Taylor Wimpey | plc

26 February 2020
Taylor Wimpey plc
Full year results for the year ended 31 December 2019

Pete Redfern, Chief Executive, commented:

"The Group delivered a good performance in 2019, with a record sales rate and home completions increasing by 5%. During the year, we continued to strengthen our business and build a sustainable advantage, improving our core customer proposition and business flexibility through investments in customer service, quality, build capacity and direct labour. These investments will strengthen the business for the long term.

In 2020, we will focus on further embedding and leveraging these improvements across the business while increasing our focus on cost discipline and process simplification.

The new year has started well, with a good level of customer demand and a clearer political outlook."

Group financial highlights:

- 2019 results in line with expectations with clear progress against strategic priorities
- 5% increase in Group completions to 16,042 (2018: 15,275) including joint ventures
- Revenue increased by 6.4% to £4,341.3 million (2018: £4,082.0 million)
- Operating profit* of £850.5 million (2018: £880.2 million), reflecting strong volume growth offset by rising build costs and flat house prices, delivering an operating profit margin of 19.6% (2018: 21.6%)
- Profit before tax and exceptional items of £821.6 million (2018: £856.8 million)
- Profit for the year of £673.9 million (2018: £656.6 million)
- Basic earnings per share of 20.6 pence (2018: 20.1 pence)
- Net cash‡ of £545.7 million (2018: £644.1 million)
- £599.7 million paid in total dividends in 2019 (2018: £499.5 million)
- c.£610 million in total dividends proposed for 2020, subject to shareholder approval, as previously announced

Operational highlights:

- Strong UK forward order book of 9,725 units as at 31 December 2019 (31 December 2018: 8,304), valued at £2,176 million (31 December 2018: £1,782 million)
- Industry leading sales rate of 0.96 (2018: 0.80), representing a record, and an increase of 20%
- Further progress improving build quality and investing to strengthen our customer offering and future production capacity
    - Leading the volume housebuilders with National House-Building Council (NHBC) Construction Quality Review score of 4.13 (2018: 3.93)
    - Key trade apprentices increased to 634 (2018: 318)

- Named in the Glassdoor top 50 places to work in the UK for 2020, as voted for by employees, for the third consecutive year

	2019	2018	Change
Revenue £m	4,341.3	4,082.0	6.4%
Operating profit £m	850.5	880.2	(3.4%)
Operating profit margin %	19.6%	21.6%	(2.0ppt)
Profit before tax and exceptional items £m	821.6	856.8	(4.1%)
Profit before tax £m	835.9	810.7	3.1%
Profit for the year £m	673.9	656.6	2.6%
Adjusted basic earnings per share pence[††]	20.3	21.3	(4.7%)
Basic earnings per share pence	20.6	20.1	2.5%
Tangible net asset value per share pence[†]	100.5	98.3	2.2%
Net cash £m	545.7	644.1	(15.3%)

Summary

In 2019, we made good progress on our strategic priorities to drive the long term sustainability of our business and delivered record completions, growing Group volumes by 5% to 16,042 (2018: 15,275) including joint ventures. However, in an environment where the political and economic outlook has been uncertain, average sales prices remained flat, while build cost inflation increased. During this time, we also continued to invest in the business for the long term, improving our quality and customer offering, developing additional production capacity, flexibility, efficiency and sustainability. Together, these factors had an impact on margins.

Operating profit in 2019 was £850.5 million (2018: £880.2) million, with an operating profit margin of 19.6% (2018: 21.6%).

Profit for the year at £673.9 million (2018: £656.6 million) up 2.6% on 2018 aided by a positive post-tax exceptional contribution of £11.6 million (2018: post-tax exceptional expense of £37.9 million). We returned £599.7 million in the year to shareholders via an ordinary and special dividend (2018: £499.5 million) and outlined plans to return c.£610 million in 2020, subject to shareholder approval.

UK current trading and outlook

We have made a positive start to 2020 coming into the spring selling season and, with a clearer political outlook, customer confidence has improved. The net private sales rate for the year to date (w/e 23 February 2020) was 0.97 (2019: 0.99). The underlying net private sales rate for the year to date, and the equivalent period, excluding bulk deals, was 0.92 (2019: 0.90). To date we have achieved selling price growth of c.1.5% against budget.

As at 23 February 2020, we were c.49% forward sold for private completions for 2020 (2019: 47%), with a total order book value of £2,606 million (2019: £2,170 million), excluding joint

ventures. This order book represents 10,901 homes (2019: 9,622). In Central London c.84% of private completions for 2020 are forward sold, as at 23 February 2020 (2019: c.50%).

The easing in build cost pressures seen in late 2019 has been maintained, and we expect build cost inflation in 2020 to be around 3%. We are focused on reducing underlying costs to mitigate future build cost inflation. This very clear focus on cost, simplification and value has been well received by the business, with employees engaged at every level. Volumes for 2020 are expected to be slightly lower and we will be targeting a slighter lower sales rate as we focus on capturing value. We aim to maintain 2020 operating profit margin broadly in line with 2019. Operating profit margin in the first half of the year will show pressure from 2019 build cost inflation and selling prices and long term investment in quality and business improvement, with margin improvement expected in the second half as cost initiatives improve performance. Margin remains a key priority for the Group and we are today reconfirming our medium term target to deliver operating profit margins of c.21-22%, assuming market conditions remain stable.

During a period of wider macro-economic uncertainty, the new build market has proved to be resilient and house prices have remained stable. As we look ahead, we see the removal of Help to Buy as a continued risk, but having had visibility of, and time to plan for, the changes, we consider it as one that can be managed. We remain supportive of Government plans to introduce an independent ombudsman service to the new build sector to provide impartial rulings on unresolved customer issues and to help raise standards in the wider industry.

Whilst we recognise that the ongoing trade discussions with the European Union may create some volatility in sentiment in the housing market in the near term, we see the clearer political outlook as providing a longer period of stability for our customers. We are mindful of the changing regulatory environment for the sector in the short to medium term and will continue to monitor this closely to ensure we are able to respond.

In line with our strategy, as we continue to build a sustainable advantage, we remain committed to investment in areas that will drive long term benefits and future value for customers and investors, such as our investment in apprentices, our direct labour recruitment and our strategy for large sites. We are also committed to further strengthening our environmental, social and governance (ESG) strategy and will set out further ambitious targets in key areas such as biodiversity and continuing to reduce our carbon footprint, including developing a science-based carbon reduction target by the end of 2020.

We will continue our focus on cash generation, cost discipline and the financial returns of our business. We returned a record £599.7 million in cash to shareholders in 2019 and have previously announced our intention to return a further c.£610 million this year, subject to shareholder approval.

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

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

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

† 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.

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

The Group uses Alternative Performance Measures (APMs) as key financial performance indicators to assess underlying performance of the Group. The APMs used are widely used industry measures and form the measurement basis of the key strategic KPIs (return on net operating assets, operating profit margin and cash conversion). A portion of executive remuneration is also directly linked to some of the APMs. Definitions and reconciliations to the equivalent statutory measures are included in note 12 of the financial statements.

-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 26 February 2020. 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 26 February 2020.

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Faeth Birch
Anjali Unnikrishnan

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

Follow us on Twitter @TaylorWimpeyplc

The Taylor Wimpey Difference

The Company's purpose is to deliver new homes within thriving communities, in a safe and environmentally responsible manner, with customers at the heart of its decision making and consideration of the potential impact on wider stakeholders.

We aim to deliver our strategy in a way that makes a positive contribution to all stakeholders, particularly our employees, the communities we operate in and the environment. This will help build a sustainable advantage and deliver leading financial returns with strong and reliable cashflows through:

Our strong culture and values

We have a culture embedded throughout the business of ‘doing the right thing’. Our reputation is important to us and we will not compromise the character of the business. This is increasingly important in a politically sensitive industry and with increased scrutiny and customer expectations.

A renewed focus on sustainability

Whilst short term performance is important, we run the business for the long term. This underpins our approach to the investments into build quality and in developing our people. We also need to be prepared to respond to changes in our regulatory environment and want to play our part in tackling climate change. In an industry with a well-known skills shortage we see a long term benefit in our apprentice and direct labour programmes.

Well invested, quality landbank and strong balance sheet

Our high-quality landbank remains a key competitive advantage and 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. We have an excellent short term landbank and strategic land pipeline, as measured by scale, quality of location and embedded margin. This gives us flexibility and options. Together, with our strong and well capitalised balance sheet, this means we can be very resilient through the cycle.

