Increased focus on cost discipline and process simplification

In 2019, we made good progress implementing operational improvements across the business. This year, as we embed recent initiatives, our focus is on cost and process simplification.

Group completions including joint ventures

16,042

2018: 15,275

Revenue

£4,341.3m

2018: £4,082.0m

Operating profit

£850.5m

2018: £880.2m

Profit for the year

£673.9m

2018: £656.6m

Group financial review of operations

Income statement

Group revenue increased by 6.4% to £4,341.3 million in 2019 (2018: £4,082.0 million). This growth was driven by increased completions in the UK (excluding joint ventures), up 4.7% to 15,520 (2018: 14,822) and an improvement in the average UK selling price, up 1.8% to £268.6k (2018: £263.9k), primarily the result of an increase in the average size per completion of 1.3%. The average selling price on UK private completions was £305.4k (2018: £301.8k).

The UK land cost per completed unit, at £42.9k, was 2.9% higher than the prior year (2018: £41.7k). The UK land cost per completion as a percentage of selling price was 16.0% (2018: 15.8%), resulting from the proportion of affordable homes decreasing slightly to 22.4% (2018: 22.9%).

Average build cost per unit in the UK increased to £156.6k (2018: £147.4k), driven by the impact of build cost inflation and our continued investment in build quality and customer experience. Underlying annual build cost inflation was c.4.5% year on year (2018: c.3.5%). Direct selling expenses per unit decreased marginally to £5.7k (2018: £5.9k), due to further sales efficiencies achieved in the year.

Group gross profit of £1,044.1 million (2018: £1,074.5 million) decreased by 2.8% and included a positive contribution from previously written down inventory of £10.1 million (2018: £7.7 million).

Value distributed during 2019 (£m)

£447.3m
Contribution to local communities
2018: £455.3m

£275.9m
Employment
2018: £258.0m

£61.6m
Pension contributions
2018: £46.5m

£178.8m
Taxes
2018: £167.3m

£21.7m
Net investment in land & WIP
2018: £1.7m

£6.4m
Interest paid
2018: £8.6m

£599.7m
Dividends
2018: £499.5m

As a result of the increases in UK land and build cost exceeding the growth in revenue, the average UK gross profit per private completion reduced by 9.6% to £70.9k (2018: £78.4k) and the average UK blended gross profit per completion fell by 8.0% to £63.4k (2018: £68.9k).

During the year, completions from joint ventures were 199 (2018: 111), in line with the expected development plans. The total order book value of joint ventures as at 31 December 2019 increased to £62 million (31 December 2018: £22 million), representing 142 homes for completions in 2020 and 2021. Our share of results of joint ventures in the period was a profit of £8.0 million (2018: £5.3 million).

Group operating profit decreased to £850.5 million (2018: £880.2 million), delivering an operating profit margin of 19.6% (2018: 21.6%), the decrease principally due to build cost inflation exceeding house price growth. Profit on ordinary activities before net finance costs increased by 3.4% to £856.8 million (2018: £828.8 million). This was due to the year on year reduction in operating profit being more than offset by the change in exceptional items from a charge of £46.1 million in 2018 to a credit of £14.3 million in 2019.

Net finance costs for the period were £28.9 million (2018: £23.4 million). The increase was primarily due to a higher charge on unwinding of discount on land creditors and the net interest expense arising on the defined benefit pension scheme. The increase in the pension scheme interest was a result of the deficit increasing from £63.7 million at 1 January 2018 to £133.0 million at 1 January 2019, which drives the period's charge.

> "Group revenue increased by 6.4% to £4,341.3 million in 2019."

Profit before tax and exceptional items decreased by 4.1% to £821.6 million (2018: £856.8 million). The pre-exceptional tax charge was £159.3 million (2018: £162.3 million) with an underlying tax rate of 19.4% (2018: 18.9%) that largely reflects the statutory tax rate in the UK. This resulted in a profit, before exceptional items, for the year of £662.3 million (2018: £694.5 million), 4.6% lower than the prior year.

The Group discloses material financial impacts arising from events which are one-off or unusual in nature as exceptional items. An exceptional net credit of £14.3 million was recognised in the year (2018: £46.1 million charge). The current year exceptional credit arose on the implementation of a Pension Increase Exchange (PIE) for members of the Taylor Wimpey Pension Scheme which enables some pension scheme members to elect to exchange future pension increases on part of their pensions for a one-off increase in pension. The exceptional credit reflects a decrease in scheme liabilities and is shown net of costs incurred in relation to the implementation. An exceptional tax charge of £2.7 million was recognised in respect of the £14.3 million exceptional credit recognised in the year.

The prior year exceptional charge related to the £30.0 million Aluminium Composite Material (ACM) cladding provision and £16.1 million for equalisation of guaranteed minimum pensions following the legal judgement in 2018.

