Directors' Report: Business Review

Group Chief Executive's Review

We are starting to see the benefit of the operational decisions that we took in 2008 coming through into the performance of the business.

Pete Redfern
Group Chief Executive

Highlights for the year

- Returned to operating profit* in the second half of 2009 in both the UK and the US
- UK build cost per square foot reduced by 4.4% in second half of 2009 from first half level
- Restarted land buying in both the UK and North America in mid 2009
- Increased Group order book volume by 21%
- Significant reduction in net debt through generating cash from operations and the Placing and Open Offer

* Profit on ordinary activities before finance costs, exceptional items, brand amortisation and tax, after share of results of joint ventures.

Following the exceptionally difficult market conditions of 2008, we have made good progress on implementing our strategy for recovery and strengthening the Group's financial position during 2009.

Implementing our strategy for recovery

As outlined in last year's Annual Report and Accounts, we took a number of difficult decisions during 2008 to ensure that our businesses were well placed to face the unprecedented challenges of the prevailing market conditions.

During 2009, the housing markets in both the UK and North America have delivered greater stability and we are starting to see the benefits of this improvement and our early action coming through into our financial performance in the second half of 2009.

Having made significant changes to our UK organisational structure and overhead cost base in 2008, this has been very stable in 2009. This has allowed us to focus strongly on build cost reduction and other improvements in operational performance. We enter 2010 with an organisational structure that is efficient at current volume levels, but also gives us the scope to increase our output to around 14,000 homes per annum as market, land availability and planning conditions allow.

We also adjusted our pricing and incentives in the UK during 2008 in order to continue to deliver competitive offers in each local market. As market conditions have stabilised and started to improve through 2009, we have been able to reduce the level of incentives on offer and therefore improve net prices on reservations on a like for like basis over the course of the year. Maintaining tight control over the level of work in progress on each site has assisted not just cash management but also helped to secure price improvement, due to shortage of supply.

In North America, where the downturn began in late 2005 in some of our markets, our relentless focus on cash management and cost reduction has continued through 2009. The operational strategy in North America remains consistent with that in the UK, as we remain cautious with regard to work in progress investment and new land acquisition, maintain our focus on build cost reductions and work to deliver price improvement as the market continues to stabilise.

Our Strategy

Vision and Goal

Taylor Wimpey plc is a focused homebuilding company with operations in the UK, North America, Spain and Gibraltar. We aim to be the homebuilder of choice for customers, employees, shareholders and communities.

Our Group Strategy

A combination of the actions taken within the business over the last 18 months and our improved financing position now allows us to shift our focus to creating value by returning to profitability on existing and future sites.

Long term objectives

- Provide growth in earnings per share, in light of market conditions
- Deliver a return on capital employed above the level of our cost of funding
- Return the Group to an investment grade credit rating
- Attract and retain the highest calibre of employees and strive to be a company that people want to work for

Short term priorities

- Return the Group to profitability following the recent downturns in both of our main markets through:
  - Focusing on sales price increases rather than volume growth
  - Continued focus on build cost reduction
  - Maintaining tight control on overhead costs
- Deliver value from our existing landbank
- Continue to generate cash from operations through reduced level of investment in land and work in progress spend
- Maximise the potential of our employees through training and development programmes
- Deliver operating cash flows in excess of the levels set out within our financial covenants

Our Group Key Performance Indicators at a glance

The following key financial and non-financial KPIs are the most appropriate basis on which to measure the Group's current performance:

Adjusted loss per share	Return on average capital employed	Operating cash flow covenant	Employee turnover
(4.3)p	1.5%	£457m inflow	6%
for 2009	for 2009	for 2009	for 2009
(7.2p loss for 2008)	(2.6% for 2008)	(Target: £51m outflow)	(16% for 2008)

For more information see page 9

Risk

The following key risks have the greatest potential impact on the Group's strategy:

- Compliance with financial and operational covenants
- Economic and market environment
- Land purchasing
- Government regulations

For more information see pages 11 to 12

Corporate Responsibility

Our corporate responsibility underpins the way we do business

We have a duty to take social, environmental, ethical and economic factors into account when conducting our business and tackling global imperatives such as sustainable development and climate change.

