Independent auditor's report to the members of Taylor Wimpey plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Taylor Wimpey plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements 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 which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- Notes 1 to 33 relating to the Consolidated Financial Statements and Notes 1 to 15 relating to the Parent Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Parent Company. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – inventory costing and margin recognition; – defined benefit pension scheme accounting; – accounting for the leasehold provision; and – accounting for the cladding provision. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year are identified with .
Materiality	The materiality that we used for the Group Financial Statements was £42.0 million which was determined on the basis of 5% of pre-tax profit for the year, excluding exceptional items.
Scoping	Based on our scoping assessment, our Group audit was focused on the UK Housing division (excluding joint ventures) which represented the principal segment within the Group and accounted for 98% of the Group's net operating assets 97% of the Group's revenue and 97% of the Group's pre-tax profit before exceptional items.
Significant changes in our approach	In relation to the key audit matters, we have added the accounting for the cladding provision due to the judgement required in estimating the liability. There have been no significant changes in our approach to scoping the audit and in determining materiality.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 44 to 51 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 44 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; or
- the Directors' explanation on page 51 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 are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 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.

For each key audit matter we perform procedures to assess the design and implementation of key controls in mitigating the risk that the associated balances are misstated.

Inventory costing and margin recognition

Refer to page 86 (Audit Committee report), page 139 (source of estimation uncertainty) and page 149 (financial statements disclosures).

Key audit matter description

The value for inventory as at 31 December 2018 is £4,188.2 million (2017: £4,075.7 million) and as such is the most significant asset on the balance sheet (page 132). Inventory comprises land and work in progress ('WIP'); WIP includes the construction cost of developing a site, and is transferred to cost of sales as each legal completion takes place.

The Group's cost allocation framework determines the profit forecasted for each site, and acts as a method of allocating land and build cost of a development to each individual plot, ensuring the forecast gross margin (in % terms) to be achieved on each individual plot is equal across the development. This cost allocation framework drives the recognition of costs as each plot is sold. We consider the appropriate margin recognition across the life of the site to be a key audit matter.

There is significant judgement and a risk of potential fraud in the following areas:

- estimating the selling price and build costs included within the initial site budget. This is due to the inherent judgement relating to forecasting external factors such as future selling prices and build cost inflation. The level of uncertainty associated with these macro-economic factors has increased in the current period due to the uncertainty in relation to the United Kingdom's exit from the European Union;
- appropriately allocating costs such as shared infrastructure costs relating to a development so that the gross profit margin (in % terms) budgeted on each individual plot is equal; and
- recording the variation when a deviation from the initial budget occurs and ensuring such variations are appropriately spread across the remainder of the development.

These judgements impact the carrying value of inventory in the balance sheet and therefore the profit recognised on each plot sold.

How the scope of our audit responded to the key audit matter

We visited a number of the Group's business units (as described on page 128). As part of these visits we assessed the design and implementation, and tested the operating effectiveness of controls in relation to:

- the preparation and approval of site budgets;
- the process of monitoring site budgets; and
- the regular review meetings where Management reviews actual costs against detailed site budgets.

We have also performed substantive testing as noted below:

For all UK business units we enquired with local Management as to the primary judgements associated with the cost allocation. Upon reviewing this correspondence we performed additional substantive procedures targeted to certain developments.

For a sample of sites we have analysed completions in the period and compared the achieved margin to the initial margin determined when the original site budget was approved. Where differences fell outside of an acceptable threshold, we performed corroborative inquiries with Management and obtained evidence supporting the variance.

For a further sample of sites tested, we have reviewed the total excesses and savings balance identified for each given site, and through recalculation of the expected income statement impact (based on the number of legal completions in the year), we have determined that the excesses and savings have been appropriately allocated and recognised.

Through the use of IT interrogation techniques, we have analysed journal postings being made to the inventory balances to highlight any items which potentially should have been recorded as an expense. Additionally, we have tested WIP additions to the inventory balance to determine whether the costs have been appropriately capitalised, by tracing these through to supporting invoices.

We have analysed cost per square foot of plots sold at a regional business unit level for the current year and compared this to cost per square foot in previous years, to analyse for any unusual trends which required corroboration from Management.

We performed a review of sites where the initial site budget was created a number of years ago, which may indicate the use of an outdated budget. Given the age of these sites, we challenged Management where savings from the budget had been made or additional costs have not been recognised.

We engaged with internal specialists who are quantity surveyors to assess the costs to complete included within a sample of models and whether, based on this specialist's opinion, the assumptions used by Management are reasonable. This included reviewing forward looking assumptions in relation to costs and potential changes in macro-economic factors.

Key observations

Based on the procedures performed, we concluded that the Group's cost allocation framework appears reasonable for the intended purpose of recognising appropriate margins on plot completion.

The accounting for cost allocation, both at the inception of a site and on an ongoing basis is in line with this framework.

Defined benefit pension scheme accounting

Refer to page 86 (Audit Committee report), page 139 (key source of estimation uncertainty) and page 154 (financial statements disclosures).

Key audit matter description

The total value of the defined benefit pension scheme at the balance sheet date is a net deficit of £133.0 million (2017: £63.7 million). The liabilities (including the adjustment for IFRIC 14) and assets are valued at £2,237.2 million (2017: £2,327.2 million) and £2,104.2 million (2017: £2,263.5 million) respectively.

Accounting for a defined benefit pension scheme and the value of liabilities is dependent on significant assumptions, including an assessment of the discount rate, price inflation and key demographic figures including life expectancy and mortality rates. A change in any of these assumptions could cause a material change in the value of the liabilities overall and the net pension deficit on the Group's balance sheet. As explained in Note 6 (page 142), in the year the Group recorded a £16.1 million exceptional charge in relation to Guaranteed Minimum Pension ("GMP") equalisation payments and there is judgement in estimating the total value of these future payments.

The Group is obligated to pay contributions into the pension scheme to reduce the size of the total net deficit. Certain contributions are associated with the funding status of the scheme as detailed on page 155. There is judgement in assessing the nature and quantum of future contributions that the Group is obligated to pay. These judgements directly impact the size of the future funding contributions and the size of the IFRIC 14 adjustment which directly influences the size of the total net deficit.

These accounting judgements are inherently complex, require a high level of Management judgement and specialist actuarial input.

How the scope of our audit responded to the key audit matter

We assessed the competence and objectivity of the qualified actuary engaged by the Group to value the scheme's defined benefits pension position under IAS 19 "Employee benefits".

We engaged our internal actuarial specialists to assess the appropriateness of the assumptions used to account for the defined benefit scheme. This included comparison of key data with market benchmarks and to challenge the methodology used by the scheme actuary. We considered whether each of the key assumptions was reasonable in isolation and collectively in determining the pension liability at the balance sheet date. Furthermore, we have performed a sensitivity analysis on the key assumptions determined by the Directors.

Our internal actuarial specialists have also reviewed the methodology used to calculate the required GMP payment.

We reviewed the pension scheme documentation to determine the size and nature of the future funding contributions. This included reviewing the judgements made by Management's actuaries in determining the future funding status of the scheme. We performed procedures to assess the adjustment made in respect of future funding obligations taking this into account. In doing so we reviewed the schedule of payments the group is obligated to provide and checked whether the calculation was arithmetically correct.

Key observations

Based on the procedures performed, we concluded that the methodology and assumptions used in valuing the pension scheme liabilities are considered to be within an acceptable range.

We concluded that the quantum of the GMP adjustment and the methodology used to calculate it are reasonable.

We concurred with the IFRIC 14 adjustment recorded and that this included the relevant funding commitments the Group had based on the schedule of payments agreed as part of the latest triennial valuation.

We concurred with the inclusion of Accounting for Employee Benefits as a key source of estimation uncertainty in Note 2 to the consolidated financial statements.

Accounting for the leasehold provision

Refer to page 86 (Audit Committee report), page 139 (source of estimation uncertainty) and pages 142 and 159 (financial statements disclosures).

Key audit matter description

The provision the Group has made in relation to remediating certain historical lease structures at 31 December 2018 stands at £102.1 million (2017: £127.6 million), the reduction relating to costs incurred and payments made over the twelve month period.

Accounting for these provisions is complex and involves Management making a number of forward-looking estimates. The key judgements related to this key audit matter lie in estimating the final settlements with the stakeholders impacted by the historical lease structures.

This provision has multiple components that relate to payments to a number of parties including freeholders and individual customers. Within the provision are additional costs relating to the implementation of the measures that have been identified.

There are a number of risks associated with this provision:

– costs could be provided that the Group is not yet committed to incur, or obligated to pay, thereby inflating the provision; and

– for costs that are provided there is a risk that these are inaccurately estimated or valued.

How the scope of our audit responded to the key audit matter

In addressing this risk, we have obtained Management's estimation of the total costs. For each component of the provision we have performed procedures to assess, based on current facts and circumstances, whether the estimates made by Management are accurate.

We have held discussions with legal counsel to ascertain whether Management's model reflects the progress of negotiations that have been held with freeholders.

The largest component of this calculation are the payments to be made to freeholders in order to alter the terms of the leases. In order to verify these amounts we have confirmed the status of negotiations with freeholders and, where these negotiations had been completed, obtained the agreements and recalculated the specific amounts that have been provided for. Where these negotiations had not been completed we assessed the value that was provided for these freeholder payments.

Key observations

Based on the procedures performed, we considered the provision calculated by Management to be prudent. However, our estimate of any potential overstatement in the provision was below materiality and, if adjusted would not have increased the post-tax profit of the Group by a material amount as at 31 December 2018.

Accounting for the cladding provision

Refer to page 86 (Audit Committee report), page 139 (source of estimation uncertainty) and pages 142 and 159 (financial statements disclosures).

Key audit matter description	As described in Note 6, following the tragic events at Grenfell Tower in 2017, the Group undertook a review of its legacy developments to identify those that have been constructed with aluminium composite materials ('ACM'). Where ACM was identified the Group received advice from external experts and, where required, created a provision for any constructive obligations that the Group had to remediate the building. Upon completion of this review the Group made a provision for £30.0 million and, as at 31 December 2018, the provision stands at £29.6 million as initial costs were incurred in beginning the remediation works. Accounting for these provisions is complex and involves Management making a number of forward-looking estimates. The key judgements related to this key audit matter lie in determining which buildings the Group has an obligation to remediate, the cost of the future works at the various buildings and that the disclosure made within the financial statements is representative of the current facts and circumstances. There are a number of risks associated with this provision: – that buildings are captured in the provision that the Group is not obligated to remediate; – for costs that are provided there is a risk that these are inaccurately estimated or valued; and – there is a risk that the disclosure made within the financial statements does not appropriately explain the obligations that the Group has in relation to remediation.
How the scope of our audit responded to the key audit matter	In addressing this risk we have considered and assessed the process by which Management had determined which buildings the Group had an obligation to remediate as at 31 December 2018. This included verifying the identification exercise that Management performed and reviewing correspondence the Group had with relevant stakeholders. Where Management did have an obligation we assessed how the value of the provision had been determined for each development. This included obtaining and verifying the quotes the Group had received for the remediation works. We have reviewed the disclosure made in Note 6 and considered whether this reflects the current facts and circumstances associated with the replacement of the ACM cladding on identified properties.
Key observations	Based on the procedures performed, we considered the provision recorded by Management to reflect the properties for which the Group has an obligation to remediate at the balance sheet date and that the amount provided is appropriate. We considered the disclosure made in Note 6 to be complete and representative of the current facts and circumstances.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Group materiality	£42.0 million (2017: £40.0 million)
Basis for determining materiality	Approximately 5% (2017: 5%) of pre-tax profit for the year, excluding exceptional items, of £856.8 million (2017: £812.0 million) as described on page 130. The increase in materiality is directly attributable to the increase in pre-tax profit for the Group.
Rationale for the benchmark applied	Pre-tax profit, excluding exceptional items, has been chosen for the basis for materiality as this is the measure by which stakeholders and the market assess the wider performance of the entity. The exceptional items are excluded as they do not represent part of the underlying trading performance of the business.
Parent Company materiality	£39.9 million (2017: £38.0 million)
Basis for determining materiality	Approximately 1% (2017: approximately 1%) of net assets of £3,918.2 million (2017: £3,862.7 million). This is capped at 95% (2017: 95%) of Group materiality which we considered appropriate for the consolidation of this set of financial statements to the Group's results. The increase in materiality is driven by the increase in Group materiality.
Rationale for the benchmark applied	Net assets is used as the benchmark as this entity is a Parent Company and not a trading entity.

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2018 audit (2017: 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.0 million (2017: £1.5 million) for the Group and £2.0 million (2017: £1.5 million) for the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This increase in threshold is the result of an increase in the Group's pre-tax profit during the year. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report continued

An overview of the scope of our audit

The Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the UK Housing division (excluding joint ventures) which represents the principal segment within the Group and accounts for 98% (2017: 98%) of the Group's net operating assets, 97% (2017: 98%) of the Group's revenue and 97% (2017: 97%) of the Group's pre-tax profit before exceptional items. Our audit work on the principal segment was executed at a lower level of materiality £38.0 million (2017: £34.2 million).

We audit all of the Group's UK subsidiaries which are subject to audit at statutory materiality level, which in most cases is substantially lower than Group materiality. The statutory audits are finalised subsequent to the audit of the Group accounts.

For the Spanish operations and material joint ventures desktop review procedures are conducted by the UK team.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The audit is performed centrally and includes all of the 24 regional business units within the Group's UK Housing division. We choose to visit a sample of these business units selected on a rotational basis. The purpose of these visits is to conduct procedures over selected controls that are in place at each business unit and also to perform substantive testing of certain balances. In the current year we performed regional visits to four (2017: four) locations. In addition, we also visit other business units throughout the entity which are chosen on a random basis. During these visits we assess the commonality of the controls in line with the group-wide controls identified, as well as performing substantive testing. This was performed at four (2017: four) locations.

The Parent Company is located in the UK and audited directly by the Group audit team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report including the strategic report, Director's report and corporate governance statement, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 Parent 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 Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, including tax, pensions, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the inventory costing and margin recognition key audit matter as described on page 125; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation, and housebuilding and construction legislation. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to continue as a going concern or to avoid a material penalty, such as employment law and health and safety requirements.

Audit response to risks identified

As a result of performing the above, we identified inventory costing and margin recognition as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following recommendation of the audit committee, we were reappointed by the shareholders of Taylor Wimpey plc on 26 April 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.

Following the merger of Taylor Woodrow and George Wimpey, we were appointed as auditor of the merged group for subsequent financial periods. Prior to that we were the auditor of Taylor Woodrow.

As explained on page 85, our final year of association with the Group will be the year ending 31 December 2020. After the 2020 year end we are required to mandatorily rotate from our role as auditor.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee that we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Edward Hanson ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP Statutory Auditor
London, United Kingdom
26 February 2019

Consolidated income statement for the year to 31 December 2018

£ million	Note	Before exceptional items 2018	Exceptional items 2018	Total 2018	Before exceptional items 2017 (restated)	Exceptional items 2017	Total 2017 (restated)
Continuing operations							
Revenue	4	4,082.0	–	4,082.0	3,965.2	–	3,965.2
Cost of sales		(3,007.5)	–	(3,007.5)	(2,933.4)	–	(2,933.4)
Gross profit before positive contribution		1,066.8	–	1,066.8	1,014.4	–	1,014.4
Positive contribution from written down inventory		7.7	–	7.7	17.4	–	17.4
Gross profit		1,074.5	–	1,074.5	1,031.8	–	1,031.8
Net operating expenses	6	(199.6)	(46.1)	(245.7)	(195.3)	(130.0)	(325.3)
Profit on ordinary activities before finance costs		874.9	(46.1)	828.8	836.5	(130.0)	706.5
Interest receivable	8	2.9	–	2.9	0.8	–	0.8
Finance costs	8	(26.3)	–	(26.3)	(32.9)	–	(32.9)
Share of results of joint ventures	13	5.3	–	5.3	7.6	–	7.6
Profit on ordinary activities before taxation		856.8	(46.1)	810.7	812.0	(130.0)	682.0
Taxation (charge)/credit	9	(162.3)	8.2	(154.1)	(151.7)	25.0	(126.7)
Profit for the year		694.5	(37.9)	656.6	660.3	(105.0)	555.3
Attributable to:							
Equity holders of the parent				656.6			555.3
				656.6			555.3

	Note	2018	2017
Basic earnings per share	10	20.1p	17.0p
Diluted earnings per share	10	20.0p	16.9p
Adjusted basic earnings per share	10	21.3p	20.2p
Adjusted diluted earnings per share	10	21.2p	20.1p

Consolidated statement of comprehensive income for the year to 31 December 2018

£ million	Note	2018	2017
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	25	**1.5**	2.2
Movement in fair value of hedging instruments	25	**(0.7)**	(1.2)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension schemes	21	**(84.3)**	154.8
Tax credit/(charge) on items taken directly to other comprehensive income	14	**14.7**	(26.5)
Other comprehensive (expense)/income for the year net of tax		**(68.8)**	129.3
Profit for the year		**656.6**	555.3
Total comprehensive income for the year		**587.8**	684.6
Attributable to:			
Equity holders of the parent		**587.8**	684.6
		587.8	684.6

Consolidated balance sheet at 31 December 2018

£ million	Note	2018	2017
Non-current assets			
Intangible assets	11	**3.2**	3.9
Property, plant and equipment	12	**21.6**	22.8
Right-of-use assets	19	**27.1**	–
Interests in joint ventures	13	**48.3**	50.9
Trade and other receivables	16	**55.7**	60.1
Deferred tax assets	14	**40.7**	29.3
		196.6	167.0
Current assets			
Inventories	15	**4,188.2**	4,075.7
Trade and other receivables	16	**134.7**	122.2
Tax receivables		**0.5**	0.7
Cash and cash equivalents	16	**734.2**	600.5
		5,057.6	4,799.1
Total assets		**5,254.2**	4,966.1
Current liabilities			
Trade and other payables	18	**(1,044.3)**	(1,024.5)
Lease liabilities	19	**(8.2)**	–
Tax payables		**(70.4)**	(58.6)
Provisions	22	**(76.9)**	(87.3)
		(1,199.8)	(1,170.4)
Net current assets		**3,857.8**	3,628.7
Non-current liabilities			
Trade and other payables	18	**(491.3)**	(430.6)
Lease liabilities	19	**(19.2)**	–
Bank and other loans	17	**(90.1)**	(88.7)
Retirement benefit obligations	21	**(133.6)**	(64.8)
Provisions	22	**(93.4)**	(74.3)
		(827.6)	(658.4)
Total liabilities		**(2,027.4)**	(1,828.8)
Net assets		**3,226.8**	3,137.3
Equity			
Share capital	23	**288.5**	288.5
Share premium	24	**762.9**	762.9
Own shares	26	**(22.7)**	(21.3)
Other reserves	25	**45.0**	44.2
Retained earnings	25	**2,153.1**	2,063.0
Equity attributable to parent		**3,226.8**	3,137.3
Total equity		**3,226.8**	3,137.3

The financial statements of Taylor Wimpey plc (registered number: 296805) were approved by the Board of Directors and authorised for issue on 26 February 2019. They were signed on its behalf by:

