Chris Rickard
Group Finance Director

2008 was the most challenging year that the housing market has encountered in recent history

Group summary

The economic downturn and banking crisis which took place in 2008 in all the major markets in which the Group operates provided the backdrop to the most challenging year that the housing market has encountered in recent history. The main focus of the Group changed to one of cash generation and cost reduction to facilitate a restructuring of the Group's financial indebtedness. Following a long series of negotiations involving the members of our revolving credit facility, private placement noteholders, Eurobond holders and surety providers, as well as the Trustee Boards of the two UK defined benefit pension schemes, the Group was able to announce on 7 April 2009 that it had been able to successfully restructure its entire debt obligations in a manner acceptable to all parties. The agreement was subsequently confirmed on 30 April 2009. This secures a medium term financing structure for all the stakeholders of the Group on a going concern basis. Further details of this refinancing structure are set out below.

Group results

Group revenue from continuing operations in 2008 fell by 16.3% to £3.5 billion (2007: £4.1 billion). Group completions were 19,029 (2007: 20,271) as a 10% decline in legal completions in the UK more than offset a 4% increase in legal completions in North America.

The trading impact of these lower volumes was exacerbated by lower average selling prices in all of the Group's major markets. The Group's net finance charges rose to £168.6 million (2007: £112.8 million) driven largely by the full year impact of the merger and the higher cost of debt.

As a result, the Group incurred a loss before tax and exceptional items from continuing operations of £74.7 million for the year to 31 December 2008 (2007 profit: £346.1 million).

The significant downturn in the Group's UK, US and Spanish markets has resulted in land and work in progress write downs of £1,012.8 million (2007: £289.7 million). In addition, the Group incurred other exceptional items of £882.2 million (2007: £90.0 million) comprising mainly an impairment of goodwill and other intangible assets totalling £816.1 million (2007: £30.0 million), restructuring costs of £35.1 million (2007: £60.0 million) and

Group results

	UK Housing	North America Housing	Spain and Gibraltar Housing	Corporate
Completions	13,394	5,421	214	–
Revenue	2,390.1	981.6	59.8	36.2
Operating profit/(loss)* (£m)	53.0	59.9	(2.4)	(14.2)
Operating margin*	2.2	6.1	(4.0)	–

	Group
Pre-tax loss – continuing, before exceptionals (£m)	(74.7)
Exceptional items (£m)	(1,895.0)
Loss before tax – continuing (£m)	(1,969.7)
Tax including exceptional credit (£m)	76.6
Profit for the year from discontinued operations (£m)	53.1
Loss for the year – total Group (£m)	(1,840.0)
Adjusted loss per share – continuing (p)	(9.4)
Dividends per share	nil

refinancing costs of £20.5 million (2007: nil). The Group also wrote off £10.5 million (2007: nil) of unamortised lenders fees. After taking into account all of the above, the Group has reported a consolidated loss before tax of £1,969.7 million (2007 loss: £33.6 million). The tax credit was £76.6 million, after an exceptional credit of £100.0 million, comprising a net credit of £91.6 million in respect of UK inventory write downs and deferred tax movements and a net credit of £8.4 million relating to US inventory write downs made in the year (2007 charge: £173.4 million after an exceptional charge of £70.2 million relating to a write off of deferred tax). The disposed Construction business contributed a £2.5 million loss after tax (2007: £10.3 million profit after tax) and a profit on disposal of £55.6 million (2007: nil) to the Group's result. This brings the consolidated loss after tax for the year to £1,840.0 million (2007 loss: £196.7 million).

Dividends

As previously communicated at the interim stage, there will be no dividend for the 2008 year (2007 full year dividend: 15.75 pence). We will review our dividend policy in light of prevailing market conditions in the future, once dividend payments become permissible under our revised financing arrangements.

UK Housing

Revenue decreased by 21.7% to £2,390.1 million (2007: £3,053.8 million). Completions were 13,394 (2007: 14,862) as the sharp decline in market conditions outweighed the benefit of the first full year of trading following the merger. Average selling prices were lower at £171,000 (2007: £191,000) reflecting a sharp decline in mortgage availability, despite significant cuts in interest rates, and a significant fall in consumer confidence levels together with an increase in the proportion of social completions for those legal completions which did take place. Operating profit* was £53.0 million (2007: £418.2 million), with an operating margin* of 2.2% (2007: 13.7%).