For more information see pages 25 to 27

Opportunities for future growth

> Against this backdrop of improving conditions in our main markets, the overriding priority for the business remains building on our strong base to take advantage of the opportunities that stabilisation and future market upturns will provide.

Strengthening our financial position

We reached agreement with all of our debt providers to amend our debt facilities in April 2009. Whilst this agreement included some additional costs, it removed the uncertainty regarding the Group's financial position and provides us with sufficient facilities to trade through the market downturn. Although we were not required to raise new equity under the terms of the amended debt facilities, it did allow for the terms to be adjusted to the Group's advantage in the event of a successful equity raise. Chris Rickard provides more detail on these amendments in his Group Financial Review.

For more information
see page 30

After extremely volatile stock market conditions during 2008 and in the early months of 2009, stock market conditions were more favourable in the second quarter and a rise in the Group's share price following the announcement of our agreement to amend our debt facilities provided an opportunity to launch an equity raise. It was pleasing to be able to conclude a successful Placing and Open Offer so quickly after the agreement to amend our debt facilities, with the new shares starting to trade on the London Stock Exchange on 1 June 2009.

Moving forward

Having established a secure capital structure, the Group is now focused on delivering added value over the medium and longer term and taking advantage of opportunities as market conditions allow.

In the UK, the structural undersupply of new housing has been exacerbated by the downturn. Industry volumes dropped sharply to 106,894 homes in 2008 and this has fallen further in 2009 to 88,100 (source: National House-Building Council). These numbers fall dramatically short of the latest forecast for household formations of 252,000 per annum for England alone. Recent months have seen an improvement in the number of new starts, but this position of undersupply is unlikely to change significantly in the short term. The underlying demand for new housing remains strong, but many of those looking to buy homes remain unable to obtain an appropriate mortgage. When mortgage availability increases and consumer confidence returns, we will see an even greater imbalance between demand and supply, creating the potential for a significant recovery in house prices in the future.

In North America, affordability is at record highs in our US markets and the number of months of supply of both new and existing homes continues to reduce. Prices are steady, with the period of market stability now approaching 12 months. Although foreclosures remain a potential issue, they have not had an incremental impact in recent months. The robust economic conditions in our Canadian markets are persisting and this is reflected in a stronger trading environment.

Against this backdrop of improving conditions in our main markets, the overriding priority for the business remains building on our strong base to take advantage of the opportunities that stabilisation and future market upturns will provide.

Construction activities

We are now a focused homebuilder, having completed the last stage of our exit from Construction with the sale of our construction businesses in Ghana on 21 April 2009.

People

Despite the improvements seen during 2009, our employees have continued to face considerable challenges as a result of the difficult market conditions being experienced across the Group.

I have been very impressed by the way that our employees have responded positively to these challenges and would like to express my thanks for their ongoing commitment and hard work. I am proud of the quality of the teams that we have in our businesses and look forward to seeing them deliver on the opportunities that will arise as our markets recover.

Pensions

We are in consultation regarding the cessation of the defined benefit accrual in the George Wimpey Staff Pension Scheme and are also reviewing a package of other proposals to reduce risk and the volatility of the deficit.

For more information
see page 31

Our Group Key Performance Indicators

Given the significant changes in our operating environment during the economic downturn and the changes to our financial covenants, we have reviewed our suite of KPIs during 2009. We believe that the KPIs below are the most appropriate basis on which to measure our current performance.

Adjusted (loss)/ earnings per share

Objective

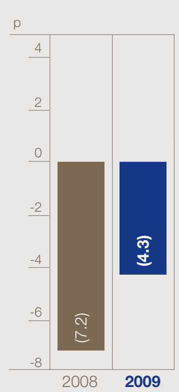
We seek to provide growth in earnings per share in light of market conditions.

Definition

The basic earnings per share from continuing operations based upon the profit attributable to ordinary shareholders before exceptional items divided by the average number of shares in issue during the year.

Why is it key to our strategy?

The generation of earnings is essential to deliver share price growth and dividends to shareholders and to fund future growth in the business. This measure is also commonly used by stock market analysts in assessing the value of companies.