Pete Redfern

P Redfern
Director

C Carney
Director

Consolidated statement of changes in equity for the year to 31 December 2018

For the year to 31 December 2018 £ million	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Total
Balance as at 1 January 2018	288.5	762.9	(21.3)	44.2	2,063.0	3,137.3
Exchange differences on translation of foreign operations	–	–	–	1.5	–	1.5
Movement in fair value of hedging instruments	–	–	–	(0.7)	–	(0.7)
Actuarial loss on defined benefit pension schemes	–	–	–	–	(84.3)	(84.3)
Tax credit on items taken directly to other comprehensive income	–	–	–	–	14.7	14.7
Other comprehensive income/(expense) for the year net of tax	–	–	–	0.8	(69.6)	(68.8)
Profit for the year	–	–	–	–	656.6	656.6
Total comprehensive income for the year	–	–	–	0.8	587.0	587.8
Impact on adoption of IFRS 16 (Note 32)	–	–	–	–	(1.5)	(1.5)
Own shares acquired	–	–	(9.9)	–	–	(9.9)
Utilisation of own shares	–	–	8.5	–	–	8.5
Cash cost of satisfying share options	–	–	–	–	(7.0)	(7.0)
Share-based payment credit	–	–	–	–	12.2	12.2
Tax charge on items taken directly to statement of changes in equity	–	–	–	–	(1.1)	(1.1)
Dividends approved and paid	–	–	–	–	(499.5)	(499.5)
Total equity as at 31 December 2018	288.5	762.9	(22.7)	45.0	2,153.1	3,226.8

For the year to 31 December 2017 £ million	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Total
Balance as at 1 January 2017	288.4	762.9	(12.2)	43.2	1,817.3	2,899.6
Exchange differences on translation of foreign operations	–	–	–	2.2	–	2.2
Movement in fair value of hedging instruments	–	–	–	(1.2)	–	(1.2)
Actuarial gain on defined benefit pension schemes	–	–	–	–	154.8	154.8
Tax charge on items taken directly to other comprehensive income	–	–	–	–	(26.5)	(26.5)
Other comprehensive income for the year net of tax	–	–	–	1.0	128.3	129.3
Profit for the year	–	–	–	–	555.3	555.3
Total comprehensive income for the year	–	–	–	1.0	683.6	684.6
New share capital subscribed	0.1	–	–	–	–	0.1
Own shares acquired	–	–	(13.3)	–	–	(13.3)
Utilisation of own shares	–	–	4.2	–	–	4.2
Cash cost of satisfying share options	–	–	–	–	(0.7)	(0.7)
Share-based payment credit	–	–	–	–	11.5	11.5
Tax credit on items taken directly to statement of changes in equity	–	–	–	–	1.8	1.8
Dividends approved and paid	–	–	–	–	(450.5)	(450.5)
Total equity as at 31 December 2017	288.5	762.9	(21.3)	44.2	2,063.0	3,137.3

Consolidated cash flow statement for the year to 31 December 2018

£ million	Note	2018	2017
Net cash from operating activities	27	**641.3**	604.1
Investing activities			
Interest received		**2.8**	0.8
Dividends received from joint ventures		**14.3**	0.7
Proceeds on disposal of property, plant and equipment		**0.4**	–
Purchases of property, plant and equipment	12	**(2.1)**	(4.2)
Purchases of software	11	**(0.3)**	(1.5)
Amounts (invested in)/repaid by joint ventures		**(6.4)**	6.1
Proceeds from sale of interest in subsidiary		**–**	2.7
Net cash generated from investing activities		**8.7**	4.6
Financing activities			
Lease capital repayments		**(8.3)**	–
Proceeds from the issue of own shares		**–**	0.1
Cash received on exercise of share options		**1.5**	3.5
Purchase of own shares		**(9.9)**	(13.3)
Dividends paid		**(499.5)**	(450.5)
Net cash used in financing activities		**(516.2)**	(460.2)
Net increase in cash and cash equivalents		**133.8**	148.5
Cash and cash equivalents at beginning of year		**600.5**	450.2
Effect of foreign exchange rate changes		**(0.1)**	1.8
Cash and cash equivalents at end of year	27	**734.2**	600.5

Notes to the consolidated financial statements

1. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except as otherwise stated below.

The principal accounting policies adopted, which have been applied consistently, except as otherwise stated, are set out below.

Adoption of new and revised standards

The Group has adopted and applied the following standards and amendments issued by the International Accounting Standards Board (IASB) that are relevant to its operations for the first time in the year commencing 1 January 2018:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'
- IFRS 2 'Share-based Payment' (amendments) – classification and measurement of share-based payment transactions
- Annual improvements to IFRSs 2014 – 2016 Cycle

Information on the initial application of IFRS 9, IFRS 15 and IFRS 16, including the impact on the financial position and performance of the Group, can be found in Note 32. The adoption of the other amendments in the year did not have a material impact on the financial statements.

Standards, interpretations and amendments in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new or revised standards and interpretations that have been issued but are not yet effective and in some cases, had not yet been adopted by the EU:

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- IFRIC 23 'Uncertainty over Income Tax Treatments'
- IAS 19 'Employee Benefits' (amendments) – plan amendment, curtailment or settlement
- IAS 28 'Investments in Associates and Joint Ventures' (amendments) – long-term interests in associates and joint ventures
- Annual improvements to IFRSs 2015 – 2017 Cycle

The Directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the financial statements of the Group in future periods.

Going concern

The Group has prepared forecasts, including certain sensitivities taking into account the principal risks identified on pages 44 to 51. Having considered these forecasts, the Directors remain of the view that the Group's financing arrangements and capital structure provide both the necessary facilities and covenant headroom to enable the Group to conduct its business for at least the next 12 months.

Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS as endorsed by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling interest's proportion of the fair value of the assets and liabilities recognised. Subsequently, all comprehensive income is attributed to the owners and the non-controlling interests, which may result in the non-controlling interest having a debit balance.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where a subsidiary is disposed of which constituted a major line of business, it is disclosed as a discontinued operation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

Undertakings are deemed to be a joint venture when the Group has joint control of the rights and assets of the undertaking via either voting rights or a formal agreement which includes that unanimous consent is required for strategic, financial and operating decisions. Joint ventures are consolidated under the equity accounting method. On transfer of land and/or work in progress to joint ventures, the Group recognises only its share of any profits or losses.

Joint operations arise where the Group has joint control of an operation, but has rights to only its own assets and obligations related to the operation. These assets and obligations, and the Group's share of revenues and costs, are included in the Group's results.

Joint ventures and joint operations are entered into to develop specific sites. Each arrangement is site or project specific and once the development or project is complete the arrangement is wound down.

Segmental reporting

The Group operates in two countries, being the United Kingdom and Spain.

The United Kingdom is split into three geographical operating segments, each managed by a Divisional Chair who sits on the Group Management Team. In addition, there is an operating segment covering the corporate functions, Major Developments and Strategic Land.

As such the segmental reporting for 2018 is:

- Housing United Kingdom:
  - North
  - Central and South West
  - London and South East (including Central London)
  - Corporate
- Housing Spain

Revenue

In the current year, the Group adopted IFRS 15 'Revenue from Contracts with Customers'. The new standard establishes a comprehensive five-step model to determine the amount and timing of revenue recognised from contracts with customers. The adoption of IFRS 15 has not had a significant impact on the revenue recognition policies of the Group. Further information on the adoption of IFRS 15 and the impact on the financial position and performance of the Group for the current and prior year can be found in Note 32.

1. Significant accounting policies continued

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue and profit are recognised as follows:

(a) Private housing development properties and land sales

Revenue is recognised in the income statement when control is transferred to the customer, this is deemed to be when title of the property passes to the customer on legal completion. Revenue in respect of the sale of residential properties, whether under the Government's Help to Buy Scheme or not, is recognised at the fair value of the consideration received or receivable on legal completion.

(b) Part exchange

In certain instances, property may be accepted in part consideration for a sale of a residential property. The fair value is established by independent surveyors, reduced for costs to sell. Net proceeds generated from the subsequent sale of part exchange properties are recorded as a reduction to net operating expenses. The original sale is recorded in the normal way, with the fair value of the exchanged property replacing cash receipts.

(c) Cash incentives

Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction to revenue.

(d) Contracting work and partnership housing contracts

Where the outcome of a long term contract can be estimated reliably, revenue and costs are recognised over time with reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by surveys of work performed to date. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a long term contract cannot be estimated reliably, contract revenue where recoverability is probable is recognised to the extent of contract costs incurred. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Cost of sales

The Group determines the value of inventory charged to cost of sales based on the total budgeted cost of developing a site. Once the total expected costs of development are established they are allocated to individual plots to achieve a standard build cost per plot.

To the extent that additional costs or savings are identified as the site progresses, these are recognised over the remaining plots unless they are specific to a particular plot, in which case they are recognised in the income statement at the point of sale.

Positive contribution

The positive contribution presented on the face of the income statement represents the net amount of previous impairments allocated to inventory on a plot that has subsequently resulted in a gross profit on completion. This is due to the combination of selling prices and costs, or product mix improvements exceeding our market assumptions in the previous net realisable value (NRV) exercise. These amounts are stated before the allocation of overheads, which are excluded from the Group's NRV exercise.

Exceptional items

Exceptional items are defined as items of income or expenditure which, in the opinion of the Directors, are material or unusual in nature or of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1 'Presentation of Financial Statements'. Should these items be reversed, disclosure of this would also be as exceptional items.

Interest receivable

Interest income on bank deposits is recognised on an accruals basis. Also included in interest receivable are interest and interest-related payments the Group receives on other receivables.

Borrowing costs

Borrowing costs are recognised on an accruals basis and are payable on the Group's borrowings and lease liabilities. Also included in borrowing costs is the amortisation of fees associated with the arrangement of the financing.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Capitalised finance costs are held in other receivables and amortised over the period of the facility.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies other than the functional currency are retranslated at the rates prevailing at the balance sheet date.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operation are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at an appropriate average rate for the year. Exchange differences arising are recognised within other comprehensive income and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the income statement in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group uses foreign currency borrowings to hedge its net investment exposure to certain overseas subsidiaries (see page 138 for details of the Group's accounting policies in respect of such financial instruments).

Leases

During the year, the Group adopted IFRS 16 'Leases' using the modified retrospective approach allowed under the standard. Comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The details of the current and prior years accounting policies are disclosed separately below. Further information on the adoption and initial application of IFRS 16 can be found in Note 19 and Note 32.

Policy applicable from 1 January 2018

For contracts entered into on or after 1 January 2018, the Group assesses at inception whether the contract is, or contains, a lease. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessment includes whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the contract period; and
- the Group has the right to direct the use of the asset.

1. Significant accounting policies continued

The Group as a lessee

At the commencement of a lease, the Group recognises a right-of-use asset along with a corresponding lease liability.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option based on operational needs and contractual terms. Subsequently, the lease liability is measured at amortised cost by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is remeasured when the Group changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, estimated asset retirement obligations, lease incentives received and initial direct costs. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease.

Right-of-use assets are presented within non-current assets on the face of the balance sheet, and lease liabilities are shown separately on the balance sheet in current liabilities and non-current liabilities depending on the length of the lease term.

Policy applicable prior to 1 January 2018

Rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable (and costs paid and payable) as an incentive to enter into an operating lease were also spread on a straight-line basis over the lease term.

The Group did not act as a lessor under any arrangement in the prior year.

Intangible assets

Brands

Internally generated brands are not capitalised. Acquired brands are capitalised. Their values are calculated based on the Group's valuation methodology, which is based on valuations of discounted cash flows. Brands are stated at cost, less accumulated amortisation and any accumulated impairment losses. Brands are amortised over their estimated useful life on a straight-line basis.

Software development costs

Costs that are directly associated with the acquisition or production of identifiable and unique software controlled by the Group, and that generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to five years from the time of implementation, and are stated at cost less accumulated amortisation and any accumulated impairment losses.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is not depreciated. Buildings are depreciated over 50 years.

Plant and equipment is stated at cost less depreciation.

Depreciation is charged so as to expense the cost or valuation of assets over their estimated useful lives. Other assets are depreciated using the straight-line method, on the following bases:

- Plant and equipment 20-33% per annum
- Leasehold improvements over the term of the lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds, less any selling expenses, and the carrying amount of the asset. This difference is recognised in the income statement.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, impairment losses are allocated first to the intangible assets in the cash-generating unit.

If the full impairment of intangible assets is not sufficient to reduce the carrying value of the cash-generating unit to its recoverable amount, tangible fixed assets must then be impaired. If the recoverable amount of tangible fixed assets exceeds their carrying value, no further impairment is required. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

In the current year the Group adopted IFRS 9 'Financial Instruments'. The standard was applied retrospectively and comparative information has been restated accordingly. Further information on the adoption of IFRS 9 and the impact on the financial position and performance of the Group for the current and prior year can be found in Note 32.

Financial assets

Financial assets are initially recognised at fair value and subsequently classified into one of the following measurement categories:

- measured at amortised cost;
- measured subsequently at fair value through profit or loss (FVTPL); and
- measured subsequently at fair value through other comprehensive income (FVOCI).

The classification of financial assets depends on the Group's business model for managing the asset and the contractual terms of the cash flows. Assets that are held for the collection of contractual cash flows that represent solely payments of principal and interest are measured at amortised cost, with any interest income recognised in the income statement using the effective interest rate method.

Financial assets that do not meet the criteria to be measured at amortised cost are classified by the Group as measured at FVTPL. Fair value gains and losses on financial assets measured at FVTPL are recognised in the income statement and presented within net operating expenses.

The Group currently has no financial assets measured at FVOCI.

Notes to the consolidated financial statements continued

1. Significant accounting policies continued

Trade and other receivables

Trade and other receivables are measured at amortised cost, less any loss allowance.

Shared equity loans

Shared equity loans were provided to certain customers to facilitate a house purchase. The contractual cash flows on shared equity loans are linked to a national house price index, which represents a non-closely related embedded derivative. Under IFRS 9, financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Accordingly, shared equity loans are classified as FVTPL with fair value gains and losses arising on the remeasurement of the loan presented in the income statement within net operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less from inception and are subject to insignificant risk of changes in value.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit/losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently classified into one of the following measurement categories:

– measured at amortised cost; and

– measured subsequently at fair value through profit or loss (FVTPL).

Non-derivative financial liabilities are measured at FVTPL when they are considered held for trading or designated as such on initial recognition. The Group has no non-derivative financial liabilities measured at FVTPL.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost.

Trade and other payables

Trade and other payables are measured at amortised cost.

Customer deposits

Customer deposits are measured at amortised cost and recorded as a liability within ‘other payables’ on receipt and released to the income statement as revenue upon legal completion.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Parent Company are recorded as the proceeds are received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses foreign currency borrowings and derivatives to hedge its net investment exposure to movements in exchange rates on translation of certain individual financial statements denominated in foreign currencies other than Sterling which is the functional currency of the Parent Company.

Derivative financial instruments are measured at fair value. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of net investments in foreign operations are recognised directly in other comprehensive income and the ineffective portion, if any, is recognised immediately in the income statement.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the consolidated income statement. Gains or losses from remeasuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are also recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in accumulated other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in accumulated other comprehensive income is transferred to the income statement for the period. If a derivative financial instrument does not meet the specific criteria of IFRS 9 ‘Financial Instruments’ for hedge accounting it is presented as a held for trading asset or liability.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors’ best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Inventories

Inventories are initially stated at cost or at the fair value at acquisition date when acquired as part of a business combination and then held at the lower of this initial amount and net realisable value. Costs comprise direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Land is recognised in inventory when the significant risks and rewards of ownership have been transferred to the Group.

Non-refundable land option payments are initially recognised in inventory. They are reviewed regularly and written off to the income statement when it is probable that the option will not be exercised.

Taxation

The tax charge represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are also recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

1. Significant accounting policies continued

Deferred tax is measured on a non-discounted basis using the tax rates and laws that have then been enacted or substantively enacted by the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest after adjusting for the effect of non-market vesting conditions.

Employee benefits

The Group accounts for pensions and similar benefits under IAS 19 'Employee benefits' (amended 2014). In respect of defined benefit plans, a finance charge is determined on the net defined benefit pension liability. The operating and financing costs of such plans are recognised separately in the income statement; service costs are spread systematically over the service period of employees, past service costs are recognised as an expense at the earlier of when the plan is amended or curtailment occurs, at the same time as which the entity will recognise related restructuring costs or termination benefits. Certain liability management costs and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

The retirement benefit obligation recognised in the consolidated statement of financial position represents either the net liability (deficit) position of the scheme or, should the scheme be in an IAS 19 accounting surplus, the IFRIC 14 liability equal to the present value of future committed cash contributions.

Payments to defined contribution schemes are charged as an expense as they fall due.

2. Critical accounting judgements and key sources of estimation uncertainty

Preparation of the financial statements requires Management to make significant judgements and estimates. Management have considered whether there are any such sources of estimation or accounting judgements in forming the financial statements and highlight the following areas. In identifying these areas Management have considered the size of the associated balance and the potential likelihood of changes due to macro-economic factors.

Critical accounting judgements

Management have not made any individual critical accounting judgements that are material to the Group, apart from those estimations which are set out below.

Key sources of estimation uncertainty

Key sources of estimation uncertainty are those which present a significant risk of potential material misstatement to carrying amounts of assets or liabilities within the next financial year.

Employee benefits

The value of the defined benefit plan liabilities is determined by using various long term actuarial assumptions, including future rates of inflation, growth, yields, returns on investments and mortality rates. The value of the defined benefit scheme recorded on the balance sheet is currently subject to IFRIC 14, which under certain circumstances requires an adjustment to turn an accounting surplus into a liability equal to the present value of committed future payments of the scheme. Determining the IFRIC 14 adjustment requires the use of actuarial assumptions to project forward the funding position of the scheme over the commitment period. As actual changes in inflation, growth, yields and investment returns may differ from those assumed, this is a key source of estimation uncertainty within the financial statements. Changes in these assumptions over time and differences to the actual outcome will be reflected in the statement of comprehensive income. Note 21 details the main assumptions in accounting for the Group's defined benefit pension scheme along with sensitivities of the liabilities to changes in these assumptions.

Other sources of estimation uncertainty

Provision for leasehold

The value of this provision has been established using information available to Management at 31 December 2018, together with a range of assumptions including the number of units which have been sold by the original Taylor Wimpey customer and as such are not eligible for the scheme, and the final deed of variation valuations for those freeholders with whom the Group has not yet agreed a settlement.

Cost allocation

In order to determine the profit that the Group is able to recognise on its developments in a specific period, the Group has to allocate site-wide development costs between units built in the current year and in future years. It also has to estimate costs to complete on such developments, and make estimates relating to future sales price margins on those developments and units. In making these assessments there is a degree of inherent uncertainty. The Group has developed internal controls to assess and review carrying values and the appropriateness of estimates made.

Aluminium Composite Materials (ACM) provision

This provision was established to provide for the cost of replacing ACM cladding on a small number of legacy buildings. The Group has estimated the cost of replacement based on engagement with contractors and, where applicable, the management companies of the effected developments. Determining the total cost of replacing cladding across a number of different buildings contains inherent estimation uncertainty. The scope of the replacement may also be impacted by future Government guidance or regulations.

3. General information

Taylor Wimpey plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 191. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 56.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policy set out on page 136.

