Taylor Wimpey plc

Full Year Results 2015

Tuesday 1 March 2016

Pete Redfern, Chief Executive

Thank you very much for joining us. I think we have a fairly normal presentation today so I'm going to just go through a summary of the results, some operational pieces, and show you the results by our new geographic split, which you'll remember at the half year I promised I would do. Ryan will touch on the financial performance, the balance sheet and the sustainability of the performance, and then I'll come on to the outlook and current trading at the end.

And these are the same numbers you've tended to see on our first slide for the last few years but presented in a graphical form. So you see our strategic targets, and you see the last three years performance although, as I'm sure you will all remember, these targets were set nearly two years ago now but for the 2015, '16 and '17 period, and we're very pleased, as I'm sure you'll all have seen from the statement, to have exceeded all three of those targets that we set at that point. And with the conversion of operating profit to cash flow, you'll remember at the trading update we knew we were about 65%, give or take, and when we went through the final numbers we were just ahead on that one as well, so hitting that target. And we will come back, Ryan will touch on these targets and I will probably close with them and just try and give you a bit of a sense of where we see we're going from here which I know will be a key question if we don't cover it when we come to questions at the end. But I'm very pleased with the 2015 performance, I'm very pleased with where the business sits at the beginning of 2016.

Just picking out a few operating numbers from within that, we again have a record year end order book, I think I've told you probably for three years on the run that we feel that we're now sort of at the optimum point at the steady state. The market, in all honesty, has tended to be stronger than we expected, through the back end of 2015, it was stronger, and whether we're looking in Central London, in wider London or across the UK, our order book continues to be at the longer end of the range that we would have expected. That gives us lots of choices, that's a lower risk position to be; it's stronger than we need it to be, in all honesty, our constraint tends to be sort of in this environment building at a greater pace rather than sales, but it does mean that the business is not under pressure on sales and so it means that we can focus very much on price and the quality of those sales.

Again, a further increase in average selling price, we've given you some London splits in these numbers further later on that you haven't seen before, just to help sort of deal with some of the inevitable questions, but that increases across the board, I think if you look at private average selling prices you see increases outside London as well as in.

The private sales rate per week last year was probably the big standout for us, we did not expect in this sort of environment to have sales rates beginning with a 0.7, we expected them to be in the high 0.6s, so that gave us lots of choices during last year and continues to do in 2016. And as you see in the bottom right hand corner with 8,700 plots converted from the strategic pipeline, again another strong year and again, we expect another strong year in 2016.

You've seen this graph a couple of times, and we still think it gives you a good snapshot of market performance, and again would focus on the dark blue line which is our sort of hash total of different customer interest measures including website visits and brochure requests and the like. And if you look at sort of 2013, '14 and '15 and just sort of in your mind take out the volatility within the year you can see each year has stepped up in interest levels, and 2015 sort of particularly strong.

Whilst we came into 2015 being very aware of a general election, in reality the impact of that was sort of not possible to see in any statistics; we felt that as we were going through but looking back it's definitely the case. And you just get a flavour, which I will come back to, at the beginning of 2016 of an even stronger start to this year in terms of level of customer interest. And we'll touch on our short-term trading stats using this format that you've seen before right at the end to bring you right up to date with performance up to last weekend.

But if I focus for now on 2015, as I say, a strong sales rate by first half, second half, and we've given you the split so you can see, second half is always going to be a bit slower than the first half, you know, December is a quiet period, summer's a bit quieter, but with that seasonal adjustment you can see the whole year was stronger than the previous year.

And if you look at the private sales price and just roughly average half one, half two, you're in the low sort of 260s, 263, 264 on sales, that's on reservations, not on completions. If you stripped out Central London, I know it's got a lot of focus on that at the moment, you would have seen a very similar growth, so although the sort of Central London is still pushing up the average selling prices the growth between '14 and '15 is no longer being driven by Central London, we're about in balance on that business and where it expects to be, so the growth that you're seeing is coming from the wider business.

Overall in 2015 the 8% sort of increase in private selling price we've seen is roughly half market, maybe a little bit more than half, maybe 4% to 5% market and the balance is mix. From 1st January to the end of December we feel we saw somewhere around 6% of market driven price increases, but with the timing effect means the impact on the P&L's a bit lower than that. But a very strong sales performance, still low cancellation rates in 2015.

So we said we'd focus on sort of our three new divisions, we feel this gives you quite a lot more granular information, and actually it's the way we're running the business, we feel it actually helps some of our decisions around capital allocation for us to explain those to you, so we're split into a North Division, a South West and Central, and a South East and London. They are roughly similar sizes, both economically and in their operating sort of measures, although obviously therefore the North including Scotland covers a bigger geographic area. And we will give you, and you see in the appendix and in some of Ryan's statements, more granularity of financial performance across each of those divisions which we'll be happy to come back with questions if we don't cover them in the presentation.

But in the North a very strong performance, sales rate sort of up to 0.65, until the last couple of years the North has tended to lag in terms of depth of sales rates, but as we'll see on some of the later stats a very strong return on capital from the North and it tends to be a very, very solid, reliable performer for us. Net operating assets about £800m, we see that as a reasonable sort of place for this division overall to be, we're not expecting major growth sort of in that.

Our Central and South West Division sort of covers the geographic patch you can see, again strong sales rates, it had been stronger for slightly longer, sort of but has continued to lead. The operating assets fell, only because we'd invested heavily in this business in 2014 in land so the relative movement was a bit smaller, but if you looked over a two year period actually our growth here is probably the greatest, particularly investment in that South West business in the Bath and Bristol area.

And then looking at London and the South East and we're including in this, although this is not quite how we manage it, Central London so it's all in one sort of overall geographic bucket from the way that we present it, you see the strongest private sales rate, and if we looked at early 2016 you would still see the strongest private sales rates. Although the market is not as strong as it was, we still see sales rates ahead there, and we still see in this division overall price growth, with sort of a more flat position in Central London itself.

Net operating assets grew, but again if you took a two year view the growth wouldn't be relatively as significant. We feel overall the three divisions and the capital allocation is roughly in balance at the moment, it's more within those divisions that we're sharpening up our capital allocation.

So just some overall comments on the land market, and I'll run through these quickly because it's very much the position that we've talked to you about over the last two to three years; it's stable, it's positive, we're still finding plenty of opportunities, acquisition margins are still around the 20% level, sort of vary between 19 and a half and 20 and a half in any one particular period.

Our focus remains on quality, both the quality of the locations, but also the quality of the financial performance. I think we are getting cleverer about the capital allocation looking further ahead at where we see the real growth areas on a sort of more micro geographic basis, rather than being totally opportunity led.

It is important to us in the short-term land market to remain active in pretty much every market, so we've still got people out buying short-term land, even where our strategic landbank is particularly strong, that keeps the business operationally sharp and also means that if the strategic land conditions change then we're not kind of having to re-enter a market. That strategic land environment remains good, but as we've said a couple of times over the last two years, we have seen more competition, and it tends to be from our larger competitors who were quite quiet in strategic land from sort of 2009 to 2013 and have sort of started to step up again. But still plenty of opportunities and as you'll see in a second we've added a lot of new strategic land opportunities in the course of this 12 months.

This just gives you sort of a really good snapshot we feel of the quality of those land acquisitions, I think the number, or the dot, that you'll quickly jump to is the yellow dot which is the 2015 average for our acquisitions; and as we sort of guided you at the half year we've seen a strong performance on margin but a really stand out performance on new return on capital on those sites and that's been where our focus has been. As I said on the previous slide we're focused on getting the quality right and particular emphasis for the business units has been choosing higher return opportunities, making the most of the Group's capital.

