

Directors' Report: Business Review

UK Housing



Pete Redfern
Group Chief Executive

We remain focused on maximising the value achieved from each home completion rather than looking to grow volumes ahead of underlying improvements in market conditions.

UK housing market

We have been pleasantly surprised by the stability in the UK housing market during 2009, following the weakness experienced from April onwards in 2008. Credit availability gradually improved over the course of the year, although it remains well below the levels seen in 2007. According to the Bank of England, the total value of loans approved for house purchases during 2009 was £78,398 million, an increase of 11.7% from 2008. During the course of 2009, interest rates were reduced from 2.0% at the start of the year to an historic low of 0.5% in March 2009, where they remained for the rest of the year. However, not all applicants were able to benefit from these rate reductions, as banks continue to charge a significant premium on higher loan to value mortgages. The degree of caution in mortgage valuations, which were a downward pressure on prices for much of 2008, has now been tempered although valuations remain a constraint on price increases. Consumer confidence, whilst still not strong, has improved over the course of the year although the outlook for 2010 is uncertain with a General Election due to be held. Media coverage of the housing market also turned more positive during 2009 with a focus on the potential for recovery replacing the concentration on how far prices might fall that was prevalent in 2008.

National house price indices reflect this improved sentiment with annual increases for 2009, following the sharp declines of 2008. The Nationwide House Price Index shows a rise of 5.9% over the year to an average house price of £162,103, with the Halifax House Price Index recording a rise of 1.1% to an average house price of £169,042.



UK housing market at a glance

Key drivers

- Continuing undersupply of new homes against Government projections of household formation
- Strong cultural preference towards home ownership rather than rental

Market risk factors

- Continuing restrictions on credit availability
- Changing economic environment leading to increasing interest rates or unemployment
- First time buyers becoming priced out of the market
- Changes in investor sentiment leading to increased supply in the secondary market

Taylor Wimpey operational highlights

- Private order book increased by 62% to 3,048 homes
- Private build cost per square foot reduced by 4.4% in second half of 2009 from first half level
- Re-entered the UK land market
- Introduced Taylor Wimpey brand
- Significant replans to target most marketable product mix

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UK Housing continued

Our UK Housing Strategy



Our UK strategy is focused on maximising value from each home sold through pricing, build cost reduction, replanning and additions to our landbank.

- Goal is to be the leading homebuilder in the UK
- Current operational focus is margin improvement and cash management
- In the longer term we will look to grow volumes from increasing outlet numbers as the market recovers

Short term priorities:

- Deliver competitive offers in each local market
- Reduce build costs through merger savings, lower labour and materials costs and value engineering of sites
- Replan existing sites with detailed planning consents to change product mix and reduce planning obligations
- Add new plots to the landbank on attractive terms

Our UK Housing Key Performance Indicators at a glance

We have identified key financial and non-financial performance indicators which we believe are the most accurate measure of the success of our strategy in the UK.

Contribution per legal completion

£12.6k

for 2009
(£16.5k for 2008)

Forward order book volume as a % of completions

53.6%

for 2009
(31.7% for 2008)

Owned and controlled plots with planning

66,089

for 2009
(74,917 for 2008)

Customer satisfaction

87.1%

for 2009
(79.4% for 2008)

Health and Safety (per 100,000 hours worked)

0.226

for 2009
(0.296 for 2008)

Waste generated per home (tonnes)

4.69

for 2009
(5.11 for 2008)

 For more information see page 16

Risk

The Group's principal risks and uncertainties are detailed on pages 11 and 12 of this report. The risks that have seen the greatest change in the UK business during 2009 are:

- Economic and market environment, with much greater stability during 2009
- Land purchasing, as the supply of quality land on attractive terms remains restricted
- Government regulation, with the possibility of a change of Government in the UK in 2010

The UK Government has continued its efforts to support the housebuilding industry during 2009. Initiatives include the Kickstart scheme, which provides funding to start stalled housing developments, HomeBuy Direct, a shared equity scheme to assist first time buyers to purchase a home, and providing additional funding to housing associations.

Industry volumes fell further during 2009, with the housebuilding industry, including housing associations, starting less than 90,000 homes across the UK during 2009 compared to 106,894 in 2008 and 200,697 in 2007 (source: National House-Building Council (NHBC)). However, recent months have seen an improvement in the number of new starts, with the number of new starts in the UK during the last quarter of 2009 up by 64% against the same period of 2008.

Industry volumes remain significantly below the level of demand, with the most recent forecasts of 252,000 average household formations per annum for England alone.

Looking further ahead, there will be a General Election in the UK this year. Conservative planning policy differs significantly from the current Government's and in the event of a change of Government, could result in a hiatus to planning applications as new policies are adopted.

With the current structural undersupply of housing likely to continue, the UK housing market remains an attractive environment in which to do business.