Notes to the consolidated financial statements continued

4. Revenue

An analysis of the Group's continuing revenue is as follows:

£ million	2018	2017
Housing:		
Private sales	3,550.5	3,532.2
Partnership housing	465.3	365.6
Other	9.6	27.9
Total housing	4,025.4	3,925.7
Land sales	56.6	39.5
Revenue for the year	4,082.0	3,965.2

Partnership housing includes £361.6 million (2017: £288.8 million) of revenue from construction contracts that are recognised over time by reference to the stage of completion of the contract with the customer. All other revenue is recognised at a point in time when control of the property is transferred to the customer.

Housing revenue includes £281.3 million (2017: £239.5 million) generated where the sale has been achieved using part exchange incentives. Other revenue includes income from the sale of commercial properties developed as part of larger residential developments and the sale of leasehold properties.

As at 31 December 2018, the aggregate amount of the transaction price allocated to unsatisfied performance obligations is £448.0 million, of which approximately half is expected to be recognised as revenue during 2019. As permitted under the transition provisions of IFRS 15, the transaction price allocated to unsatisfied performance obligations as at 31 December 2017 has not been disclosed.

5. Operating segments

The Group operates in two countries, being the United Kingdom and Spain.

The United Kingdom is split into three geographical operating segments, each managed by a Divisional Chair who sits on the Group Management Team. In addition, there is an operating segment covering the corporate functions, Major Developments and Strategic Land.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1. Segment profit represents the profit earned by each segment without allocation of central administration costs including Divisional and Group salaries.

Segment information about these businesses is presented below:

For the year to 31 December 2018 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Revenue						
External sales	1,418.7	1,347.2	1,210.3	1.6	104.2	4,082.0
Result						
Profit/(loss) on ordinary activities before joint ventures, finance costs and exceptional items	307.0	344.7	265.3	(71.3)	29.2	874.9
Share of results of joint ventures	0.1	–	5.3	(0.1)	–	5.3
Profit/(loss) on ordinary activities before finance costs, exceptional items and after share of results of joint ventures	307.1	344.7	270.6	(71.4)	29.2	880.2
Exceptional items (Note 6)	–	–	–	(46.1)	–	(46.1)
Profit/(loss) on ordinary activities before finance costs, after share of results of joint ventures and exceptional items	307.1	344.7	270.6	(117.5)	29.2	834.1
Net finance costs						(23.4)
Profit on ordinary activities before taxation						810.7
Taxation (including exceptional tax)						(154.1)
Profit for the year						656.6

As at 31 December 2018 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Assets and liabilities						
Segment operating assets	1,213.0	1,290.7	1,504.3	254.0	168.5	4,430.5
Joint ventures	2.0	3.7	40.5	2.1	–	48.3
Segment operating liabilities	(375.5)	(520.9)	(510.0)	(355.0)	(105.5)	(1,866.9)
Net operating assets/(liabilities)	839.5	773.5	1,034.8	(98.9)	63.0	2,611.9
Net current taxation						(69.9)
Net deferred taxation						40.7
Net cash						644.1
Net assets						3,226.8

5. Operating segments continued

For the year to 31 December 2018 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Other information						
Property, plant and equipment additions	0.2	0.8	–	1.0	0.1	2.1
Right-of-use asset additions	1.5	0.8	5.7	2.5	0.2	10.7
Software development additions	–	–	–	0.3	–	0.3
Property, plant and equipment depreciation	(0.6)	(0.9)	(0.5)	(1.1)	–	(3.1)
Right-of-use asset depreciation	(2.5)	(1.5)	(2.6)	(2.2)	(0.2)	(9.0)
Software amortisation	–	–	–	(1.0)	–	(1.0)

For the year to 31 December 2017 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Revenue						
External sales	1,334.5	1,291.2	1,236.3	9.0	94.2	3,965.2
Result						
Profit/(loss) on ordinary activities before joint ventures, finance costs and exceptional items	295.4	318.0	263.1	(66.8)	26.8	836.5
Share of results of joint ventures	(0.5)	–	8.3	(0.2)	–	7.6
Profit/(loss) on ordinary activities before finance costs, exceptional items and after share of results of joint ventures	294.9	318.0	271.4	(67.0)	26.8	844.1
Exceptional items (Note 6)	–	–	–	(130.0)	–	(130.0)
Profit/(loss) on ordinary activities before finance costs, after share of results of joint ventures and exceptional items	294.9	318.0	271.4	(197.0)	26.8	714.1
Net finance costs						(32.1)
Profit on ordinary activities before taxation						682.0
Taxation (including exceptional tax)						(126.7)
Profit for the year						555.3

As at 31 December 2017 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Assets and liabilities						
Segment operating assets	1,192.5	1,233.2	1,501.3	212.7	145.0	4,284.7
Joint ventures	2.1	3.5	42.3	3.0	–	50.9
Segment operating liabilities	(353.9)	(486.9)	(486.9)	(264.2)	(89.6)	(1,681.5)
Net operating assets/(liabilities)	840.7	749.8	1,056.7	(48.5)	55.4	2,654.1
Net current taxation						(57.9)
Net deferred taxation						29.3
Net cash						511.8
Net assets						3,137.3

For the year to 31 December 2017 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Other information						
Property, plant and equipment additions	0.7	0.7	0.9	1.9	–	4.2
Software development additions	–	–	–	1.5	–	1.5
Property, plant and equipment depreciation	(0.1)	(0.9)	(0.4)	(0.9)	–	(2.3)
Software amortisation	–	–	–	(1.1)	–	(1.1)

Notes to the consolidated financial statements continued

6. Net operating expenses and profit on ordinary activities before finance costs

Profit on ordinary activities before financing costs for continuing operations has been arrived at after charging/(crediting):

£ million	2018	2017
Administration expenses	212.9	201.9
Other expense	3.9	8.7
Other income	(17.2)	(15.3)
Exceptional items	46.1	130.0

Other income includes profits on the sale of property, plant and equipment and the revaluation of certain shared equity mortgage receivables, pre-acquisition and abortive costs, and profit/loss on the sale of part exchange properties.

Exceptional items: £ million	2018	2017
Provision in relation to Aluminium Composite Materials cladding	30.0	–
Guaranteed Minimum Pension equalisation charge	16.1	–
Exceptional item recognised in relation to leasehold	–	130.0
Exceptional items	46.1	130.0

Aluminium Composite Materials (ACM) Cladding provision

Following the tragic fire at Grenfell Tower, the Group conducted a detailed review into all legacy and current buildings ACM cladding and worked with building owners, management companies, and the Fire Service to implement Government advice on interim mitigation measures, where applicable. Whilst each situation is different, and this is an exceptionally complex issue, the Group has in a number of cases, having regard to all of the relevant facts and circumstances, agreed to support customers both financially and practically with removal and replacement of ACM cladding, even though the buildings concerned met the requirements of building regulations at the time construction was formally approved. This decision was taken for buildings recently constructed by the Group because Management believe that it is morally right, not because it is legally required. At the year end, replacement works had been completed on one development and were underway on another. Since the year end work started on a further development.

Uncertainty over the remediation costs will remain until all the works are fully designed and contracted. Following the creation of the exceptional provision, the Government issued further guidance which the Group considered as part of its ongoing review. As at 31 December 2018, £30.0 million continues to represent Management's best estimate of the cost of replacing the cladding at all buildings identified.

Guaranteed Minimum Pension (GMP) equalisation

A High Court judgement handed down in October 2018, relating to defined benefit pension schemes, held that the GMP element of pension accrued by men and women should be comparable and any additional obligation required to equalise the members' benefits must be allowed for in the scheme liabilities. The additional obligation is considered a past service cost and recognised through the income statement in accordance with IAS 19. As at 31 December 2018, the Group has estimated that the additional obligation required to equalise benefits accrued under the Group's defined benefit pension scheme is £16.1 million and has recognised this amount as an exceptional past service cost in the current year income statement. The impact of future changes in estimates and assumptions related to the equalisation of GMP will be accounted for as scheme experience and recognised in other comprehensive income.

Leasehold provision

Following concerns raised by certain customers in the latter part of 2016 relating to the mortgageability and saleability of their homes due to the ground rents structure in their leases, the Group undertook a review of historic leasehold structures on developments which were commenced between 2007 and 2011. As a result of this review, in order to address these concerns and to make the future ground rent more affordable, a voluntary help scheme – the Taylor Wimpey Ground Rent Review Assistance Scheme (GRRAS), was announced in April 2017, together with a provision of £130.0 million. This was designed to help affected customers to convert the ground rent structure of their leases from one which doubles every ten years until the fiftieth anniversary, to one based on RPI.

As part of the GRRAS, the Group have completed negotiations with the respective freehold owners of virtually all the leasehold homes to convert our customers' leases to an RPI structure, with the Group bearing the financial cost of doing so. The provision was calculated using a range of assumptions including the total number of properties owned by each freeholder and whether the applications are likely to fall within the eligibility criteria of the GRRAS. Assumptions are regularly reviewed.

6. Net operating expenses and profit on ordinary activities before finance costs continued

Profit on ordinary activities before finance costs has been arrived at after charging/(crediting):

£ million	2018	2017
Cost of inventories recognised as expense in cost of sales	2,921.1	2,794.6
Property, plant and equipment depreciation	3.1	2.3
Right-of-use assets depreciation	9.0	–
(Gain)/loss on disposal of property, plant and equipment	(0.2)	0.1
Amortisation of intangible assets	1.0	1.1
Payments under operating leases*	–	6.4

* Under IFRS 16 'Leases', which the Group adopted in the current year, payments under operating leases are not charged to the income statement.

The remuneration paid to Deloitte LLP, the Group's external auditor, is as follows:

£ million	2018	2017
Fees payable to the Company's auditor for the audit of the Company's annual accounts and consolidated financial statements	0.2	0.1
Fees payable to the Company's auditor and its associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	0.3	0.3
Total audit fees	0.5	0.4
Other assurance services	0.1	0.1
Total non-audit fees	0.1	0.1
Total fees	0.6	0.5

Non-audit services in 2018 and 2017 predominantly relate to work undertaken as a result of Deloitte LLP's role as auditor, or work resulting from knowledge and experience gained as part of the role. The work was either the subject of a competitive tender or was best performed by the Group's auditor because of its knowledge of the Group. In 2018, non-audit fees also include £23 thousand (2017: £54 thousand) of other services related to consultancy.

7. Staff costs

	2018 Number	2017 Number
Average number employed		
United Kingdom	5,358	4,893
Spain	84	102
	5,442	4,995

£ million	2018	2017
Remuneration		
Wages and salaries	258.0	235.2
Redundancy costs	0.4	–
Social security costs	27.7	25.8
Other pension costs	12.4	10.4
	298.5	271.4

The information relating to Director and Senior Management remuneration required by the Companies Act 2006 and the Listing Rules of the Financial Conduct Authority is contained in Note 30 and pages 96 to 116 in the Directors' Remuneration Report.

8. Finance costs and interest receivable

£ million	2018	2017
Interest receivable	2.9	0.8

Finance costs are analysed as follows:

£ million	2018	2017
Interest on overdrafts, bank and other loans	5.2	6.0
Foreign exchange movements	1.0	0.1
	6.2	6.1
Unwinding of discount on land creditors and other items	18.5	20.9
Interest on IFRS 16 lease liabilities	0.5	–
Net notional interest on pension liability (Note 21)	1.1	5.9
	26.3	32.9

Notes to the consolidated financial statements continued

9. Taxation

Tax (charged)/credited in the income statement is analysed as follows:

£ million		2018	2017
Current tax:			
UK corporation tax:	Current year	**(143.4)**	(122.6)
	Adjustment in respect of prior years	**(5.3)**	1.5
Foreign tax:	Current year	**(3.6)**	(3.3)
		(152.3)	(124.4)
Deferred tax:			
UK:	Current year	**(4.1)**	(2.8)
	Adjustment in respect of prior years	**3.7**	–
Foreign tax:	Current year	**(1.4)**	0.5
		(1.8)	(2.3)
		(154.1)	(126.7)

Corporation tax is calculated at 19.0% (2017: 19.25%) of the estimated assessable profit for the year in the UK. Taxation outside the UK is calculated at the rates prevailing in the respective jurisdictions. The effective tax rate, before exceptional items, is 18.9% (2017:18.7%).

The tax charge for the year includes credits of £5.1 million in respect of the exceptional provision for ACM cladding replacement and £3.1 million relating to the exceptional charge for the impact of GMP equalisation on the Group's defined benefit pension scheme. The tax charge for the prior year includes a credit of £25.0 million in respect of the exceptional charge relating to the leasehold review.

The charge for the year can be reconciled to the profit per the income statement as follows:

£ million	2018	2017
Profit before tax	**810.7**	682.0
Tax at the UK corporation tax rate of 19.0% (2017: 19.25%)	**(154.0)**	(131.3)
Net (under)/over provision in respect of prior years	**(1.7)**	1.5
Net impact of items that are not taxable or deductible	**1.7**	0.2
Recognition of deferred tax asset relating to Spanish business	**2.3**	3.9
Other rate impacting adjustments	**(2.4)**	(1.0)
Tax charge for the year	**(154.1)**	(126.7)

10. Earnings per share

	2018	2017
Basic earnings per share	**20.1p**	17.0p
Diluted earnings per share	**20.0p**	16.9p
Adjusted basic earnings per share	**21.3p**	20.2p
Adjusted diluted earnings per share	**21.2p**	20.1p
Weighted average number of shares for basic/adjusted earnings per share – million	**3,266.3**	3,264.0
Weighted average number of shares for diluted basic/adjusted earnings per share – million	**3,275.7**	3,280.4

Adjusted basic and adjusted diluted earnings per share, which exclude the impact of exceptional items and any associated net tax charges, are presented to provide a measure of the underlying performance of the Group. A reconciliation of earnings attributable to equity shareholders used for basic and diluted earnings per share to that used for adjusted earnings per share is shown below.

£ million	2018	2017
Earnings for basic and diluted earnings per share	**656.6**	555.3
Adjust for exceptional items (Note 6)	**46.1**	130.0
Adjust for tax on exceptional items (Note 6)	**(8.2)**	(25.0)
Earnings for adjusted basic and adjusted diluted earnings per share	**694.5**	660.3

Million	2018	2017
Weighted average number of shares for basic earnings per share	**3,266.3**	3,264.0
Long term incentive share options	**6.9**	9.2
SAYE options	**2.5**	7.2
Weighted average number of shares for diluted earnings per share	**3,275.7**	3,280.4

11. Intangible assets

£ million	Brands	Software development costs	Total
Cost			
At 1 January 2017	140.2	10.0	150.2
Additions	–	1.5	1.5
At 31 December 2017	140.2	11.5	151.7
Additions	**–**	**0.3**	**0.3**
At 31 December 2018	**140.2**	**11.8**	**152.0**
Amortisation/impairment			
At 1 January 2017	(140.2)	(6.5)	(146.7)
Charge for the year	–	(1.1)	(1.1)
At 31 December 2017	(140.2)	(7.6)	(147.8)
Charge for the year	**–**	**(1.0)**	**(1.0)**
At 31 December 2018	**(140.2)**	**(8.6)**	**(148.8)**
Carrying amount			
31 December 2018	**–**	**3.2**	**3.2**
31 December 2017	–	3.9	3.9

The Group has assessed its brands and their associated values and has concluded that given the majority of the legacy brands are currently not used, it would not be appropriate to reverse any of the previously recognised impairment charges.

The amortisation of software development costs is recognised within administration expenses in the income statement.

12. Property, plant and equipment

£ million	Freehold land and buildings	Plant, equipment and leasehold improvements	Total
Cost			
At 1 January 2017	15.0	17.2	32.2
Additions	1.4	2.8	4.2
Disposals	–	(1.0)	(1.0)
At 31 December 2017	16.4	19.0	35.4
Additions	**0.1**	**2.0**	**2.1**
Disposals	**(0.3)**	**(0.2)**	**(0.5)**
At 31 December 2018	**16.2**	**20.8**	**37.0**
Accumulated depreciation			
At 1 January 2017	(1.2)	(10.0)	(11.2)
Disposals	–	0.9	0.9
Charge for the year	(0.5)	(1.8)	(2.3)
At 31 December 2017	(1.7)	(10.9)	(12.6)
Disposals	**0.1**	**0.2**	**0.3**
Charge for the year	**(0.6)**	**(2.5)**	**(3.1)**
At 31 December 2018	**(2.2)**	**(13.2)**	**(15.4)**
Carrying amount			
At 31 December 2018	**14.0**	**7.6**	**21.6**
At 31 December 2017	14.7	8.1	22.8

Notes to the consolidated financial statements continued

13. Interests in joint ventures

£ million	2018	2017
Aggregated amounts relating to share of joint ventures:		
Non-current assets	19.4	6.7
Current assets	78.0	79.5
Total assets	97.4	86.2
Current liabilities	(22.0)	(16.6)
Non-current liabilities	(63.4)	(49.3)
Total liabilities	(85.4)	(65.9)
Carrying amount	15.2	20.3
Loans to joint ventures	33.1	30.6
Total interests in joint ventures	48.3	50.9

Loans to joint ventures includes £(3.2) million (2017: nil) relating to the Group's share of losses recognised under the equity method in excess of the investment in ordinary shares.

£ million	2018	2017
Group share of:		
Revenue	72.3	93.2
Cost of sales	(60.3)	(82.1)
Gross profit	12.0	11.1
Net operating expenses	(3.4)	(1.0)
Profit on ordinary activities before finance costs	8.6	10.1
Finance costs	(1.9)	(0.4)
Profit on ordinary activities before tax	6.7	9.7
Taxation	(1.4)	(2.1)
Share of joint ventures' post-tax results for the year	5.3	7.6

The Group has five material (2017: five) joint ventures whose principal activity is residential housebuilding or development. The Group considers a joint venture to be material when it is financially or strategically important to the Group.

The particulars of the material joint ventures for 2018 are as follows:

Country of incorporation	Name of joint venture equity accounted in the consolidated accounts	Taylor Wimpey plc interest in the issued ordinary share capital
United Kingdom	Greenwich Millennium Village Limited*	50%
United Kingdom	Chobham Manor Limited Liability Partnership*	50%
United Kingdom	Winstanley and York Road Regeneration LLP*	50%
United Kingdom	Whitehill & Bordon Development Company Phase 1a Limited*	50%
United Kingdom	Whitehill & Bordon Regeneration Company Limited*	50%

* Interest held by subsidiary undertakings.

Further information of the particulars of joint ventures can be found on pages 174 to 177.

13. Interests in joint ventures continued

The following two tables show summary financial information for the material joint ventures. Unless specifically indicated, this information represents 100% of the joint venture before intercompany eliminations.

£ million	Greenwich Millennium Village 2018	Chobham Manor 2018	Winstanley and York Road Regeneration 2018	Whitehill & Bordon Development Company Phase 1a 2018	Whitehill & Bordon Regeneration Company 2018	Total 2018
Percentage ownership interest	50%	50%	50%	50%	50%	
Non-current assets	0.4	–	–	0.3	32.6	33.3
Current assets	24.6	53.3	34.2	20.5	0.7	133.3
Cash and cash equivalents	4.3	4.2	0.4	1.9	0.5	11.3
Current financial liabilities	(3.5)	(27.0)	(1.5)	(4.6)	(3.7)	(40.3)
Current other liabilities	(2.5)	–	–	–	–	(2.5)
Non-current financial liabilities*	(4.2)	(28.8)	(39.4)	(19.2)	(29.1)	(120.7)
Net assets/(liabilities) (100%)	19.1	1.7	(6.3)	(1.1)	1.0	14.4
Group share of net assets/(liabilities)	9.6	0.9	(3.2)	(0.6)	0.5	7.2
Loans to joint ventures	–	13.3	17.1	1.2	1.6	33.2
Total interests in material joint ventures	9.6	14.2	13.9	0.6	2.1	40.4
Revenue	68.3	47.9	–	5.5	22.9	144.6
Interest expense	(0.4)	–	(1.5)	(1.3)	(0.7)	(3.9)
Income tax (expense)/credit	(2.8)	–	–	0.2	(0.1)	(2.7)
Profit/(loss) for the year	12.0	5.2	(5.8)	(0.7)	(0.1)	10.6
Group share of profit/(loss) for the year	6.0	2.6	(2.9)	(0.3)	(0.1)	5.3

* Non-current financial liabilities include amounts owed to joint venture partners

During the year, no entity charged depreciation or amortisation. No entity had discontinued operations or items of other comprehensive income.

