1. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis except as otherwise stated below. The ability of the Group to continue as a going concern is reliant upon the continued availability of external debt financing. The deterioration of the housing market in 2008 in the geographies in which the Group operates called into question the Group's ability to continue to trade within the covenants set out in certain of its debt agreements. This led to the Group renegotiating the terms and conditions of, and covenants within, its external debt facilities. The amended agreements were signed in April 2009. The continued availability of this external financing is dependent upon the Group's ability to generate sufficient cash to service its debt and to continue to operate within and adhere to the covenants and other terms and conditions set out in the debt agreements. The Group has continued to meet all interest and other payment obligations on time from debt resources available to it, and after reviewing cash flow forecasts (see 'Going concern' below) for a period of not less than 12 months from the date of signing these financial statements and as noted on page 43, the Directors are satisfied that, whilst the economic and market conditions continue to be challenging and not without risk, the refinancing package is sufficiently robust as to adequacy of both facility and covenant headroom to enable the Group to operate within its terms for at least the next 12 months.

The principal accounting policies adopted, which have been applied consistently, except as otherwise stated, are set out below.

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted for use in the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee relevant to its operations and effective for accounting periods beginning on 1 January 2008.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where a subsidiary is disposed of which constituted a major line of business, it is disclosed as a discontinued operation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

Undertakings are deemed to be a joint venture when the Group has joint control via either voting rights or a formal agreement which includes that unanimous consent is required for strategic, financial and operating decisions. Joint ventures are consolidated under the equity accounting method. On transfer of land and/or work in progress to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

Segmental reporting

The Group is divided into four operating divisions for management reporting and control:

- Housing United Kingdom;
- Housing North America;
- Housing Spain and Gibraltar; and
- Corporate.

The Construction division was disposed of in September 2008, and is presented as a discontinued operation. The results and net assets of a minor residual construction business, primarily based in Ghana and previously included in the Construction business segment are presented within Corporate in 2008. 2007 has been restated for consistency.

These divisions make up the primary segmental analysis in the financial statements. A secondary segmental analysis is provided by geographical split.

Revenue

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue and profit are recognised as follows:

(a) Private housing development properties and land sales

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the purchaser. Revenue in respect of the sale of residential properties is recognised at the fair value of the consideration received or receivable on legal completion.

(b) Cash incentives

Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction to revenue.

(c) Contracting work

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by surveys of work performed to date. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(d) Interest receivable

Interest income on bank deposits is recognised on an accruals basis.

Exceptional items

Exceptional items are defined as items of income or expenditure which, in the opinion of the Directors, are material and unusual in nature or of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1 'Presentation of Financial Statements'.

Foreign currencies

The individual statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies other than the functional currency are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at an appropriate average rate for the year. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

1. Significant accounting policies continued

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as assets and liabilities denominated in the functional currency of the company in which they arose.

The Group enters into forward contracts in order to hedge its exposure to certain foreign exchange transaction risks relating to the functional currency in accordance with Group policy. It also uses foreign currency borrowings and currency swaps to hedge its net investment exposure to certain overseas subsidiaries (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Operating leases

The Group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable (and costs paid and payable) as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, joint venture, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or jointly-controlled entity, the carrying value of any attributable goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs was retained at the previous UK GAAP amounts, and was subjected to impairment testing at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

Brands

Internally generated brands are not capitalised. Acquired brands are capitalised. Their values are calculated based on the Group's valuation methodology, which is based on valuations of discounted cash flows. Brands are stated at cost, less accumulated amortisation and any accumulated impairment losses.

Software development costs

Costs that are directly associated with the production of identifiable and unique software controlled by the Group, and that generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to five years from the time of implementation, and are stated at cost less accumulated amortisation and any accumulated impairment losses.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is not depreciated. Buildings are depreciated over 50 years.

Plant and equipment is stated at cost less depreciation. Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives. Depreciation is charged, where material, on buildings over the expected useful life of the asset. Other assets are depreciated using the straight-line method, on the following bases:

Plant, fixtures and equipment 20–25%; and computer equipment 33%.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds, less any selling expenses, and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, impairment losses are allocated first to the intangible assets in the cash-generating unit. If the full impairment of intangible assets is not sufficient to reduce the carrying value of the cash-generating unit to its recoverable amount, tangible fixed assets must then be reviewed for impairment. If the recoverable amount of tangible fixed assets exceeds their carrying value, no further impairment is required. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables and other receivables

Trade receivables on normal terms excluding derivative financial instruments do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated unrecoverable amounts. Trade receivables on extended terms, particularly in respect of land, are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate. Derivative financial instruments are measured at fair value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land, are recorded at their fair value at the date of acquisition of the asset to which they relate. The discount to nominal value is amortised over the period of the credit term and charged to finance costs. Derivative financial instruments are measured at fair value.

1. Significant accounting policies continued

Derivative financial instruments and hedge accounting

The Group uses forward exchange contracts to hedge transactions denominated in foreign currencies. The Group also uses foreign currency borrowings and currency swaps to hedge its net investment exposure to movements in exchange rates on translation of certain individual financial statements denominated in foreign currencies other than Sterling which is the functional currency of the parent Company. Interest rate derivatives are used to manage interest rate risk in respect of borrowings. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of net investments in foreign operations are recognised directly in reserves and the ineffective portion, if any, is recognised immediately in the income statement.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are also recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in reserves is retained in reserves until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in reserves is transferred to the income statement for the period.

Customer deposits

Customer deposits are recorded as a liability within 'other payables' on receipt and released to the income statement as revenue upon legal completion.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Inventories

Inventories are initially stated at cost or at the fair value at acquisition date when acquired as part of a business combination and then held at the lower of this initial amount and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Land is recognised in inventory when the significant risks and rewards of ownership have been transferred to the Group.

Non-refundable land option payments are initially recognised in inventory. They are reviewed regularly and written off to the income statement when it is not probable that they will be exercised.

Tender costs for construction

Significant tender costs are treated as recoverable once the Directors consider that it is probable that the contract will be won. This is presumed to be when preferred bidder status is awarded.

Taxation

The tax charge represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are also recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have then been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

Share-based payments

The Group has applied the requirements of IFRS 2 Share based payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest after adjusting for the effect of non-market vesting conditions.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Employee benefits

The Group accounts for pensions and similar benefits under IAS 19 Employee benefits. In respect of defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value. The operating and financing costs of such plans are recognised separately in the income statement; service costs are spread systematically over the lives of employees; and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Payments to defined contribution schemes are charged as an expense as they fall due.

Key sources of estimation uncertainty and critical accounting judgments

Estimation of costs to complete

In order to determine the profit that the Group is able to recognise on the proportion of completions for the period, internal site valuations are carried out for each development at regular intervals throughout the year. The valuations will include an estimation of the costs to complete and remaining revenues which may differ from the actual costs incurred and revenues received on completion.

Carrying value of land and work in progress

In order to assess the appropriateness of the carrying value of land and work in progress, the Group is required to make estimations of sales prices, costs and margins expected on sites in order to determine whether any write downs are required to ensure inventory is stated at the lower of cost and net realisable value. Given the deterioration in market conditions experienced during the year, the Group has undertaken a detailed review on a site-by-site basis of the net realisable value of its land and work in progress. As a result, the Group has written down the value of its land and work in progress in the UK, US, and Spain by £1,012.8m, as shown in note 5. If there is further significant weakening in any of the Group's major markets, further write downs would be required.

1. Significant accounting policies continued

Impairment of goodwill and other intangible assets

The determination of whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the asset has been allocated. The value in use calculation involves significant judgement including an estimate of the future cash flows expected to arise from the cash-generating unit, the future growth rate of revenue and costs, and a suitable discount rate. The estimates of future cash flows used in the 2008 impairment test performed as at 30 June 2008 reflected the current weak trading conditions in the Group's major markets, and as a result, the Group has fully written down the value of its goodwill and other intangible assets as described in note 13. Impairment of goodwill may not be reversed. If the current weak trading conditions reverse, the impairment provision relating to other intangible assets may reverse in part or in whole.

Pensions

The value of plan assets and liabilities is determined based on various long term actuarial assumptions, including future rates of inflation, salary growth, yields, returns on investments and mortality rates. Changes in these assumptions over time and differences to the actual outcome will be reflected in the Group's statement of recognised income and expense. Note 24 details the main assumptions in accounting for the Group's defined benefit pension schemes.

Tax and deferred tax

Aspects of tax accounting require management judgment and interpretation of tax legislation across many jurisdictions in some cases relating to items which may not be resolved with the relevant tax authority for many years.

In determining the carrying amounts of deferred tax assets, management is required to assess the timing of the utilisation of provisions for tax purposes and the extent to which sufficient taxable profit will be available to enable the asset to be recovered.