And in the coloured table to the right which you have seen before, you just see that sort of level of quality of site, internally assessed but we believe a pretty strong independent view sort of from our sort of central management team rather than just the local teams, gives you a real snapshot of where the quality of our land acquisitions has gone.

So just showing you sort of how our short-term landbank has evolved over the period, an additional 7,000 plots acquired from the short-term market, 8,700 plots of strategic land conversion completions, very much in balance. We remain of the view that we're comfortable with that landbank anywhere in the sort of 75,000 up to 80,000, we're not particularly trying to drive it up to any number, it's about getting the right opportunities. It wouldn't surprise me if it went up a bit this year if the opportunities remain good, but we're still going to remain very much within those strategic metrics that we set out, but gives us a very strong position looking ahead for 2016.

The same sort of view for strategic land, we've added more but also reviewed and taken out more than we would have expected. I think that's because our sort of dynamic review of that landbank has strengthened each year that we've gone through over the past six or seven years, every site in that landbank is getting worked continually year-on-year. If you look back sort of ten, 12 years you'll probably see a slug of sort of 50% of the strategic landbank that was relatively dormant that had a long-term view that it would come, a lot of those have come over the course of the last few years, but I think the balance has shifted, this is a much more active management process than it's been historically.

And keeping that level somewhere above 100,000 is very comfortable for us, we've been pleasantly surprised by the number of new acquisition opportunities and the quality of those, we'll continue to chase them but they have to be good, and we get harder and harder in our assessment of what it needs to be. And that's about its planning pedigree, it's about the quality of the financial gain we can have for working that strategic site, it's about the quality of the products and the plots that come from it.

Then moving on before I hand over to Ryan, I just wanted to focus on, and I'm only going to pick out the two I've highlighted in red at this point, but we'll come back to the others during the course of the year, just some of the continuous business improvements on the operating side of our business, I'm just going to talk about customer service and about product today, and as I say we have an analyst and investor day in May, we will pick up some of the other elements which are important to us and which drive business improvement going into 2016, '17 and beyond, but I'll pick out two of them today.

This chart just shows our customer service scores and this, 'Would you Recommend a Friend?' question isn't the whole of our customer service output, it's just the one question, it's the one the industry tends to focus on most because it's the one that drives the star rating. And you'll have all heard of people talk about the star ratings, we don't feel that they in themselves massively drive sales success, but they're as good a benchmark across the industry as you've got. Five star is above 90%, four star is between 80% and 90%, three star is between 70% and 80%.

And you can see sort of 12, 18 months ago we were sort of struggling to stay above the five star, we've dipped below it, just, and you can see us fighting to get back, and I'll move on in a second to what we're changing, but it's a continual battle in the production environment that we've got challenging for resources to get this right, but it is critically important to us. And I'm putting it up because we're very focused on it, not because it's going to drive massively financial performance either way as we see it as a huge risk or a huge upside, but long-term we see getting this right as a really important measure of the quality of the business and a really important risk management, particularly if we were in softer market conditions. So we're committed to getting this right, but more importantly committing to get the service to our customers right.

And so during the course of the last 12 to 18 months we've done a full review of every aspect of our customer journey and the service that we provide, a lot of that focus in the short-term has been on delivering our existing processes really well, because in our businesses we find some of them are sort of shooting the lights out on that five star rating and getting into the mid- 90s, the ones that struggle are the ones that are not using our existing processes properly.

And so we've seen some real improvement from just bringing up the lower performers onto that uniform process. But looking ahead we're making some more fundamental changes and really shifting the way that we as part of the industry deal with customer service. We've put in new Heads of Customer Service and although we had Heads of Customer Service in our existing businesses the role was very different, it was very snagging focused, this is much more focused on customer experience and getting things right first time.

To give you an indication, only about half of the original people in those roles have made the grade for that transition. We've got named Customer Service Relationship Managers for each customer, and again that's not just dealing with remedial issues, it's making sure the communication in the relationship is right, and we've introduced a further Home Quality Inspection Report, very much a customer service report with lots of detail, it's about looking at the home through a customer's eyes rather than through a production, construction set of eyes, to enhance our existing processes.

Most of those changes are already in place, certainly between this April and August all of our businesses will be operating to those processes so this time next year we should be starting to see sort of some of the outputs and conclusions that impact on our scores, but most importantly impact on the service for our customers.

And then moving on to the second of the five areas that I've highlighted on product, our standard house type range continues to work well. We're looking at the standard range of apartments as well, not because we see apartment numbers increasing significantly, but because we think the benefits of this are significant for us. We have completed a full review of our product specification. It's very much focused on our customer service element, so it's a lot of small changes, it's not suddenly putting in granite worktops on every site, but it's making sure that every single element is optimised and improved. It reduces our cost, if we get that right, of going back and doing remedial work, but it also improves significantly the customers' perception of the house on the day that they move in. It ties in to some development we're doing on online specification, allowing the customer to specify their house online and actually look at it and see the impacts that changes and options will make to them.

And we're putting more time, effort and a relatively small amount of money at this stage, but significant work into looking at our production methods, looking at different ways of working. We're not about to suddenly start building large number of our houses in factories, but looking ahead at the longer term development of our production methods and the quality of what we do.

Ryan Mangold, Group Finance Director

Thanks, Pete, and good morning ladies and gentlemen.

I'm going to talk about sustainable financial performance in the period. We've made good progress on delivering continuous improvement in the operating results. It's a record year for us across almost all financial metrics, and clearly against the medium targets that we set, as Pete noted before, we've exceeded. We end the year with a very strong, high quality balance sheet with the landbank in great locations where people want to live. And we're also positioned very well for more sustainable cash flows and total returns to shareholders.

In terms of summary of the Group results, and this includes Spain, we've made a gross profit in the period of £788m, which is up 26.9% in the period. This includes a very marginal impact of the NRV positive contribution of £8.9m in the period, versus the prior year of £15.9m. And the trading results have driven just over a 2% gross margins improvement to 25.1%. We've had further benefit from overhead efficiency in the period as a percentage of revenue at 5.5% versus 5.9% in the previous year. It's driven a 2.4ppt growth in operating margin and a profit before tax and exceptional items of £604m, up 34%.

EPS at 14.9p is up by 33%. And net asset value per share at 83.5p is up 5.6p per share after distributing 9.5p to shareholders during the course of the year. The improved operating result and disciplined balance sheet focus has driven a return on net operating assets of 27.1%, which is up by 4.6ppt points and something we are particularly pleased about.

As Pete's mentioned before, we've enhanced our disclosures from a segmental reporting perspective and more in line to how we actually run the business. We've got the North, the Central and South West, London and South East including the inner-London Borough business, and Corporate, from a UK housing perspective, and Corporate includes our central teams as well as the senior operational leadership for the business units. We include strategic land in Corporate, as well as, for now, Major Developments, which is an area we're continuing to add resource and capital to. And as Pete noted before, we've got a slightly higher spend on customer services and a slightly higher spend on people, which is driving the increase of total Corporate cost to just on £70m.

And all divisions are making good progress on all measures with fairly consistent operating margins, which is pretty much in line with our investment in the land market over the years, with strong progress on return on our net operating assets in the North and Central and South West, with London and the South East lagging a little bit on return on capital, just simply on the basis of the commitments we've made over the last few years still coming through to the P&L in subsequent years. As Pete noted before, the Central and South West significant improvement in the return measure there is really due to the significant investments that we made during the course of 2013 and '14, particularly around the Bristol area.

