Trading Statement for the Year Ended 31st December 2017

Wednesday, 10th January 2018

Trading Statement

Operator: Good morning and welcome to the Taylor Wimpey PLC Trading Update Call. Today's conference call will be hosted by Taylor Wimpey Chief Executive, Pete Redfern, and Group Finance Director, Ryan Mangold, followed by a Q&A. At this time I would like to turn the conference over to Pete Redfern, Chief Executive. Please go ahead, sir.

Pete Redfern (Chief Executive): Thank you. Morning everybody. I'll go through key highlights of the statement and a broad sense of how we've seen 2017 and the beginning of 2018, give Ryan a chance to add in anything I've missed and then we'll open up for questions.

Starting with trading and looking back at 2017, it remained a very solid market through to the end of the year. As you'll remember sales rates tended to run ahead through most of the first three quarters, comfortably ahead of what was a pretty strong 2016. The last quarter was more or less in line with also a pretty strong 2016, so very comfortable with where things were. We didn't really see any measurable impact of either the sort of negative of an interest rate rise or the positive of stamp duty change. You know, I think you could argue the two offset but I think against a very, very stable set of market conditions, solid customer confidence, you know, those sorts of things just didn't seem to have a particularly measurable impact. So it's a very solid performance.

And not a lot to say about 2018 sort of beginning. It's certainly nothing we've seen in the first few days that worries us but our sense is that that same environment, the same kind of attitude from customers, that same level of confidence enabling people to buy houses because they're confident in their own personal position remains even against a quite uncertain wider economic backdrop.

I know that many of you will have picked up the slight decline in the order book of about 3%, sort of, you know, sort of want to go through that a bit but not something that gives us any great concern. I probably bored you over the last four years the number of times that I said I don't think it'll grow and then it's kept growing. And this is sort of the first time that it – that it hasn't. Our order book remains ahead of anybody else in the sector as a proportion of the year. And as you'll remember going back quite a few years, seven or eight years, that was a conscious strategic decision coming out of the downturn that having a solid order book, four or five months' sales ahead as opposed to perhaps a three months we were at through the last cycle, gave us the ability to plan, the ability to deliver well to customers, the ability to resource sites up.

At the moment we're running somewhere around 5-6 months ahead and at the end of last year we were at sort of north of six months ahead which was just a bit too much. And what you've seen in the private order book and the affordable order book during the course of 2017 is the extra resource and effort we've put into build, which we'll come back and talk about as a separate issue, has actually come through on the build side. So you see slightly higher completion volumes than we've guided. We were guiding at the beginning of the year to 3-4% and they panned out at 5% up. That's really the build coming through as the plans that we had, have worked. So we finished the year in a very confident position in our build but having eaten slightly into the order book despite a very strong sales year. So certainly nothing that particularly concerns us but understand that, you know, it's one that you want to analyse and get under the skin of.

The bigger element statistically within that numerically on volumes is actually in PH where build has a slightly bigger impact. Whereas on the private side, because the sales performance has been strong, actually that's offset some of that build catch up. And I think the private order book in volume terms is down about 1% so, you know, very marginal change. So pretty comfortable with where that fits overall.

Talking about build and talking about costs, as I say, we've been very pleased with the performance in 2017. It's probably been our biggest operational challenge over the last three years, is to keep, you know, sort of up with the stronger sales environment, with resources and getting quality right. But we really think 2017 is the year where that landed for us and think that we're ahead of any in the sector. On that you can see that in the increase in the performance stats on customer service. The last six months of the year we were up by 5 star sort of north of 90% status and, you know, unless we lose focus on it we'd expect to get back to that during the course of 2018 for, you know, sort of the year as a whole.

We can see and feel it on sites. You know, we did not have a pressurised build end to 2017. We start 2018 slightly ahead rather than slightly behind. And the resourcing on site which have a cost, you know, we don't – you know, you can see that in 2016 and 2017 numbers. We don't think there's more cost to come but we think that has worked. We don't think it's creaking. We think we have capacity there. But we couldn't click our fingers and step it up massively overnight but we don't feel that that's a major constraint for us as we look forward.

And as I say, particularly pleased to see the very measurable now performance improvement on the customer service numbers. Both the shorter term, 28-day survey and the longer-term nine-month survey which, as we talked about the last few years, are important to us.