£ million	Greenwich Millennium Village 2017	Chobham Manor 2017	Winstanley and York Road Regeneration 2017	Whitehill & Bordon Development Company Phase 1a 2017	Whitehill & Bordon Regeneration Company 2017	Total 2017
Percentage ownership interest	50%	50%	50%	50%	50%	
Non-current assets	1.0	–	–	–	9.9	10.9
Current assets	37.9	29.8	17.4	14.4	16.8	116.3
Cash and cash equivalents	5.5	14.3	0.7	5.9	1.3	27.7
Current financial liabilities	(2.1)	(13.0)	(0.7)	(7.0)	(7.2)	(30.0)
Current other liabilities	(2.2)	–	–	–	–	(2.2)
Non-current financial liabilities*	(6.1)	(34.7)	(18.0)	(13.7)	(20.0)	(92.5)
Net assets/(liabilities) (100%)	34.0	(3.6)	(0.6)	(0.4)	0.8	30.2
Group share of net assets/(liabilities)	17.0	(1.8)	(0.3)	(0.2)	0.4	15.1
Loans to joint ventures	–	16.8	4.7	3.8	2.6	27.9
Total interests in material joint ventures	17.0	15.0	4.4	3.6	3.0	43.0
Revenue	69.6	94.9	–	–	22.0	186.5
Interest expense	(0.2)	–	(0.3)	(0.2)	(0.2)	(0.9)
Income tax expense	(2.9)	–	–	–	–	(2.9)
Profit/(loss) for the year	12.4	5.1	(0.5)	(0.5)	(0.4)	16.1
Group share of profit/(loss) for the year	6.2	2.6	(0.3)	(0.2)	(0.2)	8.1

* Non-current financial liabilities include amounts owed to joint venture partners.

During the year, no entity charged depreciation or amortisation. No entity had discontinued operations or items of other comprehensive income.

13. Interests in joint ventures continued

£ million	2018	2017
Aggregated amounts relating to share of individually immaterial joint ventures		
Non-current assets	2.7	1.2
Current assets	5.7	7.5
Total assets	8.4	8.7
Current liabilities	(0.6)	(0.5)
Non-current liabilities	(3.0)	(3.0)
Total liabilities	(3.6)	(3.5)
Carrying amount	4.8	5.2
Loans to individually immaterial joint ventures	3.1	2.7
Total interests in individually immaterial joint ventures	7.9	7.9

£ million	2018	2017
Group share of:		
Revenue	–	–
Cost of sales	(0.1)	–
Gross profit	(0.1)	–
Net operating expense	0.1	–
Profit on ordinary activities before finance costs	–	–
Finance costs	–	(0.1)
(Loss)/profit on ordinary activities before tax	–	(0.1)
Taxation	–	(0.4)
Share of individually immaterial joint ventures results for the year	–	(0.5)

14. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group, and movements thereon during the current and prior reporting year.

£ million	Share-based payments	Capital allowances	Losses	Retirement benefit obligations	Other temporary differences	Total
At 1 January 2017	4.8	3.4	8.8	40.0	0.4	57.4
(Charge)/credit to income	(0.2)	(0.3)	0.3	(2.8)	0.7	(2.3)
Charge to other comprehensive income	–	–	–	(26.5)	–	(26.5)
Credit to statement of changes in equity	0.4	–	–	–	–	0.4
Foreign exchange	–	–	0.3	–	–	0.3
At 31 December 2017	5.0	3.1	9.4	10.7	1.1	29.3
Impact of IFRS 16 adoption (Note 32)	–	–	–	–	0.3	0.3
(Charge)/credit to income	(0.7)	(0.7)	(1.1)	(2.8)	3.5	(1.8)
Credit to other comprehensive income	–	–	–	14.7	–	14.7
Charge to statement of changes in equity	(2.0)	–	–	–	–	(2.0)
Foreign exchange	–	–	0.2	–	–	0.2
At 31 December 2018	2.3	2.4	8.5	22.6	4.9	40.7

Closing deferred tax on UK temporary differences has been calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Accordingly, the temporary differences have been calculated at rates between 19% and 17% (2017: 19% and 17%).

14. Deferred tax continued

The net deferred tax balance is analysed into assets and liabilities as follows:

£ million	2018	2017
Deferred tax assets	42.1	30.9
Deferred tax liabilities	(1.4)	(1.6)
	40.7	29.3

The Group has not recognised temporary differences relating to tax losses carried forward and other temporary differences amounting to £3.0 million (2017: £2.8 million) in the UK and £47.8 million (2017: £58.0 million) in Spain. The UK temporary differences have not been recognised as they are predominantly non-trading in nature and insufficient certainty exists as to their future utilisation. The temporary differences in Spain have not been recognised due to uncertainty of sufficient taxable profits in the future against which to utilise these amounts.

At the balance sheet date, the Group has unused UK capital losses of £269.6 million (2017: £269.6 million). No deferred tax asset has been recognised in respect of the capital losses at 31 December 2018 because the Group does not believe that it is probable that these capital losses will be utilised in the foreseeable future.

15. Inventories

£ million	2018	2017
Raw materials and consumables	1.8	1.9
Finished goods and goods for resale	43.3	24.0
Residential developments:		
Land*	2,757.7	2,682.6
Development and construction costs	1,378.9	1,360.0
Commercial, industrial and mixed development properties	6.5	7.2
	4,188.2	4,075.7

* Details of land creditors are in Note 18.

During the year, contract costs of £266.5 million (2017: £212.2 million) have been recognised within Cost of Sales in respect of construction contracts where revenue is recognised on an over-time basis.

The markets in our core geographies, which are the primary drivers of our business, continue to trade positively. However, we are alert to the potential risk of a change in customer confidence given the on-going Brexit negotiations.

At 31 December 2018, the Group completed a net realisable value assessment of inventory with these factors in mind. This review did not result in any net change to the total provision (2017: no net change) but resulted in a reallocation of £1.1 million (2017: £2.4 million) of historically booked provision between two sites which continue to hold a provision due to poor site location and complex site requirements. There was no further change to the provision.

At the balance sheet date, the Group held land and work in progress in the UK that had been written down to net realisable value of £46.6 million (2017: £69.9 million) with associated impairments of £38.7 million (2017: £46.9 million). As at 31 December 2018, 2% (31 December 2017: 2%) of the UK short term owned and controlled land is impaired. In the year 2% (2017: 5%) of the Group's UK completions were from pre-2009 impaired sites.

In the year, 17 plots (2017: 35 plots) were completed in Spain that had previously been impaired. At 31 December 2018, Spain had land and work in progress that has been written down to net realisable value of £27.2 million (2017: £17.7 million) with associated impairments of £44.3 million (2017: £46.4 million).

The table below details the movements on the inventory provision recorded in the year.

Inventory provision £ million	2018	2017
1 January	93.3	147.0
Utilised	(10.8)	(52.9)
Foreign exchange	0.5	(0.8)
31 December	83.0	93.3

16. Other financial assets

Trade and other receivables

	Current		Non-current	
£ million	2018	2017	2018	2017
Trade receivables	105.3	76.9	43.2	56.4
Other receivables	29.4	45.3	12.5	3.7
	134.7	122.2	55.7	60.1

Included within trade receivables are mortgage receivables of £45.3 million (2017: £63.1 million) including shared equity loans. Shared equity loans are provided to certain customers to facilitate their house purchase and are measured at fair value through profit or loss.

Included within trade receivables is £2.8 million (2017: £1.3 million) of retentions in relation to partnership housing contracts.

Cash and cash equivalents

£ million	2018	2017
Cash and cash equivalents	734.2	600.5

Further information on financial assets can be found in Note 20.

17. Bank and other loans

£ million	2018	2017
€100.0 million 2.02% Senior Loan Notes 2023	90.1	88.7
	90.1	88.7

£ million	2018	2017
Amount due for settlement after one year	90.1	88.7
Total borrowings	90.1	88.7

£ million	2018	2017
Analysis of borrowings by currency:		
Euros	90.1	88.7
	90.1	88.7

18. Trade and other payables

	Current		Non-current	
£ million	2018	2017	2018	2017
Trade payables	854.5	785.4	412.9	341.6
Customer deposits	65.1	75.8	10.6	10.6
Completed site accruals	106.8	128.6	41.3	46.3
Other payables	17.9	34.7	26.5	32.1
	1,044.3	1,024.5	491.3	430.6

Revenue recognised in the current year that was included in the customer deposit balance carried forward at the beginning of the period was £75.8 million (2017: £88.7 million).

Other payables include £31.8 million (2017: £48.0 million) of repayable grants.

Land creditors (included within trade payables) are due as follows:

£ million	2018	2017
Due within one year	359.5	319.5
Due in more than one year	379.1	319.6
	738.6	639.1

Land creditors are denominated as follows:

£ million	2018	2017
Sterling	715.7	618.3
Euros	22.9	20.8
	738.6	639.1

Land creditors of £367.1 million (2017: £489.6 million) are secured against land acquired for development.

Further information on financial liabilities can be found in Note 20.

19. Leases

The Group adopted IFRS 16 with an initial application date of 1 January 2018. The Group applied the modified retrospective approach and comparative information has not been presented. Further information on the adoption of IFRS 16 can be found in Note 32.

The Group as a lessee

The Group's leases consist primarily of office premises and equipment. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

£ million	Office premises	Equipment	Total
At 1 January 2018	15.8	10.7	26.5
At 31 December 2018	**18.2**	**8.9**	**27.1**
Additions during the year	**7.3**	**3.4**	**10.7**

Lease liabilities included in the balance sheet: £ million	2018
Current	**8.2**
Non-current	**19.2**
Total	**27.4**

Amounts recognised in the income statement: £ million	2018
Depreciation charged on right-of-use office premises	**3.9**
Depreciation charged on right-of-use equipment	**5.1**
Interest on lease liabilities	**0.5**
Total	**9.5**

The total cash outflow for leases during the current year was £8.8 million, including £0.5 million of interest.

20. Financial instruments and fair value disclosures

Capital management

The Group's policy is to maintain a strong credit rating for the business and to have an appropriate funding structure. Shareholders' equity and long term debt are used to finance property, plant and equipment and the medium to long term inventories. Revolving credit facilities are used to finance net current assets including development and construction costs. The Group's financing facilities contain the usual financial covenants including minimum interest cover and maximum gearing. The Group met these requirements throughout the year and up to the date of the approval of the financial statements.

Financial assets and financial liabilities

Categories of financial assets and financial liabilities are as follows:

		Carrying value		Fair value	
Financial assets £ million	Fair value hierarchy	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
Cash and cash equivalents	b	**734.2**	600.5	**734.2**	600.5
Land receivables	b	**9.6**	13.8	**9.6**	13.8
Trade and other receivables	b	**97.8**	67.2	**97.8**	67.2
Mortgage receivables	a	**45.3**	63.1	**45.3**	63.1
		886.9	744.6	**886.9**	744.6

(a) Mortgage receivables relate to sales incentives including shared equity loans and are measured at fair value through profit or loss. The fair value is established based on a publicly available national house price index, being significant other observable inputs (level 2).
(b) The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate their fair value.

As at 31 December 2018, mortgage receivables of £5.3 million were past due (2017: nil).

20. Financial instruments and fair value disclosures continued

Land receivables and trade and other receivables are included in the balance sheet as trade and other receivables for current and non-current amounts.

Current and non-current trade and other receivables, as disclosed in Note 16, include £37.7 million (2017: £38.2 million) of non-financial assets.

Financial liabilities £ million	Fair value hierarchy	Carrying value 31 December 2018	Carrying value 31 December 2017	Fair value 31 December 2018	Fair value 31 December 2017
Overdrafts, bank and other loans	a	**90.1**	88.7	**90.4**	87.8
Land creditors	b	**738.6**	639.1	**738.6**	639.1
Trade and other payables	b	**698.0**	690.7	**698.0**	690.7
Lease liabilities	b	**27.4**	–	**27.4**	–
		1,554.1	1,418.5	**1,554.4**	1,417.6

(a) The fair value of the €100 million fixed rate loan notes has been determined by reference to external interest rates and the Directors' assessment of the margin for credit risk (level 2).
(b) The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate their fair value.

Land creditors are included in the balance sheet as trade and other payables for current and non-current amounts. Current and non-current trade and other payables, as disclosed in Note 18, include £99.0 million (2017: £125.3 million) of non-financial liabilities.

The Group has designated the carrying value of €54.0 million of foreign currency borrowings (2017: €54.0 million foreign currency borrowings) as a net investment hedge.

The Group has no other financial instruments with fair values that are determined by reference to significant unobservable inputs (level 3), nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

Forward contracts have been entered into to hedge transaction risks on intra-Group loans to buy/(sell) against Sterling: €55.0 million (2017: €65.0 million). The fair value of the forward contracts is not materially different to their book value as they were entered into on or near 31 December in each year and mature less than one month later, hence the value of the derivative is negligible.

Market risk

The Group's activities expose it to the financial risks of changes in both foreign currency exchange rates and interest rates. The Group aims to manage the exposure to these risks using fixed or variable rate borrowings, foreign currency borrowings and derivative financial instruments.

(a) Interest rate risk management

The Group can be exposed to interest rate risk as the Group borrows funds, when required, at variable interest rates. The exposure to variable rate borrowings can fluctuate during the year due to the seasonal nature of cash flows relating to housing sales and the less certain timing of land payments. Group policy is to manage the volatility risk by a combination of fixed rate borrowings and interest rate swaps such that the sensitivity to potential changes in variable rates is within acceptable levels. Group policy does not allow the use of derivatives to speculate against changes to future interest rates and they are only used to manage exposure to volatility. This policy has not changed during the year.

To measure the risk, variable rate borrowings and the expected interest cost for the year are forecast monthly and compared to budget using Management's expectations of a reasonably possible change in interest rates. Interest expense volatility remained within acceptable limits throughout the year.

Interest rate sensitivity

The effect on both income and equity, based on exposure to non-derivative floating rate instruments at the balance sheet date, is shown in the table below. The Group does not currently have any outstanding interest rate derivatives. The 0.25% change represents a reasonably possible change in interest rates over the next financial period.

The table assumes all other variables remain constant in accordance with IFRS 7.

0.25% increase in interest rates £ million	Sensitivity income 2018	Sensitivity equity 2018	Sensitivity income 2017	Sensitivity equity 2017
Derivatives	**–**	**–**	–	–
Non-derivatives	**1.8**	**1.8**	1.5	1.5
	1.8	**1.8**	1.5	1.5

0.25% decrease in interest rates £ million	Sensitivity income 2018	Sensitivity equity 2018	Sensitivity income 2017	Sensitivity equity 2017
Derivatives	**–**	**–**	–	–
Non-derivatives	**(1.8)**	**(1.8)**	(1.5)	(1.5)
	(1.8)	**(1.8)**	(1.5)	(1.5)

(b) Foreign currency risk management

The Group's overseas activities expose it to the financial risks of changes in foreign currency exchange rates. Its Spanish subsidiary is the only foreign operation of the Group.

The Group is not materially exposed to transaction risks as all Group companies conduct their business in their respective functional currencies. Group policy requires that transaction risks are hedged to the functional currency of the subsidiary using foreign currency borrowings or derivatives where appropriate.

20. Financial instruments and fair value disclosures continued

The Group is exposed to the translation risk from accounting for both the income and the net investment held in a functional currency other than Sterling. The net investment risk may be hedged using foreign currency borrowings and derivatives. Assets and liabilities denominated in non-functional currencies are retranslated each month using the latest exchange rates. Income is also measured monthly using the latest exchange rates and compared with a budget held at historical exchange rates. Other than the natural hedge provided by foreign currency borrowings, the translation risk of income is not hedged using derivatives. The policy is kept under periodic review and has not changed during the year.

Hedge accounting

Hedging activities are evaluated periodically to ensure that they are in line with Group policy.

The Group has designated the carrying value of €54.0 million of foreign currency borrowings (2017: €54.0 million borrowings) held at the balance sheet date as a net investment hedge of part of the Group's investment in Euro denominated assets.

The change in the carrying value of the borrowings designated as a net investment hedge offset the exchange movement on the foreign currency net investments and are presented in the Statement of Other Comprehensive Income.

Foreign currency sensitivity

The Group is exposed to the Euro due to its Spanish operations. The following table details how the Group's income and equity would increase/(decrease) on a before tax basis following a 15% change in the currency's value against Sterling, and in accordance with IFRS 7, all other variables remaining constant.

The 15% change represents a reasonably possible change in the specified Euro exchange rates in relation to Sterling.

£ million	Income sensitivity 2018	Equity sensitivity 2018	Income sensitivity 2017	Equity sensitivity 2017
Euro weakens against Sterling	(1.7)	4.7	(1.3)	4.9
Euro strengthens against Sterling	2.3	(6.3)	1.8	(6.6)

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Group policy is that surplus cash, when not used to repay borrowings, is placed on deposit with the Group's main relationship banks and with other banks or money market funds based on a minimum credit rating and maximum exposure. There is no significant concentration of risk to any single counterparty.

Land receivables arise from sales of surplus land on deferred terms. A policy is in place such that, if the credit risk is not acceptable, then the deferred payment must have adequate security, either by the use of an appropriate guarantee or a charge over the land. The fair value of any land held as security is considered by Management to be sufficient in relation to the carrying amount of the receivable to which it relates.

Trade and other receivables comprise mainly amounts receivable from various housing associations and other housebuilders. Management consider that the credit quality of the various receivables is good in respect of the amounts outstanding and therefore credit risk is considered to be low. There is no significant concentration of risk.

Mortgage receivables, including shared equity loans, are in connection with the various historical promotion schemes to support sales on a selective basis, and are measured at fair value through profit or loss. The mortgages are secured by a second charge over the property.

The carrying amount of financial assets, as detailed above, represents the Group's maximum exposure to credit risk at the reporting date assuming that any security held has no value.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources available to meet its obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the expected cash flow timings of financial assets and liabilities with the use of cash and cash equivalents, borrowings, overdrafts and committed revolving credit facilities with a minimum of 12 months to maturity. Future borrowing requirements are forecast on a monthly basis and funding headroom is maintained above forecast peak requirements to meet unforeseen events. As at 31 December 2018, the Group's borrowings and facilities had a range of maturities with an average life of 4.2 years (2017: 2.6 years). In February 2019, the Group agreed with its banks, to extend the £550 million facility for one year to February 2024, increasing the average life of the Group's borrowings and facilities to 5.0 years (2017: 5.2 years).

