

## **CHAIRMAN'S STATEMENT**

It is with mixed emotions that I write this Chairman's Statement, my first since returning to the Board. On the one hand, I am delighted to be back at the helm of Redrow, the Group I founded 35 years ago. On the other hand, it is intensely disappointing to me to have to report the worst set of trading results in our Company's history. I am determined to ensure that this will not be repeated and that we will steer the business back to delivering a performance consistent with being one of the leaders in the house building industry.

### **Financial Results**

In the financial year ended 30 June 2009, Group revenue reduced by 53.6% to £301.8m (2008: £650.1m) which was almost entirely attributable to the volume and price reductions experienced during the dramatic decline in the housing market. Group legal completions of 2,113 homes were 46% lower than the prior year (2008: 3,925) and our average selling price showed a reduction of 12% to £137,400 (2008: £156,900). Gross margin declined from 18.5% to 1.8% principally as a consequence of the impact of house price reductions and the slow rate of sales. The pre tax loss from trading operations before exceptionals for the period was £44.2m (2008: £65.5m profit), the first trading loss in Redrow's history. Our immediate task as we move forward is to rebuild our margins and return to profitability.

Post exceptionals of £96.6m the pre tax loss was £140.8m. The exceptional charge of £96.6m reflects both the impact of the radical restructuring of the Group required in response to market conditions and the review undertaken of the carrying value of land and work in progress in our balance sheet. This latter element required additional net realisable value provisions in the year of £96.5m, further details of which are provided in the Business Review.

Net debt of £214.6m (Dec 2008: £269.1m; June 2008: £223.3m) was in line with our objectives and well within our available committed facilities of £425m. Gearing at 30 June 2009 was 73% (Dec 2008: 73%; June 2008: 55%) and reflected the reduction in net assets to £293.5m (June 2008: £404.6m) resulting from the reported loss. We anticipate that we will return to generating positive operating cash flow in the year ahead, funding the planned continued reduction in our debt levels by June 2010.

### **Background**

Throughout 2008 and into the early part of 2009 the house building industry was hit by a downturn unlike any other in recent history. The speed of the decline in sales and prices required Redrow to take swift and dramatic action. The business was restructured, several regional offices were closed and the number of employees was reduced from 1,321 at June 2007 to 652 in April 2009.

With the benefit of hindsight, mistakes were made in the Group's land acquisition policy. During 2005 very little land was purchased as it was perceived at that time that the land market had peaked. This proved not to be the case and management embarked on a "catch-up" during 2006 and 2007, resulting in a disproportionate element of the land bank being bought at the peak of the market. Unfortunately the combination of this policy and further falls in house prices during the year, has resulted in further provisions being required in this year's financial results. We are, however, now in a position to move forward from an appropriate base and assuming we experience stability in the market, we do not foresee further net write-downs being required.

With house prices having fallen by around 25% from peak, it is encouraging to see that the market has steadied over the last six months. The price adjustment has made new homes once again very affordable, which has resulted in strong buyer demand. Reservations during the first 10 weeks of the financial year are up 72% over the same period last year.

Mortgage availability remains the biggest single constraint to the housing market recovery, with down valuations by surveyors acting for the mortgage lenders being an ongoing problem. Cancellation rates are running at around 18%, with the majority of these cancellations occurring as a direct result of surveyors' down valuations. Whilst there has been some improvement in both mortgage availability and valuation issues in recent weeks, these two factors remain the most significant obstacles to a recovery in the market.

## **Future Strategy**

Having stepped down from the Board in November 2000 and reduced my holding in the Company to around 6%, I re-built my stake to 29.9% during 2008 and the early part of 2009 and approached the Company to re-join the Board. I returned to the Company on 23 March 2009, with a clear focus upon the steps we needed to take. My first objective has been to review two key elements of our business strategy, which are critical to our future success – our product and our land bank. Redrow's historic success has been attributable to a great product, differentiated from its competition, and excellence in land buying; I intend to re-establish both elements within our business.

In recent years, the Company has moved away from its heritage in family housing towards apartments and starter homes. This has led to a reduction in the Group's average selling price, taking it from amongst the highest in the sector to the lowest. In the financial year ended 30 June 2009, 45% of our legal completions were apartments and 5% from the low average selling price Debut range. Given the reduction in demand and balance of product mix within our legal completions, the average selling price was £137,400 (2008: £156,900).

