OPERATING REVIEW

The Group has reported an excellent financial performance for the year. Total completions exceeded 4,000 with private sales increasing by 16% in the year. Turnover was at record levels with private revenues above £1bn for the first time in the Group's history.

Central to the Group's strategy is the quality of its product, but fundamental to these strong results is the dedication and expertise of the people we employ across the business. A team of people that has grown by over 20% in the past year with a significant proportion of those new recruits being young people taking their first career steps. We now employ over 1,650 people of which 15% are on structured training programmes including 130 apprentices. And it is very reassuring to know that our people rate working for us so highly: in our most recent employee survey, 97% of those that responded said they enjoy the work they do for Redrow and 95% think we are a good employer.

The Market

The early months of the financial year were tougher by comparison to the summer of 2013 that was buoyed by the introduction of the Government's Help to Buy scheme in the Spring of that year. Help to Buy continues to be an attractive incentive for our buyers and accounted for around 40% of reservations in the year with the largest take-up being those buying their first home.

As the year progressed the market improved with both sales rates and prices lifting. Concerns over the impact of the election were largely unfounded and the unequivocal outcome has brought further stability to the market, particularly with the announcement that Help to Buy in England is to be extended to 2020. Sadly the Welsh Assembly has yet to make such a commitment which is affecting the industry's confidence to invest for the future.

Wales aside, the prospects for the housing market elsewhere are encouraging. The underlying improvement in the economy coupled with a competitive mortgage market means more people can afford to buy their first home or trade up, and a more active housing market is also allowing many to trade down as a lifestyle choice. The key to meeting the increase in demand and tackling the severe housing shortage hinges upon bringing more sites through the planning system and addressing the skills shortage.

Managing Increased Demand

The last government did a lot to improve the planning system and the new administration's recently published productivity plan –'Fixing the foundations: creating a more prosperous nation', sets out a clear intention and determination to build more homes that people can afford. Whilst a well communicated policy at government level is essential to building more homes, ultimately delivery is very much in the hands of local authorities where all too often planning is stifled by local politics, a lack of resources and unnecessary bureaucracy. To materially increase output these fundamental issues have to be addressed.

We try hard to overcome these planning obstacles by consulting with local communities and working closely with planning departments. Indeed, at Maidenhead, where Harrow Estates recently achieved planning permission for 271 new homes on a brownfield site released from the greenbelt, we were complimented by the planning committee on our collaborative approach.

Tackling the industry's skills shortage has been a priority for us in recent years. We have annually increased our intake of trainees and apprentices and now employ c.250 young people on structured training programmes across the business. We also continue to develop our people at all levels and last year we completed 3,859 days of training, a 30% increase: much of this was carried out at our dedicated training centre or remotely through e-learning. We have extended our graduate programme and introduced a Higher Apprenticeship scheme for engineers and designers in partnership with Glyndŵr University. For the second year running we have been listed as a Top

100 Apprenticeship Employer in the National Apprenticeship Service awards. It is very satisfying that our training and career development programmes are helping to deliver our future managers and leaders with over half of our annual Director appointments coming from internal promotions.

Notwithstanding our commitment to tackling the skills shortage, we continue to experience trade shortages in some parts of the country and most acutely in new operating areas where we need to establish a base of subcontractors that can meet our demanding standards. As a consequence we have faced build delays that inevitably have a knock-on effect to customer satisfaction. We have also seen build costs increase during the year. Material prices have stabilised but labour costs, particularly for those trades in short supply, have risen substantially: we estimate that overall build costs have increased by in excess of 5% over the past year and we anticipate this trend will continue for some time to come. We do however expect any build cost increases will be more than offset by modest house price inflation.

It was very pleasing to once again achieve a five star rating in the annual HBF Customer Satisfaction Awards. However balancing the need to deliver on time against rising customer expectations means that maintaining a 90% or better rating is becoming more challenging. To address this we have invested heavily in customer service over the past year increasing both the size and quality of our teams in readiness to launch our *Customer First* initiative. *Customer First* is being rolled-out across the business throughout financial year 2016. It more closely engages with customers at an early stage with managers dedicated to providing a high level of service supported by the latest hand-held technology. *Customer First* will complement Redrow's reputation for delivering well designed quality homes with industry leading customer service.

On the subject of quality, for the second time in the last three years, a Redrow Site Manager was the supreme winner for the large builder category in the NHBC Pride in the Job Awards. Rob Summers, our Site Manager at Cwm Calon in South Wales, was the eventual winner with Paul Greenaway our Site Manager at The Harringtons in Exeter also reaching the final. This year we have been awarded a record 18 Pride in the Job Awards.

Building Responsibly and Sustainably

As well as ensuring we deliver homes built to high standards, we are also conscious of the need to build responsibly and sustainably.

Last year we increased build output by over 20% but despite this, we managed to reduce our notifiable accidents per site from 0.37 in 2014 to 0.23 in 2015. We were also successful in the annual NHBC Safety Awards with three of our Site Managers, from a total of 29 across the country, being highly commended.

Our developments continue to reduce their impact upon the environment and make increasing contributions to local communities. Our carbon emissions are down and 56% of the homes we built last year contained recycling facilities and 57% were on 'brownfield' sites. We almost doubled the amount of public open space we created to 209 hectares and committed £128m of funds to local communities.

Product at the Centre of Divisional Growth

Our product differentiates us from our major competitors. Throughout our developments we focus on delivering homes that are both attractive and functional. We have an unwavering attention to detail and a programme of continuous improvement that ensures our designs respond to changing trends and customer demands. My Redrow is also reinforcing our commitment to provide customers with greater choice to tailor their homes to meet their needs: last year we sold £10m of extras to customers.