Spain continues to deliver improving results, particularly on the sites acquired post-downturn, and they completed 251 homes in the period and have a fairly decent order book going forward, so continue to position their business well for future delivery.

From a finance charge perspective, net debt finance charges reduced by 19% in the period. It's principally as a result of the 'amend and extend' that we completed with the banks in February of 2015, as well as lower average net debt, which is just short of £100m versus £150m in the previous year. The land creditor unwind is a slightly higher charge to the P&L and as a consequence of land creditors growing year-on-year. And pension interest costs are slightly lower year-on-year, principally due to a lower deficit.

The other finance costs include the once-off £1.5m that we paid in 2015 relating to an outstanding tax issue that was resolved in the period. Also against the Other being a positive number, we've got the unwind of our shared equity discount against our mortgage receivables, as well as some other funding costs included from particularly the government financing.

Exceptional items and tax, we complete an annual net realisable value review of all our inventory and in the period we ended up with a net charge in the UK of £0.6m and this resulted in a charge of £7.2m, all on existing impaired sites, and continue to be in more challenging locations, offset by a net release of £6.6m in the period. And as I noted before, the positive contribution from impaired sites reduces quite dramatically year-on-year as we've traded through those sites or written back any remaining NRV.

We've recognised an £8m deferred tax asset in Spain, and that's principally as a result of the improved operational performance and the forecast operational performance, and £17.8m still remains unrecognised.

The effective tax rate for the Group at 20.1% largely reflects the statutory rate and we've started now to be cash tax paying in the fourth quarter of this year following full utilisation of the losses in the UK.

From a UK performance perspective, just focusing on the UK business, in total the completions up in the period by 925 homes with an average selling price of 8% at £230,000, pleasing with private prices at £254,000, driving some of that growth. And as you saw from Pete's earlier slide in terms of progress on reservations, the pricing continues upwards.

From a joint venture perspective, joint ventures make a fairly small component of our balance sheets and overall operating margins, but we do expect them to continue to grow, particularly as the sites in the Olympic Park comes to deliver a bit more in anger during the course of 2016 and '17.

If we look at the drivers of margin in the period, this is an indicative movement of the operating margin and trying to reconcile the 2.3ppt growth in UK margin. We're trying to compare ourselves to how the market's performed relative to how we have performed, and that's both from a sales perspective, as well as an inflation perspective on build cost. From a sales perspective, this clearly contemplates the forward order book that we carry and the timing of when it gets delivered through to the P&L.

And from a build cost perspective, unfortunately there's no indicator that we can easily point to, to see how we perform against, so this is just our broad understanding of the dynamics from a build cost perspective, which we think for us have increased by roughly about 5% year-on-year, as guided earlier in the year.

This means that coupled with the improved market dynamics over the last three to four years washing through the P&L in terms of historical sites of trade coming off the production line and new sites coming on to the production lines still add some substantial gross margins. It does mean that there's a negative impact, and from the market dynamic of 1.1ppt, but the overall results from a market perspective is that we think we have got a gain of 0.7ppt on margin.

A small shift on the specification changes and product mix and size, however, the land mix improvement is the one that we're most pleased about and it's driving 1.8ppt on gross margin.

We had sold £35m worth of land revenue in the period, which made a slightly lower margin than we did in the previous year, and that's taken about 0.4ppt off gross margins if you do a comparison, and then affordable housing pricing is slightly better. But all of that contributes to gross margins being up by 2ppt, but on a significantly greater level of revenue has driven an improvement of £161m in gross profits to £776m.

Overhead efficiency, as I noted before, improved the operating result by 0.4% and we expect to make some marginal improvement to that as the scale of the business carries on increasing. And this is resulting in the 2.3ppt growth in operating margins in the UK.

If you look specifically at a per plot analysis for the UK, it's pleasing to see a steady trend of decreasing land cost to average selling price at 18.4% for the year, driven by better quality locations and some great short-term land buying, but also significantly underpinned by strategic land promotions. And that's resulting in improved margin if you take on a per unit basis of 2.5ppt gross margins.

Build cost per unit is impacted mostly by mix and product, and clearly there's been some information that we've been able to mitigate as I mentioned earlier, but also the fact that we are selling our units at about 3% bigger overall relative to prior periods.

Selling expenses per unit are constant at roughly about 2.6% and we expect that to remain largely the same as we continue to leverage off digital platforms and a more efficient way of accessing the marketplace. And gross margin per unit at 25.6% in the second-half, now around about £60,000 per unit, and we expect to continue to make some progress in this regard.

If you look at the build cost environment, total build cost per foot increased in the period to £120 a foot, which compares to £114 a foot in the previous year. The underlying increase of roughly about 5%, but also impacted by specification improvements that Pete noted before, as well a little bit by mix. If you look at build cost recovery to average selling price, that's increased now to just over £100 a foot to £103 a foot, and we're expecting to show the continuous positive trend as we deliver on improving quality of the land mix through to the P&L.

Our central procurement items in the year probably increased cost by roughly about 2.2% overall if we look at the analysis. However, the recent deals that we have done, and as you know, we try and procure about 12 months forward or so, 12 to 18 months forward, means that for 2016 the commodity items in the house probably increased by roughly about a percent year-on-year. And I don't think that the full decline in oil prices, for example, have flowed through to the supply chain, and so there is the possibility of making further progress in this regard.

It's pleasing to see some labour returning to the sector, but it's the quality of labour that we're looking for and this remains an area where the sector is still under-resourced, which will contribute to overall build cost increases in total for us this year of roughly between 3% to 4%, of which the majority is going to labour-driven.

This is a chart that we've used consistently over the years in terms of the quality of the landbank coming through the P&L, which is the heritage of the sites with the less strategic land or non-strategic land pre or post-2009. But as you can tell from the balance sheet, a large proportion of the pre-2009 has now washed through the landbank, so it's the last time that we would look at it on this exact basis. All of that being said though the landbank evolution clearly is a significant driver of margin in the period for us going to 2015, but this is more driven now by the component of strategic land than it is necessarily from pre-2009.

We've added a new line to this chart called EBITLA, which is earnings before interest, tax and land amortisation. I'm not too sure whether it's going to take off as a term! I tried to introduce a term called POTMAC a few years ago, which is profit optimisation through the management of accredited capital, but that didn't take off either, but EBITLA, potentially shorter, has got more chance of succeeding.

But this is pleasing, and if you actually look at this recovery perspective, that the land amortisation through to the P&L, if you strip that out from the underlying result, it's a significant contribution to operating margins as well as overhead recovery, so I think it's a fairly meaningful number for us to judge ourselves against.

If you look at the performance against the sites that we've acquired post-downturn, clearly we've got robust information, thanks to the systems implementations that we've done over the last few years from an execution point of view. We had about 8,500 homes completed in the period in 2015, and you can refer to Pete's earlier chart in terms of the investment thesis from a margin and returns perspective, we've outperformed those margins by 2.8ppt in the period, and that gives us great confidence in the delivery of the operating result on a go-forward basis where those are real margins from an investment perspective.

If you look at the movement in net assets, this is an area that we've made excellent progress. The return on capital employed delivering 19.6% growth in net assets year-on-year. And effectively this is return on shareholders' equity, given that the balance sheet is principally ungeared and supported just by shareholders' funds, as well as some cash. And it's almost all of that is profitability-driven through the period. And we've got a small amount of volatility that comes through from the pension funds, but the action that we've taken in terms of mitigating some of the liability does minimise this on a go-forward basis and we continue to work very closely with the trustees to manage that exposure.

