BARRATT
DEVELOPMENTS PLC

16 January 2013

**Barratt Developments PLC**

**Profit more than doubles in the first half**

Barratt Developments PLC is today issuing a trading update in respect of the six months to 31 December 2012 (the 'period') ahead of its interim results announcement on 27 February 2013.

**Highlights**

- Group revenues of c. £950m, in line with prior year, and total completions of 5,085 units
- Private completions increased by 5.3% on the prior year to 4,241 units
- Group operating profit expected to be c. £80m for the period, up by c. 31% on the prior year
- Operating margin expected to increase to c. 8.4%, up from 6.4% in the prior year
- Profit before tax expected to be c. £45m, more than double the prior year
- Significant increase in approvals to acquire higher margin land with £453.0m of land acquisitions approved in the period equating to 9,320 plots on 67 sites
- Net debt as at 31 December 2012 of around £332m was significantly reduced from the £542.2m prior year position
- Private forward sales (excluding JVs) of £536.5m as at 31 December 2012 up 35.5% on the prior year

**Mark Clare, Group Chief Executive commented,**

**"This has been a good first half performance. Pre-tax profit has more than doubled, net debt was significantly lower than the prior year, and we have started the second half with a strong private forward order book up by over 35%. In addition, we have been investing for the future, successfully securing higher margin land both in the South-East and across the rest of the country that will drive further profit growth."**

**Trading**

Market conditions remained stable during the period and the Group has made good progress in increasing profitability and reducing overall indebtedness.

Group revenues for the period were in line with the prior year equivalent period ('prior year') at c. £950m (2011: £952.8m).

Group operating profit for the period is expected to be up c. 31% at around £80m (2011: £61.1m).

Operating margin (Note 1) in the period is expected to increase to c. 8.4% (2011: 6.4%). This improvement reflects the Group's strategy of driving profitability through achieving best value for our products, a continued focus on operational efficiency and bringing further higher margin land into production.

The net finance charge for the period is expected to be around £35m (2011: £38.9m). This includes a non-cash finance charge (Note 2) of around £10m (2011: £9.5m).

We expect to deliver a profit before tax for the period of c. £45m (2011: £21.6m), an increase of c. 108% on the prior year.

**Revenues**

The average number of active sites (excluding joint ventures ('JVs')) in the period was 378 (2011: 377), with average JV sites of 5 (2011: 4). We continue to expect the rate of site openings to increase in the second half and that average site numbers for FY13 (excluding JVs) will be just ahead of the prior year (FY12: 381).

Average net private reservations per active site per week (excluding JVs) in the period were 0.49 (2011: 0.48) (Note 3), and the cancellation rate (excluding JVs) was 18.8% (2011: 17.9%).

Total completions (excluding JVs) for the period were 5,085 units (2011: 5,117). Private completions were up 5.3% on the prior year at 4,241 (2011: 4,028). Social housing completions totalled 844 units (2011: 1,089) representing 16.6% (2011: 21.3%) of total completions (excluding JVs). This reduction in volume reflects site phasing and for FY13 we expect social completions to account for around 18% of total completions. Joint venture completions in which the Group had a share were 109 units (2011: 81).

Total average selling price ('ASP') (excluding JVs) increased by c. 2.1% in the period to c. £185k (2011: £181.2k). Overall, underlying prices remain broadly stable, albeit with regional variations.

Private ASP increased by c. 1.1% in the period to c. £202k (2011: £199.9k) driven by a small positive change in mix. Social ASP declined by c. 7.9% in the period to c. £103k (2011: £111.8k) largely due to a lower proportion of London units.

**Joint ventures**

Development on our JV sites has progressed well during the period. Marketing suites have recently opened at our Altitude and Queensland Terrace developments in central London, and the overseas marketing programme has been launched for Fulham Wharf. We expect completions and profits from JVs to increase significantly over the next few years, reflecting the delivery profile (Note 4). Our success in securing JVs in London has increased our presence and strengthened our market position in the capital. We will continue to assess JV opportunities which allow us either to access sites that may not otherwise be available, or to reduce the investment required and improve the return on capital employed, through construction management or marketing fees.