In addition to fixed term borrowings, the Group has access to committed revolving credit facilities and cash balances. At the balance sheet date, the total unused committed amount was £550.0 million (2017: £550.0 million) and cash and cash equivalents were £734.2 million (2017: £600.5 million).

20. Financial instruments and fair value disclosures continued

The maturity profile of the anticipated future cash flows, including interest using the latest applicable relevant rate based on the earliest date on which the Group can be required to pay financial liabilities on an undiscounted basis, is as follows:

Financial liabilities £ million	**Overdrafts, bank and other loans**	**Land creditors**	**Trade and other payables**	**Lease liabilities**	**Total**
On demand	–	–	–	–	–
Within one year	1.8	367.8	612.2	8.6	990.4
More than one year and less than two years	1.8	205.8	53.9	6.4	267.9
More than two years and less than five years	94.6	183.9	31.4	9.0	318.9
In more than five years	–	14.4	0.5	4.6	19.5
31 December 2018	**98.2**	**771.9**	**698.0**	**28.6**	**1,596.7**

Financial liabilities £ million	Overdrafts, bank and other loans	Land creditors	Trade and other payables	Lease liabilities	Total
On demand	–	–	–	–	–
Within one year	1.8	326.6	589.1	–	917.5
More than one year and less than two years	1.8	201.6	61.8	–	265.2
More than two years and less than five years	5.4	107.0	37.7	–	150.1
In more than five years	89.6	35.7	2.1	–	127.4
31 December 2017	98.6	670.9	690.7	–	1,460.2

21. Retirement benefit obligations

Retirement benefit obligations comprise a defined benefit pension liability of £133.0 million (2017: £63.7 million) and a post-retirement healthcare liability of £0.6 million (2017: £1.1 million).

The Group operates the Taylor Wimpey Pension Scheme (TWPS), a defined benefit pension scheme, which is closed to both new members and to future accrual. The Group also operates defined contribution pension arrangements in the UK, which are available to new and existing UK employees.

Defined contribution pension plan

A defined contribution plan is a pension plan under which the Group pays contributions to an independently administered fund – such contributions are based on a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's defined contribution plan, the Taylor Wimpey Personal Choice Plan (TWPCP), is offered to all new and existing monthly paid employees. The People's Pension is used for auto enrolment purposes for all weekly paid employees and those monthly paid employees not participating in the TWPCP. The People's Pension is provided by B&CE, one of the UK's largest providers of financial benefits to construction industry employers and individuals.

The Group made contributions to its defined contribution arrangements of £12.4 million in 2018 (2017: £10.4 million), which is included in the income statement charge.

Defined benefit pension schemes

The Group's defined benefit pension scheme in the UK is the TWPS. The TWPS is a funded defined benefit pension scheme which provides benefits to beneficiaries in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement or date of ceasing active accrual if earlier. Pension payments are generally increased in line with inflation.

The TWPS was formed by the merger of the Taylor Woodrow Group Pension and Life Assurance Fund and the George Wimpey Staff Pension Scheme in 2013. The TWPS is closed to new members and future accrual.

The Group operates the TWPS under the UK regulatory framework. Benefits are paid to members from a Trustee-administered fund and the Trustee is responsible for ensuring that the TWPS is well-managed and that members' benefits are secure. Scheme assets are held in trust.

The TWPS Trustee's other duties include managing the investment of scheme assets, administration of scheme benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the TWPS. The Trustee of the TWPS owes fiduciary duties to the TWPS' beneficiaries. The appointment of the Directors to the Trustee Board is determined by the TWPS trust documentation.

21. Retirement benefit obligations continued

During 2017, the Group engaged with the TWPS Trustee on the triennial valuation of the pension scheme with a reference date of 31 December 2016. The table below sets out the key assumptions agreed as part of this valuation.

Assumptions

Discount rate (pre-retirement)	4.20%
Discount rate (post-retirement)	2.35%
RPI inflation	3.50%
CPI inflation	2.70%
Mortality	100% of S2PXA tables, CMI_2016 improvements with 1.50% trend rate and a smoothing factor of 7.5

The result of this valuation was a Technical Provisions deficit at 31 December 2016 of £222.0 million. To meet this deficit, a revised funding plan was agreed in February 2018. The funding plan commits the Group to £40.0 million per annum of deficit reduction contributions from 1 April 2018 to 31 December 2020 and £2.0 million per annum for scheme expenses from 1 February 2018 to 31 January 2023. In addition, £5.1 million per annum is received by the TWPS from the Pension Funding Partnership (as described below). However, £40.0 million per annum of cash contributions are only required whilst the TWPS remains in a Technical Provisions deficit position. Should the scheme become fully funded, then these cash contributions will be suspended until such time that the scheme's Technical Provisions funding level falls to below 96% at the end of any quarter. In April 2018, the Group paid a one-off contribution of £23.0 million into the TWPS to increase the funding level to 100% and thereby pause any future contributions from 31 March 2018. The funding level of the TWPS remained above the threshold of 96% until 31 December 2018. Contributions of £40.0 million per annum have therefore recommenced from 1 January 2019 and will be payable until 31 December 2020, or until such time as the funding level increases to at least 100% if earlier.

On an IAS 19 accounting basis the underlying surplus in the scheme as at 31 December 2018 was £30.9 million (2017: £23.9 million).

The terms of the TWPS are such that the Group does not have an unconditional right to a refund of surplus. As a result, the Group has recognised an adjustment to the underlying surplus in the TWPS on an IAS19 accounting basis of £163.9 million, resulting in an IFRIC 14 deficit of £133.0 million, which represents the present value of future contributions under the 2016 funding plan.

In 2013, the Group introduced a £100.0 million Pension Funding Partnership utilising show homes, as well as seven offices, in a sale and leaseback structure. This provides an additional £5.1 million of annual funding for the TWPS. The assets held within the Funding Partnership do not affect the IAS 19 figures (before IFRIC 14) as they remain assets of the Group, and are not assets of the TWPS. As at 31 December 2018, there was £89.9 million of property and £22.4 million of cash held within the structure (2017: £101.5 million of property and £9.5 million of cash). The terms of this Funding Partnership are such that, should the TWPS be in a Technical Provisions deficit at 31 December 2028, then a bullet payment will be due equal to the lower of £100.0 million or the Technical Provisions deficit at that time. The IFRIC 14 deficit at 31 December 2018 does not include any value in respect of this bullet payment as modelling undertaken by an independent actuary indicates that the TWPS is expected to be fully funded by 2028 and no bullet payment is expected to be required.

The Group continues to work closely with the Trustee in managing pension risks, including management of interest rate, inflation and longevity risks. The TWPS assets are approximately 90% hedged against changes in both interest rates and inflation expectations on the scheme's long-term, 'self-sufficiency' basis. The TWPS also benefits from a bulk annuity contract which covers some of the largest liabilities in the scheme, providing protection against interest rate, inflation and longevity risk.

The duration, or average term to payment for the benefits due, weighted by liability, is approximately 16 years for the TWPS.

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the TWPS, as detailed below, are set by the Directors after consultation with independent actuaries. The basis for these assumptions is prescribed by IAS 19 and they do not reflect the assumptions that may be used in future funding valuations of the TWPS.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high-quality corporate bonds with regard for the duration of the TWPS. The assumption for RPI inflation is set by reference to the Bank of England's implied inflation curve with regard for the duration of the TWPS, with appropriate adjustments to reflect distortions due to supply and demand for inflation-linked securities. CPI inflation is set by reference to RPI inflation as no CPI-linked bonds exist to render implied CPI inflation directly observable.

The life expectancies have been derived using mortality assumptions that were based on the results of a Medically Underwritten Mortality Study conducted by the Group during 2017, combined with experience data. Using the results from this study, the mortality assumption is based on 107% of S2PXA tables, CMI_2017 improvements with a 1.25% trend rate and smoothing factor of 7.5. The mortality assumption used in 2017 was 107% of S2PXA tables, CMI_2016 improvements with a 1.25% trend rate and a smoothing factor of 7.5.

	TWPS	
Accounting valuation assumptions	2018	2017
As at 31 December:		
Discount rate for scheme liabilities	**2.95%**	2.55%
General pay inflation	**n/a**	n/a
Deferred pension increases	**2.25%**	2.20%
Pension increases*	**2.15%-3.70%**	2.10%-3.65%

* Pension increases depend on the section of the scheme of which each member is a part.

21. Retirement benefit obligations continued

The current life expectancies (in years) underlying the value of the accrued liabilities for the TWPS are:

	2018		2017	
Life expectancy	**Male**	**Female**	Male	Female
Member currently aged 65	**86**	**88**	87	88
Member currently aged 45	**88**	**90**	88	90

The pension liability is the difference between the scheme assets and liabilities. The liability is sensitive to the assumptions used. The table below shows the impact to the liability of movement in key assumptions, measured using the same method as the defined benefit scheme.

Assumption	Change in assumption	Impact on defined benefit obligation	Impact on defined benefit obligation (%)
Discount rate	Decrease by 0.1% p.a.	Increase by £32m	1.4
Rate of inflation*	Increase by 0.1% p.a.	Increase by £24m	1.1
Life expectancy	Members live 1 year longer	Increase by £97m	4.3

* Assumed to affect deferred revaluation and pensioner increases in payment.

The sensitivity of increasing life expectancy has been reduced by a medically underwritten buy-in. See the section on additional areas of risk management at the end of this Note.

The fair value of the assets of the TWPS is set out below:

	£ million	Percentage of total scheme assets held
At 31 December 2018		
Assets:		
Unquoted equities[(a)]	**79.6**	**3.8%**
Diversified growth funds[(b)]	**352.8**	**16.8%**
Hedge funds[(c)]	**166.9**	**7.9%**
Property	**37.2**	**1.8%**
Multi-asset credit	**219.8**	**10.4%**
Direct lending	**111.6**	**5.3%**
Corporate bonds	**85.5**	**4.1%**
Liability driven investment[(d)]	**841.1**	**40.0%**
Insurance policies in respect of certain members	**196.7**	**9.3%**
Cash	**13.0**	**0.6%**
	2,104.2	**100.0%**
At 31 December 2017		
Assets:		
Unquoted equities[(a)]	244.3	10.8%
Diversified growth funds[(b)]	375.5	16.6%
Hedge funds[(c)]	152.5	6.7%
Property	44.8	2.0%
Multi-asset credit	232.9	10.3%
Direct lending	70.9	3.1%
Corporate bonds	87.0	3.8%
Liability driven investment[(d)]	835.1	36.9%
Insurance policies in respect of certain members	213.9	9.5%
Cash	6.6	0.3%
	2,263.5	100.0%

(a) This amount relates to Volatility Controlled Equities (VCE). This fund has 2.5 – 8x leverage exposure, with a target of 4x. The leverage at 31 December 2018 was 4.6x (31 December 2017: 2.6x).
(b) This amount relates to the scheme's Diversified Risk Premia (DRP) allocation. The leverage on the DRP allocation as at 31 December 2018 was 1.8x (31 December 2017: 2.2x).
(c) The leverage on this fund as at 31 December 2018 was 0.9x (31 December 2017: 1.6x).
(d) The bespoke Liability Driven Investment (LDI) fund is designed to protect the scheme against movements in interest rates and inflation. The overall leverage on the LDI fund is approximately 3x.

21. Retirement benefit obligations continued

The value of the annuities held by the TWPS are set equal to the value of the liabilities which these annuities match. All other fair values are provided by the fund managers and collated by Northern Trust as custodian, who independently price the securities from their preferred vendor sources where the data is publicly available and rely on investment manager data where this information is not available. Where available, the fair values are quoted prices (e.g. listed equity). Unlisted investments (e.g. private equity) are included at values provided by the fund manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs.

There are no investments in respect of the Group's own securities.

The table below details the movements in the TWPS pension liability and assets recorded through the income statement and other comprehensive income.

£ million	Present value of obligation	Fair value of scheme assets	Asset/(liability) recognised on balance sheet
At 1 January 2018	**(2,327.2)**	**2,263.5**	**(63.7)**
Past service cost related to GMP equalisation	**(16.1)**	**–**	**(16.1)**
Administration expenses	**–**	**(1.9)**	**(1.9)**
Interest (expense)/income	**(57.9)**	**56.8**	**(1.1)**
Total amount recognised in income statement	**(74.0)**	**54.9**	**(19.1)**
Remeasurement loss on scheme assets not included in income statement	**–**	**(132.2)**	**(132.2)**
Change in demographic assumptions	**15.9**	**–**	**15.9**
Change in financial assumptions	**121.3**	**–**	**121.3**
Experience loss	**(13.0)**	**–**	**(13.0)**
Adjustment to liabilities for IFRIC 14	**(76.3)**	**–**	**(76.3)**
Total remeasurements in other comprehensive income	**47.9**	**(132.2)**	**(84.3)**
Employer contributions	**–**	**34.1**	**34.1**
Employee contributions	**–**	**–**	**–**
Benefit payments	**116.1**	**(116.1)**	**–**
At 31 December 2018	**(2,237.2)**	**2,104.2**	**(133.0)**

£ million	Present value of obligation	Fair value of scheme assets	Asset/(liability) recognised on balance sheet
At 1 January 2017	(2,368.8)	2,136.1	(232.7)
Current service cost	–	–	–
Administration expenses	–	(3.0)	(3.0)
Interest (expense)/income	(62.0)	56.1	(5.9)
Total amount recognised in income statement	(62.0)	53.1	(8.9)
Return on scheme assets not included in income statement	–	193.7	193.7
Change in demographic assumptions	78.9	–	78.9
Change in financial assumptions	(44.1)	–	(44.1)
Experience gains	13.9	–	13.9
Adjustment to liabilities for IFRIC 14	(87.6)	–	(87.6)
Total remeasurements in other comprehensive income	(38.9)	193.7	154.8
Employer contributions	–	23.1	23.1
Employee contributions	–	–	–
Benefit payments	142.5	(142.5)	–
At 31 December 2017	(2,327.2)	2,263.5	(63.7)

Accounting valuation £ million	2018	2017
Fair value of scheme assets	**2,104.2**	2,263.5
Present value of scheme obligations	**(2,073.3)**	(2,239.6)
IAS 19 surplus before IFRIC 14 adjustment	**30.9**	23.9
IFRIC 14 adjustment	**(163.9)**	(87.6)
IAS 19 deficit after IFRIC 14 adjustment	**(133.0)**	(63.7)

Notes to the consolidated financial statements continued

21. Retirement benefit obligations continued

Risks and risk management

The TWPS, in common with the majority of such defined benefit pension schemes in the UK, has a number of areas of risk. These areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Although investment decisions in the UK are the responsibility of the TWPS Trustee, the Group takes an active interest to ensure that the pension scheme risks are managed efficiently. The Group has regular meetings with the Trustee to discuss investment performance, regulatory changes and proposals to actively manage the position of the TWPS.

Risk	Description
Asset volatility	In November 2017, the Trustee agreed to diversify their Diversified Risk Premia (DRP) allocation between two managers, disinvesting half of the current DRP allocation with AQR, and allocating this to the Bridgewater Optimal fund. This transition occurred on 1 February 2018 (with £188 million allocated to the Bridgewater Optimal fund) and has led to greater diversification and reduced manager concentration risk. In March 2018, the Trustee put in place a de-risking framework to ensure that any asset outperformance above expectations of the TWPS objectives was captured. This led to the TWPS de-risking from the Schroders Volatility Controlled Equities fund in Q2 2018 where c.£60 million (one third of the allocation) was disinvested. The TWPS strategy remains well diversified through its exposure to a range of asset classes, including volatility controlled equities, commercial real estate debt, direct loans, fund of hedge funds, Government bonds and a broad spectrum of corporate bonds and other fixed income exposures. The TWPS does not target a specific asset allocation but instead bases its strategic asset allocation on the return objectives and risk constraints agreed upon by the Trustee. These were revisited and reviewed in 2018 to ensure they reflected the TWPS latest position. Given the TWPS improved funding position, it was agreed that the TWPS full funding objective would be brought forward to 2025 (from 2030) on a low-risk, self-sufficiency basis. The TWPS risk budget was also reduced from a funding-ratio-at-risk measure of 10% to 7.5%.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting liabilities. However, the investment in bond and liability-matching derivatives offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Investing in foreign currency	To maintain appropriate diversification of investments within the TWPS assets and to take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies while having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.
Asset/liability mismatch	In order to manage the TWPS economic exposure to interest rates and inflation rates, a liability-hedging programme has been put in place. Derivatives are being used to hedge changes in the TWPS funding level from changes in its liabilities in an unfunded way, substantially reducing asset/liability mismatch risk.
Liquidity	Insurance policies, real estate and illiquid debt (which include commercial real estate debt and direct lending bonds) make up £470 million (22%) of the asset portfolio of the TWPS. Excluding these amounts, approximately 53% of assets are managed in either segregated accounts or daily/weekly dealt pooled funds and can be realised within a few business days under normal market conditions. Of the remaining investments, a further 7% are in pooled funds with weekly redemption dates and 31% are pooled funds with monthly redemption dates. The remainder of 9% could be redeemed within approximately six months of notification in normal market conditions.
Life expectancy	The majority of the TWPS obligations are to provide a pension for the life of the member on retirement, so increases in life expectancy will result in an increase in the TWPS liabilities. The inflation-linked nature of the majority of benefit payments from the TWPS increases the sensitivity of the liabilities to changes in life expectancy. During 2014, the Group reached agreement with Partnership Life Assurance Company Limited to insure the benefits of 10% of members with the greatest anticipated liabilities through a medically underwritten buy-in. By insuring these members, the Group has removed more than 10% of risk from the TWPS by significantly reducing the longevity risk in relation to a large proportion of the liabilities.

22. Provisions

£ million	ACM cladding provision (Note 6)	Leasehold provision (Note 6)	North America disposal	Other	Total
At 1 January 2017	–	–	10.5	22.6	33.1
Additional provision in the year	–	130.0	–	11.9	141.9
Utilisation of provision	–	(2.4)	(0.8)	(5.7)	(8.9)
Released	–	–	–	(4.5)	(4.5)
At 31 December 2017	–	127.6	9.7	24.3	161.6
Additional provision in the year	**30.0**	**–**	**–**	**15.3**	**45.3**
Utilisation of provision	**(0.4)**	**(25.5)**	**(0.1)**	**(1.4)**	**(27.4)**
Released	**–**	**–**	**(3.6)**	**(4.7)**	**(8.3)**
Other movements	**–**	**–**	**–**	**(0.9)**	**(0.9)**
At 31 December 2018	**29.6**	**102.1**	**6.0**	**32.6**	**170.3**

£ million	2018	2017
Current	**76.9**	87.3
Non-current	**93.4**	74.3
31 December	**170.3**	161.6

In 2018, the Group established an exceptional provision for the cost of replacing Aluminium Composite Materials (ACM) on a small number of legacy developments. The majority of the provision is expected to be utilised within two years.

In 2017, the Group launched an assistance scheme to help certain customers restructure their ground rent agreements with their freeholder and established an associated provision of £130.0 million to fund this. The amounts and timing of the outflows depend largely on the number and rate of eligible applicants to the scheme and ongoing discussions with freeholders. The Group expects the scheme will run for several years and anticipates approximately £40.0 million of the remaining provision will be utilised within the next 12 months.

