

## CHAIRMAN'S INTERIM STATEMENT

### Introduction

In the last six months we have progressed our strategy to deliver growth in the medium term. We have continued to develop the strength of our current land bank to provide a base to grow output of our Signature product. The current land bank for Signature product increased by 5% in the first half of the financial year and has increased by over 15% in the last twelve months. We are on track to deliver our target of 500 Debut legal completions in 2006/07 and have sufficient planning consents in place to further increase volumes in 2007/08. Finally, our existing mixed use and regeneration schemes are performing well with new sites coming on stream and further major projects being progressed through the pre-development phase will add value in the medium term.

In the six months to December 2006, Redrow made a profit before tax of £54.3m (H1 2005/06: £53.4m) and earnings per share were 23.8p (H1 2005/06: 23.5p). In September 2006, the Board proposed to increase the dividend per share in respect of the financial years to June 2007 and June 2008 by 20% per annum and to equalise the interim and final dividend by increasing the proportion of dividend paid at the interim stage. Accordingly, an interim dividend of 7.8p will be paid to shareholders on 4 May 2007, an increase of over 80% on the 4.3p in 2005/06.

### Financial Performance

In the first half of the financial year, Redrow legally completed 2,214 new homes, an increase of 7% on the corresponding period last year (H1 2005/06: 2,077). Legal completions of Signature and In the City homes, the Group's core product offerings, were in line with the previous year at 1,979 (H1 2005/06: 1,972). We also significantly increased completions of Debut homes to 235 as compared with 105 in the first half of last year as we doubled the number of Debut outlets delivering legal completions in the period.

Turnover in the Homes operations increased by 6.1% to £359.6m (H1 2005/06: £338.8m). This primarily reflected the volume growth achieved as the average selling price in the six months to December 2006 was virtually unchanged at £162,400 (H1 2005/06: £163,100). This reflected a higher proportion of Debut homes that increased to just over 10% of total legal completions. The average selling price of a Signature home increased by 3% to £170,700 (H1 2005/06: £165,800) with the average size of property being similar to last year. In the City homes achieved an average selling price of £182,500 (H1 2005/06: £189,500) which reflected a movement in product mix. Debut had an average selling price of £78,100 consistent with our objective to deliver an affordable open market product (H1 2005/06: £77,900).

We have previously indicated that gross margins would decline as the historic benefit of significant sales price inflation unwound from the existing land bank. The gross margin in the Homes operations for the period was 22.8% (H1 05/06: 23.9%) which was virtually unchanged from the second half of last year. Planned land sales at two of our largest land holdings at Bracknell and Buckshaw Village have realised value during the period, generating profits on disposal of £5.2m.

Our constant focus on cost control has limited overhead increases in our Homes business to just over 3% representing 6.3% of turnover as compared with 6.5% in the corresponding period last year. As in 2005/06, the anticipated improvement in overhead recovery in the second half should enable us to deliver operating margins for the full year in line with our

expectations. The operating profit for Homes in the six months ended December 2006 was £59.3m (H1 2005/06: £59.1m).

Our mixed use activities performed ahead of expectation in the first half to more than offset our continuing investment in developing Redrow Regeneration and, as a consequence, these combined operations made an operating profit of £2.2m in the first half (H1 2005/06: £Nil).

We have increased our investment into land over the last twelve months. In June 2006, we made a significant investment of £59m to secure Cheswick in North Bristol, a prime mixed use site with outline planning consent for 1,250 plots and 72,000 sq ft of commercial development which represents an important opportunity to create value in the medium term. Principally as a result of this investment, our interest charge increased to £6.9m as compared with £5.3m in the corresponding period last year, and our return on capital employed was 17.8% (H1 2005/06: 20.4%). Our balance sheet remains strong, with net debt at £189.2m representing gearing of only 35%, providing us with scope for further investment in our business.

### Land and Planning

We made significant progress in 2005/06 in increasing our current land bank. The major driver in this increase related to land controlled under contract that totalled 4,250 plots as at June 2006 compared with only 1,500 plots at June 2005. In the last six months we have further increased our land controlled under contract to 4,350 plots. This portfolio of sites together with our high quality forward land bank will provide some excellent development sites in the coming years.

