Tuesday 2 September 2014

Redrow plc

Final results for the year to 30 June 2014

REDROW DELIVERS RECORD RESULTS

Financial Results

	2014	2013	Change
Revenue	£864.5m	£604.8m	+43%
Operating Profit	£137.5m	£73.2m	+88%
Profit before tax	£132.6m	£69.4m	+91%
EPS (adjusted)	28.6p	15.6p	+83%
ROCE	18.0%	12.2%	+48%
Final Dividend	2p	1p	+100%

Financial highlights

- Group revenue rose 43% to a record £864.5m driven by a 27% increase in legal completions and a 13% increase in Average Selling Price to £239,500
- Gross margins rose to 21.7% from 18.8% at June 2013
- Record pre-tax profit of £132.6m, up 91%
- Adjusted earnings per share up 83% to 28.6p
- Value of private reservations up 53% from £668m to £1,021m
- Help to Buy represented 35% of private completions
- Return on Capital Employed of 18% (2013: 12.2%)
- Net debt increased to £172.6m vs £91m in 2013, due to ongoing investment in land and work in progress
- On the basis of these strong results, the Board is proposing a final dividend of 2p per share, double that of the dividend paid in 2013

Operational highlights

- Legal completions rose 27% to 3,597 (2013: 2,827) spurred by Help to Buy
- Number of employees up 21% to 1,346 to meet growing demand
- Number of apprentices increased 14% to 84
- London Division contributed £124m of turnover from 293 legal completions
- Order Book up 85% at £482m
- Outlets increased 12% from 92 to 103
- The owned and contracted land bank at the end of June 2014 was 16,724 plots (June 2013: 14,162 plots)

Steve Morgan, Chairman of Redrow, said:

"November 2014 marks the 40th anniversary since I founded Redrow, therefore it is quite fitting that I am able to report a significant increase in turnover and pre-tax profits, both of which are a record for the Group.

The number of homes we built has increased by 27% and as a consequence of this ongoing growth, the number of people we employ has risen by 21%. Whilst this is clear evidence of the success of our strategy it also shows the positive impact of the Government's Help to Buy Scheme.

Market conditions have returned to a more seasonal pattern of activity. We have substantially increased our land bank, which should see a good growth in the number of outlets during the year. This, combined with our strong order book, leaves me confident that the Group will see another year of significant progress."

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There will be an analyst and investor meeting at 9.00 am at The London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Coffee will be served from 8.45 am.

A live audio webcast and slide presentation of this event will be available at 9.00 am on www.redrowplc.co.uk. Participants can also dial in to hear the presentation live at 9.00 am on +44 (0) 20 3003 2666 or UK Toll Free on 0808 109 0700; password is Redrow.

Playback will be available by phone until 30 September on +44 (0) 20 8196 1998 followed by Access Pin 9210944.

CHAIRMAN'S STATEMENT

November 2014 marks the 40th anniversary since I founded Redrow and it is now five years since I returned to the business. It is quite fitting and pleasing, therefore, that I am able to report a significant increase in turnover and pre-tax profits, both of which are a record for the Group.

Financial Results

Group revenue rose 43% to a record £865m (2013: £605m) for the financial year. This resulted from a 27% rise in legal completions to 3,597 (2013: 2,827) and a 13% rise in average selling price to £239,500 (2013: £212,300).

Gross margin improved from 18.8% to 21.7% as 80% of our sales volume came from sites purchased post the downturn on which we have made normal margins.

Operating profit was £137.5m (2013: £73.2m pre exceptional expenses) an increase of 88%. This represents an operating margin of 15.9% compared to 12.1% in the prior year.

Operating expenses continue to increase in absolute terms due to our ongoing investment in growing the business. However, as a percentage of turnover they reduced from 6.7% in 2013 to 5.8% in 2014.

Profit before tax increased by 91% to £132.6m (2013: £69.4m) giving a pre-tax return on sales of 15.3% (2013: 11.5%). Underlying earnings per share were 28.6p, up 83% on last year.

Net assets increased 14% to £696m (2013: £609m) and Capital Employed rose 24% to £868m (2013: £700m). As a consequence, Return on Capital Employed rose from 12.2% last year to 18% in 2014 and Return on Equity similarly rose from 12.3% to 20.5%.

Due to ongoing investment in land and work in progress net debt rose to £173m at the end of the financial year, representing gearing of 24.8% (2013: 14.9%). We expect net debt to increase further in line with ongoing inventory investment.

As a result of this strong performance, whilst at the same time continuing to invest in growth, the Board is proposing a final dividend of 2p per share (2013: 1p). Subject to shareholder approval at the Annual General Meeting, this will be paid on 14 November 2014 to those shareholders on the register at the close of business on 26 September 2014.

Market

The housing market has been robust throughout the last financial year as the Government's Help to Buy schemes have enabled many people to purchase their own home for the first time. During the year 1,023 (35%) of our private legal completions were under the Help to Buy scheme (2013: 82). A large proportion of these were first time buyers and over half were in the north of England. As these statistics show, Help to Buy is providing assistance where it is needed most.

The continued growth of the business, accelerated by the Help to Buy scheme, has enabled us to further increase our workforce. In the last year we have added over 230 direct jobs across all disciplines, an increase of 21%. The number is substantially higher when indirect jobs from our subcontractors and suppliers are taken into account. The increase in new homes activity is undoubtedly creating economic growth from which the country is benefiting.

Mortgage availability has also improved and we welcome the introduction of the Mortgage Market Review (MMR) which should ensure prudent and sustainable lending for the long term.