North America Housing

In Sterling terms, revenue was broadly flat at £981.6 million (2007: £986.8 million), as the enlarged scale of the business following the merger and the benefit of a stronger US Dollar compared to Sterling were offset by the effect of continuing weakness in our US markets. Completions increased to 5,421 (2006: 5,197), whilst average selling prices decreased to £175,000 (2007: £182,000) reflecting the difficult environment. Operating profit* fell by 11.3% to £59.9 million (2007: £67.5 million). The operating margin* was 6.1% (2007: 6.8%), reflecting the difficult conditions experienced during the year.

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

Spain and Gibraltar Housing

Revenue from our operations in Spain and Gibraltar was £59.8 million (2007: £64.4 million), with completions of 214 homes (2007: 212). Markets in mainland Spain remained extremely challenging. However, average selling prices were relatively stable at £270,000 (2007: £279,000), reflecting a continuing impact of completions from our Gibraltar business.

Operating loss* was £2.4 million (2007 profit: £2.2 million).

Construction

In September 2008, the Group sold its UK Construction business for £74 million in cash. This realised a profit on disposal of £55.6 million. Prior to its disposal, the Construction business realised a loss after tax of £2.5 million (2007 profit after tax: £10.3 million). As a result, the reported profit after tax from discontinued operations during the year was £53.1 million (2007: £10.3 million).

We completed our exit from construction activities with the sale of our construction businesses in Ghana on 21 April 2009. 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.

Exceptional items

The carrying value of goodwill on the Group's balance sheet on 1 January 2008 was £699.8 million, of which £694.3 million was allocated to the UK Housing business segment and £5.5 million was allocated to the North America Housing business segment. The Group

* Loss on ordinary activities before finance costs, exceptional items, brand amortisation and tax.

Debt refinancing

In early recognition that the housing market downturn in the UK, combined with ongoing market weakness in the US would cause the Company to breach the interest cover covenant (minimum adjusted operating profit cover requirement of not less than three times interest) in both its bank syndicate facility agreement and its private placement notes, the Company took steps to initiate debt restructuring talks with its various debt providers in July 2008. These discussions resulted in the Company securing a covenant deferral on 24 December 2008, replacing the interest cover covenant test for the year ended 31 December 2008 with one for the 12 months ended 28 February 2009 and a reporting date of 31 March 2009, which was subsequently extended to 14 April 2009. The existence of the potential for a covenant breach did not result in the Company defaulting on any of its financial obligations nor did its lenders require a formal standstill.

On 7 April 2009, the Company announced that management had successfully reached agreement with both its banks and private placement holders regarding a revised covenant and financing package appropriate both for current market conditions and robust against downside scenarios. The financial terms of this agreement were also approved on 30 April 2009 by the holders of both the Company's 2012 Eurobonds and 2019 Eurobonds. The refinancing has also been supported by the Boards of Trustees of the two UK defined benefit pension schemes.

Further details of the refinancing are set out in Note 37 on page 93 of this Annual Report. In summary, the refinancing provides for an alignment of all debt maturity dates to 3 July 2012; an immediate reduction of the revolving credit facility, resulting in the cancellation of £235 million of undrawn and unneeded headroom under the £1.65 billion facility; amendments to the margins and coupon rates on borrowings equivalent to an increase of 455 basis points; targeted agreed step downs in the level of facilities of £150 million by 30 June 2009 and a further £350 million by 30 June 2010 with additional compensation for lenders if these are not achieved and improved terms for the Group if these step downs are met; warrants giving all lenders the right to subscribe in cash (exercisable at par) for a combined total of 5% of the Company; a reduction in the level of the Company's UK overdraft from £95 million to £45 million; guarantees and securities to be provided for the currently undrawn committed facilities to be provided to the Group for the duration of the override agreement, which total a maximum of £416 million.

The previous covenant package has been replaced with a revised financial

also held £120.5 million of other intangible assets on its balance sheet, the majority of which related to UK brand names. Given the weakness that the Group has experienced in most of the housing markets in which it operates, the Group wrote down all remaining goodwill and other intangible assets to nil following the impairment test carried out at the 2008 half year. This resulted in an exceptional charge of £816.1 million. Further detail on the impairment testing is presented in Note 13 to the consolidated financial statements.

