BUSINESS REVIEW

Introduction

Our strategy is to sustain our long term approach to land acquisition and to capitalise upon the quality of our current and forward land bank. Allied to this, our increasing focus on urban design and the strength and experience in our management teams best position Redrow to address the challenges and take advantage of the opportunities in our marketplace.

In the last two years we have made significant progress in growing our current land holdings and improving the quality of our forward land bank. The current land bank has increased by nearly 20% over this time and, within this, our owned land bank with planning has grown by 12% to 17,700 plots. This has enabled us to strengthen our position in terms of planning, as 97.5% of our anticipated output in 2007/08 now has detailed and implementable planning consent. This provides much greater certainty as regards the delivery of sales outlets into our markets in the new financial year. Our forward land bank stands at 24,400 plots and we have improved its quality with a higher proportion of allocations. We are developing our Mixed Use and Regeneration businesses as a further source of long term land as well as additional income streams. We are delighted that Redrow Regeneration made its first contribution in 2006/07.

Urban design and the delivery of high quality developments represent important points of differentiation for Redrow. They enable us to engage more positively with planning authorities and to address one of the key issues facing our industry which is to secure planning consents within shorter timescales. This approach further enhances the desirability of our products to our customers to drive increased value for Redrow whilst the use of core house types enables efficiency and quality in construction and control of our cost base.

In the last 12 months, we have restructured our business to be more efficient whilst preserving the capability to grow our business. Our continuing long term strategy for land acquisition and our design led approach to product reaffirms historic values and strengths in Redrow. We are focusing on our core competencies of finding development opportunities and using our product portfolio and design skills to unlock value for the benefit of shareholders.

Overview of Performance

In 2006/07, we concentrated on maximising returns over the medium term through the delivery of an appropriate rate of sale and forward sales position to optimise the returns from our land bank. As we highlighted in March 2007, this was a response to the growing inefficiencies and complexity of the planning system which had delayed some of our sites from obtaining a detailed, implementable planning consent. As a consequence of our sales strategy, legal completions grew by 1.9% to 4,823 homes (2006: 4,735).

The sales market remained stable but competitive against a backdrop of four increases in interest rates in the financial period. Stronger conditions were experienced in the South East of England and in Scotland than in other parts of the country. Our sales reservations in 2006/07 totalled 4,953, an increase of 3.7% on the previous year. Sales in the second half of the financial year remained at satisfactory levels with reservations of our Signature and 'In the City' homes together up 3.5% on the same period last year. We also strengthened our overall forward sales position which increased by 6.4% to 2,148 homes as compared with 2,018 at the beginning of the financial year.

Operating profit increased by 2.9% to £136.6m (2006: £132.8m) with profit before tax unchanged at £120.5m. Redrow's balance sheet remains strong with net debt at the year end of £177.6m (2006: £129.8m) representing gearing of 30.7% (2006: 25.3%). Return on capital employed in the year to June 2007 was 19.4% (2006: 22.0%), primarily reflecting our increased level of capital employed as we continue to invest in our land bank.

In our Homes operations, we legally completed 4,728 new homes, in line with the previous year (2006: 4,735). Legal completions of our Signature product were 3,689 homes (2006: 4,027). This was short of our original volume aspirations at the start of the year and reflected the planning environment and our sales strategy. The average selling price of Signature increased by 1.0% to £167,900 (2006: £166,200). 'In the City' legal completions were ahead of our expectations at 537 (2006: 495). The average selling price was 13.7% higher at £182,200 (2006: £160,200) as a result of the mix of developments on stream. We more than doubled the output of our affordable Debut product to 502 homes (2006: 213) which sold at an average selling price of £79,100 (2006: £79,200). With a higher proportion of Debut homes in 2007, the turnover in Homes was 1.1% lower at £757.0m (2006: £765.5m).

