CHIEF EXECUTIVE AND FINANCE DIRECTOR'S BUSINESS REVIEW

Introduction

The UK housing market is currently dominated by short term considerations associated with the severe downturn in activity resulting from the change in the credit markets and more recently erosion in homebuyer confidence. However, it is important to remember the underlying long term requirement to increase the supply of new homes in the UK and that these homes need to meet the expectations of homebuyers. Homebuyer confidence and the demand for new homes will return and we are positioning Redrow to deliver competitive and desirable products to meet the aspirations of our customers.

In September last year, we highlighted that the succession of base rate rises since August 2006, coupled with uncertainties over interest rates and the debt markets, appeared to be influencing consumer confidence and the housing market as we moved into the Autumn 2007 selling season. The caution we expressed proved to be well founded. The capacity in the mortgage market was increasingly curtailed as a number of key providers exited the market entirely whilst others reduced their appetite for providing loans to homebuyers. This has resulted in the housebuilding industry experiencing one of the most rapid and severe downturns in its recent history. Homebuyer confidence has come under increasing pressure as house prices decline and uncertainty about the resilience of the UK economy intensifies in terms of interest rates, inflation and employment prospects.

We responded early to the change in market conditions by prioritising tighter management of cash flows and by adjusting our cost base. We limited commitments to new land acquisition and infrastructure investment. The change in our land strategy instigated in the first half of our financial year has limited our exposure to further contracts in respect of land purchases and associated future cash outflows. We also focused strongly on our operational and administrative cost base and have made very significant reductions in headcount to benefit our cash flows. In the review of our operational structure we have been conscious of the importance of retaining our geographical coverage that will provide a platform to grow the business when the market improves.

In line with our strategy outlined last year, we have continued to concentrate on the historic strengths and skills in Redrow. We have progressed our strong forward land bank with existing sites being promoted through the planning system and new opportunities being identified to provide development opportunities for the future. Our pursuit of high quality design which historically was a key ingredient in our success will differentiate our product and enhance the appeal of our new homes in future markets.

Continuing Operations

Overview

In the first half of the financial year, we benefited from the strong forward sales position we had in place as at 1 July 2007. Despite the increasingly challenging markets in the Autumn 2007 selling season with reservations down 20%, legal completions were only just under 5% down on the previous year. As we moved through the year, the impact of the credit squeeze intensified and overall during 2007/08, we secured 2,966 net reservations (2007: 4,953), down 40% on the previous year. In the second half of the financial year, net reservations were 55% lower than in the corresponding period last year. This was reflected in legal completions for the year as a whole at 3,925 homes (2007: 4,823) including 151 homes in Redrow Regeneration (2007: 95). Our forward sales position at the end of June 2008 was 1,189 homes. (2007: 2,148).

Group revenue was £650.1m, 22% lower than the previous financial year (2007: £834.3m). Operating profit from continuing operations before exceptional items was £84.5m (2007: £136.6m). The reduction in legal completions, coupled with pressure on margins as a consequence of the more competitive market were the major factors affecting the Group's level of profitability despite strong control of our cost base.

Average debt levels during the financial year were at similar levels to the second half of the preceding year but, with increased cost of borrowing as a result of higher interest rates, financing costs were £18.0m as compared with £15.3m in 2007. Interest cover before exceptional items and discontinued operations was 4.7 times (2007: 8.9 times). Profit before tax from continuing operations before exceptional items was £65.5m (2007: £121.1m).

As a consequence of the prevailing housing market we have reviewed the carrying value of land and work-in-progress. This has resulted in an exceptional cost of £259.4m to reflect a provision to net realisable value. The retained profit before exceptional items for the financial year was £44.1m but following the reassessment of the carrying value of land and work-in-progress, the loss for the year was £139.9m with net assets at the financial year end of £404.6m (2007: £577.8m).

Net debt at June 2008 was £223.3m (2007: £177.6m). The cash flow in the year includes payments of £122.9m relating to land including the payment of land creditors of £60.6m. We instituted tighter controls over build expenditure as the market deteriorated but the rapid reduction in reservation levels particularly in the second half of the financial year contributed to an increase in work-in-progress during the year of £59.2m before the impact of the net realisable value provisions. We continued to exhibit a tight control on the use of part exchange as a sales incentive, owning only 92 properties with a balance sheet value of £13.7m as at June 2008 (2007: £9.8m). Gearing, which reflected the land and work-in-progress write down, increased to 55% at June 2008 (2007: 31%).