In addition, this deterioration in market conditions resulted in the Group undertaking further reviews of the carrying value of its land and work in progress assets during the year. A total of £904.4 million was written off against the carrying value of land assets in the UK during 2008 (2007: nil), reflecting the sharp deterioration in the UK housing market since April 2008. A write down of £71.1 million was recorded against land and work in progress assets in the US during 2008 (2007: £283.4 million). A write down of £37.4 million was recorded in Spain (2007: £6.3 million).

Other exceptional items charged to profit before finance costs and tax in 2008 amounted to £55.6 million (2007: £60.0 million) and consisted of restructuring costs of £35.1 million (2007: £60.0 million) and refinancing costs of £20.5 million (2007: nil). Further details of these exceptional charges are set out in Note 5 to the consolidated financial statements.

Net finance costs

Finance costs, net of interest receivable of £8.5 million (2007: £9.0 million), for 2008 were £179.1 million (2007: £112.8 million).

We have now achieved a robust, stable medium term financing solution.

covenant package which is consistent across all of the Company's borrowings and better suited to the current market environment. There are three financial covenants which, if breached, would cause an event of default.

These comprise:

1. Net operating cash flow which is to be tested for the six months to 30 June 2009, the nine months to 30 September 2009 and then on a rolling 12-month basis ending at the end of each quarter. The test is on absolute levels of cash generated in each period.
2. Consolidated tangible net worth which is to be tested on a quarterly basis beginning on 30 June 2009 with varying covenanted minimum amounts over the life of the facilities.
3. An asset leverage cover covenant. This represents the ratio of total consolidated net borrowings to the book value of inventories net of land creditors and is to be tested quarterly from 30 June 2009.

The covenant amounts have been set after making allowance for appropriate sensitivities, including, inter alia, a further weakening of Sterling against the US Dollar; a potential increase in interest rates; and a potential further decline in UK house selling prices. All of these covenants are to be calculated on an adjusted frozen IFRS basis, based on the accounting principles used in the 2008 audited consolidated financial statements of the Company.

The Group has also agreed to provide operational covenants to its banks and private placement noteholders. These generally ensure that the existing position between creditors is protected but also include, for example, an annual cap on new land commitments linked to the Group's level of net debt.

The refinancing package is sufficiently robust as to adequacy of both facility and covenant headroom.

The revised financing deal does not require the Group to raise new equity capital. In the event, however, that the Group meets the planned £150 million reduction in facilities by the end of 2009 and raises a minimum of £350 million of equity by the end of 2010, there would be significant advantages:

- The cash margin and coupon payable reduce by up to 3.00% based on a ratchet mechanism related to gearing;
- The Initial PIK of 1.5% and any additional PIKs cease to accrue; and
- The level of operating covenants are reduced.

With a revised covenant package now agreed with all relevant parties, there is no longer a material uncertainty in this area.

Within finance costs, interest on borrowings from financial institutions totalled £127.9 million (2007: £93.3 million). This increase was due to the higher average net debt levels the Group carried in 2008 of £1,821.9 million (2007: £1,197.1 million) reflecting the first full year of the enlarged business. Other items included in finance costs are a net pension charge of £11.7 million (2007: £3.8 million), a mark to market loss on interest rate derivatives of £10.8 million (2007: £5.4 million), a total of £26.7 million (2007: £19.3 million) charged for imputed interest on land creditors and exceptional accelerated amortisation of lenders fees of £10.5 million (2007: nil).

Tax

The pre-exceptional Group tax rate for 2008 was 31.3% (2007: 29.8%). In addition, there has been a significant exceptional tax credit of £100.0 million, comprising a net credit of £91.6 million in respect of UK inventory write downs and deferred tax movements and a net credit of £8.4 million relating to US inventory write downs made in the year. During 2007, an exceptional tax charge of £70.2 million was incurred, primarily due to the write off of deferred tax assets as a result of the weakening of the US markets in the second half of that year.

In total, the Group has unrecognised potential deferred tax assets as at 31 December 2008 in the UK of £248.3 million (2007: nil) and in the US of £303.6 million (2007: £189.4 million) providing a significant buffer against future tax charges.

Earnings per share

The pre-exceptional basic loss per share from continuing operations was 9.4 pence (2007 earnings per share: 29.5 pence). The basic loss per share after exceptional items is 174.8 pence (2007: loss of 24.2 pence).