The summer months of 2013 saw Help to Buy activity at its peak, with reservations running at particularly high levels. This year the period from 1st July to date has seen a more normal summer selling pattern.

The sales rate for the last financial year reached a level of 0.70 per week (2013: 0.62). Now that Help to Buy has settled down we do not expect any further increases in sales per outlet. Further growth in the business now needs to come primarily from growth in outlets rather than sales rate.

An increase in the number of outlets is absolutely necessary to enable Redrow, and indeed the house building industry, to increase the supply of new homes to meet the country's needs. At the end of June 2014 we were operating from a total of 103 outlets, which is a 12% increase over June 2013 (92 outlets).

In total, the value of private reservations secured during the year amounted to just over £1bn, an increase of 53% over the previous year. All regions performed well and our order book at the end of June was a record £482m (June 2013: £260m), an increase of 85%.

I am delighted to report that our London division made its first significant contribution to the Group, generating £124m of revenue in the year. In total there were 293 legal completions, including 70 affordable apartments, from our developments at One Commercial Street and Kingston Riverside.

Due to the growth of the London business, the percentage of private turnover represented by our primary brand, The Heritage Collection, reduced as expected to 77%. In 2014 we launched a new contemporary housing brand, Abode, which has been very well received by customers. Additional information on this can be found in the Operating Review. We expect to gradually roll out both Abode and the Regent Collection, which was announced last year. The new brands, together with the continuing growth of London, will result in the Heritage Collection reducing to about 70% of completions during the year. The average selling price of a Heritage home is now £257,300, 11% higher than last year due to mix change, more completions in the south and some modest price inflation.

Land and Planning

During the year we secured a total of 6,092 new plots, of which 2,139 were converted from our forward land bank. At June 2014 our current land bank totalled 16,724 plots, an 18% increase on the previous year. The average plot cost has risen to £63,000 (2013: £57,000) primarily as a result of a higher percentage of land being in the south. This figure, however, represents 23% of our current average selling price, broadly in line with previous years. The percentage of provisioned land has continued to decrease from 13% in 2013 to 6% at the end of June 2014. By June 2015 it will be immaterial.

As part of the planning process and construction of new homes, Redrow delivered some £113m of value to the communities local to our sites through a range of material contributions. This includes the delivery of £96m of much needed social or affordable housing, as well as significant contributions and investment in schools, healthcare, sports and leisure and other community facilities.

We exchanged contracts in December last year to acquire the Peel Centre, which is the former Police Training Headquarters in Hendon, which is Redrow's largest and most significant acquisition to date. A planning application has now been submitted to the London Borough of Barnet for c.2,600 new homes; however, until the site receives planning permission this is only included in our forward land.

Converting the increased land holdings into new sites remains a key challenge for the Group. The current system of converting allocated sites or outline planning consents into implementable planning consents remains a slow and tedious process and represents the biggest single obstacle to increasing the number of outlets.

We strongly welcome the opportunity to engage with the Government through the current "Technical Consultation on Planning" which focuses on numerous issues relating to the plan-led system. The consultation paper seeks to reduce the current red tape, which prevents a quick start on sites where planning has been obtained. This removal of unnecessary red tape is fundamental to increasing the number of homes built each year.

We had a successful year in the management of our forward land holdings, pulling through 2,139 plots across 18 sites into current land. We also added 5,300 additional plots to the land bank and following a strategic review of the existing holdings we now have a total forward land bank of 28,250 plots, around 18,000 of which are allocated in emerging plans.

People

The shortage of skilled people in our industry is another obstacle to preventing increased output in line with demand. I am proud that Redrow continues to be at the forefront in training the next generation of skilled workers at all levels. During the year we have recruited 48 apprentices, 26 graduates and 8 technical trainees. In total 15% (2013: 14%) of our workforce are on a structured training programme, setting the standard for the house building industry.

I am delighted to welcome Liz Peace CBE as a Non-Executive Director, who joined with effect from the 1st September 2014. Liz is shortly to retire after 12 years as the CEO of the British Property Federation; prior to this she had a long and distinguished career in the Civil Service. Liz will Chair the Group's Sustainability Committee.

As previously reported, Alan Jackson, Deputy Chairman and Senior Non-Executive Director, retired from the Board on the 1st September on Liz's appointment. Alan's advice and support over the last five years has been invaluable during a time when the Group has seen a phenomenal turnaround in its performance. I and my colleagues would like to thank Alan for his significant contribution and wish him every success in the future.

Now that Alan has retired, Debbie Hewitt has taken over as Senior Non-Executive Director.

By any standards Redrow's performance this last year and indeed over the last few years has been exceptional and has been achieved due to the hard work and commitment of our team. I would like to thank them all for their support.

Current Trading and Outlook

The introduction of the new MMR rules has undoubtedly moderated the market, which has returned to a more seasonal pattern of activity. Many of our sites entered the summer period almost fully sold up for the 2014 calendar year and this lack of availability has also undoubtedly affected this summer's sales rate. Ironically, this compares with a very strong period last year when Help to Buy was at its peak. Since the end of June the sales rate has been 0.64, compared to the average of 0.70 for the last financial year. In total, private legal completions to date, together with the current order book, are running some 40% ahead of last year.

We have substantially increased our land bank, which should see a good growth in the number of outlets during the year. This, combined with our strong order book, leaves me confident that the Group will see another year of significant progress.