Growth at the right time in the cycle

We have the ability to grow, without compromising on quality or adding meaningful market risk at the right time in the cycle. Whilst volumes for 2020 are expected to be slightly down on 2019, our factory approach to build can drive faster and more controlled growth which can be scaled up to deliver increases in volumes and cash flow on existing assets, depending on market conditions. Our differentiated approach to apprentices and direct labour provides us with a different kind of workforce that is flexible, high quality and part of the Taylor Wimpey culture, offering a route to high-quality growth.

Cash generation, enabling significant and reliable returns to shareholders

We are a cash generative business and believe we can sustain this in times of market weakness, due to the strength of our balance sheet, the quality and length of our landbank and consequently the control we have over the timing of land investment. Our aim is to provide a reliable income stream to our shareholders.

Strategic goals

We have four strategic goals, aligned to our strategy which target further improvement 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 cashflow***
- Increased landbank efficiency – reducing length of short term owned and controlled landbank years by c.1 year to 4-4.5 years

Dividend Policy: ordinary and special dividends

Subject to shareholder approval each year, the Company will pay an ordinary dividend of approximately 7.5% of Group net assets, which will be at least £250 million per annum. This is intended to provide a reliable minimum annual return to shareholders throughout the cycle, including through a 'normal downturn', 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. We have paid a special dividend in each of the last six years. Over the past six years we have paid a total of £2.3 billion in ordinary and special dividends to our shareholders.

As previously announced, subject to shareholder approval at the 2020 AGM scheduled for 23 April 2020, we intend to pay a minimum ordinary dividend of £250 million per annum (c.7.6 pence) (2019: £250 million) and c.£360 million (10.99 pence) to shareholders in July 2020 by way of a special dividend (2019: £350 million).

Accordingly, subject to shareholder approval, in 2020 shareholders will receive a total dividend of c.£610 million (c.18.6 pence per share).

(A)	**2019 actual paid**	**2020 announced**
Ordinary dividend £m	249.8	c.250.0
Special dividend £m	349.9	c.360.0
Total dividend £m	599.7	c.610.0

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

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.

Operational review

We are a customer-focused residential developer building and delivering homes and communities across the UK and in Spain.

Our strategy comprises five key pillars:

- Putting customers and communities at the heart of our actions
- Build quality
- Optimising our strong landbank
- Be the employer of choice in our industry
- Best in class efficient engine room

Our operational review focuses on the UK 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)

Our key performance indicators align to our five key strategic pillars and are the most appropriate operational targets.

UK	2019	2018	Change
Customers and communities at the heart of our actions			
Customer satisfaction 8-week score ‘Would you recommend?’	89%	90%	(1ppt)
Customer satisfaction 9-month score ‘Would you recommend?’	77%	76%	1ppt
Build quality			
Construction Quality Review (average score / 6)	4.13	3.93	5.1%
Average reportable items per inspection	0.28	0.28	-
Optimising our strong landbank			
Land cost as % of average selling price on approvals	16.2%	19.2%	(3.0ppt)
Landbank years	c.4.8	c.5.1	(0.3yrs)
% of completions from strategically sourced land	56%	58%	(2ppt)
Be the employer of choice in the industry			
Employee turnover % (voluntary)	12.9%	14.5%	(1.6ppt)
Number of people recruited into early talent programmes: graduates, management trainees and site management trainees	116	175	(33.7%)
Directly employed key trades including trade apprentices	1,169	748	56.3%
Health and Safety Annual Injury Incidence Rate (per 100,000 employees and contractors)	156	228	(31.6%)
Best in class efficient engine room			
Net private sales rate per outlet per week	0.96	0.80	20%
Private legal completions per outlet	48.2	41.8	15.3%
Order book value £m	2,176	1,782	22.1%
Order book volume – no. of homes	9,725	8,304	17.1%

N.B. The 8-week ‘would you recommend’ score for 2019 relates to customers who legally completed between October 2018 and September 2019, with the comparator relating to the same period 12 months prior. The 9-month ‘would you recommend’ score for 2019 relates to customers who legally completed between October 2017 and September 2018, with the comparator relating to the same period 12 months prior.

2019 sales, completions and pricing

Despite wider macro-economic and political uncertainty, the UK new build housing market remained stable during 2019, albeit with more challenging conditions in London and the South East and at higher price points. Customer demand for new build homes continued to be robust, underpinned by low interest rates, a wide choice of mortgage products 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.

In 2019, total home completions increased by 5% to 15,719, including joint ventures (2018: 14,933). During 2019, we delivered 3,548 affordable homes (2018: 3,416), including joint ventures, equating to 23% of total completions (2018: 23%). Average selling prices on private completions increased by 1% to £305k (2018: £302k), with the overall average selling price increasing to £269k (2018: £264k).

We estimate that market-led house price growth for our regional mix was c.1% in the 12 months to 31 December 2019 (2018: c.3%).

Our net private sales rate for 2019 remained strong at 0.96 homes per outlet per week (2018: 0.80). 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 strong sales rate of 0.92 in the second half of the year (H2 2018: 0.76). Cancellation rates remained low at 15% (2018: 14%). First time buyers accounted for 34% of total sales in 2019 (2018: 34%). Investor sales continued to be at a low level of c.5% (2018: c.5%).

During 2019, approximately 34% of total sales used the Help to Buy scheme, and we worked with 5,693 households to take the first step to home ownership or to move up the housing ladder (2018: 36% and 5,828). Approximately 76% of sales through Help to Buy in 2019 were to first time buyers (2018: 77%) at an average price of £277k (2018: £270k). During the year 30% of sales in the London market used Help to Buy London (2018: 29%).

We ended 2019 with a record total order book valued at £2,176 million as at 31 December 2019 (31 December 2018: £1,782 million), excluding joint ventures, which represents 9,725 homes (31 December 2018: 8,304 homes). We traded from an average of 250 outlets in 2019 (2018: 273) and enter 2020 with 240 outlets (31 December 2018: 256). As previously guided, we expect 2020 outlet numbers to be broadly similar to 2019.

Build cost inflation in 2019 was c.4.5% (2018: 3.5%). As stated in November, since the final quarter of 2019 we have seen a softening in the cost pressures experienced earlier in 2019. At this stage, we anticipate lower overall build cost inflation in 2020, though this is dependent on industry-wide production levels as well as house price inflation and expect build cost inflation of around 3%.

Sustainability and the environment

We aim to use natural resources efficiently and to reduce our impact on the environment. We are pleased to have reduced our direct emissions intensity (tonnes of CO_2e per 100 sqm of homes built) by 43% since 2013, putting us on track towards our target of 50% reduction in direct emissions intensity (scope 1 and 2) by 2023. We have also achieved an absolute reduction in emissions of 19% since 2013, even with a 42% increase in completed floor area.

We have a responsibility to our stakeholders to operate and act in a sustainable manner and, on a day to day basis seek to be a positive agent of change in the communities in which we

operate. We acknowledge the serious threat posed by climate change and biodiversity loss and the need for urgent action to address these challenges – and we want to play our part. Taking action on the environment helps us to create better places to live for our customers and strengthens our relationships with employees and other stakeholders. It also reduces costs and risks to the business, with climate change and biodiversity identified as key risks and monitored by the Board.

The roll out of our environmental strategy is a focus for 2020 which will formalise the work we have ongoing in the business and go further in committing to more ambitious targets in key areas such as biodiversity and continuing to reduce our carbon footprint. We plan to develop a science-based carbon reduction target by the end of 2020.

Customers and communities at the heart of our actions

There are three key areas that our customers have told us are priorities for them: service, delivery timing and finishing quality; underlying build quality and consistency; and the creation of outstanding places and communities. We have invested, and will continue to invest, in improving our offering across each of these areas, and in measuring that improvement. Our customer proposition centres on delivering great quality homes and communities consistently and making it easy for our customers to do business with us. Our customers can trust us to do the right thing.

We track a basket of measures relating to customer service, as no one measure encompasses all aspects of a customer's journey with us. This includes the Home Builders Federation (HBF) 9-month score and the NHBC CQR score, which has continued to improve. However, as measured by the HBF 8-week customer survey, we dipped to a 4-star builder in the latest survey covering October 2018 to September 2019, from a 5-star in the prior survey covering October 2017 to September 2018. The cut-off for 5-star is 90% and we achieved 89.4%. Whilst we missed this by a very small margin, we are disappointed to have missed this important target and are committed to achieving a 5-star rating on an annual basis. We are pleased that we are now once again operating at above the 90% levels of customer satisfaction.

New house type range

Led by our design team and technical teams, we have been working on our new house type range over the past year. The new range has a key role to play in delivering our improved customer proposition and builds upon customer feedback from surveys and focus groups as well as the lessons learnt from developing our Project 2020 prototype house types last year. The new house type range reflects customers' lifestyle choices such as layout, use of light and space and will also help us deliver efficiencies and process simplification. This year we will focus on testing the new range ahead of a full roll out to the business.