Other provisions consist of a remedial work provision covering various obligations on a limited number of sites across the Group. Other provisions also includes provisions for legal claims, onerous leases and other contract-related costs associated with various matters arising across the Group, the majority of which are anticipated to be settled within a three year period; however, there is some uncertainty regarding the timing of these outflows due to the nature of the claims and the length of time it can take to reach settlement. Onerous leases and vacant property costs included in this provision are expected to be utilised within approximately five years.

23. Share capital

£ million	2018	2017
Authorised:		
22,200,819,176 (2017: 22,200,819,176) ordinary shares of 1p each	**222.0**	222.0
1,158,299,201 (2017: 1,158,299,201) deferred ordinary shares of 24p each	**278.0**	278.0
	500.0	500.0

	Number of shares	£ million
Issued and fully paid:		
31 December 2017	3,275,418,330	288.5
Ordinary shares issued in the year	**2,636,433**	**–**
31 December 2018	**3,278,054,763**	**288.5**

During the year, the Company issued an additional 2.6 million (2017: 5.1 million) ordinary shares to satisfy option exercises.

During the year, options were exercised over 8,242,974 ordinary shares (2017: 9,298,098) which were met from new issues of share capital and from our holding of shares in our Employee Share Ownership Trusts (ESOTs) at varying prices from nil pence to 159.1 pence per share. Under the Group's performance share plan, employees held conditional awards at 31 December 2018 in respect of up to 18,601,569 shares, subject to achievement of performance tests (2017: 18,568,767) at nil pence per share nominally exercisable up to September 2021.

Under the Group's savings-related share option schemes, employees held options at 31 December 2018 to purchase 19,229,800 shares (2017: 17,149,237) at prices between 84.7 pence and 159.1 pence per share exercisable up to May 2024. Under the Group's share incentive plan, employees held conditional awards at 31 December 2018 in respect of 5,386,991 shares (2017: 5,086,637) at nil pence per share.

24. Share premium

£ million	2018	2017
At 1 January and 31 December	762.9	762.9

25. Reserves

£ million	Retained earnings	Capital redemption reserve	Translation reserve	Other	Total other reserves
Balance at 1 January 2017	1,817.3	31.5	6.8	4.9	43.2
Exchange differences on translation of foreign operations	–	–	2.2	–	2.2
Movement in fair value of hedging instruments	–	–	(1.2)	–	(1.2)
Actuarial gain on defined benefit pension schemes	154.8	–	–	–	–
Deferred tax charge on defined benefit movement	(26.5)	–	–	–	–
Cash cost of satisfying share options	(0.7)	–	–	–	–
Share-based payment credit	11.5	–	–	–	–
Tax credit on items taken directly to statement of changes in equity	1.8	–	–	–	–
Dividends approved and paid	(450.5)	–	–	–	–
Profit for the year	555.3	–	–	–	–
Balance at 31 December 2017	2,063.0	31.5	7.8	4.9	44.2
Impact on adoption of IFRS 16 (Note 32)	(1.5)	–	–	–	–
Exchange differences on translation of foreign operations	–	–	1.5	–	1.5
Movement in fair value of hedging instruments	–	–	(0.7)	–	(0.7)
Actuarial loss on defined benefit pension schemes	(84.3)	–	–	–	–
Deferred tax credit on defined benefit movement	14.7	–	–	–	–
Cash cost of satisfying share options	(7.0)	–	–	–	–
Share-based payment credit	12.2	–	–	–	–
Tax charge on items taken directly to statement of changes in equity	(1.1)	–	–	–	–
Dividends approved and paid	(499.5)	–	–	–	–
Profit for the year	656.6	–	–	–	–
Balance at 31 December 2018	**2,153.1**	**31.5**	**8.6**	**4.9**	**45.0**

Other reserves

Capital redemption reserve

The capital redemption reserve arose on the historical redemption of Parent Company shares, and is not distributable.

Translation reserve

The translation reserve consists of exchange differences arising on the translation of overseas operations. It also includes changes in fair values of hedging instruments where such instruments are designated and effective as hedges of investment in overseas operations.

Other reserve

The Group issued 57.9 million of warrants with a fair value of £5.5 million in 2009 as part of its debt refinancing agreement. The full cost of the warrants was recognised in the other reserve on their issuance.

26. Own shares

£ million	
Balance at 1 January 2017	12.2
Shares acquired	13.3
Disposed of on exercise of options	(4.2)
Balance at 31 December 2017	21.3
Shares acquired	9.9
Disposed of on exercise of options	(8.5)
Balance at 31 December 2018	**22.7**

26. Own shares continued

The own shares reserve represents the cost of shares in Taylor Wimpey plc purchased in the market, those held as treasury shares and those held by the Taylor Wimpey Employee Share Ownership Trusts to satisfy options and conditional share awards under the Group's share plans.

Million shares	2018	2017
Ordinary shares held in trust for bonus, option and performance award plans	13.9	13.1

Employee Share Ownership Trusts (ESOTs) are used to hold the Company's shares which have been acquired on the market. These shares are used to meet the valid exercise of options and/or vesting of conditional awards and/or award of shares under the Executive Incentive Scheme, Bonus Deferral Plan, Performance Share Plan, Executive Share Option Scheme, Savings-Related Share Option Scheme and the matching award of shares under the Share Incentive Plan.

During the year, Taylor Wimpey plc purchased £9.9 million of its own shares which are held in the ESOTs (2017: £13.3 million).

The ESOTs' entire holding of shares at 31 December 2018, aggregating 13.9 million shares (2017: 13.1 million), was covered by outstanding options and conditional awards over shares at that date.

27. Notes to the cash flow statement

£ million	2018	2017
Profit on ordinary activities before finance costs	828.8	706.5
Adjustments for:		
Depreciation of buildings, plant and equipment	3.1	2.3
Depreciation of right-of-use assets	9.0	–
Amortisation of software development	1.0	1.1
Pension contributions in excess of charge to the income statement	(16.1)	(20.1)
Share-based payment charge	12.2	11.5
(Gain)/loss on disposal of property, plant and equipment	(0.2)	0.1
Increase in provisions excluding exceptional payments	32.1	128.5
Operating cash flows before movements in working capital	869.9	829.9
Increase in inventories	(1.7)	(61.7)
Increase in receivables	(10.9)	(15.8)
Decrease in payables	(41.9)	(16.5)
Cash generated by operations	815.4	735.9
Payments related to exceptional charges	(25.9)	–
Income taxes paid	(139.6)	(126.7)
Interest paid	(8.6)	(5.1)
Net cash from operating activities	641.3	604.1

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with an original maturity of three months or less.

Movement in net cash/(debt)

£ million	Cash and cash equivalents	Overdrafts, bank and other loans	Total net cash/(debt)
Balance 1 January 2017	450.2	(85.5)	364.7
Net cash flow	148.5	–	148.5
Foreign exchange	1.8	(3.2)	(1.4)
Balance 31 December 2017	600.5	(88.7)	511.8
Net cash flow	133.8	–	133.8
Foreign exchange	(0.1)	(1.4)	(1.5)
Balance 31 December 2018	**734.2**	**(90.1)**	**644.1**

Changes in liabilities arising from financing activities

There have been no changes in liabilities due to financing activity in the year. The movement of £1.4 million (2017: £3.2 million) on the bank loan is due to changes in the Euro exchange rate during the year and is shown in the net cash/(debt) reconciliation above.

28. Contingent liabilities and capital commitments

General

The Group in the normal course of business has given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of the Group's share of certain contractual obligations of joint ventures.

The Group has entered into counter-indemnities in the normal course of business in respect of performance bonds.

Provision is made for the Directors' best estimate of all known legal claims and all legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed.

The Group has no significant capital commitments as at 31 December 2018 (2017: none).

29. Share-based payments

Equity-settled share option plan

Details of all equity-settled share-based payment arrangements in existence during the year are set out in the Remuneration Report on pages 96 to 116.

Schemes requiring consideration from participants:	2018 Options	2018 Weighted average exercise price (in £)	2017 Options	2017 Weighted average exercise price (in £)
Outstanding at beginning of year	22,235,874	1.33	24,914,877	0.84
Granted during the year	8,577,379	1.33	6,186,031	1.59
Forfeited during the year	(2,776,902)	1.52	(2,641,339)	1.21
Exercised during the year	(3,419,560)	0.96	(6,223,695)	0.71
Outstanding at the end of the year	24,616,791	1.36	22,235,874	1.33
Exercisable at the end of the year	4,668,021	1.40	4,063,350	0.84

The table above includes shares that are granted to employees on a matching basis, when the employee joins the scheme, purchased shares are matched on a 1:1 basis. 5,386,991of these awards, which do not expire, were in issue at 31 December 2018 (2017: 5,086,637). The remaining options outstanding at 31 December 2018 had a range of exercise prices from £0.85 to £1.59 (2017: £0.46 to £1.59) and a weighted average remaining contractual life of 2.61 years (2017: 2.57 years).

Schemes not requiring consideration from participants:	2018 Options	2018 Weighted average exercise price (in £)	2017 Options	2017 Weighted average exercise price (in £)
Outstanding at beginning of year	18,568,767	–	17,088,352	–
Granted during the year	6,980,446	–	6,443,624	–
Forfeited during the year	(2,124,230)	–	(1,888,806)	–
Exercised during the year	(4,823,414)	–	(3,074,403)	–
Outstanding at the end of the year	18,601,569	–	18,568,767	–
Exercisable at the end of the year	–	–	–	–

The conditional awards outstanding at 31 December 2018 had a weighted average remaining contractual life of 1.74 years (2017: 1.69 years).

The average share price at the date of exercise across all options exercised during the period was £1.78 (2017: £1.88).

For share plans with no market conditions granted during the current and preceding year, the fair value of the awards at the grant date was determined using the Binomial model. The inputs into that model were as follows:

	2018	2017
Weighted average share price	£1.72	£1.94
Weighted average exercise price	£0.90	£0.98
Expected volatility	34%	36%
Expected life	3/5 years	3/5 years
Risk free rate	1.1%	0.6%
Expected dividend yield	2.88%	2.02%

The weighted average fair value of share awards granted during the year was £0.93 (2017: £1.10).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term.

29. Share-based payments continued

For share awards with market conditions granted during the current year, the fair value of the awards was determined using the Monte Carlo simulation model. The inputs into that model were as follows:

	2018	2017
Weighted average share price	£1.88	£1.86
Weighted average exercise price	Nil	Nil
Expected volatility	37%	38%
Expected life	3 years	0.8/3 years
Risk free rate	0.9%	0.1%
Expected dividend yield	0.0%	0.0%

The weighted average fair value of share options granted during the year was £0.99 (2017: £1.21).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term. The expected life used in the model was based on historical exercise patterns.

The Group recognised a total expense of £12.2 million related to equity-settled share-based payment transactions in 2018 (2017: £11.5 million).

30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note. The pension schemes of the Group are related parties. Arrangements between the Group and its pension schemes are disclosed in Note 21. Transactions between the Group and its joint ventures are disclosed below. The Group has loans with joint ventures that are detailed in Note 13.

Trading transactions

During the year, Group purchases from joint ventures totalled £nil million (2017: £6.8 million), and sales to joint ventures totalled £18.5 million (2017: £2.1 million).

Remuneration of key management personnel

The key management personnel of the Group are the members of the Group Management Team (GMT) as presented on pages 6 and 7. The remuneration information for the four Executive Directors is set out in the Remuneration Report on page 109. The aggregate compensation for the other members of the GMT is as follows:

£ million	2018	2017
Short term employee benefits	3.6	4.1
Post-employment benefits	0.3	0.3
Total (excluding share-based payments charge)	3.9	4.4

In addition to the amounts above, a share-based payment charge of £1.1 million (2017: £1.5 million) related to share options held by members of the GMT.

31. Dividends

£ million	2018	2017
Proposed		
Interim dividend 2018: 2.44p (2017: 2.30p) per ordinary share of 1p each	79.7	75.2
Final dividend 2018: 3.80p (2017: 2.44p) per ordinary share of 1p each	125.0	80.0
	204.7	155.2
Amounts recognised as distributions to equity holders		
Paid		
Final dividend 2017: 2.44p (2016: 2.29p) per ordinary share of 1p each	79.8	74.8
Interim dividend 2018: 2.44p (2017: 2.30p) per ordinary share of 1p each	79.7	75.2
Special dividend 2018: 10.40p (2017: 9.20p) per ordinary share of 1p each	340.0	300.5
	499.5	450.5

The Directors recommend a final dividend for the year ended 31 December 2018 of 3.80 pence per share (2017: 2.44 pence per share) subject to shareholder approval at the Annual General Meeting, with an equivalent final dividend charge of c.£125.0 million (2017: £79.8 million). The final dividend will be paid on 17 May 2019 to all shareholders registered at the close of business on 5 April 2019.

The Directors additionally recommend a special dividend of c.£350.0 million (2017: c.£340.0 million) subject to shareholder approval at the Annual General Meeting. The special dividend will be paid on 12 July 2019 to all shareholders registered at the close of business on 7 June 2019.

In accordance with IAS 10 'Events after the balance sheet date' the proposed final or special dividends have not been accrued as a liability as at 31 December 2018.

32. Adoption of new accounting standards

In the current year, the Group has adopted and applied the following accounting standards issued by the International Accounting Standards Board that are relevant to the operations of the Group.

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

The impact of the adoption of these new standards on the Group's financial statements is explained below. None of these standards had a material impact on the financial statements of the Company.

IFRS 9 'Financial Instruments'

IFRS 9 became effective for accounting periods beginning on or after 1 January 2018 and replaced IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduced new requirements for the classification and measurement of financial instruments, impairment of financial assets using an expected credit loss (ECL) model, and hedge accounting.

The adoption of IFRS 9 did not have a material impact on the Group financial statements, the effect being limited to a reclassification of certain mortgage receivables. This reclassification did not have an impact on the net assets or profit for the year of the Group. The Group has elected to restate comparative information for the effect of applying IFRS 9.

Classification and measurement of financial assets

All financial assets within the scope of IFRS 9 are initially measured at fair value and subsequently measured at amortised cost, or fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI).

The Directors have reviewed and assessed the Group's financial assets and concluded that the application of IFRS 9 has had the following impact on the classification and measurement of the Group's financial assets:

Financial assets classified as land, trade and other receivables under IAS 39 'Financial Instruments: Recognition and Measurement' continue to be measured at amortised cost under IFRS 9. They are held to collect contractual cash flows which consist only of payments of principal and, where relevant, interest on the principal amount outstanding.

The Group's mortgage receivables contain non-closely related embedded derivatives. In accordance with IAS 39, the Group's previous accounting policy was to separately measure the embedded derivative and the mortgage receivable host. The mortgage receivable host was measured at amortised cost with the associated unwind of discount credited to the income statement within finance costs. Fair value gains and losses arising from the remeasurement of the embedded derivative were presented within net operating expenses. On adoption of IFRS 9, mortgage receivables are no longer separated but instead measured at FVTPL in their entirety with associated fair value gains and losses presented within net operating expenses. This reclassification has not impacted net assets or profit for the year of the Group.

Impairment of financial assets

IFRS 9 requires an expected credit loss approach to impairment rather than the incurred credit loss model under IAS 39. This requires the assessment of the expected credit loss on each class of financial asset at the reporting date. This assessment should take into consideration any changes in credit risk since the initial recognition of the financial asset.

The Directors have reviewed and assessed the Group's financial assets, and amounts due from customers using reasonable and supportable information to determine the credit risk of each item and concluded that there is no financial impact on the Group. The main financial assets held by the Group are cash and cash equivalents which are placed on deposit with a number of institutions based on a minimum credit rating and maximum exposure and accordingly the expected credit loss is considered low. Financial assets also include mortgage receivables where the expected credit loss is included in the assessment of fair value. Other receivables include completion monies for house sales and other deposits which are both held for short periods of time and mainly relate to the Help to Buy scheme, exposing the Group to limited credit risk. Land debtors have been assessed for credit risk but, this is also considered to be limited, as the period of deferment is short.

Classification and measurement of financial liabilities

All the Group's financial liabilities are held at amortised cost. The IFRS 9 requirements regarding the classification and measurement of financial liabilities are broadly consistent with the previous standard, IAS 39. Accordingly, the adoption of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

Hedge accounting

In accordance with the allowed transition provisions, the Group has applied the IFRS 9 hedge accounting requirements prospectively from 1 January 2018. The qualifying hedge relationships in place under IAS 39 also qualify for hedge accounting in accordance with IFRS 9, and therefore have been regarded as continuing hedge relationships. The critical terms of the hedging instruments match those of the hedged items and all hedge relationships have continued to be effective under the assessment requirements of IFRS 9. There are no hedging relationships under IFRS 9 which would not have qualified for hedge accounting under IAS 39.

The only hedge relationship within the Group is a net investment hedge to manage the Group's exposure to movements in the Euro exchange rate impacting the results from the Spanish business. There are no changes to the treatment of net investment hedges under IFRS 9 and therefore the application of IFRS 9 hedge accounting requirements has had no impact on the results or financial position of the Group.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 became effective for accounting periods beginning on or after 1 January 2018 and replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised.

The adoption of IFRS 15 did not have a material impact on the Group financial statements, the effect being limited to a presentational adjustment associated with the purchase and sale of part exchange properties. This reclassification did not have an impact on the net assets or profit for the year of the Group. Comparative information has been restated for the effect of applying IFRS 15.

32. Adoption of new accounting standards continued

An assessment of the Group's main revenue streams against the requirements of IFRS 15 compared with previous accounting policies is set out below:

Revenue stream	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Private development, certain partnership housing contracts and land sales	Customers obtain control of a unit once the sale is complete and monies have been received by Taylor Wimpey. A house sale invoice is generated and revenue recognised at this point.	Under IAS 18 revenue was recognised when the risks and rewards were transferred to the customer which was also at the point when monies were received by Taylor Wimpey. Under IFRS 15, there is no change to the point of revenue recognition as the performance obligations are deemed to be satisfied at the point when legal title is transferred to the purchaser.
Partnership housing long term contracts	The Group has determined that, where contracts with Housing Associations (HA) or Local Councils are such that cash is received during the manufacture of the units, that the customer controls all the work in progress as the house is being built. This is because the unit is being built to an agreed specification and if the contract is terminated by the customer then the Group is entitled to reimbursement of the costs incurred to date. Therefore, revenue from these contracts and associated costs are recognised overtime and invoices are issued accordingly. Un-invoiced amounts are presented as contract assets.	These contracts were previously accounted for under IAS 11 and IFRIC 15 'Agreements for the Construction of Real Estate' and as such were recognised over time when certain milestones in the development were reached. There is no change to the timing of revenue recognition under IFRS 15. The conditions of the sale include the requirements for the customer to make stage payments throughout the contract and accordingly the revenue should continue to be recognised over time.

Historically, under IAS 18, the purchase and sale of part exchange (PX) properties was treated as a linked transaction with the sale of the new build unit, and as such the net impact of the purchase and sale of a PX property was recognised in cost of sales. Under IFRS 15, this is now a separate transaction as it can no longer be linked with the sale of the new build house. However, this has not been reclassified as revenue and cost of sales because the Group does not consider the purchase and sale of PX properties to be a principal activity and therefore the net impact has been reclassified to other income/expense. Sales of PX properties in the year amounted to £154.3 million with an associated acquired value of £156.5 million.

Impact on adoption of IFRS 9 and IFRS 15

The financial statement line items impacted by the adoption of IFRS 9 and IFRS 15 for the current and previously reported year is shown below. There was no impact on current or previously reported balance sheet information or current year earnings per share.

