



The Berkeley Group plc

PRESS RELEASE

24 AUGUST 2004

PROPOSED RETURN OF UP TO £12 PER EXISTING ORDINARY SHARE

The Berkeley Group plc today announces the posting to shareholders of its Circular and Listing Particulars in respect of the proposed Return of up to £12 per Existing Ordinary Share. For information an edited version of the Chairman's letter to shareholders is set out below:

On 25 June 2004, The Berkeley Group plc announced its preliminary results for the financial year ended 30 April 2004, the declaration of a proposed final dividend of 16.5 pence per Existing Ordinary Share and that the Board of Berkeley had concluded its strategic review of the businesses comprised in the Group.

The details of the strategic review and reasons for the Return of up to £12 per Existing Ordinary Share, together with other matters including details of a new management incentive plan, the Berkeley Holdings 2004(b) LTIP are set out below. The Directors consider these Proposals to be in the best interests of Berkeley and its Shareholders as a whole and intend to vote in favour of these Proposals in respect of their own shareholdings in the Company.

The Proposals are subject to shareholders approving the Scheme of Arrangement, the Berkeley Holdings Reduction of Capital and the Berkeley Holdings 2004(b) LTIP at the Court Meeting and EGM, both of which are to be held on 17 September 2004. The Proposals are also subject to Court Approval of both the Scheme of Arrangement and the Berkeley Holdings Reduction of Capital on 25 October 2004 and 27 October 2004 respectively.

Strategic review

Berkeley operates a different business model to the majority of other house-builders as it concentrates mainly on highly complex, large-scale, inner-city, urban regeneration schemes on brownfield land where it can create enhanced returns for Shareholders and deliver benefits for all stakeholders. The strategic review that the Board of Berkeley carried out, in conjunction with the Company's advisers, sought to assess the best route for delivering shareholder value. This took place in the context of the Board's views about the outlook for achieving sustainable growth in the markets in which it operates – where there appears to be a natural size for a residential urban regenerator – and takes into account the normalisation of the housing market following a decade of boom and a number of other external factors.

The Board considered a number of strategic options including continuing to grow the business, which required further investment and additional management teams, disposing of the business or selling-off or demerging individual divisions. All were rejected as not being in the best interests of Shareholders. After careful consideration the Board has decided to leave behind Berkeley's traditional housebuilding heritage and focus primarily on larger scale complex regeneration. This strategy allows the return of substantial capital to Shareholders while enabling Berkeley to continue to buy land selectively when attractive opportunities arise in the urban regeneration market. Critically, it is a path that will retain staff to ensure the sustainability and future of the business with the main challenge now being to realise the value contained within Berkeley's strong land bank.

The working capital requirement of this more focused business enables Berkeley to propose to return £12 per Existing Ordinary Share in cash in the period to 31 January 2011, a total of approximately £1.452 billion (assuming 121 million Existing Ordinary Shares in issue), while maximising the value of the continuing business. Berkeley plans to return £5 per Existing Ordinary Share in the current year.

As part of the Proposals, the Remuneration Committee of the Board of Berkeley has agreed with the Executive Directors the terms of the Berkeley Holdings 2004(b) LTIP, which replaces the Berkeley 2004 LTIP under which no awards have been granted. In addition, actions have been taken to prevent awards and options granted under the Berkeley 2000 LTIP and the Berkeley Unapproved 2000 Option Plan which are not currently exercisable from becoming exercisable prior to their due date as a result of the introduction of Berkeley Holdings as the new holding company of Berkeley (which would otherwise be treated as a change of control for the purposes of those plans). The Berkeley Holdings 2004(b) LTIP provides that, should £12 per Existing Ordinary Share be paid in cash to Shareholders by the end of January 2011, the Executive Directors together will be entitled to be issued such number of Units as results in them holding fifteen per cent of the then issued ordinary share capital of the New Company on a fully diluted basis following that issue.

Outline of the Return

In order to prepare for the Return of up to £12 per Existing Ordinary Share, Berkeley must go through a Court approved scheme of arrangement. This will result in the creation of a new listed holding company, The Berkeley Group Holdings plc (“Berkeley Holdings”), which will become the new parent company of The Berkeley Group plc (“Berkeley”).

Berkeley is also proposing a Court approved reduction of capital of Berkeley Holdings. Under this proposal, the nominal value of each B Share will be reduced to 5 pence so as to create distributable reserves of approximately £1.354 billion. This is a legal and accounting adjustment and does not of itself have any direct impact on the market value of the Units but will facilitate the payment of the Return of up to £12 per Existing Ordinary Share. A proportion of the share capital of Berkeley Holdings will be in the form of B Shares which will be used to return to Shareholders up to £12 per Existing Ordinary Share.

