Taylor Wimpey plc

Trading Update

7 July 2014

Peter Redfern – Group Chief Executive

Good morning everybody. I'll go straight into just an overview of first the market, then our performance, then a little bit on land and then a bit of guidance at the end.

General market performance, which I don't think will surprise anybody, has continued to be very good during the first half of 2014, and certainly very stable. I'll talk a little later about the Mortgage Market Review and the Bank of England measures and any impacts that we've seen and how we see that going forward. But I think one thing you may take away from the numbers is there continue to be net gains on a relative basis on sales rates over the first half of 2013. So, sales rates up 0.7 for us are very much into our strategic band we see as being a longer-term steady state and a level that we are very comfortable with.

If you look at the market overall we've seen good strength in pretty much all of the regions we operate in; but I would say particularly over the last two or three months probably a bit more balance between those regions. So, sales price growth in London to a larger extent, South East lesser, has been slightly more muted; still positive but not quite as strong. Whereas sales price growth and sales rate growth outside London and the South East has been stronger. So, we've seen a more balanced view of the market, which I think is healthier and certainly should be reassuring to policymakers.

The average selling price growth which we think we've seen in our average marketplace – and we'll talk about our own performance separately later on – but the underlying average selling price growth we've seen has been probably between 8% and 10%. You will remember on our previous call I talked about 7% to 8%, so we continue to see growth. But I would say that the band variation across the country has narrowed a bit within that underlying growth.

Our own performance against that market has been balanced on sales. We've seen sales rates up about 6% as I say to 0.71. Our view has been finding that sweet spot in individual sites where we've got a decent rate of sales and good price performance.

Prices in the order book are again up 21% year-on-year. And you'll remember that was the number at the end of 2013. We see it as particularly positive that we're still seeing that same rate growth year-on-year six months on and it hasn't started to taper off. And actually sales prices of the order book, we're talking private sales prices, are up about 8% since the start of the year; so you see the impact of both the ongoing mix changes and that sales price growth still coming through into the order book.

The margin you can see on completions from the guidance we've given on operating margins is up just shy of 300bps in the first half of the year. We continue to expect to see growth in operating margins of over 300bps for the year. And probably – and I'll come back to this at the end – probably slightly stronger year-on-year growth in the second half than the first in what comes through. The margins in the order book are up ahead of that 300bps level.

I said I'd come back to the Mortgage Market Review and the Bank of England measures: It would be wrong to say we haven't seen any impact, we have seen some impact: a little bit on individual customers; but more generally perhaps a slowdown in the time it takes individuals to get a mortgage through the system. But with strong order books and a very stable market, and good confidence amongst customers as well, we're not seeing that have a material impact on the pace of the market. We see the measures, both the Mortgage Market Review and the more recent Bank of England measures as being a pretty sensible approach by policy makers to protect against longer-term excessive growth without damaging the shorter-term market in any material way. I think they've struck a pretty good balance. We feel overall that the risk in the sector has decreased quite significantly over the last six months because of the balance that has been struck and because of the extension of Help to Buy equity into the longer term.

So, overall I think we sit here at the half year being more relaxed about market risk than we were perhaps six months ago where the political risks seemed particularly large. We would expect to see over the next six to nine months interest rate rises; so long as those are sensibly managed and flagged, which is certainly the signal that has been given so far, we don't see those particularly worrying in terms of delivering our medium-term objectives.

I'll then move on to the land market. We've seen a land market across the UK that has remained relatively balanced. You'd be surprised against that backdrop of housing market if you hadn't seen increasing competition; you have but it stayed pretty sensible. Margins on our acquisitions have remained at roughly the 20% operating margin level. So, very comfortable with that and very pleased with that underlying performance.

Strategic land has continued to be a very strong story for Taylor Wimpey, with conversions from the strategic landbank totalling about 7,000 plots in the first half of the year, which continues to run at record levels. That equals the full-year target that we'd set, and we certainly expect to make some further conversions in the second half of the year, although I would personally be pleasantly surprised if it's anything like the 7,000 level, but still expect to make significant conversions in that period.

We haven't quoted a short-term additions number simply because we haven't been through all of the detail and split out all the strategic short-term additions. But comfortably say that total land additions into the short-term landbank are more than double the completions that we had in the period. So, you should expect to see reasonably significant growth in the short-term landbank when we report the half-year numbers.