Despite the cost pressures experienced during the year, we also continue to maintain our high construction and sales specification, in order to meet our customers' high expectations.

Trust and transparency

We are a signatory to the UK Consumer Code for Home Builders which aims to improve information and protect the rights of buyers. We engaged in discussions with the HBF and other housebuilders about how to improve the complaints process for customers. We encourage customers to leave reviews on Trustpilot. At the end of 2019 we had a 4 out of 5 star rating with a trust score of 3.9 out of 5.

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 targeted standards. This remains a key area of focus for the Group and we are committed to working closely with our customers to put this right and learn from our mistakes.

Following the tragic fire at Grenfell Tower in June 2017, we conducted a detailed review of all relevant legacy and current buildings with Aluminium Composite Material (ACM) cladding and also 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 the 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 2019 year-end, replacement works had been completed on three developments and were underway on another. Since the year-end, we have commenced work on a further three developments.

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.

Accordingly, in 2019, we launched our Community Communications Plan. This toolkit will help our land, planning and sales and marketing teams organise activities and events that foster relationships between the new and existing community, and that make it easier for new residents to set down roots. It also emphasises the importance of providing good information for customers on the facilities, services, and activities happening in their area. The toolkit covers the whole development process from planning to after construction finishes and will help us take a consistent approach across our sites.

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 2019 we ran 187 community meetings and events, including public exhibitions.

Our customer research also shows a clear relationship between good placemaking and long term customer satisfaction. Increasingly, we aim to install infrastructure at an early stage. This can help in the successful development of a new community, increase sales by making new developments more desirable to prospective buyers and provide new facilities to benefit existing residents.

We invest in infrastructure and facilities that help make our developments great places to live over the long term. This includes affordable housing, green spaces, community and leisure facilities, transport infrastructure, educational funding, jobs for local people and public art. In 2019, we contributed £447 million to local communities in which we build across the UK via

planning obligations (2018: £455 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 £129k to other organisations, such as scout groups, local football teams and various local community causes (2018: £170k).

Build quality

We lead the volume housebuilders in build quality as measured by the NHBC CQR score, which measures build quality at key build stages. In 2019 we scored an average of 4.13 (2018: 3.93) from a possible score of six. This compares with an industry average score of 4.01. We are fifth nationally when ranked against all housebuilders who have more than 100 build stages (which excludes self build and very small housebuilders).

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 in each regional business.

The build quality programmes incorporate additional resources on site including greater depth of Site Managers, Quality Managers and directly employed finishing trades, plus the introduction and implementation of a set of national build quality standards. Quality Managers were introduced in 21 regional business during 2019. These Quality Managers will provide additional resource to site management teams to ensure each home is completed to our high standards.

Our Consistent Quality Approach (CQA) guidelines ensure 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 and plan to produce a version of the CQA for customers so they know what they should expect from us.

Optimising our strong landbank

Our short term landbank stands at c.76k plots (2018: c.76k plots), which has been sourced using strict criteria, including location quality. 54% of this short term landbank has been strategically sourced (2018: 51%), since 2009.

We currently have c.4.8 years of land supply at current completion levels in towns, villages and cities where customers aspire to live. During 2019 we acquired 7,268 plots (2018: 8,841 plots).

The average cost of land as a proportion of average selling price within the short term owned landbank remains low at 14.9% (2018: 15.2%). The average selling price in the short term owned landbank in 2019 increased by 1.4% to £285k (2018: £281k).

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 with 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.140k potential plots as at 31 December 2019 (31 December 2018: c.127k potential plots). During 2019, we converted a further c.8k plots from the strategic pipeline to the short term landbank (2018: c.8k plots). We continue to seek new opportunities and added a net 21.2k new potential plots to the strategic pipeline in 2019

(2018: 17.8k). In the year, 56% of our completions were sourced from the strategic pipeline (2018: 58%).

Be the employer of choice in our industry

Health and safety

Health and safety is a shared responsibility and the number one priority in our business. Whilst cost and process simplification is a key priority for our business in 2020, health and safety is not an area that we are prepared to compromise on. This is the area of our business which must, and will always, come first, not just for Site Managers and employees on site but for the whole business. Building sites are, by their very nature, dangerous and so we do everything we possibly can to minimise those risks. We embed a safety culture through training, awareness and visible health and safety leadership. We are pleased that our Annual Injury Incidence Rate (AIIR) has reduced further to 156 in 2019 (2018: 228) and our AIIR for reportable injuries per 100,000 employees and contractors remains well below both the HBF Home Builder Average and Health and Safety Executive Construction Industry Average, but we cannot afford to be complacent and we will continue to seek to improve this. Our AIIR for major injuries per 100,000 employees and contractors was 44 in 2019 (2018: 64).

Culture and people

Our culture makes us stand out. We aspire to be the employer of choice in our sector, offering a unique and valued employee experience, and something different to the rest of the industry.

We may be a national homebuilder, but for customers, it is their interactions with the local site and sales teams and regional office that count. Embedding our approach to customers and getting buy-in and commitment from our employees has been a key part of our strategy. We can only become a truly customer-focused business through the efforts of our talented employees who are aligned with our values (be proud, take responsibility, respectful and fair, do the right thing and better tomorrow). Our shared values mean that our employees go above and beyond for each other and our customers, as evidenced by our employee survey where over 98% of our employees would go the extra mile for their team and Taylor Wimpey, and 96% agree we are committed to delivering the best customer experience.

We were pleased to have been named in the top 50 places to work in the UK for 2020, by Glassdoor, as voted for by employees, for the third consecutive year.

During 2019 we directly employed, on average, 5,796 people across the UK (2018: 5,358) and provided opportunities for over 14.6k further operatives on our sites. Our voluntary employee turnover rate remained low at 12.9% (2018: 14.5%).

We are pleased to report that Taylor Wimpey was once again recognised in the NHBC Pride in the Job Awards, achieving a total of 66 Quality Awards (2018: 67), 16 Seal of Excellence Awards (2018: 19) and two Regional Awards in 2019 (2018: three).

Apprentices and early talent

During 2019, we recruited 116 people into our early talent programmes which includes graduates, management trainees and site management trainees (2018: 175), with the reduction a result of the strong talent pipeline we have developed, showing our ability to retain those we have invested in as they successfully progress into years two and three of the schemes.

Our direct labour model aims to increase the number of tradespeople we hire directly (as well as through subcontractors). This is focused on five key trades: bricklayers, carpenters, scaffolders, painters and joiners. This includes both experienced trades people and new recruits to the industry, such as apprentices and people looking for a career change.

We currently directly employ 1,169 key trades including apprentices (2018: 748), a 56% increase on 2018. 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.

Diversity

Diversity and inclusion is an important priority for our business. It enables us to better understand our customer base, widens our potential talent pool and makes for productive and effective teams. We are making progress on our diversity and inclusion strategy but have further to go before our workforce reflects the communities we work in. We were pleased to have been commended for our Gender Pay Gap report in 2019 by The Chartered Governance Institute (ICSA). We aim to be an inclusive employer and to attract, retain and promote employees from all backgrounds. We have developed a Diversity and Inclusion Strategy that focuses on the impact of leadership for creating and maintaining a diverse and inclusive culture; improving how diversity and inclusion are embedded into our policies and procedures.

Employee engagement

Our Employee Engagement survey highlighted a number of high scoring areas. We received responses from 67% of employees invited to take the survey. A total of 97% of these employees agree we are committed to be an ethical and responsible Company, 98% agree we take health and safety seriously, 96% agree we are committed to delivering the best customer experience, and 95% believe we are committed to being a more inclusive organisation. The survey also highlighted a number of areas where our employees think we have room for improvement. These included how teams collaborate and work together, our development planning process, and giving employees the tools and technology to do their job effectively.

Best in class efficient engine room

Whilst we remain committed to the quality and specification improvements we have made over the last two years, we are focused on cost discipline and simplification as a clear priority for 2020 and beyond.

We will not reduce specification, which would damage quality or stop investment in areas that are important to our long term sustainability, such as build quality, build capacity and our apprenticeship programme. However, as we focus on extracting the benefits of workstreams already in place, we are also scrutinising our current cost base to target savings where appropriate. This includes ensuring our overheads are appropriate to the operating environment while progressing workstreams in our cost and efficiency programme that will automate certain commercial and production processes and target efficiencies in procurement and product standardisation. These will begin to deliver savings in 2020 with further benefits expected in 2021 and 2022 as workstreams are fully deployed.

