BARRATT
DEVELOPMENTS PLC

11 July 2012

Barratt Developments PLC

Pre-tax profits increase by more than 150%

Barratt Developments PLC is today issuing a trading update for the Company and its subsidiaries (the "Group") for the year ended 30 June 2012 ahead of its annual results announcement on Wednesday 12 September.

Highlights

- Group revenues up by c. 14% for the full year to c. £2,320m, with total completions of 12,637 units
- Group operating profit before exceptional items for the full year expected to be up by c. 41% at around £191m
- Operating margin expected to increase to c. 9.5% in the second half and c. 8.2% for the full year, up from 6.6% in the prior full year
- Full year profit before tax and exceptional items expected to increase by c. 158% to c. £110m
- Net debt almost halved against the prior year to c. £170m as at 30 June 2012, significantly lower than previous guidance
- Private forward sales up 34.6% to £378.4m as at 30 June 2012

Mark Clare, Group Chief Executive commented,

"This year has seen a rapidly improving performance across the Group and shows that our strategy is delivering, with profits up more than 150% and an almost halving of our net debt. We expect to make further good progress in the year ahead thanks to a strong forward order book, with private forward sales up 35% and more higher return land coming into production."

Trading

Group revenues for FY 2011/12 were up c. 14% on the prior year at c. £2,320m (FY 2010/11: £2,035.4m), driven by higher completion volumes and a small increase in ASP.

Group operating profit before exceptional items for FY 2011/12 is expected to be up c. 41% at around £191m (FY 2010/11: £135.0m).

Operating margin (Note 1) in the second half is expected to increase to c. 9.5% (H2 2010/11: 7.9%) and to c. 8.2% (FY 2010/11: 6.6%) for the full year. This significant improvement reflects the Group's objective of driving profitability by achieving best value for the homes we sell, a continued focus on operational efficiency, and bringing into production more recently acquired higher margin land.

The net finance charge before exceptional costs for the full year is expected to be around £81m (FY 2010/11: £92.4m). This includes a non-cash finance charge (Note 2) of around £23m (FY 2010/11: £22.0m).

We expect to deliver a profit before tax and exceptional items of around £110m for FY 2011/12 (FY 2010/11: £42.7m), a c. 158% increase on the prior year.

As previously announced in May 2012, the Group incurred non-cash exceptional losses of £10.7m relating to the acquisition of our partner's interest in a joint venture development in Hattersley.

Revenues

The average number of active sites in the second half was 391 (H2 2010/11: 375) and for FY 2011/12 was 387 (FY 2010/11: 364). For FY 2012/13 we expect average active sites to be at a similar level to FY 2011/12.

Net private reservations per active site per week in the second half were 18.8% up on the prior year at 0.57 (H2 2010/11: 0.48). For the full year, net private reservations per active site per week were 0.52 (FY 2010/11: 0.44) (Note 3). The cancellation rate for the full year was lower than the prior year at 18.5% (FY 2010/11: 20.6%).

Total completions (excluding joint ventures) for the second half were 19.7% up on the prior year at 7,520 (H2 2010/11: 6,282). For the full year, total completions (excluding joint ventures) were 12,637 (FY 2010/11: 11,078) with private completions of 9,832 (FY 2010/11: 8,444) and social housing completions of 2,805 (FY 2010/11: 2,634). Joint venture completions in which the Group had a share were 220 (FY 2010/11: 93).

Social housing completions accounted for 22.8% (H2 2010/11: 24.0%) of total completions (excluding joint ventures) in the second half and 22.2% (FY 2010/11: 23.8%) of total completions for the full year.

Total average selling price (excluding joint ventures) increased to c. £180k (FY 2010/11: £178.3k) for the full year. Whilst overall underlying prices have been stable, we have continued to see variation by region, with greater robustness in London and the South East.

Private average selling price increased by c. 1.6% for the full year to c. £202k (FY 2010/11: £198.9k), reflecting overall stability in underlying prices and a small positive change in mix. Social average selling price declined to c. £106k (FY 2010/11: £112.3k) for the full year, primarily reflecting a lower social content in London.

Shared equity remained an important selling tool in the second half given the continuing constraints on mortgage finance. For the full year 20.5% (FY 2010/11: 22.0%) of total completions were supported by shared equity and of this, two-thirds used Government schemes. It is expected that the net balance sheet value of shared equity will increase by c. £23m for the full year (FY 2010/11: £33.1m) to c. £192m as at 30 June 2012 (2011: £169.4m).

We continue to target part-exchange as a selling tool, with 15.1% (FY 2010/11: 14.6%) of total completions supported by this product in the full year.

Forward sales

As at 30 June 2012, private forward sales totalled 1,720 plots (2011: 1,237 plots), with the value up 34.6% to £378.4m (2011: £281.1m). Total forward sales were £555.4m (2011: £590.3m) equating to 3,461 plots (2011: 4,199 plots), of which 69% (2011: 81%) were contracted (Note 4).

Land and planning

For FY 2011/12 we agreed terms on £578.1m (FY 2010/11: £454.1m) of higher margin land equating to a total 12,085 plots (FY 2010/11: 8,861 plots) (Note 5).

Our focus has been on bringing new land into production as quickly as possible. For FY 2011/12 more than a third of completions were from more recently acquired higher margin land, and we continue to expect this proportion to increase to more than half of completions in FY 2012/13 and around two thirds in FY 2013/14.

This more recently acquired land continues to perform in line with, or above, our required hurdle rates applied on acquisition which include a gross margin of at least 20% and a return on capital of at least 25% (Note 6).