**Forward sales**

As at 31 December 2012, private forward sales (excluding JVs) were up 35.5% on the prior year at £536.5m (2011: £395.9m), equating to 2,281 plots (2011: 1,872 plots). Total forward sales (excluding JVs) were £742.1m (2011: £659.5m) equating to 4,258 plots (2011: 4,485 plots), of which 73% (2011: 74%) were contracted. Private JV forward sales were £39.4m (2011: £11.1m) equating to 125 plots (2011: 45) (Note 5).

**Government initiatives**

Government support for the UK housebuilding industry remains strong with a range of initiatives in place designed to support house purchases and stimulate growth.

We saw an increase in interest in the NewBuy mortgage indemnity scheme during the Autumn. For the period, 7.7% of private reservations (excluding Scotland and Wales) were supported by the scheme. NewBuy remains a priority selling tool for the Group and we expect reservations using NewBuy to trend towards 10% to 15% of total private reservations in the second half of our financial year.

Shared equity continues to be an important selling tool for the industry. The Group is pleased to have secured a substantial additional allocation as part of the Government's latest FirstBuy funding round. We are targeting the use of FirstBuy particularly on sites where affordability remains a key issue, with a focus on driving sales on older and impaired developments.

In the period 16.9% (2011: 19.0%) of total completions (excluding JVs) were supported by shared equity, of which around three quarters were Government-backed schemes. It is expected that the net balance sheet value of the Group's shared equity loans will be c. £195m as at 31 December 2012 (2011: £177.5m).

The Group will also receive c. £34m in low-cost development loans in 2013 from the Government's Get Britain Building Scheme which is designed to kickstart developments.

**Land and planning**

The Group has made good progress in transforming its landbank in the period by utilising historic, lower margin land whilst bringing more recently acquired, higher margin land into production as quickly as possible.

The Group's owned and controlled land bank totalled around 56,000 plots as at 31 December 2012 (2011: 58,359). This equates to approximately 4.4 (2011: 4.6) years supply based on FY12 completion volumes.

For FY13 as a whole we continue to expect around half of completions to come from more recently acquired higher margin land, increasing to c. 70% in FY14 and c. 85% in FY15. This land continues to perform in line with or ahead of our required hurdle rates on acquisition, which include a gross margin of at least 20% and a return on capital employed of at least 25% (Note 6). As at 31 December 2012 more recently acquired land represented 64% (2011: 53%) of the owned and controlled land bank.

We also remain focused on maximising the value of our historic land holdings. We anticipate delivering c. 18% of completions in FY13 as a whole from impaired land which would, in turn, reduce the proportion of impaired plots in the owned and controlled land bank as at 30 June 2013 to c. 8% (2012: 12.3%). Where appropriate, we will continue to accelerate the utilisation of impaired land through land sales or swaps.

In the first half we have been successful in the land market and have agreed terms on £453.0m (2011: £178.1m) of new land equating to a total of 9,320 plots (2011: 4,671) on 67 sites (2011: 47) (Note 7). We continue to see good land opportunities in prime locations across all regions and for FY13 we expect to agree terms on a total of c. 15,000 plots. Our dual focus remains on ensuring we have the land supply necessary to support business growth over the next few years and to deliver it in a way that maximises return on capital.

We have been particularly successful within the London market and today announced the acquisition of two new major sites in central London with a gross development value of £400m. These projects in Blackfriars Road in Southwark, and Cannons Wharf in Surrey Quays, will provide more than 1,000 new homes for the capital.

We seek to defer payment for new land where possible to drive a higher return on capital. As at 31 December 2012 land creditors were c. £795m (2011: £627.3m) representing c. 37% (2011: 29%) of the owned land bank. We would expect land creditors to remain at a fairly constant proportion of the land bank for the rest of the financial year.

In the period we received detailed planning consents covering 70 sites. Looking forward, we have detailed consents for 85% of our expected FY14 completions and outline consents on a further 10%.