Looking at the land market, the overall – both short-term and strategic land market remains stable. There are some numerical movements in our land bank numbers, sort of slightly down on the short-term land banks, significantly up on the strategic land bank. That's slightly more to do with us just reshuffling things than anything fundamental in the marketplace. We added 24 strategic sites in December, all at very strong performance measures. And all sort of underpinning the future of the business. We found it slightly harder in the first few months of the year to find as many strategic sites as we have then but, you know, with a lot of work and some reshuffling of resources we've really seen that come through in the second half of the year.

And in the short-term land bank we also signed off quite a lot of sites in December that haven't made their way through into a contracted land bank yet. So we expect the land bank to climb up again a little bit in early 2018, but still remaining very much in that mid-70,000 kind of range that we're pretty comfortable with as our sort of strategic goal. But overall we continue to see, both on strategic acquisitions and short-term acquisitions, very strong performance metrics on acquisition and the ability to acquire good quality sites on good returns.

Touching fairly briefly on leasehold, because there's not really a huge amount to say, we have secured deals with 90% of the underlying freeholders. The tail of the remaining 10%,is long, as in it's a reasonably large number of actually very small holders and we're pretty well progressed with most of them. But they don't tend to have great resources so getting them over the line takes a little bit longer. But we're not particularly concerned about that. And numerically, in terms of the impact on the provision that we made back in April, we don't see there's any particular risk arising from that. There's probably a little bit of upside just because of the nature of the deals that we've done.

We're starting to see the first of the customers actually come through with finalised closed deals but it's very small numbers, so the cash impact on 2017 was minute. Cash impact on 2018, hard to call. We'd be surprised if it's anything greater than half of the total provision, probably not that much. But, you know, it's a bit hard to call at this point, sort of because the rate of progress will depend on the extent to which people apply. But overall feel that that issue is well controlled and not really concerned with any kind of financial impact on the Group of the government's sort of output from their consultation which came out just before Christmas. Yes, I have to say most of it feels pretty rational for us. Perhaps elements of it go a little bit far as a reaction, but overall we can kind of understand that against the backdrop. And, you know, we've not allowed in our forecast and our guidance really any income from leasehold sales going forward. So it's not something we see as threatening to the guidance that we've given you.

So overall as we go into 2018 very pleased with where the Group sits, very pleased with that strategic land performance and the continued pull through which underpins future performance. Very confident where our land bank sits. Very relaxed about where that order book sits. It's about the right balance. I could actually see it shortening further during the course of 2018 even if the sales market remains strong. Would be relaxed to lose another couple of weeks in terms of average forward-selling position on sites but it's more or less in the right balance. And overall we watch the political processes, both around the industry and around Brexit, but don't have particular short-term concerns about the risks that those raise. But we monitor them carefully. Anything that I've missed Ryan?

Ryan Mangold (Group Finance Director): Yes, I think the cash performance for the year continues to be really strong. End of the year just over £500 million, £512 million net cash in the bank, and that contributes to driving the return on capital employed forwards, you know, from 30 percentage points which we achieved in 2016. We're expecting to end above 32 percentage points for 2017 so really pleased with driving those returns for investors.

Pete Redfern: If we could open up for questions please, Sylvia?

Q&A

Operator: Certainly sir, thank you. So ladies and gentlemen, if you'd like to ask a question at this time over the phone, please press the star or asterisk key followed by the digit one on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question over the phone. We will pause just for a moment to allow everyone the opportunity to signal.

As a reminder, *1 to ask questions over the phone. And now we'll take our first question from Aynsley Lammin from Canaccord. Please go ahead, your line is now open.

Aynsley Lammin (Canaccord Genuity): Thanks very much. Good morning. Just two from me please. Wondered if you could split the sales rate between H2 and H1 and maybe any comment on the last few weeks of the autumn selling season and the trend you saw there. And then secondly just on HPI, I'm just interested on your thoughts really of how that trends, what you're expecting for 2018 and what's currently on the order book in terms of kind of pure house price inflation. Thanks.

Pete Redfern: Yes, Ryan's just seeing if he can dig out the exact half-one and half-two split. Just in terms of a broader comment, we didn't see any particularly discernible change in the latter part of last year, either the autumn or, you know, sort of as we went through into Christmas. I mean, obviously the usual seasonal piece into Christmas itself but it remains pretty robust. We still saw slower-than-historic sales rates in London but still with London at or above the rest of the UK in terms of sales rate. So no real change there, similar balance, and still an environment where, with a slower second-hand market and higher stamp duty levels, the upper ends of our product range more broadly are definitely slower in terms of sales rate but very stable in terms of price than the more core products, you know, sort of which is the majority of our business. So upper and London definitely a bit slower still. But really no change from the comments that we made at our last trading update or through the majority of last year, to be honest. Do you have those sales rates?