But if you think of it another way, it's 12.2% of our net assets that we started the year has been distributed to shareholders, and following the announcement waiting for shareholder approval at the AGM in April we're expecting to return approximately £355m to shareholders during the course of 2016. So on that basis circa 13% of our opening balance sheet will be returned to shareholders during the course of the year, with all of that being supported by profitability in the period. Our confidence in this is the strong high quality balance sheet that the business has which positions us extremely well for more sustainable long-term returns to shareholders.

If we look at investment in the UK landbank, the average selling price in the landbank at £245,000. That is approximately 16.3% of ASP, down from 17.3% in the prior year. The 76,000 plots that we've got in the short-term landbank is on the balance sheet at about £2.5bn. Almost all of that growth of the investment is funded by shareholders' funds effectively and partly through land creditors. The continuous evolution of the quality of locations, given the strength of the landbank, means that that's constantly refreshed and in great locations where people want to live. The strategic pipeline of 107,000 plots is only on the balance sheet for £171m, so it's an extremely effective use of capital given the significant inherent margins contained in the strategic pipeline. Total revenue in the landbank stands at £40bn now, of which £18bn is in the short-term landbank with planning permissions. As I said earlier on the slide, it's very pleasing that the ratio of land cost to average selling price at 16.3% gives us great options for the future.

If we look at the balance sheet and financing structure, we ended the year with net cash of £223m after returning £308m to shareholders in the period. Adjusted gearing, including land creditors, at 14.3% underpins our flexibility for the future. Land creditors will continue to be used successfully and selectively where it makes the most commercial sense for us, most notably the very large capital intensive sites. In the period we got recognised by another one of the rating agencies which means we end the year with two rating agencies recognising us as Investment Grade.

If we look to turning profit into cash, looking back at the trends over the last four years where the profitability that has been generated has been deployed. The significant investment in land in earlier years in getting to the optimal scale is clearly driving the result and providing us the great platform we're in at the moment. Work in progress continues to consume capital, both some of the inflationary measures we spoke about earlier, as well as continuing our investment into the London marketplace most notably in 2013 and '14 is driving that. As Pete noted before, we're pretty much at a steady state now in our inner London Borough business from the number of outlets, but there is still a certain level of work in progress to be consumed there.

Pension contributions reduced from 2014 onwards and we, as I noted before, continue to work with the Trustees to manage that exposure and try and get the scheme to be self-funding within about five years. Cash tax is clearly going to be more of a significant issue for us on a go-forward basis now that the UK losses have been fully exhausted during the course of 2015. From a balance sheet investment perspective from land is largely at the optimal scale and so it will just be minor continuing investment, and this allows us the position to have a greater level of profitability generated available for returns to shareholders.

From dividends we returned £308m in 2015. The dividend policy from a maintenance perspective stays exactly the same. If you recall, it's a range of 1-2% of net assets resulting in a full year maintenance dividend of 2% at 1.67p, which is up 7% year-on-year. We've put in a cash return of £300m for this year subject to shareholder approval, which is 9.2p per share, and so we expect the total dividends to be paid this year of roughly £355m, or 10.9p, which will be up about 15% year-on-year.

In summary, we've made significant progress against all our medium-term average targets. If you recall, those targets were an average of 15 through to 17, and we will report on them on a cumulative basis now that we've done 2015. With operating margin of at least 20% underpinned by great quality landbank and the strategic pipeline with progressive delivery to date.

We continue to make good progress on cash conversion targets with the optimal scale of the landbank pretty much achieved on the balance sheet, with some net investment into work in progress on a go-forward basis. We're in a phase now with more substantial returns to shareholders with £355m committed for 2016, and the business positioned really well for more sustainable returns to shareholders.

I'll now hand over to Pete for market and outlook.

Pete Redfern

Thank you, Ryan. First of all, updating the 2015 market and sales performance and bringing it up-to-date to last weekend. I think fair to say we are all across the business very pleasantly surprised by the strength and depth of the market in early 2016. It's better than it was at the beginning of 2015. We were conscious at that point about the general election ahead which didn't really materialise as a market impact. But if we look at this year, I think if you talk to all of our heads of different geographies it's generally performing very well. And you see that in the stats with the sales rate – and you've got to remember this includes the first couple of weeks of January where things don't really get going – a sales rate of 0.77 is very strong. The potential that leads onto given the strong order book for price growth during the course of the year feels like a good place to be and better than we would have anticipated as the year turned.

You see that in the strength of the order book, we see it in the selling prices in the order book. The one bit I know that everybody is very focused on is Central London. It's undoubtedly flatter than it has been over the last couple of years, but for our business in Central London which tends to have been focused on carefully chosen quite small sites, we're finding prices are still ahead of what we assume when we bought the land. We're not seeing the need to discount prices at all, and sales rates, although lower than what they were, are still running slightly behind our capacity to build, so isn't really having an impact. And our view of the out-term for Central London for 2016 is no different really to what it was 3 months ago or 12 months ago. In fact, if we have a constraint it's our ability to build a couple of blocks that are due to complete in December/January next year and whether they come into December or January. So from a market point of view we feel pretty comfortable with central London and pleased with the UK as a whole.

If we then look at the broader trading environment things remain in a very good place. On the land side it is still a positive planning environment compared to our long-term expectations. There is good land availability. Our landbank was very flat in 2015. This is not strong guidance but it would not surprise me if it comes up a little bit. And I'm talking a couple of thousand plots, so we might end up 77 or 78 rather than 76 simply because of the opportunities available.

I haven't changed my view from the trading update that starter homes are hard to call, and I know at that point you felt I was more cautious than peers. I think you might find peers have been a little bit more cautious recently. We still wait to see what the final policy looks like. We're not deeply worried about it but it is something that we're tracking. We don't see it having a big impact on volume production, but it's hard to call when we haven't got the final regulatory detail. But overall, the regulatory environment that we're in, the land and planning environment we're in, is a positive one and one where we certainly feel able to meet and probably exceed our objectives.

On the sales side we're seeing, as I said, stronger customer demand and leading to a potentially stronger pricing than we would have expected. We have seen some price growth in the early part of the year. Customer confidence is good. Mortgage availability is good. Mortgage cost remains low. We're not particularly concerned about the impact of the EU Referendum as a referendum, we don't think particularly against that strong market backdrop that we're going to see a significant hiatus in sales in the lead up to the Referendum. If there was an exit we would be concerned about the transition, housing is an important capital purchase for people and it's hard to call if that would have an impact. We wouldn't be worried about the long-term consequences, we're a very UK centric business, but it will be naïve to be sat here thinking that there could be no impact if the UK were to exit. But certainly the Referendum itself does not give us particular cause for concern. But on the sales side things remain, I think, particularly strong for us.

On the build side we've seen an improving cost environment. Our guidance for 2015 at the beginning of the year was a slightly nervous 5%, and it ended up being quite a safe 5% that might have even been with hindsight a little bit under that. As we look at 2016 our guidance has come down slightly to 3-4%. We're actually seeing some slight reductions on material costs, we're seeing less pressure in most geographies, and it's not universal, less pressure on labour costs, so the build cost environment is better. Availability is a bit better, although as Ryan said, getting the right skills consistently on every site is still a constraint, so I would not like to give you the sense that that is easy. We have got a very strong focus on getting our product quality right, it ties into our customer service piece. We think it's important for our customers, but it's important for the business long-term; and we remain very focused on driving the quality of the business in every sense, financial as well as product, rather than driving maximum volume. But as we go into 2016 we think we're in a better place than we would have expected to be if I roll the clock back three or six months.

