

## Directors' Report: Business Review

## Spain and Gibraltar Housing



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Market conditions in the first two months of 2010 have been stronger than we anticipated. However, we remain cautious until a clearer pattern emerges for the Spanish economy as a whole.

### Spain strategy

- Deliver high quality homes in popular locations that appeal to both foreign and Spanish buyers
- Focus on cash generation and cost reduction

- Remain cautious on land purchasing at the current point in the market cycle

### Gibraltar strategy

- As previously announced, we are exiting our business in Gibraltar.

### Our Spain and Gibraltar Key Performance Indicators

	2009	2008
Order book volume as a percentage of completions	20.0%	83.2%
Owned and controlled plots with planning	1,901	2,121
Customer satisfaction	98%	85%
Health and safety (Spain)	0.481 <sup>#</sup>	0.371
Health and safety (Gibraltar)	0.000	0.828 <sup>##</sup>

<sup>#</sup> Please note that the injury frequency rate for Spain equates to just three incidents in 2009.  
<sup>##</sup> Please note that the injury frequency rate for Gibraltar equates to just four incidents in 2008.

### Performance

In Spain and Gibraltar we completed a total of 225 homes in 2009 (2008: 214) at an average selling price of £260k (2008: £270k). We delivered a higher proportion of our completions in Spain from the mainland as we discounted prices to reduce our level of inventory.

Revenue was broadly flat at £61.0 million (2008: £59.8 million). Operating loss\* was £1.4 million (2008 loss: £2.4 million) as a result of the ongoing market weakness. The landbank has reduced from last year as we have become increasingly cautious in our approach to land purchases. Our year-end order book stood at £11 million (2008: £58 million).

We have undertaken further reviews of the carrying value of our landbank in Spain, which resulted in land and work in progress write downs of £3.3 million,

all of which were recorded at the half year (2008: £37.4 million).

As previously announced, we are exiting our business in Gibraltar and expect the majority of the remaining completions to be achieved during the first half of 2010.

### Current trading

Market conditions in the first two months of 2010 have been stronger than we anticipated. However, we remain cautious until a clearer pattern emerges for the Spanish economy as a whole.

\* Profit on ordinary activities before finance costs, exceptional items, brand amortisation and tax, after share of results of joint ventures.

### Spain housing market at a glance

#### Key drivers

- Continuing oversupply of properties on mainland Spain
- Ongoing weakness of Sterling against the Euro
- Economic weakness resulting in reduced consumer confidence