Strategy

We reduced our level of ongoing overheads significantly during 2008 to reposition the business for lower volumes and sales prices. Following the closure of a final three regional businesses in early 2009, we now operate from 23 regional offices, which gives us the capacity to deliver up to 14,000 homes per year when market conditions allow, without significant additional overhead costs.

However, in the current market conditions, we remain focused on maximising the value achieved from each home completion rather than looking to grow volumes ahead of underlying improvements in market conditions. Maximum value is being achieved through four main factors: pricing; build cost reduction; replanning; and additions to our landbank.

Pricing: We set prices locally and make use of a range of targeted customer incentives in order to deliver competitive offers in each local market. This approach is supported by national marketing initiatives. Having reduced our prices during 2008 to reflect the adverse market conditions, we have been able to achieve some price increases during 2009. Average selling prices on reservations increased by around 13% between January 2009 and December 2009, as a result of mix changes and underlying price improvement. Our negotiating position has been strengthened by the strong forward order book position and our tight management of work in progress. We reduced the number of unsold completed homes from 1,138 as at 31 December 2008 to 219 as at 31 December 2009.

Build cost reduction: Build cost has been a key area of operational focus throughout 2008 and 2009 and will remain so for 2010. There are three main areas in which we have ongoing opportunities to reduce build costs. Firstly, we are still benefiting from the savings arising from the merger in 2007, particularly in respect of reducing the costs associated with the Bryant house types. Secondly, the weaker market conditions have enabled us to reduce both labour and materials costs. Thirdly, we are delivering savings through value engineering of sites to reduce the level of infrastructure costs. We have achieved a reduction of 4.4% in the average build cost per square foot of private completions in the second half of 2009 compared to the first half, with further reductions expected in 2010.

Replanning: An ongoing process, with successes in changing the product mix on sites within the landbank to be more appropriate to the current market conditions and reducing planning obligations to make sites viable at lower average selling prices. We have identified around 60% of the plots with detailed planning in our landbank as being suitable for replanning, with around one-third of those plots having already been replanned successfully.

Additions to our landbank: We have a strong UK landbank, with 64% of our short term plots located in the South. Only 23% of the plots in our short term landbank are apartments, leaving us well placed to reduce the proportion of apartments in our completions further from the 2009 completions level of 33%. This has been achieved through a combination of a revised land purchasing strategy and replanning of the existing landbank.

Cash management remains an important discipline and we have made further progress in reducing the level of work in progress in the business.

Financial review

UK Housing revenue was £1,700.4 million (2008: £2,390.1 million), reflecting a lower number of home completions and lower average selling prices on completions. Operating profit* was £14.3 million (2008: £53.0 million), producing an operating margin* of 0.8% (2008: 2.2%).

Exceptional items of £452.8 million were charged during the first half of the year (2008: £1,750.4 million). Of these, £445.0 million related to a review of the carrying value of our land and work in progress in the light of the ongoing uncertainty in the wider economy (2008: £904.4 million). Exceptional items are discussed in more detail on page 29. Net operating assets in the UK were £1,693.1 million at 31 December 2009 (2008: £2,585.7 million).

Sales, completions and pricing

We achieved substantially better sales rates in 2009, compared to the sharp decline experienced during 2008. Sales rates were much more consistent across the year and we did not experience the usual seasonal drop off in sales over the summer months. The net private sales rate per outlet per week for 2009 as a whole was 0.55 against 0.40 in 2008. Cancellation rates were also substantially improved in 2009 at 18.7% against the elevated levels of 37.5% in 2008.



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

Our UK Housing key performance indicators



We have updated our suite of KPIs to more accurately reflect the way that we monitor the UK business in the current market conditions.

Contribution per legal completion

Objective

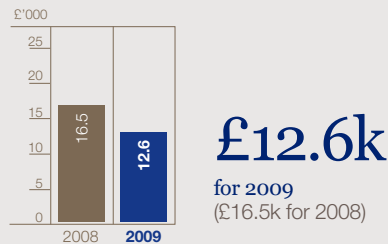
We strive to maximise the level of contribution per home sold.

Definition

Revenue net of incentives less build costs, land costs and direct selling costs divided by the number of homes completed.

Why is it key to our strategy?

In an environment where volumes are likely to remain constrained in the short term, growing the contribution per legal completion offers a route to profit growth.



Forward order book as a % of completions

Objective

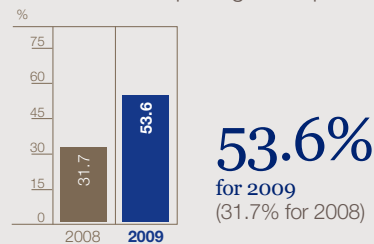
In a flat or falling pricing environment we look to maximise the level of our order book.

