Taylor Wimpey | plc

27 February 2019
Taylor Wimpey plc
Full year results for the year ended 31 December 2018

Pete Redfern, Chief Executive, commented:

"2018 was another strong year for Taylor Wimpey with good progress against our strategic priorities. We delivered in line with our expectations, achieving a strong sales rate and record revenues. Despite ongoing macroeconomic and political uncertainty, we have made a very positive start to 2019 and are encouraged to see continued strong demand for our homes. We enter the year with a strong order book and a clear strategy in place to deliver long term value for shareholders.

We are very pleased with how our business is adapting to our customer-centred strategy. We are enhancing every step of our customers' buying and aftercare service so that we become the first choice homebuilder in all market conditions."

Group financial highlights:

- Growth in Group completions of 2.9% to 15,275 (2017: 14,842) including joint ventures
- Further improvement in operating profit* margin to 21.6% (2017: 21.3%)
- Growth in profit before tax and exceptional items of 5.5% to £856.8 million (2017: £812.0 million)
- Increased profit for the year of £656.6 million (2017: £555.3 million)
- 2018 results in line with expectations with clear progress on strategic goals
- Record net cash‡ of £644.1 million (2017: £511.8 million)
- £499.5 million paid in total dividends in 2018 (2017: £450.5 million)
- As previously announced, c.£600 million declared in total dividends for 2019, subject to shareholder approval

Operational highlights:

- Strong UK forward order book of 8,304 units as at 31 December 2018 (31 December 2017: 7,136)
- UK forward order book value of £1,782 million as at 31 December 2018 (31 December 2017: £1,628 million)
- Achieved over 90% recommend score, as measured by the Home Builders Federation (HBF) 2017 / 18 survey
- Top 10 employer by Glassdoor, as rated by employees

	2018	2017	Change
Revenue £m	4,082.0	3,965.2	2.9%
Operating profit* £m	880.2	844.1	4.3%
Profit before tax and exceptional items £m	856.8	812.0	5.5%
Profit before tax £m	810.7	682.0	18.9%
Profit for the year £m	656.6	555.3	18.2%
Adjusted basic earnings per share pence††	21.3	20.2	5.4%
Basic earnings per share pence	20.1	17.0	18.2%
Tangible net asset value per share pence†	98.3	95.7	2.7%
Net cash‡ £m	644.1	511.8	25.8%

Operating profit* in 2018 was £880.2 million and is up 4.3%, driven by improved performance in both the UK and the Spanish businesses. Profit for the year at £656.6 million is up 18.2% with the improved underlying performance and a reduced post-tax exceptional charge of £37.9 million (2017: £105.0 million).

UK current trading and outlook

We have made a positive start to 2019 and, coming into the spring selling season, customer confidence remains robust. The net private sales rate for the year to date (w/e 24 February 2019) was 0.99 (2018 equivalent period: 0.82). This sales rate includes a forward build and sales contract that was entered into simultaneously with a large land purchase, reducing market risk. The underlying net private sales rate for the year to date, excluding this deal, was 0.90 (2018 equivalent period: 0.82).

We have continued to prioritise building a strong order book for the future, which is particularly important in an uncertain market, whilst ensuring we are managing our customers' timing and meeting their requirements. As at 24 February 2019, we were c.47% forward sold for private completions for 2019, with a total order book value of £2,170 million (2018 equivalent period: £1,961.0 million), excluding joint ventures. This order book represents 9,622 homes (2018 equivalent period: 8,385), with significant growth coming from affordable homes. In Central London c.50% of private completions for 2019 are forward sold, as at 24 February 2019 (2018 equivalent period: 49%).

In current market conditions, we continue to expect stable volumes in 2019 and for underlying build cost increases during 2019 to be at a similar level to 2018, at around 3-4%.

As previously announced, we will pay a total dividend in 2019 of c.£600 million, subject to shareholder approvals to be sought at the Annual General Meeting (AGM) on 25 April 2019, and confirm our intention to make further material cash returns in 2020 and beyond.

We have made a significant step change in our quality of delivery and customer service over the last four years and are pleased that we have seen material improvements across a number of metrics, including achieving over 90% in the Home Builders Federation (HBF) 2017/2018 survey. Our focus in 2019 is on making good progress on the key priorities that

underpin our customer-led strategy. This includes ensuring our right first time approach is adopted consistently through all stages of build, supply chain improvements, ongoing people development and resourcing of future capacity, through our apprentice and our direct labour programmes.

While we are conscious of the wider political and economic risks, particularly as the UK plans its exit from the EU, we are confident that our strong balance sheet, with our high-quality landbank, and a strategy focused on customers makes us a more resilient business. This strategy also gives us the flexibility to increase our pace of build and accelerate growth in 2020, depending on market conditions, while maintaining focus on quality land investment in good locations.

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

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

*** Return on capital employed is defined as rolling 12-month operating profit divided by the average capital employed calculated on a monthly basis over the period.

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

† Tangible net assets per share is defined as net assets before any accrued dividends excluding goodwill and intangible assets divided by the number of ordinary shares in issue at the end of the period.

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

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

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

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

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

‡‡‡ Contribution margin is defined as revenue less direct build costs, less gross land costs and less direct selling expenses. Contribution margin excludes the impact of supplier rebates, land provision utilisation and discounting of deferred land commitments.

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

The 2017 financial statements have been restated for the adoption of IFRS 9 – ‘Financial Instruments’ and IFRS 15 – ‘Revenue from Contracts with Customers’. They have not been restated for IFRS 16 as it has been applied from 1 January 2018 using the ‘modified retrospective’ approach, as outlined in the standard.

Note: Alternative Performance Measures

The Group uses Alternative Performance Measures (APMs) as key financial performance indicators to assess underlying performance of the Group. The APMs used are widely used industry measures, form the measurement basis of the key strategic KPIs (return on net operating assets** and operating profit* margin) and are linked directly to executive remuneration. All references to operating profit* throughout this report meet the definition of an APM.

Definitions of the APMs discussed throughout our Annual Report and Accounts, and a reconciliation to the equivalent statutory measure are detailed in the APM section of this statement.

-Ends-

A presentation to analysts will be hosted by Chief Executive Pete Redfern, Group Finance Director Chris Carney and Group Operations Director Jennie Daly, at 9am on Wednesday 27 February 2019. This presentation will be webcast live on our website: www.taylorwimpey.co.uk/corporate

An archived version of the webcast will be available on our website in the afternoon of 27 February 2019.

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Notes to editors:

Taylor Wimpey plc is a customer-focused residential developer, operating at a local level from 24 regional businesses across the UK. We also have operations in Spain.

For further information please visit the Group's website: www.taylorwimpey.co.uk/corporate

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Developing best in class business resilience and creating high-quality growth and returns by putting customers first

We operate in an industry which is underpinned by a fundamental long term demand and supply imbalance. As one of the UK's largest homebuilders, we believe that we have a shared responsibility to create more choices for those wanting to access housing, and to deliver this housing with high quality and excellent service.

Traditionally housebuilders are land led. Over the last seven years, the land and planning environment has undergone a structural change, with more good-quality land available through the planning system and an increase in opportunities, including a reduced level of competition, in certain parts of the market, such as large scale sites. While land remains a key value driver, the easing of the land constraint through this cycle means that other elements of the business model have become increasingly important to future success. This includes operational ability, delivery capability and approach to customers, particularly in the context of significantly changed customer expectations.

These changes present an opportunity in an industry which has historically been very reactive to genuinely shift our focus to our customers' needs and their aspirations for their homes and communities. Over the coming years, by enhancing every step of our customers' buying and after service experience, building homes which are right first time and right for our customers' income and lifestyle, we can create real additional value for customers, and for our other stakeholders. In this way we can grow our business, providing more homes to more people, whilst continuing to manage the cycle cautiously and without compromising on quality.

Together with our response to the changes in the land and planning environment, our customer-centric strategy will offer further scope for differentiation and enable us to become the customer's first choice of homebuilder in all market conditions. This will make us a more efficient and resilient homebuilder throughout the cycle and ultimately enhance our brand and returns by:

1. Industry leading sales and service to customers through the cycle, providing increased resilience in weaker market conditions and a route to high-quality and sustainable growth
2. Optimising our strong landbank to deliver enhanced returns, by adopting a factory approach, to build more efficiently where there is market demand
3. Continuing to improve the operational business model to drive efficiency and reduce costs

The strategy focuses on five key pillars:

- Customers and communities at the heart of our strategy
- Build quality: getting it right first time
- Optimising our strong landbank
- Becoming the employer of choice
- Best in class efficient engine room

Each of these five pillars are explored in more detail throughout the operational review.

Strategic goals

In May 2018, at our Capital Markets Day, we announced four strategic goals, aligned to our new strategy and which target further improvement in the next five years to 2023:

- Increase of return on net operating assets** to 35%
- Maintaining operating profit* margins at c.21-22%
- Operating cash conversion‡‡ of between 70 and 100% of operating profit* into operating cash flow****
- Increased landbank efficiency – reducing length of short term owned and controlled landbank years by c.1 year to 4-4.5 years

During 2018, we made progress towards these with the short term landbank remaining steady at c.5.1 years. Our strategic objectives, together with our revised and stretching Key Performance Indicators, target a broad basket of measures which we believe are more important than one single measure, and helps drive the right type of behaviour.

Returns and dividends

We are an extremely cash generative business, even in times of market weakness, because of the strength of our balance sheet, the length of the landbank and as a consequence of the control we have over the timing of land investment. This allows us to provide shareholders with a reliable dividend through the cycle which is a key priority.

Our strategy means that we can continue to drive further value from our landbank and our business model as we focus on our customers, delivery and efficiency which in turn drives increased cash generation.

As previously announced, commencing in 2019, subject to shareholder approval at the 2019 AGM scheduled for 25 April 2019, we intend to pay an enhanced ordinary dividend of £250 million per annum (c.7.6 pence) on an annual basis through the cycle (2018: £160 million), including during a 'normal' downturn. This has been stress tested in a variety of scenarios including a 20% fall in house prices and a 30% fall in volumes. The ordinary dividend will be paid equally as a final dividend (in May) and as an interim dividend (in November).

In addition to the ordinary dividend, we have also paid a special dividend in each of the last five years. As previously announced, and subject to shareholder approval at the 2019 AGM, we intend to pay c.£350 million to shareholders in July 2019 by way of a special dividend.

Accordingly, subject to shareholder approval, in 2019 shareholders will receive a total dividend of c.£600 million (c.18.3 pence per share), comprising an ordinary dividend of c.£250 million (c.7.6 pence per share) and a special dividend of c.£350 million (10.7 pence per share), a 20% increase on 2018 total dividend.

(A)	**2018 actual paid** (B)	**2019 announced**
Ordinary dividend £m	159.5	c.250.0
Special dividend £m	340.0	c.350.0
Total dividend £m	499.5	c.600.0

(A) All final ordinary and special dividends are subject to shareholder approval

(B) In line with previously announced Policy

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

<u>Operational review</u>

Taylor Wimpey plc is a customer-focused residential developer building and delivering homes and communities across the UK and in Spain.

Our operational review is for the UK only as the majority of metrics are not comparable in our Spanish business. A short summary of the Spanish business follows. The financial review of operations is presented at Group level, which includes Spain, unless otherwise indicated.