Steve Morgan
Chairman

OPERATING REVIEW

Introduction

Everyone at Redrow is immensely proud of our achievements during our 40th anniversary year. As well as delivering record turnover and profits, we have expanded our business creating over 230 new jobs and developing the careers of many more of those that work for us. We have increased the number of outlets from which we operate and substantially grown our land bank. The product range has been broadened and our London division has made its first significant contribution to the Group's results. We retained our five stars rating in the annual HBF Customer Satisfaction Survey and made good progress against our targets to make our business more sustainable. Above all, we have positioned ourselves to increase output to meet the nation's demand for more new homes.

The Market

The financial year started strongly following the launch of the highly successful government's Help to Buy scheme which resulted in the peak selling season for new homes extending through the summer of 2013. Mortgage approvals steadily increased throughout the first half of the financial year and peaked in January before falling back with a modest recovery in June. More stringent lending rules introduced in April 2014 as a result of the Mortgage Market Review (MMR) have affected borrowers and in particular the time taken to process mortgage applications.

Help to Buy Wales was launched in January of this year and provided a much needed lift to a depressed market.

House prices according to Land Registry rose 6.4% across England and Wales in the twelve months to the end of June with the strongest growth in London and the weakest in the North East. There are signs that price rises are now moderating, particularly in London.

Against an extraordinarily strong comparable period last year, new home sales in recent months have returned to a more seasonal trend.

Delivering Strong Growth

Net private reservations increased by 28% in the year to 3,455 as a result of the weekly sales rate increasing by 13% to 0.70 and the average number of outlets from which we operated rising by 13% to 94. The increased number of reservations combined with a higher average selling price resulted in over £1bn of private reservations being taken in the year. The use of incentives reduced and the cancellation rate was just 13% compared to 16% the previous year. As a result of this strong sales performance we enter the new financial year with a private forward order book of 1,322 plots representing £482m of revenue: £222m ahead of the same time last year.

With most of our outlets holding healthy forward order books we now expect the private sales rate per outlet per week to reduce compared to last year which was boosted by the initial Help to Buy take-up.

The strong sales performance in the year resulted in private legal completions rising by 20% to 2,963 from 2,474. Social housing completions increased by 80% to 634 and represented 18% of total completions which rose to 3,597 (2013: 2,827).

The private average selling price increased by 19% to £269,600 whilst the average social selling price fell by 8% to £98,800 due to a larger proportion of apartments. The overall average selling price increased by 13% to £239,500 and together with the increase in volume helped lift turnover to a record £865m.

The average selling price increased due to mix, changing geographical spread and a modest level of house price inflation. We expect to see the average selling price continue to rise in financial year 2015 as more higher-priced homes are completed in London.

Help to Buy accounted for 35% of private completions in the year and was particularly popular in our divisions in the Midlands and North.

Profits grew strongly in the year as the number of completions from plots on impaired land reduced and more new sites acquired since the downturn came on-stream. Operating margins increased to 15.9% which helped improve return on capital employed a key measure for the Group, to 18%. Operating expenses increased in absolute terms reflecting ongoing investment in growing the business but reduced as a percentage of turnover to 5.8% (2013: 6.7%).

London made its first significant contribution to Group turnover and profits. The division delivered 293 legal completions including 70 social plots at One Commercial Street and accounted for £124m of Group turnover. London and our divisions in the south accounted for over 50% of Group revenues in 2014 reflecting the significant land investment we have made in this geographical area in recent years.

Harrow Estates made progress on a number of fronts during the year. The option at Horsforth in Leeds was exercised and the site transferred to the local Homes' division. Planning permissions were achieved at appeal on two sites in Hartford, Cheshire for a total of 650 plots with development already underway on one, and the final environmental clearances have been received at Hauxton, Cambridge which clears the way for a start on site in 2015.

Harrow also realised a land profit of £2.8m and acquired an interest in a site for 180 plots through its Joint Venture.

A new site with the potential for 250 plots was also acquired during the year.

Investing for the Future

To further expand our presence in the south we opened a new Southern Counties division based in Camberley at the start of the financial year. We also opened a new West Country division operating from an office in Exeter in July 2014 to capitalise on the exceptional growth we have achieved in the South West region.

We opened 44 new outlets in the year and closed 33 increasing the number of active outlets to 103 at the financial year-end. Increasing outlets is fundamental to our future underlying growth strategy but planning delays continue to be an obstacle to bringing more outlets on-stream. We therefore very much welcome the government's latest published technical consultation on planning that amongst other things seeks to reduce the number of planning conditions imposed and the time it takes to discharge them.

During the year we acquired 6,092 plots across 54 new sites. Of these, 2,139 on 18 sites were pulled-through from our Forward Land bank. These new sites will ensure we are able to continue to increase the number of outlets from which we operate to both grow the business and compensate for an anticipated easing in the private sales rate per outlet.

After accounting for legal completions, re-plans and a land sale, the current owned and contracted land bank increased by 2,562 plots to 16,724 plots, representing c.£4bn of future revenues.

We also continued to invest in Forward Land and after transfers to the current land bank and our normal strategic review, we increased the number of plots allocated or with a realistic prospect of gaining planning to 28,245 (2013: 26,024). We anticipate our strong performance in pulling-through Forward Land will continue throughout the coming year.

Geographically land investment remains weighted to the south where, including London, the owned and contracted land bank stands at 8,967 plots representing over half the Group's holdings. Additionally we exchanged contracts with MOPAC (Mayor's Office for Policing and Crime) to acquire the former Metropolitan Police Training Centre at Hendon. Following detailed negotiations with the London Borough of Barnet and the GLA and a series of public consultations, the site which extends to 50 acres is expected to gain a mixed-use planning permission in 2015 for c.2,600 new homes.

