

14 July 2011

Barratt Developments PLC

TRADING UPDATE

Barratt Developments PLC ("Barratt") is today issuing a trading update for the year ended 30 June 2011 ahead of its annual results announcement on Wednesday 14 September.

Highlights

- Second half total completions in line with the prior year equivalent period, delivering total completions for the full year of 11,171 (2010: 11,377)
- Increase in private average selling price of c. 5% in the second half to c. £204k (H2 2010: £195k), driven by changes in mix
- Significant improvement in operating profitability with operating margin increasing to c. 7.8% (H2 2010: 5.9%) in the second half
- The Group returns to profitability before tax and exceptional refinancing costs for the full year
- Net debt of c. £330m (2010: £366.9m) at 30 June, lower than guidance
- Refinancing package in place providing the Group with c. £1 billion of committed facilities for 4 years
- Continuing to pursue joint venture and partnership opportunities and recently signed second major investment with London & Quadrant for a private residential development adjacent to Arsenal's Emirates stadium

Mark Clare, Group Chief Executive commented,

"Whilst we have seen some recovery following the difficult Autumn selling season, trading conditions in some areas outside London and the South East remain challenging. In London, we continue to benefit from a strong market position, with our developments selling well. FirstBuy is a timely boost and is already proving popular, but market recovery cannot be sustained without improved lending conditions. Our focus remains on improving margin rather than driving volumes."

Revenue

Net private reservations per active site per week in the second half were 0.48 (H2 2010: 0.52), a significant improvement on the first half performance (H1 2011: 0.39). For the full year, net private reservations per active site per week were 0.44 (2010: 0.50) (Note 1). The cancellation rate for the full year was 20.6% (2010: 18.0%).

Total completions for the second half were slightly up on the prior year at 6,339 (H2 2010: 6,324) (Note 2). For the full year, total completions were 11,171 (2010: 11,377) with private completions of 8,444 (2010: 9,455), social housing completions of 2,634 (2010: 1,870) and joint venture completions of 93 (2010: 52).

Social housing completions accounted for 24.0% (H2 2010: 19.4%) of completions (excluding joint ventures) in the second half, a similar level to the first half. The increased proportion of social housing completions compared with the prior year reflects the higher level of site openings during the period and the phasing of social delivery upon existing sites.

Private average selling price ('ASP') increased by c. 5% in the second half to c. £204k (H2 2010: £195k) and increased by c. 8% on a full year basis to c. £199k (2010: £185k). This increase has been driven by the continued change in mix. Overall, underlying prices have been flat. However, we have seen variation by region, with relative strength in the South East, and in particular London.

The Group ASP increased to c. £178k (2010: £174k) for the full year with social ASP declining to c. £112k (2010: £120k).

Whilst shared equity has remained an important sales tool for the Group, the percentage of completions utilising it declined to 17.4% (H2 2010: 26.8%) in the second half. For the full year 22.0%, or 2,432 completions (excluding joint ventures), utilised shared equity, down from 27.0% in the prior year.

We welcome the launch of the Government's new shared equity scheme, FirstBuy, in which Barratt has secured an allocation of £24.9m, reflecting our market share. Under FirstBuy, purchasers will be offered a loan of up to 20 per cent. of the value of the property, jointly funded by Barratt and the Homes and Communities Agency.

As at 30 June 2011, forward sales for the Group totalled £590.3m (2010: £591.7m) of which 72% (2010: 68%) were contracted (Note 3).

Site openings

The average number of active sites in the second half was 375 (2010: 353) and 364 (2010: 360) for the full year. As at 30 June 2011 we were operating from a total of 377 active sites. We anticipate the average number of active sites for FY 2011/12 being c. 400.

Operating profit and margin

We have delivered a significant improvement in operating profitability during the year with operating margin (Note 4) in the second half increasing to c. 7.8% (H2 2010: 5.9%). For the full year we expect operating profit (Note 5) to be around £135m (2010: £90.1m).