Joint ventures are excluded from the operational review and are separated out in the Group financial review of operations, unless stated otherwise.

Our Key Performance Indicators (KPIs)

We have updated our key performance indicators to ensure these are aligned to our five key strategic pillars and are the most appropriate management targets.

UK	2018	2017	Change
Customers and communities at the heart of our strategy			
Customer satisfaction 8-week score ‘Would you recommend?’	90%	89%	1ppt
Customer satisfaction 9-month score ‘Would you recommend?’	76%	76%	-
Build quality: getting it right first time			
Construction Quality Review (average score / 6)	3.93	3.74	5.1%
Average reportable items per inspection	0.28	0.26	7.7%
Optimising our strong landbank			
Land cost as % of ASP on approvals	19.2%	19.8%	(0.6)ppt

Landbank years	c.5.1	c.5.1	-
% of completions from strategically sourced land	58%	53%	5ppt
Becoming the employer of choice			
Employee turnover % (voluntary)	14.5%	14.0%	0.5ppt
Number of people recruited into early talent programmes: graduates, management trainees and site management trainees	175	126	38.9%
Directly employed key trades including trade apprentices	748	581	28.7%
Health and Safety Annual Injury Incidence Rate (per 100,000 employees and contractors)	228	152	50.0%
Best in class efficient engine room			
Net private sales rate per outlet per week	0.80	0.77	3.9%
Private legal completions per outlet	41.8	40.4	3.5%
Order book value £m	1,782	1,628	9.5%
Order book volume – no. of homes	8,304	7,136	16.4%

2018 sales, completions and pricing

Despite wider macroeconomic and political uncertainty, the UK housing market remained stable during 2018. Customer demand for new build homes continued to be robust, underpinned by low interest rates, a wide choice of mortgage deals and the Government's Help to Buy scheme. During the year, we saw good levels of demand throughout the country, which converted into strong sales rates across the business. Trading in Central London was stable, while the outer London market remained robust, despite, as previously reported, some signs of increasing customer caution in London and the south east towards the end of 2018.

In 2018, total home completions increased by 3% to 14,933, including joint ventures (2017: 14,541) with a further 14 homes sold into our pilot Springboard rent to buy scheme. During 2018, we delivered 3,416 affordable homes (2017: 2,809), including joint ventures, equating to 23% of total completions (2017: 19%).

Average selling prices on private completions increased by 2% to £302k (2017: £296k), with the overall average selling price remaining flat at £264k (2017: £264k). We estimate that market-led house price growth for our regional mix was c.3% in the 12 months to 31 December 2018 (2017: c.4%).

Our net private reservation rate for 2018 remained strong at 0.80 homes per outlet per week (2017: 0.77). Consistent with our strategy to optimise our large sites, and our long term approach to reducing cyclical risk by maintaining a strong order book, we achieved a very good sales rate of 0.76 in the second half of the year (H2 2017: 0.66). Cancellation rates remained low at 14% (2017: 13%). First time buyers accounted for 34% of total sales in 2018 (2017: 41%). Investor sales continued to be at a low level of c.5% (2017: 3%).

During 2018, approximately 36% of total sales used the Help to Buy scheme, and we worked with 5,828 households to take the first step to home ownership or to move up the housing ladder (2017: 43% and 6,069). Approximately 77% of sales through Help to Buy in 2018 were

to first time buyers (2017: 77%) and at an average price of £270k (2017: £256k). During the year 29% of sales in the London market used Help to Buy London. We welcome the Government's announcement within the Autumn Budget to introduce tapering measures to the Help to Buy scheme as the Equity Loan Scheme transitions to a close in 2023. Help to Buy has been popular with our customers and has supported them in getting onto and moving up the housing ladder, however, we believe that the changes announced are appropriate and are in the best long term interests of the housing market and homebuyers.

We ended 2018 with a very strong order book which represented 8,304 homes (31 December 2017: 7,136 homes) with the growth due to affordable housing. The value of this order book stood at £1,782 million (31 December 2017: £1,628 million), excluding joint ventures.

During 2018, we opened 82 new outlets (2017: 109) in locations in villages, towns and cities where people want to live, and which are supported by strong demographics and local economies. As at 31 December 2018 we were operating from 256 outlets (31 December 2017: 278). We traded on an average of seven Central London schemes in 2018, of which the average size was 141 plots.

Customers and communities at the heart of our strategy

Each of the decisions we take, from the location of the land we buy, to the house types we choose and the location and timing of community facilities, has a significant impact on our customers' lives and their lifestyles. Understanding what our customers need has been a key priority for everyone at Taylor Wimpey. During 2017 and 2018, we conducted a wide ranging customer research project to help set our customer facing priorities.

We have made a significant step change in our business over the last four years and are pleased to have achieved a customer satisfaction score of over 90% as measured by the Home Builders Federation (HBF) survey. Whilst we have made great progress and over 90% of customers would recommend Taylor Wimpey to a friend (2017: 89%), this performance often drops over time, a common trend across the industry. There are of course a number of contributing factors, and not all within our control, but we start from the point that to be genuinely customer-centric, we have to understand the causes and look for solutions. We have therefore introduced the HBF 9-month 'would you recommend' score, as an additional Key Performance Indicator, which captures the feedback from customers living in their homes for nine months.

We aim to give our customers clear and useful information so they know what to expect throughout the home buying process and so they know how to contact us when they need to. Technology has a key part to play in this. TouchPoint, our online portal, is now available to all new customers.

Widening routes to market

As one of the largest homebuilders in the UK, we believe that we have a shared responsibility, and the opportunity, to meet a wider customer need by ensuring our products are affordable and accessible to more people. This will mean we are well placed in all market conditions.

During 2018 we ran a pilot for a new Taylor Wimpey rent to buy scheme, Springboard. This scheme enables first time buyers to rent a property for up to five years, without a rental deposit which we know is often a challenge for those renting and trying to save up for a deposit at the same time. After a minimum of two years the customer is given an option to purchase the property at a 5% discount. We piloted Springboard at one site, with 14 new

one, two and three-bedroom properties. This proved to be very popular, with 12 of the 14 homes reserved within the first weekend. Springboard enables us to explore different customer needs, and gives us the potential to open up a different, and further, route to market, depending on market conditions.

Responsible business

Whilst the majority of our customers would recommend us to their friends, we acknowledge that we do not always get it right for our customers and sometimes fall short of our high standards. Where this is the case, we work with customers to put this right and learn from our mistakes. We remain supportive of the Government plans to introduce an independent ombudsman service to the new build sector to provide impartial rulings on unresolved customer issues and help to raise standards in the wider industry.

The Ground Rent Review Assistance Scheme (GRRAS) announced in April 2017 is progressing well with a continuing number of customers accessing the GRRAS. Our objective is to ensure our customers are put back into a position they would have been had the doubling lease not been in place, by converting the ten-year doubling ground rent clause to an industry standard RPI-based structure, comparable to that used in the majority of residential leases in the UK. We have reached agreement with freeholders representing 95% of the leases concerned, with a further 2% in advanced legals. All of our customers that currently have the option of converting their ten-year doubling lease to an RPI-based structure have been contacted about this either by Taylor Wimpey or the freeholder directly.

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

Communities

Our customers have a very strong desire to become part of a community and to do so quickly after they move in. Our research showed that customers believe we should play a more active role in facilitating the relationship between the new residents, their new community and their neighbours. This is an area we will be exploring further in 2019 and we will be undertaking a number of pilots at a community level to test effectiveness and impact. Our customer research also shows a clear relationship between good placemaking and long term customer satisfaction.

We want communities to welcome Taylor Wimpey to their area and recognise the positive contribution we can make to their existing community, as well as trusting us with the responsibility of creating a new one. We know housebuilding, particularly in its early stages, can be disruptive. In order to mitigate this, we seek to engage, consult and work in partnership with communities and all interested stakeholders on each and every site, both

before we submit a planning application and throughout the life of our developments. During 2018 we ran 200 community meetings and events, including public exhibitions.

We are very proud of the significant contribution we make via our planning obligations each year, providing local infrastructure, affordable homes, public transport, education facilities and other forms of social infrastructure. In 2018, we contributed £455 million to local communities in which we build across the UK via planning obligations (2017: £413 million). Our teams across the business get involved in local life, organising competitions with primary schools, inviting schools to site for health and safety training and sponsoring local sports clubs, as part of their daily working life. In addition, we contributed over £170k to other organisations, such as scout groups, local football teams and various local community causes (2017: c.£90k).

Build quality: getting it right first time

Having spent time and resources on ensuring the quality of products handed over to customers is consistent and meets our high standards, including the introduction of a Taylor Wimpey national quality manual, we are now focused on ensuring that a right first time approach is adopted consistently through all stages of build. Our customer research made very clear that this is an absolute foundation stone for customer satisfaction. Our customers rightly expect high-quality homes that are professionally built and free from defects. We believe that investment in quality upfront effectively benefits all stakeholders as getting it right first time saves significant time, cost and energy in putting things right.

During 2018 we rolled out our Consistent Quality Approach (CQA) guidelines to make sure our Site Managers, subcontractors, production and customer service teams all have a consistent understanding of the finishing standards we expect on all Taylor Wimpey homes. We are developing specific guidance within the CQA for the different trades working on our sites that will form part of our framework agreements with contractors in the future. We plan to produce a version of the CQA for customers in 2019 so they know what they should expect from us.

We have introduced the National House-Building Council (NHBC) Construction Quality Review score as a new KPI in the business which measures build quality at key build stages. In 2018 we scored an average of 3.93 (2017: 3.74) from a possible score of six. This compares with an industry average score of 3.68 and we have moved from 12th to 5th nationally over the last year. We aim to improve this further by ensuring our quality assurance processes are embedded at every stage of build. Our target is to achieve at least a four rating by 2020 for each regional business.

We are also exploring how technology can help us improve quality. For example, using 3D animated drawings can help site teams to visualise site plans and improve accuracy. We have equipped our Site Managers with mobile devices they can use to help them monitor quality on site and reduce paperwork. This allows them to complete the Build Quality Checklist electronically, attaching photographs to enable them to better monitor progress.

Optimising our strong landbank

The land and planning environment is structurally different in this cycle and is more balanced and effective today than at any point over the last 30 years. We are confident that, barring a fundamental change in Government policy, this will continue to be the case for the foreseeable future. Our investment and scale continue to be based on our view of land quality and capital risk in a cyclical market. Although the planning approval process remains complex

and often slow, land is no longer the totally dominant constraint on the success and scale of our business and for the industry that it once was. The easing of this constraint means it is no longer a necessity to hold a very long landbank, and we are instead focused on delivering value and maximising returns from our land investments. One of our key strategic objectives is to work our existing landbank harder and smarter and reduce the length of the short term landbank by one year by 2023. We will do this by taking a more strategic approach to our build on site, adopting a factory approach, scaling up build teams on large sites, to align with the market demand, to deliver more homes. The short term owned and controlled landbank includes 92 large (including 'super large') sites as at 31 December 2018. The increase in the proportion of large sites that we have seen in the market, and those we have secured in our land pipeline, brings both opportunities and risks. Our approach to these sites is core to our belief that we can deliver significant benefits to our customers and deliver further financial value to our shareholders.