Homes Operations

Market conditions resulted in legal completions reducing to 3,774 (2007: 4,728). We legally completed 3,038 of our core Signature product (2007: 3,689) during the last twelve months. In the City developments contributed 311 units (2007: 537) and this reduction was influenced by our decision some time ago to reduce our exposure to these capital intensive developments in response to over supply and a distinct hardening in demand in this sector of the market. We completed 425 of our affordable Debut range (2007: 502) as we continue to reduce the number of these developments and focus further upon the Signature product. Demand for Debut was also influenced by the increased difficulties for first time buyers to secure mortgages.

The Homes average selling price influenced by product and geographic mix was £156,700 which was 2.1% lower than in the previous year (2007: £160,100). Revenue from home sales was down 21.9% at £591.0m as compared with £757.0m in 2007. Over the course of the year we assessed that net selling prices reduced by approximately 8% as a result of increased discounts and incentives. This affected gross margins from home sales pre-exceptional items which, together with a higher cost of sales relating to land, reduced from 21.1% to 16.9%. Excluding the impact of profits from land sales, gross margins from home sales pre-exceptional items in the second half stood at 15.0%.

Land Sales

We continued to look for opportunities to make efficient use of our asset base and during the last twelve months we generated a profit of £17.0m (2007: £15.1m) from land sale turnover of £29.3m (2007: £38.6m). However, with pressure on values and much reduced activity levels in the land market, we do not anticipate any significant land sale profits in the new financial year.

Cost Base

We have reinforced the tight control over our cost base. During the last six months, as a result of our strength in central procurement of materials together with our policy of engaging constructively with our sub-contractor base, we estimate that our build cost decreased by 3%. We also took action on headcount to reduce site and administrative expenses as we pulled back our build output rates. In the second half of the financial year the number of employees in our business reduced by 12% to 1,154 as at 30 June 2008 and we have implemented further substantial cost reduction measures since the financial year end.

Administrative expenses in the Homes operations were £34.4m as compared with £45.0m in 2007 and represented 5.5% of turnover (2007: 5.7%). This reflected the rationalisation of our office structure which we implemented in Spring 2007. Further action to manage cost was taken during the second half of the financial year. There was also a benefit of £3.1m from the impact of the markets on the cost of long term management incentives. Operating margin pre-exceptional items in the Homes operations was 13.3% as compared with 16.3% in the previous year.

Mixed Use and Regeneration

Operating profits from our Mixed Use and Regeneration activities were £0.9m as compared with £6.6m in 2007. In Redrow Regeneration, the Barking Town Square development progressed positively and in the first half of the financial year legally completed 151 units being the balance of Phase 1 of the residential element of the scheme. Phase 2 comprising 272 new homes and 40,000 sq ft of commercial space is under construction with contracts exchanged on 200 of the homes and just over 65% of the commercial space pre let. Handover of completed units under the construction contract is programmed to commence in November 2008.

In 2007 we benefited from the disposal of completed developments and land on our mixed use developments. We had already limited our commitments to speculative development on these sites in response to weaker demand in the commercial property sector and will continue to adopt this approach until prospects improve. As at June 2008 on our mixed use developments, we had 24,000 sq ft of offices at Lichfield nearing completion of construction. Similarly, we have 19,000 sq ft of constructed industrial and office accommodation available at Buckshaw Village which is being jointly developed with our consortium partner.

We have reviewed our growth strategy for Redrow Regeneration. The business has developed in a short period of time strong recognition in its sector through the quality of the management team. However, we need to have regard to the capital intensive nature of large scale regeneration schemes and the anticipated viability of such developments, particularly given the difficulties in the financing markets at present. We have retained the nucleus of the team to progress the scheme to develop Watford Junction railway station within our joint venture company but have scaled back our expectations to invest in new projects.

Discontinued Operations - Framing Solutions

As highlighted in September 2007, it is our strategy to simplify our business and focus on the historic strengths and core competencies of Redrow. We therefore announced our intention to exit the Framing

Solutions joint venture which manufactures and erects light steel frames for use in residential construction. The disposal of this interest was completed in January 2008 and as a consequence we have incorporated a post tax loss of £1.9m as a discontinued operation in the results for the year ended June 2008.