(4.3)p

for 2009
(7.2p loss for 2008)

Return on average capital employed

Objective

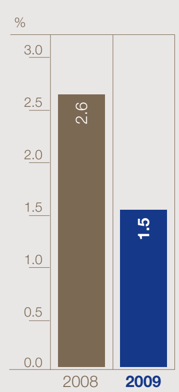
We aim to deliver a return on capital employed above the level of our cost of funding.

Definition

Profit on ordinary activities before finance costs, exceptional items and amortisation of brands but including share of results of joint ventures, divided by the average of opening and closing tangible net worth.

Why is it key to our strategy?

Building homes is a capital-intensive business due to the need to fund our landbank, so it is essential to ensure that this capital is used as effectively as possible.



1.5%

for 2009
(2.6% for 2008)

Operating cash flow covenant

Objective

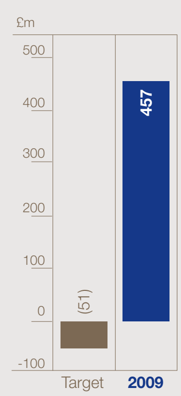
To deliver operating cash flows in excess of the levels set out within our financial covenants.

Definition

The cash generated by operations as reported in the Group's financial statements, adjusted for pensions, taxes and other items as defined in the Group's financing documentation. The Canadian business is excluded for covenant purposes.

Why is it key to our strategy?

The Group must meet its financial covenants in order to retain access to its debt funding. Following the Placing and Open Offer, the operating cash flow covenant is the most onerous of the Group's three financial covenants.



£457m inflow

for the 12 months to 31 December 2009
(Target: £51 million outflow)

Employee turnover

Objective

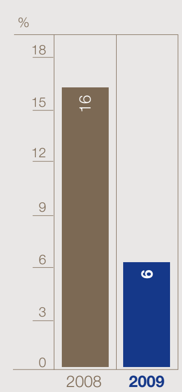
We endeavour to attract and retain the highest calibre of employees and strive to be a company that people want to work for.

Definition

The number of employees leaving the Group (excluding redundancies) expressed as a percentage of the average number of employees across the Group during the year.

Why is it key to our strategy?

Having high quality teams in place is essential to delivering high quality homes, that our customers want to live in, on time and to budget.



6%

for 2009
(16% for 2008)

Corporate responsibility

Corporate responsibility is an integral part of corporate governance. We remain committed to being a responsible company and to playing our part in building increasingly sustainable homes and communities. We also believe that a positive approach to corporate responsibility makes sound commercial sense.

For more information see pages 25 to 27
Visit our Web site www.taylorwimpeyplc.com

Outlook

Having established a secure capital structure during 2009, Taylor Wimpey is well positioned to take advantage of the opportunities that an upturn will provide.

Trading in the UK has continued to be encouraging during the first two months of 2010, with the improved conditions seen in 2009 still in evidence. Supply remains constrained and the restrictions on mortgage availability, whilst still having an impact on customers' ability to fund new home purchases, are gradually easing.

In North America, the stability seen in the US housing market during the majority of 2009 has continued into the early months of 2010. Affordability levels remain at record highs and suggest that there is scope for house price rises once the wider economic environment stabilises. In addition, the US Government's first time buyer tax credit is likely to continue to support the market during the key spring selling season. Market conditions in Canada remain robust.

We are continuing to improve returns from our existing landbank through a combination of replans, renegotiation of existing planning commitments and redesign of product types. In the UK, we expect the first completions from our new product range during 2010 and we are targeting further build cost reduction. In addition, the strength of our order books gives us a greater ability to reduce the level of incentives on offer in 2010.

Strong landbanks in both the UK and North America mean that we can continue to be selective about new land purchases. In the UK, we have approved new land investments of c4,000 new plots since mid-2009. These plots will deliver completions at or above normal industry margins and accelerate our return to full profitability. We remain concerned in the UK about the availability of land coming through a very complex and convoluted planning system. During 2009 we have added new plots to our landbank in North America, reflecting the high quality of opportunities that became available.

Pete Redfern

Pete Redfern
Group Chief Executive

Principal risks and uncertainties

As with any business, Taylor Wimpey faces a number of risks and uncertainties in the course of its day to day operations. By effectively identifying and managing these risks, we are able to improve our returns, thereby adding value for shareholders.