We continue to see a key competitive advantage in our high-quality landbank. This remains an important driver of value as it enables us to build and sell the right product, create the right community and deliver the right service to our customers. Our short term landbank stands at c.76k plots (2017: c.75k plots), which has been sourced using strict criteria, including location quality. Over 51% of this short term landbank has been strategically sourced (2017: 52%).

We currently have c.5.1 years of land supply at current completion levels in towns, villages and cities where customers aspire to live in all types of market. During 2018 we acquired 8,841 plots (2017: 8,040 plots) at anticipated contribution margins‡‡‡ of c.27% and return on capital employed*** of c.32%. In the year, we achieved a 0.5 percentage point margin upside on completions from land acquired since 2009, compared with the expected margin at the point of acquisition. We achieve this optimisation of value by undertaking a series of thorough reviews of each site at all stages of its life cycle, using our value improvement and tracking processes to ensure that we are continually optimising and delivering the value within our land portfolio and capturing market inflation.

The average cost of land as a proportion of average selling price within the short term owned landbank remains low at 15.2% (2017: 14.8%). The average selling price in the short term owned landbank in 2018 increased by 0.4% to £281k (2017: £280k).

A key strength of Taylor Wimpey is our strategic land pipeline. This is an important input to the short term landbank and provides an enhanced supply of land at a reduced cost, giving us increased flexibility and choices. Importantly, it gives us greater control over the planning permissions we receive. We have one of the largest strategic pipelines in the sector which stood at a record of c.127k potential plots as at 31 December 2018 (31 December 2017: c.117k potential plots). During 2018, we converted a further 7,619 plots from the strategic pipeline to the short term landbank (2017: 7,863 plots). We continue to seek new opportunities and added a net 17.8k new potential plots to the strategic pipeline in 2018 (2017: 17.1k new potential plots). In the year, a record 58% of our completions were sourced from the strategic pipeline (2017: 53%).

Becoming the employer of choice

Our people are the backbone of our customer-centric approach and we are investing in their development to ensure they have the right skills and to help underpin our future growth. We aspire to be the employer of choice in our sector, offering a unique and valued employee experience by investing in our people, giving them more challenge, more ownership and

more flexibility, where it counts. We were pleased to have been named in the top 10 places to work in the UK for 2019, by Glassdoor, as voted for by employees, once again the only commercial housebuilder to make the list. This is the second consecutive year we have featured on the list, having ranked number 15 in 2018.

During 2018 we directly employed, on average, 5,358 people across the UK (2017: 4,893) and provided opportunities for over 13k further operatives on our sites. Our voluntary employee turnover rate remained low at 14.5% (2017: 14.0%).

Against industry-wide skills shortages, we continue to invest in order to future-proof our workforce and deliver on our strategy. During 2018, we recruited 175 people into our early talent programmes which includes graduates, management trainees and site management trainees (2017: 126). A key priority for 2019 will be creating a more consistent framework and development path for early and ongoing talent management.

During 2018, we began our first direct labour model, increasing the number of trades people we hire directly (as well as through subcontractors). This includes both experienced trades people and new recruits to the industry, such as apprentices and people looking for a career change. We piloted this approach in six regions during 2017 and 2018, focusing on five key trades: bricklayers, carpenters, scaffolders, painters and joiners. We currently directly employ 748 key trades including apprentices (2017: 581), a 29% increase on 2017. Our approach includes recruiting a greater diversity of candidates to join our apprenticeship schemes. This includes working with St Mungo's, one of our national charities, to support their long term unemployed clients to transition from their Train and Trade scheme into paid employment.

We may be a national homebuilder, but for customers, it is their interactions with the local site and sales team and regional office that matter. This is where their impression of Taylor Wimpey is formed and where we strive to prove to them that they made the right choice by choosing a Taylor Wimpey home. Embedding our approach to customers and getting buy in and commitment from our employees has been a key part of our strategy. During 2018 we ran a very successful engagement programme featuring emails, presentations, meetings and focus groups hosted by senior management across the country, as well as an all staff survey.

We are pleased to report that Taylor Wimpey was once again recognised in the NHBC Pride in the Job Awards, achieving a total of 67 Quality Awards (2017: 62), 19 Seal of Excellence Awards (2017: 24) and three Regional Awards in 2018 (2017: two). Paul McLachlan from our North Yorkshire business also won the 2018 Supreme Award in the Large Builder category, after achieving Runner-up in 2017.

Health and safety

There is nothing more important to our Board and our employees than health and safety. Building sites are, by their very nature, dangerous and so we do everything we can possibly do to minimise those risks. We embed a safety culture through training, awareness and visible health and safety leadership. Whilst our Annual Injury Incidence Rate (AIIR) remains well below both the HBF Home Builder Average and Health and Safety Executive Construction Industry Average, we are not complacent and we will continue to seek to improve this. Our AIIR for reportable injuries per 100,000 employees and contractors was 228 in 2018 (2017: 152). Our AIIR for major injuries per 100,000 employees and contractors was 64 in 2018 (2017: 54).

We were deeply saddened by the tragic death of a subcontractor on our Stoneley Park site in Crewe in 2018 following a serious accident. We are assisting the Health and Safety

Executive with the accident investigation and await their findings. We have offered support to everyone working on the site, encouraging them to access counselling via our confidential and free employee assistance scheme.

The rates of mental health issues can be higher than average in the construction sector. We strive continually to be a workplace where people feel supported and can get help when they need it. We launched our first mental health and wellbeing campaign and training in 2018, and will roll out further initiatives throughout 2019.

Charity partnerships

During 2018, we continued our partnership with our national charities as well as local charity partners across the UK. Our six national charities are the Youth Adventure Trust, End Youth Homelessness, Crisis, CRASH, St Mungo's and Foundations Independent Living Trust. Our national charity partners are selected by our Charity Committee, with regional charities selected by our regional businesses.

In total, during 2018 we donated and fundraised over £1.1 million for registered charities (2017: over £1 million), which includes £167k raised by our employees on the annual Taylor Wimpey Challenge. More information about our charity partnerships and local sponsorships can be found within our Sustainability Report, which will be published on our website in March 2019.

Best in class efficient engine room

As land and planning has become less of a constraint, the operational capacity of the industry as a whole has become more constrained through this cycle. Through structured investment and by developing our skills and supply chain, we believe we can grow the capacity of our operational business and our delivery capability. This will be an ongoing effort, and whilst it cannot be done overnight, we have started by putting in place a number of initiatives that will increase our capacity to deliver and, importantly, maintain and improve quality. We have begun this by strengthening and investing in our people and skills, including investment in direct labour, our apprentices, our production teams as a whole, as well as technology and process improvements.

It remains our belief that homebuilding is inherently cyclical and so we remain committed to retaining a strong balance sheet, not over stretching investment, and maintaining financial discipline. Our ability to constantly increase efficiency and tightly control costs is part of the Taylor Wimpey culture and remains central to delivering enhanced returns. This extends to and encompasses all aspects of our business as we strive to optimise and capture value at every level from procurement through to delivery.

We achieved an annual return on net operating assets** for the Group of 33.4% in 2018 (2017: 32.5%). The annual return on net operating assets ** for the UK business was 33.1% in 2018 (2017: 32.1%).

We have improved our UK net operating asset turn†* to 1.55 times (2017: 1.52 times), benefitting from a low land cost as a percentage of average selling price in the short term owned landbank, as a result of higher margin land acquired in recent years and increased strategic pipeline conversion.

As announced previously, we have undertaken a cost and efficiency review to identify and validate opportunities for performance improvement and cost efficiencies. As a

consequence, we have initiated a number of workstreams during the year which are primarily targeted at applying technology and standardisation to increase productivity.

Procurement, product and process

Our scale affords us the benefit of strong purchasing power, and we can achieve significant cost savings across our regional businesses through national agreements with a number of suppliers. We continue to work to improve our relationships with our supply chain, both in procurement and via Taylor Wimpey Logistics, to deliver solutions to build quality and efficiency issues on an ongoing basis. Taylor Wimpey Logistics plays an important part in our supply chain management, providing us with an alternative route to delivery and aiding efficiency with the preparation of 'just in time' build packs for each stage of the building process. With focus and greater standardisation on process, compliance, house types, design, suppliers and through collaboration, we believe we can deliver a greater quality and efficiency from our supply chain. This includes increasing efficiency by reducing stock items and improving visibility on programming for material demands.

During 2019, we will finalise our new house type range and begin the initial stages of the roll out. This has been developed using extensive customer research and will include further consultation with customers, with the objective of identifying customer needs while delivering as aspirational a product as possible, within practical and commercial limitations. This house type range will have the added benefit of reducing costs and will offer us new choices in how we deliver homes to our customers in a way that serves the needs of more customers effectively and adds additional value.

We are prioritising research and development, seeking out new processes and products that can improve efficiency and sustainability, and also improve quality and the final product for customers. The build of our Project 2020 prototype homes in 2018, following our design competition with the Royal Institute of British Architects (RIBA), has been particularly useful in providing new insights.

We aim to use natural resources efficiently and to reduce our impact on the environment. We are pleased to have reduced our emissions by 38.7% since 2013. Whilst our emissions in 2018 increased to 24,837 tonnes of CO_2e (2017: 23,683), we are still on track towards our target of 50% reduction in direct emissions (scope 1 and 2) by 2023.

Spain

The Spanish housing market remained positive throughout 2018. We completed 342 homes in 2018 (2017: 301) at an average selling price of €344k (2017: €352k). The total order book as at 31 December 2018 was 284 homes (31 December 2017: 329 homes).

The Spanish business delivered an improved operating profit* of £29.2 million for 2018 (2017: £26.8 million) and an operating profit* margin of 28.0% (2017: 28.5%). Looking ahead, we believe the business is well positioned for further growth in 2019.

Group financial review of operations

Performance of the Group is monitored internally using a variety of statutory and alternative performance measures (APMs) as outlined below. APMs are used where management considers they are more representative of underlying trading or in monitoring performance against strategy. The APMs used form the measurement basis of key strategic targets and are linked directly to executive remuneration. Definitions of the APMs and reconciliations to

the equivalent statutory measures are detailed in the Alternative Performance Measures section of this statement.

During the period, the Group adopted three new accounting standards, being IFRS 9 – 'Financial Instruments'; IFRS 15 – 'Revenue from Contracts with Customers'; and IFRS 16 – 'Leases'. Although there is limited impact to the financial statements from their adoption, IFRS 16 has the greatest impact, with the recognition of £27.1 million of leased cars, office properties and other smaller items as assets at 31 December 2018, with a corresponding lease liability. In addition, with the adoption of IFRS 16, the cash spend on cars and leased property has moved from Net Cash from Operating Activities to Financing Activities. The 2017 financial statements have been restated for IFRS 9 and IFRS 15. They have not been restated for IFRS 16 as it has been applied from 1 January 2018 using the 'modified retrospective' approach, as outlined in the standard.

Income statement

Group revenue increased by 2.9% to £4,082.0 million in 2018 (2017: £3,965.2 million). This increase was driven by increased completions both in the UK and in Spain, with completions (excluding joint ventures) increasing by 3.2% to 15,164 (2017: 14,688). Whilst UK selling prices for both private and affordable completions increased in the year, the average selling price of UK completions remained flat at £263.9k (2017: £264.4k), due to the greater proportion of affordable housing completions in 2018. The average selling price on UK private completions was £301.8k (2017: £296.4k).