Going concern

The Group has prepared forecasts, which have been reviewed by the Directors, based on estimates and judgments about the economic environment in each of the Group's major markets, including housing demand, interest rates and foreign exchange rates and the Group's operational performance, including average selling prices and build costs. The Directors consider that these forecasts demonstrate an adequate level of headroom for the next 12 months over the available funding and minimum covenant levels in the revised debt agreements which were entered into on 7 April 2009 and further details of which are set out in Note 37 on page 93, to allow the Group to operate within the terms of those new financing arrangements. Accordingly, they have adopted the going concern basis of preparation for these financial statements. This is also discussed further within the Corporate Governance Report on page 39.

Adoption of new and revised standards and interpretations

Standards, amendments and interpretations effective in 2008

IAS 39 (Amendment) – Financial Instruments. Provided various criteria are met, the amendment allows certain non-derivative financial assets to be reclassified out of fair value through profit and loss into one of three other categories; or out of available for sale and into loans and receivables. All reclassifications must be made at the fair value of the financial asset at the date of reclassification. This interpretation does not have an impact on the Group's financial statements.

IFRIC 11, IFRS 2 – Group and treasury share transactions. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or Group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. IFRIC 14 provides guidance on the amount of surplus that an entity may recognise on its balance sheet in respect of defined benefit pension schemes, and on the impact of minimum or committed funding obligations on the measurement of a net surplus or deficit. This interpretation does not have an impact on the Group's financial statements.

Standards and interpretations in issue but not yet effective

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

IAS 1 (revised) Presentation of Financial Statements (effective from 1 January 2009). The main changes from the current standard will require the Group to:

- Present all non-owner changes in equity in one statement of comprehensive income (effectively combining the current income statement and statement of changes in recognised income and expenses) or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income must be presented separately from the statement of changes in equity;
- Present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement;
- Disclose income tax relating to each component of other comprehensive income; and
- Disclose reclassification adjustments relating to components of other comprehensive income.

This amendment is expected to lead to additional disclosures in the Group's 2009 financial statements.

IAS 23 (Amendment) Borrowing costs (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing borrowing costs is removed. This amendment is not expected to have any impact on the Group's financial statements as, due to the nature of the Group's activities, it is expected to be exempt from the application of this standard.

IAS 32 (Amendment) Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective from 1 January 2010). Relevant for companies that have puttable financial instruments or instruments, or components of instruments, that impose an obligation on the entity to deliver to another party a pro-rata share of net assets on liquidation only. This amendment is not expected to have any impact on the Group's financial statements.

IAS 39 (Amendment) Eligible hedged items (effective from 1 July 2009). The amendment to the standard is still subject to endorsement by the European Union. The amendment requires that inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. The amendment also permits an entity to designate purchased options as a hedging instrument in a hedge of a financial or non-financial item. This amendment is not expected to have any impact on the Group's financial statements.

IFRS 1 (revised) First-time Adoption of International Financial Reporting Standards (effective from 1 July 2009). The amendment to the standard is still subject to endorsement by the European Union. The objective of the revised version of IFRS 1 is to improve the structure of the Standard – no new or revised technical material has been introduced. This amendment is not expected to have any impact on the Group's financial statements.

IFRS 2 (Amendment) Vesting conditions and cancellations (effective from 1 January 2009). The amendments change the definitions of vesting conditions and introduce the concept of a "non-vesting condition". Vesting conditions will now be restricted to service and performance conditions only. A performance condition only meets the definition of a vesting condition where it has an implicit service requirement. This amendment is not expected to have any impact on the Group's financial statements.

IFRS 3 (revised) Business Combinations and IAS 27 (revised) Consolidated and Separate Financial Statements (effective from 1 July 2009). The amendment to the standard is still subject to endorsement by the European Union. The revisions include a greater emphasis on the use of fair value, focusing on changes in control as a significant economic event and focusing on what is given to the vendor as consideration. This amendment is not expected to have any immediate impact on the Group's financial statements.

IFRS 8 Operating segments (effective from 1 January 2009). IFRS 8 amends the current segmental reporting requirements of IAS 14 and requires "management approach" to be adopted so that segment information is presented on the same basis as that used for internal reporting purposes. This standard will apply from the annual period commencing 1 January 2009 and is expected to impact the Group by requiring additional disclosures in the financial statements.

IFRIC 15 Arrangements for the Construction of Real Estate. IFRIC 15 sets out guidance for whether the accounting for the construction of real estate should fall within IAS 18 – Revenue, where a developer sells completed units or, IAS 11 – Construction Contracts, where a developer has been commissioned for a construction by a buyer. This is not expected to have any effect on the Group's financial statements as the Group already complies with this IFRIC.

1. Significant accounting policies continued

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 clarifies the accounting treatment of hedges taken out to hedge foreign exchange differences arising from differences between a Group and its subsidiary's presentational currencies and hedges of differences between functional currencies. This is not expected to have any effect on the Group's financial statements as the Group already complies with this IFRIC.

IFRIC 17 Distributions of Non-Cash Assets to Owners. The amendment to the interpretation is still subject to endorsement by the European Union. IFRIC 17 requires that distributions of non-cash assets to owners should be recognised and measured at the fair value of the non-cash assets when the dividend is appropriately authorised, and that the difference between the carrying amount of the assets distributed and the dividend payable should be recognised in profit or loss on settlement of the dividend payable. This amendment is not expected to have any impact on the Group's financial statements.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations:
IFRIC 12 Service Concession Arrangements. IFRIC 12 clarifies the accounting for contracts under which an entity contracts to use or operate a public sector asset. The effective date for IFRIC 12 is for periods beginning on or after 1 January 2008, however, this interpretation has not yet been endorsed by the European Union.

IFRIC 13 Customer Loyalty Programmes. IFRIC 13 addresses the accounting by entities that grant loyalty award credits to customers who buy other goods or services.

2. General information

Taylor Wimpey plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 109. The nature of the Group's operations and its principal activities are set out in note 4 and in the Chief Executive's Review on pages 6 to 13.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policy set out on pages 58 and 59.

3. Revenue

An analysis of the Group's revenue is as follows:

	2008 £m	2007 (restated) £m
Continuing operations:		
Housing	**3,342.1**	3,947.5
Corporate (including Construction)	**36.2**	37.8
Land sales	**89.4**	157.5
Consolidated revenue	**3,467.7**	4,142.8
Interest receivable	**8.5**	9.0
	3,476.2	4,151.8
Discontinued operations:		
Revenue	**453.4**	571.5
Interest receivable	**0.1**	0.7
	453.5	572.2
Total Group	**3,929.7**	4,724.0

Housing revenue includes £193.0m (2007: £80.9m) in respect of the value of properties accepted in part exchange by the Group.

4. Business and geographical segments

Business segments

For management purposes, the Group is currently organised into four operating divisions – Housing United Kingdom, Housing North America, Housing Spain and Gibraltar, and Corporate. These divisions are the basis on which the Group reports its primary segment information. Taylor Woodrow Construction, previously reported as the business segment 'Construction', was disposed of on 9 September 2008, and is disclosed as a discontinued operation. The results and net assets of a minor residual construction operation, primarily based in Ghana and previously included within the Construction segment, are presented within Corporate in 2008. 2007 has been restated for consistency, resulting in an increase in Corporate external sales of £37.8m, and an increase in operating loss before joint ventures, brand amortisation and exceptional items of £10.0m, an increase in profit from joint ventures of £0.1m, an increase in segment assets of £24.9m, an increase in joint ventures of £0.1m and an increase in segment liabilities of £6.8m.