If I finish with our strategic targets. I know that the main question in people's mind is actually where do we now see those panning out? When we set them nearly two years ago I think people in the room were surprised that we were setting three year targets, surprised with how punchy the numbers were, and now you're sitting here thinking why aren't you beating these by even more in 2016, '17, such is life. We said at the point in time we set them that we felt the easiest was the return on net assets' target, that that one was the one that we'd be very disappointed if we didn't meet and exceed fairly quickly, and that's proved to be the case. I have said before, and I would state today, it's not a formal restating the target, but certainly from a personal position I will be very disappointed if that doesn't end with a 3, that we don't get returns on net operating assets over 30% over the course of the next two or three years.

On the operating profit margin target I've guided you to 50-100 basis points for 2016, above 2015. I still think that guidance is good but with the environment that I've set out I think the risk is on the upside, certainly the upper end of that range feels pretty achievable, and some potential upside against that. But we will see how the market progresses during the course of the year.

On cash conversion, I would remind you this is a three year target. This is a strategic decision about where and when we put our money. Actually if great sites come up during 2016 and we invest a bit more in 2016 and that's slightly under the 65%, and we then comfortably beat that target in 2017 we'll be very comfortable. We expect over the course of three years to be ahead of the 65%, but it is very much about the longer term cash flows of the business rather than an annualised target. So it's good that we got there in the first year, but there's probably less long-term upside against that than the operating performance targets at the top.

So we think that there is potential to go for those targets. We'll be reviewing during the course of the year and we'll update you on our views. Not formally doing so today but definitely think that the environment we're in the position of the business is very strong, and we'll be looking to maximise the impact of that on performance and on the dividends that we're able to pay to shareholders. But as you know, we set out our dividend plans at the half year for the following half year which is what we'll be doing this year.

I'm going to leave you with one thought which is interesting to me as I look back at the business over a long period of time, and it's in some ways an odd bullet point to finish on. The land costs in the short-term landbank is just over 16%. If you look back 10 years, and it would be roughly similar if you look back 11, 12, 13 years as well, so we're looking about fundamental differences in where our business is, and to a certain extent where the industry is between cycles, that number would have been 10% higher so it would have been about 25%. The cash difference, the investor capital, the risk that the business has, it's reduced ability in that environment to return cash to shareholders or to keep debt in a manageable place, the difference between those two numbers is roughly £1.5bn worth of cash. So our level of operational gearing, our risk relative to the housing market, is in a fundamentally different place to 10 years ago.

Now a lot of that is driven by us by our strategic land investment, by the decisions we've taken, but as I say, it's also an industry thing and a different environment. If you really sit back and look at where the business is and the potential that it has compared to 10 years ago, if you look at the ability to return cash to shareholders, the ability to trade through a weaker period of the market if we see that in three / four years time, it's fundamentally different. To me, if I stand back, and I remember as the market turned and we were starting to invest in land again in 2009, we were particularly pleased because that number on new investments was 18%, and I told you all don't expect that number to be consistently repeated because it feels like a bit of an anomaly. Well actually looking now five years on from that it doesn't feel like an anomaly. The market is in a very different place, the balance of the business with that strength of strategic land is in a different place, and it puts us in a strong place for long-term improvement path where are today.

Open for questions please.

Question 1

Will Jones, Redburn

Just a few if I could please. Firstly around cash generation in the business, or particularly the net cash balance based on even the progressive dividend from here if the world stays relatively stable looks like it's going to continue to move higher. Is that something you're comfortable to see? Because I think in the past you've talked about potentially net cash over the cycle being close to neutral but just latest thoughts around the net cash balance build up would be great.

Secondly, just coming back on the land ASP point that you highlighted at the end. I think back in the slides there was a plot cost to intake ratio approval rate of 23% land to price in the year just gone. I know it can jump around a lot based on mix, but perhaps you could put that difference versus the 16% in some context?

And the last one was really just around the strategic land, the 16,000 plots you added to the landbank in the year. Can you give us any idea of what the capital cost is of that in the year if you have it to hand? Thanks.

Ryan Mangold

We've always indicated that we look to trying to manage the cash balance to being a fairly neutral position. The fact that we ended at £223m for the year ahead of returning over £355m the subsequent year is probably right. One land deal in Central London that could have happened or didn't happen at the turn of the year end could have changed that cash number by £40m. We look at it at a much more medium term flight path than necessarily just at a year-end point in time.

But the principle is there to stay broadly cash neutral. In other words we should end the year at roughly around £250m or so.

Pete Redfern

And I'd reinforce that. We've said since we announced our dividend strategy that we weren't focused on remaining sort of cash debt neutral every single year to the finest tune amount and you shouldn't look to a cash number at the end of the year as being a brilliant key to the dividend. But what we are not going to do is see a cash balance steadily build up to a very significant level. It's not efficient and it's not where we'd be. But as Ryan says the volatility on that cash in that business is reasonably significant around the turn of the year end.

This isn't changing anything that we've said before. If you believe our forecasts and our guidance and your own forecasts and you have a significant cash balance building up it is highly likely over time that gets converted into dividends. But it obviously depends on trading performance and the balance in the market.

On the plot costs on trading rather than intake, the biggest difference is the geography. If you look, and it's easy to do because we've given you the granularity between the three divisions, but if you look at landbank in London and the South East is shorter than the other two divisions – for lots of reasons but most significantly because trying to get the returns in London and the South East with a long owned landbank is next to impossible, so you have to have a much more active management. So inevitably the proportion of land in the P&L from London and the South East relative to Midlands, Central, North etc is quite different. Now, obviously in Central London that's most extreme but it's more the general the London and South East piece. But the truth is if you'd taken my ten years ago number for London and South East compared to that 23% you'd have found that there was a 10% difference there as well. So the tide has moved in the same way across the country, it's not that London is particularly a different movement, it's just in a different place.

Then the 16,000 strategic, I can't give you a firm number for the addition cost, but it isn't a significant amount. I don't know, Jenny, if you've got a particular rough idea of the number, but if not we'll come back to you. But the cash side of our investment in strategic land is not generally huge. It only becomes significant when we're well through the planning process and we take a decision that now's the right time pricing wise. And that tends to be later than that stage of addition. So it will be small numbers of millions, not tens of millions.

Ryan Mangold

If you look at it from a net investment basis the total investment in strategic land has increased by £9m year-on-year, if you look at it on a net basis, which is probably the right way to do it.

Will Jones

What is that balance at the moment, sorry?

Ryan Mangold

So it's £171m. If you look at slide 12, sorry it's a slightly different number, the slide on investment in the UK landbank in my section (slide 31), you'll see the net growth.

Pete Redfern

But the strategic land balance is more about availability, resources, quality of site than it is about the cash we invest. The same is true if we look at a site and say, "Actually this one doesn't work for us" as it is if we add a new site.

<u>Question 2</u>

Aynsley Lammin, Cannacord

Just two. Maybe in the context of your comments about the land market and the plot cost in the balance sheet and that being better than you would have expected, does that change your view on the kind of length of maybe your capital return commitment? And when you're thinking about that in the half year should we think about any change between maintenance, special dividend or length of programme?

And then just secondly on the outlets, obviously you've flagged up a very strong order book, I was just wondering if you could provide a bit more colour on the ease of delivering completions this year, how easy it is to bring outlets on site; what you expect there. Thanks.