The UK land cost per completed unit, at £41.7k, was 8.1% lower than prior year (2017: £45.4k). This reflected the greater proportion of affordable housing in 2018, an increased proportion of completions from strategically sourced land of 58% (2017: 53%), and a lower proportion of completions from the Central London business. Total UK land cost per completion as a percentage of selling price was 15.8% (2017: 17.2%).

Build cost per unit in the UK increased to £147.4k (2017: £143.7k), with the greater level of strategically sourced sites requiring higher infrastructure costs, together with marginal build cost inflation, regional mix and specification improvements. Underlying annual build cost inflation (excluding house type mix impact) was c.3.5% year on year (2017: c.3.5%), largely due to continued pressure on resources to deliver the higher level of homebuilding. Direct selling expenses per unit decreased marginally to £5.9k (2017: £6.0k), due to sales efficiencies.

Whilst the average UK gross profit per private completions increased in the year, the average UK gross profit per completion was down marginally by 0.6% to £68.9k (2017: £69.3k), reflecting the higher proportion of affordable completions in the year.

Group gross profit of £1,074.5 million (2017: £1,031.8 million) increased by 4.1%, and included a positive contribution of £7.7 million (2017: £17.4 million). Positive contribution represents previously written down inventory allocated to a plot which has subsequently resulted in a gross profit on completion. This can be due to revenue outperformance, cost efficiencies or product mix improvements since the inventory was assessed for its forecast profitability. These amounts are stated before the allocation of overheads, which are excluded from the Group's net realisable value of inventory exercise.

In 2018, only 2% (2017: 5%) of the Group's UK completions were from sites that had been previously impaired. In Spain, 17 plots (2017: 35 plots) were completed that had previously

been impaired. The Group anticipates that c.2% of UK 2019 completions will come from sites that have been previously impaired.

During the year, completions from joint ventures were 111 (2017: 154), with new phases of existing sites, at Chobham Manor and Greenwich Millennium Village, starting to deliver completions in the second half of the year. The total order book value of joint ventures as at 31 December 2018 was £22 million (31 December 2017: £4 million), representing 58 homes (31 December 2017: 7), for 2019 completions. Our share of results of joint ventures in the period was a profit of £5.3 million (2017: £7.6 million).

Group operating profit* increased by 4.3% to £880.2 million (2017: £844.1 million), delivering an operating profit* margin of 21.6% (2017: 21.3%). There was a slight reduction in margin from the net impact of market effects on selling and build cost inflation, which was more than offset through increased standardisation and operational efficiency and a small increase in our commercial property sales associated with our mixed use developments. Profit on ordinary activities before net finance costs increased by 17.3% to £828.8 million (2017: £706.5 million). This increase is driven by the increased operating profit* and a reduction in the exceptional charge in 2018.

Net finance costs for the period were £23.4 million (2017: £32.1 million). The reduction is primarily due to the lower notional interest charge of £1.1 million (2017: £5.9 million) on the defined benefit pension scheme deficit. This is a result of the deficit falling from £232.7 million in December 2016 to £63.7 million at December 2017, which drives the following period's notional interest charge. Unwind of the discount on land creditors and other items was £18.5 million (2017: £20.9 million), primarily due to a lower weighted average discount rate applied to land creditors. Interest on overdraft, bank and other loans decreased by £0.8 million year on year.

Profit before tax and exceptional items increased by 5.5% to £856.8 million (2017: £812.0 million). The pre-exceptional tax charge was £162.3 million (2017: £151.7 million) with an underlying tax rate of 18.9% (2017: 18.7%) that largely reflects the statutory tax rate in the UK. This resulted in a profit, before exceptional items, for the year of £694.5 million (2017: £660.3 million), 5.2% up on the prior year due to the improvement in the operational result and lower net finance costs.

The Group discloses material, financial impacts arising from events which are one-off or unusual in nature as exceptional items. An exceptional charge of £46.1 million was recognised in the year, which comprises two elements (2017: £130 million in relation to leasehold property matters and doubling ground rents). As previously reported, a charge totalling £30.0 million has been recognised for the removal of Aluminium Composite Material (ACM) cladding at a small number of sites. We have sought professional advice on each building and believe the £30.0 million exceptional provision to be an appropriate estimate of the final outcome. Further, following the landmark legal judgment in October last year, which ruled on the equalisation of guaranteed minimum pensions for men and women in UK defined benefit pension plans, we have reviewed our own position with our pension scheme Trustee. We estimate that the scheme's liabilities will increase by £16.1 million on an accounting basis and recognised this as an exceptional charge. The position will be kept under review, including the amount of the liability, pending any further clarification and Government guidance. An exceptional tax credit of £8.2 million was recognised in respect of the £46.1 million exceptional charge recognised in the year.

Profit on ordinary activities before tax increased by 18.9% to £810.7 million mainly as a result of higher operating profit* and lower exceptional charges (2017: £682.0 million). Profit for the year was £656.6 million, up by 18.2% on 2017 (2017: £555.3 million).

Basic earnings per share was 20.1 pence (2017: 17.0 pence). The adjusted basic earnings per share[††] was 21.3 pence (2017: 20.2 pence), up 5.4%.

Balance sheet

Net operating assets[**] were £2,611.9 million (31 December 2017: £2,654.1 million). This reflects a net investment of £112.5 million (2017: £91.7 million) in the year in land and work in progress (WIP), funded by a £99.5 million increase in land creditors. In addition, there has been a £68.8 million increase in the retirement benefit obligations. Return on net operating assets** increased by 0.9 percentage points to 33.4% (2017: 32.5%), as a result of improved profitability and maintaining balance sheet discipline. Similarly, net operating asset turn[†*] remained at a strong 1.55 times (2017: 1.53 times). Asset turn has benefitted from the combination of on-going competitive land acquisition terms and strong revenues.

As at 31 December 2018, the UK short term landbank comprised 75,995 plots, with a net book value of £2.5 billion. Short term owned land comprised £2.3 billion (2017: £2.3 billion), representing 53,279 plots (2017: 56,619). The controlled short term landbank represented 22,716 plots (31 December 2017: 18,230). The value of long term owned land increased by 11% to £100 million (2017: £90 million), representing 32,354 plots (2017: 26,836), with a further total controlled strategic pipeline of 95,063 plots (31 December 2017: 90,409). Total potential revenue in the owned and controlled landbank increased to £50 billion in the period (31 December 2017: £47 billion), reflecting the increase in the scale of the strategic land pipeline.

Average WIP per UK outlet at 31 December 2018 increased by 12.5% to £5.4 million (2017: £4.8 million). UK WIP turn[†**] remained flat at 2.95 times (2017: 2.95 times).

As at the balance sheet date, the Group held certain land and work in progress that had been written down by £83.0 million (31 December 2017: £93.3 million) to a net realisable value of £73.8 million (31 December 2017: £87.7 million). The balance of previously written down land and work in progress in the UK was £46.6 million (31 December 2017: £69.9 million), following the associated write-downs of £38.7 million (31 December 2017: £46.9 million) and principally relates to eight locations.

As at 31 December 2018, in the UK, 86% of the short term owned and controlled landbank was purchased after 2009, 59% of which was sourced through our strategic pipeline. This results in a land cost to average selling price in the short term owned landbank of 15.2% (31 December 2017: 14.8%).

We continue to use land creditors as a way of funding land acquisitions where this results in better return on our investment for longer dated delivery schemes and is value-enhancing for the business. Land creditors increased to £738.6 million (31 December 2017: £639.1 million) and, combined with net cash[‡], resulted in a low adjusted gearing[‡‡‡‡] of 2.9% (31 December 2017: 4.1%). Included within the land creditor balance is £102.0 million of UK land overage commitments (31 December 2017: £117.0 million). £359.5 million of the land creditors is expected to be paid within 12 months and £379.1 million thereafter.

The mortgage debtor balance was £45.3 million at 31 December 2018 (31 December 2017: £63.1 million), with the decrease due to redemption receipts of £21.6 million.

Provisions increased to £170.3 million (31 December 2017: £161.6 million) following the recognition of the £30.0 million exceptional cladding provision in the year, offset by payments amounting to £25.5 million for the settlement with regard to the GRRAS.

Our net deferred tax asset of £40.7 million (31 December 2017: £29.3 million) relates to our pension deficit, employee share schemes and the temporary differences of our Spanish business, including brought forward trading losses.

Net assets at 31 December 2018 increased by 18.8% to £3,726.3 million before dividends paid in the year, and by 2.9% overall year on year to £3,226.8 million (31 December 2017: £3,137.3 million). The net asset increase from 31 December 2017 was driven by strong profitability in the year offset by the £499.5 million dividends paid and the pension actuarial assumptions and asset performance increasing the pension deficit year on year.

Pensions

As previously announced, further to our 31 December 2016 triennial valuation, we agreed a funding plan with the Trustee to December 2020. This included a contribution mechanism, tested quarterly, such that should the Taylor Wimpey Pension Scheme (TWPS) reach a technical provisions surplus, further contributions would be suspended and only recommence if the funding level fell below 96%. The first quarterly test as at 29 March 2018, identified a deficit of £23.0 million which was paid in April 2018. The subsequent quarterly tests to 30 September 2018 resulted in a small deficit. However, as the TWPS remained 99% funded, regular contributions were suspended through the remainder of the year.

The quarterly test for 31 December 2018 showed that the TWPS funding had declined to 94%, following a fall in global equity valuations and other related financial markets in Q4 2018. As a result of this latest quarterly test, the Group will recommence regular contributions from January 2019, until the scheme is valued as fully funded. In addition, the Group will continue to cover scheme expenses and make contributions via the Pension Funding Partnership. Total scheme contributions totalled £34.1 million in 2018 (2017: £23.1 million). Payments are expected to increase to £47.1 million per annum from 2019, assuming the TWPS remains less than 100% funded.

At 31 December 2018, the IAS 19 valuation of the scheme remained in surplus at £30.9 million. Due to the rules of the TWPS, this surplus cannot be recovered by the Group and therefore a deficit has been recognised on the balance sheet under IFRIC14. This deficit is equal to the present value of the remaining committed payments under the 2016 triennial valuation. Total retirement benefit obligations of £133.6 million at 31 December 2018 (31 December 2017: £64.8 million) comprise a defined benefit pension liability of £133.0 million (31 December 2017: £63.7 million), with the increase reflecting the new pension funding plan, and a post-retirement healthcare liability of £0.6 million (31 December 2017: £1.1 million).

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

Cash flow

Net cash‡ increased to £644.1 million at 31 December 2018 from £511.8 million at 31 December 2017. This is despite returning £499.5 million to shareholders by way of dividends

in the year (2017: £450.5 million) and paying £25.5 million in relation to the GRRAS set up to assist certain of our customers to move their ground rent escalating terms to less expensive terms. This improvement in net cash‡ is largely as a result of strong performance in underlying trading and maintaining balance sheet discipline.

Net land spend, including the payment of land creditors, was £581.4 million (2017: £645.6 million) and we invested £2,406.6 million in work in progress (2017: £2,386.7 million). In 2018, we paid £8.6 million in interest costs (2017: £5.1 million) and £139.6 million in corporation tax (2017: £126.7 million). £8.3 million was paid for the car fleet and certain office properties capitalised under IFRS 16. £9.9 million was spent during the year to acquire shares for satisfying future share scheme awards (31 December 2017: £13.3 million).