Following the disposal of Framing Solutions and the operational changes made during the year with Redrow Regeneration and our commercial activities now managed as part of our Homes development business, we consider it more appropriate to report a single business segment going forwards.

Land

Over the last twelve months we have experienced a dramatic change in the land market in response to the uncertainty in the housing sector. We responded early to the change in conditions by restricting our current land buying activities. We will retain this approach to restrict cash outflow and reduce debt so that when there is greater certainty regarding land values, we are positioned to take advantage of the opportunities that we can create.

We remain committed to our long term approach to sourcing land through our forward land bank. Our land and planning teams are concentrating on promoting our existing high quality forward land sites through the planning system and identifying new opportunities to provide sites when market conditions improve. The securing of sites under option provides a pipeline of potential future land supply under which the acquisition price is fixed by reference to the discounted open market value of the land at the date of purchase. This discount recognises our skills in the promotion of land through the planning system. Fees and costs relating to the promotion of current and forward land are provided against as incurred so that there is no associated balance sheet risk if the site is not subsequently acquired. In addition, option payments are also provided against as incurred and as a consequence there is no value relating to options included in net assets as at 30 June 2008.

Our forward land bank at June 2008 amounted to 26,150 plots (2007: 24,900 plots). Our pull through from forward land into the current land bank was very limited as we exercised the flexibility this source of land provides to maximise the benefit to the business. In addition to the plots we hold under option, we own land without a planning consent representing 900 plots (2007: 500 plots).

We limited both our exposure to further contracts in respect of land purchases and the acquisition of new plots in the last financial year. We acquired 1,250 plots during the year at a cost of £79.3m with the plot cost reflecting the high proportion of plots acquired in the South East of England. It has been our strategy to grow our presence in this key market to give an improved balance in the geographical split of our business. This continued during the last twelve months as 60% of the plots acquired related to sites in the companies covering this area such that 25% of our owned land bank with planning is now in South East of England as compared with only 18% two years ago.

At 30 June 2008 our land bank owned with planning had reduced from 17,700 plots to 14,900 plots. This comprises 93 sites with 6 or more homes to sell, 12 with less than six to sell and 22 sites not currently on sales release. In addition, our contracted commitments to acquire future sites has also reduced to 1,550 plots (2007: 2,500). This eases the pressure on future cash flows and the potential to acquire land at inappropriate financial returns.

The downturn in the housing market has made it necessary for the Directors to review the value of our land holdings. The geared effect between house prices and land value can result in a relatively small fall in the price of new homes leading to a proportionately more significant change in land values. We have undertaken a detailed review of the net realisable value of all our land holdings both relating to plots currently in development as well as the value of land and phases of sites not in development. The review was in the context of lower selling prices and reduced activity levels now being experienced. The Directors engaged external professional advice to support this review process.

On plots within phases currently in development, we compared our current assessment of selling price against the development cost including sales and marketing expenditure but not taking into account administrative and finance costs or developers profit to determine net realisable value. In respect of land not currently in development, we have reviewed net realisable value on a basis that recognises a higher financial return appropriate for developers in current markets. As a result of this detailed review, the Group's land and work-in-progress have been reduced by £259.4m with £223.4m against land and £36.0m against work-in-progress. The total provision represents 42.6% of the carrying value of the Group's land holdings prior to the review being undertaken. As at June 2008, the carrying value of the owned land bank with planning was £373.1m with an average plot cost of £25,500 (2007: £36,300) which represented circa 15% (2007: 20.4%) of the estimated sales value of those plots.

In the light of the change in relative land use values coupled with the downturn in the housing markets, we are exploring alternative land uses, ensuring that the house type mix is the most appropriate and seeking to renegotiate planning consents. This will help optimise the value of our land holdings and provide opportunities to generate cash as well as position our land holdings to improve returns when market conditions improve.

Product and Design

Our business is centred around our Signature developments which are primarily based on a range of core house types. These can be adapted to meet local requirements and provide varied street scenes yet deliver efficiency in construction and control of build cost. In 2008, 77.4% of our legal completions were on Signature developments but our increased focus on this element of our portfolio is reflected in our land bank in which 91.9% of our plots owned with planning are on Signature sites.

