3	246	13.6
£150k - £200k	221	20.6	254	24.4	457	25.2
£200k - £250k	77	7.2	84	8.0	201	11.1
£250k - £300k	26	2.4	27	2.6	81	4.5
£300k+	16	1.5	25	2.4	63	3.4
	<u>1,071</u>	<u>100.0</u>	<u>1,042</u>	<u>100.0</u>	<u>1,814</u>	<u>100.0</u>

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# Interest Analysis

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	Full Year	
	Jun-09	Jun-08
	£m	£m
Bank and other interest	19.9	14.9
Discount on land creditors	1.7	3.1
Interest charge	<u>21.6</u>	<u>18.0</u>

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# Balance Sheet Inventories

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	Jun-09	Dec-08	Jun-08
	£m	£m	£m
Land	299.9	369.2	385.4
WIP	248.3	295.5	336.9
Part exchange	2.8	7.8	13.7
Showhomes	15.3	16.0	19.9
Group	<u>566.3</u>	<u>688.5</u>	<u>755.9</u>

# NRV Provisions Movement



	Type 1		Type 2		Total	
	£m	£m	£m	£m	£m	£m
NRV provision - June 08		41.3		218.1		259.4
Provisions utilised		(23.8)		(12.7)		(36.5)
Additional NRV provision	46.9		56.5		103.4	
Provisions reclassified	139.4		(141.9)		(2.5)	
Provisions released	<u>(0.9)</u>		<u>(3.5)</u>		<u>(4.4)</u>	
Exceptional items		185.4		(88.9)		96.5
NRV provision - June 09		<u>202.9</u>		<u>116.5</u>		<u>319.4</u>

# Analysis of NRV Provisions



	Type 1 £m	Jun-09 Type 2 £m	Total £m	Type 1 £m	Jun-08 Type 2 £m	Total £m
Land	167.7	102.8	270.5	27.8	195.6	223.4
WIP	35.2	13.7	48.9	13.5	22.5	36.0
Total NRV provision	<u>202.9</u>	<u>116.5</u>	<u>319.4</u>	<u>41.3</u>	<u>218.1</u>	<u>259.4</u>
Number of plots	9,300 74%	3,200 26%	12,500	5,400 36%	9,500 64%	14,900

# Owned Land Bank with Planning



	Full Year Jun-09		Full Year Jun-08	
	Plots	Plot Cost £000	Plots	Plot Cost £000
Plots b/f	14,900	25.1	17,700	35.4
Additions/plot substitutions	1,104	42.2	1,442	55.1
Impact of replans	(1,065)	–	–	–
Cost of sales inc NRV provision releases	<u>(2,113)</u>	<u>(26.4)</u>	<u>(3,925)</u>	<u>(26.5)</u>
	12,826	28.4	15,217	39.6
Disposals inc NRV provision releases	(326)	2.3	(317)	(27.6)
		<u>29.2</u>		<u>39.9</u>
Additional land NRV provision	–	(6.3)	–	(14.8)
Plots c/f	<u>12,500</u>	<u>22.9</u>	<u>14,900</u>	<u>25.1</u>

# Owned Land Bank with Planning



	Jun-09 Plots		Jun-08 Plots	
Signature	11,790	94.3%	13,700	91.9%
In the City incl Regeneration	530	4.2%	690	4.6%
Debut	180	1.5%	510	3.5%
	<u>12,500</u>	<u>100.0%</u>	<u>14,900</u>	<u>100.0%</u>
	Jun-09 Plots		Jun-08 Plots	
Private	11,200	89.6%	13,250	88.9%
Social	1,300	10.4%	1,650	11.1%
	<u>12,500</u>	<u>100.0%</u>	<u>14,900</u>	<u>100.0%</u>