In the 12 months to 31 December 2018 we converted 92.6% of operating profit* into operating cash flow**** (2017: 87.2%).

Financing structure

At 31 December 2018 our committed borrowing facilities were £640 million of which £550 million was undrawn. Average net cash‡ for 2018 was £259.6 million (2017: £186.5 million net cash‡).

During the year, we completed an amendment and extension of the £550 million revolving credit facility to mature in 2023 on improved terms with an option to extend for a further two years. At the start of 2019 we extended the facility by a further year to 2024. This extends the average maturity of the committed borrowing facilities to 5.0 years.

Dividends

As announced in May 2018, subject to shareholder approval each year, the Company will pay an ordinary dividend of approximately 7.5% of Group net assets from 2019, which will be at least £250 million per annum. This is intended to provide a reliable minimum annual return to shareholders throughout the cycle and will be paid equally as a final dividend (in May) and as an interim dividend (in November). This Ordinary Dividend Policy was subject to prudent and comprehensive stress testing against various downside scenarios, which also included a reduction of 20% in average selling prices and a 30% reduction in volumes.

The payment of ordinary dividends will continue to be supplemented by additional significant special dividends at appropriate times in the cycle. Our Special Dividend Policy will pay out to shareholders the free cash generated by the Group after land investment, all working capital, taxation and other cash requirements of the business in executing our strategy in the medium term, and once the Group's ordinary dividends have been met.

Subject to shareholder approval at the AGM scheduled for 25 April 2019, the 2018 final ordinary dividend of 3.80 pence per share will be paid on 17 May 2019 to shareholders on the register at the close of business on 5 April 2019 (2017 final dividend: 2.44 pence per share). In combination with the interim dividend of 2.44 pence per share (2017 interim dividend: 2.30 pence per share) this gives a total ordinary dividend for the year of 6.24 pence (2017 ordinary dividend: 4.74 pence per share).

This dividend will be paid as a cash dividend, and shareholders are once again being offered the opportunity to reinvest all of their ordinary dividend under the Dividend Re-Investment Plan (DRIP), details of which are available from our Registrar and on our website. Elections

to join the Plan must reach the Registrar by 25 April 2019 in order to be effective for this dividend. Further details can be found on our website www.taylorwimpey.co.uk/corporate

In addition, on 13 July 2018, we returned £340.0 million to shareholders by way of a special dividend, equating to 10.40 pence per ordinary share. As previously announced in May 2018 we intend to return c.£350 million to shareholders in July 2019, equating to 10.7 pence per ordinary share, subject to shareholder approval at the AGM. This is proposed to be paid on 12 July 2019 as a cash dividend to all shareholders on the register at close of business on 7 June 2019. Shareholders will be offered the opportunity to reinvest all of their 2019 special cash dividend under the DRIP, for which elections to join the Plan must reach the Registrar by 21 June 2019.

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

Going concern

The Directors remain of the view that the Group's financing arrangements and balance sheet strength provide both the necessary facilities and covenant headroom to enable the Group to conduct its business for at least the next 12 months. Accordingly, the consolidated financial statements are prepared on a going concern basis.

Assessment of Prospects

We consider the long term prospects of the Group in light of our business model. Our strategy to deliver sustainable value is achieved through delivering high-quality homes in the locations where people want to live, with excellent customer service, whilst carefully managing our cost base and the Group's balance sheet. Management re-evaluates the medium to long term strategy, in the light of external, economic and industry changes. If appropriate, management adapts the strategy accordingly, in light of changes; for example, for material changes in planning and the wider housing market fundamentals. The Group strategy is underpinned by our short term landbank, which supports c.5.1 years of development at current completion levels. Additionally, the Group ensures a strong, long term supply of land, with its strategic land business promoting land through the constrained planning process. The Group has above eight years supply of land at current completion levels in its strategic land pipeline.

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted their viability assessment for a period of five years, having extended the assessment period from three to five years in 2017, and similarly extended the horizon of the 2018 operating plan to better reflect the forecast period that the Board considers. The Company operates in a market which is prone to cyclicality, tending to follow the UK economic cycle. It is impacted by Government policy, planning regulation and the mortgage market. However, the Board considers that the Company has reasonable visibility over a five-year time horizon. This period aligns with the average build out time for a development phase from the point of land acquisition to final delivery to our customers.

The viability assessment includes the Group's income statement, balance sheet, cash flows, KPIs and debt covenants, and considers the potential impacts which may arise from the Principal Risks of the business. It includes macro-economic and industry-wide projections as well as matters specific to the Group.

The assessment considers sensitivity analysis on a series of realistically possible, but severe and prolonged, changes to principal assumptions. This downside scenario reflected the potential impact of a sharp decline in customer confidence, disposable incomes, and higher interest rates as may be experienced as a secondary impact to the Group from the UK leaving the EU. During 2019, we reduced volumes from 2018 levels by 30% and selling prices by 20%, with no recovery. The assessment also reflects a one-off exceptional charge and cash cost of £150 million for an unanticipated event or fine. Finally, the recommencement of the pension contribution at £40 million per annum has been modelled and continued throughout the five-year period. We considered mitigating actions, assuming continued investment in land, albeit at a reduced level, and the continued payment of the annual ordinary dividend of £250 million throughout the period. Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Shareholder information

The Company's 2018 Annual General Meeting (AGM) will be held at 11am on 25 April 2019 at the British Medical Association, BMA House, Tavistock Square, London WC1H 9JP.

Copies of the Annual Report and Accounts 2018 will be available from 18 March 2019 on the Company's website www.taylorwimpey.co.uk/corporate Hard copy documents will be posted to shareholders who have elected to receive them and will also be available from our registered office at Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR from 21 March 2019.

A copy of the Annual Report and Accounts 2018 will be submitted to the National Storage Mechanism and will be available for inspection at: www.Hemscott.com/nsm.do

Directors' responsibilities

The responsibility statement below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 31 December 2018. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the management report, which is incorporated into the Strategic Report and Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 26 February 2019 and is signed on its behalf by:

Kevin Beeston, Chairman

Pete Redfern, Chief Executive

Principal risks and uncertainties

As with any business, Taylor Wimpey faces risks and uncertainties in the course of its operations. It is only by timely identification and effective management of these risks that we are able to deliver our strategy and five-year goals.

The following table summarises the Group's principal risks and uncertainties. Control of each of these is critical to the ongoing success of the business. As such, their management is primarily the responsibility of the Chief Executive and the Group Management Team (GMT), together with the roles noted. The Board has finalised its assessment of these risks and has concluded that the likelihood of these principal risks affecting the business has remained at the level previously reported.

In addition to the principal industry related risks set out in the following pages, we also monitor closely several other key factors. These may be risks with an increasing potential impact or likelihood, individual risks with a potentially high impact but which are very unlikely to occur, or risks arising as a result of a combination of unlikely events which together create a major event.

The Group considers risk from a wider technology and cyber perspective. We have continued to improve and invest in our information technology to mitigate against increasing cyber threats and data loss, theft or corruption. In 2018, we have adopted a series of measures to reduce our exposure to breaching the EU's General Data Protection Regulation (GDPR), which was implemented in May 2018, and we continue to deliver against the recommendations from an independent cyber security audit that was conducted in the year.

Our customers and our corporate obligation are at the heart of Taylor Wimpey's cultural values, with our Customer Journey heavily focused on product quality and delivering an enhanced buying experience. The Group considers the potential impact to the business in the event that either of these were to fall below our high standards. We acknowledge concerns raised by some of our customers in connection to mortar durability on a development in Peebles, Scotland. While a significant number of houses on the development are unaffected, a robust technical solution, supported by an appointed structural engineer and the NHBC, to fix the durability of the mortar has been identified and homes are being remediated as soon as possible. Our Group-wide approach has been enhanced in the year through development of new tools and processes, which when fully embedded, will further support the delivery of our homes as promised to our customers.

Housing remains high on agendas of the Government and the main political parties. The sector continues to face scrutiny and pressure from social media and pressure groups, with the potential for greater oversight from Government through a Design Champion and a single New Homes Ombudsman. We endeavour to deliver both the letter and the spirit of regulations and maintain this same ethos in our relationships with our customers.

Following the tragic fire at Grenfell Tower, we conducted a detailed internal review into Aluminium Composite Material (ACM) cladding used in the construction of our recent and historic developments, working with building owners, management companies, independent fire safety experts and local fire and rescue services as appropriate. Where ACM cladding was identified on defined tall buildings in which we retain an ongoing interest, we sought advice from independent fire safety experts, and, where required, took action with those responsible to ensure that the buildings are fully compliant with the Government's guidance on interim fire safety measures. During the year, the Group recognised an exceptional

provision amounting to £30.0 million, for the removal of Aluminium Composite Material cladding at a small number of sites where the ownership aspects and specific circumstances deemed this to be appropriate.

We also maintain a Sustainability and Climate Change Risk and Opportunity Register to monitor other sustainability issues that could affect the Group. In addition, our climate change related risks and opportunities are available as part of our 2018 CDP submission. For more information please visit www.taylorwimpey.co.uk/corporate/sustainability