Partners

Our scale affords us the benefit of strong purchasing power, and we have a number of national agreements suppliers. We want to work in collaboration with our supply chain to deliver greater quality and efficiency together. This will have benefits and the potential for cost savings for both Taylor Wimpey but also our suppliers. This includes increasing efficiency by reducing stock items and improving visibility on programming for material demands.

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 build process.

Modern methods of construction involve more than modular build and 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.

Charity partnerships

During 2019, 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 2019, we donated and fundraised over £1.1 million for registered charities (2018: over £1.1 million), which includes £206k raised by our employees on the annual Taylor Wimpey Challenge (2018: £167k). 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 2020.

Spain

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

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

Group financial review of operations

Income statement

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

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

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

Group gross profit of £1,044.1 million (2018: £1,074.5 million) decreased by 2.8% and included a positive contribution from previously written down inventory of £10.1 million (2018: £7.7 million). As a result of the increases in UK land and build cost exceeding the growth in revenue, the average UK gross profit per private completions reduced by 9.6% to £70.9k (2018: £78.4k) and the average UK blended gross profit per completion fell by 8.0% to £63.4k (2018: £68.9k).

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

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

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

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

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

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

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

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

Balance sheet

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

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

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

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

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

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

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

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

relates to the pension deficit that decreased by £48.5 million following contributions made in the year.

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

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

Pensions

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

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

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

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

Cash generation

Net cash decreased to £545.7 million at 31 December 2019 from £644.1 million at 31 December 2018. This is after returning £599.7 million to shareholders by way of dividends in the year (2018: £499.5 million), paying £29.9 million in relation to the Ground Rent Review

Assistance Scheme set up to assist certain of our customers to move their ground rent escalating terms to less expensive terms and £5.9 million incurred to replace ACM cladding.

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

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

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

Financing structure

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

Dividends

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

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

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

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

Going concern

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

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 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.

In assessing the Group's prospects and long term viability due consideration is given to:

- The Group's current market position and performance, this includes the current year performance, the output from the annual business planning process and financing arrangements
- Strategy and business model flexibility, including build quality, customer demand and approach to land investment
- Principal risks associated with the Group's strategy and those risks that could most impact our ability to remain in operation and meet our liabilities as they fall due and how we have taken these into consideration when making our assessment of the Group's viability

Further detail is provided in our 2019 Annual Report and Accounts.

Viability Statement

The Directors have assessed the viability of the Group over a five-year period, taking account of the Group's current financial position and the potential impact of the Principal and Emerging Risks facing the Group.

The Directors have considered the impact of the Principal Risks on the viability of the business by performing a range of sensitivity analyses including severe but plausible scenarios together with the likely effectiveness of mitigating actions taken by the Directors. The Directors identified the Principal Risk related to the potential impact of an economic downturn on mortgage availability and demand as most important in the assessment of the Group's viability. The following Principal Risks; 'Quality and reputation' and 'Government policy and planning regulations' were also considered to have the potential to impact on customer demand and, in turn, the volume and price of our sales and this was also factored into the scenario analysis.

This downside scenario reflects the potential impact of a sharp decline in customer confidence, disposable incomes, and higher mortgage interest rates. To arrive at our stress test we have drawn on experience gained managing the business through previous economic downturns. We have applied the sensitivities encountered at those times as well as the

mitigations adopted to our 2020 expectation in order to test the resilience of our business. As a result, we have stress tested our business against the following downside scenarios; reduced volumes from 2019 levels by 30% with no recovery and reduced selling prices by 20%, with no recovery; build cost reductions at a modest 5% and inclusion of a one-off exceptional charge and cash cost of £150 million for an unanticipated event or fine.

The mitigating actions considered in the model include a reduction in land investment, reduction in the level of production and work in progress held and optimising our overhead base to ensure it aligns with the scale of the operations through the cycle.

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.

Further detail is provided in our 2019 Annual Report and Accounts.

Shareholder information

The Company's 2020 Annual General Meeting (AGM) will be held at 11am on 23 April 2020 at the British Medical Association, BMA House, Tavistock Square, London WC1H 9JP.

Copies of the Annual Report and Accounts 2019 will be available from 16 March 2020 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 2020.

A copy of the Annual Report and Accounts 2019 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 2019. 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 25 February 2020 and is signed on its behalf by:

Kevin Beeston, Chair

Pete Redfern, Chief Executive

Principal risks and uncertainties

The Board has overall responsibility for risk oversight, for maintaining a robust risk management and internal control system and for determining the Group's appetite for exposure to the Principal Risks to the achievement of its strategy.

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 GMT, together with the roles noted in the Principal Risks table. These risks and uncertainties are managed through effective mitigating controls and the development of risk mitigation plans, with the continual monitoring of progress against agreed KPIs as an integral part of the business process and core activities.

The Board, supported by senior management and the Audit Committee, undertake a bi-annual formal assessment of the Principal Risks and Uncertainties. The overall assessment of the risks considers the likelihood and potential impact on the Group. During the year, we have noted a change in the risk profile related to the Principal Risk on Government policy and planning regulations. The increase in risk profile reflects the political uncertainty during 2019 together with the number of proposals and policies on Climate Change targets and Future Home standards.

The quality of our product and the strength of our reputation are key factors in the delivery of the Group's strategy. As a result, in July 2019, the Board identified a new standalone principal risk of Quality and Reputation; the individual risk components within this having previously been included as key risks and as subsets of the principal risk previously reported, along with the appropriate mitigations and monitoring. In separating the risks associated with quality and reputation, we are better able to monitor our performance through a number of metrics that we already collect and which form part of our key performance indicators.

In addition, the Board also considers emerging risks which could impact on the Group's ability to deliver its strategy. The emerging risks are those where the extent and implications are not yet fully understood, and consideration is given to the potential timeframe and velocity of impact that these could have on the Group. These risks are subject to continual review and monitoring.

We have grouped emerging risks into the following categories:

- Environmental / climate
- Operational / build
- Political / economic
- Technological
- Social
- Governmental

The Group considers other specific risk areas recognising the increasing complexity of the industry in which it operates and are in addition to its identified Principal Risks. These include risks from a wider technology, cyber and climate perspective. We also give consideration to widespread emerging health risks and monitor accordingly. At the time of writing, we do not consider coronavirus to pose an immediate risk to our business, but will continue to monitor closely with our supplier base. We continue to improve and invest in our information technology to mitigate ever-increasing cyber threats and data loss, theft or corruption. Our Sustainability and Climate Change Risk and Opportunity Register highlights the material risks and opportunities facing the Company in relation to sustainability and climate change. In addition, our climate change-related risks and opportunities are available as part of our 2019 CDP submission. More information is available at www.taylorwimpey.co.uk/corporate

The Principal Risks, their mitigations and key risk indicators are detailed below:

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
Government policy and planning regulations The industry in which we operate is becoming increasingly regulated. Any adverse changes to Government policy, for example around changes to building regulations, could impact our ability to effectively meet our strategic objectives. Planning delays could result in missed opportunities to optimise our landbank, affecting profitability and production delivery. Accountability Group Operations Director Regional Managing Directors	Moderate Increase in risk rating as 2019 saw heightened economic and political uncertainty. There were also a number of new and proposed policies on climate targets and future home standards and the short to medium term implications remain unknown. As we look ahead, we see the removal of Help to Buy as a continued risk, but having had visibility of, and time to plan for, the changes, we consider it as one that can be managed. Consequently, we see an increase in both the inherent and residual risk profile.	Low	**Example Key Risk Indicators** - Removal of Help to Buy scheme - New Government regulations (e.g. around planning and climate) - Delays in planning **Key Mitigations** - Ground Rent Review Assistance Scheme - Ongoing and regular review of Building regulations - Consultation with Government agencies **Opportunity** To build enhanced collaborative networks with stakeholders and peers, to monitor the implications of regulatory change. Lead the business in addressing pressing environmental issues, including reducing our carbon footprint and targeting biodiversity.

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
Impact of the market environment on mortgage availability and housing demand Sustained growth in interest rates, together with low wage inflation or reduced confidence in continued employment, could challenge mortgage affordability resulting in a direct impact on our volume targets. Accountability UK Sales and Marketing Director Regional Sales and Marketing Directors	Moderate No change in risk rating in year. Despite wider macro-economic and political uncertainty, the UK market for new build housing remained stable during 2019. Affordability remains good with low interest rates and widespread availability of mortgages.	Low	**Example Key Risk Indicators** - Interest rate increases - Levels of unemployment - Volume of enquiries / people visiting our developments - UK household spending levels - Loan to value metrics **Key Mitigations** - Evaluation of new outlet openings based on local market conditions - Pricing and incentives review - Review of external data (e.g. HBF, mortgage lenders) **Opportunity** To continue to develop strong working relationships with established mainstream lenders and those wishing to increase volume in the new build market.