4. Business and geographical segments continued

Segment information about these businesses is presented below:

2008	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Corporate £m	Consolidated £m
Revenue from continuing operations:					
External sales	2,390.1	981.6	59.8	36.2	3,467.7
Result from continuing operations:					
Operating profit/(loss) before joint ventures, brand amortisation and exceptional items	53.2	52.1	(2.4)	(14.2)	88.7
Share of results of joint ventures	(0.2)	7.8	–	–	7.6
Profit/(loss) on ordinary activities before finance costs, exceptional items and amortisation of brands, after share of results of joint ventures	53.0	59.9	(2.4)	(14.2)	96.3
Brand amortisation	(2.4)	–	–	–	(2.4)
Exceptional items	(1,750.4)	(76.6)	(37.4)	(20.1)	(1,884.5)
Loss on ordinary activities before finance costs, after share of results of joint ventures	(1,699.8)	(16.7)	(39.8)	(34.3)	(1,790.6)
Finance costs, net (including exceptional finance costs)					(179.1)
Loss on ordinary activities before taxation					(1,969.7)
Taxation					76.6
Result from discontinued operations:					
Profit for the year from discontinued operations					53.1
Loss for the year – total Group					(1,840.0)

2008	Housing United Kingdom* £m	Housing North America £m	Housing Spain and Gibraltar £m	Corporate £m	Consolidated £m
Assets and liabilities:					
Segment operating assets	3,919.9	1,014.8	175.4	25.2	5,135.3
Joint ventures	45.4	22.1	0.2	–	67.7
Segment operating liabilities	(1,379.6)	(359.1)	(47.6)	(113.4)	(1,899.7)
Net operating assets/(liabilities)	2,585.7	677.8	128.0	(88.2)	3,303.3
Current taxation (net)					(106.1)
Deferred taxation (net)					5.3
Net debt					(1,529.3)
Net assets					1,673.2

* The Group is unable to allocate the defined benefit pension scheme assets and liabilities of the Taylor Woodrow Group Pension and Life Assurance Fund, a multi-employer pension scheme, on an actuarial basis by entity. However, for the purposes of the 2008 segmental analysis above, the Group has allocated the deficit to Housing United Kingdom as the participating entities materially sit within this business segment. The assets and liabilities of the George Wimpey Staff Pension Scheme have been allocated in their entirety to Housing United Kingdom.

2008	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Corporate £m	Consolidated £m
Other information:					
Property, plant and equipment additions	2.3	1.3	0.1	5.5	9.2
Amortisation of intangibles	6.7	–	–	–	6.7
Depreciation – plant and equipment	3.5	1.5	0.2	2.3	7.5
Other non-cash expenses:					
Provisions recognised	56.8	13.5	0.5	4.4	75.2
Inventory write downs	930.1	104.3	37.4	–	1,071.8
Reversal of inventory write downs	(25.8)	(33.2)	–	–	(59.0)
Impairment of goodwill	694.3	5.5	–	–	699.8
Impairment of other intangible assets	116.3	–	–	–	116.3

4. Business and geographical segments continued

2007 (restated)	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Corporate £m	Consolidated £m
Revenue from continuing operations:					
External sales	3,053.8	986.8	64.4	37.8	4,142.8
Result from continuing operations:					
Operating profit/(loss) before joint ventures, brand amortisation and exceptional items	409.1	53.3	2.2	(25.4)	439.2
Share of results of joint ventures	9.1	14.2	–	0.1	23.4
Profit/(loss) on ordinary activities before finance costs, exceptional items and amortisation of brands, after share of results of joint ventures	418.2	67.5	2.2	(25.3)	462.6
Brand amortisation	(3.7)	–	–	–	(3.7)
Exceptional items	(47.9)	(321.3)	(6.3)	(4.2)	(379.7)
Profit/(loss) on ordinary activities before finance costs, after share of results of joint ventures	366.6	(253.8)	(4.1)	(29.5)	79.2
Finance costs, net					(112.8)
Loss on ordinary activities before taxation					(33.6)
Taxation					(173.4)
Result from discontinued operations:					
Profit for the year from discontinued operations					10.3
Loss for the year – total Group					(196.7)

2007 (restated)	Housing United Kingdom* £m	Housing North America £m	Housing Spain and Gibraltar £m	Corporate £m	Total £m
Assets and liabilities – continuing operations:					
Segment operating assets	5,350.1	976.7	182.1	64.4	6,573.3
Joint ventures	39.6	20.0	0.2	0.1	59.9
Segment operating liabilities	(1,616.5)	(316.4)	(66.7)	(77.4)	(2,077.0)
Continuing Group net operating assets/(liabilities)	3,773.2	680.3	115.6	(12.9)	4,556.2
Discontinued operations:					
– operating assets					68.0
– operating liabilities					(153.7)
					4,470.5
Goodwill					699.8
Current taxation (net)					(137.6)
Deferred taxation (net)					87.9
Net debt					(1,415.4)
Net assets					3,705.2

* The Group is unable to allocate the defined benefit pension scheme assets and liabilities of the Taylor Woodrow Group Pension and Life Assurance Fund, a multi-employer pension scheme, on an actuarial basis by entity. For the purposes of the segmental analysis presented in the published 2007 financial statements, the Group allocated the deficit to business segments on the basis of headcount. The 2007 segmental information presented above has been restated to present within Housing United Kingdom, the deficit for this scheme previously included in the Construction business segment following the disposal of the construction business on 9 September 2008, resulting in an increase in segment liabilities for Housing United Kingdom of £67.8m. The allocation is performed solely for the purposes of providing a meaningful segmental analysis and is not an appropriate apportionment in accordance with IAS 19 Retirement benefits. The assets and liabilities of the George Wimpey Staff Pension Scheme have been allocated in their entirety to Housing United Kingdom.

4. Business and geographical segments continued

2007 (restated)	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Corporate £m	Total £m
Other information – continuing Group:					
Property, plant and equipment additions	6.2	5.8	0.3	–	12.3
Amortisation of intangibles	5.7	–	–	–	5.7
Depreciation – plant and equipment	3.3	3.6	0.1	–	7.0
Other non-cash expenses:					
Provisions recognised	48.7	28.7	0.6	–	78.0
Inventory write downs	–	283.4	6.3	–	289.7
Impairment of brands	10.0	20.0	–	–	30.0

In addition to the above, there was £1.3m of property, plant and equipment additions and £1.3m of depreciation on plant and equipment in relation to discontinued operations in 2007.

Geographical segments

The Group's operations are located primarily in the United Kingdom and North America. The Group's housing divisions are already segmented geographically above. The construction division, which was disposed of on 9 September 2008, was primarily located in the United Kingdom.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2008 £m	2007 (restated) £m
United Kingdom	**2,390.1**	3,053.8
North America	**981.6**	986.8
Rest of the world	**96.0**	102.2
Total continuing operations	**3,467.7**	4,142.8
Discontinued operation – United Kingdom	**453.4**	571.5
Total Group	**3,921.1**	4,714.3

The following is an analysis of the carrying amount of segment assets, and additions to property and plant, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property and plant	
	2008 £m	2007 £m	**2008 £m**	2007 £m
United Kingdom	**4,592.5**	6,205.9	**2.3**	6.9
North America	**1,251.8**	1,231.8	**1.3**	5.8
Rest of the world	**208.1**	231.5	**5.6**	0.9
Total	**6,052.4**	7,669.2	**9.2**	13.6

5. Net operating expenses and profit on ordinary activities before finance costs

Net operating expenses, continuing operations:	2008 £m	2007 (restated) £m
Administration expenses	269.0	270.7
Net other income	(25.8)	(7.2)
Exceptional items	871.7	90.0
	1,114.9	353.5

Net other income includes profits on the sale of property, plant and equipment and broker fees from mortgage origination services.

Exceptional items, continuing operations:	2008 £m	2007 £m
Land and work in progress write downs	1,012.8	289.7
Goodwill impairment	699.8	–
Other intangible impairments	116.3	30.0
Restructuring costs	35.1	60.0
Refinancing costs	20.5	–
Exceptional items	1,884.5	379.7

Net land and work in progress write downs of £1,012.8m (2007: £289.7m) were required to reduce the carrying value of some of the Group's inventory to the lower of cost and net realisable value, reflecting the deterioration in market conditions first experienced in the US housing market in 2007 and in the UK and European housing markets in 2008, resulting in lower pricing required to maintain satisfactory sales rates in the UK, US and European markets.

Goodwill of £699.8m (2007: nil) and other intangible assets of £116.3m (2007: £30m) were fully impaired in 2008 following a detailed impairment review – further detail on the impairment is set out in note 13.

Restructuring costs of £35.1m (2007: £60m) arose on further restructuring of the UK housing business in response to the deteriorating market conditions during 2008 following on from the post-merger reorganisation of the business in 2007. The costs incurred in both years include redundancy costs and costs incurred in relocating certain functions and operations. A provision for restructuring of £22.1m (2007: £33.6m) remains in the balance sheet at 31 December 2008 – see note 25.

Refinancing costs of £20.5m (2007: nil) were costs incurred in relation to the proposed equity raising in the first half of 2008 and in relation to the refinancing of the Group's debt. Further refinancing costs will be incurred in 2009 on the signing of the new debt agreements.

Profit on ordinary activities before financing costs for continuing operations has been arrived at after charging/(crediting):	2008 £m	2007 (restated) £m
Cost of inventories recognised as expense in cost of sales, before write downs of inventories	2,946.9	3,285.8
Write-downs of inventories	1,071.8	289.7
Reversal of specific write downs of inventories	(59.0)	–
Depreciation – plant and equipment	7.5	7.0
Amortisation – intangibles*	123.0	35.7
Minimum lease payments under operating leases recognised in income for the year	8.8	5.1

* The amortisation of intangibles in 2008 includes the impairments of the George Wimpey brand of £103.9m and of software development costs of £12.4m (2007: impairment losses of £30.0m on the Laing and Morrison Homes brands).

