FINANCIAL STATEMENTS

Independent Auditors' Report

To the Members of Redrow plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Redrow plc's Group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Group and Company Balance Sheets as at 30 June 2017;
- the Consolidated Income Statement and Group and Company Statement of Comprehensive Income;
- the Group and Company Statements of Cash Flows;
- the Group and Company Statements of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

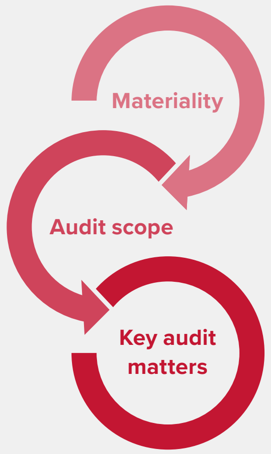
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 July 2016 to 30 June 2017.

OUR AUDIT APPROACH

Overview



- 15.75 million (2016: £12.5 million) – Group financial statements.
- Based on 5% of profit before tax.
- £4.9 million (2016: £3.8 million) – Company financial statements.
- Based on 1% of total assets.

- Three financially significant companies in the Group.

- Valuation of inventory.
- Valuation of pension scheme deficit (Group and parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventory See the Accounting Policies for the Directors' disclosures of related accounting policies and key accounting estimates. See note 13 for the detailed disclosures on the inventory provision. The Group holds inventory in the form of land for development, work in progress and showhomes with a carrying value of £2,119m, net of provisions. The carrying value of inventory is determined by reference to a number of assumptions and judgements, which are subject to levels of estimation. These include regular updates to site appraisals for latest sales prices and costs to complete, the availability of mortgage financing for customers, the availability of Government schemes aiding first-time buyers, and assessments of the likelihood of obtaining planning permission on land held for development. Changes in any of these key judgements could lead to a material change in the carrying value of inventory.	We reviewed management's forecasts to identify any non-profitable sites, assessing management's assumptions relating to these sites and ensuring adequate provisions were included for them. We compared forecast sales prices to actual prices achieved post year-end and assessed the accuracy of management's historical forecasts by comparing net realisable values recognised in the prior year with actual sales prices achieved in the current year. We tested management's controls over the process for estimating the expected remaining build costs, including the budgeting and review processes. We also inspected evidence of the Board's review of divisional management's forecast sales prices. We did not identify any significant deficiencies of control in this process. For significant sites that have not yet been developed, we considered the latest stage of planning applications and assessed the accuracy of management's historical estimates by comparing previous estimated impairments to actual outturns achieved. We did not identify any material differences between management's estimations and actual results achieved. No material differences were identified from our testing performed.
Valuation of pension scheme deficit See the Accounting Policies for the Directors' disclosures of related accounting policies and key accounting estimates. See note 7 for the detailed disclosures on the pension scheme deficit. The Group operates a defined benefit pension scheme with a net deficit of £2 million at the year end. This deficit is derived from assets with a gross value of £128 million less the present value of obligations of £130 million, both of which are significant in the context of the overall balance sheet and the results of the Group. The valuation of this net deficit is dependent on the application of significant judgements in the actuarial assumptions, in particular discount rates, future Retail Price Index ('RPI') inflation and mortality rates, and on the expected returns on investments. Unfavourable changes in any of the key actuarial assumptions could lead to a material movement in the calculated net position.	We obtained and read the actuarial report that was prepared by an independent firm of actuaries and used by the Directors in estimating the value of the Group's deficit in respect of the scheme. We tested the completeness and accuracy of the pension scheme membership data provided to management's actuary on which the pension deficit is calculated, comparing the data to the underlying payroll systems. We noted no material exceptions from our testing. We challenged the key assumptions used in that actuarial valuation, being the discount rate, future RPI inflation, mortality rates and expected returns on investments by comparing them to internally-generated typical ranges used for such assumptions, taking into account the industry in which the Group operates and other specific characteristics of this pension scheme. The actuarial assumptions were within the typical ranges for similar pension schemes. The pension scheme assets are invested in a mixture of pooled funds, individual equities, government and corporate bonds and cash. We obtained independent confirmations of the existence and valuation of all of the scheme assets from the external investment managers and tested the valuations of a sample of these assets by agreeing them to valuations obtained from independent third party sources. No material differences were identified from our testing performed.

FINANCIAL STATEMENTS

Independent Auditors' Report continued

To the Members of Redrow plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group comprises one principal trading company and a number of smaller subsidiaries and joint ventures, all of which are based in the UK.

We performed audits of the three financially significant companies in the Group. This gave us the evidence we needed for our opinion on the Group financial statements. All work was performed by the Group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£15.75 million (2016: £12.5 million).	£4.9 million (2016: £3.8 million).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that total assets is the primary measure used by the shareholders in assessing the position of the Holding Company, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.6 million and £15 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (Group audit) (2016: £0.5 million) and £0.2 million (Company audit) (2016: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 70 to 71) about internal controls and risk management systems in relation to financial reporting processes and (on page 100) about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 61 to 67) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

FINANCIAL STATEMENTS

Independent Auditors' Report continued

To the Members of Redrow plc

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 104 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 104 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 104, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 68 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors in 1987 to audit the financial statements for the period ended 30 June 1987 and subsequent financial periods. The period of total uninterrupted engagement is 31 years, covering the years ended 30 June 1987 to 30 June 2017.

ARIF AHMAD
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

4 September 2017

FINANCIAL STATEMENTS

Consolidated Income Statement

For the 12 months ended 30 June

	Note	2017 £m	2016 £m
Revenue		**1,660**	1,382
Cost of sales		**(1,255)**	(1,048)
Gross profit		**405**	334
Administrative expenses		**(83)**	(73)
Operating profit	2	**322**	261
Financial income	3	**4**	3
Financial costs	3	**(12)**	(14)
Net financing costs		**(8)**	(11)
Share of profit of joint ventures after interest and taxation	10	**1**	–
Profit before tax		**315**	250
Income tax expense	4	**(62)**	(50)
Profit for the year		**253**	200
Earnings per share – basic	6	**70.2p**	55.4p
– diluted	6	**70.0p**	55.2p

FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the 12 months ended 30 June

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Profit for the year		**253**	200	**51**	201
Other comprehensive (expense)/income					
Items that will not be reclassified to profit or loss					
Remeasurements of post employment benefit obligations	7e	**(8)**	8	**(8)**	8
Deferred tax on actuarial losses/(gains) taken directly to equity		**1**	(2)	**1**	(2)
Other comprehensive (expense)/income for the year net of tax		**(7)**	6	**(7)**	6
Total comprehensive income for the year	18	**246**	206	**44**	207

FINANCIAL STATEMENTS

Balance Sheets

As at 30 June

	Note	Group 2017 £m	Group Restated 2016 £m	Company 2017 £m	Company 2016 £m
Assets					
Intangible assets	8	**2**	2	**–**	–
Property, plant and equipment	9	**16**	17	**–**	–
Investments	10	**27**	25	**–**	–
Deferred tax assets	11	**5**	5	**3**	2
Retirement benefit surplus	7	**–**	6	**–**	6
Trade and other receivables	12	**11**	12	**–**	–
Total non-current assets		**61**	67	**3**	8
Inventories	13	**2,043**	1,903	**–**	–
Trade and other receivables	12	**35**	36	**945**	918
Cash and cash equivalents	14	**62**	135	**61**	134
Total current assets		**2,140**	2,074	**1,006**	1,052
Total assets		**2,201**	2,141	**1,009**	1,060
Equity					
Retained earnings at 1 July 2016		**937**	769	**701**	524
Profit for the year		**253**	200	**51**	201
Other comprehensive (expense)/income for the year		**(7)**	6	**(7)**	6
Dividend Paid		**(44)**	(30)	**(44)**	(30)
Movement in LTIP/SAYE		**(8)**	(8)	**–**	–
Retained earnings	18	**1,131**	937	**701**	701
Share capital	17	**37**	37	**37**	37
Share premium account	18	**59**	59	**59**	59
Other reserves	18	**8**	8	**7**	7
Total equity		**1,235**	1,041	**804**	804
Liabilities					
Bank loans	14	**90**	230	**90**	230
Trade and other payables	15	**197**	156	**–**	–
Deferred tax liabilities	11	**3**	2	**–**	–
Retirement benefit obligations	7	**2**	–	**2**	–
Long-term provisions	16	**8**	7	**–**	–
Total non-current liabilities		**300**	395	**92**	230
Bank overdrafts and loans	14	**45**	44	**83**	–
Trade and other payables	15	**585**	631	**27**	25
Current income tax liabilities		**36**	30	**3**	1
Total current liabilities		**666**	705	**113**	26
Total liabilities		**966**	1,100	**205**	256
Total equity and liabilities		**2,201**	2,141	**1,009**	1,060

The financial statements on pages 114 to 146 were approved by the Board of Directors on 4 September 2017 and were signed on its behalf by:

STEVE MORGAN
Director

BARBARA RICHMOND
Director

Redrow plc Registered Number 2877315

FINANCIAL STATEMENTS

Statement of Changes in Equity

For the 12 months ended 30 June

		Group		Company	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
Profit for the year		**253**	200	**51**	201
Other comprehensive (expense)/income for the year		**(7)**	6	**(7)**	6
Total comprehensive income relating to the year (net)		**246**	206	**44**	207
Dividend paid	18	**(44)**	(30)	**(44)**	(30)
Movement in LTIP/SAYE	18	**(8)**	(8)	**–**	–
Net increase in equity		**194**	168	**–**	177
Opening equity		**1,041**	873	**804**	627
Closing equity		**1,235**	1,041	**804**	804

The above items are presented net of tax where appropriate. See note 4 and note 11 for information on income tax and deferred tax expense.