Ryan Mangold: Yes, so Aynsley, the sales rates were exactly aligned in the second half of 2017 that they were in the second half of 2016.

Pete Redfern: Yes, and so the outperformance for the year came largely in the first half. And then house price inflation 2018, I mean, I would say overall, even in that sort of very stable, you know, sort of flattish environment in the second half of last year, we were still seeing on average some inflation. It's very hard to measure it on a quarterly basis and then meaningfully give you an annual sort of level. But if I talked about annualised level that was order of magnitude 2%, you know, was what we were seeing in the second half of last year, then that's not a misleading number. It's really hard to be strongly statistical on it because you've got so many mix movements and other things.

And I don't at the moment see any reason why the first half of 2018 isn't going to be in the same sort of level, all other things being equal. You know, at the moment, you know, we – I still expect to see a little bit of underlying house price inflation but not huge. And from our point of view, you know, that more or less offsets build cost inflation. Our guidance remains very much as it was during the course of last year, about 3-4%. And somewhere around 2% house price inflation offsets that. That's more or less proportionately what's embedded in the order book so, you know, something like 42% of this year is already in the order book, you know, sort of so the margin impact of the net of the two we see as being pretty negligible.

Aynsley Lammin: That's really helpful. Thank you very much.

Pete Redfern: I did think – I'm concerned, Aynsley, whether yours is going to be the only question now because there was such a big pause before your question came up.

Operator: Thank you. And now we take our next question from the queue, Gavin Jago from Peel Hunt. Please go ahead, your line is now open.

Gavin Jago (Peel Hunt): Morning Pete, morning Ryan.

Pete Redfern: Hi Gavin.

Gavin Jago: Yes, just a couple, just around the land bank. I think, Pete, it was back in the interims when you were talking about where the land bank was likely to potentially move over the medium-term. There was a kind of shrinkage in length. You kind of gave us an update on your thinking on that and I suspect you're going to be giving a bit more on the Capital Markets Day but just with those number of plots looking likely to rise in H1, where you think that land bank is going to shrink to in the next few years, if at all. Kind of linked to land bank, just kind of if you've got a figure Ryan on the land creditors at the yearend. And then any more thoughts on build-to-rent. I think it was kind of mentioned in passing back at the interims, but have you got any more kind of appetite or see any more interest from investors on the build-to-rent side of things?

Pete Redfern: Yes, I mean, I'll leave the land creditors number to Ryan. Most of the answers to both of your other questions, you know, are things that we will talk about, you know, as you say, at our Capital Markets Day. It's still my view that the land bank length, if you calculate it in number of years, you know, is likely to shrink slightly over the next 2-3 years, you know, assuming market conditions are broadly stable, basically as the land bank growth of the last few years come through. And, you know, those comments that I made earlier about production, kind of part of that's starting to happen. If our production is coming in line with the faster sales rates, that by definition means that we're just moving through that land slightly faster.

And you'll have seen that our outlook numbers are down slightly. And, you know, in that balance of land bank length and speed and the fact that we're very strong on not overinflating our outlook numbers. You know, we have one outlook per site even on some pretty big sites, so that by definition means you have higher sales rates on those sites and you produce more. We don't see the production on site being, you know, massively limited over the long term. And that again, you know, pushes up the speed with which you go through sites if the market's there to do it. So I'm not in a position to give you kind of new numerical guidance.

For that direction that we think we can reasonably, sensibly shorten the land bank lengthening environment we see over the 2-3 years probably keep the rough absolute scale of the land bank the same so the volume growth is coming from roughly the same total land bank. It does get – and by 'it' I mean the absolute number of the land bank – gets a bit skewed which is what you see between January last year – October – sorry, last year being 2017, October 2017 and the end of 2017, you know. You get a skewing between the owned land bank, which is has been very flat through that period and which is the bit that really drives where completions come from, and the controlled land bank which is more volatile as sites come in and out, and particularly the strategic land bank, you know.

We sold for instance in December a site from a short-term controlled land bank that we just didn't think was good enough, and effectively replaced it with two or three strategic sites at better returns. So you get a switch between the two but actually the land position of the business has improved as a result. So you do get some slight anomalies on the short-term basis but overall, particularly in terms of the balance sheet impact, it's still the case that we think, you know, we will naturally be taking more completions off roughly the same size of overall land bank and investment over the course of the next sort of 2-3 years.