5. Net operating expenses and profit on ordinary activities before finance costs continued

The remuneration paid to Deloitte LLP, the Group's external auditors, is as follows:	2008 £m	2007 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts and consolidated financial statements	**0.2**	0.3
The audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.7
Total audit fees	**0.8**	1.0
Other services pursuant to legislation	**0.1**	0.1
Tax services	**0.3**	0.3
Corporate finance services	**2.2**	0.7
Other services	**0.6**	0.1
Total non-audit fees	**3.2**	1.2
Total fees	**4.0**	2.2

Non-audit services in 2008 predominantly relate to work required as a result of Deloitte LLP's role as auditors, or work resultant from knowledge and experience gained as part of the role. Corporate finance services include necessary work related to the Group's proposed equity raising and subsequent advice and support with bank renegotiations. It also includes work performed in connection with the disposal of the construction business. Their work was either the subject of a competitive tender or was best performed by the Group's auditors because of their knowledge of the Group. Tax services include tax compliance work for certain subsidiaries, as well as advice in connection with a restructuring of the Group. Other services include advice in respect of the Group's forecasting and cash management procedures. See page 41 for details of the Group's policies in respect of non-audit services and approval by the Audit Committee.

6. Staff costs

Total Group	2008 Number	2007 Number
Average number employed		
Housing United Kingdom including corporate office	**4,063**	4,744
Housing North America	**1,158**	1,173
Housing Spain and Gibraltar	**105**	171
Construction – continuing and discontinued*	**2,743**	3,639
	8,069	9,727
United Kingdom	**5,090**	6,175
Overseas	**2,979**	3,552
	8,069	9,727

* Of the 2,743 average staff number in 2008, 1,102 related to the disposed construction business (2007: 1,441).

	2008 £m	2007 £m
Remuneration		
Wages and salaries	**255.3**	314.2
Redundancy costs	**17.9**	15.4
Social security costs	**27.3**	34.0
Other pension costs	**12.7**	16.3
	313.2	379.9

The information required by the Companies Act 1985 and the Listing Rules of the Financial Services Authority is contained on pages 44 to 52 in the Directors' Remuneration Report.

7. Finance costs

Finance costs from continuing operations are analysed as follows:	2008 £m	2007 (restated) £m
Interest on bank overdrafts and loans	**72.5**	45.9
Interest on debenture loans	**55.4**	47.4
Movement on interest rate derivatives	**10.8**	5.4
	138.7	98.7
Unwinding of discount on land creditors and other payables	**26.7**	19.3
Notional net interest on pension liability (note 24)	**11.7**	3.8
	177.1	121.8
Exceptional finance costs:		
Loan and debenture fees	**10.5**	–
	187.6	121.8

The exceptional finance costs relate to the write off of the remaining unamortised bank loan and debenture fees relating to the Group's financing arrangements which were in place throughout 2008. The amortisation of these fees was accelerated due to the refinancing of the Group's debt arrangements (see note 37).

8. Tax

Tax (credited to)/charged in the income statement for continuing operations is analysed as follows:

		2008 £m	2007 (restated) £m
Current tax:			
UK corporation tax:	Current year	**(124.3)**	85.6
	Prior years	**6.0**	(9.4)
Relief for foreign tax		**–**	(5.0)
Foreign tax:	Current year	**(22.8)**	18.0
	Prior years	**–**	16.9
		(141.1)	106.1
Deferred tax:			
UK:	Current year	**32.7**	(8.6)
	Prior years	**–**	4.9
Foreign:	Current year	**31.8**	80.9
	Prior years	**–**	(9.9)
		64.5	67.3
		(76.6)	173.4

Corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable loss (2007: profit) for the year in the UK. Taxation outside the UK is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax recognised in the Group statement of recognised income and expense is due to actuarial gains on post-retirement liabilities at the prevailing rate in the relevant jurisdiction, and the write off of the deferred tax asset relating to post-retirement liabilities. This includes the effect of the change in the UK rate of corporation tax from 30% to 28% from 1 April 2008.

8. Tax continued

The (credit)/charge for the year can be reconciled to the loss per the income statement as follows:	2008 £m	2007 (restated) £m
Loss before tax	**(1,969.7)**	(33.6)
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	**(561.4)**	(10.1)
Under provision in respect of prior years	**6.0**	3.5
Tax effect of share of results of joint ventures	**–**	(2.6)
Tax effect of expenses that are not deductible in determining taxable profit	**205.6**	14.0
Non-taxable income	**(8.4)**	(18.5)
Effect of higher rates of tax of subsidiaries operating in other jurisdictions	**(1.4)**	(14.5)
Losses not recognised	**217.2**	12.1
Net reduction in deferred tax assets previously recognised	**65.8**	189.4
Other	**–**	0.1
Tax (credit)/charge for the year	**(76.6)**	173.4

The tax credit for the year includes an amount in respect of exceptional items of £100.0m (2007: £70.2m charge). This is made up of a credit of £91.6m (2007: £14.9m) in respect of UK tax and a credit of £8.4m (2007: £85.1m charge) in respect of US tax.

The charge in the UK and the US reflects a write off of deferred tax assets held by the Group, the utilisation of which is not seen as probable in the foreseeable future primarily due to the continued and significant weakening of the UK and US markets in the second half of 2008.

9. Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2007 of 10.25p (2006: 9.75p) per share	**107.9**	56.6
Interim dividend for the year ended 31 December 2008 of nil (2007: 5.5p) per share	**–**	60.7
	107.9	117.3

The Group does not propose to pay a final dividend in respect of the 2008 financial year (2007: £107.9m).

10. Earnings per share

	2008	2007 (restated)
Basic loss per share – total Group	**(174.8p)**	(24.2p)
Diluted loss per share – total Group	**(174.8p)**	(24.2p)
Basic loss per share from continuing operations	**(179.8p)**	(25.5p)
Diluted loss per share from continuing operations	**(179.8p)**	(25.5p)
Basic earnings per share from discontinued operations	**5.0p**	1.3p
Diluted earnings per share from discontinued operations	**5.0p**	1.3p
Adjusted basic (loss)/earnings per share from continuing operations	**(9.4p)**	29.5p
Adjusted diluted (loss)/earnings per share from continuing operations	**(9.4p)**	29.4p
Weighted average number of shares for basic (loss)/earnings per share – million	**1,053.1**	818.5
Weighted average number of shares for diluted (loss)/earnings per share – million	**1,053.1**	818.5
Weighted average number of shares for adjusted diluted (loss)/earnings per share – million	**1,053.1**	821.0

For 2008, 57.4m potential ordinary shares have been excluded from the calculation of the weighted average number of shares as they are anti-dilutive. For 2007, 25.5m potential ordinary shares were excluded from the calculation of the weighted average number of shares as they were anti-dilutive, except in the case of adjusted diluted earnings per share which included 2.5m of dilutive potential ordinary shares.

Under the Override Agreement (see note 37), on 30 April 2009 the Company agreed to issue 57.9m warrants giving the holders the right to subscribe to an equivalent number of ordinary shares in Taylor Wimpey plc at par value. Had the warrants been issued in the 2008 financial year, they would have been anti-dilutive and not included in the calculation of weighted average number of shares for the year.

10. Earnings per share continued

Adjusted basic and adjusted diluted (loss)/earnings per share, which exclude the impact of exceptional items and the associated net tax charges, are shown to provide clarity on the underlying performance of the continuing Group. A reconciliation from loss from continuing operations attributable to equity shareholders used for basic and diluted loss per share to that used for adjusted (loss)/earnings per share is shown below:

	2008 £m	2007 (restated) £m
Loss from continuing operations for basic loss per share and diluted loss per share	**(1,894.4)**	(208.2)
Add exceptional items (see notes 5 and 7)	**1,895.0**	379.7
(Deduct)/add tax effect of exceptional items	**(100.0)**	70.2
(Loss)/profit from continuing operations for adjusted basic and adjusted diluted (loss)/earnings per share	**(99.4)**	241.7

11. Goodwill

	£m
Cost and carrying amount	
At 1 January 2007	363.1
Acquisition of George Wimpey	336.8
Changes in exchange rates	(0.1)
At 31 December 2007	699.8
Impairment loss recognised in the year	(699.8)
At 31 December 2008	**–**

As a result of the 2008 impairment test, the Group has fully impaired all goodwill associated with both the Housing United Kingdom business segment (2007 carrying value: £694.3m), and the Housing North America business segment (2007 carrying value: £5.5m) see note 13 below for further details.