With that land performance and land added both to the short-term landbank, and continue to add plots as well, we're pleased that we've outperformed our cash expectations net debt at 40m the half year is lower than anticipated. And Ryan will probably talk later about our guidance for full-year cash position.

Then just ending up with guidance more generally from an operating point of view. We still see volumes up this year about the 7% level. Next year, all things being equal in the market, also up a further 7% on that. We are very consciously managing a degree of volume growth, but sensibly and sustainably managed with our continued focus on value. Average selling price on completion this year we expect to be up at double digit level, 10% to 11%. As we've said many times we expect margins to be up over 300bps for the year.

We're very focused at the moment, and you don't necessarily see this in these numbers, but are making sure when the business grows and in stronger market conditions we keep it balanced; particularly completions during the period – it makes a big difference to the internal efficiency of the business, delivery of good customer service, management of costs. So, we're very focused next year to make sure that we keep not just half on half but month on month a stable level of completions because we think it makes us a better business. So, we would hope that you would see next year a very balanced business during the year as we manage that growth very sensibly.

Overall very pleased with performance in this period. I think we're comfortable with where the market sits because we've seen sensible policy decisions with a longer-term view of managing risk rather than a reactive short-term view; and continue to be exceptionally pleased with land performance of the business, which you know will drive performance over the next few years.

Ryan Mangold – Group Finance Director

Thanks Peter and good morning everybody. Just in terms of the net cash forecast for the year, we remain firmly on track to our guidance we gave at the capital market day a few weeks back about operating profit to cash conversion of 65%. And we have paid a special dividend just last week just short of £50m which is the first tranche of our special dividend programme that we have got in place. And we would expect to end the year, broadly speaking, of roughly £100m of net cash there or thereabouts.

As Peter noted we have remained active in the land markets. We still see very active opportunities to continue to invest. And the strength and quality of the order book, and most importantly the strength and quality of the balance sheet position us very well for 2015 and beyond.

As indicated in the trading update we've highlighted the fact that there will be a small net realisable value and write-back at the half year as we go through the process of completing the exercise. Clearly this is a significantly declining balance relative to historical write-backs, and so therefore the impact in the second half we think is going to be more muted than what we have had during the course of 2014 and 2013 comparatives.

I think we now open up to questions.

<u>Question 1</u>

Charles Evans Lombe – Egerton Capital

Good morning gentlemen. You said that you brought through 7,000 plots in your landbank from strategic could you give the same number for completions in the first half? How many of the completions came from previously pulled through land?

Peter Redfern

I have to be honest, Charles, I haven't got the split of that yet. Order of magnitude it's going to be around the 30% level. I think we actually quoted it in the investor day and it was around that level and it certainly won't have gone backwards: certainly progressing towards the 40% level that we flagged; but somewhere in the low 30s. When it comes to half-year we'll quote a number. It's just one of those numbers that we have to go back and analyse retrospectively in each month.

<u>Question 2</u>

Will Jones – Redburn

Morning guys, just a few from me please if I could. Just firstly just understanding the flow through impact of underlying price inflation into the margin, I think in 2013 you disclosed that it was a little over 1% in terms of the impact of inflation on the P&L and three and a half I think was the market inflation you talked about, but the actual impact was slightly different in terms of the timing. The first half of this year, what degree of the margin uplift if you like has been held by pricing, and then in the second half how do you think that then moves in terms of just understanding the flow through that 8% to 10% number you talked about please.

The second is just maybe to get some clarification on the Spanish margin which looks like it's recovering quite nicely and just where you think that might be for the half year and the full year if we could. And then finally around land, obviously you say the intake margin, fairly similar this year versus last, but it would appear you have got quite a bit more strategic land pull through in the mix, so should we infer from that that actually intake margins on the open market land are a little bit less year-on-year to give you flat overall, or is that not really the right way to think about it? Thanks.

Pete Redfern

Okay, if I can take the last one first, Will, because it's somewhat huge no you shouldn't infer that, the number I was quoting would be good for the short-term land purchases rather than the total, so order of magnitude 20%, whether we'll end up with 19½ or 20, I don't know, but in that ballpark and certainly we haven't seen that slip. I would say we are pulling a slightly bigger proportion of our land through strategic land rather than short-term, as I say although we've seen the short-term market stay reasonably balanced there's definitely more competition and with the strength of strategic land performance we don't need to push that, so we're certainly being pretty selective which I think is helping to keep that high. But no, the short-term sites we've brought on board have continued to be at a broadly similar level of margin into the last couple of years.