In addition to our ten London division sites, we have increased our presence in the outskirts of the Capital. We now have five sites managed by our South East and Southern Counties divisions within the M25, including a joint venture in Croydon where we are currently underway on the first phase of a large-scale regeneration project.

We have also made good progress on the site for up to 950 homes we have under contract in Ebbsfleet which will become part of the Government's flagship new Garden City. Outline planning permission was granted by Dartford Borough Council earlier in the year and we anticipate making a start on site in 2015. Similarly, Harrow Estates are moving forward positively with Stockport Council on the large site we own outright at Woodford Aerodrome south of Manchester where we have a resolution to grant planning permission for c.920 plots and again expect to be on site sometime in 2015.

Putting the Customer First

Our customers are at the centre of our business through the communities we create, the homes we build and the service we provide: we are determined to give our customers the experience they expect from a renowned premium home builder.

Our developments are designed to create great places to live that will stand the test of time. Places in which people are proud to own a home, keen to protect the quality of the local environment and feel encouraged to be part of the community.

The Heritage Collection has been critical to our success and the turnaround we have delivered over the past five years. We continue to develop and improve the range in response to our customers' feedback and to incorporate changing trends in lifestyle, technology and interior design. In 2014 the Heritage Collection accounted for 80% of private completions.

Whilst the Heritage Collection will remain our dominant 'brand' we expect to see it reduce as a proportion of our overall business as we bring on-stream more bespoke developments and new brands of product. We recognise there is a place for alternative designs that either reach out to a wider customer base or respond to particular site constraints and market demands. Over the past year we have seen the number of bespoke apartments we build increase and we have introduced and completed the first homes from two new brands.

The Regent Collection has many of the characteristics of the Heritage Collection: it has attractive traditional elevations complemented with modern spacious interiors. It appeals to a market where there is demand for more densely plotted well-designed homes generally in urban locations. On sites such as Wilton in Wiltshire, we are able to combine the Regent Collection alongside the Heritage Collection to broaden our target markets.

Our brand new range Abode is conceptually different to the Heritage and Regent Collections. Abode has contemporary elevations and extensive open plan living space with high ceilings and bedrooms with walk-in wet rooms. Underfloor heating as standard on the ground floor gives more flexibility for furnishing and built-in storage cabinets and workstations help to make the best use of space. A high quality kitchen area is at the centre of the open plan design. The branding and marketing of Abode is also very different. Strong fresh colours accentuate the contemporary designs and sales hubs make use of handheld technology: Abode appeals to customers looking for a different style of living. Our first Abode site is selling well and we expect to roll-out new sites in 2015.

We know our customers appreciate our award winning homes and we are determined to also provide them with an award winning level of service. Last year 93% of our customers when surveyed independently said they would recommend us to a friend and for the fourth year running we were awarded a maximum five stars in the HBF Annual Customer Satisfaction Survey. But we want and have targeted ourselves to do better.

Last year we announced the launch of My Redrow which allows our customers to manage their buying journey with us: from booking appointments with Sales Consultants to making choices and buying options online. Last year more and more of our customers chose to buy extras online and we continue to extend the list of options available. Eventually My Redrow will become the personal one-stop facility for our customers giving them online access to manage and monitor their buying and aftersales service. As part of this process we have embarked upon a complete review of how we currently communicate with our customers and expect to roll-out a friendlier, more responsive and engaging service in 2015.

Building Efficiently, Responsibly and Sustainably

Responding to a stronger market has been challenging for us and the industry. Last year excluding our London sites where we outsource construction, we built 3,394 units of output, a 400 units and 13% increase on the previous year. Early in the financial year trade and material shortages emerged. Brick and block producers were overwhelmed with demand and unable to increase capacity in the short term. As a result lead-times became extended across a number of products. Our long-standing partnerships with our brick and block suppliers gave us a degree of protection and we managed to avoid serious delays to our build programmes and were able to deliver a more even spread of completions throughout the year. Trades were also in short supply, particularly but not limited to bricklayers where we have seen significant increases in rates. As more production capacity comes on-stream we expect to see material shortages easing over the coming months, we do however anticipate trade shortages will continue until the industry is able to address the underlying failure to attract more young people into the industry to grow and replace the ageing workforce. Material and trade shortages have impacted costs from their benign base and we have seen like-for-like build costs increase on average by around 5% over the past year.

Our customers expect us to build their new home to a high standard and our key external measure of quality is the number of Reportable Items per NHBC inspection. In 2014 the average number of Reportable Items per inspection was 0.21 (2013: 0.21) and remained below the industry average of 0.25.

Fourteen of our site managers recently won NHBC Pride in the Job Awards, an increase of two on the previous year. Two of our site managers also won NHBC Health and Safety Awards.

We are committed to ensuring our sites are a safe place to work. It is therefore with much regret and sadness that I have to report there was a fatal accident involving one of our subcontractors on site last year. We are fully co-operating with the investigation that is being undertaken by the Health and Safety Executive and our condolences and support have been offered to the subcontractor’s family.

Last year we published our first major report on sustainability and set ourselves a number of targets to achieve by 2018. Aspirations 2018 set targets across five key parts of our business: Design, Customers, Community, People and Environment. We have made good progress against many of these targets. We managed to divert 94% of waste from landfill and virtually all of our timber was responsibly sourced. We recently passed our first independent environmental audit and achieved level 2 of the British Standard (8555) Environmental Management System.

Our developments continue to be more environmentally sustainable and make wider contributions to local communities. Last year 1,364 (2013: 720) of our homes were built to Level 3 or above of the Code for Sustainable Homes. We also installed renewable heat or electricity generation technologies into 23% (2013: 16%) of our homes.