The Heritage Collection accounts for around 80% of private volumes and underpins the Group's enviable reputation for designing and building high quality well-planned homes. We have extended the range during the year to include more house types aimed at those looking to trade down.

The Regent Collection with its traditional elevations and modern interiors is proving popular amongst buyers looking to live in higher density housing in urban environments. Abode is our contemporary version of Regent sharing similar footprints but with simple modern elevations and open plan living space. The number of Regent and Abode outlets is expected to steadily increase.

We are able to apply the same attention to detail we have on our standard ranges to bespoke solutions. Most of these developments are apartment schemes, particularly in London, although in places such as South Cerney in the Cotswolds, we have created one-off designs for lakeside living.

The number of private apartments completed during the year increased by 24% and represented 14.8% of private sales compared to 13.9% last year. Social housing, as a consequence of the timing of delivery, reduced from 17.6% in 2014 to 14.2% in 2015. Although moving forward this position will be reversed and social housing is set to be a larger proportion of output, the Government's announcement regarding year-on-year reductions in social rents for the duration of this parliament, has created a hiatus that will affect the delivery of social housing in the short term.

Our nationwide reputation for designing and building quality homes on well-planned sites has supported our divisional growth. The Heritage Collection in particular has been the bedrock for growth in our new regional divisions. We continue to expand and open a new division each year – in 2014 we established a West Country division based in Exeter that has made a significant contribution in the year and we recently split our business in the East to create divisions north and south of the Thames. We have also recently announced a reorganisation of our London operation to meet our planned growth in the fastest growing area in the country.

London

London will now operate as a region in its own right. The new region will cover all London boroughs. It will bring together the expertise and skills we have amassed developing sites in the Capital and allow us to undertake more of our own construction with less reliance upon main contractors. Initially there will be two divisions with capacity to add a third at some point in the future.

The Colindale Gardens division will focus entirely on delivering this highly important development for the Group. We recently received a resolution to grant planning for 2,900 new homes and up to 100,000 sq.ft. of commercial space. Under the planning agreement we will be providing healthcare and nursery facilities, land for a new school, a significant contribution to upgrade Colindale tube station and 4 hectares of public open space and gardens. Colindale Gardens has a gross development value of over £1bn and is expected to take ten years to build.

The Greater London division will oversee our other sites across the Capital including our Joint Venture in Croydon.

The new region will have a number of centralised functions including land buying, sales and marketing, customer service and finance.

The Central London market softened during the year in response to the threat of mansion tax, increases in Stamp Duty Land Tax and uncertainties in the wider global economy. As a consequence, we curtailed our land buying in the so called 'super prime' areas and focused more on sites in the outer London boroughs where demand is strong and selling prices remain affordable for those that work in the Capital.

Investing to Grow Outlets

As our sales rates and average selling prices reach optimal levels, our future growth will rely largely on increasing the number of outlets from which we operate and expanding our divisional structure.

Last year we opened 54 new outlets, and after taking into account the closure of 40, we ended the year on 117 active outlets: a net increase of 14. In financial year 2016 we expect to open around 55 new outlets, after taking into account a higher number of closures weighted to the second-half, we are forecasting to end the year on 128 outlets and maintain our strong track record of increasing outlets year-on-year: by the end of this financial year our outlets will have grown by over 50% since 2012.

To preserve our growth, last year we acquired just under 6,000 plots across 52 sites and, after taking into account legal completions, land sales and replans, our owned and contracted land bank increased by nearly 1,500 plots to 18,216.

The Forward Land portfolio continues to make an important contribution to the owned land bank. Last year we pulled-through 1,975 plots across 22 sites and we expect 2016 will be particularly strong with over 3,800 plots at Colindale and Woodford in Stockport on-track to contribute. We also added over 1,300 plots to the Forward Land bank in the year after taking into account transfers and adjustments as a result of our regular strategic review. With some uncertainty over emerging local planning policies, we have taken a particularly cautious view on sites within the 'greenbelt'.

The geographical spread of the land bank is trending towards the south as we focus on opening more outlets and divisions in this part of the country: over half the owned and contracted land bank is now in the South and Greater London and this is expected to increase further with sites such as Colindale coming through.

Despite a strengthening housing market, we have found plenty of land opportunities within the areas we operate that can be acquired on terms that meet our hurdle rates and we expect this to continue to be the case.

Well Positioned for Future Growth

The outlook for the market is encouraging. We have an improving economy, a competitive mortgage market and an underlying strong demand for more homes.

Whilst there is still much to do to improve and speed-up the planning system, more consents are being granted and this is helping to ensure the land market remains benign and attractive. Our biggest challenge will be to overcome the planning and technical obstacles we face to close land deals and bring outlets on-stream sooner.

Last year for the first time we set three year targets. We have now updated those targets for 2018 and expect turnover to increase by 40% to £1.6bn, operating margins to improve to 19% and return on capital employed to be in excess of 21% despite our ongoing investment in land and inventory to grow our outlets. We have also set a target of 25% for return on equity.

As we continue to grow the number of outlets from which we operate we will inevitably increase the pressure on our teams and contractors to deliver. We can however draw comfort from our track record of recruiting, retaining and developing our people. We have a team of people that are proud to work for Redrow and understand and share our values to build a great product and deliver excellent customer service.

John Tutte
Group Chief Executive