31 December 2018 £ million	IFRS 15	IFRS 9	Total
Impact on profit/(loss) for the year			
Cost of sales			
Reclass of net impact of PX sales to net operating expenses	(0.2)	–	(0.2)
Net operating expenses			
Reclass of net impact of PX sales to net operating expenses	0.2	–	0.2
Mortgage receivable classified as FVTPL in entirety	–	1.8	1.8
Finance costs			
Mortgage receivable classified as FVTPL in entirety	–	(1.8)	(1.8)
Impact on profit for the year	–	–	–

32. Adoption of new accounting standards continued

31 December 2017 £ million	As previously reported*	IFRS 15	IFRS 9	Restated
Revenue	3,965.2	–	–	3,965.2
Cost of sales	(2,932.2)	(1.2)	–	(2,933.4)
Gross profit	1,033.0	(1.2)	–	1,031.8
Net operating expenses				
Other income	2.5	1.2	2.9	6.6
Administration expenses	(201.9)	–	–	(201.9)
Profit on ordinary activities before finance costs and tax	833.6	–	2.9	836.5
Net finance costs	(29.2)	–	(2.9)	(32.1)
Share of results of joint venture	7.6	–	–	7.6
Profit before tax	812.0	–	–	812.0
Operating profit	841.2	–	2.9	844.1
Operating profit margin	21.2%	–	0.1%	21.3%

* Before exceptional items, see Alternative Performance Measures on page 178.

IFRS 16 'Leases'

IFRS 16 replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease' and is mandatorily effective for accounting periods beginning on or after 1 January 2019. The Group has elected to early adopt IFRS 16 with a date of initial application of 1 January 2018. The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 January 2018. Comparative information has therefore not been restated and is reported under the previous accounting policies.

The details of the changes in accounting policies are described below.

Definition of a lease

Prior to the adoption of IFRS 16, the Group determined at inception whether an arrangement is a lease under IAS 17 or contains a lease under IFRIC 4. Under IFRS 16, the Group assess whether an arrangement is or contains a lease based on the definitions in the new standard.

The Group elected to apply the practical expedient in the transition provisions of IFRS 16 to grandfather the assessment of arrangements undertaken in prior periods. Accordingly, IFRS 16 has only been applied to contracts that were either previously identified as leases or entered into subsequent to the initial application of IFRS 16 on 1 January 2018.

The Group as a lessee

The Group previously classified leases as either operating or finance leases based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the leased asset. Immediately prior to the initial application of IFRS 16, the Group had operating leases related to office premises and equipment and no finance leases.

Under IFRS 16, most leases previously classified as operating leases under IAS 17 are recognised on the balance sheet as a right-of-use asset along with a corresponding lease liability.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option. Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is remeasured when the Group changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, plus any initial direct costs and an estimate of asset retirement obligations, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease. For the year ended 31 December 2018, payments charged to the income statement related to low value and short-term leases were insignificant.

Right-of-use assets are presented within non-current assets on the face of the balance sheet and lease liabilities are shown separately on the balance sheet in current liabilities and non-current liabilities depending on the length of the lease term.

32. Adoption of new accounting standards continued

Impact on the financial statements

On transition to IFRS 16, the Group recognised an additional £26.5 million of right-of-use assets, £28.5 million of lease liabilities and £0.5 million of other assets, primarily related to deferred tax and lease prepayments and accruals. The net difference of £1.5 million was recognised in retained earnings.

The lease liabilities were determined by discounting the relevant lease payments at the Group's incremental borrowing rate of between 1.3% and 1.8%.

The reconciliation between operating lease commitments previously reported in the financial statements for the year ended 31 December 2017 discounted at the Group's incremental borrowing rate and the lease liabilities recognised in the balance sheet on initial application of IFRS 16 is shown below.

£ million	
Operating lease commitments at 31 December 2017 as previously reported	25.2
Discounted at the Group's incremental borrowing rate at 1 January 2018	24.6
Reasonably certain extension options	4.6
Other*	(0.7)
Lease liabilities recognised at 1 January 2018	**28.5**

* Primarily attributable to non-lease components associated with the Group's vehicle fleet arrangements reported as operating lease commitments in the prior year. The Group elected to exclude non-lease components from the lease liability balance determined under IFRS 16.

33. Post balance sheet events

The Group evaluated events subsequent to 31 December 2018. No events were identified that require recognition or disclosure in the financial statements.

Company balance sheet at 31 December 2018

£ million	Note	2018	2017
Non-current assets			
Investments in Group undertakings	4	**2,418.0**	2,405.8
Trade and other receivables	5	**3.2**	1.7
		2,421.2	2,407.5
Current assets			
Trade and other receivables	5	**2,517.1**	2,589.3
Cash and cash equivalents		**703.6**	583.5
		3,220.7	3,172.8
Current liabilities			
Trade and other payables	6	**(1,632.0)**	(1,627.0)
		(1,632.0)	(1,627.0)
Net current assets		**1,588.7**	1,545.8
Total assets less current liabilities		**4,009.9**	3,953.3
Non-current liabilities			
Trade and other payables	6	**(0.6)**	(1.3)
Bank and other loans	7	**(90.1)**	(88.7)
Provisions		**(1.0)**	(0.6)
Net assets		**3,918.2**	3,862.7
Equity			
Share capital	8	**288.5**	288.5
Share premium	9	**762.9**	762.9
Own shares	10	**(22.7)**	(21.3)
Other reserves	11	**36.0**	36.0
Retained earnings	12	**2,853.5**	2,796.6
Total equity		**3,918.2**	3,862.7

As permitted by Section 408 of the Companies Act 2006, Taylor Wimpey plc has not presented its own income statement. The profit of the Company for the financial year was £549.2 million (2017: £553.3 million).

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2019. They were signed on its behalf by:

P Redfern
Director

C Carney
Director

Company statement of changes in equity for the year to 31 December 2018

For the year to 31 December 2018 £ million	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Total
Balance as at 1 January 2018	288.5	762.9	(21.3)	36.0	2,796.6	3,862.7
Profit for the year	–	–	–	–	549.2	549.2
Total comprehensive income for the year	–	–	–	–	549.2	549.2
New share capital subscribed	–	–	–	–	–	–
Own shares acquired	–	–	(9.9)	–	–	(9.9)
Utilisation of own shares	–	–	8.5	–	–	8.5
Cash cost of satisfying share options	–	–	–	–	(5.0)	(5.0)
Capital contribution on share-based payments	–	–	–	–	12.2	12.2
Dividends approved and paid	–	–	–	–	(499.5)	(499.5)
Total equity as at 31 December 2018	288.5	762.9	(22.7)	36.0	2,853.5	3,918.2

For the year to 31 December 2017 £ million	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Total
Balance as at 1 January 2017	288.4	762.9	(12.2)	36.0	2,682.0	3,757.1
Profit for the year	–	–	–	–	553.3	553.3
Total comprehensive income for the year	–	–	–	–	553.3	553.3
New share capital subscribed	0.1	–	–	–	–	0.1
Own shares acquired	–	–	(13.3)	–	–	(13.3)
Utilisation of own shares	–	–	4.2	–	–	4.2
Cash cost of satisfying share options	–	–	–	–	0.3	0.3
Capital contribution on share-based payments	–	–	–	–	11.5	11.5
Dividends approved and paid	–	–	–	–	(450.5)	(450.5)
Total equity as at 31 December 2017	288.5	762.9	(21.3)	36.0	2,796.6	3,862.7

Notes to the Company financial statements

1. Significant accounting policies

The following accounting policies have been used consistently, unless otherwise stated, in dealing with items which are considered material.

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The principal accounting policies adopted are set out below.

Going concern

The Group has prepared forecasts, including certain sensitivities taking into account the principal risks identified on pages 44 to 51. Having considered these forecasts, the Directors remain of the view that the Group's financing arrangements and capital structure provide both the necessary facilities and covenant headroom to enable the Group to conduct its business for at least the next 12 months.

Accordingly, the Company financial statements have been prepared on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

Management have not made any individual accounting judgements that are material to the Company and does not consider there to be any key sources of estimation uncertainty.

Investments in Group undertakings

Investments are included in the balance sheet at cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount of the investment. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is expensed immediately; if the impairment is not considered to be a permanent diminution in value, it may reverse in a future period to the extent it is no longer considered necessary.

The Company values its investments in subsidiary holding companies based on a comparison between the net assets recoverable by the subsidiary company and the investment held. Where the net assets are lower than the investment an impairment is recorded. For trading subsidiaries, the investment carrying value in the Company is assessed against the net present value of the discounted cash flows from the subsidiary.

Borrowing costs

Capitalised finance costs are held in other receivables and amortised over the period of the facility.

Taxation

The tax charge represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Any liability or credit in respect of group relief in lieu of current tax is also calculated using corporation tax rates that have been enacted or substantively enacted by the balance sheet date unless a different rate (including a nil rate) has been agreed within the Group.

Deferred tax

Deferred tax is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions denominated in foreign currencies are recorded in Sterling at actual rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

Any gain or loss arising from a change in exchange rates after the date of the transaction is included as an exchange gain or loss in profit and loss. Unrealised exchange differences on intercompany long term loans and foreign currency borrowings, to the extent that they hedge the Company's investment in overseas investments, are taken to the translation reserve.

Trade and other receivables

Trade and other receivables are measured at amortised cost, less any loss allowance based on expected credit losses. The measurement of expected credit losses is based on the probability of default and the magnitude of the loss if there is a default. The assessment of probability of default is based on historical data adjusted for any known factors that would influence the future amount to be received in relation to the receivable.

Derivative financial instruments and hedge accounting

The Company uses foreign currency borrowings to hedge its investment in overseas operations. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of investment in overseas operations are recognised directly in other comprehensive income and the ineffective portion, if any, is recognised immediately in the income statement. The hedged items are adjusted for changes in exchange rates, with gains or losses from re-measuring the carrying amount being recognised directly in other comprehensive income.

Share-based payments

The Company issues equity-settled share-based payments to certain employees of its subsidiaries. Equity-settled share-based payments are measured at fair value at the grant date. The fair value is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. The cost of equity-settled share-based payments granted to employees of subsidiary companies is borne by the employing company, without recharge. As such the Company's investment in the subsidiary is increased by an equivalent amount.

1. Significant accounting policies continued

Provisions

Provisions are recognised at the Directors' best estimate when the Company has a present obligation as a result of a past event and it is probable that the Company will have to settle the obligation.

Own shares

The cost of the Company's investment in its own shares, which comprise shares held in treasury by the Company and shares held by employee benefit trusts for the purpose of funding certain of the Company's share option plans, is shown as a reduction in shareholders' equity.

Dividends paid

Dividends are charged to the Company's retained earnings reserve in the period of payment in respect of an interim dividend, and in the period in which shareholders' approval is obtained in respect of the Company's final dividend.

2. Particulars of employees

	2018 Number	2017 Number
Directors	4	3

The Executive Directors received all of their remuneration, as disclosed in the Remuneration Report on pages 96 to 116 from Taylor Wimpey UK Limited. This remuneration is reflective of the Directors' service to the Company and all its subsidiaries.

3. Auditor's remuneration

£ million	2018	2017
Total audit fees	0.2	0.1
Non-audit fees	–	–
Total	0.2	0.1

A description of other services is included in Note 6 to the Group financial statements.

4. Investments in Group undertakings

£ million	Shares	Loans	Total
Cost			
1 January 2018	5,280.0	–	5,280.0
Capital contribution relating to share-based payments	12.2	–	12.2
31 December 2018	**5,292.2**	**–**	**5,292.2**
Provision for impairment			
1 January 2018	2,874.2	–	2,874.2
Charge for the year	–	–	–
31 December 2018	**2,874.2**	**–**	**2,874.2**
Carrying amount			
31 December 2018	**2,418.0**	**–**	**2,418.0**
31 December 2017	2,405.8	–	2,405.8

All investments are unlisted and information about all subsidiaries is listed on pages 174 to 177.

5. Trade and other receivables

	Current		Non-current	
£ million	2018	2017	2018	2017
Due from Group undertakings	2,514.6	2,587.0	–	–
Other receivables	2.5	2.3	3.2	1.7
	2,517.1	2,589.3	3.2	1.7

Notes to the Company financial statements continued

6. Trade and other payables

	Current		Non-current	
£ million	2018	2017	2018	2017
Due to Group undertakings	1,625.9	1,623.7	–	–
Other payables	1.2	2.3	0.6	1.3
Corporation tax creditor	4.9	1.0	–	–
	1,632.0	1,627.0	0.6	1.3

7. Bank and other loans

£ million	2018	2017
Other loans	90.1	88.7
Other loans are repayable as follows:		
Amounts due for settlement after one year	90.1	88.7

At 31 December 2018, other loans relate to €100.0 million 2.02% Senior Loan Notes.

8. Share capital

£ million	2018	2017
Authorised:		
22,200,819,176 (2017: 22,200,819,176) ordinary shares of 1p each	222.0	222.0
1,158,299,201 (2017: 1,158,299,201) deferred ordinary shares of 24p each	278.0	278.0
	500.0	500.0

	Number of shares	£ million
Issued and fully paid:		
31 December 2017	3,275,418,330	288.5
Ordinary shares issued in the year	2,636,433	–
31 December 2018	3,278,054,763	288.5

During the year, the Company issued an additional 2.6 million (2017: 5.1 million) ordinary shares to satisfy option exercises.

During the year, options were exercised over 8,242,974 ordinary shares (2017: 9,298,098) which were met from new issues of share capital and from our holding of shares in our Employee Share Ownership Trusts (ESOTs) at varying prices from nil pence to 159.1 pence per share. Under the Group's performance share plan, employees held conditional awards at 31 December 2018 in respect of up to 18,601,569 shares, subject to achievement of performance tests (2017: 18,568,767) at nil pence per share nominally exercisable up to September 2021.

Under the Group's savings-related share option schemes, employees held options at 31 December 2018 to purchase 19,229,800 shares (2017: 17,149,237) at prices between 84.7 pence and 159.1 pence per share exercisable up to May 2024. Under the Group's share incentive plan, employees held conditional awards at 31 December 2018 in respect of 5,386,991 shares (2017: 5,086,637) at nil pence per share.

9. Share premium

£ million	2018	2017
At 1 January and 31 December	762.9	762.9

10. Own shares

£ million	2018	2017
Own shares	22.7	21.3

These comprise ordinary shares of the Company:	Number	Number
Shares held in trust for bonus, options and performance award plans	13.9m	13.1m

The market value of the shares at 31 December 2018 was £19.0 million (2017: £27.0 million) and their nominal value was £0.1 million (2017: £0.1 million).

Dividends on these shares have been waived except for a nominal aggregate amount in pence.

10. Own shares continued

ESOTs are used to hold the Company's shares which have been acquired on the market. These shares are used to meet the valid exercise of options and/or vesting of conditional awards and/or award of shares under the Executive Incentive Scheme, Bonus Deferral Plan, Performance Share Plan, Executive Share Option Scheme, Savings-Related Share Option Scheme and the matching award of shares under the Share Incentive Plan.

During the year, Taylor Wimpey plc purchased £9.9 million of its own shares which are held in the ESOTs (2017: £13.3 million).

The ESOTs' entire holding of shares at 31 December 2018, aggregating 13.9 million shares (2017: 13.1 million), was covered by outstanding options and conditional awards over shares at that date.

11. Other reserves

£ million	2018	2017
At 31 December	**36.0**	36.0

Other reserves includes £31.5 million (2017: £31.5 million) in respect of the historical redemption of Parent Company shares which is non distributable.

12. Retained earnings

Retained earnings of £2,853.5 million (2017: £2,796.6 million) includes profit for the year and dividends received from subsidiaries of £500.0 million (2017: £500.0 million). Included in retained earnings is £718.5 million (2017: £668.1 million) which is not distributable.

13. Share-based payments

The Company has taken advantage of the FRS 101 disclosure exemption in relation to share-based payments. Details of share awards granted by the Company to employees of subsidiaries, and that remain outstanding at the year end over the Company's shares, are set out in Note 29 to the Group financial statements. The Company did not recognise any expense related to equity-settled share-based payment transactions in the current or preceding year.

14. Contingent liabilities

The Company has, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts.

Provision is made for the Directors' best estimate of known legal claims and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed.

The Company has in issue a guarantee in respect of the Taylor Wimpey Pension Scheme (TWPS), which had a deficit under IAS 19 of £133.0 million at 31 December 2018 (2017: £63.7 million). The guarantee commits the Company to ensure that the participating subsidiaries make deficit repair contributions in accordance with a schedule agreed with the Trustee of £40.0 million per annum until 31 December 2020, whilst the scheme is in a Technical Provisions deficit. Once the TWPS is fully funded, these cash contributions would be suspended until such time that the TWPS Technical Provisions funding levels falls to below 96%. In addition, £5.1 million per annum from the Pension Funding Partnership and £2.0 million per annum to cover scheme expenses is due.

15. Dividends

£ million	2018	2017
Proposed		
Interim dividend 2018: 2.44p (2017: 2.30p) per ordinary share of 1p each	**79.7**	75.2
Final dividend 2018: 3.80p (2017: 2.44p) per ordinary share of 1p each	**125.0**	80.0
	204.7	155.2
Amounts recognised as distributions to equity holders		
Paid		
Final dividend 2017: 2.44p (2016: 2.29p) per ordinary share of 1p each	**79.8**	74.8
Interim dividend 2018: 2.44p (2017: 2.30p) per ordinary share of 1p each	**79.7**	75.2
Special dividend 2018: 10.40p (2017: 9.20p) per ordinary share of 1p each	**340.0**	300.5
	499.5	450.5

The Directors recommend a final dividend for the year ended 31 December 2018 of 3.80 pence per share (2017: 2.44 pence per share) subject to shareholder approval at the Annual General Meeting, with an equivalent final dividend charge of c.£125.0 million (2017: £79.8 million). The final dividend will be paid on 17 May 2019 to all shareholders registered at the close of business on 5 April 2019.

The Directors additionally recommend a special dividend of c.£350.0 million (2017: c.£340.0 million) subject to shareholder approval at the Annual General Meeting. The special dividend will be paid on 12 July 2019 to all shareholders registered at the close of business on 7 June 2019.

In accordance with IAS 10 'Events after the balance sheet date' the proposed final or special dividends have not been accrued as a liability as at 31 December 2018.

Particulars of subsidiaries, associates and joint ventures

Country of incorporation and principal operations	Taylor Wimpey plc interest is 100% in the issued ordinary share capital of these undertakings included in the consolidated accounts	Activity	Registered office
United Kingdom	Taylor Wimpey Holdings Limited	Holding company	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR
United Kingdom	George Wimpey Limited	Holding company	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR
United Kingdom	Taylor Wimpey UK Limited[(a)]	United Kingdom housebuilder	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR
United Kingdom	Taylor Wimpey Developments Limited[(a)]	Holding company	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR
Spain	Taylor Wimpey de España S.A.U.[(a)(b)]	Spanish housebuilder	C/Aragó, 223 223A, 07008, Palma de Mallorca, Baleares, Spain

(a) Interests held by subsidiary undertakings.
(b) 9% cumulative, redeemable preference shares are additionally held.

The entries listed below are companies incorporated in the United Kingdom and registered in England and Wales and the registered office is Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR. All of the below are 100% subsidiaries of Group companies and only have ordinary share capital unless otherwise stated.