**Stock and work in progress**

Stock and work in progress have continued to be tightly controlled throughout the period. Unreserved stock units as at 31 December 2012 totalled 865 (2011: 899), 2.2 units per active site (2011: 2.2 units).

Unreserved part-exchange units as at 31 December 2012 totalled 376 (2011: 355), 1.0 units per active site (2011: 0.9 units).

**Net debt and interest**

Reduction of indebtedness remains a key objective for the Group. Net debt as at 31 December 2012 was c. £332m (2011: £542.2m), considerably below the prior year. We expect the level to reduce significantly in the second half of this financial year, with net debt as at 30 June 2013 expected to be c. £160m.

For FY13 the net finance charge is expected to be c. £75m consisting of cash finance charge of c. £55m and c. £20m of net non-cash finance charge (Note 2).

**Outlook**

Whilst the availability of mortgage finance remains the key constraint to industry growth, we have started to see some improvements coming through. Expectations are that mortgage lending should increase in 2013, supported by the Bank of England's Funding for Lending Scheme.

We are on track to deliver around half of our full year completions from higher margin land, and combined with our continued focus on driving efficiency across the Group, we expect to deliver a significant improvement in profitability for the full year 2013.

The reduction of indebtedness remains a key objective and we reaffirm our target of achieving zero balance sheet net debt by June 2015.

Assuming a continuing stable housing market, the Board expects to propose a conservatively set final dividend in respect of the financial year to 30 June 2013.

**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 is defined as imputed interest on available for sale financial assets, imputed interest on deferred term land payables, finance costs related to employee benefits and amortisation of facility fees.

**Note 3 – Reservation rates (excluding JVs)**

| | **Average net private reservations per week** | **Net private reservations per active site per week[1]** |
|---|---|---|
| **26 weeks to 31 Dec 2012** | 186 | 0.49 |
| **26 weeks to 31 Dec 2011** | 181 | 0.48 |

(1) An active site is defined by the Group as a site with at least one unit available for sale

**Note 4 – Joint ventures**

**London**

| **Site** | **Altitude** | **Queensland Terrace** | **Fulham Wharf** | **Hendon Waterside** |
|---|---|---|---|---|
| Location | Aldgate | Islington | Fulham | West Hendon |
| JV partner | London & Quadrant | London & Quadrant | London & Quadrant | Metropolitan Housing |
| Ownership (Barratt: JV partner) | 50:50 | 50:50 | 50:50 | 75:25 |
| Gross development value | £106m | £137m | £427m | £43m |
| Total units | 235 | 375 | 462 | 191 |
| Private/social mix (%) | 73:27 | 100:0 | 85:15 | 80:20 |
| JV landbank plots (31 Dec 12) | 189 | 375 | 462 | 130 |
| **Forecast delivery profile** | | | | |
| Commencement on site | Jan 11 | May 12 | Aug 12 | Jul 10 |
| Private legal completions start | Aug 13 | Nov 13 | May 14 | Sept 12 |
| Off site | Mar 14 | Jun 15 | Dec 17 | Jun 13 |

**Non-London**

| **Site** | **The Acres** | **Bluebell Gate** | **The Fieldings / Cissbury Chase** |
|---|---|---|---|
| Location | Horley | East Grinstead | Worthing |
| JV partner | Wates | Wates | Wates |
| Ownership (Barratt: JV partner) | 78.5:21.5 | 50:50 | 50:50 |
| Gross development value | £150m | £49m | £68m |
| Total units | 501 | 142 | 301 |
| Private/social mix (%) | 78:22 | 70:30 | 95:5 |
| JV landbank plots (31 Dec 12) | 259 | 132 | 301 |
| **Forecast delivery profile** | | | |
| Commencement on site | Feb 08 | May 12 | Nov 12 |
| Private legal completions start | Feb 09 | Dec 12 | Apr 13 |
| Off site | Jun 16 | Jun 15 | Jun 18 |