Shareholders on the register of members of Berkeley at the Scheme Record Time, which is expected to be 5.00 p.m. on 25 October 2004, will receive the following:

for every Existing Ordinary Share	one Unit each comprising one New Ordinary Share, one 2004 B Share, one 2006 B Share, one 2008 B Share and one 2010 B Share
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Application has been made for the Units to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange for such Units to be admitted for trading on the market for listed securities of the London Stock Exchange, in the same way as Existing Ordinary Shares. Shareholders will own the same proportion of Berkeley Holdings in the form of Units as they did with Existing Ordinary Shares in Berkeley. As a result of the Scheme, Existing Ordinary Shares will cease to exist.

For every Existing Ordinary Share held at 5.00 p.m. on 25 October 2004, Berkeley Holdings is proposing to return, subject to having sufficient funding and distributable reserves, up to £12 in aggregate over the next six years as follows:

Class of B Share	Expected Record Date	Proceeds per B Share	Approximate aggregate proceeds⁽¹⁾
2004 B Share	26 November 2004	£5	£605 million
2006 B Share	29 December 2006	£2	£242 million
2008 B Share	31 December 2008	£2	£242 million
2010 B Share	31 December 2010	£3	£363 million
TOTAL		£12	£1.452 billion

(1) Assuming 121 million Existing Ordinary Shares in issue upon the Scheme becoming effective.

Payment of the Return of up to £12 per Existing Ordinary Share is subject to a number of conditions being satisfied. These are described in detail below.

Mechanics of the Return of up to £12 per Existing Ordinary Share

The Return will be achieved through the B Shares comprised within each Unit. The 2004 B Shares will be redeemed by Berkeley Holdings in consideration for the payment of £5 per 2004 B Share to the registered holders at the close of business on 26 November 2004.

The current intention is that, as regards each of the 2006 B Shares, 2008 B Shares and 2010 B Shares, the directors of Berkeley Holdings will resolve that any such class of B Shares be redeemed for an amount equal to the Proceeds per B Share, payable five Business Days following the relevant Record Date.

However, in the event that legal or commercial considerations so dictate, the directors may instead declare a one-off Special Dividend of an amount equal to the Proceeds per B Share, payable 5 Business Days following the relevant Record Date. After any such Special Dividend is declared and paid, the B Shares in question will have no further rights and will therefore be valueless. Accordingly, Berkeley Holdings would then redeem all outstanding B Shares in the class for £1 in aggregate.

Payment of the Return of up to £12 per Existing Ordinary Share

No part of the Return will be paid in respect of any class of B Share unless, in accordance with the provisions of the Companies Act, the amount of Berkeley Holdings' reserves available for distribution equals or exceeds the aggregate amount payable by Berkeley Holdings in respect of that class of B Share. In addition, payment of the Return in respect of the 2006 B Shares, the 2008 B Shares and the 2010 B Shares is subject to the directors of Berkeley Holdings resolving, in their absolute discretion, that the making of such payment is in the best interests of Berkeley Holdings taking into account Berkeley Holdings' financial position and its then working capital requirements. In particular, it is expected that the board of Berkeley Holdings will want to be satisfied, at the time those payments fall to be made, that:

- (a) the underlying businesses of the New Group have generated and will continue to generate cash sufficient to fund the payment on the relevant B Shares and the working capital requirements of the New Group; and
- (b) Berkeley will not, either before or following the making of such payments, become in breach of certain restrictions contained in the Facility Agreement with Barclays Bank plc

The payment of £5 per Existing Ordinary Share (being approximately £605 million in aggregate) in cash to be paid in respect of the 2004 B Shares will be funded through a combination of Berkeley's existing cash resources and the Facility Agreement. The balance of the return of capital would be principally funded by reduction of working capital and the future earnings of the New Group. The Berkeley Holdings Reduction of Capital, which is expected to be confirmed by the Court on 27 October 2004, is expected to create distributable reserves of £1.354 billion in Berkeley Holdings' books. It is expected that the payment in respect of the 2004 B Shares will be made on 3 December 2004.

If the above conditions are not satisfied in respect of the 2006 B Shares and 2008 B Shares on the relevant Record Date, payment in respect of those shares will be deferred for consecutive periods of six months until the later of the directors of Berkeley Holdings resolving that such payments can be made or 31 January 2011. If payment in respect of any class of B Shares has not been made by 31 January 2011, no further payment will be made in respect of any of the B Shares save that Berkeley Holdings will be entitled to redeem any outstanding B Shares for £1 in aggregate.