Definition

The number of homes in our year-end order book, expressed as a percentage of the number of homes completed during the year (excluding joint venture completions).

Why is it key to our strategy?

Entering the year with a strong order book puts our sales teams in a stronger negotiating position with regard to price and enhances our ability to increase the contribution per legal completion.



Owned and controlled plots with planning

Objective

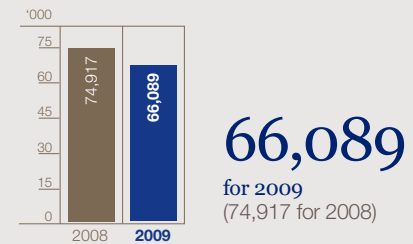
We aim to maintain sufficient land holdings to enable us to remain selective in future purchases.

Definition

The total number of plots that we either own or control, with some form of planning consent.

Why is it key to our strategy?

Having a pipeline of land in place is key to delivering budgeted future home completions.



Customer satisfaction

Objective

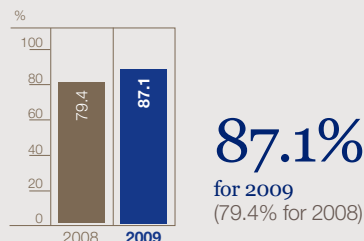
We strive to maintain and improve our customer satisfaction scores.

Definition

Percentage of customers satisfied or very satisfied with their new home as measured by the National New Homes survey undertaken by the NHBC on behalf of the HBF eight weeks after legal completion.

Why is it key to our strategy?

Delivering high levels of customer satisfaction increases the reputation of our business and reduces the costs associated with rectifying poor quality work.



Health and safety

Objective

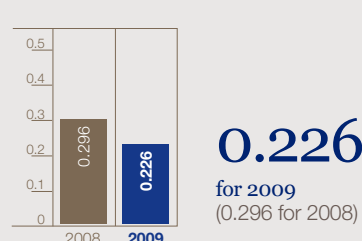
We want our employees and sub-contractors to go home safe and uninjured day after day.

Definition

Reportable injury frequency rate per 100,000 hours worked.

Why is it key to our strategy?

As well as having a moral duty to maintain safety on site, lapses can have a detrimental impact on the business through additional costs, delays and/or reputational damage.



Waste generated per home

Objective

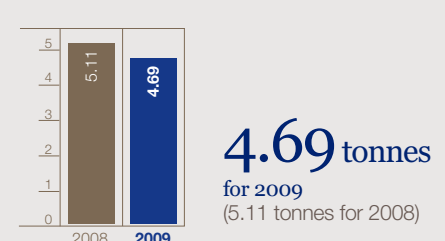
We aim to reduce the level of waste generated per home each year.

Definition

Total tonnage of construction waste per home built.

Why is it key to our strategy?

As well as having a beneficial impact on the environment, reducing waste is a key part of driving down build cost and may also assist in winning future planning consents.



We completed a total of 10,186 homes in 2009 (2008: 13,394) at an average selling price of £160k (2008: £171k), of which 8,432 were private homes (2008: 10,585) and 1,709 were affordable homes (2008: 2,751) with 45 joint venture completions (2008: 58). The average selling price of a private home was £171k (2008: £187k), whilst the average selling price of an affordable home was £108k (2008: £108k). The year on year figures for private selling prices mask the intra-year trend, which saw the average price fall to £163k for the first half of 2009, before recovering during the second half.

The timing of the recovery has varied by geography, with the most robust markets being in London and the South-East, with more tentative improvements in the North of the UK. By the end of 2009, this regional variation had started to reduce. We enter 2010 with a very strong order book position. We have increased our private order book by 62% to 3,048 homes (31/12/2008: 1,887 homes). Including affordable housing reservations, our year-end order book was 5,431 homes, an increase of 28% from the order book position at the end of 2008.

Product range and branding

We continue to offer a wide range of products from apartments to five bedroom houses, with prices ranging from under £100,000 up to £500,000. Once again during 2009 the majority of our homes were priced within a range from £100,000 to £200,000.

Customers continue to prefer houses to apartments and we have achieved an increase in the average size of our private home completions from 973 square feet in 2008 to 1,003 square feet in 2009.

We saw a further increase in the proportion of our customers who are first time buyers during 2009, with a corresponding fall in the proportion of sales to investors.

Affordable housing represented 17% of our 2009 completions, a reduction from 21% of 2008 completions. This reflects the recovery in demand from private customers over the course of the year.