As permitted by Section 408 of the Companies Act 2006, the Income Statement of Redrow plc is not presented as a part of these financial statements.

The consolidated profit on ordinary activities after taxation for the financial year, excluding intra-Group dividends, is made up as follows:

	2017 £m	2016 £m
Holding company	**5**	12
Subsidiary companies	**248**	188
	253	200

FINANCIAL STATEMENTS

Statement of Cash Flows

For the 12 months ended 30 June

		Group		Company	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
Cash flows from operating activities					
Operating profit/(loss)		**322**	261	**(3)**	(2)
Depreciation and amortisation		**2**	1	**–**	–
Adjustment for non-cash items		**(5)**	(5)	**–**	–
Operating profit/(loss) before changes in working capital and provisions		**319**	257	**(3)**	(2)
Decrease in trade and other receivables		**6**	7	**19**	11
Increase in inventories		**(140)**	(373)	**–**	–
Increase in trade and other payables		**3**	239	**2**	3
Increase in provisions		**1**	–	**–**	–
Cash inflow generated from operations		**189**	130	**18**	12
Interest paid		**(5)**	(6)	**(3)**	(5)
Tax paid		**(56)**	(46)	**–**	–
Net cash inflow from operating activities		**128**	78	**15**	7
Cash flows from investing activities					
Acquisition of software, property, plant and equipment		**(1)**	(6)	**–**	–
Interest received		**–**	–	**13**	21
Net payments to joint ventures – continuing operations		**(1)**	(11)	**–**	–
Net cash (outflow)/inflow from investing activities		**(2)**	(17)	**13**	21
Cash flows from financing activities					
Issue of bank borrowings		**90**	230	**90**	230
Repayment of bank borrowings		**(230)**	(150)	**(230)**	(150)
Purchase of own shares		**(16)**	(16)	**–**	–
Dividend paid		**(44)**	(30)	**(44)**	(30)
Net cash (outflow)/inflow from financing activities		**(200)**	34	**(184)**	50
(Decrease)/increase in net cash and cash equivalents		**(74)**	95	**(156)**	78
Net cash and cash equivalents at the beginning of the year		**91**	(4)	**134**	56
Net cash and cash equivalents at the end of the year	19	**17**	91	**(22)**	134

FINANCIAL STATEMENTS

Accounting Policies

Both the consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and effective at 30 June 2017, and in accordance with IFRS Interpretations Committee interpretations and the Companies Act 2006 as it applies to companies reporting under IFRS and Article 4 of the IAS Regulation and in accordance with the historical cost convention as modified by the revaluation of derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Whilst these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates (refer to note 1).

The financial statements have been prepared on a going concern basis.

Redrow plc is a public listed company, listed on the London Stock Exchange and domiciled in the UK.

The principal accounting policies have been applied consistently in the periods presented apart from the change in accounting policy in respect of Forward land. This change in accounting policy to initially recognise expenditure relating to forward land options and conditional contracts in inventory at cost has given rise to the restatement outlined in the table below together with a reclassification of customer deposits:

	Restated 2016 £m	Original 2016 £m
Land for development	1,282	1,215
Payments on account (within inventories)	(33)	(61)
Customer deposits (within trade payables)	(65)	–
Current income tax liabilities	30	24
Retained earnings	937	913

The principal accounting policies are outlined below:

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Redrow plc and all its subsidiaries, together with the Group's share of the results and share of net assets of jointly controlled entities i.e. the financial statements of Redrow plc and entities controlled by Redrow plc (and its subsidiaries). Control is achieved where Redrow plc has the power to govern the financial and operating policies of an entity. Redrow plc's accounting reference date is 30 June. Consistent with the normal monthly reporting process, the actual date to which the balance sheet has been drawn up is 2 July 2017 (2016: 26 June 2016). For ease of reference, all references to the year or 12 months and financial position are for the year ended 30 June and as at 30 June.

The Group has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to present Redrow plc's Company income statement. The profit for the financial year is dealt with in the statement of changes in equity.

a. Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets represents goodwill. Goodwill is subject to an annual impairment review, with any reduction in value being taken straight to the income statement. Adjustments are made as necessary to the financial statements of subsidiaries to ensure consistency with the policies adopted by the Group.

All inter-company transactions and balances between Group companies are eliminated on consolidation.

b. Interests in joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Redrow plc has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

REVENUE AND PROFIT RECOGNITION

Revenue represents the fair value received and receivable in respect of the sale of residential housing and land and of commercial land and developments net of value added tax and discounts. This is recognised on legal completion.

In respect of social housing, the Group enters into contracts for the sale of social housing either at an agreed price or at a discount to open market value. Payment for these properties is made by the purchaser, either on legal completion of the unit or, in certain circumstances on a staged basis. Revenues in all cases are recognised on the legal completion of the built home.

Profit is recognised on legal completion.

SEGMENTAL REPORTING

The main operation of the Group is focused on housebuilding.

As it operates entirely within the United Kingdom, the Group has only one business and geographic segment. This is consistent with the information provided for internal reporting purposes to the Chief Operating Decision Maker (the Board). The Group has no key customers.

EXCEPTIONAL ITEMS

Exceptional items are those which in the opinion of the Board, are material by size or nature, non-recurring and of such significance that they require separate disclosure.

NET FINANCING COSTS

Interest income is recognised on a time apportioned basis by reference to the principal outstanding and the effective interest rate. Interest costs are recognised in the income statement on an accruals basis in the period in which they are incurred.

INCOME AND DEFERRED TAX

Income tax comprises current tax and deferred tax.

Current tax is based on taxable profits for the year and any appropriate adjustment to tax payable in respect of prior years. Taxable profit differs from profit before tax as shown in the income statement as it excludes income or expenditure items which are never chargeable or allowable for tax or which are chargeable or deductible in other accounting periods.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the calculation of taxable profit.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for all temporary differences. Deferred tax is calculated at the rates enacted at the balance sheet date.

Deferred tax is credited or charged in the income statement, consolidated statement of comprehensive income, or retained earnings as appropriate.

INTANGIBLE ASSETS – COMPUTER SOFTWARE

Acquired computer software licences are capitalised on the basis of costs incurred to bring to use the specific software and are amortised over their estimated useful lives of three years, charged to administrative expenses. These are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable.

PROPERTY, PLANT AND EQUIPMENT

Freehold property comprises offices or other buildings held for administrative purposes. Freehold property is shown at cost less the subsequent depreciation of buildings.

All other property, plant and equipment is stated at historic cost less depreciation. Historic cost includes any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

Land is not depreciated. Depreciation on other assets is charged so as to write off the cost of assets to their residual values over their estimated useful lives, on a straight line basis as follows:

Buildings within freehold property	50 years
Plant and machinery	5–10 years
Fixtures and fittings	3–5 years

The assets' useful lives are reviewed and adjusted if appropriate at each balance sheet date.

These are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable.

The gain or loss arising on the disposal of an asset represents the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

INVESTMENT IN SUBSIDIARY COMPANIES

In the parent company books, the investment in its subsidiaries is held at cost less any impairment.

LEASES

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged to work in progress or income on a straight line basis over the term of the relevant lease.

FINANCIAL STATEMENTS

Accounting Policies continued

INVENTORIES

Inventories are stated at the lower of cost and net realisable value less cash on account (which represents payments made against work in progress, excluding private customer deposits).

Cost comprises land and associated acquisition costs, direct materials and subcontract work, other direct costs and those overheads (based on normal operating capacity) that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. These include infrastructure and development costs such as roads and sewers, including contributions to other community benefits such as schools, medical centres and community centres.