Admiral Developments Limited
Admiral Homes (Eastern) Limited
Admiral Homes Limited
Ashton Park Limited
BGS (Pentian Green) Holdings Limited
Broadleaf Park LLP
Bryad Developments Limited
Bryant Country Homes Limited
Bryant Group Services Limited
Bryant Homes Central Limited
Bryant Homes East Midlands Limited
Bryant Homes Limited
Bryant Homes North East Limited
Bryant Homes Northern Limited
Bryant Homes South West Limited
Bryant Homes Southern Limited
Bryant Properties Limited
Candlemakers (TW) Limited
Clipper Investments Limited
Compine Developments (Wootton) Limited
Dormant Nominees One Limited
Dormant Nominees Two Limited
Farrods Water Engineers Limited
Flyover House Limited
George Wimpey Bristol Limited
George Wimpey City 2 Limited
George Wimpey City Limited
George Wimpey East Anglia Limited
George Wimpey East London Limited
George Wimpey East Midlands Limited
George Wimpey Manchester Limited
George Wimpey Midland Limited
George Wimpey North East Limited
George Wimpey North London Limited
George Wimpey North Midlands Limited
George Wimpey North West Limited
George Wimpey North Yorkshire Limited
George Wimpey South East Limited
George Wimpey South Midlands Limited
George Wimpey South West Limited
George Wimpey South Yorkshire Limited
George Wimpey Southern Counties Limited
George Wimpey West London Limited
George Wimpey West Midlands Limited
George Wimpey West Yorkshire Limited
Globe Road Limited
Grand Union Vision Limited
Groveside Homes Limited
Hamme Construction Limited
Hanger Lane Holdings Limited
Harrock Limited
Hassall Homes (Cheshire) Limited
Hassall Homes (Mercia) Limited
Hassall Homes (Southern) Limited
Hassall Homes (Wessex) Limited
Haverhilll Developments Limited
Jim 1 Limited
Jim 3 Limited
Jim 4 Limited
Jim 5 Limited
L. & A. Freeman Limited
Laing Homes Limited
Laing Land Limited
LandTrust Developments Limited
Leawood (Management) Company Limited
Limebrook Manor LLP
MCA Developments Limited
MCA East Limited
MCA Holdings Limited
MCA Land Limited
MCA Leicester Limited
MCA London Limited
MCA Northumbria Limited
MCA Partnership Housing Limited
MCA South West Limited
MCA West Midlands Limited
MCA Yorkshire Limited
McLean Homes Limited
McLean Homes Bristol & West Limited
McLean Homes Southern Limited
Melbourne Investments Limited
Pangbourne Developments Limited
Prestoplan Limited
River Farm Developments Limited
South Bristol (Ashton Park) Limited
Spinks & Denning Limited
St. Katharine By The Tower Limited
St. Katharine Haven Limited
Tawnywood Developments Limited
Taylor Wimpey (Solihull) Limited
Taylor Wimpey 2007 Limited
Taylor Wimpey Capital Developments Limited
Taylor Wimpey Commercial Properties Limited
Taylor Wimpey Garage Nominees No 1 Limited
Taylor Wimpey Garage Nominees No 2 Limited
Taylor Wimpey International Limited
Taylor Wimpey Property Company Limited
Taylor Wimpey Property Management Limited
Taylor Wimpey SH Capital Limited
Thameswey Homes Limited
The Garden Village Partnership Limited
The Wilson Connolly Employee Benefit Trust Limited
This is G2 Limited
Thomas Lowe and Sons, Limited
Thomas Lowe Homes Limited

TW NCA Limited
TW Springboard Limited
Twyman Regent Limited
Wain Estates Limited
Wainhomes (Chester) Limited
Wainhomes (Northern) Limited
Wainhomes (Southern) Limited
Wainhomes (Yorkshire) Limited
Wainhomes Group Limited
Wainhomes Holdings Limited
Wainhomes Limited
Whelmar (Chester) Limited
Whelmar (Lancashire) Limited
Whelmar (North Wales) Limited
Whelmar Developments Limited
Wilcon Homes Anglia Limited
Wilcon Homes Eastern Limited
Wilcon Homes Midlands Limited
Wilcon Homes Northern Limited
Wilcon Homes Southern Limited
Wilcon Homes Western Limited
Wilcon Lifestyle Homes Limited
Wilfrid Homes Limited
Wilson Connolly Holdings Limited
Wilson Connolly Investments Limited
Wilson Connolly Limited
Wilson Connolly Properties Limited
Wilson Connolly Quest Limited
Wimgrove Developments Limited
Wimgrove Property Trading Limited
Wimpey Construction Developments Limited
Wimpey Construction Iran Limited
Wimpey Corporate Services Limited
Wimpey Dormant Investments Limited
Wimpey Geotech Limited
Wimpey Group Services Limited
Wimpey Gulf Holdings Limited
Wimpey Overseas Holdings Limited

Particulars of subsidiaries, associates and joint ventures continued

Company Name	% Owned	Registered Office
Academy Central LLP	62%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Bishops Park Limited	50%	The Manor House, North Ash Road, New Ash Green, Longfield, Kent, DA3 8HQ, United Kingdom
Bishop's Stortford North Consortium Limited	33.33%	St. Bride's House, 10 Salisbury Square, London, EC4Y 8EH, United Kingdom
Bordon Developments Holding Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Bromley Park (Holdings) Limited	50%	Kent House, 14-17 Market Place, London, W1W 8AJ, United Kingdom
Bromley Park Limited	50%	Kent House, 14-17 Market Place, London, W1W 8AJ, United Kingdom
Bryant Homes Scotland Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Capital Court Property Management Limited	17.17%	4 Capital Court, Bittern Road, Sowton Industrial Estate, Exeter, Devon, EX2 7FW, United Kingdom
Chobham Manor LLP	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Chobham Manor Property Management Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Countryside 27 Limited	50%	Countryside House, The Drive, Great Warley, Brentwood, Essex, CM13 3AT, United Kingdom
DFE TW Residential Limited	50%	7 Whiteladies Road, Clifton, Bristol, BS8 1NN, United Kingdom
Emersons Green Urban Village Limited	54.44%	135 Aztec West, Almondsbury, Bristol, Avon, BS32 4UB, United Kingdom
Falcon Wharf Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Gallagher Bathgate Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
George Wimpey East Scotland Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
George Wimpey West Scotland Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
GN Tower Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Greenwich Millennium Village Limited	50%	Countryside House, The Drive, Great Warley, Brentwood, Essex, CM13 3AT, United Kingdom
GW City Ventures Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
GWNW City Developments Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Haydon Development Company Limited	19.27%	6 Drakes Meadow, Penny Lane, Swindon, Wiltshire, SN3 3LL, United Kingdom
London and Clydeside Estates Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
London and Clydeside Holdings Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Los Arqueros Golf and Country Club S.A.	75%	Carretera de Ronda A-397, Km.44.5, Benehavis, Malaga, Spain
Morrison Land Development Inc	100%	9366, 49St NW, Edmonton, AB T6B 2L7, Canada
North Swindon Development Company Limited	16.79%	6 Drakes Meadow, Penny Lane, Swindon, Wiltshire, SN3 3LL, United Kingdom
Padyear Limited	50%	Hanson House, 14 Castle Hill, Maidenhead, SL6 4JJ, United Kingdom
Paycause Limited	66.67%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Phoenix Birmingham Latitude Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Quedgeley Urban Village Limited	50%	135 Aztec West, Almondsbury, Bristol, Avon, BS32 4UB, United Kingdom
Redhill Park Limited	50%	5 Market Yard Mews, 194 – 204 Bermondsey Street, London SE1 3TQ, United Kingdom
St George Little Britain (No.1) Limited	50%	Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, United Kingdom
St George Little Britain (No.2) Limited	50%	Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, United Kingdom
Strada Developments Limited	50%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Taylor Wimpey (General Partner) Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Taylor Wimpey (Initial LP) Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Taylor Wimpey Pension Trustees Limited	99%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Taylor Wimpey Scottish Limited Partnership	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Taylor Woodrow (Gibraltar) Limited	100%	17 Bayside Road, Gibraltar, United Kingdom

Company Name	% Owned	Registered Office
Triumphdeal Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
TW Cavendish Holdings Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Vumpine Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Weaver Developments (Woodfield Plantation) Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Whatco England Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Whitehill & Bordon Regeneration Company Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Whitehill & Bordon Development Company phase 1a Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Wilcon Homes Scotland Limited	100%	Unit C, Ground Floor, Cirrus Glasgow Airport Business Park, Marchburn Drive, Abbotsinch, Paisley, PA3 2SJ, United Kingdom
Wimpey Laing Iran Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Wimpey Laing Limited	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom
Winstanley & York Road Regeneration LLP	50%	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR, United Kingdom

Five year review and alternative performance measures

The Group uses a number of Alternative Performance Measures (APMs) which are not defined within IFRS. The Directors use these measures to assess the underlying operational performance of the Group and, as such, these measures should be considered alongside the IFRS measures. Reconciliations from Statutory Performance Measures to the APMs are shown following the five-year review.

£ million	2018	2017 (restated)	2016 (restated)	2015 (restated)	2014 (restated)
Revenue – continuing operations	**4,082.0**	3,965.2	3,676.2	3,139.8	2,686.1
Profit on ordinary activities before finance costs and tax	**828.8**	706.5	766.4	635.7	501.7
Adjust for: Share of results of joint ventures	**5.3**	7.6	1.2	4.9	2.6
Adjust for: Exceptional items	**46.1**	130.0	0.5	0.6	(18.7)
Operating profit	**880.2**	844.1	768.1	641.2	485.6
Net finance costs excluding exceptional items	**(23.4)**	(32.1)	(34.7)	(37.4)	(35.5)
Profit for the financial year before taxation and exceptional items	**856.8**	812.0	733.4	603.8	450.1
Adjust for: Exceptional items	**(46.1)**	(130.0)	(0.5)	(0.6)	18.7
Taxation charge including taxation on exceptional items	**(154.1)**	(126.7)	(143.6)	(113.4)	(94.4)
Profit for the year from discontinued operations	**–**	–	–	–	–
Profit for the financial year	**656.6**	555.3	589.3	489.8	374.4
Balance sheet					
Intangible assets	**3.2**	3.9	3.5	2.7	2.5
Property, plant and equipment	**21.6**	22.8	21.0	20.0	16.8
Right-of-use assets	**27.1**	–	–	–	–
Interests in joint ventures	**48.3**	50.9	50.3	27.1	38.6
Non-current trade and other receivables	**55.7**	60.1	87.2	95.4	111.1
Non-current assets (excluding tax)	**155.9**	137.7	162.0	145.2	169.0
Inventories	**4,188.2**	4,075.7	3,984.0	3,891.2	3,490.1
Other current assets (excluding tax and cash)	**134.7**	122.2	91.4	114.0	102.6
Trade and other payables excluding land creditors	**(684.8)**	(705.0)	(721.8)	(750.7)	(681.6)
Land creditors	**(359.5)**	(319.5)	(266.3)	(342.7)	(228.4)
Lease liabilities	**(8.2)**	–	–	–	–
Provisions	**(76.9)**	(87.3)	(28.0)	(31.1)	(40.4)
Net current assets (excluding tax and cash)	**3,193.5**	3,086.1	3,059.3	2,880.7	2,642.3
Trade and other payables excluding land creditors	**(112.2)**	(111.0)	(109.0)	(114.9)	(102.2)
Land creditors	**(379.1)**	(319.6)	(333.5)	(287.1)	(259.3)
Retirement benefit obligations	**(133.6)**	(64.8)	(234.1)	(178.4)	(183.8)
Lease liabilities	**(19.2)**	–	–	–	–
Provisions	**(93.4)**	(74.3)	(5.1)	(2.9)	(1.0)
Non-current liabilities (excluding debt)	**(737.5)**	(569.7)	(681.7)	(583.3)	(546.3)
Cash and cash equivalents	**734.2**	600.5	450.2	323.3	212.8
Bank and other loans	**(90.1)**	(88.7)	(85.5)	(100.0)	(100.0)
Taxation balances	**(29.2)**	(28.6)	(4.0)	57.4	157.5
Basic net assets	**3,226.8**	3,137.3	2,900.3	2,723.3	2,535.3

Statistics					
Basic earnings per share – continuing operations	**20.1p**	17.0p	18.1p	15.1p	11.6p
Adjusted basic earnings per share – continuing operations	**21.3p**	20.2p	18.1p	14.9p	11.2p
Tangible net assets per share	**98.3p**	95.7p	88.6p	83.5p	77.9p
Dividends paid (pence per share)	**15.28**	13.79	10.91	9.49	2.25
Number of shares in issue at the year end (millions)	**3,278.1**	3,275.4	3,270.3	3,258.6	3,253.5
UK short term landbank (plots)	**75,995**	74,849	76,234	75,710	75,136
UK average selling price £'000	**264**	264	255	230	213
UK completions (homes including JVs)	**14,933**	14,541	13,881	13,341	12,454

Profit before taxation and exceptional items and profit for the period before exceptional items

The Directors consider the removal of exceptional items from the reported results provides more clarity on the performance of the Group. They are reconciled to profit before tax and profit for the period respectively, on the face of the Consolidated Income Statement.

Operating profit and operating profit margin

Throughout the Annual Report and Accounts operating profit is used as one of the main measures of performance, with operating profit margin being a Key Performance Indicator (KPI). Operating profit is defined as profit on ordinary activities before net finance costs, exceptional items and tax, after share of results of joint ventures. The Directors consider this to be an important measure of underlying performance of the Group. Operating profit margin is calculated as operating profit divided by total Group revenue. The Directors consider this to be a metric which reflects the underlying performance of the business.

Operating profit to profit before interest and tax reconciliation

	2018			2017		
	Profit £m	**Revenue £m**	**Margin %**	Profit £m	Revenue £m	Margin %
Profit before interest and tax	**828.8**	**4,082.0**	**20.3**	706.5	3,965.2	17.8
Adjusted for:						
Share of results of joint ventures	**5.3**	**–**	**0.1**	7.6	–	0.2
Exceptional items (Note 6)	**46.1**	**–**	**1.2**	130.0	–	3.3
Operating profit	**880.2**	**4,082.0**	**21.6**	844.1	3,965.2	21.3

Net operating assets and return on net operating assets

Net operating assets is defined as basic net assets less net cash, excluding net taxation balances and accrued dividends. Return on net operating assets, another KPI, is defined as 12-month operating profit divided by the average of the opening and closing net operating assets. The Directors consider this to be an important measure of the underlying operating efficiency and performance of the Group.

Net operating assets

£million	**2018**	2017	2016
Basic net assets	**3.226.8**	3,137.3	2,900.3
Average basic net assets	**3,182.1**	3,018.8	
Adjusted for:			
Cash (Note 16)	**(734.2)**	(600.5)	(450.2)
Borrowings (Note 17)	**90.1**	88.7	85.5
Net taxation	**29.2**	28.6	4.0
Accrued dividends	**–**	–	–
Net operating assets	**2,611.9**	2,654.1	2,539.6
Average net operating assets	**2,633.0**	2,596.9	

Return on net operating assets

	2018			2017		
	Net assets £m	**Profit £m**	**Return on net assets %**	Net assets £m	Profit £m	Return on net assets %
Average basic net assets	**3,182.1**	**828.8**	**26.0**	3,018.8	706.5	23.4
Adjusted for:						
Average cash	**(667.4)**	**–**	**6.6**	(525.4)	–	4.7
Average borrowings	**89.4**	**–**	**(0.9)**	87.1	–	(0.8)
Average taxation	**28.9**	**–**	**(0.3)**	16.4	–	(0.1)
Share of results of joint ventures (Note 13)	**–**	**5.3**	**0.2**	–	7.6	0.3
Exceptional items (Note 6)	**–**	**46.1**	**1.8**	–	130.0	5.0
Average net operating assets	**2,633.0**	**880.2**	**33.4**	2,596.9	844.1	32.5

Tangible net assets per share

This is calculated as net assets before any accrued dividends excluding goodwill and intangible assets divided by the number of ordinary shares in issue at the end of the period. The Directors consider this to be a good measure of the value intrinsic within each ordinary share.

Tangible net assets per share

	2018			2017		
	Net assets £m	**Ordinary shares in issue**	**Net assets per share pence**	Net assets £m	Ordinary shares in issue	Net assets per share pence
Basic net assets	**3,226.8**	**3,278.1**	**98.4**	3,137.3	3,275.4	95.8
Adjusted for:						
Intangible assets (Note 11)	**(3.2)**	**–**	**(0.1)**	(3.9)	–	(0.1)
Tangible net assets	**3,223.6**	**3,278.1**	**98.3**	3,133.4	3,275.4	95.7

Five year review and alternative performance measures continued

Adjusted basic earnings per share

This is calculated as earnings attributed to the shareholders, excluding exceptional items and tax on exceptional items, divided by the weighted average number of shares. The Directors consider this provides an important measure of the underlying earnings capacity of the Group. Note 10 shows a reconciliation from basic earnings per share to adjusted basic earnings per share.

Net operating asset turn

This is defined as total revenue divided by the average of opening and closing net operating assets. The Directors consider this to be a good indicator of how efficiently the Group is utilising its assets to generate value for the shareholders.

Net operating asset turn

	2018			2017		
	Net assets £m	**Revenue £m**	**Net asset turn**	Net assets £m	Revenue £m	Net asset turn
Average basic net assets	**3,182.1**	**4,082.0**	**1.28**	3,018.8	3,965.2	1.31
Adjusted for:						
Average cash	**(667.4)**	**–**	**0.33**	(525.4)	–	0.27
Average borrowings	**89.4**	**–**	**(0.04)**	87.1	–	(0.04)
Average taxation	**28.9**	**–**	**(0.02)**	16.4	–	(0.01)
Average net operating assets	**2,633.0**	**4,082.0**	**1.55**	2,596.9	3,965.2	1.53

Net cash/(debt)

Net cash/(debt) is defined as total cash less total financing. This is considered by the Directors to be the best indicator of the financing position of the Group. This is reconciled in Note 27.

Cash conversion

This is defined as cash generated by operations divided by operating profit. The Directors consider this measure to be a good indication of how efficiently the Group is turning profit into cash.

Cash conversion

	2018			2017		
	Profit £m	**Cash generated by operations £m**	**Cash conversion %**	Profit £m	Cash generated by operations £m	Cash conversion %
Profit before interest and tax	**828.8**	**815.4**	**98.4**	706.5	735.9	104.2
Adjusted for:						
Share of results of joint ventures (Note 13)	**5.3**	**–**	**(0.6)**	7.6	–	(0.9)
Exceptional items (Note 6)	**46.1**	**–**	**(5.2)**	130.0	–	(16.1)
Operating profit	**880.2**	**815.4**	**92.6**	844.1	735.9	87.2

Adjusted gearing

This is defined as adjusted net debt divided by basic net assets. The Directors consider this to be a more representative measure of the Group's gearing levels. Adjusted net debt is defined as net cash less land creditors.

Adjusted gearing

	2018 £m	2017 £m
Cash (Note 16)	**734.2**	600.5
Private placement loan notes (Note 17)	**(90.1)**	(88.7)
Net cash	**644.1**	511.8
Land creditors (Note 18)	**(738.6)**	(639.1)
Adjusted net debt	**(94.5)**	(127.3)
Basic net assets	**3,226.8**	3,137.3
Adjusted gearing	**2.9%**	4.1%