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
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 resulting in increased costs and construction delays. Accountability Group Operations Director Head of Procurement Regional Commercial Directors	Moderate No change in risk rating in year. There continues to be pressure on the availability of certain build materials and a shortage of skilled labour in the housebuilding industry. However, we consider the inherent risk around this to be unchanged and, based on the mitigations in place, so too does the residual risk.	Low-moderate	**Example Key Risk Indicators** - Material and trade shortages - Material and trade price increases - Level of build quality and waste produced from sites - Longer build times - Number of skilled trades **Key Mitigations** - Key supplier agreements - Trials of build methods - Direct trade and apprenticeship programmes **Opportunity** To develop and implement different build methods as alternatives to conventional brick and block. To continue to develop our direct trade and apprenticeship schemes to build further expertise and capability in the business.

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
Ability to attract and retain high-calibre employees An inability to attract, develop, motivate and retain high-calibre employees, together with a failure to consider the retention and succession of key management could result in a failure to deliver our strategic objectives, a loss of corporate knowledge and a loss of competitive advantage. Accountability Group HR Director Every employee managing people	Low No change in risk rating in year. People are the foundation of our business and whilst the inherent risk may have increased slightly, the strong mechanisms we have established enable us to consider that the residual risk remains unchanged	Moderate	**Example Key Risk Indicators** - Employee engagement score - Number of, and time to fill, vacancies - Employee turnover levels **Key Mitigations** - Production Academy - Management training - Graduate programme - Apprenticeship programme **Opportunity** To further develop in house capability, expertise and knowledge.

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
Land purchasing The purchase of land of poor quality, at too high a price, or the incorrect timing of land purchases in relation to the economic cycle could impact future profitability. Accountability Divisional Managing Directors Regional Managing Directors Regional Land and Planning Directors Strategic Land Managing Directors	Low No change in risk rating. We continue to hold a strong landbank, including our strategic land pipeline and consider both the inherent and residual risk levels to remain unchanged.	Moderate	**Key risk indicators** - Movement in landbank years - Number of land approvals - Timing of conversions from strategically sourced land **Key Mitigations** - Critically assess opportunities - Land quality framework **Opportunity** A strong balance sheet allows us to invest when land market conditions are attractive.

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
Quality and reputation The quality of our products is key to our strategic objective of being a customer-focused business and in ensuring that we do things right first time. If the Group fails to deliver against these standards and its wider development obligations, it could be exposed to reputational damage, as well as reduced sales and increased costs. Accountability Customer Director UK Production Director Group Director of Design	Moderate This is a new Principal Risk identified in 2019, recognising the fundamental nature of maintaining both our quality and reputation in delivery of our strategy and importance to our customers and stakeholders.	Low	**Key risk indicators** - Customer satisfaction metrics (9 month and 8 weeks) - Number of NHBC claims - CQR scores - Average reportable items per inspection **Key Mitigations** - Customer-ready Home Quality Inspection (HQI) - Consistent Quality Approach (CQA) - Quality Managers in the business **Opportunity** To better understand the needs of our customers enabling clearer transparency of our build profile. To lead the industry in quality standards (Construction Quality Review score) and reduce the number of reportable items identified through monitoring defects at every stage of build.

Description	Residual risk rating	Risk appetite	Example key risk indicators, mitigations and opportunity
Site and product safety The health and safety of all our employees, subcontractors, visitors and customers is of paramount importance. Failure to implement and monitor our stringent health, safety and environment (HSE) procedures and policies across all parts of the business could lead to accidents or site-related incidents resulting in serious injury or loss of life. Accountability Director of Health, Safety and Environment Group Operations Director Group Director of Design Every employee and subcontractor	Low No change in risk in year. This is an ever-present risk in our industry and the inherent risk remains unchanged. This is an area where we continue to maintain the highest possible standards and we consider the mitigations we have implemented enable us to determine the residual risk being unchanged.	Low	**Key risk indicators** - Increase in near misses and fatalities - Health and safety audit outcomes - Number of reportable health and safety incidents **Key Mitigations** - Embedded HSE system - HSE training and inductions **Opportunity** To lead the industry in health and safety to reduce the amount and level of incidents.

Cautionary note concerning forward looking statements

This report contains certain forward looking statements. These statements are made by the Directors and include statements regarding their current intentions, beliefs and expectations, based on the information available to them up to the time of their approval of this report and unless otherwise required by applicable law, the Company and its Directors undertake no obligation to update or revise these forward looking statements, nor do they accept any liability should the future results actually achieved fail to correspond to the forward-looking statements included in this report.

By their nature these forward looking statements involve uncertainty (including both economic and business risk factors), and are subject to a number of risks since future events and circumstances can cause actual results and developments to differ materially to those anticipated. As such, these forward looking statements should be treated with caution.

Nothing in this report should be construed as a profit forecast and does not constitute or form part of, any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities in Taylor Wimpey plc or any other invitation or inducement to engage in investment activities and does not constitute a recommendation to sell or buy any such securities.

Consolidated Income Statement

for the year to 31 December 2019

£ million	Note	**Before exceptional items 2019**	**Exceptional items 2019**	**Total 2019**	Before exceptional items 2018	Exceptional items 2018	Total 2018
Continuing operations							
Revenue		**4,341.3**	–	**4,341.3**	4,082.0	–	4,082.0
Cost of sales		**(3,297.2)**	–	**(3,297.2)**	(3,007.5)	–	(3,007.5)
Gross profit before positive contribution		**1,034.0**	–	**1,034.0**	1,066.8	–	1,066.8
Positive contribution from written down inventory		**10.1**	–	**10.1**	7.7	–	7.7
Gross profit		**1,044.1**	–	**1,044.1**	1,074.5	–	1,074.5
Net operating expenses	3	**(201.6)**	**14.3**	**(187.3)**	(199.6)	(46.1)	(245.7)
Profit on ordinary activities before finance costs		**842.5**	**14.3**	**856.8**	874.9	(46.1)	828.8
Finance income	4	**2.9**	–	**2.9**	2.9	–	2.9
Finance costs	4	**(31.8)**	–	**(31.8)**	(26.3)	–	(26.3)
Share of results of joint ventures		**8.0**	–	**8.0**	5.3	–	5.3
Profit before taxation		**821.6**	**14.3**	**835.9**	856.8	(46.1)	810.7
Taxation charge	5	**(159.3)**	**(2.7)**	**(162.0)**	(162.3)	8.2	(154.1)
Profit for the year		**662.3**	**11.6**	**673.9**	694.5	(37.9)	656.6

	Note	**2019**	2018
Basic earnings per share	6	**20.6p**	20.1p
Diluted earnings per share	6	**20.6p**	20.0p
Adjusted basic earnings per share	6	**20.3p**	21.3p
Adjusted diluted earnings per share	6	**20.2p**	21.2p

All of the profit for the year is attributable to the equity holders of the Parent Company.

Consolidated Statement of Comprehensive Income
for the year to 31 December 2019

£ million	Note	**2019**	2018
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(5.5)**	1.5
Movement in fair value of hedging instruments		**4.1**	(0.7)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on defined benefit pension schemes	9	**(8.9)**	(84.3)
Tax credit on items taken directly to other comprehensive income	7	**1.7**	14.7
Other comprehensive expense for the year net of tax		**(8.6)**	(68.8)
Profit for the year		**673.9**	656.6
Total comprehensive income for the year		**665.3**	587.8

All of the comprehensive income for the year is attributable to the equity holders of the Parent Company.