Pete Redfern

The first question is a very fair one. I don't think it changes our view on the length of a capital return commitment. We've talked about that a number of times and you know my view that the really long-term pieces on that are slightly misleading. The one thing you can guarantee is they won't be the amount that is actually paid. And I think time has shown that's the case.

Now, we have said and we absolutely stand by, we will continue to push that number up where the opportunity is there, we've done so over the course of the last couple of years. And it's pretty likely, as I think you can all work out, that we will do the same this year. So our view of what we think the conditions will, how long the conditions will remain this way, we're pretty sure they will for the next three or four years. We have no idea in the next eight or nine years and we don't believe anybody else does. So assess us on what we actually achieve in terms of the cash we generate and what we pay out.

Can you just repeat the second question?

Aynsley Lammin

Just on average site numbers for this year and delivering the completions.

Pete Redfern

I think for this year, again we've touched on this before, we'd like to see outlet numbers come up but the strong sales rate means they tend to be based in the order book. Our constraint on completions in the margin is around us wanting to get the quality right, it's not on our ability to sell, and nor is it really on our ability to open outlets. As you can see from the presentation we've opened a large number of outlets. I think as we look at 2016 we've got upside on margin, we've got upside on average selling price, we've got upside on quality performance – we've probably got a couple of sites that we will choose not to deliver in 2015. So for the downside anywhere it's on volume for this year. But it's production related because we want to get it right and we're committed to getting it right. And we've said consistently through the last five or six years our focus is on the quality of the production, financial or otherwise, not the quantity; that's the balance. But it's not about outlet openings; it's about production, really getting it right on sort of site by site.

Question 3

Chris Millington, Numis Securities

I've got three, if I can. Firstly, I think you mentioned in the meeting that you had a bit of upside to show on the overhead as a percentage of sales ratio. I was just wondering if you could give us a feel where that settles down.

Second one is, sorry about this, a question on London: just what your exposure is to properties over a million or maybe £1,000 a square foot or however you want to slice that.

And then the final one is a question really just about underperforming or legacy assets, and how much capital employed you've got in assets which aren't making a full return. I think one or two of your peers have mentioned a stat on that basis.

Ryan Mangold

The overhead of capital I think we can get that down roughly about 5% or so. I think we've got a relatively larger investment at the end of 2015 and going into 2016 focusing on customer service as well as the people in the organisation. But I think a long-term trend of roughly about 5% wouldn't be an unusual way to look at it.

On our legacy sites, the underperforming legacy sites linked to net realisable value, a substantial proportion of those are sites that we're just not trading on at the moment and have no intention to trade until there's either perhaps a different mechanism for delivery of those sites. But they're generally speaking very capital intensive sites on the periphery of markets that we want to operate in, and hence incur a relatively high impairment charge against them. But with less than 20% of sites being legacy sites, and some of them contributing incredibly positively, for example where we've got the Analysts' Day at Great Western Park that is a legacy site that is doing phenomenally well so that's not a drag at all. But the ones that are truly a drag are really, really few now.

Chris Millington

Can I just follow up on that? I think you said 20% of legacy sites in the mix, but they have a slightly higher capital employed. So would we think maybe 25 or have I heard that slightly incorrectly, it seems quite a big number.

Ryan Mangold

In terms of relative capital employed?

Chris Millington

Yeah, capital employed relative to the active kind of unimpaired sites?

Ryan Mangold

They're relatively low. If you think about total inventory in the UK from a land perspective we're roughly about £2.5bn. So these legacy sites that are, and we've got full disclosure of that in the statement in the inventory note, the impaired sites in the UK are at £115m. So it's relatively incidental in the bigger scheme of things. So we really are down to the last few that are going to have a slightly different method of execution, because a large proportion of those there's just simply no intention to open at this stage. But they might work really well for a PRS, but we're not in the PRS business, but that might be an option for somebody to take the sites that are better located for that type of housing supply.

Pete Redfern

I think there for a second there you were talking different semantics, weren't you, because Ryan was talking about any site pre-downturn as being legacy, and you were talking – yeah, I think you've got there.

On London you don't need to apologise for asking a question about London, Chris. The next person who asks a question about London needs to apologise but you got in there first so you don't!

I think your question was phrased right because actually the part of the market that is slower is roughly something over a million. It's a contribution of all the different factors, particularly stamp duty, and a little bit overseas buyers that has that impact. And when we look those are definitely the ones that are slower. I couldn't give you a number over a million, but it's sort of single digits to sort of 20, it's that order of magnitude of product that we might have on sale. It's not huge. Even in our Central London business the weighting is slightly below a million, and outside Central London it's a real exception to have anything that's over a million. But I do think that is the part of the market where if you tend to find anything in London, central or otherwise, that's under a million is still moving pretty well, and anything over is moving but slower. But it isn't really particularly material for us.

And where we're over a million it tends to be one point something, not two point something or three point something. And in fact we have actually probably less exposure over two million than we might have had a year or two ago where we had a couple of sites that we were still trading through.

<u>Question 4</u>

Gregor Kuglitsch, UBS

I've got a few questions. The first is just on the chart, on the intake margins and return on capital, and I guess I had really two questions there. One was to what extent is land creditor usage driving the higher return? And if you can give us a sense, perhaps the direction of travel, because it looks like, if my maths is right, perhaps new land doing a third deferment. I'm not sure if that's the right number.

And then secondly on intake margins if you can give us some colour. I think you mentioned 20% roughly, I think there was an open market point. Perhaps you can give us a little bit of colour on the strategic uplift, and particularly considering to what extent you've got any freehold conversions coming through.

The second question is just maybe a little housekeeping, and I suppose the question is really is there some more tidying up? And it ties into the previous question, and I was thinking specifically about Spain which is now at profit, have you thought about getting rid of it, shared equity portfolio, these sorts of things which are still sort of hanging around on the balance sheet?

And then finally I think you gave a hint on work in progress build on London; maybe you can give us a bit of an update of the numbers involved there and how long that will take to reach full maturity? Thank you.

Pete Redfern

I think you had five questions there and I just captured four of them. Could you just cover the first one?

Gregor Kuglitsch

Land creditors, intake margins, and strategic, Spain shared equity and WIP build.

Pete Redfern

On land creditors we haven't made any sort of strategic shift in our viewpoint on the use of land creditors. It's case by case. And it tends to be slightly more related towards the geography and the sheer capital scale of the site. And you tend to find that we use therefore more land creditors in the South and the South East, we use them on the bigger sites. And so the number's more gone up because if you look at our balance of assets and timing wise it's just shifted in that geography rather than it being a fundamental difference.

And those sites tend to be at acquisition, those sorts of generally South East sites and the bigger sites tend to be lower return on capital. So actually it's more coincidence that the land creditors has gone up at the same time. It's more that we have pushed our businesses harder to pick and choose sites at good margins but with higher return on capital than it is that we've made a sort of sudden shift in land creditors.

Would you agree with that, Ryan, we're not talking about the question from that angle, so?

Ryan Mangold

That's broadly right. If you do take movement in gross land in the period you look at the move in land creditors your math is pretty much on. But there's not a policy that we will fund a certain level of land acquisitions through a particular method. If it is an extremely capital intensive site it's going to take a larger period of time for recovery. If we're absolutely comfortable for the commercial rationale for the investment in the first place we need to let it stand on its own two feet. If we can enhance that return by using a bit more sophisticated way of funding it because it's a longer date then we will look at that as an option. But there's no free lunch in this world for sure, value comes somewhere and we've just got to be completely comfortable.