And continuing with the reverse order on the Spanish margin, you will see, and the same with volume actually just because of timing and site delivery, you will see completions and margins in the second half being at a level above anything you've seen over the last three or four years. You'll see the first completions in the second half of this year from a handful of sites that we've bought since the downturn, very good locations, very strong financial performance, and we'd still hope the Spanish business for the year as a whole is at a level where its margin contribution, its return is not particularly diluted to the group overall, it's into the low teens at least as those sites come on-stream, and that should then carry on into 2015. We're not particularly adding major new sites into the Spanish business, but because it's small, just two or three well-chosen sites make quite a big difference to the numbers.

And then if you look at the margin splits half one, half two, I will when we come to the half year analyse the first part of your question in some detail showing you, as I did at the full year, the build cost impact, the sales price impact and how that timing has impacted. The one thing I will say at this stage is that we'd expect to see more margin growth, second half on first half in 2014 than we saw in 2013, so in 2013 you saw about 0.8% of margin growth, half two and half one, as you'll remember at the time just bit of mix, just diluted that pace of growth. You will see more this time as that selling price comes through, we can see it very strongly in the order book. You've got some of that coming through in the first half so selling prices have undoubtedly been one of the drivers of that first half margin improvement, but I'm not at a point where I can give you a split of that, I'd rather split if out to you in some detail in a few weeks' time.

Will Jones

Thanks. And sorry, just on the eight to ten of underlying, do you have an idea regionally how the variation is from top to bottom please?

Pete Redfern

Yes, I think if I remember right I think I said to you when I was talking about seven to eight I think I said a range between four and 12 and I would say that range has moved up but narrowed slightly. So between six and 13 probably gives you a pretty good flavour. That's over a 12 month period so from this time last year.

Question 3

Chris Millington – Numis Securities

Good morning guys. I just wanted to ask a little bit just about the most recent trading you've seen. I think Pete, you alluded to the MMR not really having a substantial impact but having some impact on the processing of applications. I just wondered if you could quantify that a little bit more and say kind of where the pinch points have been and whether or not that kind of led to the change in the cancellation rate towards the back end of the period?

And the other question I just wanted to ask really is how your experience has been with planning in the period and whether or not you've made much progress there?

Pete Redfern

Yes, I mean I think if you looked at the stats, whether it be on sales rates or cancellation rates, I think cancellation rates are probably the best indicator or would have been the best indicator if there'd been a material impact of the MMR. In the stats you can't see any movement at all, but for anecdotally and for a handful of individual customers who can't qualify who could before, and I do mean a handful, obviously that has a big impact for them personally, and in terms of pace, if a process that did take a month takes five weeks but you've got a five month order book then it doesn't really make a lot of difference to the stats or the performance, but it doesn't mean it'll have no impact. So that gives you a flavour.

I think with the planning process we've continued to be generally positively and pleasantly surprised. I think you'll remember at the trading update at the turn of the full year I said we were starting to see, and certainly expecting to see, some early signs of politicisation pre-general election which was early by normal standards. I would say that's not got any worse, if anything it's got marginally better, that we're seeing planning decisions being taken generally at a local level without too much sense of people looking over their shoulder politically at the general election in a way that is pleasantly surprising. And you can see from the strategic land performance that that has continued to be an environment where we can get planning applications through.

I would repeat what everybody else says that it is frustratingly slow once you've got a planning permission to actually get conditions satisfied and to get on site. I wouldn't necessarily say that's new news, certainly it's no more difficult than it was six months ago, it just is a significant time impact between getting a planning permission and opening an outlet. But overall the planning system is significantly better than we have seen in previous years and we're not seeing that trend materially change in the short-term.

Chris Millington

Can I just ask a quick additional one and that's whether there's been any kind of additional competition moving into the regions and our price inflation starting to find its feet outside of London and the South East?

Pete Redfern

No, the phenomenon we've talked about in the past with some of our medium-sized competitors opening up regional outlets or reopening in places where they'd operated pre-downturn and that leading to increasing land competition, I wouldn't say that has grown, it's still there, but if anything in a sense it's psychological isn't it in that our own teams adapt to it, so if there's not new competitors competitive balance may have shifted a bit because of competitors who entered a region six months ago, but I haven't heard the same level of issue of that over the last two or three months as I was hearing six or eight months ago. I think most who were opening in new regions have generally done it and it's the initial impact particularly as they've tried to buy the first three or four sites that tends to distort a local market.