There remains a legacy of around 700 In the City apartments or Debut range product, which is either stock or where we are committed to build, the majority of which we expect to be sold in the new financial year. As a result, the average selling price for the new financial year will once again be diluted by the inclusion of this lower selling price product. Nevertheless I expect the average selling price for the current year to be somewhat ahead of last year.

Redrow's product in recent years has been barely distinguishable from its competitors. When I returned I inherited in excess of 80 standard house types. Working with our in-house design team the product range has been completely redesigned, reducing the core house types to just 32, with a strong focus on family housing. This new range will be called The New Heritage Collection, which, as the name suggests, will incorporate an historic architectural theme, yet with spacious open-plan interiors and a high specification designed for today's modern living. The Redrow team is tremendously excited by the new range and it is our intention to introduce it to our developments during the autumn months, in readiness for a full launch in January 2010.

## **Land**

In line with our shift in emphasis towards two storey family housing, a thorough review of our land bank has been instigated with the intention of identifying how we could increase the proportion of traditional product, moving away from apartments and three storey homes. As a consequence of this review, our current land bank, which had reduced to 14,200 as a result of

trading, was reduced by a further 8% to 13,100 plots, due to the re-planning. This re-planning of sites is ongoing, with some Local Authorities more supportive of the change than others. Nevertheless we feel it is appropriate to pursue this strategy. As a result of the re-planning exercise and land write-downs the Group's average plot cost now stands at £23,000. When the impact of residual In the City apartment schemes, Debut product and social housing to which we have allocated a nil land cost is taken into account, the average plot cost increases to approximately £27,000.

Our land teams are once again fully engaged in considering new land opportunities. At the present time, however, there is something of a stand-off in the land market between vendors and buyers. Some land owners are typically holding back from selling land because of unrealistically high expectations, whereas land purchasers are looking for financial returns which embrace the risk premium appropriate for the current market. As confidence that house prices have stabilised spreads, this gap between the two should close and activity in the land market will slowly recover.

## **Board**

On 19 August 2009 we appointed Alan Jackson, Debbie Hewitt and Paul Hampden Smith to the Board as Non-Executive Directors. Alan joins as Deputy Chairman and Senior Independent Non-Executive Director. I am delighted to have strengthened our Board with these appointments and look forward to working with them as we move the Group forward.

In line with the announcement made at the time of my return to the Company, it is envisaged that a Chief Executive or Chief Operating Officer will be appointed during the course of the current financial year.

During the year Neil Fitzsimmons stepped down as Chief Executive and Alan Bowkett stepped down as Chairman. Subsequent to the year end, in August, Malcolm King, Bob Bennett and Denise Jagger, stepped down to make way for the new Non-Executive Directors. I would like to thank Neil, Alan, Malcolm, Bob and Denise for their past efforts.

## **People**

In what has been a tumultuous period for the Company, I would like to express my sincere gratitude to all the Redrow team for their dedication and commitment to the business. This team embraces a very broad group, ranging from our employees through to sub-contractors and suppliers. During this period we have lost many excellent members of the team through the restructuring programme and we hope that the stability we see emerging allows them to rejoin our industry very soon.

Health and Safety has remained an absolute priority for us during this downturn and as we start to increase construction we need everyone across the organisation to continue to support this important objective. We were delighted to win a gold RoSPA for the fourth year running.

## **Outlook**

The new financial year has started positively, with the total sales position comfortably ahead of the same period last year. We recommenced construction generally across our sites in the last quarter of our financial year and have stepped up the pace of build to ensure we have appropriate stock levels to meet the autumn markets. By the end of December we expect to launch 12 new sites, which we had previously held back due to market conditions.

We have taken extensive steps to refocus our owned land bank to meet our future needs and to correctly assess its value in the current market. We anticipate that we will need to invest carefully and strategically to enhance our land bank and we continue to keep our capital structure under review to ensure that we are well placed to secure new land capable of generating improved financial returns.

With the introduction of The New Heritage Collection and our refocus on family housing, we are confident that in time we will re-establish Redrow as one of the market leaders in our sector.

Steve Morgan  
Chairman