**Note 5 – Forward sales**

**Forward sales - <u>owned</u>**

| | 31 Dec 2012 | 31 Dec 2011 | % change |
|---|---|---|---|
| **<u>Private</u>** | | | |
| **Value** | £536.5m | £395.9m | 35.5% |
| - due in H2 | £487.0m | £342.0m | 42.4% |
| - due after H2 | £49.5m | £53.9m | (8.2%) |
| **Plots** | 2,281 | 1,872 | 21.8% |
| **<u>Social</u>** | | | |
| **Value** | £205.6m | £263.6m | (22.0%) |
| - due in H2 | £87.7m | £141.1m | (37.8%) |
| - due after H2 | £117.9m | £122.5m | (3.8%) |
| **Plots** | 1,977 | 2,613 | (24.3%) |
| **<u>Total</u>** | | | |
| **Value** | £742.1m | £659.5m | 12.5% |
| - of which contracted | £513.7m | £432.3m | 18.8% |
| - % of which contracted | 69% | 66% | 3% |
| - due in H2 | £574.7m | £483.1m | 19.0% |
| - due after H2 | £167.4m | £176.4m | (5.1%) |
| **Plots** | 4,258 | 4,485 | (5.1%) |
| - % contracted | 73% | 74% | (1%) |

**Forward sales – <u>Joint ventures</u>**

| | 31 Dec 2012 | 31 Dec 2011 | % change |
|---|---|---|---|
| **<u>Private</u>** | | | |
| **Value** | £39.4m | £11.1m | 255.0% |
| - due in H2 | £18.7m | £9.9m | 88.9% |
| - due after H2 | £20.7m | £1.2m | 1,625.0% |
| **Plots** | 125 | 45 | 177.8% |
| **<u>Social</u>** | | | |
| **Value** | £12.3m | £13.9m | (11.5%) |
| - due in H2 | £8.3m | £8.1m | 2.5% |
| - due after H2 | £4.0m | £5.8m | (31.0%) |
| **Plots** | 95 | 91 | 4.4% |
| **<u>Total</u>** | | | |
| **Value** | £51.7m | £25.0m | 106.8% |
| - of which contracted | £48.1m | £16.2m | 196.9% |
| - % of which contracted | 93% | 65% | 28% |
| - due in H2 | £27.0m | £18.0m | 50.0% |
| - due after H2 | £24.7m | £7.0m | 252.9% |
| **Plots** | 220 | 136 | 61.8% |
| - % contracted | 95% | 71% | 24% |

**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.

**Note 7 – Land approvals since mid 2009**

| | **Period from 1 July 2012 to 31 December 2012** | **Period from 1 July 2011 to 31 December 2011** | **Total since mid 2009** |
|---|---|---|---|
| **Total land approvals** | £453.0m | £178.1m | £2,012.4m |
| **Total number of plots** | 9,320 | 4,671 | 43,625 |
| **Total number of sites** | 67 | 47 | 378 |
| **Location** | | | |
| - South:North (by value) | 56%:44% | 58%:42% | 58%:42% |
| - South:North (by plots) | 50%:50% | 50%:50% | 47%:53% |
| **Vendor** | | | |
| - Government:Private | 27%:73% | 30%:70% | 26%:74% |
| **Type** | | | |
| - Houses:Flats | 70%:30% | 85%:15% | 80%:20% |
| **Status** | | | |
| - Owned | n/a | n/a | 64% |
| - Contracted | n/a | n/a | 22% |
| - Progressing | n/a | n/a | 14% |
| **Payment** | | | |
| - Paid FY10 | n/a | n/a | £40.2m |
| - Paid in FY11 | n/a | n/a | £132.9m |
| - Paid in FY12 | n/a | n/a | £222.5m |
| - Due in FY13 | n/a | n/a | £516.4m |
| - Due after FY13 | n/a | n/a | £1,100.4m |

*Unless stated otherwise, % splits are by plots*

**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 16 January, to discuss this trading update.

To access the conference call:

Dial-in: +44 (0) 20 3139 4830/ 0808 237 0030

Participant pin code: 41318015#

A replay facility will be available:

Dial-in: +44 (0) 20 3426 2807 / 0808 237 0026

Passcode: 635494#

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