Gross margins within the Homes business were 23.1% in 2007 (2006: 23.2%) and operating margins were in line with our expectations at 17.1% (2006: 17.5%). In a strong land market and in line with our land strategy, we generated profit of £15.1m (2006: £8.9m) from the disposal of surplus land holdings during the year. This included £9.1m (2006: £3.6m) from current developments where we released value on large sites to enable the efficient use of capital and £6.0m (2006: £5.3m) from sundry land holdings.

We maintained tight control on our overheads which increased by 2.3% during the year to £45.0m (2006: £44.0m) in our Homes operations. During 2007, we rationalised our fixed cost base to increase its efficiency whilst still providing capacity for growth within our regional structure. The costs of this restructuring are included in our 2007 results. We currently anticipate that the overhead cost within our Homes operations in the 12 months ending June 2008 should be no higher than in 2006/07 which should benefit our operating margins in the forthcoming financial year.

The Homes business now has 10 principal offices with a satellite office in Exeter to manage our activities in the West Country. We have strengthened our management and land bank in Scotland. Our investment in the large site at Cheswick in Bristol, together with our major forward land holdings at Exeter and Taunton provide a platform for growth in the South West and West Country. We also continue to pursue our strategy to increase our presence in the South East and have increased our investment in both current and forward land in this important market.

Our Mixed Use and Regeneration businesses performed ahead of expectations, delivering an operating profit, including our share of joint ventures, of £6.6m (2006: £0.7m) on turnover of £38.7m (2006: £4.6m). We achieved sales of completed commercial developments and land to end users across a number of locations, including St David's Park and Buckshaw Village, and importantly we achieved our first income from Redrow Regeneration as it successfully delivered the Lifelong Learning Centre and the first 95 homes of Phase 1 at Barking Town Square.

The Board has considered the position of Framing Solutions plc, the Group's 50:50 joint venture with Corus. Redrow's share of the operating loss of Framing Solutions in the year to June 2007 was £0.7m (2006: £0.8m), with the attributable loss after interest and tax being £0.6m (2006: £0.6m). Our involvement in the joint venture since 2002 has enabled us to gain a greater understanding of modern methods of construction which are now more prevalent and for which the market is now more established. Taking these factors into consideration, the Board has decided that it no longer sees the benefit of having a direct involvement in this area of activity and we are investigating our options accordingly.

Land

The key element in delivering sustainable and profitable growth rests in the quality of the land bank. In a competitive land market, where the value of existing sites with planning is increasing, we continue to promote a long term approach to sourcing our land requirements to deliver margins in excess of those available in the open market. These higher returns represent our reward for the skills and capital we invest in adding value during the planning process.

Through the strength and experience we possess within our regional land and planning teams, we continue to identify new forward land opportunities and to promote existing sites through the planning system. Our track record in forward land over many years demonstrates to landowners our ability to secure planning consents and optimise development values.

In 2007, approximately 30% of the net additions to our owned land bank with planning were secured through our investment in forward land. Within our forward land bank of 24,400 plots with a realistic prospect of securing a consent, we have 25 forward land sites representing 10,300 plots spread across our operations that are allocated in local plans. Our existing forward land opportunities have significant value not recognised in our balance sheet and represent a source of higher margin opportunity in the future.

The current land bank as at June 2007 was 20,700 plots, representing in excess of four years' supply (2006: 21,000). In sourcing our current land opportunities we look for opportunities to add value to the development process by resolving planning, technical or legal issues. In 2007, approximately 45% of land was acquired through this route delivering land for our business that should produce profit at margins better than is typically available on sites with a planning consent sold on the open market.

The balance of our land is secured in the open market where sites already have a planning permission. In these instances, we use our skills in design to be competitive in generating land values at the appropriate levels of return. Such sites can support volumes where they deliver incremental income without an increase in fixed overheads and can be particularly beneficial in growing output in our newer business.

We have made good progress in converting land controlled under contract into our owned land bank with planning. At June 2007, we held 17,700 plots with planning, representing a 5.7% increase on the 16,750 plots held as at June 2006. Our Homes companies increased their land owned with planning to 17,280 plots with the balance of 420 plots held in Redrow Regeneration.