So I'd certainly not say that's not got any worse but land prices are moving with selling prices so land prices are going up which as I say is why if we can focus most strongly our strategic land and be able to if we think that's getting a bit too strong to pull back at a regional level that's a healthy place to be.

__Question 4__

Gavin Jago – Peel Hunt

Morning Pete, morning Ryan. I've got a few actually if it's okay. First of all I wonder if you could just give a bit more granularity on build costs and what pressures you're seeing maybe between build and labour. Secondly, could you give a bit more detail on the range of the private reservation rate, obviously a further improvement. Have you seen that narrowing as well as you have with some of the other metrics?

And finally just on outlets, obviously your sales rates in pretty strong outlets has come back, but what's your expectation for outlet numbers for the full year. Thank you.

Pete Redfern

Okay, shall I do the two sales ones, Ryan, and then you pick up the build one? In terms of the range of the private sales rates I think we'll see a slightly quieter summer this year than we did last year, because last year was unusually strong because you were getting a big step up off the back of help to buy and I haven't seen this yet but I think as we're into July and August you'll see it slightly lower, but still feel that the level that we're running at now at 0.7 feels like a fairly sustainable healthy rate. We're not particularly expecting or relying on a significant step-up in that rate next year to deliver our strategic objectives from the level of growth that we talked about of about 7% for next year, so feel fairly comfortable with that.

Gavin Jago

Has the range moved kind of regionally at all between your north and south regions?

Peter Redfern

It does tend to be a bit higher in the south than the north, but then that's a long-term piece and it's a little bit around the mix of sites that you tend to have as well. But there's not a fundamental difference. And I would say actually the gap has probably slightly narrowed over the course of the last six months in the same way that the price gap has slightly narrowed, or at least the price gap has stopped growing, so you see reasonable sales rates in the two. In fact, I can give you the absolute numbers because I don't think it's particularly sensitive. Sales rates in the north over the first half were 0.65, sales rates in the south are 0.78. So that's reasonably balanced. But there does tend to have been a long-term variation between those two.

Outlet numbers, you're right, we've closed some slightly quicker, slightly earlier those that are in the order book as completions still to deliver, so it doesn't really impact on the P&L drive of the business, and we've got quite a lot more to open in the second half. On paper you'd see outlet growth at the end of the second half. That just depends on the timing of planning, and as we've said many times, we're focused on opening them right rather than opening them quickly. So there's certainly the capacity on paper to see outlook growth through to December, but I wouldn't commit to it because it depends on the timing of planning permissions.

Ryan Mangold

And then Gavin, on the build cost points, we have seen a bit of continued inflation on the sub-contractor market size. On the commodity supplier side, the components that go into the house net, I think those are fairly stable. We're seeing a lot more security of supply in that regard as the manufacturing industry is stepping up to the additional pace, uncertainty in the building sector to provide the commodities that go into it, notably bricks and blocks. So the only place we're really feeling a little bit of pressure at the moment is on the sub-contractor side, but overall the view on total build cost growth year-on-year is about 5%. Our view hasn't really changed on that for 2014 at all.

Peter Redfern

It's perhaps worth us just going back to the sales rate questions and the outlet numbers. I think one of the big benefits of having the scale of order book that we have at the moment, is that it gives us an awful lot of coverage over those sorts of movements. We're something in the order of 88%, 89% sold for 2014 at the moment. We expect to be more or less sold out by the end of August. If I go back, then we'd have been struggling to be more or less sold out by the end of October. We've talked a lot about the impact that has on price. It also means we're not massively sensitive to short-term movements in sales rates or outlook numbers, which is a healthy place to be. So it's why we can be pretty confident about the managed level of volume growth we can deliver, because it just gives us an awful lot of flexibility and coverage.

The biggest short-term constraint is building at a sensible rate and delivering a good quality product because the sales are there.

<u>Question 5</u>

Aynsley Lammin - Citigroup

Just two quick ones. Firstly on the strategic land, obviously those 7,000 plots. I just wondered if the discount to market value is still in line with what you've recently expected and what you've talked about previously?

Then secondly, obviously you talked about build costs inflation, I just wondered on materials availability and build rates, how that's all feeding through? Is there any change in the build rate?