Total land costs are allocated to the private housing on a development as, in the case of amenity land and social housing land, neither has sufficient contribution from sales of the precise area of the land to cover the land costs and are a planning requirement of the development.

Provisions are established to write down land where the estimated net sales proceeds less costs to complete exceed the current carrying value. Adjustments to the provisions will be required where selling prices or costs to complete change.

Net realisable value for land was assessed by estimating selling prices and cost (including sales and marketing expenses), taking into account current market conditions.

This net realisable value provision will be closely monitored for adequacy and appropriateness as regards under and over provision to reflect circumstances at future balance sheet dates. Any material change to the underlying provision will be reflected through cost of sales as an exceptional item.

FORWARD LAND

Expenditure relating to forward land options, conditional contracts and land owned without planning is initially recognised in inventory at cost. It is reviewed regularly for impairment.

EMPLOYEE BENEFITS

a. Pension obligation

The Group operates two pension schemes for its staff. The Redrow Staff Pension Scheme (the 'Scheme') closed to the accrual of new benefits with effect from 1 March 2012, with new benefits now being provided via the Redrow Group Personal Pension Plan (the 'GPP'). The Scheme is externally invested and comprises two sections: a defined benefit section and a defined contribution section. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement. It is funded through payments to trustee administered funds, determined by actuarial valuations carried out on at least a triennial basis. A defined contribution plan is a pension plan under which the Group pays agreed contributions into a separate fund for each employee and any subsequent pension payable to a specific employee is determined by the amount accumulated in their individual fund. The GPP is also a type of defined contribution plan.

The asset/(liability) recognised in the balance sheet in respect of the defined benefit section of the scheme is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets. The defined benefit obligation is determined using the projected unit credit method on an annual basis by an independent scheme actuary.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity as they arise in full via the statement of comprehensive income.

Scheme service costs are charged to cost of sales and administrative expenses as appropriate and scheme finance costs are included in net financing costs. Past service costs are recognised immediately in income.

In respect of the defined contribution section of the Scheme and the GPP, contributions are recognised as an employee benefit expense when they are due. The Group has no further payment obligations in respect of the above once the contributions have been paid.

b. Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged.

c. Share-based payments

Equity settled share-based payments are measured at fair value on the date of grant and expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

d. Termination benefits

Termination benefits are payable when employment is terminated by the Group before normal retirement date by redundancy. These benefits are recognised by the Group in the period in which it becomes demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

FINANCIAL INSTRUMENTS

a. Land creditors

Deferred payments arising from land creditors are held at discounted present value using the effective interest method, in accordance with IAS 39. The difference between the fair value and the nominal value is amortised over the deferment period via financing costs.

The interest rate applied is an equivalent loan rate available on the date of the land purchase.

b. Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recorded at fair value and the fair value is remeasured to fair value at each reporting date.

The Group's use of financial derivatives is governed by an interest rate risk management framework adopted by the Board which sets parameters to ensure an appropriate level of hedging is maintained to manage interest rate risk in respect of borrowings.

The policy prohibits any trading in derivative financial instruments or their use for speculative purposes.

The effective portion of changes in the fair value of derivative financial instruments which are designated and which qualify as cash flow hedges are recognised directly in equity in a hedge reserve. The gains or losses relating to the ineffective portion are recognised in the income statement immediately they arise.

c. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables include 'trade receivables' and 'other receivables' and cash and cash equivalents in the balance sheet.

Trade receivables are held at discounted present value less any impairment. The amount is then increased to settlement value over the settlement period via financing income.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand, forming an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

e. Borrowings and trade payables

Interest bearing borrowings and trade payables are recorded when the proceeds are received, net of transaction costs incurred and subsequently at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings.

f. Deposits

New property deposits from private customers are held within Trade and Other payables until the legal completion of the related property or the rescission of the sale contract.

ONEROUS CONTRACTS

Onerous contracts are contracts in which the unavoidable costs in meeting the obligations under the contract exceed the economic benefits expected to be received under it. Provision is made to reflect management's best current estimate of the least net cost of either fulfilling or exiting the contract.

SHARE CAPITAL

Ordinary shares are classed as equity.

DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared.

IMPACT OF NEW STANDARDS AND INTERPRETATIONS

a) New and amended standards adopted by the Group. The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2016:

- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation
- Amendments to IAS 27, 'Separate financial statements' on the equity method
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative
- Annual improvements 2014. These set of amendments impact four standards:
  - IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
  - IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
  - IAS 19, 'Employee benefits' regarding discount rates.
  - IAS 34, 'Interim financial reporting' regarding disclosure of information.
- The implementation of these standards has not had a material impact on the Group financial statements.

FINANCIAL STATEMENTS

Accounting Policies continued

IMPACT OF NEW STANDARDS AND INTERPRETATIONS CONTINUED

b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 July 2016 and have not been early adopted:

- IFRS 15 'Revenue from contracts with customers'. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. It is more prescriptive in terms of what should be included within revenue than IAS 18 'Revenue'. Published May 2014, effective date: annual periods beginning on or after 1 January 2018. The Group does not expect the implementation of this standard to have a material impact on profit.
- Amendment to IFRS 15, 'Revenue from contracts with customers'. Published April 2016, effective date: Annual periods beginning on or after 1 January 2018.
- IFRS 9 'Financial instruments'. This standard replaces the guidance in IAS 39. Published July 2014, effective date: annual periods beginning on or after 1 January 2018.
- IFRS 16 'Leases'. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Published January 2016, effective Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. The Group has a number of operating leases, mainly in relation to cars and some office properties, with the net impact on profit not expected to be significant.

FINANCIAL STATEMENTS

Notes to the Financial Statements

1. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management considers the key sources of estimation uncertainty and critical accounting judgements relate to:

Carrying value of inventories

The Group carries inventories at the lower of cost and net realisable value less cash on account.

Due to the nature of development timescales, it is routinely necessary to estimate costs to complete and future revenues and to allocate non-unit specific development costs between units legally completing in the current financial year and in future periods. A full review of the net realisable value of inventories was undertaken by the Group as at 30 June 2017. Reasonably foreseeable changes in the assumptions used would not have a significant impact on the net realisable value.

Pensions

The Group has utilised assumptions including a rate of return on assets, mortality assumptions and a discount rate having been advised by its actuary. To the extent that such assumed rates are different from what actually transpires, the retirement benefit obligations of the Group would change.

The primary risks the Group is exposed to by the defined benefit pension scheme are the movement in corporate bond yields, the market's long-term expectations for inflation and movement in mortality rates. The scheme closed to future accrual with effect from 1 March 2012.

2. OPERATING PROFIT

	Note	2017 £m	2016 £m
Operating profit is stated after charging:			
Inventories expensed in the year	13	**1,193**	992
Depreciation	9	**2**	1
Operating leases – plant and machinery		**3**	2
– other		**1**	1
Research and development expenditure		**1**	1
Auditors' remuneration – fees payable to the Company's Auditors for audit services (i)		**–**	–
– fees payable to the Company's Auditors for other services (ii)		**–**	–

Fees payable to the Company's Auditors comprise:

(i) fees payable for the audit of parent company and consolidated financial statements £30,000 (2016: £30,000) and fees payable for the audit of the Company's subsidiaries pursuant to legislation £146,000 (2016: £145,000).

(ii) Auditors' remuneration for other services comprised £20,000 (2016: £20,000) in respect of an independent review of the half-yearly financial statements (Audit related assurance services), £10,000 (2016: £nil) in respect of Radleigh audit file review (Non-audit services), £408,000 (2016: £nil) in respect of Reporting Accountant services (Non-audit services) and £8,000 (2016: £8,000) in respect of iXBRL tagging (Taxation compliance services).

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

3. NET FINANCING COSTS

	2017 £m	2016 £m
Interest payable on bank loans	**(6)**	(8)
Imputed interest on deferred land creditors	**(6)**	(6)
Financial costs	**(12)**	(14)
Other interest receivable	**4**	3
Financial income	**4**	3
Net financing costs	**(8)**	(11)

4. INCOME TAX EXPENSE

	2017 £m	2016 £m
Current tax charge		
UK Corporation Tax	**62**	51
Deferred tax		
Origination and reversal of temporary differences	**–**	(1)
Total income tax charge income statement	**62**	50
Reconciliation of tax charge for the year		
Profit before tax	**315**	250
Tax calculated at UK Corporation Tax rate	**62**	50
Tax charge for the year	**62**	50
Deferred tax recognised directly in equity		
Relating to pension scheme	**1**	(2)
	1	(2)

Current income tax payable in the Company is £3m (2016: payable £1m).