And on build-to-rent nothing new to add. We are still very much looking at it but it would be a big decision, you know, as we touched on at the half-year. You know, what we were talking about was a more strategic view of build-to-rent rather than just short-term opportunism. And we see that as a significant decision that needs to be properly worked through and so, you know, we'll talk about it. And even if we decide it's not right for us, we'll explain what we've looked at and why we think it's not right for us when we get to May.

Ryan Mangold: Gavin, on the land creditors, the proportion – you know, we are expecting land creditors to end slightly higher than what it was at the end of 2016, but relatively proportioned to the gross land value staying broadly about the same. So it will be slightly up year on year but it …. gross land about the same.

Gavin Jago: Okay, thanks.

Pete Redfern: Yes.

Gavin Jago: Okay, thanks chaps

Operator: Thank you and now we take our next person from the queue, William Jones from Redburn. Please go ahead, your line is now open.

William Jones (Redburn): Morning guys. Three if I could please, from me. First –

Pete Redfern: Morning Will.

William Jones: The first is just around if you can just help us understand how you see the revenue growth I guess coming through in 2018. I guess, if we look at the order book that's down three and the outlets off a couple and you're generally pointing towards somewhere in the order of mid-single digit, the combination of volume and price for revenue growth in 2018. I appreciate this time last year is actually a similar situation where both indicated, if you like, lower start in the year and you ended up delivering useful revenue growth. But sales rates did grow in 2017 or 2016, so is that – is it more that you've just got that ability to keep tapping the order book from what's been a historically high level and a high level versus the sector? But just some comfort around how the 2018 revenue growth comes through, please.

The second was just around cash. It does look like for 2017 the working capital outflow was fairly minimal, perhaps in the order of between £50 million and £100 million, which is less than previous years. Just wondered how you see 2018 shaping up in terms of requirements on that front and in particular, I guess, you know, cash land spend.

And then the last one's just can you update us on your indicator that you tend to track around brochure requests, website hits, the usual stuff, as we sit here at the start of the year? Thanks.

Pete Redfern: Yes. Just in terms of revenue growth, I mean, it's sort of been relatively easy to guide over the course of the last couple of years because whilst I know numerically, you know, there is a tendency for you to want to relate it to outlook numbers and sales rates, the sales rate potential was so far ahead of what we can typically build. Actually what we delivered was all about what we built and sales were kind of irrelevant. Now, you know, I'd be careful how I say that but you – I think you understand what I mean mathematically. I think right now we're in much – we're in much more balance. You know, we're in a strong position on build. We have to be a little bit more cautious in our mind around sales rate. So as you say, having had such a strong growth in 2017 that we really didn't expect, you know, we shouldn't expect that same growth.

But even having said that, we have a lot of things that are in our gift that aren't just as simple as outlet numbers. You know, that discipline about the quality of our outlets and the fact that we're not competing against ourselves, which we still see others in the industry do. So, our outlet number is very, very clean. And if you talk to Nigel running our Southwest and Central business, he would tell you he expects to deliver sales rate growth this year in a flat market simply because his mix of outlets is a lot of new large sites with lots of sales potential with good built-up demand.

And so we feel pretty robust about that. We don't know exactly where the mix will be. If the market is a bit slower, some of that growth will come out the order book. But that's one of the reasons for having a long order book is that you can continue to manage the business the way you want in a slightly slower environment. If the market is broadly in line with next year, the order book will probably be relatively flat but we'll still get a degree of growth. And whilst build is not as tight a limitation as it was, it's still not totally unconstrained.

So overall with all of those moving parts, you know, I think we're talking about volume growth this year that's lower than 2018, which is the higher end of the range we guided to. I still think over the two years, we're talking about, you know, sort of 7-8%. So, that means 2-3% in 2018 over 2017 and probably talking about 2-3% sort of price growth with, you know, 1-2%, which we've already touched on, coming from a house price inflation and the balance coming from mix.

The one thing that, you know, sort of is taken into account, and that slightly offsets it, is we will have a much lower level of completions from our Central London business in 2018 simply because now is where we hit the point where we stop buying sites. And so, we don't have a pipeline coming through for 2018. So, actually the underlying business numbers are stronger than that because that sort of – that guidance takes into account both the volume impacts of that, which is small, and the price impact, which is a little bit bigger.

But still with all of that, we still think there's that sort of level of growth. And that, you know, that 2-3% on price, 2-3% on volume takes you to your mid-single digits overall which we feel, you know, we've got the levers we can pull. It depends on the strength of the market more than anything whether we have to pull, you know, sort of all or none of those levers.