Balance sheet and cash flow

Net assets at 31 December 2008 were £1.7 billion (2007: £3.7 billion) equivalent to a tangible net asset value of 158 pence per share (2007: 274 pence per share). Gearing at 31 December 2008 stood at 91.4% (2007: 38.2%).

The Group's cash inflow from operating activities was £153.6 million (2007: outflow £163.3 million). Year end net debt levels rose from £1,415.4 million in 2007 to £1,529.3 million in 2008, an increase of £113.9 million. An increase of £167.4 million is attributable to adverse movements in the exchange rates.

Treasury management and funding

The Group operates within policies and procedures approved by the Board. These are set out in detail in Note 23 to the consolidated financial statements.

The Group's preference is to manage market risks without the use of derivatives but derivatives will be used where necessary and appropriate to reduce the levels of volatility to both income and equity. The use of such derivatives is strictly controlled and they are not permitted to be used for speculative or trading purposes.

Both the term debt comprising private placements and derivatives of George Wimpey Plc were retained following the merger. The term debt is mostly borrowed in US dollars and used to finance the investment in the US business. It was also designated as a net investment hedge of the US dollar denominated assets. This hedge has been maintained following the merger. The interest derivatives while not satisfying the strict requirements for hedge accounting continue to hedge interest cost volatility in the merged company.

Liquidity is the most important financial risk to manage for a housebuilder, particularly in the economic circumstances currently prevailing in those markets in which the Group operates. Taking into account term borrowings and committed facilities, the Group has access to funding in excess of £2.5 billion (2007: £2.7 billion), which is committed until 2012. At the year-end, £411 million (2007: £1,193 million) was committed but undrawn. The total capital available provides adequate financial resources to fund the business in this difficult financial environment. The Group is operating well within its revised financial covenants and limits of available funding and is not obliged to obtain additional funding in the near future.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Chief Executive's Review on pages 6 to 13. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in this Group Financial Review. In addition, Note 23 to the financial statements includes details of the Group's financial instruments, hedging activities and its exposure to and management of credit risk and liquidity risk.

During 2008, the ongoing covenant negotiations represented a material uncertainty which could have cast significant doubt on the ability of the Group to continue as a going concern such that the Group might have been unable to realise its assets and discharge its liabilities in the normal course of business. With a revised covenant package now agreed with all relevant parties, the Directors are of the view that, whilst the economic and market conditions continue to be challenging and not without risk, the refinancing package is sufficiently robust as to the adequacy of both facility and covenant headroom to enable the Group to operate within its terms for at least the next 12 months. Accordingly, the financial statements are prepared on a going concern basis.

Further information is contained within the Corporate Governance Report and Note 1 to the consolidated financial statements.

Pensions

Actuarial valuations of both of the Company's main pension schemes, the Taylor Woodrow Group Pension & Life Assurance Fund (TWGP&LAF) and the George Wimpey Staff Pension Scheme (GWSPS), were completed during the first half of 2008. The results of these valuations are a deficit of £162.5 million relating to the TWGP&LAF (previous deficit £64.6 million) and a deficit of £215.0 million relating to the GWSPS (previous deficit £148.0 million). The IAS 19 valuation, which appears on the Company's balance sheet, is £277.2 million at 31 December 2008 (2007: £216.4 million). The increase in the deficit was largely due to the strengthening of the mortality assumption used in the IAS 19 deficit calculation partially offset by a higher iBoxx corporate bond rate as a result of the current economic environment. The balance sheet also includes £2.6 million of post-retirement healthcare benefit obligations (2007: £2.7 million).

The Company's deficit reduction payments in respect of the TWGP&LAF remain unchanged at £20 million per annum. The deficit reduction payments to the GWSPS, which were made at the rate of £15 million per annum during the first half of 2008, increased to a rate of £25 million per annum in July 2008 as a result of a scheme-specific actuarial review. In addition, a one-off deficit reduction payment of £5 million in respect of the GWSPS was made in July 2008. The terms of the recently negotiated debt refinancing secures the deficit repair payments during the term of the refinancing.

Further details relating to the pension schemes of the Group are presented in the financial statements in Note 24.

Accounting standards

The consolidated financial statements have been produced in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use in the EU. The financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board. There have been no changes to International Accounting Standards this year that have a material impact on the Group results.

Chris Rickard
Group Finance Director