Profit on ordinary activities before tax increased to £835.9 million (2018: £810.7 million) as a result of the exceptional credit (2018: exceptional charge). Profit for the year was £673.9 million, up by 2.6% on 2018 (2018: £656.6 million).

Basic earnings per share was 20.6 pence (2018: 20.1 pence), an increase of 2.5%. The adjusted basic earnings per share† was 20.3 pence (2018: 21.3 pence), a reduction of 4.7%.

Spain

The Spanish market remained healthy throughout the year. We completed 323 homes in 2019 (2018: 342) at an average selling price of €429k (2018: €344k). The total order book as at 31 December 2019 stood at 217 homes (31 December 2018: 284 homes).

The Spanish business delivered an improved operating profit of £32.1 million for 2019 (2018: £29.2 million) and an operating profit margin of 26.7% (2018: 28.0%). Looking ahead, we expect volumes to be broadly stable in 2020 and, as previously guided, we would expect operating profit margins for Spain to moderate over time from a strong base.

Challenging ourselves to be better

We have made great progress in delivering our strategy this year by raising our build rate whilst at the same time improving our quality. However, we are always seeking to improve and, having launched a number of workstreams in the past two years that will benefit the long term sustainability of our business, we are increasing our focus on cost discipline and process simplification.

We will not make the mistake of reducing specification, damaging quality or stopping investment in areas that are vital to our long term sustainability, such as build quality, build capacity and our apprenticeship programme. However, as we focus on extracting the benefits of workstreams already in place, we are also scrutinising our current cost base to target savings where appropriate:

1. **Ensuring our overheads are appropriate to the operating environment.** We have made good progress applying a zero-base costing approach to our overheads, assessing each activity and cost against our objectives and allocating funds accordingly.
2. **Our cost and efficiency programme** involves multiple workstreams which are underway that will automate certain commercial and production processes and target efficiencies in procurement and product standardisation. These will begin to deliver savings in 2020 with further benefits expected in 2021 and 2022 as workstreams are fully deployed.
3. **Upgrades to some of our core systems** in 2019 allowed us to enhance our reporting of costs at every level of the business, helping operational management understand, explain and challenge cost increases more effectively. This has significantly improved visibility of cost drivers and allows for improved benchmarking across our most common standard house types.

Balance sheet

Net operating assets increased to £2,800.2 million (31 December 2018: £2,611.9 million) as a result of a reduction in the retirement benefit obligation reflecting the deficit contributions made in the period and provisions which fell to £128.4 million (31 December 2018: £170.3 million) as claims were made and processed through the Ground Rent Review Assistance Scheme and costs were incurred to replace ACM cladding.

Return on net operating assets decreased by two percentage points to 31.4% (2018: 33.4%). This was due to the reduced operating margin in the year offset partly by an increase in net operating asset turn†* to 1.60 times (2018: 1.55 times).

The investment in land and work in progress (WIP) has been maintained at £4,196.0 million (2018: £4,188.2 million). This included a UK short term landbank comprised of 75,612 plots (2018: 75,995), with a net book value of £2.4 billion (2018: £2.5 billion). This is split between short term owned land comprised of £2.3 billion (2018: £2.3 billion), representing 54,641 plots (2018: 53,279) and controlled short term landbank representing 20,971 plots (31 December 2018: 22,716).

The value of UK long term owned land decreased by 3% to £97 million (2018: £100 million), representing 33,329 plots (2018: 32,354), with a further total controlled strategic pipeline of 106,895 plots (31 December 2018: 95,063). Total potential revenue in the total UK owned and controlled landbank increased to £53 billion in the period (31 December 2018: £50 billion), reflecting the increase in the scale of the strategic land pipeline.

As at 31 December 2019, in the UK, 89% of the short term owned and controlled landbank was purchased after 2009, 60% of which was sourced through our strategic pipeline. This results in a land cost relative to average selling price in the short term owned landbank of 14.9% (31 December 2018: 15.2%).

Average WIP per UK outlet at 31 December 2019 increased by 7.4% to £5.8 million (2018: £5.4 million), consistent with the greater output per site we achieved in 2019. Also UK WIP turn†** increased to 3.06 times (2018: 2.95 times).

As at the balance sheet date, the Group held certain land and work in progress that had been written down by £68.6 million (31 December 2018: £83.0 million) to a net realisable value of £59.3 million (31 December 2018: £73.8 million). The balance of previously written down land and work in progress in the UK was £39.0 million (31 December 2018: £46.6 million), following the associated write-downs of £30.5 million (31 December 2018: £38.7 million).