Consolidated Balance Sheet
at 31 December 2019

£ million	Note	2019	2018
Non-current assets			
Intangible assets		**7.0**	3.2
Property, plant and equipment		**25.6**	21.6
Right-of-use assets		**27.4**	27.1
Interests in joint ventures		**55.3**	48.3
Trade and other receivables		**43.7**	55.7
Deferred tax assets	7	**29.8**	40.7
		188.8	196.6
Current assets			
Inventories	8	**4,196.0**	4,188.2
Trade and other receivables		**161.0**	134.7
Tax receivables		**–**	0.5
Cash and cash equivalents		**630.4**	734.2
		4,987.4	5,057.6
Total assets		**5,176.2**	5,254.2
Current liabilities			
Trade and other payables		**(974.8)**	(1,044.3)
Lease liabilities		**(7.6)**	(8.2)
Tax payables		**(67.9)**	(70.4)
Provisions		**(72.7)**	(76.9)
		(1,123.0)	(1,199.8)
Net current assets		**3,864.4**	3,857.8
Non-current liabilities			
Trade and other payables		**(499.7)**	(491.3)
Lease liabilities		**(20.3)**	(19.2)
Bank and other loans		**(84.7)**	(90.1)
Retirement benefit obligations	9	**(85.0)**	(133.6)
Provisions		**(55.7)**	(93.4)
		(745.4)	(827.6)
Total liabilities		**(1,868.4)**	(2,027.4)
Net assets		**3,307.8**	3,226.8
Equity			
Share capital		**288.6**	288.5
Share premium		**762.9**	762.9
Own shares		**(17.6)**	(22.7)
Other reserves		**43.6**	45.0
Retained earnings		**2,230.3**	2,153.1
Total equity		**3,307.8**	3,226.8

Consolidated Statement of Changes in Equity

for the year to 31 December 2019

£ million	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Total
Total equity at 1 January 2018	288.5	762.9	(21.3)	44.2	2,063.0	3,137.3
Other comprehensive income/(expense) for the year net of tax	–	–	–	0.8	(69.6)	(68.8)
Profit for the year	–	–	–	–	656.6	656.6
Total comprehensive income for the year	–	–	–	0.8	587.0	587.8
Impact on adoption of IFRS 16	–	–	–	–	(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 at 31 December 2018	288.5	762.9	(22.7)	45.0	2,153.1	3,226.8
Other comprehensive expense for the year net of tax	**–**	**–**	**–**	**(1.4)**	**(7.2)**	**(8.6)**
Profit for the year	**–**	**–**	**–**	**–**	**673.9**	**673.9**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(1.4)**	**666.7**	**665.3**
New share capital subscribed	**0.1**	**–**	**–**	**–**	**–**	**0.1**
Utilisation of own shares	**–**	**–**	**5.1**	**–**	**–**	**5.1**
Cash cost of satisfying share options	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Share-based payment credit	**–**	**–**	**–**	**–**	**8.0**	**8.0**
Tax credit on items taken directly to statement of changes in equity	**–**	**–**	**–**	**–**	**1.9**	**1.9**
Dividends approved and paid	**–**	**–**	**–**	**–**	**(599.7)**	**(599.7)**
Total equity at 31 December 2019	**288.6**	**762.9**	**(17.6)**	**43.6**	**2,230.3**	**3,307.8**

Consolidated Cash Flow Statement

for the year to 31 December 2019

£ million	Note	**2019**	2018
Profit on ordinary activities before finance costs		**856.8**	828.8
Adjustments for:			
Depreciation and amortisation		**13.5**	13.1
Pension contributions in excess of charge to the income statement		**(60.6)**	(16.1)
Share-based payment charge		**8.0**	12.2
Gain on disposal of property, plant and equipment		**–**	(0.2)
(Decrease)/increase in provisions excluding exceptional payments		**(6.2)**	32.1
Operating cash flows before movements in working capital		**811.5**	869.9
Increase in inventories		**(21.7)**	(1.7)
Increase in receivables		**(12.7)**	(10.9)
Decrease in payables		**(74.9)**	(41.9)
Cash generated by operations		**702.2**	815.4
Payments related to exceptional charges		**(36.8)**	(25.9)
Income taxes paid		**(149.0)**	(139.6)
Interest paid		**(6.4)**	(8.6)
Net cash from operating activities		**510.0**	641.3
Investing activities:			
Interest received		**2.9**	2.8
Dividends received from joint ventures		**7.4**	14.3
Proceeds on disposal of property, plant and equipment		**–**	0.4
Purchase of property, plant and equipment		**(7.2)**	(2.1)
Purchase of software		**(5.4)**	(0.3)
Amounts invested in joint ventures		**(6.3)**	(6.4)
Net cash (used in)/generated from investing activities		**(8.6)**	8.7
Financing activities:			
Lease capital repayments		**(8.4)**	(8.3)
Proceeds from the issue of own shares		**0.1**	–
Cash received on exercise of share options		**5.4**	1.5
Purchase of own shares		**–**	(9.9)
Dividends paid		**(599.7)**	(499.5)
Net cash used in financing activities		**(602.6)**	(516.2)
Net (decrease)/increase in cash and cash equivalents		**(101.2)**	133.8
Cash and cash equivalents at beginning of year		**734.2**	600.5
Effect of foreign exchange rate changes		**(2.6)**	(0.1)
Cash and cash equivalents at end of year	10	**630.4**	734.2

1. Basis of preparation

These results do not constitute the Group's statutory accounts for the year ended 31 December 2019 but are derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The external auditor has reported on those accounts; its report was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498 of the Companies Act 2006.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 2018.

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

The Group operates in two countries, 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.

Segment information about these businesses is presented below:

For the year to 31 December 2019 £ million	North	Central & South West	London & South East	Corporate	Spain	Total
Revenue						
External sales	**1,547.9**	**1,447.3**	**1,214.4**	**11.3**	**120.4**	**4,341.3**
Result						
Profit/(loss) before joint ventures, finance costs and exceptional items	**320.0**	**316.2**	**227.3**	**(53.1)**	**32.1**	**842.5**
Share of results of joint ventures	**–**	**–**	**7.6**	**0.4**	**–**	**8.0**
Operating profit (Note 12)	**320.0**	**316.2**	**234.9**	**(52.7)**	**32.1**	**850.5**
Exceptional items (Note 3)	**–**	**–**	**–**	**14.3**	**–**	**14.3**
Profit/(loss) before finance costs	**320.0**	**316.2**	**234.9**	**(38.4)**	**32.1**	**864.8**
Net finance costs						**(28.9)**
Profit before taxation						**835.9**
Taxation charge						**(162.0)**
Profit for the year						**673.9**

2. Operating segments (continued)

At 31 December 2019 £ million	North	Central & South West	London & South East	Corporate	Spain	Total
Segment operating assets	**1,310.1**	**1,345.4**	**1,372.6**	**270.9**	**161.7**	**4,460.7**
Joint ventures	**0.8**	**4.1**	**46.6**	**3.8**	**–**	**55.3**
Segment operating liabilities	**(425.1)**	**(538.1)**	**(391.9)**	**(277.1)**	**(83.6)**	**(1,715.8)**
Net operating assets/(liabilities)	**885.8**	**811.4**	**1,027.3**	**(2.4)**	**78.1**	**2,800.2**
Net current taxation						**(67.9)**
Net deferred taxation						**29.8**
Net cash						**545.7**
Net assets						**3,307.8**

For the year to 31 December 2019 £ million	North	Central & South West	London & South East	Corporate	Spain	Total
Other information						
Property, plant and equipment additions	**1.9**	**0.7**	**0.9**	**3.7**	**–**	**7.2**
Right-of-use asset additions	**4.4**	**1.0**	**0.6**	**3.1**	**0.4**	**9.5**
Software additions	**–**	**–**	**–**	**5.4**	**–**	**5.4**
Property, plant and equipment depreciation	**(0.5)**	**(0.9)**	**(0.8)**	**(0.9)**	**(0.1)**	**(3.2)**
Right-of-use asset depreciation	**(2.2)**	**(1.5)**	**(2.4)**	**(2.3)**	**(0.3)**	**(8.7)**
Amortisation of intangible assets	**–**	**–**	**–**	**(1.6)**	**–**	**(1.6)**

For the year to 31 December 2018 £ million	North	Central & South West	London & South East	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) 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
Operating profit (Note 12)	307.1	344.7	270.6	(71.4)	29.2	880.2
Exceptional items (Note 3)	–	–	–	(46.1)	–	(46.1)
Profit/(loss) before finance costs	307.1	344.7	270.6	(117.5)	29.2	834.1
Net finance costs						(23.4)
Profit before taxation						810.7
Taxation charge						(154.1)
Profit for the year						656.6

At 31 December 2018 £ million	North	Central & South West	London & South East	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

2. Operating segments (continued)

For the year to 31 December 2018 £ million	North	Central & South West	London & South East	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 additions	–	–	–	0.3	–	0.3
Property, plant and equipment depreciation	(0.6)	(0.9)	(0.5)	(1.1)	–	(3.1)
Right-of-use asset depreciation	(2.5)	(1.5)	(2.6)	(2.2)	(0.2)	(9.0)
Amortisation of intangible assets	–	–	–	(1.0)	–	(1.0)

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

£ million	**2019**	2018
Administration expenses	**211.7**	212.9
Other expenses	**4.3**	3.9
Other income	**(14.4)**	(17.2)
Exceptional items	**(14.3)**	46.1

Other income and expenses include 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	**2019**	2018
Net Pension Increase Exchange credit	**(14.3)**	–
Provision in respect of Aluminium Composite Materials cladding	**–**	30.0
Guaranteed Minimum Pension equalisation charge	**–**	16.1
Exceptional items	**(14.3)**	46.1
Tax charge/(credit)	**2.7**	(8.2)
Post-tax exceptional items	**(11.6)**	37.9

Pension Increase Exchange (PIE)

During the year the Group initiated a Pension Increase Exchange exercise which enables pension scheme members to elect to exchange future pension increases on part of their pensions for a one-off increase in pension. The PIE exercise consisted of two stages – the option to select the exchange at retirement for members who have not yet retired and a bulk exercise for members already drawing a pension. The credit arising from the implementation of the PIE was considered a past service credit and recognised through the income statement in accordance with IAS 19. The impact of future changes in estimates and assumptions related to the PIE is accounted for as scheme experience and will be recognised in other comprehensive income. The exceptional credit recognised is net of costs associated with the PIE implementation.