Risk	Relevance to strategy	Potential impact on KPIs	Mitigation	Progress in 2018
Government policy and planning regulations Additional initiatives and legislative and regulatory amendments to the National Planning Policy Framework (NPPF) were signalled by a Housing White Paper in February 2017, to address the delivery of greater housing availability for the UK. Consultations continued into 2018, and the Government subsequently introduced amendments, resulting in the issue in July 2018 of NPPF (2018) and consequential changes to the National Planning Policy Guidance (NPPG). The Government-backed Help to Buy (HtB) scheme has helped to fund the home deposit for certain homebuyers. During 2018, the Government announced that the current scheme would end as expected in 2021, and announced an extension scheme which will be in place from 2021 to 2023, for first time buyers and which will be subject to regional home price caps. The proposed changes will allow an orderly unwind from the scheme, but as predicated will require a critical review of sales rates assumptions, unit mixes and likely customer behaviour. In light of the Grenfell Tower tragedy, the Government consulted on proposals to ban the use of combustible materials in the external walls of high rise residential buildings. Following the consultation, an amendment to Approved Document B of the Building Regulations was issued in December 2018, implementing the proposals in full for works where an initial notice was issued to the local authority on or after 21 December 2018. Changes to the Building Regulations are forward looking in terms of implementation. In May 2018, Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety (the Hackitt Review) was published, and the Government subsequently committed to the full implementation of the recommendations contained within the review. The review was wide ranging, taking in the regulatory frameworks around the design, construction and management of buildings, the advice and guidance that supports those regulatory frameworks and the responsibilities of those involved throughout the life cycle of the building. The review recommended restrictions on the use of assessments in lieu of tests (commonly referred to as desktop studies) to demonstrate compliance with Approved Document B of the Building Regulations. The Government consulted on this in spring 2018 and consequently included a full ban on the use of desktop studies within the December 2018 amendment to Approved Document B.	Our ability to build great places to live is dependent upon creating site plans which inspire and delight our customers, delivered at an affordable price. Obtaining timely planning permissions and achieving other regulatory requirements and permits, is key to starting on site as soon as possible and home delivery. There remains a risk of delayed or refused planning applications, increased timescales to the discharge of planning conditions and complexity around Section 106 agreements and Community Infrastructure Levy (CIL). As elements of the anticipated changes from the introduction of the NPPF (2018) take effect, together with the amendments to the HtB scheme announced in October 2018, there could be a change in demand for specific products. In turn, this may lead to changes to site mixes, and to extended timeframes to gaining revised planning consents.	Unforeseen delays, our inability to obtain suitable planning consents and disruption from changes to planning regulations, could impact on the number or type of homes that we build. With the consultation on changes to developer contributions and CIL, we may be required to meet higher levels of planning obligations, so incurring additional costs. The locally produced CIL charge schedules may increase costs, impacting the viability of developments in our short term landbank. Changes to Building Regulations on tall and other buildings, although likely to be limited in impact to the Group, could introduce delays to implementation, re-work to sites and increased costs. Together, these changes could have a detrimental impact on the contribution per plot. The end of HtB in 2021 and the extension scheme for first time buyers subject to regional caps until 2023, could see lower sales rates and potentially a greater number of smaller homes required by our customers.	We operate within our comprehensive community led planning strategy. This improves communications with all parties, but especially local communities, thereby enhancing our ability to deliver developments that meet local requirements. We continually review changes to Building Regulations and supporting guidance. We consult with Government agencies and Opposition parties on housing policy, both directly and indirectly as a member of industry groups, to highlight potential issues and to understand any proposed changes to regulations and policy. We implemented the Taylor Wimpey Ground Rent Review Assistance Scheme (GRRAS) in April 2017, for our customers wishing to alter the terms of their lease to materially less expensive terms based on RPI. We take a prudent approach to the potential sale of freeholds with regard to our apartment schemes, by excluding the potential for their sale revenues in our land purchasing decisions.	Our customer and community engagement strategy is embedded and having a positive effect. We have been successful in gaining planning consents throughout the year with particular emphasis on the conversion of the strategic land pipeline. We continue to represent the Group, via the HBF, on broader planning and local plan matters, to ensure local plans are robust and CIL charge schedules are appropriate. We have met with Government officials on a number of occasions through the year including discussions on HtB, New Homes Ombudsman, leasehold, and building remediation following the Hackitt Review. Following the amendment to Approved Document B of the Building Regulations in December 2018, we have taken measures to ensure all future home designs will meet and fully comply with the relevant amended regulations and standards. Internally, we issued guidance in March 2018 which banned the use of combustible materials on all new buildings over 18 metres tall, and which also banned the use of desktop studies as a means to demonstrate compliance with Approved Document B. Following the implementation of the GRRAS, by the end of 2018 we had varied over 2,600 leases, with a further c.1,900 accepted onto the scheme.

Sir Oliver Letwin delivered his final report in November 2018 (the Letwin Review) on the gap between planning permissions and starts on site. The Government's response to the recommendations of the review is expected in early 2019. Late in 2016, some customers expressed concern about the ground rent escalating terms of their leasehold agreements with their freeholder. These clauses exist for some Taylor Wimpey homes, on sites commenced between 2007 and 2011, and specified that ground rents will double every ten years until the 50th year, at which point the rent is capped. We resolved that such clauses were not consistent with our cultural values. In October 2018, the Government launched a second consultation into leasehold properties, following their proposals to ban the sale of houses on a leasehold basis and plans to lower future ground rents to a nominal fee. Whilst Taylor Wimpey no longer sells houses on a leasehold basis, like most other volume housebuilders, our business model is to transfer the freehold, management and upkeep of apartments and other developments to third party organisations. Responsibility Group Operations Director Regional Managing Directors				

Risk	Relevance to strategy	Potential impact on KPIs	Mitigation	Progress in 2018
Impact of the market environment on mortgage availability and housing demand The cost of servicing a mortgage continues to be at historic lows. However, a change in business confidence, employment opportunities or significant changes in the Bank of England base rate that is not combined with wage growth could negatively impact the demand for housing, which may also lead to lower selling prices. The ability of first time buyers to purchase homes is constrained by changes in mortgage availability at the higher loan-to-value levels. The Government-backed Help to Buy (HtB) scheme helps to fund the home deposit for these and other homebuyers. During 2018, the Government announced that the current scheme would end as expected in 2021. However, the Government also announced an extension scheme which will be in place between 2021 until 2023, for first time buyers only and which will be subject to regional home price caps. Sustained growth in interest rates, together with low wage inflation or reduced confidence in continued employment, could challenge mortgage affordability. Strict guidelines are in place for lenders to assess mortgage affordability if interest rates were to rise. Furthermore, the Bank of England has powers to set loan-to-value and debt-to-income limits for financial institutions selling residential mortgages. **Responsibility** UK Sales and Marketing Director Regional Sales and Marketing Directors	The majority of the homes that we build are sold to individual purchasers who take on mortgages to finance their purchases. Loss of economic confidence as the UK leaves the EU, may impact on demand for new build housing and sales prices. This may be tempered to some extent by the current imbalance between demand and supply. Future decisions made by the Government around homebuyer initiatives, new legislation, or stamp duty and by the Bank of England about interest rates, are likely to create both risks and opportunities for homebuilders and their customers.	A reduction in demand for new homes below normal levels could negatively impact on both profit and cash generation. This would have an adverse effect on return on net operating assets.	Our local teams select the locations and home designs that best meet the needs of the local community and customer demand in the present and future. We evaluate new outlet openings on the basis of local market conditions and regularly review the pricing and incentives that we offer. We work closely with the financial services industry to ensure customers receive advice on the procurement of mortgage products.	We continue to promote the Government-backed HtB scheme and our customers demonstrate strong demand for the scheme. We monitor usage of HtB by our customer base to understand how the planned change to the scheme in 2021, and its withdrawal in 2023, may impact the desired design and location of homes required in the future. Throughout 2018 we continued to develop good working relationships with established mainstream lenders and those wishing to increase volume within the new build market.

Risk	Relevance to strategy	Potential impact on KPIs	Mitigation	Progress in 2018
Material costs and availability of subcontractors A continued increase in housing demand and production may further strain the availability of skilled subcontractors and materials and put pressure on utility firms to keep up with the pace of installation. Leaving the EU could reduce the availability of skilled workers given the relatively large proportion of the labour force, particularly in the South East, that is from Eastern Europe. Further in the event of no deal being agreed between the UK and the EU, on leaving the EU the company could experience some materials shortages as World Trade Organisation rules are applied through the supply chain. Together, this could result in build programme and completion delays and unexpected cost increases. **Responsibility** Group Operations Director Head of Procurement Regional Commercial Directors	We aim to commence work on new sites as soon as planning consents allow, to accelerate build progress and optimise return on capital employed. The majority of work performed on our sites is subcontracted, providing flexibility and supporting our strategy.	If the availability of subcontractors or materials is insufficient to meet demand, this could lead to longer build times and increased costs, thereby reducing profitability and return on capital employed. Lack of skilled subcontractors could also result in higher levels of waste being produced from our sites and lower build quality.	We maintain regular contact with suppliers, negotiating contract volumes, pricing and duration through our procurement and logistics function. We provide high level and site-specific programme information to the subcontractor base to aid with demand planning. When selecting our subcontractors, we consider competencies particularly in relation to health and safety, quality, previous performance and financial stability. We announced a number of mitigating measures at our Capital Markets Day in May 2018. We commenced a programme to take on more direct trades across key skills, adopting a hybrid labour model where we look to employ experienced hires and develop new talent for the industry through Apprenticeship and Career Conversion Schemes. This supports Diversity and Inclusion and the Government's Social Mobility Pledge, Armed Forces Resettlement and working with disadvantaged groups such as ex - offenders and the homeless. We are closely aligned with the Construction Industry Training Board and House Builders Federation. We also assess alternative build methods to reduce reliance on traditional brick and block techniques and resources.	Availability of materials is generally in line with demand but there remain pinch points with key products such as bricks, blocks, roof tiles and doors. The Group has agreed product lines and volumes with key suppliers to mitigate long lead times and shortages, and can maintain a flexible level of particularly scarce materials at its national warehouse. We are continuing to trial several different build methods as alternatives to conventional brick and block. The use of timber frame has been extended during the year, with plans to increase its usage further over the coming 3-5 years. Employment of direct trades has been successfully trialled across six regions in the country.

Risk	Relevance to strategy	Potential impact on KPIs	Mitigation	Progress in 2018
Ability to attract and retain high-calibre employees Recruiting employees with inadequate skills or in insufficient numbers, or not being able to retain key staff with the right skills for the future, could have a detrimental impact on our business. **Responsibility** Group HR Director Every employee managing people	Our business model requires significant input from skilled people to deliver quality homes and communities. There continues to be competition amongst employers in the housebuilding and construction industries for sector-specific staff. Shortages exist across the industry in the main manual trades and in certain managerial and professional occupations. This could impact our ability to achieve our strategic goals.	Not filling critical roles or having a significantly changing work force could lead to delays in build, quality issues, reduced sales levels, poor customer service and reduced profitability.	We monitor employee turnover levels closely and conduct exit interviews to identify any areas for improvement. We benchmark our remuneration to ensure that we are competitive within the industry. Clear succession plans are in place for key roles within the Group. Our renewed approach to succession planning enables more internal candidates to be promoted to senior roles. We hold regular development reviews to identify training requirements.	We extended the management training and graduate programme in response to emerging gaps in our pipeline, leading to an increase in trainee and graduate numbers and the types of programme we offer. We also increased our employment brand exposure, with greater content being posted on channels such as LinkedIn and Glassdoor. Taylor Wimpey were in the top 10 companies to work for according to Glassdoor, and we increased our LinkedIn following by over 30%. Since 2017, 227 customer service employees have been enrolled onto the Academy for Customer Excellence, to improve the skills and confidence of our customer facing employees, and all new starters are automatically enrolled onto the "Learning the Essentials" module. The Production Academy provides a clear development pathway supported by an NVQ for Assistant Site Managers, Site Managers and Production Managers. We are supporting over 250 site-based staff and c.20 office-based Production Managers through the academy, with 77 people who have now achieved the Taylor Wimpey Diploma. We have increased the numbers of apprentices, both direct and indirect, in the year.

Risk	Relevance to strategy	Potential impact on KPIs	Mitigation	Progress in 2018
Land purchasing The purchase of land of poor quality, at too high a price, or incorrect timing of land purchases in relation to the economic cycle could impact future profitability. **Responsibility** Divisional Managing Directors Regional Managing Directors Regional Land and Planning Directors Strategic Land Managing Directors	Land is of primary importance to the Group. Limited availability of good-quality land at an attractive price, can lead to significant and unsustainable competition. The disciplined purchasing of land on attractive terms and at the right time and scale in the economic cycle, will support the Group's ability to deliver enhanced and sustainable margins and returns on capital employed.	Purchasing poor-quality or mispriced land, or incorrectly timing land purchases, would have a detrimental impact on our profitability and return on capital employed. Acquiring insufficient land would reduce our ability to actively manage our land portfolio and create value for shareholders.	Our land teams prepare annual Land Strategy documents to guide their land searches to match the needs of each individual business. They select and appraise each site, with the appraisal process ensuring that each project is financially viable, consistent with our strategy and appropriately authorised. We strive to be the developer of choice, through a comprehensive approach encompassing land vendors, land agents, local councils and local communities. Our strategic land teams work alongside regional businesses to identify and secure land with the potential for future development and to promote it through the planning system.	The short term land market remained relatively benign throughout 2018, although increasing competition was observed in a number of geographies particularly for smaller sites and good quality strategic land opportunities. We continued to invest in value-creating land opportunities, maintaining strong discipline on quality, margin and return on capital employed. We are mindful of external factors and continue to critically assess opportunities for robustness in changing circumstances. The strong level of conversion from the strategic pipeline means our reliance on purchasing short term land is diminished, providing some insulation from land price increases.