Our People

As we grow we want our people to grow with us. Our extensive training and development programmes allow our people to fulfil their career aspirations and it is gratifying to see so many of our existing staff stepping-up into more senior roles. During the year our staff completed 2,952 days of training, an increase of 10% on the previous year. We have introduced e-learning which allows our people to train online at their pace and at times to suit them.

But the rapid growth of the business does mean that we need to expand our workforce and last year we created over 230 directly employed new jobs and many more in our supply chain. It is pleasing to report that many of these new positions were filled with people that had previously worked for us.

The industry has a skills shortage. For far too long we have failed to attract young people into our industry and tradesmen, technicians and managers are now in short supply. Over recent years we have introduced recruitment and training programmes to address this: 15% of our workforce are on structured training and development programmes. We have an annual intake of apprentices and now employ 84 across the divisions with plans in place to increase this further. Once they have mastered their trade we are finding many of our apprentices have an appetite to progress further and are taking up Trainee Site Assistant positions. We have now also launched a Commercial Apprenticeship scheme that allows young people seeking a career in quantity surveying to combine work with academic study and we have plans to launch a similar scheme for those looking for a career in design and engineering. Our graduate programme has also expanded: this year we have increased our intake to 26 including our placement programme offering undergraduates the opportunity to gain work experience. Addressing the undersupply of skills in the industry will take some time to correct but we are determined to do our share and in the process develop the people and range of skills our business needs for the future.

A shortage of skilled people means that talent is in demand. Last year overall staff turnover was 12% and broadly unchanged from the previous year with a significantly lower level amongst our senior managers. Creating a work environment where our people can prosper, feel valued and be rewarded for doing a job well is essential to retaining talented people and during the course of the year we undertook a detailed survey of our staff to assess what we do well and where we could do better. Overall the feedback was constructive and positive and is now helping us to shape and improve the way we recruit, manage and communicate.

Strategy

It is widely accepted that there is a chronic shortage of new homes being built and the main political parties are all in agreement this must be addressed. This underlying demand for new homes, combined with a steadily improving economy and the Government's decision to extend Help to Buy until 2020, gives us the confidence we should continue with our strategy to invest to grow the business.

Over the past five years our strong growth has been driven by a combination of volume growth and increasing our average selling price. Volume growth has been achieved by increased sales rates from more active outlets. The average selling price has risen sharply due to mix changes mainly as a result of the introduction of the Heritage Collection, a shift into higher priced locations and over the past year, a modest level of house price inflation. The growth in turnover from new sites as a result of this strategy has meant that operating margins have recovered towards more normal levels despite significant investment in expanding our divisional structure.

Moving forward top-line growth will rely upon operating from more outlets and in the shorter term a continuing but slowing increase in the average selling price. During the past three years our turnover has increased by c.80%: over the next three years we anticipate growth to moderate and we are targeting turnover of £1.3bn in financial year 2017. We forecast margins will continue to rise as we work out the remaining impaired land and we achieve more efficient recovery of operating expenses: we are targeting operating margins of 18% in 2017. As our profitability improves and we bring on-stream more outlets our Return on Capital Employed will also improve and we are targeting a minimum of 20% in 2017.

We have increased our geographical coverage over the past year with the opening of new divisions in the south. There remains scope for further geographical concentration of our divisions particularly in and around London and the south east where we currently operate from just three business units. We recently restructured our senior management team to focus on the opportunity to grow in these areas. Away from the south and south east all of our divisions retain capacity to grow.

The repositioning of our land bank reflects our strategy to grow in the south and south east and we now have a range of standard product to address our target markets in these areas. We also have the expertise and skills required to develop medium-rise apartment schemes that we expect to become an increasing proportion of our product as we expand into more densely populated urban areas.

40th Anniversary Year

It is approaching forty years since Steve founded the business in November 1974. Much has been achieved over that time but perhaps the last five years since Steve's return to the business stands out. During that time we have increased our turnover by 186% and turned large losses into record profits. We have doubled the workforce and regained our reputation as a 'premium' homebuilder with a range of award winning homes delivering high standards of customer service. We have encouraged more young people to take up a career in the industry and developed the careers of those that work for us.

Our people have responded magnificently to the widespread changes we have introduced over the past five years or so and it should not come as a surprise that in our 40th Anniversary year they are prepared to go the extra mile and do their bit for those that are less well off. The Redrow Charity Challenge has seen our people generously and enthusiastically help and raise money for those in need: I very much thank them for their wonderful work.

Outlook

With an improving economy, growing but well-regulated mortgage availability and the extension of Help to Buy, the prospect for a continuing and sustainable recovery in the new homes' market is favourable. We have a strong order book and a healthy pipeline of outlets to bring on-stream in 2015 and beyond. We have expanded our divisional structure and strengthened our management teams. We have a broad range of product and a reputation for quality and service. We are very well placed to continue with our successful strategy to grow the business.

John Tutte
Group Chief Executive

FINANCIAL REVIEW

Profitability

The Group delivered record revenue of £864.5m (2013: £604.8m) and record profit before tax of £132.6m (2013: £69.4m) in the year.

Private homes revenue increased by 42% to £799m (2013: £562m) as a result of a 20% increase in private homes legal completions and a 19% increase in average selling price. This was the result of changes in mix, an increase in legal completions from better locations and a small amount of house price inflation.