Ryan Mangold: Well, in terms of cash flow – in terms of cash flow demands, we are expecting overall to probably invest a fraction more into the business during the course of 2018 than we potentially did in 2017. It's been noted in the opening comments, you know, we've got a reasonably strong pipeline of land acquisition that will come through, as well as a very strong strategic land bank that we're expecting to continue to promote into the short-term land bank during the year. So overall, we'll spend a fraction more on land this year than we have in the past – the past year.

And from a work-in-progress point of view, we largely see a bit more stability in that regard. Probably the only real driver there is build cost inflation necessarily rather than a big change due to output count.

Pete Redfern: And just going back to your sort of final question and I'm just looking at sort of website visits, brochure requests data and appointment booked data, two out of the three we're consistently ahead of last year and the year before, through December, and one out of three was flat. So, you know, certainly nothing that will concern and overall, you know, a little bit better. But how much of that is us getting, you know, better at that sort of using those marketing channels and how much of it is market, but certainly nothing that would flag any concern in the marketplace.

William Jones: Great, thanks a lot.

Operator: Thank you. And now we will take our next person from the queue, Andrew Murphy from Bank of America. Please go ahead, your line is now open.

Andrew Murphy (Bank of America Merrill Lynch): Good morning, gentlemen. Happy New Year to you both.

Pete Redfern: Hi, Andy.

Andrew Murphy: Just a quick question – hi – yeah, just a quick question. You know, you talked about the average site numbers coming down a little bit. I was just wondering to what extent that the – well, what you'd just explained to us what the issues are, is it timing issues? Is it planning constraints that are causing that? And then just going back to the order – on the private site, you said that private volumes in the order book are down one. I was wondering whether you could give us a flavour for the ASPs against that, please.

Pete Redfern: Yeah, I think on the outlet numbers, it's – you know, we've closed because of higher sales rates slightly more than we've opened because of getting things through the planning process. But you're talking about marginal numbers and not a level that concerns me. And as I've said, you know, we're very strong on getting that timing right and getting the outlet open right, so, we're fairly relaxed because of the quality. We see our average number of outlets in 2018 being pretty much in line with 2017 and, you know, sort of ending the year and going into 2019 with slightly stronger outlets.

I wouldn't pretend that I wouldn't like to have 20 more outlets but I want 20 more outlets that are the right outlets opened in the right way rather than just push the numbers so it looks a bit better. So, it's always a continuing battle. It's why we never give, you know, sort of specific guidance on the numbers. We're not – we don't feel particularly sort of threatened by it but it's always something that, you know, the best quality growth will always come from more outlets as long as they're the right outlets in the right way. So, you know, it's always a balancing act.

And so Andy, with respect to your second question

Ryan Mangold: Yeah, and on the order book pricing, every single region is in very strong positive territory in terms of what's in the order book going into 2018, other than Central London. It's been noted as we start trading from fewer and fewer outlets, given the fact that we weren't able to acquire anything in the land market for the last two years ahead of Mount Pleasant acquisition. And we haven't actually launched on sale of Mount Pleasant just yet. That will happen in due course but it's more for 2019 and 2020 delivery.

Andrew Murphy: Right, okay. Thank you, guys.

Operator: Thank you, and now we'll take our next person, Chris Millington from Numis. Please go ahead, your line is now open.

Chris Millington (Numis): Good morning, Pete. Good morning, Ryan.

Pete Redfern: Good morning.

Chris Millington: Just a couple of quick ones for me, please, guys. You obviously mentioned that you don't expect any freehold sales income in your forecast going forward. I just wonder if you could give us a feel of how much it contributed in 2017. The second one is just really kind of on average debt cash levels through the year. You've helpfully given us a yearend figure. I'm just wondering if you're going to update your margin target, you know, in light of the average 22% margin between 2016 and 2018, whether there's likely to be a replacing of that because that does look quite a lot to do in 2018, as you've previously referred to.

Pete Redfern: Yeah. Should I pick up the margin target, and if you're all right with the other two, Ryan? Yeah, I mean, you know, we've made no secret that we think it will be very sort of tough and you can obviously see statistically at the end of this year, it becomes – you know, our guidance doesn't take into 22% average over the three years. I think it's still our view that getting to 22% in the third year would be sort of second best to achieving the average that we set out to.

I think in terms of new guidance and new targets, it's not that we expect it to be fundamentally different but we'll map out that in some detail, I think, when we get to May and have the time to do it properly. So, I'm not updating at the moment but it hasn't changed in the sense of we're not guiding strongly to get into a 24% margin this year and an average getting to 22%. But I think you all know that and investors know that so I don't think there's any surprise in that.