5. DIVIDENDS

The following dividends were paid by the Group:

	2017 £m	2016 £m
Prior year final dividend per share of 6.0p (2016: 4.0p); Current year interim dividend per share of 6.0p (2016: 4.0p)	**44**	30
	44	30

The Board decided to propose a final dividend of 11.0p per share in respect of 2017 (£41m (2016: 6.0p, £22m)). The dividend has not been provided for and there are no income tax consequences.

6. EARNINGS PER ORDINARY SHARE

The basic earnings per share calculation for the year ended 30 June 2017 is based on the weighted average number of shares in issue during the period of 361m (2016: 361m) excluding those held in trust under the Redrow Long Term Incentive Plan (9m shares (2016: 9m 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.

For the 12 months ended 30 June 2017

	Earnings £m	Number of shares millions	Per share pence
Basic earnings per share	**253**	**361**	**70.2**
Effect of share options and SAYE	**–**	**2**	**(0.2)**
Diluted earnings per share	**253**	**363**	**70.0**

For the 12 months ended 30 June 2016

	Earnings £m	Number of shares millions	Per share pence
Basic earnings per share	200	361	55.4
Effect of share options and SAYE	–	1	(0.2)
Diluted earnings per share	200	362	55.2

7. EMPLOYEES

a. Cost (including Directors)

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Wages and salaries	**92**	77	**3**	3
Social security costs	**13**	11	**2**	1
Other pension costs	**8**	7	**–**	–
Share-based payments	**7**	5	**2**	1
	120	100	**7**	5

b. Number

The monthly average number of persons employed by the Group was:

	Group		Company	
	2017 Number	2016 Number	2017 Number	2016 Number
Directors and administrative staff	**860**	778	**9**	9
Other personnel	**1,270**	1,088	**–**	–
	2,130	1,866	**9**	9

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

7. EMPLOYEES CONTINUED

c. Key management remuneration

Key management personnel, as defined under IAS 24 'Related party disclosures', are identified as the Executive Management Team and the Non-Executive Directors.

Summary key management remuneration is as follows:

	2017 £m	2016 £m
Salaries and short-term employee benefits	**5**	4
Share-based payments	**2**	2
	7	6

In addition, the Redrow Staff Pension scheme paid £14,730 (2016: £14,541) to The Steve Morgan Foundation on behalf of Steve Morgan in his capacity as an active Scheme pensioner.

Detailed disclosure of Directors' emoluments and interests in shares are included in the Directors' Remuneration Report on pages 76 to 97, which form part of these financial statements.

d. Share-based payments

Save As You Earn Share Option scheme (SAYE)
The Redrow plc SAYE scheme is open to all employees and share options can be exercised either three or five years after the date of grant, depending on the length of the savings contract. The SAYE schemes are not subject to performance conditions.

The SAYE schemes have been valued using the Black-Scholes pricing model.

	2017	2016
Options granted during the year	**1,073,997**	679,476
Date of grant	**1 January 2017**	1 January 2016
Fair value at measurement date	**£1.51**	£1.75
Share price	**£4.00**	£4.63
Exercise price	**£3.20**	£3.70
Option life (contract length)	**3/5 years**	3/5 years
Expected dividend yield	**4.43%**	2.1%
Risk free interest rate	**1.5%**	1.5%

The expected volatility on SAYE schemes is based on the historic volatility of the Group's share price over periods equal to the length of the savings contract.

Long Term Incentive scheme (LTIP)
Except in specified circumstances, options granted under the scheme are exercisable between three and ten years after the date of grant.

Options granted under the LTIP on 12 September 2016 were granted to a limited number of Senior Executives. The scheme is discussed in greater detail within the Directors' Remuneration Report.

7. EMPLOYEES CONTINUED

d. Share-based payments continued

The LTIP has been valued using the Black-Scholes pricing model.

	2017	2016
Options granted during the year	**334,953**	175,810
Date of grant	**12 September 2016**	14 September 2015
Fair value at the measurement date	**£3.56**	£4.65
Share price	**£4.08**	£4.95
Exercise price	**£0.00**	£0.00
Expected volatility	**N/A†**	N/A†
Option life	**3 years**	3 years
Expected dividend yield	**4.43%**	2.1%
Risk free interest rate	**N/A†**	N/A†

† For nil-cost awards not subject to a market based condition, volatility and risk free rate are not applicable.

The fair value at the measurement date of the LTIP granted on 12 September 2016 comprises £3.56 in respect of non-market based performance conditions.

The fair value at the measurement date of the LTIP granted on 14 September 2015 comprises £4.65 in respect of non-market based performance conditions.

Deferred Bonus Incentive (DBI)
Grants under the DBI were limited to Senior Management. Except in specified circumstances options granted under the scheme are exercisable between one and ten years after the date of grant for Tranche 1 and between two and ten years after the date of grant for Tranche 2 and are not subject to performance conditions.

The DBI has been valued using the Black-Scholes pricing model.

	2017 Tranche 1	2017 Tranche 2	2016 Tranche 1	2016 Tranche 2
Options granted during the year	**705,703**	**705,845**	471,023	471,136
Date of grant	**12 September 2016**	**12 September 2016**	14 September 2015	14 September 2015
Fair value at the measurement date	**£3.94**	**£3.77**	£4.87	£4.75
Share price	**£4.08**	**£4.08**	£4.95	£4.95
Exercise price	**£0.00**	**£0.00**	£0.00	£0.00
Expected volatility	**N/A†**	**N/A†**	N/A†	N/A†
Option life	**1 year**	**2 years**	1 year	2 years
Expected dividend yield	**3.50%**	**3.93%**	1.7%	2.1%
Risk free interest rate	**N/A†**	**N/A†**	N/A†	N/A†

† For nil-cost awards not subject to a market based condition, volatility and risk free rate are not applicable.

Company Share Option Plan (CSOP)
Grants under the CSOP were limited to Senior Management. Except in specified circumstances, options granted to those other than the Executive Directors are exercisable between three and ten years after the date of grant and are not subject to performance conditions.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

7. EMPLOYEES CONTINUED

d. Share-based payments continued

Share options outstanding

The following share options were outstanding at 30 June 2017:

Type of scheme	Date of grant	Number of options 2017	Number of options 2016	Exercise price
Long Term Share Incentive 2011	21 September 2011	–	159,889	–
Long Term Share Incentive 2012	23 October 2012	134,271	544,757	–
Long Term Share Incentive 2013	24 September 2013	90,947	368,842	–
Long Term Share Incentive 2014	8 September 2014	377,194	377,194	–
Long Term Share Incentive 2015	14 September 2015	175,810	175,810	–
Long Term Share Incentive 2016	12 September 2016	334,953	–	–
Deferred Bonus Incentive 2012 – Tranche 1	23 October 2012	13,212	16,130	–
Deferred Bonus Incentive 2012 – Tranche 2	23 October 2012	13,212	122,981	–
Deferred Bonus Incentive 2013 – Tranche 1	24 September 2013	23,205	99,984	–
Deferred Bonus Incentive 2013 – Tranche 2	24 September 2013	43,206	159,490	–
Deferred Bonus Incentive 2014 – Tranche 1	8 September 2014	103,850	278,849	–
Deferred Bonus Incentive 2014 – Tranche 2	8 September 2014	154,024	505,847	–
Deferred Bonus Incentive 2015 – Tranche 1	14 September 2015	157,181	428,506	–
Deferred Bonus Incentive 2015 – Tranche 2	14 September 2015	393,355	428,603	–
Deferred Bonus Incentive 2016 – Tranche 1	12 September 2016	652,818	–	–
Deferred Bonus Incentive 2016 – Tranche 2	12 September 2016	652,939	–	–
Company Share Option Plan	21 November 2008	77,935	95,920	£1.25
Save As You Earn	1 January 2010	–	1,836	£1.42
Save As You Earn	1 January 2011	21,514	21,514	£0.98
Save As You Earn	1 January 2012	49,175	202,317	£0.95
Save As You Earn	1 January 2014	154,711	772,612	£1.98
Save As You Earn	1 January 2015	890,421	982,351	£2.21
Save As You Earn	1 January 2016	445,196	638,482	£3.70
Save As You Earn	1 January 2017	1,006,056	–	£3.20

The total share options outstanding at 30 June 2017 under the LTIP, Deferred Bonus Incentive Plan, Company Share Option Plan and the Save As You Earn schemes represent 1.6% of the issued share capital (2016: 1.7%).

