Pete Redfern
Group Chief Executive

Taking tough decisions to deliver future benefits

Following the merger in July 2007, Taylor Wimpey entered 2008 having made excellent progress on integrating the two legacy businesses in both the UK and North America. The strength of our business has been severely tested by the downturn in the UK housing market and the exceptional events in the global economy over the last 12 months.

Adjusting to adverse market conditions

We have taken difficult decisions during the year to ensure that our businesses are well placed to face the challenges of current market conditions. Relentless cash management and cost control have been key priorities across the whole Group. In North America, where the market had been weak throughout 2006 and 2007, build costs and overhead costs remain under constant review. In the UK, we suspended new land purchase commitments in late 2007. When UK housing sales volumes fell dramatically in April 2008, we reacted quickly, restructuring our UK operations, adjusting our pricing and incentives to deliver competitive offers in each local market, limiting new site openings and levels of work in progress, and targeting additional build cost reductions.

Although the different markets that we operate in experienced the impact of the worldwide economic downturn at different times, we now have a consistent operating strategy across all of our businesses. Our employees recognise the need to take tough and appropriate measures in order to protect our business and have been kept fully informed through consultation processes and our internal communications.

Moving forward

With the amendment to our debt facilities now complete, the Group can focus fully on delivering value over the medium term, and the opportunities that the current downturn and future recovery will provide.

In the UK, there was a structural undersupply of new housing even before the reduction in volumes in 2007 and 2008. Latest forecasts indicate average household formations of 252,000 per annum for England alone. This compares against 200,697 new homes built in the UK in 2007 and 106,894 in 2008 (source: National House-Building Council). As homebuilders across the UK continue to delay new site starts and scale back their operations, we expect this figure to fall further in 2009. The underlying demand for new housing remains strong, but many of those looking to buy homes remain unable to obtain an appropriate mortgage or choose to delay their purchase due to the uncertain economic environment. 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, the housing market downturn has been ongoing in some markets since the fourth quarter of 2005. The slowdown, which originated as a result of oversupply has been exacerbated by the 'credit crunch' and is now being prolonged by the increased number of repossessions and the wider economic uncertainty. In many areas the market has overcorrected, falling well below both long term price and volume levels. The first signs of industry consolidation have appeared in recent weeks, suggesting that the market may be close to stabilising.

The overriding priority for the business is to build on our strong base to take advantage of the opportunities that stabilisation and future upturns in our markets will provide.

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 strategies in our two largest markets are:

UK

- Goal is to be the leading homebuilder in the UK

Short term priorities

- Maintain sales momentum
- Reduce build costs
- Tight control of work in progress
- Deliver value from our existing landbank
- Reduce overheads, whilst maintaining national coverage

Long term objectives

- Volume growth from increased outlets as the market recovers

North America

- Goal is to be the homebuilder of choice in each of our markets

Short term priorities

- Drive sensible sales rates for each site
- Deliver additional build cost and overhead savings
- Continue to reduce investment in land and work in progress spend where appropriate
- Grow market share in our key markets

Long term objectives

- Take advantage of land acquisition opportunities as they arise

> **Taylor Wimpey can face the challenges that 2009 will inevitably bring with significant confidence.**

We have strong landbanks in both the UK and North America, which have enabled us to conserve cash in the current market conditions. We are starting to see some attractive opportunities to purchase good quality land emerging in the US, but we remain cautious at this stage. There will, however, come a point at which it is right to invest in land in order to support future growth and we will position the business to take advantage of such opportunities.

In the slower conditions, we have had the opportunity to squeeze additional value from our landbank. We are able to improve both the saleability and returns from our products through a combination of replans, renegotiation of existing planning commitments and redesign of product types. In the UK we have launched a new product range across the business that builds on the strongest housetypes of both legacy groups and adds increased flexibility at reduced costs.

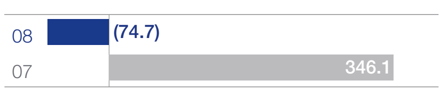
Review of capital requirements

As you will recall, the merger completed on 3 July 2007 and was effected as a nil premium, all share transaction. As such, no additional debt was taken on to complete the transaction and our facilities were renegotiated at that point, meaning that no significant repayment was scheduled to fall due until 2012. At 31 December 2007, we had committed funding of £2.7 billion compared to a total net debt of £1,415 million, of which £591 million related to bank borrowings, £443 million to private placement notes and £381 million to publicly traded Eurobonds.

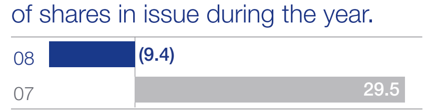
Our Group key performance indicators (KPIs)

Given the significant changes in our operating environment during the course of 2008, our focus has been on the short term performance of the business. As such, our performance against our KPIs for the year is weak.

	(Loss)/profit before tax	(Loss)/earnings per share
Objective	We strive to achieve the highest level of profit before tax in the housebuilding sector.	We seek to provide continuous growth in earnings per share.
Definition	Profit on ordinary activities from continuing operations, excluding exceptional items and before charging tax.	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.