Peter Redfern

In terms of strategic land, yes a mix of types and discounts very similar to what we've said to you in the past, no change there. And we're not expecting one. Obviously we know that contractual structure of our strategic landbank's holding up. It will actually fluctuate depending on the individual sites in any one period. That trend is pretty fixed because of what's already in the landbank.

In terms of material availability, things are much more under control across the industry than they were. Certainly for us as a business, and bricks tends to be the bit that everybody talks about, we have security of supply on bricks for the balance of this year, and for next year we know who they're coming from and roughly what bricks they are. That obviously shifts the impact on individual sites and on pricing. So this time last year the industry was reacting to a significant step-up. The step-up is still happening, but it's much more staged and so a lot of the supply side has adapted.

It doesn't mean you won't get some localised shortages in other areas because different parts of the supply side are affected at a different pace, but certainly nothing like what we were seeing 12 months ago in bricks and blocks. And blocks I would say the same as with bricks, in fact that's probably changed more for the positive just because this time last year we were seeing particular issues because of one plant closure.

So generally supply side is in more balance. I'd say the pressure is greater on labour than it is on materials, but that's down to individual management of sites and your relationship with sub-contractors, and actually there's more you can do to mitigate in the short-term than you can if you simply can't get the bricks, for instance.

<u>Question 6</u>

Gregor Kuglitsch - UBS

Just a question on the cash flow, I'm trying to figure out what you're saying here. Because I'm looking at consensus EBIT of profits, of say 450, you're saying 65% cash conversion, which is £300m-odd. Obviously you're paying a dividend including the ordinary dividends, say 75, and some minimal tax payments. So I'm surprised about the £100m net cash guidance. Maybe the number isn't 65% in terms of cash conversion or maybe my calculation is wrong? That would really be what I was interested in. Thank you.

Ryan Mangold

It's a very good question. As you know, our operating profit to cash conversion target is a medium target for 2015 through '17, and clearly the consensus profitability for this year is roughly about £450m - £460m for the cash conversion and doing the math on that you're quite right, we're going to be a lot more positive at ending the year at 100 given than we started the year at about six, despite returning £75m - £80m to shareholders over that period. Our guide on the 65% cash conversion is for next year.

We still see great opportunity in the short-term land market. We've got strong promotions coming through from our strategic land sites, and we're growing towards that optimal scale of our business of roughly about 14,000 units, and that's got a bit of capital command, and we think that the flight path will be towards the end of '15 into '16 that we'll be at that optimal scale. The map on the 65% conversion should be applied from 2015 onwards, not for '14, but clearly it's going to be a fairly strong year given the fact we're going to be returning excess of £200m next year.

Gregor Kuglitsch

Thank you. Then in terms of the margin on new land, you said 20% on the old market land. If we blend in the strategic, which I think you're suggesting something like probably a little bit more than half of your, say 50% - 60% of the land acquired in the half. What would the margin work out if you took that in terms of the intake margin?

Peter Redfern

I think a question was asked earlier whether the strategic margin was fundamentally different to that and the discounts to that that we've guided to in the past, which has been around 6% - 8%, and it isn't. So we haven't got a sheet of paper in front of us that blends this particular half's short-term land and strategic land, but that roughly is the balance between the two. So you can come up with a rough idea of the number and we can perhaps answer it in a bit more detail at the half year when we've got all the individual sites mapped out in front of us.

Gregor Kuglitsch

6-8 percentage points you said is the delta?

Peter Redfern

That's the norm.

<u>Question 7</u>

Kevin Cammack - Cenkos Securities

Morning Pete, morning Ryan. Two very quick ones from me. It's an observation more than a question but I'd be very interested to hear the answer. The first one is, I think you commented that the margin in the order book was higher than what you're intending to deliver over the year, and the figure you've quoted for the first half. I just wonder if you were prepared to put any degree of scale on that?

Secondly, I'd be interested to know for how long you feel you can grow the volume looking forward without having some commensurate increase in the outlets, bearing in mind obviously I appreciate what's in the order book probably covering next year to some degree as well but I'd just be interested to know how long you feel that you can still move slightly out of kilter on those two ratios?

And the last thing - and I'd very much welcome your views on this - you're by no means alone in suggesting that the MMR Review, the intensified criteria on lending, the BOE are talking about introducing, the industry's reaction seems to be that it will have no effect on their demand and the sales rates, etc. which I suppose begs the question that everything that's been done so far, in a sense, it may be serving to protect the risk of the lender, but it's clearly not going to serve any purpose in terms of slowing demand and/or price inflation in the market and as a consequence of that, do you think the authorities will be content with that, or do you think it just simply means there's a greater danger that at some point that they stamp down even harder?

