FINANCIAL REVIEW

Profitability

This year the Group again delivered record financial results with revenue of £1.66bn (2016: £1.38bn) and profit before tax of £315m (2016: £250m), exceeding the £300m milestone for the first time. In addition it is particularly pleasing to report this was achieved by reaching a new record in the number of new homes completed by the business of 5,319.

Total Group revenue rose 20% to £1.66bn. This comprised private homes revenue which increased by 20% to £1.5bn (2016: £1.3bn) as a result of an 11% increase in private homes legal completions and an 8% increase in average selling price, social homes revenue of £115m (2016: £86m) and other revenue of £12m (2016: £21m) from land sales.

As a result of the increase in revenue, gross profit increased by £71m in the year to £405m (2016: £334m) giving a gross margin of 24.4% (2016: 24.2%). The gross margin benefited from a decrease in the proportion of our homes legal completions from provisioned land acquired before the downturn from 6% to 4% together with net House Price Inflation of 20 basis points, but these were partially offset by the impact of a 22% increase in the number of social home legal completions in the year.

The strong revenue growth has generated an operating profit for the year of £322m (2016: £261m), a 23% increase. This represents an operating margin of 19.4% (2016: 18.9%) close to our medium term target operating margin of 19.5%.

Net financing costs at £8m were £3m lower than the prior year due to lower levels of average net debt in the year. Net debt averaged £67m during the year (2016: £174m).

There was also a £1m contribution from our Joint Venture on the Morello, Croydon development which delivered its first 97 legal completions in 2017.

As a result, the Group delivered a record profit before tax of £315m (2016: £250m) in the year which produced a basic earnings per share up 27% at 70.2p (2016: 55.4p).

Tax

The corporation tax charge for the year was £62m (2016: £50m). The Group's tax rate for 2017 was 19.75% (2016: 20%). The normalised rate of tax for the year ending 30 June 2018 is projected to be 19% based on rates which are substantively enacted currently.

The Group paid £56m of corporation tax in the year (2016: £46m) in the normal quarterly pattern. Payments will continue in the normal quarterly pattern until the new legislation for corporation tax payments by very large companies takes effect for our financial year ending 30 June 2020, which will bring our instalment payments forward by four months.

Dividends

The Board has proposed a 2017 final dividend of 11p per share which will be paid on 10 November 2017, subject to Shareholder approval at the 2017 Annual General Meeting. This is an 83% increase on last year.

The Group paid dividends of £44m (2016: £30m) during the year.

Returns

Net assets at 30 June 2017 were £1,235m (2016: £1,041m), a 19% increase. Capital employed at the same date was £1,308m (2016: £1,180m) up 11%. Our return on capital employed again benefited from increased capital turn and higher profits and increased in the year from 23.7% to 26.0%. Return on equity also increased from 26.1% to 27.7%.

Inventories

Our investment in land increased by £50m, up 4%, in the year to £1,312m (2016: £1,262m) which reflected a deliberate slowdown in land buying in the first half of the 2017 financial year following the Brexit referendum, with land buying momentum returning in the second half. A healthy 62% of our current land bank additions in 2017 came from our forward land holdings and this contribution has averaged 40% over the last five years.

We have taken the decision to change our accounting policy in respect of forward land to align it with normal industry practice. This change to initially recognise forward land expenditure in inventory at cost and review regularly for impairment has added £30m to land assets at June 2015 and June 2016, restating previous figures and £24m to net assets, net of tax. This change of accounting policy has not affected profits in either 2017 or 2016.

Our owned plot cost has increased by £2,000 per plot to £70,000 at June 2017 (2016: £68,000), reducing slightly to 20% of the average selling price of private legal completions in the year (2016: 21%).

Our investment in work in progress increased by £90m, up 14% year on year to £731m (2016: £641m). This reflected the higher number of strategic sites in production and the levels of apartment schemes in the later stages of production in the South East. However, as a percentage of Homes turnover it reduced from 47% to 44%.

Our net realisable value provision on land and work in progress reduced by £11m to £8m in the year.

Land creditors decreased slightly by £27m to £351m at June 2017 (2016: £378m) representing 26% of land inventory (2016: 29%).

Receivables

Trade receivables decreased by £2m during the year to £21m (2016: £23m) due to the ongoing receipt of historic shared equity scheme monies.

Payables

Trade payables, customer deposits and accruals increased by £21m to £422m (2016: £401m) reflecting increased levels of production activity.

Cash flow and Net Debt

Net debt reduced by £66m to £73m at June 2017 (2016: £139m) giving gearing of 6% at June 2017 (2016: 13%). This significant reduction in net debt reflects a cash inflow generated from operations of £189m (2016: £130m) which more than funded the growth in the business and the increase in both dividend distributions and corporation tax payments made in the year.

Financing and Treasury Management

Financial management at Redrow is conducted centrally using policies approved by the Board.

Redrow remains a UK based housebuilder and therefore the main focus of its financial risk management surrounds the management of liquidity and interest rate risk.

(i) Liquidity

The Group regularly prepares and reviews its cash flow forecasts which are used to manage liquidity risks in conjunction with the maintenance of appropriate committed banking facilities to ensure adequate headroom.

Facilities are kept under regular review and the Group maintains regular contact with its banks and other financial institutions; this ensures Redrow remains attuned to new developments and opportunities and that our facilities remain aligned to our strategic and operational objectives and market conditions.

Our current banking syndicate comprises five banks and in addition to our committed facilities, Redrow also has further uncommitted bank facilities which are used to assist day to day cash management.

(ii) Interest rate risk

The Group is exposed to interest rate risk as it borrows money at floating rates. Redrow uses simple risk management products, notably sterling denominated interest rate swaps, as appropriate to manage this risk. Such products are not used for speculative or trading purposes.

Redrow regularly reviews its hedging requirements. No hedging was undertaken in the year.

Pensions

As at June 2017, the Group's financial statements showed a £2m deficit (2016: £6m surplus) in respect of the defined benefits section of The Redrow Staff Pension Scheme (which closed to future accrual with effect from 1 March 2012). The £8m deterioration is mainly due to the reduction in corporate bond yields and an increase in the market's long term expectations for inflation which have served to increase the liability values. This was partially offset by an update on the assumption for life expectancy.

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