Pete Redfern

On input margins and strategic input margins, the strategic margins haven't massively changed, the discount levels vary significantly but 15% of land value is not an unreasonable estimate. Obviously with the lower land values that makes a relative difference because it's purely mathematically, but we're still tending to find at the point we buy them strategic margins are maybe 5% higher in actual delivery end up more like the 7% or 8% higher than we've historically talked about.

In terms of assets on the balance sheet that are hangovers from history if you like, the one I think yes it's in many ways frustrating as a shared equity, actually that is a non-performing asset in a financial return place, and we continually look at the right, best value option to liquidate it and if the opportunity is there we'll take it. But it's just a choice between timing and price so I wouldn't be surprised if something happened this year but I wouldn't be surprised if it didn't happen until next year or the year after, but it's not an asset that obviously adds to us.

Spain, our view hasn't changed, we're not the right long-term owners of Spain, but whilst our business performance in Spain has improved significantly over the last two years and the market is more benign than it was, you are still not at a place, and in some ways it's why our business performance has improved, you're still not at a place where there are active acquirers of Spanish land at scale. We're starting to see some of that. We're starting to see a more live land market. We're starting to get to the point where a lot of bank assets are at a value where they can be liquidated and that's part of it; but we're not holding our breath for this year but we keep looking at it. So we still have the same longer term view, but there just isn't really active trade in those kind of assets at any scale, it's picking up individual sites.

So we expect and we continue just to tick over that business and it's helpful that it's doing well but it just doesn't feel like there's great opportunity.

Did we answer all of them or did we miss one at the end?

Ryan Mangold

Work in progress, build up. We think that the sales rate that we're currently delivering at is pretty much optimal in a healthy mortgage market. We are expecting to make some volume growth as we deliver from the landbank and that will more likely come through to outlets investment as opposed to necessarily pushing the sales rate much more because we think the sales rate's in a healthy position.

Work in progress on average as a thumbnail is roughly about 3m, £3.5m per development. If it's in London it's slightly more intense than that. And so over a period of the next 12 to 18 months we can see us investing, order of magnitude £100 to £150m in work in progress broadly.

<u>Question 5</u>

Gavin Jago, Peel Hunt

Just a couple if I could please? The first one was on margin Pete and your thoughts for where margins could progress this year, I just wonder if you could give us a feel where the margin in the order book is at this stage, just to give us a feel for how confident you are of that potential 100 bps or more uplift for this year?

And the second one is just a point of clarification, did I hear you right you said that volumes might be down a bit this year or do I need to clean my ears out?

Pete Redfern

No we don't expect volumes to be down a bit. Just if you look at the balance of upside and downside relative to the guidance that gave and I think the guidance that I gave the trading update was that the volume growth we saw this year was perhaps 6%. 2015 volume growth was a bit greater than we expected so what I'm saying is against that 6% there's slightly more downside than upside. Whereas on the 50 to 100 basis points guidance there's more upside than downside. And at this point I would guide towards the upper end of that 50 to 100 range but as we look at the pricing dynamics at the moment we think there's a bit of upside against that which we'll update you on later in the year.

<u>Question 6</u>

Kevin Cammack, Cenkos Securities

I've got three. I can't remember how many times but I think it's at least five times that the word 'sustainable' was used in relation to both the market and the balance sheet in particular. With that in mind has the Board considered changing the policy on the ordinary dividend payment or at least taking it at the gross of return level of growth? I simply ask that because clearly when you look at the progress that the business is making and will continue to make you could argue, yeah no one's arguing about the specials, but you could argue that the level of ordinary dividend should reflect the greater sustainability of what you see in the business side - I'd just welcome your thoughts on that.

Secondly just again coming back to the analysis that you made on the plot cost to selling price and the £1.5bn of differential, decades worth as it were, I suppose the secondary question to that is do you see any major or structural shift in the build cost ratio as opposed to the land cost ratio?

And the third question I had was just in terms of the presentation now with the regional splits, I think you said the central overhead included the "major developments" division. Is that the case now because there really isn't any revenue particularly coming from that or do the divisions actually include the revenue and margin benefit but none of the cost of the investment?

Pete Redfern

Okay. Let me deal with the last one first because it's more of a technical question and the other two are fairly fundamental or strategic questions. I wouldn't read too much into major developments being in overheads and it's a bit the same as strategic land, we run the operating business geographically. We don't do a lot of reallocation of costs; in fact the only thing we reallocate is IT. So our central overheads then tend to be higher because we don't reallocate any of them because both Ryan and I dislike wooden dollars internally in the organisation. The fact that you then lose sight of where the cost sits. And major developments is at that point where it's still a development business.

You're right that it doesn't have revenue but we don't want to get into a complex exercise as we don't with strategic land where we try and reallocate that cost all around the place. We know we value it. We think it's the right strategic decision; we'd rather be able to see that cost separately and identify it.

So that's all that it's down to and it will probably sit in central overheads for quite a long time and maybe forever. If it's big enough we'll report it as a separate trading line. From our point of view obviously we can see it that way anyway.

Moving back to the first two questions you're right sustainable does come through a lot and we have said, I hope consistently for the last five or six years, that one of the things that we want to do differently through this cycle is always have an eye on the long-term cyclicality of our industry and our business and not to get sucked into just short-term decisions and short-term trading. And that comes through in this presentation, and hopefully has come through in others.

And you're right that does colour the board's conversation on dividends. During the course of 2015 we doubled the maintenance part of the dividend which was the maximum limit we could go in how we'd put that policy together. And it was very much with that thought process. And as we look ahead the Board is going to continually ask that question about what do we think is the real long-term sustainable part of the dividend?

I'm not going to answer that question for you today but it is a conversation that we have had and will continue to have. And not just in relation to the dividend, but our belief is a key part of our job is not just maximising performance in 2017 and '18 it's making sure we have a weather eye on what the downside risk might be and making sure the business is geared up well for weaker conditions, because we're not worried about those today looking over our shoulder but if you're not looking at them when times are really good then that's when you tend to walk into them in the wrong place.

So a lot of how we're running the business does have that in the backdrop and dividend policy is a key part of that and that question is being asked.

On plot cost again I think it's a great question and the answer is yes the fact that land cost is lower by definition means that build cost is a different mix of the overall financial performance of the business. And you will have noticed I'm sure through my presentation there was just an erring more towards some of the operational measures, towards R&D and innovation on build cost; because I think we've gone from an environment where in the last cycle if you were really good at land then you could perform really well even if you weren't very good at everything else. If you were weak at land you were kind of stuffed, however good you were at everything else. And it was not just the most important thing in our business in terms of performance it was in some ways the only thing that made a really significant difference.

Whereas I think the environment we're in now land is still probably the single most important thing. I still think having the right landbank, the right quality, the right locations is still the single most important thing that we can get right, but because of that economic shift in where the land market is the balance actually there are other things around how we sell, the customer service, which we've touched on, and particularly how we build not just short-term cost efficiency but the consistency, reliability, deliverability of how we build, that are relatively more important than they've been historically because of that balance.

And if you look at it purely economically there's actually quite a big positive to how the financial performance of a housebuilder should go if that trend continues; because for the simple balance sheet reason that the needs of the business tend to mean we'll keep at least four years of balance sheet land in trade and just simply because of the pace we work through sites. We only need to keep at most one year of balance sheet work in progress. So even if the two offset each other and margins stay the same, and what we're seeing at the moment is margins are going up because the two aren't offsetting each other; we're losing a little bit on build cost but not as much as we're gaining on land. But even if they stayed the same the return dynamics, the cash at risk, the ability to create cash, is fundamentally different. And one of the bits people haven't really recognised is that's because you only keep one year of build costs and you keep four years of land at a simplistic sort of level.