£(74.7)m
for 2008
(£346.1m profit for 2007)



(9.4)p
for 2008
(29.5p earnings for 2007)

As the UK housing market deteriorated sharply in the second quarter of 2008, it became clear that in the absence of a market recovery there was a risk of breaching the interest cover covenants which were contained in both our bank debt and the private placement notes. Having reviewed the options available to us with our advisers, we decided to approach the banks to seek a revision to the covenant package to reflect the challenging market conditions. We indicated to the banks that we intended to raise additional equity on the stock market and the banks indicated their intention to amend the covenant package, subject to a successful equity raise.

Due to the difficulties being experienced by companies attempting to raise equity through traditional rights issues in the early summer of 2008, we proposed to use a structure known as private placing with clawback. This involved initial discussions with a number of large existing shareholders and potential new investors on a confidential basis to establish their level of support for the equity raise. The intention was to obtain sufficient support to underwrite the full level of the proposed equity raise from these investors prior to making the transaction public. Existing shareholders would then have been entitled to subscribe for new shares in proportion to their existing holdings, reducing the number of shares available to the underwriting investors. Unfortunately, we were not able to obtain sufficient support due to the uncertain nature of both the UK housing market and the stock markets.

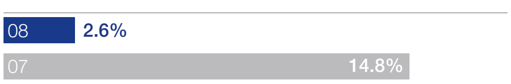
We therefore commenced negotiations with our banks and private placement holders with a view to agreeing a revised covenant package on the basis of no new equity being raised. These talks have been lengthy and complicated, requiring significant resource from the Company's perspective to provide financial due diligence to our debt providers.

We believe that these KPIs remain the most appropriate indicators of business performance in the long term, but are less relevant in the current environment. As such, we will amend our suite of KPIs in next year's Annual Report.

Return on average capital employed

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

Profit on ordinary activities before finance costs, exceptional items and amortisation of brands divided by the average of opening and closing capital employed (excluding goodwill and brands).



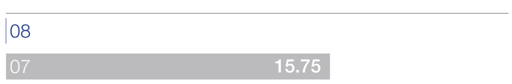
2.6%

for 2008
(14.8% for 2007)

Dividend per share

We aim to deliver an attractive progressive dividend.

The sum of the interim dividend per share and the final proposed dividend per share for the year.



nil

for 2008
(15.75p for 2007)

Average number of employees

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

The average number of people employed across the Group during the year.

8,069

for 2008
(9,727 for 2007)

Construction

Performance

The UK Construction business was sold on 9 September 2008 to VINCI PLC, generating a profit on disposal of £55.6 million. The discontinued operations generated a loss for the year, before exceptional items, of £2.5 million (2007 profit: £10.3 million).

Ghanaian operations

Given the small scale of the Ghanaian construction operations in relation to the Group as a whole they are reported as part of the Corporate segment for this accounting period.

As the talks progressed, it became clear that the conditions in the UK housing market were continuing to weaken. As a result, there was an increasing risk of additional land write downs, which might have led to a breach of covenants within the Eurobonds. We therefore took the decision to bring the holders of these bonds into the discussions. Whilst extending the discussions to include the Eurobond holders prolonged the negotiations, it was necessary to do so in order to meet our objective of securing a comprehensive financing structure that is robust against various scenarios.

As announced on 7 April 2009, these discussions have now concluded and we have reached agreement on a revised set of covenants to allow the Company to trade through the current downturn. As you would expect, this agreement comes at the cost of an increased interest charge and an arrangement fee for our debt providers. Whilst the revised financing deal does not require the Group to raise new equity capital, it does allow for the terms to be adjusted to the Group's advantage in such circumstances. Chris Rickard provides more detail on these costs, along with the revised covenant terms, in his Group Financial Review on pages 30 and 31.

I am delighted that these discussions are now behind us and that we have established a firm financial base for the Company to weather the downturn and plan for the opportunities that will come with a return to more normal market conditions.

Construction activities

We have completed our exit from Construction and are now a focused homebuilder. We announced on 9 September 2008 that we had sold the UK business of our Construction operation to VINCI PLC for £74 million in cash. This transaction generated a profit on disposal of £55.6 million.

As previously announced, we completed our exit from construction activities with the sale of our construction businesses in Ghana on 21 April 2009.

People

During 2008, conditions have impacted heavily on our employees, both through the redundancy programmes that we have undertaken, and through the additional challenges of working in such difficult market conditions.

The Board acknowledges the way in which employees have reacted to these challenges and would like to take this opportunity to thank all staff for their commitment and hard work. We move forward with high calibre teams in all of our businesses, who are focused on the Group's objectives.

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.

Further information on our progress during 2008 is contained on pages 25 to 27 and within our Corporate Responsibility Report, which is available on-line at www.taylorwimpey.com/CRreports.

Outlook

Taylor Wimpey can face the challenges that 2009 will inevitably bring with significant confidence. As we trade through these difficult conditions, we are positioning the business to be ready to take advantage of the opportunities that an upturn will provide.