Peter Redfern

Okay, let me take the second one first, if I may, in the tradition of taking the easiest one first. How long could we grow the volume without outlook growth? I go back to our guide of 14,000 units, that actually the level of outlets, give or take at the moment, with the sales rates that we're seeing, and we've spent a lot of time, as we've talked about before, internally working out what we think is a long-term sustainable sales rate in a normal market, with a normal balance of affordable units, it's about 14,000 units. So it's not that we're targeting 7% growth, but we are targeting that growth to be sensible and sustainable. We do think one or two or our peers have grown more rapidly over the last couple of years and it will be very hard to sustain that growth properly as you get into '15 and '16, so we think that level we get to, without really needing too much of a step up in outlets.

And of course if you don't push the sales rates massively hard, you don't close them quite as quickly and it becomes actually quite a robust number. We know we're not desperately opening outlets at the end of December to report a good number to you, the number is what the number is and actually we open outlets in January just as we do in December. So with good quality outlets, good scale of outlets, so a large proportion are at full pace rather than at the early stages or the late stages, then we get to the volumes level without outlet growth massively lifting.

Then the impact on sales rates of the Mortgage Market Review. I think there are two things I'll pull out. First of all, from a policymaker's point of view, you don't want to have an impact at the moment, and certainly you don't want to have a negative impact on builders' and developers' sales rates, you actually want those as high as possible but you don't want to see massive growth in pricing. And you certainly don't want to see prices grow in London and the South East, which is the second of the two points, much more than they have done so far.

So I think, I mean Carney was pretty specific, and actually very consistent with the Chancellor's Mansion House speech, that actually they were kind of comfortable with where the market had got to so far, but particularly in London and the South East they didn't want to see it going much further. So actually, the fact that their policies are not significantly reducing activity from the levels that it got to, but are making people more cautious, more aware that it can't continue to grow significantly beyond that, I think is achieving their goals. They were trying to find a series of measures that didn't shock the short-term market and retract, particularly new-build, and I think if you ally the measures to just gently dampen the overall market with help-to-buy, which positively impacts on new-builds, you can see why they're creating that balance.

I haven't changed my long-term view, we live in a cyclical industry and it would take godlike policymakers to get it perfectly right through the long-term there will be a cycle. But we've also said that managed properly, some of the excesses of that cycle can be muted, this is the best attempt we've seen.

And so no I don't think, I think we feared back in January that there would be an exaggerated reaction which created short-term downsides too early in the cycle, and I think that risk has not completely gone away but it's reduced. I do think you'll see interest rate rises and I think they're probably necessary, because you are seeing strength in the market outside London that is okay for now, but you probably wouldn't want to see for three or four years on the trot, but that's a fairly healthy balance for us to be in, I think.

Kevin Cammack

From your own perspective, I mean take the Wimpey perspective, when you talked about a narrowing of the range of regional pricing, has your experience in any sense been basically a case of the worst areas catching up, or have you seen specifically any resistance to pushing the top end, so the London/South East type, not so much London but the outer South East, do you feel there's been any resistance rather than decline, as it were? And not talking about decline, but do you sense that it's difficult to keep pushing it and pushing it?

Peter Redfern

If you looked at the period from particularly September last year through to January/February, you were seeing average selling price rises in London and the South East that were order of magnitude a percent a month. Right now, that's more like half a percent a month. But I wouldn't say that feels like resistance, it's not that we've pushed prices in those markets and think that no that's too much. If that gives you a reasonable sense?

Kevin Cammack

No, I think that's brilliant.

Peter Redfern

And the other thing I'd say, the other part of your question, it's not quite a case of the weakest markets catching up. We'd say still that the weakest market has been South Wales, and it's showing positive improvement, but actually the relative improvement that's been stronger in markets like the Midlands and the North West, that were solid six or eight months ago, and are more solid today, and so it's that wave effect to some degree from London and the South East outwards, so it's still the laggards still lag, it's just that more of the intermediate markets are actually catching up London and the South East.

Kevin Cammack

Thanks, Pete. And then the margin question?

Peter Redfern

I wasn't going to duck it.

Ryan Mangold

We can't give you the specific numbers?