Our owned land bank with planning at December 2006 was 16,850 plots, nearly 12% higher than at December 2005. The average plot cost of our Homes' owned land bank was £33,300 (December 2005: £29,400) reflecting the higher proportion of our land bank in the South and West of the UK as compared with 12 months ago to support growth in these areas in the future. Our land bank still retains its competitiveness within the Industry with a plot cost to selling price ratio of 19.0% (December 2005: 17.3%).

We entered the current financial year well placed in terms of sites owned with planning which represented a very substantial element of our anticipated output for 2006/07. However, as we have consistently highlighted, the increasingly inefficient and complex planning system continues to frustrate both the Government's and the Industry's objective of increasing the level of new homes provided annually in the UK. Redrow is not immune to these issues and, during the first half of the financial year, we experienced delays both in the receipt of detailed planning consents on a number of sites which had an outline consent as at June 2006 and also the delivery of planning permissions on sites controlled under contract. This inevitably affected our sales performance in the last six months and has also influenced our targeted legal completions in the current financial year relative to our original expectations.

We remain supportive of the Government's objective to deliver a more efficient planning system but are concerned that the most recent proposed changes will lead to further delays as already hard pressed Local Authorities take on board the increased requirements placed upon them. This has implications for both the delivery of growth in the short term and the competitiveness of the land market, especially for sites with planning.

We continue to invest in new strategic forward land as well as promoting significant sites such as Cranbrook near Exeter, Monkton Heathfield near Taunton and Upton near

Northampton to provide higher margin opportunities for the future. We are also working jointly with BAE Systems to promote the major opportunity at Bishopton near Glasgow.

As at December 2006, our forward land bank which is either allocated or which has a realistic opportunity to secure planning totalled 25,000 plots (December 2005: 21,600 plots). We currently expect in excess of 25% of acquired land in 2006/07 to be delivered through our long term approach to land acquisition and we retain our policy of providing against all option payments and promotional costs associated with forward land options.

## Sales

The housing market was relatively stable in the six months to December 2006 but remained competitive in many of the areas in which we operate with the Midlands and North, in particular, not experiencing the stronger conditions that delivered house price growth in London and the South East.

During the six months to December 2006 we sold 1,878 homes of our core product which was 3% ahead of the corresponding period last year. Within this we increased sales of our Signature product by just under 8%, with sales of In the City apartments reflecting the stage of developments in progress and a weaker demand for this product in the market.

Our forward sales for Signature at December 2006 were 1,250 which were over 12% higher than at December 2005 and represented approaching four months on an annualised basis. Forward sales of In the City apartments totalled 186 (December 2005: 630) which, together with our first half legal completions, leaves us on track to deliver approximately 500 legal completions in the current financial year.

In the first 9 weeks of 2007, we have experienced sales running 5% ahead of the same period last year for our core product and within this we have experienced a pick up in sales on our In the City developments. We now have approaching 85% of our anticipated output of Signature and In the City homes sold for 2006/07 which is at a similar level to last year. The interest rate rise in January 2007 has so far not affected the market as regards sales rates or selling prices though we remain cautious regarding the impact on the housing market of further rate rises.

Debut continues to appeal strongly to its target market and in the first half of the financial year we sold 189 Debut homes as compared with 96 in the corresponding period last year. With forward sales of 189 homes as at the end of December 2006, we remain well placed to deliver our target of 500 Debut completions in 2006/07.

## Product and Design

The housebuilding industry faces many new challenges in the coming years as the Government rightly sets targets to address issues connected with climate change and sustainability. Redrow is working with other stakeholders to address these challenges to identify solutions to deliver these goals.

The Industry is also being challenged by both Government and CABI to improve the quality of design. We are maintaining our focus on developing our core Signature product range to deliver schemes of high quality urban design that create a sense of place which can be recognised by our customers and delivered in a cost efficient manner in terms of construction.

We continue to target improvements in the delivery of customer service. In the six months to December 2006, our customer surveys showed 80% of customers were either very satisfied or satisfied with their new Redrow home and 83% of customers would recommend Redrow.

### Mixed Use and Regeneration

Good progress has been made at Matrix Park, part of our mixed use scheme at Buckshaw Village, Chorley and we disposed of a completed 30,000 sq ft office building on St David's Park in the first half of the financial year. We have now commenced the first phase of the mixed use element of our development adjacent to Lichfield City Station. Interest across our portfolio of mixed use schemes, including the new scheme at Devonport, Plymouth, remains encouraging.