Gross profit increased by £73.9m in the year to £187.5m (2013: £113.6m) giving a gross margin of 21.7% (2013: 18.8%). This reflects the decrease in the proportion of our homes legal completions from provisioned land acquired before the downturn from 39% to 20%. We expect the proportion of provisioned plots in cost of sales to reduce to a minimal level by 2017.

The Group generated an operating profit in the year of £137.5m (2013: £73.2m pre- exceptional administrative expenses), an 88% increase. This represents an operating margin of 15.9% compared to 12.1% in the prior year and we would expect this to continue to improve towards our medium term target operating margin of 18%.

Net financing costs at £7.7m were £2.1m higher than the prior year due to increased interest payable on higher average net debt as we continue to invest in land opportunities and increase our work in progress in line with the increase in outlets.

The record profit before tax of £132.6m (2013: £69.4m) delivered in the year produced a basic underlying adjusted earnings per share of 28.6p, up 83% (2013: 15.6p). Basic earnings per share were 28.3p (2013: 14.6p).

Tax

As a consequence of tax losses brought forward, the Group paid no corporation tax in the year (2013: £nil). Looking forward to the year ending June 2015 we will begin paying corporation tax again on the usual quarterly pattern.

The Group's tax rate for 2014 was 22.50% (2013: 23.75%) before taking into account the effect of the reduction in the corporation tax rate to 21% on deferred tax assets (£0.8m (2013: £2.0m)). The normalised rate of tax for the year ending 30 June 2015 is projected to be 20.75% reducing to 20% the following year based on rates which are substantively enacted currently.

Dividends

A final dividend of 1.0p per share totalling £3.7m in respect of the year ended June 2013 was paid in November 2013, and an interim dividend of 1.0p per share in respect of the year ended June 2014 totalling £3.7m was paid in May 2014. No dividends were paid in the prior year. The Board has proposed a 2014 final dividend of 2.0p per share totalling £7.4m which will be paid on 14 November 2014.

Balance Sheet

Net assets at 30 June 2014 were £695.7m (2013: £609.2m), a 14% increase. Capital employed at the same date was £868.3m (2013: £700.2m) an increase of 24%. Our return on capital employed increased in the year from 12.2% to 18.0%. However because we have utilised bank debt as well as shareholders' funds in our capital employed, our return on equity has increased by 67% from 12.3% to 20.5%.

Our investment in land increased by 29% in the year to £802.2m (2013: £622.0m) producing a 19% increase in our land bank of plots owned with planning permission and investment in strategic sites.

The land market continues to be benign as can be seen from the fact that the plot cost of owned and contracted land in the current land bank is not significantly higher as a percentage of average selling price than the plot cost in cost of sales of those plots legally completed this year.

Our investment in work in progress increased by 30% in the year to £355.0m (2013: £273.5m). This reflected an increase in active outlets and further investment in large apartment schemes in the South of England.

Work in progress in London increased by £18m despite a high volume of completions in the year as construction is ongoing on apartment schemes at Connaught Place, Holland Park, Amberley Waterfront and Kingston.

Our net realisable value (NRV) provision on land and WIP reduced by £23.8m to £48.2m in the year. Provisioned plots represented 6% of our owned land bank at June 2014 (2013: 13%) and these are expected to decline to an immaterial level for the Group at June 2015.

Land creditors increased by £34.1m to £158.4m at June 2014 as we continued to be successful in negotiating deferred terms with land vendors.

Trade receivables decreased by £7.3m during the year to £36.2m (2013: £43.5m) with the receipt of £9.5m of deferred consideration from the disposal of our Scotland business which took place in June 2011. Other receivables increased by £14.8m to £21.6m due mainly to the timing of the recovery of VAT paid on land purchases.

Cash flow and Net Debt

Net debt increased by £81.6m to £172.6m at June 2014 (2013: £91.0m) giving gearing of 24.8% at the year-end (2013: 14.9%) as we move to a better balance of funding between debt and equity. The increase in net debt reflects our investment in land and work in progress during the year in line with the growth in the business.

As noted in last year's financial review, on 10 September 2013 we entered into a new Revolving Credit Facility (RCF) of £250m maturing in March 2018 on better financial terms than the previous RCF. In June 2014, we increased our committed bank facilities by £115m to £365m to provide additional funding for growth.

Financing and Treasury Management

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

Redrow is a UK based house builder 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 additional hedging was undertaken in the year. The £20m of two year sterling interest rate swaps which the Group held matured in Spring 2014 and no additional or replacement hedging was undertaken in the year.

Pensions

IAS 19R –Employees Benefits, has been adopted with effect from 1 July 2013. This change in accounting standard has been adopted retrospectively and the comparative accounts have been restated accordingly with minimal impact. As at June 2014, the Group’s financial statements showed a £11.0m deficit (2013: £3.8m deficit) 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 £7.2m increase in the deficit is due to an increase in the defined benefit obligations resulting from changes in bond yields. Pension benefits are now provided via the Redrow Group Personal Pension Plan which is a type of defined contribution plan.