The average plot cost of our Homes land bank with planning was £36,300 (2006: £31,000) representing 20.4% (2006: 18.3%) of the estimated average selling price of those plots. This increase reflects our strategy of growing our presence in the South East of England where the relationship between land cost and selling price is intrinsically higher. During 2007, we invested a net £241.8m in new land at an average plot cost of £43,900. 31% of our net additions were in the South East and as at June 2007, 20% of our Homes land bank owned with planning was in this market as compared with 16% as at the previous year end.

A key issue in the development process is in securing implementable, detailed planning consents to enable a site to be converted into a sales outlet. We now have 97.5% of our anticipated output for the financial year ended June 2008 with implementable planning secured.

Effective management of our investment in land is an essential ingredient in providing the capability to deliver growth at appropriate margins whilst retaining a return on capital employed significantly ahead of our cost of capital. Redrow continues to invest in larger sites which provide opportunities to improve margins over a development's lifetime through enhanced design and value creation derived through its quality. We also look to use such sites to generate outlets through trading land with our peer group as well as releasing value for shareholders at the appropriate time and managing our overall investment.

Product

Product plays a prominent role within our business. The Government is setting significant challenges for the industry in terms of meeting improved sustainability levels and our Product Development Team is assessing the ways in which these challenges can be addressed in a cost effective way that delivers a home that meets the aspirations of our customers.

Product maximises the value inherent in the land whilst ensuring the desirability and attractiveness of our developments to our customers. The call for improved design from Government and other bodies requires that the product must be viewed in a much more holistic way. Through our focus on urban design we view the product as not just the individual home but one that embraces all the constituent elements of the development to deliver communities where people will want to live. This includes the street scenes and interaction of roads, the treatment of public realm through the use of open space and use of hard and soft landscaping to deliver a premium offering to our customers which will drive value.

Our Signature and Debut ranges provide a strong platform in terms of house types to meet this objective particularly when taken with our award winning record on our 'In the City' developments. This platform, together with the design skills within our business through our Regional Directors of Design and establishing Centres of Design Excellence in our regions, provides the tools to capitalise on our progressive design philosophy. This is already being reflected in our developments now coming on stream and this approach reinvigorates a historic element of differentiation in Redrow's heritage.

The Debut range has been enthusiastically received by customers who otherwise would not have been able to secure a foothold on the home owning ladder. In total, over 700 Debut customers are now living in affordable open market new homes. Our customer survey results show that 94% of Debut homeowners were satisfied with their home. Debut's imaginative and innovative elements have been recognised in over 11 different awards. However, local authorities in England and Wales have generally remained focused on traditional approaches to tackling affordability through social housing for rent and shared equity through Registered Social Landlords. This has been further reinforced by the

Government's definition of affordable housing in recent planning guidance which is likely to impact our original volume aspirations for this product.

There is now an increasing focus in Government policy upon expanding the supply of new affordable homes. In Debut, we have a product with strong positive customer endorsement from which we can leverage future opportunities and it will continue to represent part of our armoury. However, the overall priority for Redrow must be to manage our resources to deliver value to our shareholders in the most effective and efficient way and on sourcing development opportunities without a specific concentration on one element of our portfolio.

The Redrow product offering continues to embrace mixed use development which in recent years has been strengthened by our new Redrow Regeneration business concentrating on major opportunities in London and the South East. We continue to deliver value from our mixed use schemes at St David's Park and Buckshaw Village and are proceeding with new opportunities at City Wharf in Lichfield, Vision in Devonport and at Cheswick in Bristol.

In Redrow Regeneration, we are successfully moving forward with Phase 1 at Barking Town Square with the Lifelong Learning Centre handed over and 95 of the 246 apartments legally completing in 2006/07. The balance of the apartments in Phase 1 will legally complete in the new financial year. We secured planning on Phase 2 of the development in June 2007 and this comprises 272 apartments and 40,000 sq ft of office and retail space. We have already sold 96 apartments within Phase 2 and the overall scheme will be an important catalyst in regenerating the centre of Barking. Progress continues to be made at Watford Junction through our Joint Venture, Waterford Park, as we explore with Network Rail how we can optimise the regeneration of this high profile site. We continue to investigate further opportunities to utilise our regeneration skills.