7. EMPLOYEES CONTINUED

d. Share-based payments continued

Movements in the year

The number and weighted average exercise prices of share options is as follows:

	Number of options 2017	Weighted average exercise price 2017	Number of options 2016	Weighted average exercise price 2016
Long Term Share Incentive scheme:		–		
Outstanding at the beginning of the year	1,626,492	–	1,450,682	–
Lapsed during the year	–	–	–	–
Exercised during the year	(848,270)	–	–	–
Granted during the year	334,953	–	175,810	–
Outstanding at the end of the year	1,113,175	–	1,626,492	–
Exercisable at the end of the year	225,218	–	704,646	–
Deferred Bonus Incentive scheme:				
Outstanding at the beginning of the year	2,040,389	–	1,921,610	–
Lapsed during the year	(155,045)	–	(61,617)	–
Exercised during the year	(1,089,890)	–	(761,763)	–
Granted during the year	1,411,548	–	942,159	–
Outstanding at the end of the year	2,207,002	–	2,040,389	–
Exercisable at the end of the year	507,890	–	677,434	–
Company Share Option Plan:				
Outstanding at the beginning of the year	95,920	£1.25	161,865	£1.25
Lapsed during the year	–	–	–	–
Exercised during the year	(17,985)	£1.25	(65,945)	£1.25
Outstanding at the end of the year	77,935	£1.25	95,920	£1.25
Exercisable at the end of the year	77,935	£1.25	95,920	£1.25
Save As You Earn scheme:				
Outstanding at the beginning of the year	2,619,112	£2.39	2,419,327	£1.91
Lapsed during the year	(357,184)	£3.20	(274,917)	£1.77
Exercised during the year	(768,852)	£1.78	(204,774)	£1.10
Granted during the year	1,073,997	£3.20	679,476	£3.70
Outstanding at the end of the year	2,567,073	£2.81	2,619,112	£2.39
Exercisable at the end of the year	6,448	£2.51	–	–

The weighted average share price at the date of exercise of share options exercised during the year was £4.27 (2016: £4.40).

The options outstanding at 30 June 2017 had a range of exercise prices of £nil to £3.70 (2016: £nil to £3.70) and a weighted average remaining contractual life of 5.6 years (2016: 5.5 years).

The expected life used in the models has been adjusted, based on best estimates, to reflect exercise restrictions and behavioural considerations.

The charge to income in relation to equity settled share-based payments in the year is £7m (2016: charge £5m).

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

7. EMPLOYEES CONTINUED

e. Retirement benefit schemes

The Redrow Staff Pension Scheme (the 'Scheme') comprises two sections: a funded, self-administered, defined benefit section and a funded defined contribution section. The defined benefit section was closed to all new entrants from July 2006, having been closed to all but a limited number of agreed new entrants from October 2001. Both sections of the Scheme were closed to future accrual with effect from 1 March 2012.

The total pension charge for the year was £16m (2016: credit of £1m). A charge of £8m related to the defined benefit section of the Scheme (2016: credit of £8m), with £nil being charged to the income statement (2016: charge of £nil) and a charge of £8m to the statement of comprehensive income (2016: credit of £8m). The charge arising from the defined contribution section was £8m (2016: £7m).

Triennial valuation
A full independent triennial actuarial valuation of the defined benefit section of the Scheme was undertaken at 1 July 2014 using the Projected Unit Method. In the opinion of the Actuary, there was a deficit of £20m in the defined benefit section of the Scheme, based on the Trustees' technical provisions assumptions with the Scheme's assets representing 82% of the Scheme's technical provisions. As at 1 July 2014 the value of the defined benefit section of the Scheme's assets was £92m. The previous triennial valuation was undertaken as at 1 July 2011 and reported a deficit of £10m.

Defined benefit scheme – IAS 19R valuation
Redrow recognises all actuarial gains and losses for its defined benefit plan in the period in which they occur, outside the income statement, in the statement of comprehensive income.

This disclosure relates to the defined benefit section of the Scheme. The Scheme's assets are held separately from the assets of Redrow and are administered by the trustees and managed professionally.

The latest formal actuarial valuation of the defined benefit section was carried out at 1 July 2014. This valuation has been updated to 30 June 2017 by a qualified actuary for the purposes of these financial statements.

The Group agreed a recovery plan for the 1 July 2014 actuarial valuation: it agreed to contribute £1.1m per annum to the Scheme from 1 July 2014 to 30 June 2020 and £1.5m per annum from 1 July 2020 to 30 June 2026. During the 2017 financial year, the Group agreed to increase its contributions to £3.0m per annum from 1 January 2018. As a result, the Group expects to contribute £2.1m to the Scheme in the year ending 30 June 2018.

The major financial assumptions used in arriving at the IAS 19R valuation were:

	2017	2016
Long-term rate of increase in pensionable salaries	**n/a**	n/a
Rate of increase of benefits in payment (lesser of 5% per annum and RPI)[1]	**3.1%**	2.8%
Rate of increase of benefits in payment (lesser of 2.5% per annum and RPI)[2]	**2.2%**	2.0%
Discount rate	**2.6%**	3.0%
Inflation assumption – RPI	**3.2%**	2.8%
– CPI	**2.2%**	1.8%

1 In respect of pensions in excess of the guaranteed minimum pension earned prior to 30 June 2006.
2 In respect of pensions in excess of the guaranteed minimum pension earned after 30 June 2006. Other pension increases are valued in a consistent manner.

The mortality tables used in the actuarial valuation were as follows (which make allowance for projected further improvements in mortality):

For male and female members: SAPS CMI_2016 1.25% Long Term Trend (2016: SAPS CMI_2015 1.25% Long Term Trend)

The life expectancies implied by these tables for typical members are:

Pensioner currently aged 65:	Male 22.1 years (2016: Male 22.2 years)	Female 24.0 years (2016: Female 24.2 years)
Future pensioner when aged 65:	Male 23.1 years (2016: Male 23.5 years)	Female 25.1 years (2016: Female 25.7 years)

It has been assumed that the majority of members will commute part of their pension in return for a tax free cash sum on retirement.

7. EMPLOYEES CONTINUED

e. Retirement benefit schemes continued

The total assets, the split between the major asset classes in the Scheme, the present value of the Schemes' liabilities and the amounts recognised in the balance sheet are shown below:

	Group and Company					
	2017 £m Quoted market price in active market	2017 £m No quoted market price in active market	2017 £m Total	2016 £m Quoted market price in active market	2016 £m No quoted market price in active market	2016 £m Total
Equities	**44**	**–**	**44**	33	2	35
Debt instruments	**59**	**–**	**59**	64	–	64
Other	**14**	**3**	**17**	9	3	12
Cash	**6**	**–**	**6**	9	–	9
Insurance policies	**–**	**2**	**2**	–	2	2
Total market value of assets	**123**	**5**	**128**	115	7	122
Present value of obligations			**(130)**			(116)
(Deficit)/surplus in the Scheme			**(2)**			6

The defined benefit obligation can be approximately attributed to the scheme members as follows:

	2017 %	2016 %
Deferred members	**75**	73
Pensioner members	**25**	27
	100	100

All benefits are vested at 30 June 2017 (unchanged from 30 June 2016).

The total amounts (charged)/credited against income in the year were as follows:

	Group and Company	
	2017 £m	2016 £m
Amounts included within the income statement:		
Administrative expenses		
Scheme administration expenses	**–**	–
Net interest on defined benefit liability	**–**	–
	–	–
Amounts recognised in the statement of comprehensive income:		
Return on scheme assets excluding interest income	**8**	18
Actuarial gains arising from changes in demographic assumptions	**3**	1
Actuarial losses arising from changes in financial assumptions	**(19)**	(11)
Actuarial gains arising from experience adjustments	**–**	–
	(8)	8
	(8)	8

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7. EMPLOYEES CONTINUED

e. Retirement benefit schemes continued

The amount included in the balance sheet arising from the (deficit)/surplus in respect of the Group's defined benefit section is as follows:

	Group and Company 2017 £m	Group and Company 2016 £m
Balance sheet (deficit)/surplus		
At start of year	**6**	(3)
Amounts (charged)/credited against statement of comprehensive income	**(8)**	8
Employer contributions paid	**–**	1
At end of year	**(2)**	6
Changes in the present value of the defined benefit obligation:		
At start of year	**116**	106
Interest expense	**4**	4
Benefit payments	**(6)**	(4)
Actuarial (gains) arising from changes in demographic assumptions	**(3)**	(1)
Actuarial losses arising from changes in financial assumptions	**19**	11
Actuarial gains arising from experience adjustments	**–**	–
At end of year	**130**	116
Changes in the fair value of the Scheme's assets:		
At start of year	**122**	103
Interest income	**4**	4
Return on scheme assets excluding interest income	**8**	18
Scheme administration expenses	**–**	–
Normal employer contributions	**–**	1
Benefit payments	**(6)**	(4)
At end of year	**128**	122

7. EMPLOYEES CONTINUED

e. Retirement benefit schemes continued

Sensitivity of key assumptions

The table below gives a broad indication of the impact on the IAS 19R numbers to changes in assumptions and experience (away from the assumptions shown on page 130). All figures are before allowing for deferred tax.