Barbara Richmond
Group Finance Director

Consolidated Income Statement

12 months ended 30 June		Note	2014	2013*
			£m	£m
Revenue			**864.5**	604.8
Cost of sales			**(677.0)**	(491.2)
Gross profit			**187.5**	113.6
Administrative expenses before exceptional items			**(50.0)**	(40.4)
Operating profit before exceptional items and financing costs			**137.5**	73.2
Exceptional administrative expenses		2	**-**	(1.5)
Operating profit before financing costs			**137.5**	71.7
Financial income			**3.1**	1.7
Financial costs			**(10.8)**	(7.3)
Net financing costs			**(7.7)**	(5.6)
Share of profit of joint ventures after interest and taxation			**2.8**	3.3
Profit before tax			**132.6**	69.4
Income tax expense		3	**(29.9)**	(16.3)
Profit for the year			**102.7**	53.1
Earnings per share	- basic	5	**28.3p**	14.6p
	- diluted	5	**28.2p**	14.6p

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

Consolidated Statement of Comprehensive Income

12 months ended 30 June	**2014 £m**	2013* £m
Profit for the year	**102.7**	53.1
Other comprehensive expense		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment benefit obligations	**(7.1)**	(1.3)
Deferred tax on actuarial losses taken directly to equity	**1.6**	0.5
Other comprehensive expense for the year net of tax	**(5.5)**	(0.8)
Total comprehensive income for the year	**97.2**	52.3

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

Balance Sheet

	Note	As at 30 June **2014** **£m**	2013* £m
Assets			
Intangible assets		**2.0**	1.9
Property, plant and equipment		**11.0**	11.2
Investments		**10.8**	13.3
Deferred tax assets		**7.5**	35.8
Trade and other receivables		**15.3**	25.4
Total non-current assets		**46.6**	87.6
Non-current assets held for sale		**1.0**	1.0
Inventories	6	**1,157.2**	895.5
Trade and other receivables		**42.5**	24.9
Cash and cash equivalents	9	**54.8**	39.0
Total current assets		**1,255.5**	960.4
Total assets		**1,302.1**	1,048.0
Equity			
Share capital	10	**37.0**	37.0
Share premium account		**58.7**	58.7
Other reserves		**7.9**	7.9
Retained earnings		**592.1**	505.6
Total equity		**695.7**	609.2
Liabilities			
Bank loans	9	**175.0**	95.0
Trade and other payables	7	**53.7**	33.2
Deferred tax liabilities		**0.5**	0.5
Retirement benefit obligations		**11.0**	3.8
Long-term provisions		**6.4**	7.8
Total non-current liabilities		**246.6**	140.3
Bank overdrafts and loans	9	**52.4**	35.0
Trade and other payables	7	**307.4**	263.5
Total current liabilities		**359.8**	298.5
Total liabilities		**606.4**	438.8
Total equity and liabilities		**1,302.1**	1,048.0

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

Statement of Changes in Equity

12 months ended 30 June	**2014** **£m**	2013* £m
Total comprehensive income relating to the year (net)	**97.2**	52.3
Dividend paid	**(7.4)**	-
Share-based payment	**-**	0.3
Movement in LTSIP/SAYE	**(3.3)**	(4.9)
Net increase in equity	**86.5**	47.7
Opening equity	**609.2**	561.5
Closing equity	**695.7**	609.2

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

The Statement of Cash Flows

	Note	12 months ended 30 June 2014 £m	2013* £m
Cash flows from operating activities			
Operating profit before financing costs		**137.5**	71.7
Depreciation and amortisation		**1.1**	1.2
Adjustment for non-cash items		**(4.2)**	(3.7)
Operating profit before changes in working capital and provisions		**134.4**	69.2
Increase in trade and other receivables		**(12.4)**	(3.4)
Increase in inventories		**(261.7)**	(187.3)
Increase in trade and other payables		**66.6**	46.6
Decrease in provisions		**(1.4)**	(0.4)
Cash outflow generated from operations		**(74.5)**	(75.3)
Interest paid		**(8.6)**	(3.2)
Net cash outflow from operating activities		**(83.1)**	(78.5)
Cash flows from investing activities			
Sale of business		**9.5**	8.0
Acquisition of software, property, plant and equipment		**(1.0)**	(0.5)
Interest received		**0.3**	-
Net receipts from/(payments to) joint ventures - continuing operations		**5.4**	(0.7)
Net cash inflow from investing activities		**14.2**	6.8
Cash flows from financing activities			
Issue of bank borrowings	8	**175.0**	95.0
Repayment of bank borrowings	8	**(95.0)**	(30.0)
Purchase of own shares		**(5.3)**	(5.3)
Dividend paid		**(7.4)**	-
Net cash inflow from financing activities		**67.3**	59.7
Decrease in net cash and cash equivalents		**(1.6)**	(12.0)
Net cash and cash equivalents at the beginning of the year		**4.0**	16.0
Net cash and cash equivalents at the end of the year	9	**2.4**	4.0

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

NOTES

1. **Basis of preparation**

The above results and the accompanying notes do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006.

The Auditors have reported on the Group's statutory accounts for the year ended 30 June 2014 under s495 of the Companies Act 2006, which do not contain a statement under s498 (2) or s498 (3) of the Companies Act 2006 and are unqualified. The statutory accounts for the year ended 30 June 2013 have been delivered to the Registrar of Companies and the statutory accounts for the year ended 30 June 2014 will be filed with the Registrar in due course.

The audited consolidated financial statements from which these results are extracted have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Except as described below, the principal accounting policies have been applied consistently to all the periods presented.

IAS 19R – Employee Benefits has been adopted with effect from 1 July 2013. The change in the accounting standard has been adopted retrospectively and the comparative accounts have been restated. Under IAS 19R the separate calculations of an interest cost on the defined benefit obligation and an expected rate of return on plan assets have been replaced with a net interest charge calculated by applying the discount rate to the net defined benefit liability. The impact of the statement on prior periods was immaterial with a £0.6m adverse impact on the Profit and a £nil impact on the Total comprehensive income for the year ended 30 June 2013.

2. **Exceptional items**

Exceptional administrative costs were £nil in 2014. In 2013 they were £1.5m and related to legal and advisory fees incurred in relation to a possible bid for the Company.