People

The Redrow Team is an essential element in the delivery of our business objectives and the Board appreciates the commitment they make to our performance. We have an Executive team which has accumulated in excess of 130 years involvement in the development industry and a team of Managing Directors in our operating companies with significant experience to take Redrow forward.

The labour market for high quality professional people continues to be tight within our sector and we recognise that stable teams are important in the efficiency and quality of our business. As part of our review of our operational cost base we have re-examined and adjusted our remuneration packages to ensure we remain competitive in the marketplace. This has been achieved within our overall objective of maintaining Homes' overheads in the new financial year in line with 2006/07.

To retain and motivate our employees, we continue to invest in the skills of our people through training@redrow with its dedicated facility at Tamworth. In 2007, we provided over 5,000 training days from essential induction courses for new employees to more specific initiatives which support the quality of our business. As part of our focus upon design, we are working with Oxford Brookes University and the Commission for Architecture in the Built Environment (CABE) to enhance the skills and awareness of key members of our team on how good design can be used to best advantage for Redrow. Over 30 Assistant Site Managers have now been through, or are progressing with, our accreditation programme which includes the achievement of an appropriate NVQ qualification and which supports our objective of improving build quality. In recent years we have worked hard on the quality of construction and we have experienced a significant improvement in standards relative to National House Building Council (NHBC) industry benchmarks. We are also delighted that we have seen a significant increase in the number of our Site Managers achieving NHBC Pride in the Job Awards in 2007.

Improving build quality is an important element in raising levels of customer satisfaction. Our customer service surveys carried out by an independent research organisation showed that our satisfaction levels increased from 75% to 79% in 2007 and the proportion of customers who would recommend Redrow to a friend increased from 80% to 83%. In 2007, five of our companies achieved satisfaction levels in excess of 85% and all but one company achieved a recommendation level of over 75%. We recognise we have more to do in meeting the expectations of our customers and to help secure this objective we have appointed external specialists to review our approach in this aspect of our business and recommend ways of achieving further improvements.

Redrow has continued to deliver improvements in Health and Safety in the last twelve months. In 2007 we achieved a Gold award for the second year running from the Royal Society for the Prevention of Accidents. As Principal Contractor there were no fatalities on our sites in 2007 (2006: nil), no prosecutions for Health and Safety issues (2006: nil), no Prohibition Notices (2006 : 2) and only one Improvement Notice issued (2006: 1). The number of injuries reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) stood at 41 (2006: 40) and the level of injuries requiring first aid reduced by 10%.

Financial Review

Income Statement

Turnover in the year totalled £795.7m (2006: £770.1m), a 3.3% increase on prior year levels. This reflected a strong performance by our Mixed Use and Regeneration activities. Homes turnover was £757.0m (2006:£765.5m) reflecting a reduction in average selling price compared to the previous year as a result of changes in the mix of properties with an increased proportion of our affordable Debut homes.

Operating profit in the year was £136.6m (2006: £132.8m), an increase of £3.8m on the previous year with the Group's operating margin unchanged at 17.2%. Homes delivered an operating profit of £129.7m (2006: £133.8m), a 3.1% reduction on the previous year with operating margins declining slightly, in line with our expectations at 17.1% (2006: 17.5%).

Mixed Use and Regeneration performed strongly generating an operating profit, including its share of joint ventures, of £6.6m in the year, compared to £0.7m in the prior year. This reflected increased levels of activity across our mixed use developments and the commencement of returns from our first regeneration development at Barking.