Item	Approximate impact 2017	Approximate impact 2016
Present value of defined benefit obligation (£m)		
Discount rate -25 basis points	**137.7**	123.1
Discount rate +25 basis points	**123.2**	110.2
Price inflation rate -25 basis points	**123.4**	110.3
Price inflation rate +25 basis points	**137.5**	122.9
Post-retirement mortality assumption -1 year age adjustment	**134.3**	119.7
Weighted average duration of defined benefit obligation (in years)		
Discount rate -25 basis points	**22.40**	22.39
Discount rate +25 basis points	**22.11**	21.89

8. INTANGIBLE ASSETS

Group

	Goodwill £m	Software £m	Total £m
Cost			
At 1 July 2015	1	2	3
Additions	–	–	–
At 30 June 2016	1	2	3
Additions	–	–	–
At 30 June 2017	**1**	**2**	**3**
Accumulated amortisation			
At 1 July 2015	–	1	1
Charge	–	–	–
At 30 June 2016	–	1	1
Charge	–	–	–
At 30 June 2017	**–**	**1**	**1**
Net book value			
At 30 June 2017	**1**	**1**	**2**
At 30 June 2016	1	1	2
At 30 June 2015	1	1	2

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9. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold property £m	Plant and machinery £m	Fixtures and fittings £m	Total £m
Cost				
At 1 July 2015	14	3	5	22
Additions	3	–	3	6
Disposals	–	–	(1)	(1)
At 30 June 2016	17	3	7	27
Additions	–	–	1	1
At 30 June 2017	**17**	**3**	**8**	**28**
Accumulated depreciation				
At 1 July 2015	3	3	4	10
Charge	–	–	1	1
Disposals	–	–	(1)	(1)
At 30 June 2016	3	3	4	10
Charge	1	–	1	2
At 30 June 2017	**4**	**3**	**5**	**12**
Net book value				
At 30 June 2017	**13**	**–**	**3**	**16**
At 30 June 2016	14	–	3	17
At 30 June 2015	11	–	1	12

10. INVESTMENTS

a. Investments

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Joint ventures	**27**	25	**–**	–
	27	25	**–**	–

10. INVESTMENTS CONTINUED

b. Investments in joint ventures

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Share of joint venture net assets:				
Current assets	**29**	24	**–**	–
Current liabilities	**(7)**	(6)	**–**	–
Non-current liabilities	**(22)**	(19)	**–**	–
Net (liabilities)	**–**	(1)	**–**	–
Loans from Group companies(i)	**27**	26	**–**	–
	27	25	**–**	–
Share of post-tax profits from joint ventures:				
Revenue	**17**	–	**–**	–
Cost of sales	**(15)**	–	**–**	–
Gross profit	**2**	–	**–**	–
Administrative expenses	**–**	–	**–**	–
Operating profit	**2**	–	**–**	–
Finance costs	**(1)**	–	**–**	–
Profit before tax	**1**	–	**–**	–
Taxation	**–**	–	**–**	–
	1	–	**–**	–

(i) £27m of the loans to joint ventures are secured (2016: £26m).

The Group's joint venture investments are:

- its 50% shareholding in the ordinary share capital of Menta Redrow Limited and Menta Redrow (II) Limited, both companies incorporated in Great Britain with a 30 June year end. Menta Redrow Limited and Menta Redrow (II) Limited were formed to pursue redevelopment opportunities in Croydon.

c. Investments in subsidiary undertakings

	Company £m
At 1 July 2016 and 30 June 2017	**–**

The principal subsidiary company is Redrow Homes Limited. All subsidiary companies are incorporated in Great Britain except Redrow Homes (Park Heights) Limited and Blue Capital (Jersey) Limited which are incorporated in Jersey. A full list of subsidiary undertakings as at 30 June 2017 is shown on page 136. The capital of all the subsidiary companies, consisting of ordinary shares, is wholly owned by HB (HDG) Limited which in turn is wholly and directly owned by Redrow plc.

All the subsidiaries registered office is Redrow House, St David's Park, Flintshire, CH5 3RX apart from those marked (i), (ii) and (iii) whose registered offices are as follows:

(i) c/o TLT LLP, 140 West George Street, Glasgow, G2 2HG

(ii) 13 Castle Street, St. Helier, Jersey, JE4 5UT

(iii) 44 Esplanade, St. Helier, Jersey, JE4 9WG

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10. INVESTMENTS CONTINUED

c. Investments in subsidiary undertakings continued

Subsidiaries

Name	Company Number	Name	Company Number
HB (HDG) Limited	1990709	Redrow Homes (London) Limited	7472674
Redrow Homes Limited	1990710	St David's Park Limited	2479183
Harrow Estates plc	6825371	PB0311 Limited	7577839
Redrow Real Estate Limited	3996541	Debut Freeholds Limited	4638403
Redrow Regeneration plc	5405272	Tay Homes (Western) Limited	2806562
Redmira Limited	7587765	Tay Homes (Northern) Limited	2708575
HB (NW) Limited	1189328	Tay Homes (Midlands) Limited	2183136
HB (LCS) Limited (i)	SC38052	Tay Homes (North West) Limited	2189721
HB (MID) Limited	2469449	Redrow Homes (Park Heights) Limited (ii)	66240
HB (SW) Limited	3522335	Blue Capital (Jersey) Limited (iii)	110509
HB (SWA) Limited	2230870	Redrow Construction Limited	1375826
HB (Y) Limited	2293006	Poche Interior Design Limited	2169473
HB (ESTN) Limited	4017345	Redrow (Shareplan) Limited	3520984
HB (WM) Limited	3379746	Imagelines Limited	3520986
HB (SM) Limited	3522321	Cadmoore Limited	3977222
HB (SN) Limited	537405	Redrow (Sudbury) Limited	4558070
HB (WC) Limited	4984069	The Waterford Park Company Limited	5429823
HB (WX) Limited	1940936	The Waterford Park Company (Balmoral) Limited	6047122
HB (EM) Limited	2827161	HB (Herne Bay No 1) Limited	7743649
HB (CD) Limited	2034733	HB (Herne Bay No 2) Limited	9163243
HB (GRPS) Limited	2898913	Redrow Homes East Midlands Limited	4219459
HB (CPTS) Limited	1079513	Radleigh Construction Limited	4219460
HB (SE) Limited	3988594	Radleigh Homes Limited	4210633
HB (CSCT) Limited (i)	SC231364	Radbourne Edge (Holdings) Limited	8737345
HB (SC) Limited (i)	SC74732	Redrow Langley Limited	7306461
HB (1995) Limited (i)	SC155021	Radleigh (Hackwood) Limited	8131049
Redrow Homes (Wallyford) Limited (i)	SC205159		

11. DEFERRED TAX ASSETS AND LIABILITIES

The following are the deferred tax assets and liabilities recognised by the Group and the movements thereon during the current and prior year:

	Employee benefits £m	Imputed interest £m	Share-based payment £m	Short-term temporary differences £m	Losses carried forward £m	Total £m
Deferred tax assets						
At 1 July 2015	1	3	–	1	–	5
Credit to income	–	–	–	1	–	1
Charge to equity	(1)	–	–	–	–	(1)
At 30 June 2016	–	3	–	2	–	5
Credit to income	–	–	–	–	–	–
Charge to equity	–	–	–	–	–	–
At 30 June 2017	**–**	**3**	**–**	**2**	**–**	**5**

11. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

	Employee benefits £m	Imputed interest £m	Share- based payment £m	Short-term temporary differences £m	Losses carried forward £m	Total £m
Deferred tax liabilities						
At 1 July 2015	–	–	–	(1)	–	(1)
Credit to income	–	–	–	–	–	–
Charge to equity	(1)	–	–	–	–	(1)
At 30 June 2016	(1)	–	–	(1)	–	(2)
Arising on acquisition	–	–	–	(2)	–	(2)
Credit to equity	1	–	–	–	–	1
At 30 June 2017	**–**	**–**	**–**	**(3)**	**–**	**(3)**

The Group has no material unrecognised deferred tax assets. The deferred tax balances in the Company relate to a deferred tax asset arising on retirement benefit obligations of £3m (2016: £2m).

A Corporation Tax rate of 20% from 1 April 2016 was substantively enacted on 2 July 2013. Changes to reduce the Corporation Tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 26 October 2015. A further change to reduce the rate to 17% from 1 April 2020 was substantively enacted on 6 September 2016. Deferred tax balances have been valued at 19%. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would not be significant to the Group.