We introduced the Taylor Wimpey brand during 2009, which will allow us to use our marketing budget even more effectively and which more accurately reflects the way in which we work as a single business. All new outlets were branded as Taylor Wimpey from July 2009 and 189

Increase in private homes order book volume

62%



Key customer trends

Changing product mix

- Reducing level of apartments
- Replans to target most marketable mix
- New national house type range

Customer segmentation

- High levels of first time buyers
- Increasing levels of second time buyers due to product availability
- Reduced levels of investors, but high quality investors remain

Focus on targeted incentives

- Low level of shared equity incentives
- Low balance sheet exposure to part exchange

existing sites with an anticipated lifespan beyond June 2010 have also been rebranded. The Bryant Homes and George Wimpey brands will be phased out during the first half of 2010.

We launched our new Taylor Wimpey UK Web site in 2009 and have reduced our budget for local newspaper advertising in favour of internet-based marketing.

We also commenced construction of a wide range of prototypes for our new house type range during 2009 and these house types will be available to buy from early 2010. This range reflects customer preferences and allows the business to offer a range of floorplans on the same footprint. It will enable us to achieve further operational efficiencies and has been designed to allow future regulatory requirements, relating mainly to sustainability initiatives, to be met at the lowest possible additional cost.

Quality and customers

We remain committed to delivering high quality homes for all of our customers.

We continue to measure customer satisfaction using two surveys. The first is the National New Homes survey undertaken by NHBC (the National House-Building Council) on behalf of HBF (the Home Builders Federation). Each of our customers is sent a survey eight weeks after their legal completion date. The second survey is the NHBC's own survey measuring the same elements but sent to customers nine months after completion. During 2009, 87.1% of our customers were satisfied or very satisfied with the quality of their home (2008: 79.4%).

These surveys have become a key part of our Customer Service Management (CSM) system and the highest performing regions are entered for our annual Hallmark Awards for customer service.

We have increased our representation in the 2009 NHBC Pride in the Job awards, looking at build quality, with our UK Site Managers winning 70 Quality Awards, 16 Seals of Excellence and two Regional Awards (2008: 51 Quality Awards, 10 Seals of Excellence and two Regional Awards).

Landbank

We suspended new land purchase commitments in late 2007 and re-entered the UK land market in the second half of 2009. We have approved new land purchase commitments for 3,003 plots at

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UK Housing continued

UK Housing private development price mix



UK Housing landbank

Plots	2009				2008
	Owned	Controlled	Pipeline	Total	Total
Detailed planning	36,553	908	434	37,895	42,053
Outline planning	17,909	4,313	205	22,427	27,096
Resolution to grant	3,049	3,357	72	6,478	6,260
Subtotal	57,511	8,578	711	66,800	75,409
Allocated strategic	5,051	6,423	110	11,584	13,301
Non-allocated strategic	22,190	50,815	276	73,281	76,774
Total	84,752	65,816	1,097	151,665	165,484

22 new sites during 2009 on attractive terms. Our strong southerly-weighted landbank and ongoing opportunities to convert further plots from our strategic landbank enable us to continue to be selective as the land market recovers.

We continue to actively review our land portfolio and have undertaken a small number of land sales where we feel that the price achieved delivers value and the land did not fit our strategy or was excess to our requirements. For the year as a whole, land sales have generated £47.9 million of revenue (2008: £58.0 million) with an operating loss of £4.1 million (2008 loss: £2.2 million).

Our UK short term landbank, representing owned or controlled land with planning, or a resolution to grant planning, stood at 66,089 plots at 31 December 2009 (2008: 74,917 plots). The average cost per plot in the landbank was £30k at 31 December 2009 on the basis of allocating all net realisable value provisions against land value (31 December 2008: £35k on the same basis). We ended 2009 with 57% of our short term landbank fully consented (2008: 56%).

Our cash payments in respect of land commitments totalled £323 million during 2009 (2008: £538 million).

Health, safety and environment

Health and safety continues to be a non-negotiable top priority and we have retained our strong focus through the changing market conditions. Whilst we are pleased with the reduction in the injury frequency rate from 0.296 injuries per 100,000 hours worked in 2008 to 0.226 per 100,000 hours worked in 2009, we continue to target further reductions in 2010.

Reducing waste is not only a responsible course of action in terms of protecting the environment, it also contributes towards lowering build costs. We monitor our

performance in this area closely and have reduced the level of waste generated per home by 8% in 2009.

Current trading

We have delivered an encouraging performance in the first two months of 2010, with continued improvement in visitor levels, sales rates and cancellation rates. We remain positive with regard to long term prospects for the UK housing market, although the risks of further weakness in the wider economy and reduced mortgage availability remain in the short term. Our operational focus remains on margin improvement, rather than volume growth, and we anticipate further progress on build cost reduction over the course of 2010.

Key UK market data

Housing starts

88,100

for 2009
(106,894 for 2008)

Mortgage lending

£78,398 m

for 2009
(£70,186m for 2008)

Annual house price increase

5.9%

for 2009
(15.9% decrease for 2008)