The Group’s net financing costs in the year totalled £15.3m (2006:£11.5m) which were covered 8.9 times by operating profits. Underlying bank interest costs were £13.2m, an increase of £4.6m on the previous year reflecting higher interest rates during the year and an increased average debt level used to finance our investment in land for future development. Average debt in the year ended June 2007 was approximately £230m (2006: c.£170m). We anticipate an increase in the interest charge in 2007/08 principally as a consequence of higher cost of borrowing.

In accordance with IAS 39, deferred payments arising from land creditors are held at discounted present value, recognising a financing element on the deferred settlement terms.

The value of the discount is expensed through net financing costs and amounted to £2.8m in the year (2006: £3.0m).

Our joint ventures, Framing Solutions and Waterford Park, delivered a combined loss of £0.8m attributable to Redrow after interest and tax (2006: £0.8m).

The Group's effective tax rate was 30.0% (2006: 30.2%) during the year. It is anticipated that the effective tax rate in 2007/08 will be approximately 29.5%, benefiting from the reduction in the rate of UK corporation tax from 30.0% to 28.0% from April 2008.

Balance sheet
The Group's capital employed increased to £755.4m (2006: £643.6m) and reflected the increased investment made into land over the 12 months ended June 2007.

Total land held for development increased to £641.4m (2006: £523.0m) with Homes land representing £634.0m (2006: £522.5m) of this figure, an increase of £111.5m on the prior year.

When appropriate we will seek to purchase land on deferred terms and in these cases, the vendor may retain a legal charge over the land to which the transaction related or be provided with a guarantee to support future payments. The overall level of land creditors at £124.2m increased by £45.9m compared to the previous year (2006: £78.3m) and funded 19.4% of our investment in land as compared with 15.0% in 2006.

Work in progress amounted to £347.3m at the end of June 2007 (2006: £326.6m), net of cash on account. The increased level of work in progress reflected a higher level of investment into our Signature and Debut developments as well as into Mixed Use & Regeneration. Work in progress on our 'In the City' schemes reduced by £12.8m.

Part exchange is a tool used to a limited extent as part of our incentive package. It is generally used for higher value properties or stock plots and at the end of June 2007, we only owned 55 properties with a value of £9.8m (2006: £6.6m) included in work in progress.

Net assets per share increased by 12.3% to 361.5p (2006: 322.0p).

Cash flow
Cash generated from operations was £30.5m (2006: £44.5m) and reflected the significant increase in inventories of £139.1m (2006: £88.6m) as a result of the investment made during the year into the land bank.

Net debt increased by £47.8m to £177.6m (2006: £129.8m).

Treasury management
The Group has funded its increased investment in land and work in progress in 2007 through a combination of retained profits, bank financing and land creditors. Redrow has a policy of funding itself with an appropriate mix of debt and equity and with balance sheet gearing at June 2007 of 30.7% (2006: 25.3%) and interest cover of 8.9 times (2006: 11.5 times) the Group retains the capacity for further investment.

Treasury management is conducted centrally with the focus being upon liquidity and interest rate risks. Since Redrow operates wholly within the UK and almost exclusively with a sterling denominated supplier base, direct foreign exchange exposure is not regarded as a significant area of risk.

Liquidity risks are managed through the regular review of cash forecasts and by maintaining adequate committed banking facilities to ensure appropriate headroom. As at June 2007, Redrow had committed funding of £400m together with further uncommitted bank facilities totalling £40m which are used in the process of daily cash management. Day to day cash management is achieved by each company operating its own bank account with bank accounts managed at a Group level under a set off arrangement.

Within the Board's interest rate risk management framework, interest rates and cash flow forecasts are regularly monitored to ensure that the level of hedging to mitigate risks remains appropriate. The policy prohibits any trading in derivative financial instruments and requires any hedging to be undertaken using simple risk management products such as interest rate swaps.

The notional level of debt protected by interest rate swaps as at June 2007 was £100.0m (2006: £62.5m). These swaps had an average remaining life of 1.6 years at a fixed rate of 5.1% before borrowing margins are added.