Ryan Mangold: Yeah. On – Chris, on the freehold sales, it is a very, very small part of our business and it principally only really covered apartments historically, and houses we stopped during the course of last year. And so it's really – it's an immaterial effect overall. It's not worth commenting on. And in terms of average net debt versus cash during the course of the year, I mean, clearly, we're starting the year in a very strong position at £512 million. It's stronger than we were the previous year and where we averaged net cash right away through the year. We've increased the special dividend for this year and we've increased overall dividend for this year, with the small demand coming on the leasehold due to variation payments with the freeholders, so I'm expecting the pattern to be broadly the same, broadly the same. So a greater quantum of dividends, a bit of the leasehold payment, fairly similar to a fraction slightly higher investment in working capital but a broadly similar pattern overall.

Chris Millington: Got you. Well, thank you.

Operator: Thank you. And now we'll take our next person, Clyde Lewis from Peel Hunt. Please go ahead, your line is now open.

Clyde Lewis (Peel Hunt): Good morning, Pete; morning, Ryan. A couple for me, one on sort of site openings. I mean, obviously, you know, sort of – it's not easy because of the reserve matters but I'm just hoping if you can maybe a) talk about sort of what sort of number you're expecting to see this year in terms of closures and therefore openings on the other side of that equation. And also maybe, what do you think the council is doing, whether there is any shift in terms of that bottleneck in terms of reserve matters? And the second one was really on, I suppose, on sort of apartment sites, given sort of what changed in terms of leaseholds and given that chunk of sites that you bought in December, were any of those apartments and how are you thinking about, again, the revenue post the sort of – the changes or the expected changes in terms of the leasehold planning coming in?

Pete Redfern: Yeah. I think in terms of site openings, we're expecting roughly the same number as 2017; 2017 was 134. We're expecting probably a marginally lower number because we have marginally lower closures in 2018 and hence that, you know, sort of roughly overall average. In fact, we have a slight – we have a ……. that would lead to some outlet growth during the year.

I don't think we're seeing any material change in the overall behaviour of local councils. We are seeing a stronger focus from central government on closing the gap. We obviously have the review being started by Oliver Letwin which is very much looking at the gap between getting the planning permission and getting delivery and, you know, sort of reserve matters issues are one component of that. But I don't think we expect to see that change materially during the course of 2018. And to be honest, having been through so many different reviews of similar kind over the years, I kind of work on the basis that when it changes, we'll adjust rather than assuming it in advance. So, we expect it to continue to be a battle but it's no great surprise and it's always been factored into our plans. So, there's nothing we've talked about on outlets that's any – really, any different to the environment that we sort of expected to be in.

And in terms of new openings and apartments specifically and the leasehold impact, then, yeah, I'll try and answer the question but I'm not sure I really got the heart of it. We have continued to open new apartment sites, you know, sort of through the course of this year as the leasehold review is going on. We haven't stopped that at the moment. We expect to adjust and the only thing we need to adjust to be in line with current, you know, government guidance is the initial ground rent. Everything else in our structure is, you know, sort of in line. And we expect we will adjust that at some point during the first quarter. We adjusted it partly during the middle of last year as it wasn't quite clear when the review would come out. But we've seen no adverse customer action from historic customers to those adjustments where we made one during course of last year, which, to be honest, surprised us but gives us a reason to feel confidence that we can manage that transition fairly smoothly.

And so, you know, it's a great – because we kind of factored in from very early on last year that, you know, the future revenue stream will be nil, then, you know, we've kind of looked at – we've been fairly sanguine about, you know, our sort of consultation. It just needs to be workable practically. So, it isn't really something that is causing us any particular concern. Does that answer your question on that latter piece?

Clyde Lewis: Yeah, no, that's good. That's great. Yeah, I think the colour on that is useful. I mean, I think it's obviously sort of – yeah, it obviously varies company by company. But yeah, it's interesting to hear what you're doing in terms of apartments so that's useful. Thank you.

Pete Redfern: Yeah. I mean, the – you'll have picked up I'm sure the Nationwide change, their lending criteria midyear, and our – you know, we changed at that point. And that's kind of a trial run of the transition on cost because it didn't feel right to us that we had a structure that one might – yeah, you always have minor lenders that might, you know, sort of have a different view but if you have one major lender that won't lend on your structures, whatever it might be, not just leases, then that doesn't feel right. So, you know, we came into line with that moving forward and didn't really have any issue in doing so or any sort of issue with, you know, our backlog in doing so, which, you know, was reassuring.

Clyde Lewis: Okay, thank you.