Given the particular pressures of the inner city apartment market we have significantly reduced our exposure to this sector of the market over the last few years. Including the Redrow Regeneration Scheme at Barking, it now represents only 4.6% of our owned land bank with planning as compared with 11.8% of legal completions in 2008. Our affordable Debut product remains part of our portfolio and we will continue to use it where it adds value to development returns. As at June 2008, 3.5% of plots owned with planning represent Debut homes including 321 plots on sites currently being developed.

The Government has set ever increasing demands upon the housebuilding industry over the last few years. We fully recognise the need for improved sustainability that reduces carbon emissions both of our product and our activities. We have set targets for reductions in our carbon footprint and improved waste management. Through our Research and Sustainability team we continue to identify construction methods that can cost effectively deliver the requirements of the Code for Sustainable Homes and improvements in environmental site management. However, there is a need for the Government to review its objectives so that there is a coherent strategy particularly as regards renewable energy and water consumption targets relating to new homes. This will encourage durable solutions that will enhance sustainability and meet the lifestyle aspirations of customers.

Financing and Treasury Management

Treasury management is conducted centrally and the focus lies with liquidity and interest rate risk. Direct foreign exchange exposure is negligible given the nature of the Group's business and its exclusive UK activities. Liquidity risks are managed through the regular review of cash forecasts and by maintaining adequate committed banking facilities to ensure appropriate headroom.

As planned, we successfully concluded the Group's bank refinancing in September 2008 to replace our existing facilities which were due to mature in Autumn 2009. We received the support of all six of our relationship banks who participated in a new £450m three year facility. This facility consists of an unsecured £175m amortising term loan which is scheduled to be fully repaid by March 2011 and an unsecured £275m revolving credit facility. The facilities have a suite of covenants appropriate to the current market conditions, reflecting the business's focus upon cash generation rather than earnings.

The fees and margins associated with these new facilities are in line with prevailing market conditions but represent a significantly higher level than those in the facilities they are replacing. Largely as a consequence of these higher costs it is anticipated that the interest charge in 2008/09 will be higher than the previous financial year.

In addition to the committed facilities, the Group also has further uncommitted bank facilities which are used to assist in day to day cash management. Each company in the Group operates its own bank account with these managed at a Group level under a set off arrangement.

The Board has adopted an interest rate risk management framework which sets parameters to ensure an appropriate level of hedging is retained to mitigate increases in interest rates. The policy prohibits any trading in derivative financial instruments and requires any hedging to be undertaken using simple risk management products, almost exclusively interest rate swaps.

The notional level of debt protected by interest rate swaps as at June 2008 was £87.5m. These swaps had an average remaining life of 1.5 years at a fixed rate of 5% before borrowing margins are added.

Pensions

As at 30 June 2008, the Group accounts showed a deficit of £0.2m (2007: £6.1m surplus) in respect of the defined benefits section of the pension scheme as calculated on an IAS 19 basis. This movement from surplus to slight deficit is due primarily to the investment performance in the latter half of the financial year. The scheme is closed to all new entrants. The formal triennial valuation of the defined benefits section of the pension scheme as at 1 July 2008 is currently being undertaken. This is likely to embrace the impact of increasing life expectancy through strengthened mortality assumptions consistent with developing thinking across the pensions industry.

Tax

Given the change in the rate of UK corporation tax, the Group's tax rate for the year was 29.5% and the expected effective rate for 2008/09 is 28.0% with deferred tax being provided at this rate.

As a consequence of the net realisable value provision, the Group is reporting a post tax loss for the year ended 30 June 2008. To the extent that this loss exceeds the current year's taxable profits, we expect to be able to carry this back one year in the Redrow subsidiaries to which it relates. If such loss is unable to be fully used in that year it will be carried forward to use against future trading profits. We anticipate receiving in due course a cash repayment estimated at over £35m which represents most of the monies we have already paid to HM Revenue & Customs in respect of both 2006/07 and 2007/08. That element of the loss we have been unable to use has been carried forward as a deferred tax asset.

People

Our objectives can only be achieved through the contribution of our people. Notwithstanding the current market conditions it remains an essential ingredient in our strategy to invest in our employees by developing their skills through our commitment to training to help them both progress their careers and achieve their ambitions.