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets				
Trade receivables (net)	**11**	12	**–**	–
	11	12	**–**	–
Current assets				
Trade receivables (net)	**10**	11	**–**	–
Amounts due from subsidiary companies	**–**	–	**945**	918
Other receivables	**21**	21	**–**	–
Prepayments and accrued income	**4**	4	**–**	–
	35	36	**945**	918

Trade receivables due after more than one year are stated after an allowance of £8m has been made (2016: £9m) in respect of estimated irrecoverable amounts. This allowance is based on an estimate of default rates. £nil provision was made during the year (2016: £nil). £1m was utilised (2016: £1m). £nil provision was released during the year (2016: £3m). It is not considered that a material amount of current asset trade receivables are overdue for payment.

Trade and other receivables due between one and two years are £1m (2016: £nil), between two and five years are £8m (2016: £9m) and due in more than five years are £2m (2016: £3m). The Group holds a charge over the underlying assets. At the balance sheet date, there is no material difference between the fair value of trade and other receivables and their carrying values as shown in the balance sheet.

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13. INVENTORIES

	Group 2017 £m	Group Restated 2016 £m	Company 2017 £m	Company 2016 £m
Land for development	**1,339**	1,282	**–**	–
Work in progress	**723**	600	**–**	–
Stock of showhomes	**57**	54	**–**	–
	2,119	1,936	**–**	–
Payments on account	**(76)**	(33)	**–**	–
	2,043	1,903	**–**	–

Inventories of £1,193m net of £11m net realisable value provision utilisation, were expensed in the year (2016: £992m net of £9m net realisable value provision utilisation). Work in progress includes £2m (2016: £3m) in respect of part exchange properties. Land held for development in the sum of £168m is subject to a legal charge as security in respect of deferred consideration (2016: £232m).

Payments on account comprises £27m (2016: £20m) attributable to land and £49m (2016: £13m) attributable to work in progress.

The carrying value of undeveloped land where net realisable value has been determined on the basis of a sale of land in its current state is £nil (2016: £nil). Of the net realisable value provision of £8m (2016: £19m), £nil (2016: £9m) is attributed to land and £8m (2016: £10m) is attributed to work in progress.

As discussed in note 1, the Group considers the carrying value of inventories to be a critical accounting judgement.

Details of the restatement in respect of the change in Forward land accounting policy can be found in Accounting Polices on page 118.

The net realisable value provision movement is analysed below:

	Total £m
As at 1 July 2016	19
Utilised during the year	(11)
Created during the year	1
Released during the year	(1)
As at 30 June 2017	**8**

The net realisable value provision relates to land with residential planning consent.

The net realisable value provisions of £1m and £1m 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.

14. FINANCIAL RISK MANAGEMENT

The Group's financial instruments comprise cash and cash equivalents, bank loans and overdrafts, derivative financial instruments and various items included within trade receivables and trade payables which arise during the normal course of business.

The tables below provide a summary of financial assets and liabilities by category.

The accounting policies for financial instruments have been applied to the following items:

14. FINANCIAL RISK MANAGEMENT CONTINUED

The Group

	2017 Loans and receivables £m	2016 Loans and receivables £m
Assets per the balance sheet		
Non-current trade and other receivables	**11**	12
Current trade and other receivables	**31**	32
Cash and cash equivalents	**62**	135
	104	179

	2017 Other financial liabilities £m	2016 Other financial liabilities £m
Liabilities per the balance sheet		
Bank loans and overdrafts	**135**	274
Trade payables and other payables including customer deposits	**359**	356
Land creditors	**351**	378
	845	1,008

Other financial liabilities are at amortised cost.

The Company

	2017 Loans and receivables £m	2016 Loans and receivables £m
Assets per the balance sheet		
Cash and cash equivalents	**61**	134
Amounts due from subsidiary companies	**945**	918
	1,006	1,052

	2017 Other financial liabilities £m	2016 Other financial liabilities £m
Liabilities per the balance sheet		
Bank loans and overdrafts	**173**	230
Amounts owed to subsidiary companies	**14**	14
	187	244

The Group's activities expose it to a variety of financial risks.

Financial risk management is conducted centrally using policies approved by the Board. Market risk is negligible due to the Group's limited exposure to equity securities (some limited exposure arises through the Redrow Staff Pension Scheme's investment portfolio) and the associated price risk. Its foreign exchange exposure is negligible given the nature of the Group's business and its exclusive UK activities.

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Notes to the Financial Statements continued

14. FINANCIAL RISK MANAGEMENT CONTINUED

a. Liquidity risk and interest rate risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. Liquidity risks are managed through the regular review of cash forecasts and by maintaining adequate committed banking facilities to ensure appropriate headroom.

At 30 June 2017, the Group had total unsecured bank borrowing facilities of £368m, representing £365m committed facilities and £3m uncommitted facilities.

The Group's cash surpluses arise from short-term timing differences. As a consequence the Group does not consider it bears significant risk of changes to income and cash flows as a result of movements on interest rates on its interest bearing assets.

The Group is exposed to interest rate risk as it borrows money at floating rates. The Group's interest rate risk arises primarily from long-term borrowings. In order to manage its interest rate risk, the Group from time to time enters into simple risk management products, almost exclusively interest rate swaps. All interest rate swaps are sterling denominated. The swaps are arranged so as to match with those of the underlying borrowings to which they relate. There was no ineffectiveness to be recorded in respect of these cash flow hedges in 2017 or 2016.

The following table shows the profile of interest bearing debt together with its effective interest rates, after taking account of interest rate swaps as at the balance sheet date and the periods in which they will reprice:

	2017					2016				
	Effective interest rate %	Total £m	Zero to one year £m	One to two years £m	Two to five years £m	Effective interest rate %	Total £m	Zero to one year £m	One to two years £m	Two to five years £m
Bank overdraft	2.0	45	45	–	–	2.0	44	44	–	–
Bank loans – floating rate	2.3	90	–	–	90	2.3	230	–	–	230
		135	45	–	90		274	44	–	230

The notional principal amounts in respect of the interest rate swaps together with their maturities are given in the table below:

	Balance at 30 June £m	Zero to one year £m	One to two years £m
2017	–	–	–
2016	–	–	–

For the year ended 30 June 2017, it is estimated that for any incremental general increase of 1% in interest rates applying for the full year the decrease in the Group's profit before tax would be £1m (2016: £3m).

b. Maturity of bank loans and borrowings

The maturity of bank loans and borrowings is as below:

The Group

	2017		2016	
	Bank overdraft £m	Bank loans £m	Bank overdraft £m	Bank loans £m
Due within one year	45	–	44	–
Due between one and two years	–	–	–	–
Due between two and five years	–	95	–	247
	45	95	44	247

Maturities above include estimated interest payable to the maturity of the facilities.

14. FINANCIAL RISK MANAGEMENT CONTINUED

b. Maturity of bank loans and borrowings continued

The Company

	2017		2016	
	Bank overdraft £m	Bank loans £m	Bank overdraft £m	Bank loans £m
Due within one year	83	–	–	–
Due between one and two years	–	–	–	–
Due between two and five years	–	95	–	247
	83	95	–	247

Maturities above include estimated interest payable to the maturity of the facilities.

The Company was fully compliant with its banking covenants as at 30 June 2017.

At the year end, the Group and Company had £275m (2016: £135m) of undrawn committed bank facilities available.

There is no material difference between the fair value of the bank overdrafts and bank loans and their carrying values as shown in the balance sheet.

c. Amounts due in respect of development land

The Group's policy permits land purchases to be made on deferred payment terms. In accordance with IAS 39, the deferred creditor is recorded at fair value and nominal value is amortised over the deferment period via financing costs, increasing the land creditor to its full cash settlement value on the payment date.

The interest rate used for each deferred payment is an equivalent loan rate available on the date of land purchase, as applicable to a loan lasting for a comparable period of time to that deferment.

The maturity profile of the total contracted cash payments in respect of amounts due in respect of land creditors at the balance sheet date is as follows:

	Balance at 30 June £m	Total contracted cash payment £m	Due less than one year £m	Due between one and two years £m	Due between two and five years £m
2017	351	359	154	103	102
2016	378	386	222	83	81

d. Maturity of trade and other payables

These represent current liabilities due within one year.

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Notes to the Financial Statements continued

14. FINANCIAL RISK MANAGEMENT CONTINUED

e. Credit risk

Credit risk arises from cash and cash equivalents, including call deposits with banks and financial institutions, derivative financial instruments and trade receivables. It represents the risk of financial loss where counterparties are unable to meet their obligations.