Operator: Thank you. And now we'll take our next person from the queue, Jon Bell from Barclays. Please go ahead, your line is now open.

Jon Bell (Barclays): Yeah, morning, gents. I think I've got three. Could you give us the hard number for the sales rate in the second half of the year, if you have it? I think it's – I'm guessing it's somewhere close to 0.7 or slightly below but maybe you've got the exact figure. Secondly, just a point of clarification on the freehold, the free – the original provision taken and you're now 90% through. Are you saying that you – that that provision is the right number or any release of that number? How does that £130 million look today now that you're 90% through? And then finally just any colour you can give us on brick availability and pricing? I know it's that time of year when brick prices get settled. Thank you.

Pete Redfern: Yeah. In terms of sales rate, the hard number is 0.66, you know, which I think as Ryan said is sort of flat the year before. In terms of freeholders, you know, and the provision, the guidance is still very much that provision is in the right place. Now, you know, if you know me over the years at all, you know that if I am confident it's in the right place, it means we have some cover. But as we work through the remainder of the process, there's no benefit from sort of reducing it slightly. So, it's about the right number but it gives us a bit of cover so that, you know, sort of if one element is a bit more expensive than expected, we can cover that.

Brick availability, it kind of ebbs and flows. It depends which quarter you're talking and exactly what kind of bricks, you know, so, we know exactly where we're getting all of our bricks for 2018. We've seen prices fall at some parts of the market, particularly imports; we see prices go up in others. You know, it's been interesting to watch – I know you won't know who but one of our competitors started to manufacture their own bricks and, you know, how that production process goes. That actually takes some, you know, adds some capacity into the market which is not unhelpful. But it would be interesting to see how that goes when actually supplies starts during the course of 2018. But overall, no major change. I'd say it's probably slightly tougher in quarter one than in quarter two but other commodities are slightly easier so it's sort of, you know, it kind of ebbs and flows.

Jon Bell: Thank you. Thanks very much.

Operator: Thank you. And now we'll take our next person from the queue, Charlie Campbell from Liberum. Please go ahead, your line is now open.

Charlie Campbell (Liberum Capital): Good morning, everyone, and Happy New Year.

Pete Redfern: Good morning, Charlie.

Charlie Campbell: Just a couple for me. Good morning, good morning, hello. Yeah. Just a couple for me really. One on labour availability and whether you think that that is an issue, something we need to be particularly careful about in 2018. Secondly, just sort of London trading, I appreciate it's obviously a kind of smaller issue for you but just be interested in hearing your thoughts on London market sort of pricing and volumes sort of, you know, last few months and maybe short-term outlook. Thank you.

Pete Redfern: Yeah, I don't see any, you know, particular short-term concern with labour availability in 2018 that's any greater, say, than 2017. You know, we see no, you know, sort of exodus of European trade from our business. When we've done some work on it, as the – on, you know, sort of industry levels of overseas labour, our numbers seem to be lower than the norm, which puzzles us, to be honest, because, you know, the – our London sort of bias, which is where the sort of level of EU labour tends to be a bit greater, is about average if not fractionally above average, so, you know, we don't quite understand why that is. But we're certainly not seeing any particularly acute issues at the moment, nor are we expecting any in the short term.

But that doesn't get away from the fact that the general backdrop of the last three or four years has been labour availability is a challenge and we expect that to continue, so there's a lot we're doing in terms of resourcing and development, we've touched on. And we'll go back over during the course of the year some of our plans and pilots on having greater degrees of direct labour. But those are medium to long-term plans to solve what we view as medium to long-term problems that are chronic rather than acute, and that therefore we have to invest if we want to control the quality and the availability and the price of our resources over the medium term, rather than we think Q1 of 2018 or, you know, 2018 are going to be particular problems.

Charlie Campbell: Sure.

Pete Redfern: London trading – London trading –

Charlie Campbell: Yeah.

Pete Redfern: – London trading, no particular plans. I mean, if you look statistically at our business 2017 over 2016, our average London selling price was down 0.5%, so, you know, really no movement at all and that was actually even with a slightly smaller contribution from our central London business as part of the mix. So if you looked under the skin at like-for-like market movements, largely driven by the outer London sort of completions, actually pricing was up, and not a real, you know, sort of measurable trend up or down, so pretty flat during the second half of 2017, so very stable. Our total completions in London last year were something like 8% of the total group and it grew about 4.5%, so more or less in line with the overall growth of the business, but as I say, more weighted towards the outer London boroughs.