Redrow Regeneration is making excellent progress on its first operational scheme at Barking. The first phase delivering 246 new homes, commencing in the summer of 2007, is on programme and we are making good progress with the planning on Phase 2. This development has won the prestigious MIPIM Architectural Review Future Project Award.

We continue to promote the regeneration of Watford Junction and Guildford railway stations in conjunction with Network Rail. These major complex schemes necessarily have long timescales in their pre-development phases, however, we believe schemes such as these offer attractive potential opportunities for the future and are consistent with our long term approach to the acquisition of land.

### Board and Senior Management Changes

In August 2005, Paul Pedley relinquished his position as Chief Executive and took on a new role as Executive Deputy Chairman. Paul has been an integral part of Redrow for 22 years playing an important part in building the business to be the successful public company it is today. Paul has advised the Board that he wishes to retire from Redrow on 30 September 2007 in order to allow him to pursue and develop other interests. I would like to record our appreciation for the distinguished service and commitment Paul has given to Redrow.

With effect from 1 July 2007, David Campbell-Kelly, who is currently responsible for our Midlands Region, will succeed Barry Harvey as Northern Regional Chairman. Barry has been with Redrow for over twelve years and for the last nine as a director of Redrow plc. The Board wishes to record its thanks to Barry who has played an important role in leading the continuing success of the Northern Region and also for his overall contribution to Redrow during his time with the company.

I would like to take this opportunity to welcome Denise Jagger who was appointed to the Board on 17 January 2007 as an independent non executive director and we look forward to her contribution to the continuing success of Redrow in the coming years.

### Prospects

Redrow's long term approach to sourcing land and our high quality forward land bank, where we are able to add value through the pre-development phase, continue to be key elements in our land acquisition strategy. However, we have to recognise that these opportunities are taking longer to promote through the system before becoming sales outlets. This position appears to be mirrored across the Industry as the premium for land that can be converted into an outlet in a relatively short time scale is increasing and this may influence returns in a low house price inflation environment.

We continue to promote Debut homes but the Government and many Local Authorities remain focused on providing social housing rather than allowing open market solutions to flourish. We already have planning consents in place that will enable us to deliver over

700 Debut homes in 2007/08 towards our target of 800 homes. Disappointingly, new planning guidance appears to exclude low cost open market housing from the definition of Affordable Housing and, as a consequence, our ability to achieve our medium term volume ambitions for Debut will depend upon the response of Local Authorities to this new guidance when considering future planning applications for Debut schemes. The positive response from customers across all our Debut sites to date leaves us convinced about the appeal of the concept as it provides a high quality solution to the major issue of housing affordability and clearly enables first time buyers to gain a foothold on the housing ladder.

In our January trading update, we highlighted that planning delays had impacted upon the number of outlets in the current financial year and our expectations for outlets in 2007/08. Land is the essential ingredient in the delivery of sustainable and profitable growth in our Industry. Land is becoming more expensive to replenish in the prevailing competitive land market and in response to this we have focused upon delivering an appropriate rate of sale to optimise returns from our land bank. This strategy will maximise value in the medium term but will result in reduced operating profit in the short term. Consistent with this objective we are reducing our volume targets for the Signature product in the current year by some 5%. However, as we progress our land held under contract through the planning system we expect to operate from 6% more Signature outlets in 2007/08.

We are proposing to rationalise our overhead structure to make our operations more cost efficient and are also reorganising executive responsibilities from 1 July 2007. As a consequence, we anticipate overheads within our Homes operations will be maintained at 2006/07 levels in 2007/08. We expect this will deliver a benefit to operating margins of approximately 0.5% through improved overhead recovery against an increased level of turnover. We will retain the ability to deliver growth particularly in the South East which is the area identified by the Government as the primary focus for increased housing numbers.

## Summary

Redrow possesses a high quality current and forward land bank from which we can continue to create value for shareholders in the coming years. The prevailing land and planning environment only serves to enhance the value of our land holdings. We have a product range and skill base within our business to optimise the inherent value that sits within this land bank.

The fundamental drivers of growth for our Industry remain sound against a backdrop of a difficult planning environment in the short term. Redrow has the capacity to grow the output of our Signature product in the medium term. We are also expanding volumes from our Debut brand and are delivering incremental income from our mixed use and regeneration activities.

Our objective at Redrow is to deliver profitable and sustainable growth. The strategies we are pursuing in the key aspects of our business support this objective which we consider will create value for shareholders in the medium term.

Robert Jones  
Chairman