Credit risk is managed centrally in respect of cash and cash equivalents and derivative financial instruments. In respect of placing deposits with banks and financial institutions and funds, individual risk limits are approved by the Board. The table below shows the cash and cash equivalents as at the balance sheet date:

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Held at Banks with at least an A- credit rating per Standard & Poor	**62**	135	**61**	134
	62	135	**61**	134

No credit limits were exceeded during the reporting year or subsequently and the Group does not anticipate any losses from non-performance by these counterparties.

There is no specific concentration of credit risk in respect of home sales as the exposure is spread over a number of customers. In respect of trade receivables, the amounts presented in the balance sheet are stated after adjusting for any doubtful receivables, based on the judgement of the Group's management through using both previous experience and knowledge of the current position of any more substantial receivables.

f. Capital management

The Group defines total capital as equity plus net debt where net debt is calculated as total borrowings less cash and cash equivalents.

The Group monitors capital on the basis of the level of returns achieved on its capital base and, with respect to its financing structure, the gearing ratio. This is defined as net debt divided by equity.

The Group's objective in managing capital is to safeguard its ability to continue as a going concern in order to deliver value to its Shareholders and other stakeholders. The Group operates within policies outlined by the Board in order to maintain an appropriate funding structure. The Board keeps the Group's capital structure under review.

The total capital levels and gearing ratios as at 30 June 2017 and 30 June 2016 are as follows:

	2017 £m	2016 £m
Total borrowings	**135**	274
Less cash and cash equivalents	**(62)**	(135)
Net debt	**73**	139
Equity	**1,235**	1,041
Total capital	**1,308**	1,180
Gearing ratio	**6%**	13%

g. Fair values

At 30 June 2017 there is no material difference between the fair value of financial instruments and their carrying values in the balance sheet.

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current liabilities				
Amounts due in respect of development land	**197**	156	**–**	–
	197	156	**–**	–
Current liabilities				
Trade payables	**289**	286	**–**	–
Amounts due in respect of development land	**154**	222	**–**	–
Customer deposits	**64**	65	**–**	–
Amounts owed to subsidiary companies	**–**	–	**14**	14
Other payables	**6**	5	**–**	–
Other taxation and social security	**3**	3	**–**	–
Accruals and deferred income	**69**	50	**13**	11
	585	631	**27**	25

16. LONG-TERM PROVISIONS

The Group

	Onerous contracts £m	Other £m	Total £m
At 1 July 2016	2	5	7
Provisions created during the year	–	2	2
Provisions released during the year	–	–	–
Provisions utilised during the year	–	(1)	(1)
At 30 June 2017	**2**	**6**	**8**

Provisions relate to onerous contracts (in place at June 2009 and viewed as onerous) and maintenance and sundry remedial costs in respect of development activities, which it is assessed will be utilised within four years.

17. SHARE CAPITAL

	2017 £m	2016 £m
Authorised		
480,000,000 ordinary shares of 10p each (2016: 480,000,000)	**48**	48
Issued and fully paid	**37**	37

	Number of ordinary shares of 10p each
As at 1 July 2016 and 30 June 2017	**369,799,938**

Options granted to Directors and employees under the LTIP, the CSOP and the SAYE schemes are set out in note 7d.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

18. SHARE CAPITAL, SHARE PREMIUM ACCOUNT AND RESERVES

The Group

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m
At 1 July 2015	37	59	8	769
Total comprehensive income	–	–	–	206
Dividends paid	–	–	–	(30)
Movement in respect of LTIP/SAYE	–	–	–	(8)
At 30 June 2016	37	59	8	937
Total comprehensive income	–	–	–	246
Dividends paid	–	–	–	(44)
Movement in respect of LTIP/SAYE	–	–	–	(8)
At 30 June 2017	**37**	**59**	**8**	**1,131**

Other reserves
Other reserves consists of a £7m Capital redemption reserve (2016: £7m) and a £1m Consolidation reserve (2016: £1m).

Undistributable reserves
Other reserves are not available for distribution.

The Company

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m
At 1 July 2015	37	59	7	524
Total comprehensive income†	–	–	–	207
Dividends paid	–	–	–	(30)
At 30 June 2016	37	59	7	701
Total comprehensive income†	–	–	–	44
Dividends paid	–	–	–	(44)
At 30 June 2017	**37**	**59**	**7**	**701**

† Includes dividends received from subsidiary companies.

Other reserves
Other reserves consists of a £7m Capital redemption reserve (2016: £7m).

Undistributable reserves
Other reserves are not available for distribution.

19. MOVEMENT IN NET (DEBT)/CASH

The Group

	At 1 July 2016 £m	Cash flow £m	At 30 June 2017 £m
Cash and cash equivalents	135	(73)	**62**
Bank overdrafts	(44)	(1)	**(45)**
Net cash and cash equivalents	91	(74)	**17**
Bank loans	(230)	140	**(90)**
Net debt	(139)	66	**(73)**

The Company

	At 1 July 2016 £m	Cash flow £m	At 30 June 2017 £m
Cash and cash equivalents	134	(73)	**61**
Bank overdrafts	–	(83)	**(83)**
Net cash and cash equivalents	134	(156)	**(22)**
Bank loans	(230)	140	**(90)**
Net debt	(96)	(16)	**(112)**

20. OPERATING LEASE COMMITMENTS

	2017 £m	2016 £m
Within one year	**3**	3
Within two to five years	**5**	4
Later than five years	**1**	2

21. CONTINGENT LIABILITIES

The Company has guaranteed the bank borrowings of its subsidiaries. Performance bonds, financial guarantees in respect of certain deferred land creditors and other building or performance guarantees have been entered into in the normal course of business. Management estimate that the bonds and guarantees amount to £99m (2016: £84m) at the year end and consider the possibility of a cash outflow in settlement to be remote.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

22. RELATED PARTY TRANSACTIONS

Within the definition of IAS 24 'Related party disclosures', the Board and key management personnel are related parties. Detailed disclosure of the remuneration of the Board is given in the Directors' Remuneration Report on pages 76 to 97. A summary of remuneration provided to key management personnel is provided in note 7c.

In addition, related party transactions were carried out with parties related to Steve Morgan during the year totalling £0.8m (Company £0.8m), primarily relating to the donation to The Steve Morgan Foundation as described in the Directors' Remuneration Report on page 88 and services provided by Harrow Estates plc on an arm's length basis under promotional agreements forming part of the acquisition of the Harrow business.

As at 30 June 2017, an amount of £nil was due to Harrow Estates plc under normal trading terms.

There have been no other material transactions with key management personnel. There is no other difference between transactions with key management personnel of the Company and the Group.

The Company funds the operating companies through both equity investment and loans at commercial rates of interest. In addition, the Company provides its subsidiaries with the services of Senior Management, for which a recharge is made to those subsidiary companies based upon utilisation of services.

The amount outstanding from subsidiary undertakings at 30 June 2017 was £945m (2016: £918m). The amount owed to subsidiary undertakings at 30 June 2017 was £14m (2016: £14m).

The Company provided the Group's defined benefit pension scheme, as detailed in note 7e. Expected service costs were charged to the operating businesses at cost. There is no contractual arrangement or stated policy relating to the charge. Experience and actuarial gains are recognised in the Company, via the statement of comprehensive income.

The Group did not undertake any transactions with Menta Redrow Limited and Menta Redrow (II) Limited joint ventures. The Group's loans to its joint ventures are disclosed in note 10.

FINANCIAL STATEMENTS

Glossary

DPS
Dividend Per Share

Forward Land
Land which is owned or controlled by Redrow, generally under option, which is being promoted through the planning system in order to ultimately achieve a residential planning consent

HBF
Home Builders Federation

NHBC
National House Building Council

PRS
Private Rented Sector

SDLT
Stamp Duty Land Tax

HOW KEY PERFORMANCE INDICATOR MEASURES ARE CALCULATED:

Land bank years
No. of plots in owned land bank at 30 June divided by no. of legal completions in financial year

Sales outlets
No. of sales outlets open at 30 June

Private reservation rate
No. of private reservations per week in financial year divided by average no. of sales outlets

Revenue
Revenue per consolidated income statement

Number of trainees
No. of trainees at 30 June

HBF customer satisfaction rating
Independent HBF customer satisfaction rating score

Accident incident rate by site
No. of notifiable accidents in financial year divided by average no. of sites

Return on capital employed (ROCE)
Operating profit before exceptional items adjusted for joint ventures as a percentage of opening and closing capital employed

Return on equity (ROE)
Profit before tax before exceptional items adjusted for joint ventures as a percentage of opening and closing net assets

Earnings per share (EPS)
Profit attributable to ordinary equity shareholders (excluding exceptional items and deferred tax rate changes) divided by the weighted average no. of ordinary shares in issue during the financial year