Pensions

Following the results of the triennial valuation of the defined benefits section of the Redrow Staff Pension Scheme undertaken as at 30 June 2005, the Company had agreed with the Trustees to make special contributions totalling £11.0m towards the past service deficit of £11.5m. The balance of this contribution, being £8.0m, was paid in July 2006. The defined benefit section of the pension scheme is now closed to new entrants but as a consequence of the scheme's investment performance, together with favourable movements in bond yields over the last twelve months, the Group accounts record the scheme having a pre tax surplus of £6.1m at the end of June 2007. The Company, together with the Trustees, continues to monitor closely both the financial position of the defined benefit section and the underlying actuarial assumptions, particularly as regards mortality and increasing life expectancy.

Earnings per share and dividends

Basic earnings per share were 52.9p, unchanged on the previous year. Diluted earnings per share were 52.8p (2006: 52.7p). In accordance with the Board's previously stated commitment and subject to approval at the Annual General Meeting on 7 November 2007, a final dividend of 7.8 pence per share will be paid on 16 November 2007. This represents an increase in the full year dividend of 20% to 15.6 pence (2006:13.0 pence).

Business Outlook

In our Homes operations we have moved into the new financial year with a stronger forward sales position and we are on programme to increase our outlets in the coming months as we move through the Autumn selling season. We also anticipate additional social housing legal completions in 2007/08. We have 97.5% of our anticipated output for the current year on sites with implementable planning consent which provides us with the capacity to grow our volumes.

The key factor in the outcome for 2007/08 will be the strength of demand in the housing markets in which we operate. It is always difficult to assess the housing market based on activity in the weaker selling months of July and August. However, the effect of the succession of base rate rises since August 2006, coupled with remaining uncertainties over interest rates and the debt markets, appear to be influencing consumer confidence and the housing markets as we move into the Autumn selling season. We will closely monitor lead indicators and retain a careful balance between selling prices and rate of sale to optimise returns from our land bank.

In conjunction with this sales strategy we will exercise robust management of both our build cost and our overheads. However, as we have previously indicated, land acquired in recent years which in general has not benefited from inflation in the selling prices of new homes, will influence margins over the next twelve months as compared with their current level.

We have some excellent developments on stream in our mixed use portfolio and will complete Phase 1 of Barking with the legal completion of the remaining 151 apartments in 2007/08. We will continue to invest in the future of Redrow Regeneration through pre-development expenditure but given the very strong performance in 2006/07 do not, at this stage, anticipate the same strength of contribution in the new financial year from our Mixed Use and Regeneration activities.

The spotlight has been increasingly on our industry in recent years in terms of the number, affordability and sustainability of new homes. There have been numerous changes to the planning system aimed at making it more efficient and new challenges set as regards addressing the issues of climate change. We have concerns whether the changes to the planning system will deliver benefits in terms of the speed of delivery of implementable planning consents. We support the objective to improve the sustainability of new homes and Redrow has, alongside its peer group and stakeholders from other sectors, signed the 2016 Zero Carbon Commitment.

In July of this year the Government published a Green Paper that set out its agenda for the housing sector with the over arching objective of delivering 3 million new homes by 2020 with increased levels of sustainability. We believe the key issue is whether the proposals will resolve the conflict between the Government's agenda to increase the delivery of new homes and some Local Authorities' resistance to new development.

The essential elements in our strategy continue to be in our long term approach to land acquisition and the capacity in our company structure to deliver growth in output. We are using our skills in mixed use development to enable us to unlock residential opportunities and continue to invest in Redrow Regeneration as a further source of long term land yielding a profit stream in the future.

The focus on design to optimise value is taking on an increasing importance in our business, especially in conjunction with our product development investment to address the requirements in respect of sustainability. This can make us more competitive in the land market, assist in delivering planning consents more effectively and secure increased value for Redrow and our customers.

The fundamentals for our industry in the medium and long term remain positive and our land bank, product and experienced management teams will enable us to address the challenges and take advantage of the opportunities in our marketplace for the benefit of shareholders in the coming years.

Neil Fitzsimmons
Chief Executive

David Arnold
Group Finance Director