New management incentive plan

In order to align the interests of Executive Directors with Shareholders, the Remuneration Committee has decided to introduce a new management incentive plan, the Berkeley Holdings 2004(b) LTIP. Awards under this plan will be released to the Executive Directors only after Shareholders have been paid in full the Return, being £12 per Existing Ordinary Share.

Awards will either be conditional grants of Units or nil cost options to acquire Units. However, the Awards do not entitle participants to receive voting rights or payments in respect of the B Shares comprised within the Units or (save in the event of a change of Control of Berkeley Holdings) the value of the B Shares, and are therefore in effect rights to receive New Ordinary Shares.

The Remuneration Committee believes that this approach will incentivise the Executive Directors to concentrate equally on returning £12 per Existing Ordinary Share and on maximising the value of the more focused urban regeneration business that will comprise the residual part of the New Group. Therefore since the value of awards to the Executive Directors will be directly linked to the value of that residual part after the Return to Shareholders there should be a close alignment between the interests of the Executive Directors and the Shareholders both of whom benefit from such maximising of value.

It is therefore proposed that the Berkeley Holdings 2004(b) LTIP be adopted and the Executive Directors be awarded at no cost to them such number of Units which upon release will result in their holding together 15 per cent of the issued share capital of the New Company on a fully diluted basis following that issue which, prior to release of any awards, will represent 17.6 per cent of the issued share capital of Berkeley Holdings. Awards of Units will only be released provided that by 31 January 2011 Shareholders have been paid in full the Return, being £12 per Existing Ordinary Share. In the event of a change of Control of Berkeley Holdings prior to 31 January 2011, awards will be released which equate to up to 15 per cent of the value offered to Shareholders in excess of £12 per Existing Ordinary Share, taking into account the payments already made in respect of the B Shares and the offer price.

Until these Units are released Executive Directors shall have no rights in respect of any of the New Ordinary Shares or B Shares comprised in such Units. Following the release of such Units each Executive Director will be prohibited from disposing of the New Ordinary Shares comprised in the Units released to him prior to the first anniversary of the release of his award at which time he will be entitled to sell up to 50 per cent of them. The balance of his award of New Ordinary Shares will only be capable of being disposed of on the second anniversary of the release of his award.

The following table sets out the proposed awards under the Berkeley Holdings 2004(b) LTIP for Executive Directors which Berkeley Holdings intends to make following approval at the EGM and its subsequent adoption by Berkeley Holdings:

Name	Percentage of issued ordinary share capital after Return of £12⁽¹⁾
Tony Pidgley (Group Managing Director)	8%
Tony Carey (Divisional Executive Director)	2.5%
Greg Fry (Divisional Executive Director)	1.5%
Rob Perrins (Group Finance Director)	3%
TOTAL	15%

(1) Following enlargement on satisfaction of the Berkeley Holdings 2004(b) LTIP performance condition.

Current trading and prospects

The Company announced its results for the year ended 30 April 2004 on 25 June 2004, stating that:

“Berkeley has been operating primarily in markets where sales price growth has been constrained and volumes have been in line with expectations that flow from more normal market conditions. Berkeley’s operational model is to enhance shareholder value, producing homes where our customers wish to live and minimising risk as far as possible. Berkeley is well placed to continue achieving these objectives with an unrivalled land bank, strong forward sales and a focused management team dedicated to the continued success of the business.”

Since the time of the announcement, Berkeley has continued to experience normal market conditions. The Board has confidence in the financial and trading prospects of the New Group for the current financial year.

Dividend Policy

Following the declaration of the final ordinary dividend of 16.5 pence per Existing Ordinary Share payable by Berkeley on 9 September 2004 to Shareholders on the register on 13 August 2004, Berkeley Holdings intends that, prior to 31 January 2011, substantially all returns to Shareholders will be by way of payments made on the Redemption of the B Shares.

However, subject to the Companies Act, dividends may be declared on the New Ordinary Shares at any time.

Approval of the Proposals

In order to be able to effect the Return of up to £12 per Existing Ordinary Share, Berkeley needs shareholder approval of the Proposals at both the Court Meeting and at the EGM both of which are being convened for 17 September 2004. In addition, the High Court must sanction the Scheme and confirm the Berkeley Holdings Reduction of Capital expected on 25 October and 27 October 2004 respectively.

UBS Investment Bank is acting for the Berkeley Group plc and no-one else in connection with the proposals and will not be responsible to anyone other than the Berkeley Group plc for providing the protections afforded to clients of UBS Investment Bank.

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This announcement, the Shareholder Circular and the Listing Particulars can be located on the Company’s website (www.berkeleygroup.co.uk) under the Investor Relations: Results & Announcements section.