Risk	Relevance to strategy	Potential impact on KPIs	Mitigation	Progress in 2018
Site and product safety Construction sites and operations can present risk to health and safety. Suitable and sufficient controls to eliminate or reduce the risk must be implemented and constantly monitored and measured. Unsafe practices by our employees or subcontractors, and unsafe product quality, have the potential to cause death or serious injury. In light of the Grenfell Tower tragedy, the Government consulted on proposals to ban use of combustible materials in the external walls of high rise residential buildings. Following the consultation, an amendment to Approved Document B of the Building Regulations was issued in December 2018, implementing the proposals in full for works where an initial notice was issued to the local authority on or after 21 December 2018. Changes to the Building Regulations are forward looking in terms of implementation. In May 2018, Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety (the Hackitt Review) was published. The Government subsequently committed to the full implementation of the recommendations contained within the review, including restricting the use of assessments in lieu of tests (commonly referred to as desktop studies) to demonstrate compliance with Approved Document B of the Building Regulations. The Government consulted on this in spring 2018 and consequently included a full ban on the use of desktop studies within the December 2018 amendment to Approved Document B. **Responsibility** Director of Health, Safety and Environment Group Operations Director Group Director of Design Every employee and subcontractor	Our operations involve, and interface with, a large number of people. This ranges from employees and subcontractors to customers and their families who live on, or visit, our sites each day. We want everyone to go home at the end of the day uninjured and healthy.	In addition to the potentially tragic personal impact of an accident on site or involving a customer after completion, there is potential for legal proceedings and civil action, financial penalties, reputational damage and subsequent delay to operations.	A comprehensive Health, Safety and Environmental (HSE) Management System is embedded throughout the business, supported by policies and procedures to ensure that we provide a safe and healthy working environment and build homes that comply with the required building standards and regulations. We provide extensive ongoing HSE training for our employees and provide HSE inductions and regular Site Safe Briefings for our contractors and operatives to supplement their HSE training. 'Blue Hat' support teams from our employee and contractor base on site, are integrated into our site management and support teams, where they assist our site managers to demonstrate and communicate the HSE ethos and support maintaining a safe site. Following guidance from the Government's Independent Expert Advisory Panel, we have identified all buildings over 18 metres tall constructed by or for Taylor Wimpey, which incorporate Aluminium Composite Material (ACM) into their façade. For all such buildings, we have notified the persons responsible for the buildings and have directed them to the interim mitigation advice issued by Government. In a number of instances where the special circumstances deemed it to be appropriate, we have also followed Government guidance by seeking independent professional advice on any further action that should be taken. HSE performance and issues are reviewed by the GMT on a timely basis and actions put in place to continually drive improvement and rectify issues and help prevent a recurrence.	Our Annual Injury Incidence Rate (AIIR) for reportable injuries per 100,000 employees and contractors was 228 in 2018, an increase from our record low of 152 in 2017. Our AIIR for major injuries per 100,000 employees and contractors was 64 in 2018 (2017: 54). Our AIIR remains below both the HBF Home Builder Average and the Health and Safety Executive Construction Industry Average, and we are committed to reducing it further. Following the very sad death in July of a subcontractor following a serious accident on site, we are assisting the Health and Safety Executive with the ongoing investigation and await their findings. We offered support to everyone working on the site, encouraging them to access counselling via our employee assistance scheme. As a result of our incident analysis, we continued our increased focus on site housekeeping and ensuring that both our site management teams and contractors check work areas prior to the commencement of new tasks and activities to ensure the relevant controls are in place and the work area is safe. We continued to expand our successful 'Supervisory Safety' initiative with over 5,000 Groundworks Supervisors trained to date. Over 400 groundworkers were provided with HSE refresher training and HSE training for our 'Blue Hat' support workers as part of our 'Creating a Site Team Approach'.

				Following the amendment to Approved Document B of the Building Regulations in December, we took measures to ensure all future designs will meet and fully comply with the relevant amended regulations and standards. Internally, we issued guidance in March which banned the use of combustible materials on all new buildings over 18 metres tall and banned the use of desktop studies as a means to demonstrate compliance with Approved Document B. In light of Government advice on tall buildings, we have undertaken expert reviews on a number of buildings. Where the ownership aspects and specific circumstances deemed this to be appropriate, we have worked with building owners, management companies, independent fire safety experts and local fire and rescue services to agree a schedule of works to remediate tall buildings with combustible ACM.

Cautionary note concerning forward looking statements

This report contains certain forward looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report, and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward looking information.

Consolidated Income Statement

for the year to 31 December 2018

£ million	Note	**Before exceptional items 2018**	**Exceptional items 2018**	**Total 2018**	Before exceptional items 2017 (restated)	Exceptional items 2017	Total 2017 (restated)
Revenue		**4,082.0**	–	**4,082.0**	3,965.2	–	3,965.2
Cost of sales		**(3,007.5)**	–	**(3,007.5)**	(2,933.4)	–	(2,933.4)
Gross profit before positive contribution		**1,066.8**	–	**1,066.8**	1,014.4	–	1,014.4
Positive contribution from written down inventory		**7.7**	–	**7.7**	17.4	–	17.4
Gross profit		**1,074.5**	–	**1,074.5**	1,031.8	–	1,031.8
Net operating expenses	3	**(199.6)**	**(46.1)**	**(245.7)**	(195.3)	(130.0)	(325.3)
Profit on ordinary activities before finance costs		**874.9**	**(46.1)**	**828.8**	836.5	(130.0)	706.5
Interest receivable	4	**2.9**	–	**2.9**	0.8	–	0.8
Finance costs	4	**(26.3)**	–	**(26.3)**	(32.9)	–	(32.9)
Share of results of joint ventures		**5.3**	–	**5.3**	7.6	–	7.6
Profit on ordinary activities before taxation		**856.8**	**(46.1)**	**810.7**	812.0	(130.0)	682.0
Taxation (charge)/credit	5	**(162.3)**	**8.2**	**(154.1)**	(151.7)	25.0	(126.7)
Profit for the year		**694.5**	**(37.9)**	**656.6**	660.3	(105.0)	555.3
Attributable to:							
Equity holders of the parent				**656.6**			555.3
				656.6			555.3

	Note	**2018**	2017
Basic earnings per share	6	**20.1p**	17.0p
Diluted earnings per share	6	**20.0p**	16.9p
Adjusted basic earnings per share	6	**21.3p**	20.2p
Adjusted diluted earnings per share	6	**21.2p**	20.1p

Consolidated Statement of Comprehensive Income

for the year to 31 December 2018

£ million	Note	**2018**	2017
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**1.5**	2.2
Movement in fair value of hedging instruments		**(0.7)**	(1.2)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension schemes	9	**(84.3)**	154.8
Tax credit/(charge) on items taken directly to other comprehensive income	7	**14.7**	(26.5)
Other comprehensive (expense)/income for the year net of tax		**(68.8)**	129.3
Profit for the year		**656.6**	555.3
Total comprehensive income for the year		**587.8**	684.6
Attributable to:			
Equity holders of the parent		**587.8**	684.6
		587.8	684.6

Consolidated Balance Sheet
at 31 December 2018

£ million	Note	**2018**	2017
Non-current assets			
Intangible assets		**3.2**	3.9
Property, plant and equipment		**21.6**	22.8
Right-of-use assets		**27.1**	–
Interests in joint ventures		**48.3**	50.9
Trade and other receivables		**55.7**	60.1
Deferred tax assets	7	**40.7**	29.3
		196.6	167.0
Current assets			
Inventories	8	**4,188.2**	4,075.7
Trade and other receivables		**134.7**	122.2
Tax receivables		**0.5**	0.7
Cash and cash equivalents		**734.2**	600.5
		5,057.6	4,799.1
Total assets		**5,254.2**	4,966.1
Current liabilities			
Trade and other payables		**(1,044.3)**	(1,024.5)
Lease liabilities		**(8.2)**	–
Tax payables		**(70.4)**	(58.6)
Provisions		**(76.9)**	(87.3)
		(1,199.8)	(1,170.4)
Net current assets		**3,857.8**	3,628.7
Non-current liabilities			
Trade and other payables		**(491.3)**	(430.6)
Lease liabilities		**(19.2)**	–
Bank and other loans		**(90.1)**	(88.7)
Retirement benefit obligations	9	**(133.6)**	(64.8)
Provisions		**(93.4)**	(74.3)
		(827.6)	(658.4)
Total liabilities		**(2,027.4)**	(1,828.8)
Net assets		**3,226.8**	3,137.3
Equity			
Share capital		**288.5**	288.5
Share premium		**762.9**	762.9
Own shares		**(22.7)**	(21.3)
Other reserves		**45.0**	44.2
Retained earnings		**2,153.1**	2,063.0
Equity attributable to parent		**3,226.8**	3,137.3
Total equity		**3,226.8**	3,137.3

Consolidated Statement of Changes in Equity

for the year to 31 December 2018

For the year to 31 December 2018 £ million	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Total
Balance as at 1 January 2018	**288.5**	**762.9**	**(21.3)**	**44.2**	**2,063.0**	**3,137.3**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**1.5**	**–**	**1.5**
Movement in fair value of hedging instruments	**–**	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Actuarial loss on defined benefit pension schemes	**–**	**–**	**–**	**–**	**(84.3)**	**(84.3)**
Tax credit on items taken directly to other comprehensive income	**–**	**–**	**–**	**–**	**14.7**	**14.7**
Other comprehensive income/(expense) for the year net of tax	**–**	**–**	**–**	**0.8**	**(69.6)**	**(68.8)**
Profit for the year	**–**	**–**	**–**	**–**	**656.6**	**656.6**
Total comprehensive income for the year	**–**	**–**	**–**	**0.8**	**587.0**	**587.8**
Impact to reserves of IFRS 16 adoption (Note 12)	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Own shares acquired	**–**	**–**	**(9.9)**	**–**	**–**	**(9.9)**
Utilisation of own shares	**–**	**–**	**8.5**	**–**	**–**	**8.5**
Cash cost of satisfying share options	**–**	**–**	**–**	**–**	**(7.0)**	**(7.0)**
Share-based payment credit	**–**	**–**	**–**	**–**	**12.2**	**12.2**
Tax charge on items taken directly to statement of changes in equity	**–**	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Dividends approved and paid	**–**	**–**	**–**	**–**	**(499.5)**	**(499.5)**
Total equity as at 31 December 2018	**288.5**	**762.9**	**(22.7)**	**45.0**	**2,153.1**	**3,226.8**

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

Consolidated Cash Flow Statement
for the year to 31 December 2018

£ million	Note	**2018**	2017
Net cash from operating activities	10	**641.3**	604.1
Investing activities:			
Interest received		**2.8**	0.8
Dividends received from joint ventures		**14.3**	0.7
Proceeds on disposal of property, plant and equipment		**0.4**	–
Purchases of property, plant and equipment		**(2.1)**	(4.2)
Purchases of software		**(0.3)**	(1.5)
Amounts (invested in)/repaid by joint ventures		**(6.4)**	6.1
Proceeds from sale of interest in subsidiary		**–**	2.7
Net cash generated from investing activities		**8.7**	4.6
Financing activities:			
Lease capital repayments		**(8.3)**	–
Proceeds from issue of own shares		**–**	0.1
Cash received on exercise of share options		**1.5**	3.5
Purchase of own shares		**(9.9)**	(13.3)
Dividends paid		**(499.5)**	(450.5)
Net cash used in financing activities		**(516.2)**	(460.2)
Net increase in cash and cash equivalents		**133.8**	148.5
Cash and cash equivalents at beginning of year		**600.5**	450.2
Effect of foreign exchange rate changes		**(0.1)**	1.8
Cash and cash equivalents at end of year		**734.2**	600.5

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

1. Basis of preparation

The financial information set out herein does not constitute the Group's statutory accounts for the years ended 31 December 2018 and 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting to be held on 25 April 2019. The external auditor has reported on those accounts; its reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

The statutory accounts have been prepared based on the accounting policies and method of computations consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 with the exception of the new accounting standards listed below which have been adopted by the Group with an effective date of 1 January 2018. Information on the initial application of these new standards can be found in Note 12.