12. Other intangible assets

	Brands £m	Software development costs £m	Total £m
Cost			
At 1 January 2007	–	–	–
Acquisition of George Wimpey Plc	140.0	15.8	155.8
Additions	–	0.4	0.4
Changes in exchange rates	0.2	–	0.2
At 31 December 2007	140.2	16.2	156.4
Additions	–	2.5	2.5
At 31 December 2008	**140.2**	**18.7**	**158.9**
Amortisation/impairment			
At 1 January 2007	–	–	–
Charge for the year	(3.7)	(2.0)	(5.7)
Impairment loss for the year (note 13)	(30.0)	–	(30.0)
Changes in exchange rates	(0.2)	–	(0.2)
At 31 December 2007	(33.9)	(2.0)	(35.9)
Charge for the year	(2.4)	(4.3)	(6.7)
Impairment loss for the year (note 13)	(103.9)	(12.4)	(116.3)
At 31 December 2008	**(140.2)**	**(18.7)**	**(158.9)**
Carrying amount			
31 December 2008	**–**	**–**	**–**
31 December 2007	106.3	14.2	120.5

As a result of the 2008 impairment test, the Group has fully impaired all other intangible assets (2007: £30m) – see note 13 below for further details.

13. Impairment

The Group is required to test goodwill for impairment on an annual basis or sooner when there are indicators that it might be impaired, and to test other intangible assets for impairment if there are indications that the assets might be impaired. The significant downturn in the UK housing market in early 2008 as well as the ongoing deterioration in the US market led to the Group performing a full impairment test on intangible assets at the half year reporting date. As a result, the Group fully impaired all remaining goodwill, brands and software development costs. The impairment losses recognised within operating expenses in the Group's income statement were as follows:

Business Segment:	Goodwill £m	Brands £m	Software development costs £m	2008 Total £m	Goodwill £m	Brands £m	Software development costs £m	2007 Total £m
Housing United Kingdom	**694.3**	**103.9**	**12.4**	**810.6**	–	10.0	–	10.0
Housing North America	**5.5**	**–**	**–**	**5.5**	–	20.0	–	20.0
	699.8	**103.9**	**12.4**	**816.1**	–	30.0	–	30.0

Housing United Kingdom

In the first half of 2008 it became apparent that the weakness seen in the US housing market in 2007 had extended to the UK housing market as mortgage availability reduced sharply and consumer confidence was eroded by both falling house prices and wider economic uncertainty. The effect of this on the UK business segment was seen in year-on-year declines in average selling prices and the number of completions (on a pro forma basis) and at the half year the UK business took a significant write down in the value of its inventory to reflect its revised estimate of the net realisable value of its land and work in progress. As a result, the Group performed a full impairment test on its other intangible assets and goodwill at the half year. The impairment test showed that the discounted cash flows forecast to be generated by the UK business segment were lower than the carrying value of the segment assets by an amount greater than the aggregate value of the goodwill, brands and capitalised software development costs associated with the segment and therefore, in accordance with IAS 36 Impairment of Assets, the Group fully impaired all remaining goodwill of £694.3m, brands of £103.9m and other intangible assets of £12.4m.

Housing North America

The US housing market experienced decline in 2007 and despite some initial stabilisation in early 2008 market conditions continued to decline across the year. In particular certain US markets which had remained resilient to the downturn in 2007 were affected in 2008, including the market to which the 2007 goodwill balance of £5.5m related. As a result the Group has now fully impaired the remaining goodwill of £5.5m associated with its North American Housing segment.

Key Assumptions

For the purpose of impairment testing of goodwill and other intangible assets, the Group's cash-generating units were determined at the level of business segment. The impairment tests were performed by comparing the carrying value of each cash-generating unit with its recoverable value, determined on the basis of the cash-generating unit's value in use. The value in use was calculated as the present value of the future cash flows expected to be derived over the next 20 years from the cash-generating unit related to the goodwill or intangible asset, using the latest management-approved business plan as the source of the cash flows for the first three years, and a pre-tax discount rate of 12% (2007:12%) which was considered to be the Group's view of an appropriate risk adjusted pre-tax discount rate for the UK housing market. The other key assumptions used in the value in use calculations for both business segments were as follows:

Initial three-year forecast period	Decline in completions from 2007 pro forma*, based on industry forecasts for the UK and US housing markets Average selling prices lower than 2008 average prices in the six months to 30 June 2008 based on industry forecasts for the UK and US housing markets Gross margin consistent with experience to 30 June 2008, based on the Group's past experience of build and infrastructure costs relative to selling prices No account taken of expected but not yet committed operating cost savings
Years four and five	Growth in annual completions, based on internal expectations of recovery in the UK and US housing markets by reference to industry forecasts by year five to levels consistent with the pro forma Group in 2007 Gross margin growth rate of 0%
Forecast period beyond year five	Long-term growth rate of 0%

* Pro forma results reflect the aggregated total of completions or other relevant data points for the combined legacy businesses of Taylor Woodrow plc and George Wimpey Plc as if the merger were effected on 1 January 2007.

As noted above, the 2008 tests were performed as at 30 June 2008 for the purposes of the Group's half year reporting. The UK housing market experienced significant and rapid decline in the second half of the year such that certain of the assumptions used would have been more conservative if the tests had been performed at the year-end date; in particular, the decline in average selling prices in the initial three-year forecast period would have been more acute than the decline assumed in the half year impairment test. However, as the half year test resulted in all goodwill and other intangible assets being fully impaired, this would not have had any impact on the level of impairment loss recorded by the Group.

Under IAS 36, an impairment of goodwill may not be reversed. Should the decline experienced in the UK market reverse, the brand and software development cost impairments may reverse in part or in whole, provided that by the time of the reversal these assets would not already have been fully amortised through the continued charging of systematic amortisation over their useful lives.

14. Property, plant and equipment

	Freehold land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2007	9.6	63.6	73.2
Additions	–	13.6	13.6
Disposals	(1.5)	(13.3)	(14.8)
Acquisition of George Wimpey Plc	1.2	15.2	16.4
Changes in exchange rates	–	0.3	0.3
At 31 December 2007	9.3	79.4	88.7
Additions	–	10.9	10.9
Disposals	(8.1)	(34.4)	(42.5)
Changes in exchange rates	0.3	4.9	5.2
At 31 December 2008	**1.5**	**60.8**	**62.3**
Accumulated depreciation			
At 1 January 2007	–	47.7	47.7
Disposals	–	(6.5)	(6.5)
Charge for the year	–	8.3	8.3
Changes in exchange rates	–	0.2	0.2
At 31 December 2007	–	49.7	49.7
Disposals	–	(14.7)	(14.7)
Charge for the year	–	7.9	7.9
Changes in exchange rates	–	3.9	3.9
At 31 December 2008	**–**	**46.8**	**46.8**

All Freehold land and buildings and all plant and equipment were held at cost at 31 December 2008 (2007: £88.2m held at cost, £0.5m held at 2006 valuation).

Carrying amount	Freehold land and buildings £m	Plant and equipment £m	Total £m
At 31 December 2008	**1.5**	**14.0**	**15.5**
At 31 December 2007	9.3	29.7	39.0

15. Interests in joint ventures

	2008 £m	2007 £m
Aggregated amounts relating to share of joint ventures		
Non-current assets	**–**	–
Current assets	**89.4**	101.6
Total assets	**89.4**	101.6
Current liabilities	**(20.2)**	(40.9)
Non-current liabilities	**(32.5)**	(27.6)
Total liabilities	**(52.7)**	(68.5)
Carrying amount	**36.7**	33.1
Loans to joint ventures	**31.0**	26.8
Total interests in joint ventures	**67.7**	59.9

15. Interests in joint ventures continued

	2008 £m	2007 £m
Share of post-tax profits from joint ventures		
Revenue	**24.2**	81.3
Cost of sales	**(14.5)**	(51.4)
Gross profit	**9.7**	29.9
Net operating expenses	**(1.7)**	(1.6)
Profit on ordinary activities before finance costs	**8.0**	28.3
Finance costs	**(0.2)**	(0.6)
Profit on ordinary activities before tax	**7.8**	27.7
Taxation	**(0.2)**	(4.3)
Share of joint ventures' post-tax results for the year	**7.6**	23.4

The Group has four (2007: five) principal joint ventures.

Particulars of principal joint ventures are as follows:

Country of incorporation	Name of joint venture equity accounted in the consolidated accounts	Taylor Wimpey plc interest in the issued ordinary share capital
Great Britain	Greenwich Millennium Village Limited*	50%
	Strada Developments Limited*	50%
	Academy Central Limited Liability Partnership*	62%
USA	Taylor Woodrow Communities/Steiner Ranch Limited*	50%

* Interest held by subsidiary undertakings.

16. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year.