Our net deferred tax asset of £29.8 million (31 December 2018: £40.7 million) relates to our pension deficit, employee share schemes and the temporary differences of our Spanish business, including brought forward trading losses. The largest decrease, £9.2 million, relates to the pension deficit that decreased by £48.5 million following contributions made in the year.

Land creditors decreased to £729.2 million (31 December 2018: £738.6 million) and, combined with net cash, resulted in an adjusted gearing‡‡‡ of 5.5% (31 December 2018: 2.9%). Included within the land creditor balance is £56.4 million of UK land overage commitments (31 December 2018: £102.0 million). £339.9 million of the land creditors is expected to be paid within 12 months and £389.3 million thereafter.

2019 Group results	UK	Spain	Group
Completions including joint ventures	15,719	323	16,042
Revenue (£m)	4,220.9	120.4	4,341.3
Operating profit (£m)	818.4	32.1	850.5
Operating profit margin (%)	19.4	26.7	19.6
Profit before tax and exceptional items (£m)			821.6
Profit for the year (£m)			673.9
Basic earnings per share (p)			20.6
Adjusted basic earnings per share (p)			20.3
Total dividends paid per share (p)			18.3

More information on segmental reporting can be found in Note 5 to the consolidated financial statements.

Net assets at 31 December 2019 increased by 21.1% to £3,907.5 million before dividends paid in the year, and by 2.5% overall, after dividend payments of £599.7 million to £3,307.8 million (31 December 2018: £3,226.8 million). The net asset increase was driven by continued profitability in the year.

"In the 12 months to 31 December 2019 we converted 82.6% of operating profit into operating cash flow."

Pensions

Following the 31 December 2016 triennial valuation, we agreed a recovery plan with the Trustee for the period to December 2020. This included a contribution mechanism, tested quarterly, such that should the Taylor Wimpey Pension Scheme (TWPS) become fully funded on the Technical Provisions funding basis, further contributions would be suspended and only recommence if the funding level fell below 96%.

The quarterly funding test for 31 December 2018 showed that the TWPS funding level had fallen to 94%. The Group therefore recommenced regular contributions from January 2019. The most recent funding test at 31 December 2019 showed a funding level of 97% on the Technical Provisions funding basis. As a result, regular contributions will continue. The Group continues to provide a contribution for Scheme expenses and also makes contributions via the Pension Funding Partnership. Total Scheme contributions and expenses were £47.1 million in 2019 (2018: £34.1 million). Payments in 2020 are expected to be £47.1 million, assuming the TWPS remains less than 100% funded.

At 31 December 2019, the IAS 19 valuation of the Scheme remained in surplus at £100.5 million. Due to the rules of the TWPS, this surplus cannot be recovered by the Group and therefore a deficit has been recognised on the balance sheet under IFRIC14. This deficit is equal to the present value of the remaining committed payments under the 2016 triennial valuation. Total retirement benefit obligations of £85.0 million at 31 December 2019 (31 December 2018: £133.6 million) comprise a defined benefit pension liability of £84.5 million (31 December 2018: £133.0 million), with the decrease reflecting payments under the pension funding plan, and a post-retirement healthcare liability of £0.5 million (31 December 2018: £0.6 million).

The Group continues to work closely with the Trustee in managing pension risks, including management of interest rate, inflation and longevity risks. The underlying volatility of the TWPS remains low due to the c.£200 million buy in completed in 2014 (c.10% of the liabilities), combined with c.90% liability hedging against interest rates and inflation risk exposure on the Scheme's long term, 'self-sufficiency' basis.

Cash generation

Net cash decreased to £545.7 million at 31 December 2019 from £644.1 million at 31 December 2018. This is after returning £599.7 million to shareholders by way of dividends in the year (2018: £499.5 million), paying £29.9 million in relation to the Ground Rent Review Assistance Scheme set up to assist certain of our customers to move their ground rent escalating terms to less expensive terms and £5.9 million incurred to replace ACM cladding.

Net land spend, including the payment of land creditors, increased by £100.1 million to £681.5 million (2018: £581.4 million) and we invested £2,760.1 million in work in progress (2018: £2,406.6 million). This combined with an overall decrease in payables and lower operating profit resulted in a decrease in net cash from operating activities to £510.0 million (2018: £641.3 million).