So it took the shine off the average selling price growth, because there was a bit of a mix shift in central London, and that, you know, also reduces our sort of guidance for average selling price growth from mix in 2019. But apart from that, its impact on our performance sort of 2017-18 is, you know, sort of fairly negligible.

Charlie Campbell: Sure thing. Thank you very much. Very clear, thank you.

Operator: Thank you, now we'll now take our next person, Mark Howson from HSBC. Please go ahead, your line is now open.

Mark Howson (HSBC): Good morning, gentlemen. I have a few questions, if I may. A few questions. Just can you give us a feel for the percentage of what you've got to sell in 2018 which is going to come from new sites? I mean, you mentioned also the south-west how easy it would be for the guy with these new sites coming on, etc., etc. Can you give us a feel for that – whether that proportion of the sell, as it were, is different in 2018, going into 2018 .. than it was 2017? That's the first question and just on the second question – I've got a third but this is the second question, of the 278 sites that you have, is there an element that those are larger sites than sort of – than what you would have had in the previous period?

Pete Redfern: Yeah. I mean, answering the first question – the second question first, because it kind of leads back to the first question, yes, they are on average larger sites. That's been a general trend for us over the last four or five years and as I touched on before, they're also larger sites we've – where we count one outlet rather than two or in some cases three, if you go back, you know, sort of long-term. So that gives us more flex. I can't give you a statistic on sales from new sites. What I can tell you is that at the point we went through our sort of final budgets for the year, the number of completions we were expecting for 2018 from sites without planning was negligible. You're talking about 1% or 2% that we could, you know, therefore easily absorb from other sites. So, you know, there's a reasonable proportion from new sites; I wouldn't have said it's particularly higher or lower than in previous years. But we're not – you know, our completion numbers for this year are not dependent on planning.

The only thing that is dependent on planning in this year's numbers is the closing outlook number at the end of the year and the order book going into 2019, but that's been the pattern for the last year or two, whereas if I go back, you know, sort of 10 or 15 years, we'd go into the year needing planning on 15%, you know, and in an extreme case I remember 25% of our outlook for that year. So compared to the kind of dependence on planning we're used to, you know, it gives us a much longer time. It doesn't mean planning's got easier, but we tend to be working much further ahead, with bigger sites and, as I say, better quality outlook numbers.

Mark Howson: Next questions. On the second half, you know, 0.66 of sales per site per week, I think obviously yesterday's call, you know, we're talking – as most people would expect, that the first half, you know, seasonally sees a better sales rate for most house-builders. I mean, you would expect sort of similar yourself than the 0.66 in the second half.

Pete Redfern: Yeah, I think, you know, all things being equal in the market, you would expect the first half to be mid to high 0.7s, you know, and possibly with the outlook dynamic we've talked about, you know, sort of even touching 0.8 if the market is steady. Probably not for the half as a whole, but certainly a point during it.

Mark Howson: And finally from me, just on the ……. 2018 would be a year where central London isn't really much of an issue for you anymore. Is there anything you can say – will that – about the effect that would have on the overall margin, net margin, for the group or will it be negligible now that's coming out of the picture?

Pete Redfern: I think the – because we saw – we did see selling price reductions in central London at the back of 2016, so our 2017 completions were, you know, just – it took perhaps 0.5% off the group margin because of that price fall in central London. But that then is embedded in the numbers and doesn't really have a – you know, central London, if I remember right, the year before had an operating margin of around 23%, 24%, so it was a couple of percent ahead of the Group, and then in 2017 was, you know, sort of slightly below the Group, so in the high teens. So as you go through each year you're seeing a like-for-like impact, but in terms of its impact on the average in any given year, it's not particularly material because it's not far enough – not big enough or far enough away from the average to distort it.

Mark Howson: Well I mean, 0.5%, at the Group, it's not insignificant.

Pete Redfern: No, it's not, but I'm talking about the impact there between 2016 and 2017, so in terms of its impact between 2017 and 2018, it's fairly negligible, you know, whereas, you know, between 2016 and 2017, it was a bit more material.

Ryan Mangold: Yes its less than 0.5

Mark Howson: Thank you.

Operator: Thank you and as there are no further questions in the queue, I would like to turn the call back to Pete Redfern, Chief Executive, for any additional or closing remarks.

Pete Redfern: Nothing, I think, that I need to add – thank you for the questions, I think we've gone through all of the key areas, and so thank you very much for your time today and I look forward to seeing you at the prelims.

Operator: Thank you. So, ladies and gentlemen, that will conclude today's Taylor Wimpey PLC trading update call. Thank you for your participation. You may now disconnect.

[END OF TRANSCRIPT]