Aluminium Composite Materials (ACM) cladding

Following the tragic fire at Grenfell Tower, the Group conducted a detailed review into all legacy and current buildings ACM cladding and worked with building owners, management companies, and the Fire Service to implement Government advice on interim mitigation measures, where applicable. Whilst each situation is different, and this is an exceptionally complex issue, the Group has in a number of cases, having regard to all of the relevant facts and circumstances, agreed to support 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. 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.

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 was considered a past service cost and recognised through the income statement in accordance with IAS 19. The impact of future changes in estimates and assumptions related to the equalisation of GMP is accounted for as scheme experience and recognised in other comprehensive income.

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

£ million	**2019**	2018
Cost of inventories recognised as an expense in cost of sales	**3,203.6**	2,921.1
Property, plant and equipment depreciation	**3.2**	3.1
Right-of-use asset depreciation	**8.7**	9.0
Gain on disposal of property, plant and equipment	**–**	(0.2)
Amortisation of intangible assets	**1.6**	1.0

4. Finance costs and finance income

£ million	**2019**	2018
Interest receivable	**2.9**	2.9

Finance costs are analysed as follows:

£ million	**2019**	2018
Interest on bank and other loans	**5.5**	5.2
Foreign exchange movements	**1.1**	1.0
	6.6	6.2
Unwinding of discount on land creditors and other items	**21.5**	18.5
Interest on lease liabilities	**0.5**	0.5
Net interest on pension liability (Note 9)	**3.2**	1.1
	31.8	26.3

5. Taxation

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

£ million		**2019**	2018
Current tax:			
UK:	Current year	**(138.1)**	(143.4)
	Adjustment in respect of prior years	**(5.2)**	(5.3)
Overseas:	Current year	**(5.2)**	(3.6)
	Adjustment in respect of prior years	**(0.6)**	–
		(149.1)	(152.3)
Deferred tax:			
UK:	Current year	**(10.8)**	(4.1)
	Adjustment in respect of prior years	**0.5**	3.7
Overseas:	Current year	**(1.8)**	(1.4)
	Adjustment in respect of prior years	**(0.8)**	–
		(12.9)	(1.8)
		(162.0)	(154.1)

Corporation tax is calculated at 19.0% (2018: 19.0%) 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 19.4% (2018:18.9%). The tax charge for the year includes an exceptional charge of £2.7 million relating to the Pension Increase Exchange exercise. The tax charge for the prior 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 charge for the year can be reconciled to the profit per the income statement as follows:

£ million	**2019**	2018
Profit before tax	**835.9**	810.7
Tax at the UK corporation tax rate of 19.0% (2018: 19.0%)	**(158.8)**	(154.0)
Net under provision in respect of prior years	**(6.1)**	(1.7)
Net impact of items that are not taxable or deductible	**3.4**	1.7
Recognition of deferred tax asset relating to Spanish business	**1.5**	2.3
Other rate impacting adjustments	**(2.0)**	(2.4)
Tax charge for the year	**(162.0)**	(154.1)

6. Earnings per share

	2019	2018
Basic earnings per share	**20.6p**	20.1p
Diluted earnings per share	**20.6p**	20.0p
Adjusted basic earnings per share	**20.3p**	21.3p
Adjusted diluted earnings per share	**20.2p**	21.2p
Weighted average number of shares for basic earnings per share – million	**3,268.2**	3,266.3
Weighted average number of shares for diluted earnings per share – million	**3,276.2**	3,275.7

Adjusted basic and adjusted diluted earnings per share, which exclude the impact of exceptional items and any associated net tax amounts, 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	**2019**	2018
Earnings for basic and diluted earnings per share	**673.9**	656.6
Adjust for exceptional items (Note 3)	**(14.3)**	46.1
Adjust for tax on exceptional items (Note 5)	**2.7**	(8.2)
Earnings for adjusted basic and adjusted diluted earnings per share	**662.3**	694.5

7. Deferred tax

£ million	Share-based payments	Capital allowances	Losses	Retirement benefit obligations	Other temporary differences	Total
At 1 January 2018	5.0	3.1	9.4	10.7	1.1	29.3
Impact of IFRS 16 adoption	–	–	–	–	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
Credit/(charge) to income	**0.3**	**(0.1)**	**(2.7)**	**(10.9)**	**0.5**	**(12.9)**
Credit to other comprehensive income	–	–	–	**1.7**	–	**1.7**
Credit to equity	**0.8**	–	–	–	–	**0.8**
Foreign exchange	–	–	**(0.5)**	–	–	**(0.5)**
At 31 December 2019	**3.4**	**2.3**	**5.3**	**13.4**	**5.4**	**29.8**

Closing deferred tax on UK temporary differences has been calculated at the tax rates that are expected to apply (based on currently enacted law) 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% (2018: 19% and 17%). In the upcoming budget it is expected that the Government will honour its pledge to retain the 19% rate for corporation tax. If a corporation tax rate of 19% is subsequently enacted, this would increase the deferred tax asset by c.£3.0 million.

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

£ million	**2019**	2018
Deferred tax assets	**31.1**	42.1
Deferred tax liabilities	**(1.3)**	(1.4)
	29.8	40.7

7. Deferred tax (continued)

The Group has not recognised temporary differences relating to tax losses carried forward and other temporary differences amounting to £2.4 million (2018: £3.0 million) in the UK and £39.6 million (2018: £47.8 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 £269.5 million (2018: £269.6 million). No deferred tax asset has been recognised in respect of the capital losses at 31 December 2019 because the Group does not believe that it is probable that these capital losses will be utilised in the foreseeable future.

8. Inventories

£ million	**2019**	2018
Raw materials and consumables	**2.4**	1.8
Finished goods and goods for resale	**49.8**	43.3
Residential developments:		
Land	**2,735.9**	2,757.7
Development and construction costs	**1,402.3**	1,378.9
Commercial, industrial and mixed development properties	**5.6**	6.5
	4,196.0	4,188.2

The markets in our core geographies, which are the primary drivers of our business, continue to trade positively. At 31 December 2019, the Group completed a net realisable value assessment of inventory. This review resulted in a reallocation of £4.3 million (2018: £1.1 million) of historically booked provision between sites which continue to hold a provision due to poor site location and complex site requirements and a small increase at one of those historic sites.

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 £39.0 million (2018: £46.6 million) with associated impairments of £30.5 million (2018: £38.7 million). At 31 December 2019, Spain had land and work in progress that has been written down to net realisable value of £20.3 million (2018: £27.2 million) with associated impairments of £38.1 million (2018: £44.3 million).

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

£ million	**2019**	2018
1 January	**83.0**	93.3
Net utilised	**(11.8)**	(10.8)
Foreign exchange	**(2.6)**	0.5
31 December	**68.6**	83.0

9. Retirement benefit obligations

Total retirement benefit obligations of £85.0 million (2018: £133.6 million) comprise a defined benefit pension liability of £84.5 million (2018: £133.0 million) and a post-retirement healthcare liability of £0.5 million (2018: £0.6 million).

Defined benefit pension schemes

The Group's defined benefit pension scheme in the UK is the TWPS. The TWPS is a funded defined benefit pension scheme which provides benefits to beneficiaries in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on an individual member's 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 TWPS is well-managed and that members' benefits are secure. Scheme assets are held in trust.

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

During 2017 the Group engaged with the TWPS Trustee on the triennial valuation of the pension scheme with a reference date of 31 December 2016. The 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. The funding plan commits the Group to £40.0 million per annum of deficit reduction contributions from 1 April 2018 to 31 December 2020 and £2.0 million per annum for scheme expenses from 1 February 2018 to 31 January 2023. In addition, £5.1 million per annum is received by the TWPS from the Pension Funding Partnership (as described below). However, £40.0 million per annum of cash contributions are only required whilst the TWPS remains in a Technical Provisions deficit position. Should the TWPS become fully funded, then these cash contributions will be suspended until such time that the scheme's Technical Provisions funding level falls to below 96% at the end of any quarter. In April 2018, the Group paid a one-off contribution of £23.0 million into the TWPS to increase the funding level to 100% and thereby suspend any future contributions from 31 March 2018. The funding level of the TWPS remained above the threshold of 96% until 31 December 2018. Contributions of £40.0 million per annum therefore recommenced from 1 January 2019 and will be payable until 31 December 2020, or until such time as the funding level increases to at least 100% if earlier.