Finance charge

The net finance charge before exceptional costs for FY 2010/11 will be around £95m (2010: £121.6m). This includes a non-cash finance charge (Note 6) of around £25m (2010: £30.9m).

Profit before tax

The Group returned to profitability in the year, and we expect to deliver a profit before tax and exceptional items of c. £40m (2010: Loss of £33.0m).

Exceptional costs

As previously announced in May 2011, the Group has incurred exceptional costs of c. £55m (2010: £129.9m), mainly relating to the refinancing and the cancellation of interest rate swaps, which will be charged to the income statement (Note 7).

Land and planning

During the year we continued to invest in land which met our clearly defined hurdle rates in terms of profitability and return on capital, providing attractive returns at current selling prices. For the full year we agreed terms on £454.1m of land purchases, the majority of which we will acquire on the basis of deferred payment (Note 8). This equates to 88 sites and 8,861 plots of which 86% are for houses. The forecast ASP on this land is £205k, based on current prices.

The Group's owned and unconditional land bank totalled around 47,900 plots as at 30 June 2011 (2010: 50,948). This equates to approximately 4.3 years (2010: 4.6 years) supply based on FY 2010/11 completion volumes.

Land creditors as at 30 June 2011 were c. £700m, and we expect them to be c. £700m to £750m as at 30 June 2012.

We believe the Government's recent announcement of its intention to increase the release of public land to build up to 100,000 new homes is a positive step. Barratt has a good track record of working with public sector partners and should be well positioned to capitalise on this initiative. We are already working on a number of public sector partnership sites including North Prospect in Plymouth, Heritage Park in Silverdale, Staffordshire and Elba Park near Sunderland.

Joint venture and partnership opportunities

We continue to explore joint venture ('JV') and partnership opportunities which allow us to access projects that may otherwise not be available, or reduce substantially the investment required.

We are pleased to have recently announced our second major 50:50 JV with London & Quadrant to build 375 new private homes beside Arsenal's Emirates stadium. The development will comprise three residential towers with units ranging from studios to penthouses. Barratt will receive a fee for construction and marketing services as well as 50% of the return.

Work on site at Barratt's first major partnership with London & Quadrant, the 27-storey residential tower at Alie Street on the edge of the City of London, started earlier this year. This development will deliver 235 units by 2014 of which 64 will be affordable housing.

Stock and work in progress

Stock and work in progress has been closely controlled throughout the year. Unreserved stock units as at 30 June 2011 totalled 2.2 units (2010: 2.2 units) per active site.

Treasury and refinancing

Group net debt as at 30 June 2011 was significantly lower than guidance at c. £330m (2010: £366.9m). This reflects efficient working capital management, deferral of land payments and land sales, offset by the payment of c. £50m exceptional cash cost (of an expected total £67m exceptional cash cost).

In May we announced the agreement of a complete debt refinancing package. This provides the Group with around £1 billion of committed facilities and private placement notes to May 2015, with some of these extending as far as 2021 (Note 9). The effective cost of borrowing has been reduced as a result of improving the balance of the facilities between term debt and that needed to meet our working capital requirements, with term debt having reduced from £903m to £311m. The covenant package is similar to before and the facilities provide appropriate headroom above our current forecast debt requirements.

As a result of the reduction in the level of our term debt, and a revision to our interest rate hedging policy, we have cancelled £288m of interest rate swaps, leaving a balance of £192m in place.

We estimate that our blended rate of interest will be between 7.5% and 8%. The cash interest in FY 2011/12 is forecast to be c. £70m, a saving of around £5m p.a. from the estimated equivalent cost under the previous financing arrangements. In addition we are forecasting a non-cash interest charge in FY 2011/12 of c. £25m.

As we increase site numbers, make payment for new land approvals and build work in progress, particularly in London for Spring completions, we expect net debt as at 31 December 2011 to be around £700m (2010: £537.0m). In line with normal seasonal trends we would expect net debt to reduce to c. £450m as at 30 June 2012.