Peter Redfern

I mean I'm not going to give you a specific number; I'll give you a couple of pointers. First of all, the margin in the order book stays the highest I've ever seen. Secondly, the margin in the order book today is broadly consistent with the three year measures that we set out for '15, '16 and '17, and you'll see some of that come through in the second half but not all of it. It's also continuing to increase at the moment.

<u>Question 8</u>

Andy Murphy – Bank of America Merrill Lynch

Morning, gents, just a quick question about closing the order book as early as you have done. You're talking about, if I'm right, closing it before the autumn selling season has even started, so on the ground how does that impact and how do customers look at that? I guess you're saying to people, 'You can buy this house but you can't have it until next year.' Is that really the case and what reaction do you get, how do you manage that kind of process?

Peter Redfern

I think it is the case. I think it's the case already today, in a sense, on some sites, so it's progressive. You'll have some sites that lag slightly, either because they're brand new so they don't have an order book, so you actually do have products available in a bit more short-term and some sites that haven't sold quite so well. And then you have some sites that we've already sold out products for this year. I think it would be slightly misleading to say that's all of our strategy, you do have to build on and you do have to, we believe quite strongly, build them properly. That's why I talk about getting the balance of the business very even in the first half and second half next year. That's driven not so much by financial objectives pure and simple, but by quality of business, which ends up with these financial objectives. So that doesn't directly answer the question but it is one of the reasons why we see it as quite important to get that balance right.

From a customer's point of view I think most of all they want a reasonable degree of certainty on the rough timing of that completion. So if they know on day one that there isn't product available on that site until January or February then that's not really a major customer service issue. I mean I did hear Steven Stone talking about actively shortening or limiting their order book lengths for these sorts of reasons and I don't think he's wrong. And it's certainly a balancing act with individual customers that we have to strike because the longer somebody is in the order book as I say people normally are reasonably comfortable if they know the timescale when they reserve but the longer somebody is in the order book the bigger the risk that something will change whether it be a material supply issue or a period of bad weather and so the harder it is to give certainty, so there is a balancing act there. We are needing to spend time and attention getting that communication right but it's not really about people coming up and saying why isn't the product available, I think as long as we are clear this is the process, this is the build process, this is when the product will be available, that works okay, but it is a challenge to manage people in the order book for longer and you have heard me say before we do think the order book's pretty much got to its steady state level and I think you can start to see that in the dynamics at the moment as the volume of completions in the first half is actually exactly the same as the increase in the size of the order book in volume number terms and I think you can see that trend over the next year or two which is quite different to the trend you've seen over the last couple of years where the order book has grown faster than completions, we're kind of now in a reasonable level of balance.

Question 9

Glynis Johnson – Deutsche Bank

Good morning everyone. Just two if I may, the first one just in terms of your average selling price obviously there's an influence of London coming through in the second half of this year but I'm wondering if you can just give us any kind of detail in terms of should we expect a major mix impact to come through next year in terms of the contribution of London?

And then the second question just in terms of land buying at your analyst meeting you gave us details of how far forward you had your land owned or controlled I'm just wondering if there's any kind of update you can give us on that?

Peter Redfern

Okay in terms of selling price I think I said average selling price up around 10% to 11% this year, I can't easily split that into mix today, we can certainly come back to that, but can give you a bit of a sense of where we expect to see next year which is probably, and you'll remember the broad guidance will be against our base of around 7% that I gave probably about nine months ago now I still think that's pretty valid today but as I say it's against a higher 2014 base than we said at that point.

And then on the land, sorry could you repeat the question Glynis?

Glynis Johnson

At the analyst meeting you told us how far forward you had your owned or controlled land so the 2017 land that you had owned and controlled I'm just wondering if there's any update in that?

Peter Redfern

Yes it's hard for us to give you too much of an update without mapping out lots of details on the landbank which obviously we will do at the end of the month but there's not one number I can pick out, obviously with both the strategic land conversion and the short-term additions it will have advanced but I can give you a more meaningful sense of that in the few weeks' time.

Closing Comments

Well thank you very much for your time this morning and for all the questions and as I've said at the beginning it's been a good market. I think the key thing for us actually has been the policy action in the period because the internal performance of the business has continued to be strong but we did come into 2014 very conscious of the risk of policy action which had a detrimental impact and I think the fact that we've seen longer-term steps that have actually been quite carefully managed is very encouraging to us but look forward to catching up with you and being able to go through some of the questions in more detail in a few weeks' time.

Thanks very much.