Our focus for recent land acquisitions has been on smaller sites with a lower flatted content, greater potential for standardised product and lower infrastructure spend, all of which result in a significantly lower average investment per site.

Given these site characteristics, we have targeted a shorter landbank to improve capital efficiency as we transition to a newer landbank. As at 30 June 2012, the Group's owned land bank totalled c. 43,900 plots (2011: 47,917 plots), representing 3.5 years supply based on FY 2011/12 completion volumes (2011: 4.3 years based on FY 2010/11 completion volumes). The conditional landbank as at 30 June 2012 totalled c. 10,300 plots (2011: 12,166 plots), representing 0.8 years supply based on FY 2011/12 completion volumes (2011: 1.1 years based on FY 2010/11 completion volumes). Joint venture landbank plots in which the Group has a share totalled 1,120 as at 30 June 2012 (2011: 1,625).

In June 2012, we sold three sites that had originally been acquired before 2008 and were subsequently impaired. The aggregate cash proceeds were £15.7m and the net operating loss charged to normal trading was £4.6m. We will continue to consider potential land sales on a limited number of sites where we consider that a sale would realise a greater net present value than the development of the site.

Taking into account completions in the year, land sales and re-plans, impaired plots as at 30 June 2012 have fallen to around 6,700 plots (2011: 10,292 plots).

On planning for FY 2012/13, we have detailed consents for 95% of expected completions and outline consent on a further 3%.

Stock and work in progress

Unreserved stock units as at 30 June 2012 totalled 955 (2011: 835), 2.6 units per active site (2011: 2.2 units). The higher number of units reflects the build completion on flatted developments in the South East where the units are expected to sell in the next six months.

Unreserved part-exchange units as at 30 June 2012 totalled 367 (2011: 410), 1.0 unit per active site (2011: 1.1 units).

Treasury

Reduction of net debt remains a key objective for the Group. Net debt as at 30 June 2012 was significantly below previous guidance at c. £170m (2011: £322.6m), reflecting the combined effect of our ongoing tight control of working capital, the deferral of land payments and the receipts from land sales.

Land creditors as at 30 June 2012 were c. £720m (2011: £700.7m), lower than previous guidance. We expect land creditors to be at a similar level during the next 12 months.

In line with the normal cycle, and in particular given our planned autumn build programme which includes the construction of a number of high rise developments by our London division, we expect net debt to increase as at 31 December 2012. We would expect this increase to reverse in the second half of FY 2012/13 with net debt as at 30 June 2013 expected to be at a similar level to 30 June 2012.

For FY 2012/13 the net finance charge is expected to be c. £75m consisting of cash interest of c. £55m and c. £20m of net non-cash finance charge.

Outlook

The Group has made significant progress in both rebuilding profitability and reducing indebtedness during the year just ended. Despite continued uncertainty surrounding the outlook for the wider UK market and constrained levels of mortgage finance, the industry has enjoyed a period of relative market stability. Looking ahead, we expect the Government's housing initiatives, in particular its mortgage indemnity scheme NewBuy, to continue to provide the industry with support.

In the current financial year we expect to make further good progress with more than half of completions forecast to be delivered from our more recently acquired higher margin land.

Notes:

Note 1 – Operating margin

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

Note 2 – 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, amortisation of facility fees and other non-cash interest

Note 3 – Reservation rates

	FY 2010/11			**FY 2011/12**		
	H1	H2	FY	H1	H2	FY
Net private reservations per active site per week	0.39	0.48	0.44	0.48	0.57	0.52

Note 4 – Forward sales

	30 June 2011	**30 June 2012**	**% change**
Private			
Value (£m)	281.1	378.4	34.6%
- due in H1	220.5	259.2	17.6%
- due after H1	60.6	119.2	96.7%
Plots	1,237	1,720	39.0%
Social			
Value (£m)	309.2	177.0	(42.8%)
- due in H1	73.2	48.3	(34.0%)
- due after H1	236.0	128.7	(45.5%)
Plots	2,962	1,741	(41.2%)
Total			
Value (£m)	590.3	555.4	(5.9%)
- of which contracted (£m)	425.5	330.4	(22.4%)
- % of which contracted	72%	59%	(13%)
- due in H1 (£m)	293.7	307.5	4.7%
- due after H1 (£m)	296.6	247.9	(16.4%)
Plots	4,199	3,461	(17.6%)
- % contracted	81%	69%	(12%)

Note 5 – Land approvals since mid 2009

	FY 2011/12	**Total since mid 2009**
Total land approvals (£m)	578.1	1,559.4
Total number of plots	12,085	34,305
Location		
- South : North (by value)	58%:42%	58%:42%
- South : North (by plots)	46%:54%	46%:54%
Vendor		
- Government : Private	28%:72%	25%:75%
Type		
- Houses : Flats	86%:14%	83%:17%
Status		
- Owned		64%
- Contracted		24%
- Progressing		12%
Payment		
- Paid in 09/10		£40.2m
- Paid in 10/11		£132.9m
- Paid in 11/12		£222.5m
- Due in 12/13		£488.8m
- After 12/13		£675.0m

Unless stated otherwise, % splits are by plots

Note 6 – Return on capital employed

Return on capital employed is defined as site operating profit (site trading profit less sales overheads and allocated administrative overheads) divided by average investment in site land and work in progress

This trading update contains certain forward-looking statements about the future outlook for the Group. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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, Wednesday 11 July 2012, to discuss this trading update.

To access the conference call
Dial-in: +44 (0)20 3140 0668
Toll-free: 0800 368 1950
Pass code: 541698#

A replay facility will be available shortly after
Dial-in: +44 (0)20 3140 0698
Toll-free: 0800 368 1890
Pass code: 385634#

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