

Chairman's Statement

Redrow has delivered outstanding results over the last few years and I am delighted to once again report another record first half. During the last six months we increased our legal completions by 18%, contributing to the much needed increase in new homes in England and Wales.

Financial Results

Homes' revenue in the first six months of the 2016 financial year increased by 14% to £584m, due to the increased number of legal completions, which were up from 1,850 to 2,178. Total Group revenue increased by 8% to £603m despite revenues from commercial and land sales being £27m lower than in the first six months last year. In the period, the average selling price of our private homes increased 2% due to the shift of our London business away from high priced Central London apartments to concentrate more on the Outer London commuter market where demand remains strong.

Outside London our private average selling price increased by 11% to £300,000 due to a combination of geographical mix change, reduction of impaired sites and price inflation. As a consequence, gross margin increased from 22.3% to 24.2%.

Overheads increased from £30m to £36m primarily as a result of the opening of two new divisions, one covering Kent and Sussex, the other to manage what will be our flagship development at Colindale in North London.

Operating profit rose by 16% to £110m (2015: £95m) and pre-tax profits increased by 14% to a first half record of £104m (2015: £91m). Earnings per share at 22.9p, were 15% higher than the previous year (2015: 19.9p).

Net debt at the end of December 2015 was £183m (June 2015: £154m), giving gearing of 20%. We expect our net debt to continue to be below our previous guidance. Given the strong earnings performance of the business, the Board has decided to pay an interim dividend of 4p per share (2015: 2p). It is also our intention, subject to shareholder approval at the Annual General Meeting, to pay a final dividend of 6p (2015: 4p) making 10p for the year, an increase of 67% on last year. The interim dividend will be paid on 31 March 2016 to holders of ordinary shares on the register at the close of business on 19 February 2016.

Market

Demand for new homes was strong throughout the first half and the Government's Help to Buy scheme continues to give us the confidence to substantially increase output. The only area where we have seen a slow-down is in Central London. However, this is only having a limited effect on the Group as we made the decision some time ago to re-focus our London business on Outer London where the demand is from the local market and remains robust. In the last six months 792 (44%) of our private legal completions utilised Help to Buy, up from 629 (38%) in the first half of last year. Mortgage availability and mortgage rates also continue to improve. As a result our sales per outlet per week were 0.65, up 10% on the prior year.

The value of private reservations in the first half increased by 51% from £449m to £679m resulting in a closing order book of £655m, up 51% on December last year (Dec 2014: £435m).

Land and Planning

During the first half we added over 5,700 plots to our current land bank, of which over 1,500 were converted from our forward land bank. These included 920 plots on our major Garden Village project at Woodford in Cheshire. At the end of December our current land bank totalled 21,435 plots, an 18% increase on the position at the end of June 2015. Since the end of December we have obtained a fully implementable planning consent on the Colindale site in North London converting a further 2,900 plots from forward to current land. Primarily, as a result of these and other successes, our forward land bank has reduced slightly.

There were also some small land sales in the first half both in Harrow Estates and in the Homes business and we completed on some freehold reversion sales.

We have invested heavily in growing our land bank over the last two years as the key to our continued growth is increasing the number of active sales outlets. Despite the significant increase in our 'consented' land bank in the first half we increased the number of outlets by just 3% to 121.

One consequence of selling faster is that sites are coming to an end quicker yet bringing new outlets on-stream continues to be delayed by the planning system. Indeed, approximately 9,000 plots or 42% of our current land bank covering over 60 new outlets, are tied up at one stage or another obtaining reserved matters approval or clearing conditions. It is imperative therefore that this part of the planning system is streamlined if the industry is to increase output to meet the country's needs.

People

The shortage of skilled people continues to be a constraint on output, although this situation has eased over the last six months. It is essential we encourage more young people into the industry and provide them with a route to a successful career. Redrow continues to be at the forefront of this process. We now have 304 apprentices, graduates and trainees in the business compared to 104 three years ago and expect this number to increase in line with the growth in the Group.

Current Trading and Outlook

Demand for new homes remains robust despite recent turmoil in the financial markets. Private reservations since the beginning of January are 10% up on last year at 455 (2015: 415). The 40% Help to Buy Equity Loan Scheme for the London market has just been launched and we eagerly await the launch of the Government's Starter Homes Initiative to help young people get on the housing ladder. We welcome both initiatives that will provide further support to those looking to buy their first home.

We have a strong pipeline of new sites in planning and our strategy to grow the business and increase the number of homes we build remains on-track.

We are therefore confident that this will be another year of significant progress for Redrow.

Steve Morgan
Chairman