	Capital allowances £m	Short term timing differences £m	Brands £m	Inventory adjustments £m	Retirement benefit obligations £m	Total £m
At 1 January 2007	3.1	14.0	–	8.9	68.6	94.6
Credit/(charge) to income	0.4	(15.0)	11.4	(54.9)	(10.1)	(68.2)
Charge to equity	–	(2.6)	–	–	(29.6)	(32.2)
Acquisition of subsidiaries	0.7	12.8	(41.2)	85.6	34.5	92.4
Changes in exchange rates	–	0.8	–	0.5	–	1.3
At 31 December 2007	4.2	10.0	(29.8)	40.1	63.4	87.9
(Charge)/credit to income	(5.5)	(3.0)	29.8	(46.1)	(39.7)	(64.5)
Charge to equity	–	–	–	–	(23.7)	(23.7)
Disposal of subsidiaries	–	(0.4)	–	–	–	(0.4)
Changes in exchange rates	–	–	–	6.0	–	6.0
At 31 December 2008	**(1.3)**	**6.6**	**–**	**–**	**–**	**5.3**

The £23.7m charge to equity comprises a credit of £23.5m in respect of deferred tax on actuarial losses on defined benefit pension schemes taken to the statement of recognised income and expense during the year, and a charge of £47.2m in respect of the write off of the deferred tax asset on retirement benefit obligations.

The recognition of deferred tax assets on capital allowances, short term timing differences and inventory write downs reflects the amount the Group believes is probable to be utilised in the UK and US in future years, which has been assessed in light of the weakening market and general worsening economic conditions in the second half of 2008.

In addition, the deferred tax liability on brands has reduced to nil (2007: £29.8m) as a result of the impairment of those brands. The deferred tax asset recognised on the UK retirement benefit obligations has reduced to nil (2007: £63.4m at 28%), due to a lack of visibility over the ability to recover the scheduled deficit repair payments.

The net deferred tax balance is analysed into assets and liabilities as follows:

	2008 £m	2007 £m
Deferred tax assets	**6.6**	117.7
Deferred tax liabilities	**(1.3)**	(29.8)
	5.3	87.9

16. Deferred tax continued

At the balance sheet date, the Group has unused UK capital losses of £409.2m (2007: £418.0m), of which £271.7m (2007: £296.8m) are agreed as available for offset against future capital profits. No deferred tax asset has been recognised in respect of these losses because the Group does not believe that it is probable that these capital losses will be utilised in the foreseeable future. In addition, some of the capital losses would be further restricted as to offset dependent on the source within the Taylor Wimpey Group of any gains and previous losses.

The Group has not recognised potential deferred tax assets relating to inventory charges, pension liabilities and tax losses carried forward amounting to £248.3m (2007: nil) in the UK and £303.6m (2007: £189.4m) in the US and £17.3m (2007: £9.7m) in other jurisdictions. Local tax legislation permits losses to be carried forward 20 years in the US, 15 years in Spain and indefinitely in the UK.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant, therefore no deferred tax balance has been recognised.

17. Inventories

	2008 £m	2007 £m
Raw materials and consumables	**1.5**	2.3
Finished goods and goods for resale	**34.4**	106.4
Residential developments:		
Land*	**3,410.3**	3,879.4
Development and construction costs	**1,438.8**	2,019.6
Commercial, industrial and mixed development properties	**5.6**	10.1
	4,890.6	6,017.8

* Details of land creditors are in note 22.

The Directors consider all inventory to be current in nature. The operational cycle is such that the majority of inventory will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised, as this will be subject to a number of issues such as consumer demand and planning permission delays.

Non-refundable land option payments of £81.3m (2007: £59.6m) are recorded within 'Residential developments: Land'.

During the year, the Group wrote down the carrying value of certain inventories to net realisable value following a significant deterioration in market conditions. The write down reflects the extent to which current market conditions have lowered management's estimates of selling prices and associated costs to sell for its land and work in progress below the value at which the inventory had previously been held in the balance sheet. The write down of £1,071.8m (2007: £289.7m) is included as an exceptional charge in the consolidated income statement. As a result of this review of the carrying value of inventory, the Group also reversed £59.0m (2007: nil) of write downs which had been previously charged to the income statement where management's estimates of recoverable value for certain land and work in progress had improved. This reversal is treated as exceptional income and netted off the exceptional charge.

18. Construction contracts

	2008 £m	2007 £m
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**6.0**	57.3
Amounts due to contract customers included in trade and other payables	**(0.8)**	(39.1)
	5.2	18.2
Contract costs incurred plus recognised profits less recognised losses to date	**382.4**	3,684.8
Less: progress billings	**(377.2)**	(3,666.6)
	5.2	18.2

At 31 December 2008, retentions held by customers for contract work amounted to £2.3m (2007: £11.1m). The Group's UK construction business was sold on 9 September 2008 (see note 31). The remaining balances relate to a small construction operation in Ghana which is included in the Corporate business segment, and which was disposed of subsequent to year-end on 21 April 2009.

19. Other financial assets

Trade and other receivables

	Current		Non-current	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade receivables	**127.3**	257.1	**40.0**	41.9
Joint ventures	**–**	9.0	**0.2**	–
Currency and interest rate derivatives	**–**	–	**3.0**	19.9
Other receivables	**54.0**	125.2	**4.7**	14.6
	181.3	391.3	**47.9**	76.4

The average credit period taken on sales is 13 days (2007: 15 days). An allowance has been made for estimated irrecoverable amounts from trade receivables of £3.7m (2007: £2.2m). This allowance has been determined by reference to past default experience.

19. Other financial assets continued

Cash and cash equivalents

	2008 £m	2007 £m
Cash and cash equivalents (see note 23)	**752.3**	130.0

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value in both years.

20. Bank loans and overdrafts

	2008 £m	2007 £m
Bank overdrafts repayable on demand	**22.6**	12.2
Bank loans	**1,289.9**	708.5
	1,312.5	720.7
Amount due for settlement within one year	**23.4**	12.2
Amount due for settlement after one year	**1,289.1**	708.5
Total bank borrowings	**1,312.5**	720.7

	Bank overdraft £m	Bank loans £m
Analysis of borrowings by currency:		
31 December 2008		
Sterling	**0.1**	**1,030.0**
Canadian dollars	**18.4**	**–**
Euros	**–**	**106.3**
Ghanaian cedis	**4.1**	**–**
US dollars	**–**	**153.6**
	22.6	**1,289.9**
31 December 2007		
Sterling	0.7	295.0
Canadian dollars	8.0	–
Euros	–	–
Ghanaian cedis	3.5	–
US dollars	–	413.5
	12.2	708.5

The Directors are unable to estimate reliably the impact of the Group's credit risk on the fair value of the bank loans at 31 December 2008, which was before the successful conclusion of the refinancing (2007: fair value approximates book value). As set out in note 21, at 31 December 2008 the market value of the quoted Eurobonds was 32% of their book value.

Bank borrowings and overdrafts are arranged at floating rates of interest, from 3.82% to 19.75% (2007: 5.25% to 18.0%).

Secured bank loans and overdrafts totalled £23.4m (2007: £4.5m). Secured bank loans and overdrafts are secured on certain fixed asset properties and land.

On 24 December 2008 the Group announced that the providers of its bank facilities and its private placement noteholders had agreed to defer the testing date into 2009 of certain financial covenants which had been due for testing on 31 December 2008. Had this deferral not been obtained, the Group would have been in breach of an interest cover covenant at the year-end which could have resulted in all bank loans being presented as repayable on demand in these financial statements. However, as a result of this deferral, the Group remained in full compliance with all its existing covenants and loan terms in the current and preceding period. The Override Agreement signed on 7 April 2009 includes new financial covenants with which the Group is fully compliant and which supersede those set out in the old financing agreements, including the covenant for which the test was deferred into 2009 – see note 37.

21. Debenture loans

	2008 £m	2007 £m
Unsecured		
Floating rate notes 2008	–	1.4
9.00% US$35m notes 2009	24.7	18.5
5.73% US$110m notes 2009	76.4	55.2
5.53% US$75m notes 2011	52.1	37.6
6.625% £250m guaranteed bonds 2012 (1) (2)	254.5	245.8
6.21% US$70m notes 2012	48.8	35.4
6.80% £30m notes 2012	30.0	30.0
4.72% US$28m notes 2013	18.6	13.2
6.31% US$110m notes 2014	76.5	55.4
6.03% US$175m notes 2014	121.5	87.7
4.98% US$38m notes 2015	25.2	17.7
6.72% US$30m notes 2017	21.1	15.4
5.29% US$30m notes 2018	19.7	13.9
6.375% £200m bonds 2019 (2)	200.0	197.5
Carrying value	969.1	824.7
Fair value (2)	308.8	837.9

(1) The guarantee in respect of the 6.625% £250m guaranteed bond due 2012 was released on 16 January 2004.