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

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full financial statements on 18 March 2019 that comply with both IFRS as adopted for use in the European Union and IFRS as compliant with the Companies Act 2006 and Article 4 of the EU IAS Regulations.

Going concern

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

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

2. Operating segments

IFRS 8 'Operating Segments' requires information to be presented in the same basis as it is reviewed internally.

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

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

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2. Operating segments (continued)

Segment information about these businesses is presented below:

For the year to 31 December 2018 £ million	North Division	Central & South West Division	London & South East Division	Corporate	Spain	Total
Revenue						
External sales	**1,418.7**	**1,347.2**	**1,210.3**	**1.6**	**104.2**	**4,082.0**
Result						
Profit/(loss) on ordinary activities before joint ventures, finance costs and exceptional items	**307.0**	**344.7**	**265.3**	**(71.3)**	**29.2**	**874.9**
Share of results of joint ventures	**0.1**	**–**	**5.3**	**(0.1)**	**–**	**5.3**
Profit/(loss) on ordinary activities before finance costs, exceptional items and after share of results of joint ventures	**307.1**	**344.7**	**270.6**	**(71.4)**	**29.2**	**880.2**
Exceptional items (Note 3)	**–**	**–**	**–**	**(46.1)**	**–**	**(46.1)**
Profit/(loss) on ordinary activities before finance costs, after share of results of joint ventures and exceptional items	**307.1**	**344.7**	**270.6**	**(117.5)**	**29.2**	**834.1**
Net finance costs						**(23.4)**
Profit on ordinary activities before taxation						**810.7**
Taxation (including exceptional tax)						**(154.1)**
Profit for the year						**656.6**

Assets and liabilities
At 31 December 2018

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

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2. Operating segments (continued)

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

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

Assets and liabilities
At 31 December 2017

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

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2. Operating segments (continued)

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

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

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

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

Exceptional items:

£ million	**2018**	2017
Provision in respect of ACM cladding	**30.0**	-
GMP equalisation charge	**16.1**	-
Provision in respect of leasehold review	-	130.0
Tax credit	**(8.2)**	(25.0)
Post-tax exceptional items charged to the income statement	**37.9**	105.0

Aluminium Composite Materials (ACM) cladding provision

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

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

Notes to the Condensed Consolidated Financial Statements

for the year to 31 December 2018

3. Net operating expenses and profit on ordinary activities before finance costs (continued)

Guaranteed Minimum Pension (GMP) equalisation

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

Leasehold provision

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

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

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

£ million	**2018**	2017
Cost of inventories recognised as expense in cost of sales	**2,921.1**	2,794.6
Depreciation – property, plant and equipment	**3.1**	2.3
Depreciation – right-of-use assets	**9.0**	–
(Gain)/loss on disposal of property, plant and equipment	**(0.2)**	0.1
Amortisation of intangible assets	**1.0**	1.1
Payments under operating leases[1]	–-	6.4

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

Notes to the Condensed Consolidated Financial Statements

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4. Finance costs and interest receivable

Interest receivable

£ million	**2018**	2017
Interest receivable	**2.9**	0.8

Finance costs are analysed as follows:

£ million	**2018**	2017
Interest on overdrafts, bank and other loans	**5.2**	6.0
Foreign exchange movements	**1.0**	0.1
	6.2	6.1
Unwinding of discount on land creditors and other items	**18.5**	20.9
Interest on IFRS 16 lease liabilities	**0.5**	–
Net notional net interest on pension liability (Note 9)	**1.1**	5.9
	26.3	32.9

5. Taxation

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

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

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

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

5. Taxation (continued)

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

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

6. Earnings per share

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

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

£ million	**2018**	2017
Earnings for basic and diluted earnings per share	**656.6**	555.3
Adjust for exceptional items (Note 3)	**46.1**	130.0
Adjust for tax on exceptional items (Note 5)	**(8.2)**	(25.0)
Earnings for adjusted basic and adjusted diluted earnings per share	**694.5**	660.3

Notes to the Condensed Consolidated Financial Statements

for the year to 31 December 2018

7. Deferred tax

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

£ million	Share-based payments	Capital allowances	Losses	Retirement benefit obligations	Other temporary differences	Total
At 1 January 2017	4.8	3.4	8.8	40.0	0.4	57.4
(Charge)/credit to income	(0.2)	(0.3)	0.3	(2.8)	0.7	(2.3)
Charge to other comprehensive income	–	–	–	(26.5)	–	(26.5)
Credit to equity	0.4	–	–	–	–	0.4
Foreign exchange	–	–	0.3	–	–	0.3
At 31 December 2017	5.0	3.1	9.4	10.7	1.1	29.3
Impact of IFRS 16 adoption (Note 12)	–	–	–	–	**0.3**	**0.3**
(Charge)/credit to income	**(0.7)**	**(0.7)**	**(1.1)**	**(2.8)**	**3.5**	**(1.8)**
Credit to other comprehensive income	–	–	–	**14.7**	–	**14.7**
Charge to equity	**(2.0)**	–	–	–	–	**(2.0)**
Foreign exchange	–	–	**0.2**	–	–	**0.2**
At 31 December 2018	**2.3**	**2.4**	**8.5**	**22.6**	**4.9**	**40.7**

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

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8. Inventories

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

Inventory impairment

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

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

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

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

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

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

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9. Retirement benefit obligations

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

Defined benefit pension schemes

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

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

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

During 2017 the Group engaged with the Trustee on the triennial valuation of the pension scheme with a reference date of 31 December 2016. The result of this valuation was a Technical Provisions deficit at 31 December 2016 of £222.0 million.

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

On an IAS 19 accounting basis the underlying surplus in the scheme as at 31 December 2018 was £30.9 million (2017: £23.9 million). The terms of the TWPS are such that the Group does not have an unconditional right to a refund of surplus. As a result, the Group has recognised an adjustment to the underlying surplus of £163.9 million, resulting in an IFRIC 14 deficit of £133.0 million, which represents the present value of future commitments under the current funding plan.

In 2013, the Group introduced a £100.0 million Pension Funding Partnership utilising show homes, as well as seven offices, in a sale and leaseback structure. This provides an additional £5.1 million of annual funding for the TWPS. The assets held within this scheme do not affect the IAS 19 (before IFRIC 14) figures as they remain assets of the Group, and are not assets of the TWPS. As at 31 December 2018, there was £89.9 million of property and £22.4 million of cash held within the structure (2017: £101.5 million of property and £9.5 million of cash). The terms of this Funding Partnership are

Notes to the Condensed Consolidated Financial Statements
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9. Retirement benefit obligations (continued)

such that, should the scheme be in Technical Provisions deficit at 31 December 2028, then a bullet payment will be due to the scheme equal to the lower of £100.0 million or the Technical Provisions deficit at that time. The IFRIC 14 deficit at 31 December 2018 does not include any value in respect of this bullet payment as modelling undertaken by an independent actuary indicates that the scheme is expected to be fully funded by 2028, and no bullet payment is expected to be required.

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

Accounting assumptions:

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

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

The table below shows the impact to the liability of movement in key assumptions.

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

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

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9. Retirement benefit obligations (continued)

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

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

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

10. Notes to the cash flow statement

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

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

Movement in net cash/(debt)

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

11. Dividends

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

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

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

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

12. Adoption of new accounting standards

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

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

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

IFRS 9 ‘Financial Instruments’

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

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

Classification and measurement of financial assets

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

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

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

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

Impairment of financial assets

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

12. Adoption of new accounting standards (continued)

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

Classification and measurement of financial liabilities

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

Hedge accounting

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

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

IFRS 15 'Revenue from Contracts with Customers'

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

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

12. Adoption of new accounting standards (continued)

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

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

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

Impact on adoption of IFRS 9 and IFRS 15

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

12. Adoption of new accounting standards (continued)

Impact on adoption of IFRS 9 and IFRS 15

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

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

* Before exceptional items, see Alternative Performance Measures.

IFRS 16 'Leases'

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

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

Definition of a lease

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

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

Notes to the Condensed Consolidated Financial Statements
for the year to 31 December 2018

12. Adoption of new accounting standards (continued)

The Group as a lessee

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

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

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

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

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

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

Impact on the financial statements

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

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

Alternative Performance Measures

For the year ended 31 December 2018

The Group uses a number of Alternative Performance Measures (APMs) which are not defined within IFRS. The Directors use these measures to assess the underlying operational performance of the Group and, as such, these measures should be considered alongside the IFRS measures. The following APMs are referred to throughout the full year results. Prior year comparatives have been restated where necessary following the application of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. See Note 12 for more detail.

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

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

Operating profit and operating profit margin

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

Operating profit to profit before interest and tax reconciliation

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

Net operating assets and return on net operating assets

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

Net operating assets

£million	2018	2017	2016
Basic net assets	**3,226.8**	**3,137.3**	**2,900.3**
Average basic net assets	**3,182.1**	**3,018.8**	
Adjusted for:			
Cash	(734.2)	(600.5)	(450.2)
Borrowings	90.1	88.7	85.5
Net taxation	29.2	28.6	4.0
Accrued dividends	–	–	–
Net operating assets	**2,611.9**	**2,654.1**	**2,539.6**
Average net operating assets	**2,633.0**	**2,596.9**	

Alternative Performance Measures

For the year ended 31 December 2018

Return on net operating assets

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

Net operating asset turn

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

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

Alternative Performance Measures

For the year ended 31 December 2018

Tangible net assets per share

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

Tangible net assets per share

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

Net cash/(debt)

Net cash/(debt) is defined as total cash less total financing. This is considered by the Directors to be the best indicator of the financing position of the Group. This is reconciled in Note 10.

Cash conversion

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

Cash conversion

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

Alternative Performance Measures

For the year ended 31 December 2018

Adjusted gearing

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

Adjusted gearing

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

Adjusted basic earnings per share

This is calculated as earnings attributed to the shareholders, excluding exceptional items and tax on exceptional items, divided by the weighted average number of shares. The Directors consider this provides an important measure of the underlying earnings capacity of the Group. Note 6 shows a reconciliation from basic earnings per share to adjusted basic earnings per share.