Outlook

Whilst we have seen greater stability in the second half, trading conditions remain challenging in some areas outside London and the South East, where activity remains constrained due to the limited availability of mortgage finance. Our London business continues to perform particularly well, reflecting its strong position across the capital.

We will continue to drive profitability through maximising the value of our products, delivering increased levels of outlets from our new higher margin land and maintaining a tight control over costs.

Notes:**Note 1 – Reservation rates**

	FY 2009/10			FY 2010/11		
	H1	H2	FY	H1	H2	FY
Net private reservations per active site per week	0.49	0.52	0.50	0.39	0.48	0.44

Note 2 – Total completions

Total completions is defined as housebuilding completions plus completions from joint ventures in which the Group has a share

Note 3 – Forward sales

	30 June 2010	30 June 2011	% change
<u>Private</u>			
Value	£322.4m	£281.1m	(12.8%)
- due in H1	£233.7m	£220.5m	(5.6%)
- due after H1	£88.7m	£60.6m	(31.7%)
Plots	1,470	1,237	(15.9%)
<u>Social</u>			
Value	£269.3m	£309.2m	14.8%
- due in H1	£76.4m	£73.2m	(4.2%)
- due after H1	£192.9m	£236.0m	22.3%
Plots	2,419	2,962	22.4%
<u>Total</u>			
Value	£591.7m	£590.3m	(0.2%)
- of which contracted	£402.9m	£425.5m	5.6%
- % of which contracted	68%	72%	4%
- due in H1	£310.1m	£293.7m	(5.3%)
- due after H1	£281.6m	£296.6m	5.3%
Plots	3,889	4,199	8.0%
- % contracted	76%	81%	5%

Note 4 – Operating margin

Operating margin is defined as Group profit from operations before exceptional items divided by Group revenue

Note 5 – Operating profit

Operating profit is defined as Group profit from operations before exceptional items

Note 6 – Non-cash finance charge

Non-cash finance charge comprises imputed interest on available for sale financial assets, amortisation of losses on cancelled interest rate swaps, imputed interest on deferred term land payables, finance costs related to employee benefits and amortisation of facility fees

Note 7 – Exceptional costs

	Income statement	Balance sheet	Total
Refinancing fees - facility, legal and other	£9m	£20m	£29m
Accelerated amortisation of previously capitalised refinancing fees	£8m		£8m
Interest rate swap cancellations and adjustments	£30m		£30m
Administrative restructuring costs	£8m		£8m
Total	£55m	£20m	£75m

Of the above estimates, £67m will be a cash cost and the £8m accelerated amortisation of previously capitalised refinancing fees will be a non-cash cost.

Note 8 – Land approvals during FY 2010/11

	1 July 2010 to 30 June 2011
Total spend	£454.1m
Total number of plots	8,861
Location	
- South : North (by value)	49% : 51%
- South : North (by plots)	41% : 59%
Vendor	
- Government : Private	10% : 90%
Type	
- Brownfield : Greenfield	31% : 69%
- Houses : Flats	86% : 14%

Unless stated otherwise, % splits are by plots

Note 9 – Committed facilities and private placement notes maturities

£m	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	After FY 17/18	Total
Bank facilities	420.8		90.0	680.0					1,190.8
Private placement notes		10.6					164.8	35.4	210.8
Prudential M&G								100.0	100.0
Total	420.8	10.6	90.0	680.0	nil	nil	164.8	135.4	1,501.6

Certain statements in this document may be forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly undue reliance should not be placed on forward looking statements.

Conference call for analysts and investors

Mark Clare, Group CEO and David Thomas, Group FD will be hosting a conference call at 08.00am today, Thursday 14 July 2011, to discuss this trading update.

To access the conference call

Dial-in: +44 (0)20 3140 0723

A replay facility will be available from 10:30am

Dial-in: +44 (0)20 3140 0698

Pass code: 378176#

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