(2) The fair value for all debenture loans has been based on the prices indicated for the two listed Eurobonds as at 31 December 2008 on the basis that the discount applied by the market to the listed bonds could be equally applicable to all of the Group's debt. This discount reflected the uncertainty in the market surrounding the Group's debt negotiations at the balance sheet date, which has subsequently been resolved on the signing of the Override Agreement in April 2009.

	2008 £m	2007 £m
Repayable		
Within one year or on demand	101.1	1.4
Total falling due in more than one year	868.0	823.3

Interest rates and currencies of debenture loans:

		Fixed rate debt		
	Floating rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average time until maturity years
31 December 2008				
Sterling (3)	–	484.5	6.53	6.2
US dollars	–	484.6	6.04	4.4
	–	969.1	6.29	5.5
31 December 2007				
Sterling (3)	1.4	473.3	6.53	7.2
US dollars	–	350.0	6.05	5.4
	1.4	823.3	6.33	6.4

(3) Interest on £100.0m (2007: £100.0m) of the 6.625% £250m guaranteed bond 2012 has been swapped from 6.625% to floating rate based on US dollar LIBOR applicable to periods of three months. The above table does not reflect the impact of these swaps.

On 24 December 2008 the Group announced that the providers of its bank facilities and its private placement note holders had agreed to defer the testing date into 2009 of certain financial covenants which had been due for testing on 31 December 2008. Had this deferral not been obtained, the Group would have been in breach of an interest cover covenant at the year end which could have resulted in certain debenture loans being presented as repayable on demand in these financial statements. However, as a result of this deferral, the Group remained in full compliance with all its existing covenants and loan terms in the current and preceding period. The Override Agreement signed on 7 April 2009 includes new financial covenants with which the Group is fully compliant which supersede those set out in the old financing agreements, including the covenant for which the test was deferred into 2009 – see note 37.

22. Trade and other payables

	Current		Non-current	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Trade payables	**562.9**	920.6	**293.8**	376.6
Joint ventures	**–**	3.4	**–**	–
Currency and interest rate derivatives	**14.4**	1.5	**–**	–
Other payables	**593.4**	614.8	**48.3**	11.8
	1,170.7	1,540.3	**342.1**	388.4

Trade payable days were 26 days (2007: 43 days), based on the ratio of year-end trade payables (excluding sub-contract retentions and unagreed claims of £28.8m (2007: £23.8m) and land creditors) to amounts invoiced during the year by trade creditors.

Other payables include customer deposits for reserving plots of £80.1m (2007: £90.1m).

Land creditors (included within trade payables) are due as follows:	2008 £m	2007 £m
Due within one year	**355.2**	453.7
Due in more than one year	**290.1**	375.3
	645.3	829.0

Land creditors are denominated as follows:	2008 £m	2007 £m
Sterling	**552.5**	711.0
US dollars	**33.1**	42.4
Canadian dollars	**35.9**	38.4
Euros	**23.8**	37.2
	645.3	829.0

Land creditors of £492.0m (2007: £570.9m) are secured against land acquired for development, or supported by bond or guarantee.

23. Financial instruments

Capital management

The Group operates within policies and procedures approved by the Board. The Group's capitalisation policy, which was established in 2007, set overall parameters for the consolidated capital structure designed to maintain a strong credit rating for the business and an appropriate funding structure for the assets based on a minimum interest cover and a maximum gearing. Equity, retained profits and long term fixed interest debt have historically been used to finance intangible assets, fixed assets and land. Short term borrowings are primarily used to finance net current assets, other than landbank assets of more than one year, and work in progress. In addition to term borrowings and overdraft facilities, the Group has access to committed revolving credit facilities and has accessed the capital markets from time to time. The rapid deterioration in the UK housing market experienced in 2008, which would have resulted in a breach of one of the Group's financial covenants at 31 December 2008 had the Group not secured a deferral in the testing of that covenant, means that the Group's policy has been temporarily suspended. This suspension is expected to continue throughout the term of the new financing agreements as set out in the Override Agreement (see note 37). The Group's focus is to remain in compliance with all of its financial obligations and to generate cash to reduce its level of borrowings.

Financial assets and financial liabilities

Categories of financial assets and financial liabilities are as follows:

Financial assets	Note	2008 Carrying value £m	2007 Carrying value £m
Derivative financial instruments:			
Designated as effective hedging instruments	(a)	**0.4**	17.7
Held for trading	(a)	**2.7**	2.2
Cash and cash equivalents	(b)	**752.3**	130.0
Loans and receivables:			
Land receivables	(b)	**55.6**	108.6
Trade and other receivables	(b)	**95.4**	192.3
Mortgage receivables	(b)	**31.7**	16.7
		938.1	467.5

Land receivables and trade and other receivables are included in the balance sheet as trade and other receivables for current and non-current amounts.

Current and non-current trade and other receivables, as disclosed, in note 19 include £43.4m (2007: £146.9m) of non-financial assets.

23. Financial instruments continued

Financial liabilities	Note	2008 Carrying value £m	2007 Carrying value £m
Derivative financial instruments:			
Designated as effective hedging instruments	(a)	**1.8**	–
Held for trading	(a)	**12.6**	1.5
Amortised cost:			
Bank loans and overdrafts		**1,312.5**	720.7
Land creditors	(b)	**645.3**	829.0
Trade and other payables	(b)	**701.1**	892.0
Debentures	(c)	**969.1**	824.7
		3,642.4	3,267.9

Land creditors and trade and other payables are included in the balance sheet as trade and other payables for current and non-current amounts.

Current and non-current trade and other payables, as disclosed in note 22, include £152.6m (2006: £206.2m) of non-financial liabilities.

(a) Derivative financial instruments are carried at fair value. The fair values are calculated using quoted market prices relevant for the term, currency and instrument.

(b) The Directors consider that the carrying amount recorded in the financial statements approximates their fair values.

(c) Details of fair values of debenture loans are provided in note 21.

The Group has the following types of derivatives:

	2008 Notional amount	2008 Weighted average fixed	2007 Notional amount	2007 Weighted average fixed
Designated as held for trading:				
Floating £ to fixed £ interest	**£185.0m**	**5.28%**	£235.0m	5.10%
Fixed US$ to floating US$ interest	**US$145.0m**	**5.16%**	US$145.0m	5.16%
Floating US$ to fixed US$ interest	**–**	**–**	US$50.0m	5.63%
Designated as hedging instruments:				
US$160.5m floating US$ to fixed £ interest	**£100.0m**	**6.63%**	£100.0m	6.63%

In addition, forward contracts have been entered into to hedge transaction risks on intra-Group loans to buy against Sterling: US$nil, €2.5m and C$nil (2007: US$55m and C$90.0m; sell against Sterling: €70.9m). The fair values of the forward contracts are not material as they were entered into on or near 31 December 2008 and mature not more than one month later.

Loss before tax has been arrived at after charging/(crediting) the following gains and losses:	2008 £m	2007 £m
Change in fair value of financial liabilities designated as effective hedged items	**6.9**	1.7
Change in fair value of derivatives designated as effective hedging instruments	**(6.9)**	(1.7)
Change in fair value of derivatives classified as held for trading	**(10.8)**	(5.4)
	(10.8)	(5.4)

Market risk

The Group's activities expose it to the financial risks of changes in both foreign currency exchange rates and interest rates. The Group aims to manage the exposure to these risks by the use of fixed or floating rate borrowings, foreign currency borrowings and derivative financial instruments.

23. Financial instruments continued

(a) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The exposure to these borrowings varies during the year due to the seasonal nature of cash flows relating to housing sales and the less certain timing of land payments. A combination of fixed rate borrowings and interest rate swaps are used to manage the volatility risk such that at the year end, taking all interest rate derivatives into account, fixed rate borrowings are not more than 70% of total borrowings but not less than 50%.

In order to measure the risk, floating rate borrowings and the expected interest cost for the year are forecast on a monthly basis and compared to budget using management's expectations of a reasonably possible change in interest rates. Interest expense volatility remained within acceptable limits throughout the year. Group policy does not allow the use of derivatives to speculate against changes to future interest rates and they are only used to manage exposure to volatility.

The Group's exposure to, and the way in which it manages interest rate risk, has not changed from the previous year.

On 7 April 2009 the Group agreed new terms for its debt – see note 37.

Hedge accounting

Hedging activities are evaluated periodically to ensure that they are in line with policy.