On an IAS 19 accounting basis the underlying surplus in the scheme at 31 December 2019 was £100.5 million (2018: £33.1 million). The terms of the TWPS are such that the Group does not have an unconditional right to a refund of surplus. As a result, the Group has recognised an adjustment to the underlying surplus in the TWPS on an IAS19 accounting basis of £185.0 million, resulting in an IFRIC 14 deficit of £84.5 million, which represents the present value of future contributions under the funding plan.

In 2013, the Group introduced a £100.0 million Pension Funding Partnership utilising show homes, as well as seven offices, in a sale and leaseback structure. This provides an additional £5.1 million of annual funding for the TWPS. The assets held within the Pension Funding Partnership do not affect the IAS 19 figures (before IFRIC 14) as they remain assets of the Group, and are not assets of the TWPS. At 31 December 2019 there was £96.0 million of property and £16.1 million of cash held within the structure (2018: £89.9 million of property and £22.4 million of cash). The terms of this Funding Partnership are such that, should the TWPS be in a Technical Provisions deficit at 31 December 2028, then a bullet payment will be due equal to the lower of £100.0 million or the Technical Provisions deficit at that time. The IFRIC 14 deficit at 31 December 2019 does not include any value in respect of this bullet payment as modelling undertaken by an independent actuary indicates that the TWPS is expected to be fully funded by 2028 and no bullet payment is expected to be required.

9. Retirement benefit obligations (continued)

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

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.

	2019	2018
At 31 December		
Discount rate for scheme liabilities	**2.10%**	2.95%
General pay inflation	**n/a**	n/a
Deferred pension increases	**2.15%**	2.25%
Pension increases	**2.05%-3.60%**	2.15%-3.70%

The table below shows the impact to the present value of scheme liabilities of movements 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 £35m	1.5
Rate of inflation*	Increase by 0.1% p.a.	Increase by £24m	1.0
Life expectancy	Members live 1 year longer	Increase by £87m	3.7

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

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 2019	**(2,237.2)**	**2,104.2**	**(133.0)**
Past service credit related to PIE exercise (Note 3)	**15.3**	**–**	**15.3**
Administration expenses	**–**	**(1.8)**	**(1.8)**
Interest (expense)/income	**(64.3)**	**61.1**	**(3.2)**
Total amount recognised in income statement	**(49.0)**	**59.3**	**10.3**
Remeasurement gain on scheme assets not included in income statement	–	**187.0**	**187.0**
Change in demographic assumptions	**46.1**	–	**46.1**
Change in financial assumptions	**(245.9)**	–	**(245.9)**
Experience gains	**17.9**	–	**17.9**
Adjustment to liabilities for IFRIC 14	**(14.0)**	–	**(14.0)**
Total remeasurements in other comprehensive income	**(195.9)**	**187.0**	**(8.9)**
Employer contributions	–	**47.1**	**47.1**
Employee contributions	–	–	–
Benefit payments	**115.4**	**(115.4)**	–
At 31 December 2019	**(2,366.7)**	**2,282.2**	**(84.5)**

£ 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)

10. Notes to the cash flow statement

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments with an original maturity of three months or less.

Movement in net cash

£ million	Cash and cash equivalents	Bank and other loans	Total net cash
Balance at 1 January 2018	600.5	(88.7)	511.8
Net cash flow	133.8	–	133.8
Foreign exchange	(0.1)	(1.4)	(1.5)
Balance at 31 December 2018	734.2	(90.1)	644.1
Net cash flow	**(101.2)**	**–**	**(101.2)**
Foreign exchange	**(2.6)**	**5.4**	**2.8**
Balance at 31 December 2019	**630.4**	**(84.7)**	**545.7**

11. Dividends

£ million	**2019**	2018
Proposed		
Interim dividend 2019: 3.84p (2018: 2.44p) per ordinary share of 1p each	**125.6**	79.7
Final dividend 2019: 3.80p (2018: 3.80p) per ordinary share of 1p each	**125.0**	125.0
	250.6	204.7
Amounts recognised as distributions to equity holders		
Paid		
Final dividend 2018: 3.80p (2017: 2.44p) per ordinary share of 1p each	**124.2**	79.8
Interim dividend 2019: 3.84p (2018: 2.44p) per ordinary share of 1p each	**125.6**	79.7
Special dividend 2019: 10.70p (2018: 10.40p) per ordinary share of 1p each	**349.9**	340.0
	599.7	499.5

The Directors recommend a final dividend for the year ended 31 December 2019 of 3.80 pence per share (2018: 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 (2018: £124.2 million). The final dividend will be paid on 15 May 2020 to all shareholders registered at the close of business on 3 April 2020.

The Directors additionally recommend a special dividend of c.£360.0 million (2018: paid £349.9 million) subject to shareholder approval at the Annual General Meeting. The special dividend will be paid on 10 July 2020 to all shareholders registered at the close of business on 5 June 2020.

In accordance with IAS 10 ‘Events after the balance sheet date’ the proposed final or special dividends have not been accrued as a liability at 31 December 2019.

12. Alternative performance measures

The Group uses a number of alternative performance measures (APMs) which are not defined within IFRS. The Directors use these measures in order 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 year end results.

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, on the face of the Consolidated Income Statement.

Operating profit and operating profit margin

Throughout the statement, operating profit is used as one of the main measures of performance. 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 the 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.

	2019	2018
Profit on ordinary activities before finance costs (£m)	**856.8**	828.8
Adjusted for:		
Share of results of joint ventures (£m)	**8.0**	5.3
Exceptional items (£m)	**(14.3)**	46.1
Operating profit (£m)	**850.5**	880.2
Revenue (£m)	**4,341.3**	4,082.0
Operating profit margin	**19.6%**	21.6%

Net operating assets

Net operating assets is defined as basic net assets less net cash, excluding net taxation balances and accrued dividends. Average net operating assets is the average of the opening and closing net operating assets of the 12-month period. With return on net operating assets, the Directors consider this to be an important measure of the underlying operating efficiency and performance of the Group.

	2019	2018	2017
Basic net assets (£m)	**3,307.8**	3,226.8	3,137.3
Adjusted for:			
Cash (£m)	**(630.4)**	(734.2)	(600.5)
Borrowings (£m)	**84.7**	90.1	88.7
Net taxation (£m)	**38.1**	29.2	28.6
Accrued dividends (£m)	**–**	–	–
Net operating assets (£m)	**2,800.2**	2,611.9	2,654.1
Average basic net assets (£m)	**3,267.3**	3,182.1	
Average net operating assets (£m)	**2,706.1**	2,633.0	

Return on net operating assets

Return on net operating assets is defined as operating profit divided by average net operating assets. The Directors consider this to be an important measure of the underlying operating efficiency and performance of the Group.

	2019	2018
Operating profit (£m)	**850.5**	880.2
Average net operating assets (£m)	**2,706.1**	2,633.0
Return on net operating assets	**31.4%**	33.4%

12. Alternative performance measures (continued)

Net operating asset turn

This is defined as 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 shareholders.

	2019	2018
Revenue (£m)	**4,341.3**	4,082.0
Average net operating assets (£m)	**2,706.1**	2,633.0
Net operating asset turn	**1.60**	1.55

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.

	2019	2018
Basic net assets (£m)	**3,307.8**	3,226.8
Adjusted for:		
Intangible assets (£m)	**(7.0)**	(3.2)
Tangible net assets (£m)	**3,300.8**	3,223.6
Ordinary shares in issue (millions)	**3,283.1**	3,278.1
Tangible net assets per share (pence)	**100.5**	98.3

Net cash

Net cash is defined as cash and cash equivalents less total borrowings. 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.

	2019	2018
Cash generated by operations (£m)	**702.2**	815.4
Operating profit (£m)	**850.5**	880.2
Cash conversion	**82.6%**	92.6%

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.

	2019	2018
Cash (£m)	**630.4**	734.2
Private placement loan notes (£m)	**(84.7)**	(90.1)
Net cash (£m)	**545.7**	644.1
Land creditors (£m)	**(729.2)**	(738.6)
Adjusted net debt (£m)	**(183.5)**	(94.5)
Basic net assets (£m)	**3,307.8**	3,226.8
Adjusted gearing	**5.5%**	2.9%

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.