Trading in the UK has been encouraging during the first few months of 2009, with the underlying pick up in demand coming from all major customer groups and geographies. The industry has controlled stock well, reducing the risk of a repeat of the extreme price competition that was experienced in the last major UK housing downturn (and in the US recently).

However, we remain cautious about the prospects for a significant short term recovery in the UK housing market. Whilst we welcome the recent reductions in interest rates, the availability of mortgage finance remains restricted and, together with increasing economic uncertainty, continues to have a detrimental impact on consumer confidence. We believe that the prospects for the UK housing market in the medium and long term are very good, with the current market exacerbating an existing shortage of supply. Given the level of reduction in capacity and investment in the industry over the last 12 months, we anticipate that this situation will continue for some time.

In North America, housing market conditions have been more stable in recent weeks, however the state of the US economy as a whole remains a significant concern. With the impact of Government stimulus now being felt, there are tentative signs of improving conditions. The scale of the market correction has been dramatic, and has resulted in many markets falling well below long term norms. As general economic conditions stabilise, there is the potential that some of these losses will reverse quickly.

The steps that we have taken to restructure our debt finance and position our business for the challenges of current market conditions have enhanced the opportunity to deliver value for shareholders in the medium term.

Pete Redfern
Group Chief Executive

We are positioning the business to be ready to take advantage of the opportunities that an upturn will provide.

Our 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.

The largest single risk faced by the Company during 2008 was a potential breach of its financial covenants as a result of the downturn in our operating environment. A revised set of financial and operational covenants has now been agreed with our lenders (see pages 30 and 31) and whilst we still have to comply with these covenants, the risk of breach is significantly reduced. As a result, the table below focuses on the ongoing operational issues facing the Company.

	Economic and market environment	Land purchasing	Availability of sub-contractors
Description of risk	Demand is heavily dependent on consumer confidence in the wider economy, which is influenced by factors such as unemployment levels, availability of credit and interest rates, which are outside of the Group's control.	Land is the major 'raw material' for the Group and, as such, mis-priced or poor quality land would have a detrimental effect on our profitability.	The vast majority of work carried out on site is performed by sub-contractors. If they are not able to recruit sufficient numbers of skilled employees, our developments may suffer from delays or quality issues.
Impact	2008 saw unprecedented global economic conditions, with a significant reduction in both credit availability and consumer confidence. As such the level of demand for new housing was significantly reduced, impacting both profitability and cash generation.	Whilst we remain cautious regarding land purchases in both the UK and North America in the current market conditions, attractive opportunities are starting to emerge. Correctly timing new investment in land will enhance the Group's ability to deliver strong profit growth as housing markets recover.	The difficult operating environment during 2008 has resulted in the failure of some sub-contractors' businesses. In addition, reduced levels of homebuilding have led to some skilled tradesmen leaving the industry to take jobs in other sectors.
Mitigation	We use the detailed knowledge of our local teams to select the locations and home designs that best meet existing customer demand. We continue to evaluate our site opening programme on the basis of local market conditions. We minimise the level of speculative build that we undertake by opening a sales outlet at an early stage of development, and then matching build to actual sales.	We operate an investment appraisal process for significant land purchases, which ensures that such projects are subject to appropriate review and authorisation dependent on the proposed scale of expenditure.	We vet all suppliers thoroughly prior to working with them to ensure that they meet our requirements for environmental impact, health and safety, quality and financial stability. We also play our part in addressing the skills shortage in the building industry through apprenticeship schemes and membership of the Construction Industry Training Board.

Site safety

Building sites are inherently dangerous places and our management of health and safety issues is of paramount importance to us.

We want all of our people – whether employee or sub-contractor – to go home at the end of the day safe and healthy.

We have a comprehensive HSE management system, supported by policies and procedures to ensure that we live up to our intention of providing a safe and healthy working environment. A detailed description of the measures introduced in 2008 is available on pages 27 to 31 of our Corporate Responsibility Report.

Construction and cost management

Construction work can be subject to delays and additional cost for a variety of reasons. These include adverse ground conditions, changes to the original design once build has commenced and adverse weather conditions.

Reductions in house prices in both the UK and North America as a result of market weakness during 2008 mean that cost management is an even greater focus for our business.

We monitor both cost and risk closely throughout the life of a project from initial viability assessment to post completion review. This is achieved through the use of detailed risk registers and regular site valuations, which are reviewed and approved at the appropriate level.

Government regulations

Obtaining permission to build homes is dependent on our ability to meet a wide variety of requirements in areas such as design, sustainability and product mix.

Inability to obtain suitable consents could impact on the number of homes that we are able to build or the profitability of a site. During 2008, we undertook a detailed analysis of the implications for our UK business of the Code for Sustainable Homes and upcoming changes to building regulations. Further information is available within our Corporate Responsibility Report and on our Web site.

We consult with the UK Government on upcoming legislation, both directly and as a member of industry groups, to highlight potential issues. At a local level our land specialists work closely with the relevant planning authorities and structure land purchase agreements to mitigate such risk.