3. **Income Tax expense**

	12 months ended 30 June	
	2014	2013*
	£m	£m
Current year		
UK Corporation Tax at 22.50% (2013: 23.75%)	**-**	-
	-	-
Deferred tax		
Origination and reversal of temporary differences	**29.1**	14.3
Impact of change in deferred tax rate	**0.8**	2.0
Total income tax charge in income statement	**29.9**	16.3
Reconciliation of tax charge for the year		
Profit before tax	**132.6**	69.4
Tax on total profit at 22.50% (2013: 23.75%)	**29.8**	16.5
Impact of change in deferred tax rate	**0.8**	2.0
Short term temporary differences	**(0.7)**	(2.2)
Tax charge for the year	**29.9**	16.3

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

4. **Dividends**

The following dividends were paid by the Group:

	2014	2013
	£m	£m
Prior year final dividend per share of 1.0p (2013: nil)	**3.7**	-
Current year interim dividend per share of 1.0p (2013: nil)	**3.7**	-
	7.4	-

The Board decided to propose a final dividend of 2.0p per share in respect of 2014 (£7.4m (2013: £3.7m)). The dividend has not been provided for and there are no income tax consequences.

5. **Earnings per share**

The basic earnings per share calculation for the year ended 30 June 2014 is based on the weighted number of shares in issue during the period of 362.5m (2013: 363.4m) excluding those held in trust under the Redrow Long Term Incentive Plan (7.3m shares (2013: 6.4m shares)), which are treated as cancelled.

Diluted earnings per share has been calculated after adjusting the weighted average number of shares in issue for all potentially dilutive shares held under unexercised options.

12 months ended 30 June 2014

	Earnings £m	**No. of shares millions**	**Per share pence**
Basic earnings per share	**102.7**	**362.5**	**28.3**
Effect of share options and SAYE	**-**	**1.9**	**(0.1)**
Diluted earnings per share	**102.7**	**364.4**	**28.2**

	Earnings £m	**No. of shares millions**	**Per share pence**
Basic earnings per share	**102.7**	**362.5**	**28.3**
Adjustment to deferred tax rate change	**0.8**	**-**	**0.3**
Adjusted earnings per share	**103.5**	**362.5**	**28.6**

Adjusted diluted earnings per share are 28.5p (2013: 15.5p)

12 months ended 30 June 2013*

	Earnings £m	No. of shares millions	Per share pence
Basic earnings per share	53.1	363.4	14.6
Effect of share options and SAYE	-	1.0	-
Diluted earnings per share	53.1	364.4	14.6

*Prior period results have been restated to reflect the application of IAS 19R – Employee Benefits

6. Inventories

	As at 30 June 2014 £m	2013 £m
Land for development	**802.2**	622.0
Work in progress	**324.7**	246.1
Stock of showhomes	**30.3**	27.4
	1,157.2	895.5

Inventories of £633.1m net of £20.6m net realisable value provision utilisation, were expensed in the year (2013: £462.1m net of £36.1m net realisable value provision utilisation). Work in progress includes £3.0m (2013: £6.1m) in respect of part exchange properties.

Of the net realisable value provision of £48.2m (2013: £72.0m), £33.7m (2013: £52.1m) is attributed to land and £14.5m (2013: £19.9m) is attributed to work in progress.

The net realisable value provision movement is analysed below:

	Total £m
As at 1 July 2013	72.0
Utilised during the year	(20.6)
Created during the year	2.2
Released during the year	(5.4)
As at 30 June 2014	**48.2**

The net realisable value provisions of £2.2m and £5.4m created and released in the year are the result of our review at the balance sheet date in the context of prevailing market conditions and the re-assessment of selling prices and costs. They represent the creation of additional provisions against sites acquired pre June 2009 and the reduction of provisions already in place against such sites as required.

7. Land Creditors (included in trade and other payables)

	As at 30 June 2014 £m	2013 £m
Due within one year	**104.7**	92.1
Due in more than one year	**53.7**	32.2
	158.4	124.3

8. Borrowings and loans

	12 months ended 30 June 2014 £m	2013 £m
Opening net book amount	**95.0**	30.0
Issue of bank borrowings	**175.0**	95.0
Repayment of bank borrowings	**(95.0)**	(30.0)
Closing net book amount	**175.0**	95.0

At 30 June 2014 the Group had total unsecured bank borrowing facilities of £367.5m, representing £365.0m committed facilities and £2.5m uncommitted facilities.

9. Analysis of net debt

	As at 30 June 2014 £m	2013 £m
Cash and cash equivalents	**54.8**	39.0
Bank overdrafts	**(52.4)**	(35.0)
Net cash and cash equivalents	**2.4**	4.0
Bank loans - current liabilities	**-**	-
	2.4	4.0
Bank loans - non-current liabilities	**(175.0)**	(95.0)
	(172.6)	(91.0)

10. Share capital

	As at 30 June 2014 £m	2013 £m
Authorised		
480,000,000 ordinary shares of 10p each	**48.0**	48.0
Issued and fully paid	**37.0**	37.0

	Number of ordinary shares of 10p each
As at 1 July 2013 and 30 June 2014	**369,799,938**

11. Shareholder Enquiries

The Registrar is Computershare Investor Services PLC. Shareholder enquiries should be addressed to the Registrar at the following address:

Registrars Department
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

12. Annual General Meeting

The Annual General Meeting of Redrow plc will be held at Village Urban Resort St Davids, St. David's Park, Flintshire on 10 November 2014, commencing at 12.00 noon. A copy of this statement is available for inspection at the registered office.