It is one of the most disappointing consequences of the current trading environment that housebuilding is losing much talent from the industry. At all levels within Redrow, we have lost many people who have developed their careers over several years and played a very positive role in our business. We thank them for their commitment and wish them success in finding alternative avenues for their skills. Our remaining employees recognise the challenges our industry is facing after many years of success and we have taken appropriate steps to limit employee costs as regards salary awards and bonus entitlements in the short term.

Looking to the future, it is important that we tackle the challenges we face as a team. To provide incentives to our employees to share in the future success of our business, we will continue to operate our SAYE scheme which is open to all staff and we also propose, subject to shareholder approval, to introduce an HM Revenue & Customs Approved Company Share Option Plan. Under the plan, options over shares up to a value of £30,000 can be given to selected employees. We consider that this will provide an appropriate incentive to retain key employees and encourage them to play their part and share in the restoration of shareholder value.

Business Outlook

Our industry is experiencing a trading environment in which the speed and scale of the downturn is unprecedented. We have experienced a fall in house prices of over 10% from their peak in the last twelve months with National House Builders Council (NHBC) registrations in June 2008 down 60% on a year ago. In the second quarter of 2008, mortgage approvals for house purchase were down nearly 70% from their peak in the final quarter of 2006. This is much more severe than the equivalent movements in the previous significant downturn in the early 1990's. The outlook for the UK economy is looking increasingly fragile as inflation remains above target levels and forecasts for growth are being scaled back.

We have already imposed strict limits on cash investment in both land and work-in-progress to capitalise on the inherent capability in the business to generate cash and we have a clear strategy communicated through our operations to reduce our debt over the next two year period. The business has commitments relating to land in respect of both existing contracts and land creditor payments amounting to approximately £87m in 2008/09 and £33m in the following year. The timing of these commitments is likely to mean that average net debt will be slightly higher in 2008/09 than in the year to June 2008, though net debt should reduce significantly in the following financial year once these payments have largely been made.

Our forward sales at June 2008, were 45% lower than twelve months ago reflecting the weakness of the sales market in the first six months of 2008 and this will have implications for volumes in the new financial year. Activity levels in the first 10 weeks of the financial year have run 48% below the previous year. This is slightly better than in the second half of the last financial year end and an improvement on the last quarter. Cancellation rates in the new financial year have been approximately 26%, continuing to reflect both the weak confidence of homebuyers and the continuing selectivity of mortgage lenders. Net reservations relating to private sales in this period have been 27 per week equating to 0.29 sales per site per week. We are still having to be very competitive in securing our market share. Discounting and increased use of incentives are necessary to generate cash flow which is the priority in our business given the prospects for short term profitability.

As previously announced, we have further reduced our cost base since the year end by making significant reductions in headcount, including the closure of two of our operating company offices. This reduces the number of operating company offices to eight and including reductions in site based personnel results in a further fall in our headcount of 350 down to 804 as at the end of August. This equates to an annual cash saving of £15.1m and will reduce our administration costs by £7.5m on an annualised basis. Our annualised run rate for administration costs is now approximately £32m. The cost of implementation of this rationalisation is approximately £3.0m which will be an exceptional item in the year to June 2009.

Construction activity on our sites is essentially limited to plots where there are secured sales in place. As at 7 September 2008 we have total cumulative sales of 1,050 units for 2008/09. Our operational focus is on limiting expenditure on site and reducing the number of stock properties to generate cash. As regards our land activities, our land and planning teams are targeting longer term opportunities both through progressing existing sites and identifying and securing new locations to support our current land bank when our markets improve. Our current land holdings are also being reviewed to unlock cash and value through change of use and improved planning consents.

We expect that the markets we are currently facing are likely to persist for some time to come. The impact this will have on selling prices and margins and the period over which transaction levels will be severely constrained is difficult to assess but will have implications for profitability in the short term. However, we have made a realistic assessment of the net realisable value of our land and work-in-progress and have secured new borrowing facilities that provide us with an extended maturity date and covenants appropriate to the markets we are experiencing.

Whilst we concentrate on cash flow in current market conditions to enable us to be opportunistic in the land market at the appropriate time, we need to continue to recognise the underlying fundamental need to increase housing supply in the UK. It remains important that we take advantage of the benefits of our relative size and continue to promote our vision for Redrow to value our people, maximise land opportunities and add value through product design. This will enable us to differentiate our business and capitalise on the opportunities that we will create for the benefit of shareholders in the future.

Neil Fitzsimmons	David Arnold
Chief Executive	Group Finance Director