So I do think it's having an impact and I do think in our focus we feel we have dealt with some of the long-term, historical land weaknesses and gone from one of the weaker performers to one of the best performers. I think on build costs we've always been pretty good, we remain pretty good, but I do think there's upside in build costs but actually as long-term view on it. It's not just about trying to shave 2% off the price of bricks; it's actually just thinking a bit more cleverly, particularly with the resource limitations that we see.

Question 7

Glynis Johnson, Deutsche Bank

Four if I may? The first one on strategic land, you've obviously talked about the margin uplift that you see from the strategic land but I'm wondering if you could just give us a bit more colour on the land that's been put in? The last couple of years you've talked about how the land has been nearer to allocation, the risk profile has been lower, the discount may be slightly lower, so I'm wondering if you could give us a bit of colour on that? And also why we've seen some of that strategic land being taken out? What have been the issues that have been there?

Second of all in terms of return on net operating assets, London, South East, and why it's lower? You've told us it's about the amount of work in progress that you're putting into that, working capital that you're putting in, but I seem to remember that you're acquiring at a higher hurdle rate, particularly in London, so I'm just wondering if you could talk about have there been developments in that return net operating assets that have maybe missed expectations? Is it something to do with price inflation versus build cost? Anything that's impacted that?

Thirdly on Spain, and it's a long time since I've asked any question on Spain, I did see an announcement about a joint venture in Spain that you're doing, is that how you're going to look to try and reduce some of your exposure within that business or is that something that I just haven't been asking about for the last five years?

And then one more if I may, I may have misjudged the four? Obviously it's probably not the time or place for you to give us any kind of update in terms of the Redfern review, perhaps not, perhaps you're willing to give us something now, but I'm just wondering if you can talk about what are you seeing in terms of feedback from government, government pressure? We're hearing questions about land banking, whether or not you'd be forced to sell parts of bigger sites in order to try and get production up on those. Is there anything that you can tell us in terms of what you think the issues are that you're going to face?

Pete Redfern

Okay no that was four questions you were right I was just itching to get into them. If we deal with Spain first, no I don't see us doing a raft of joint ventures in Spain, it's just one particular deal, one particular site, existing land owner, and it may turn and to a certain extent outside major developments, our view is the same in the UK if they work on particular terms then we'll go for them, if they don't then they add complexity and we'd rather do it ourselves.

South East London why return on capital. It's the only thing Ryan said that I would see slightly differently. South East and London has always been a lower return on capital business and it probably always will, and if you looked at the majority of our national competitors you would see exactly the same difference. It's not just about work in progress and timing.

That has impacted factually on that particular number it's just timing as with everything else but it is just structurally you invest more in capital in that business and it takes longer to get on site. And as I said before that tends to be, to drive the size of sites we choose in that business and the length of landbank in that business. Because if we went for bigger, more capital intensive sites it would make it even more extreme, it's just the nature of the business. And if you roll the clock back four or five years, investors, analysts tended to favour London-invested businesses and we said, "Look, we're investing in London but it's not because of that it's because we're better if we can be really good in a whole range of regional geographies." And you see from that slide why we continue to view the North, the Midlands, within that Scotland, as very important parts of the business. The return on capital is generally structurally higher. And I think it pretty much always will be.

On strategic land there's no new colour to add to the new additions, the comments that you made repeating what we said before are absolutely right. As we add new sites I think we become more sophisticated in the terms, exactly what we're looking for, both the land that we're choosing, its planning potential and what it can add to the business. I think things that we've taken out of the strategic landbank they vary from things we've taken out and completely not worked, focused on and no longer have an interest in to things that actually might come back in and they're taken out because we think the planning prognosis was slightly worse. It's just part of the active review of that overall landbank.

I think we've tended to talk about the chances of success, the hurdle rate of being about 50%, the reality is it's a lot higher than that and I think our bar just gets higher and we're comfortable with the strategic landbank that's of that sort of scale. So our limitation continues to be resource and getting really high quality opportunities rather than just being busy.

And then I think the last one that I haven't answered was the government pressure points and I will answer it from a Taylor Wimpey point of view rather than a Redfern point of view although the answer wouldn't be massively different I don't think.

There is pressure; there's been pressure consistently for the last few years, that's the nature of politics and one of the downsides of being an industry that's at the centre of political attention. I think what we see looking back at 2015 is the level of industry growth was stronger than people expected, the level of production coming through, the NHBC stats and the HBF stats are stronger and the industry has continued to grow at just over the double digit level, which is the most it can do from a practical resourcing point of view year-on-year. And so that's just an ongoing debate that we have. It goes back to if we have a site we start it, we don't actively slow things down but we've got to get sites through the planning permission and we've got to find the people to build them. So the level of growth is limited by those two factors.

Did I answer all the questions?

Glynis Johnson

Can I just follow up on that government answer? So you're not seeing any pressure on your larger sites to speed up production that could change how you would run your business in terms of more consortium sites, greater amount of land sales going forward or anything like that?

Pete Redfern

We are seeing pressure as I say but we've seen pressure all the way through the last few years. You're right, that particular piece is one conversation that's going on. From our point of view as a business I don't think it fundamental changes what we do. If you look at, and Ryan mentioned, Didcot as a site, we're tending to produce on sites like that 200 or more homes a year. Our outlet levels are lower. We're not double heading, as in doubling up the number of outlets, in the same way as we might have done historically and some of our competitors do; we only have one brand operating on these sites. But we've actually I think become cleverer and more consistent about how we're then driving volume. So actually I think we tend to operate slightly differently on those bigger sites over time than our peers.

So it doesn't particularly concern us. That conversation is happening but it's something that I think a lot of it we already do.

Question 8

Scott Fulton, Whitman Howard

Can I just take you back to slide 22 in the presentation, the group segmental analysis, and looking through 2016 given your guidance on volumes and margins do you see a particular difference in the split between North, Central and South West, and London and the South East?

Pete Redfern

Sorry I was still getting to the slide and I think I half understood the question. Which particular margin differential are you focusing on?

Scott Fulton

Just basically on your guidance for some margin uplift in the current year, given the return on net operating assets in the various regions is there going to be a difference in that regional split through ’16 which gives effectively the support for the margin guidance you've given?

Pete Redfern

There will but I think at this macro-geographic level it will not be huge. And so we touched on Chris’ question the number of plots we have over £1m which are the ones that tend to be softer, and I don't think they have a statistical difference at this level. And in fact in the wider South East market we’re probably seeing more strength than we are further out, away from London. So overall no. And if you look at our Central London business it will probably, well in fact we would be very surprised if it didn’t in 2016, still deliver a higher margin than the average of the rest of the UK than you see on a regional basis here; because and I think the question was half asked before and I didn’t quite answer it that we’d been tending in Central London to set a higher benchmark rate on acquisitions, that's true and we still see that coming through.

So no it doesn’t have that impact at a macro level. And the movements are relatively small. We’re talking about in some markets we’re seeing selling price inflation, in others we’re seeing selling price is flat. You won't see it at that level.

Closing Comments – Pete Redfern

I think we’ve come to the end of the questions. Thank you very much, thank you for your time this morning. Thank you particularly for the number and the quality of the questions. Thanks very much.