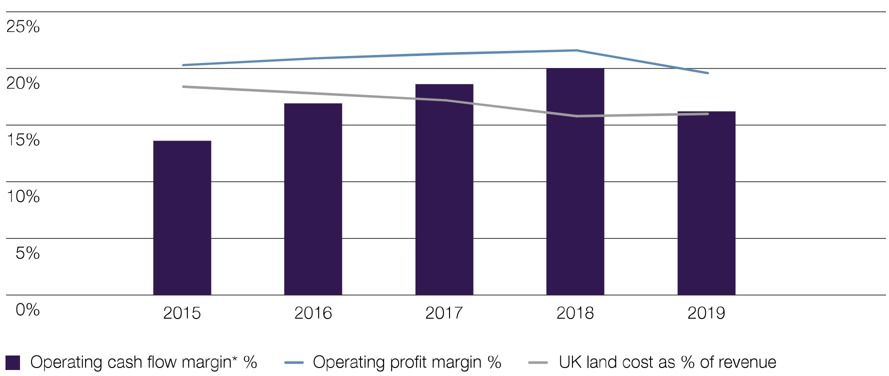
In addition, purchases of fixed assets and software increased to £12.6 million (2018: £2.4 million) following investment in equipment and systems as part of the workstreams to enhance productivity. Corporation tax payments increased to £149.0 million (2018: £139.6 million).

In the 12 months to 31 December 2019 we converted 82.6% of operating profit into operating cash flow*** (2018: 92.6%).

Financing structure

At 31 December 2019 our committed borrowing facilities were £635 million of which £550 million was undrawn. Average net cash for 2019 was £157.0 million (2018: £259.6 million net cash). At the start of 2020 we extended the term of the £550 million revolving credit facility by a further year to 2025 resulting in an average maturity of the committed borrowing facilities of 4.9 years.

Operating cash flow



* Cash generated by operations divided by revenue.

Dividends

Subject to shareholder approval at the AGM scheduled for 23 April 2020, the 2019 final ordinary dividend of 3.80 pence per share will be paid on 15 May 2020 to shareholders on the register at the close of business on 3 April 2020 (2018 final dividend: 3.80 pence per share). In combination with the 2019 interim dividend of 3.84 pence per share (2018 interim dividend: 2.44 pence per share) this gives a total ordinary dividend for the year of 7.64 pence (2018 ordinary dividend: 6.24 pence per share).

This dividend will be paid as a cash dividend, and shareholders are once again being offered the opportunity to reinvest all of their ordinary dividend under the Dividend Re-Investment Plan (DRIP), details of which are available from our Registrar and on our website. Elections to join the Plan must reach the Registrar by 23 April 2020 in order to be effective for this dividend. Further details can be found on our website www.taylorwimpey.co.uk/corporate

In addition, on 12 July 2019, we returned £349.9 million to shareholders by way of a special dividend, equating to 10.70 pence per ordinary share. As previously announced in July 2019 we intend to return c.£360 million to shareholders in July 2020, equating to 10.99 pence per ordinary share, subject to shareholder approval at the AGM. This is proposed to be paid on 10 July 2020 as a cash dividend to all shareholders on the register at close of business on 5 June 2020. Shareholders will be offered the opportunity to reinvest all of their 2020 special cash dividend under the DRIP, for which elections to join the Plan must reach the Registrar by 19 June 2020.

The Board continues to keep the mechanics of how the Company will pay special dividends, including the merits of undertaking a share buyback at some point in the future should it become appropriate to do so, under regular review.

Going concern

The Directors remain of the view that the Group's financing arrangements and balance sheet strength 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 are prepared on a going concern basis.

Chris Carney
Group Finance Director

For our Viability statement see page 52

Approval of the Strategic Report

This Strategic Report was approved by the Board of Directors and signed on its behalf by

Pete Redfern
Chief Executive

Alternative Performance Measures

The Group uses Alternative Performance Measures (APMs) as key financial performance indicators to assess underlying performance of the Group. The APMs used are widely used industry measures and form the measurement basis of the key strategic KPIs (return on net operating assets, operating profit margin and cash conversion). A portion of executive remuneration is also directly linked to some of the APMs. Definitions and reconciliations to the equivalent statutory measures are included in Note 32 of the financial statements.

Definitions

* Operating profit is defined as profit on ordinary activities before net finance costs, exceptional items and tax, after share of results of joint ventures.

** Return on net operating assets (RONOA) is defined as rolling 12-month operating profit divided by the average of the opening and closing net operating assets, which is defined as net assets less net cash, excluding net taxation balances and accrued dividends.

*** Operating cash flow is defined as cash generated by operations (which is before taxes paid, interest paid and payments related to exceptional charges).

† Adjusted basic earnings per share represents earnings attributed to the shareholders of the parent, excluding exceptional items and tax on exceptional items, divided by the weighted average number of shares in issue during the period.

†* Net operating asset turn is defined as 12-month rolling total revenue divided by the average of opening and closing net operating assets.

†** WIP turn is defined as total revenue divided by the average of opening and closing work in progress.

‡ Net cash / (debt) is defined as total cash less total financing.

‡‡ Cash conversion is defined as operating cash flow divided by operating profit on a rolling 12-month basis.

‡‡‡ Adjusted gearing is defined as adjusted net debt divided by net assets. Adjusted net debt is defined as net cash less land creditors.