The cross currency, fixed to floating interest rate swaps have been bifurcated for hedging purposes and designated as fair value hedges such that the Group receives interest at a fixed rate of 6.625% based on a nominal value of £100m matching the underlying borrowing and pay US dollar floating rates on a nominal value of US$160.5m. During the period, the hedge was 100% effective (2007: 100%) in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the loan was reduced by £6.9m (2007: increased by £1.7m) which was included in the income statement offsetting the fair value movement of the bifurcated interest rate swap.

A number of derivatives are held which, while providing an economic hedge to the volatility of interest rates, do not satisfy the strict requirements for hedge accounting and are therefore designated as held for trading.

Interest rate sensitivity

The effect on both income and equity, determined based on exposure to non-derivative floating rate instruments at the balance sheet date, for a 1% (2007: 1%) rise in interest rates is £(5.6m) (2007: £(5.8m)), before tax, a 1% (2007: 1%) fall in interest rates gives the same but opposite effect. For derivatives the fair values have been calculated based on market quoted rates adjusted for the sensitivity as shown in the tables below.

Due to seasonal fluctuations the level of net borrowings at the financial year end are not representative of net borrowings during the year and therefore interest rate sensitivity before tax for a reasonably possible 1% (2007: 1%) rise in floating rate instruments as shown below is based on a monthly average for the current period. The table assumes all other variables remain constant and in accordance with IFRS 7 does not attempt, for example, to include the effects of any resultant change in exchange rates.

1% increase in interest rates	Sensitivity income 2008 £m	Sensitivity equity 2008 £m	Sensitivity income 2007 £m	Sensitivity equity 2007 £m
Derivatives	4.4	4.7	5.3	1.8
Non derivatives (based on average for the year)	(9.5)	(9.5)	(4.6)	(4.6)
	(5.1)	(4.8)	0.7	(2.8)

1% decrease in interest rates	Sensitivity income 2008 £m	Sensitivity equity 2008 £m	Sensitivity income 2007 £m	Sensitivity equity 2007 £m
Derivatives	(4.6)	(4.8)	(5.6)	(1.9)
Non derivatives (based on average for the year)	9.5	9.5	4.6	4.6
	4.9	4.7	(1.0)	2.7

The interest rate sensitivity shown above will be superseded by the terms of the Override Agreement – see note 37.

(b) Foreign currency risk management

The Group's overseas activities expose it to the financial risks of changes in foreign currency exchange rates primarily to US dollars, Canadian dollars and the Euro.

The Group is not materially exposed to transaction risks as nearly all Group companies conduct their business in their respective functional currencies. Group policy requires that transaction risks are hedged to the functional currency of the subsidiary using foreign currency borrowings or derivatives where appropriate.

The Group is also exposed to the translation risk of accounting for both the income and the net investment held in functional currencies other than Sterling. The net investment risk is partially hedged using foreign currency borrowings and derivatives. Assets and liabilities denominated in non-functional currencies are retranslated each month using the latest exchange rates and resultant exchange gains or losses monitored each month. Income is also measured monthly using the latest exchange rates and compared to a budget held at historical exchange rates. Other than the natural hedge provided by foreign currency borrowings the translation risk of income is not hedged using derivatives. The policy is kept under periodic review.

The Group's exposure to, and the way in which it manages, exchange rate risk has not changed from the previous year.

23. Financial instruments continued

Hedge accounting

The Group designates the bifurcated cross currency swaps such that the nominal amount of US$160.5m (2007: US$160.5m) is used to hedge part of the Group's net investment in US dollar denominated assets and liabilities.

The Group has also designated the carrying value of US$527.5m and €75.0m (2007: US$982.5m and €nil) borrowings as a net investment hedge of part of the Group's investment in US dollar and Euro denominated assets respectively.

The hedge was highly effective throughout the period (2007: 100% effective) and is expected to be highly effective prospectively. The change in the carrying amount of the derivatives which were effective hedging instruments and the change in the carrying value of the borrowings offset the exchange movement on the Group's US dollar and € net investments and are included in the translation reserve.

Foreign currency sensitivity

The Group is primarily exposed to US dollars, Canadian dollars and the Euro. The following table details how the Group's income and equity would increase/(decrease) on a before tax basis, to a 20% increase (2007: 10%) in the respective currencies against Sterling and in accordance with IFRS 7, all other variables remaining constant. A 20% (2007: 10%) decrease in the value of Sterling would have an equal but opposite effect.

The 20% (2007: 10%) change represents a reasonably possible change in the specified foreign exchange rates in relation to Sterling.

	Income sensitivity 2008 £m	Equity sensitivity 2008 £m	Income sensitivity 2007 £m	Equity sensitivity 2007 £m
US dollar	**(4.4)**	**10.6**	(15.1)	(20.2)
Canadian dollar	**(0.4)**	**(35.2)**	0.2	(15.6)
Euro	**0.4**	**(14.1)**	0.2	0.2
	(4.4)	**(38.7)**	(14.7)	(35.6)

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

The Group's historical policy was to place surplus cash with banks with a minimum credit rating. This was modified in 2008 due to the uncertainties in the financial sector and where possible surplus cash, when not used to repay borrowings is placed on deposit with the Group's revolving credit facility syndicate banks. In Canada, surplus cash is placed on deposit across a number of banks based on credit rating. Credit risk on derivatives where the fair value is positive is closely monitored and remains within acceptable limits.

Land receivables arise from sales of surplus land on deferred terms. A policy is in place such that if the risk is not acceptable then the deferred payment must have adequate security either by the use of an appropriate guarantee or a charge over the land. The fair value of any land held as security is considered by management to be sufficient in relation to the carrying amount of the receivable to which it relates.

Trade and other receivables comprise mainly amounts receivable from various housing associations and other housebuilders. Management consider that the credit quality of the various debtors is good in respect of the amounts outstanding and therefore credit risk is considered to be low. There is no significant concentration risk. A small allowance for credit losses against sundry debtors is held, however, the balance is not material in relation to the gross carrying value of this particular class of financial asset.

Loans made to joint ventures are in most cases part of the investment and carry equity like risk. Other loans to joint ventures are made on normal arm's-length terms which will include security where appropriate and are usually repayable from sales proceeds.

The Group's exposure to credit risk has increased compared to the prior year due to the current policy of maintaining a higher level of liquidity and the general deterioration in credit quality due to the current economic climate.

The carrying amount of financial assets, as detailed above, represents the Group's maximum exposure to credit risk at the reporting date assuming that any security held has no value.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources available to meet its obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the expected cash flow timings of financial assets and liabilities and ideally through the use of term borrowings, overdrafts and committed revolving credit facilities with a range of maturity dates to ensure continuity of funding. Future borrowing requirements are forecast on a weekly and monthly basis and funding headroom is maintained above forecast peak requirements to meet unforeseen events. The monitoring of this risk during the year identified early that the Group was at risk of breaching one of its debt and private placement covenants, which enabled the Group to commence negotiations with its lenders well in advance of the date that the covenant was due to be tested.

The Group has maintained a higher level of cash balances while the negotiations with its lenders have been continuing. Now that the negotiations have been successfully concluded, these cash balances will be used to repay revolving credit facilities.

In addition to term borrowings and on demand overdraft facilities the Group has access to committed revolving credit facilities and cash balances. At the balance sheet date, the total unused committed amount was £410.9m (2007: £1,192.9m) and cash and cash equivalents of £752.3m (2007: £103.0m). As a result of successfully concluding negotiations with its lenders in April 2009, the Group now has committed funding until mid-2012 including term loans, committed revolving credit facilities, committed overdrafts, bank guarantee and letter of credit facilities totalling £2,467m. Management believe this level of committed funding is adequate to meet forecast requirements.

23. Financial instruments continued

The maturity profile of the anticipated future cash flows including interest using the latest applicable relevant rate based on the earliest date on which the Group can be required to pay financial liabilities on an undiscounted basis is as follows:

Financial liabilities	Bank loans and overdraft £m	Land creditors £m	Other trade payables £m	Debenture loans £m	Total £m
On demand	**22.8**	**–**	**–**	**–**	**22.8**
Within one year	**60.3**	**410.1**	**634.1**	**160.3**	**1,264.8**
More than one year and less than two years	**59.6**	**83.3**	**40.1**	**54.1**	**237.1**
More than two years and less than five years	**1,379.4**	**118.0**	**13.5**	**463.0**	**1,973.9**
In more than five years	**–**	**38.4**	**13.4**	**554.9**	**606.7**
31 December 2008	**1,522.1**	**649.8**	**701.1**	**1,232.3**	**4,105.3**

Financial liabilities	Bank loans and overdraft £m	Land creditors £m	Other trade payables £m	Debenture loans £m	Total £m
On demand	12.3	–		–	12.3
Within one year	40.8	444.3	848.6	54.1	1,387.8
More than one year and less than two years	42.2	250.3	8.3	124.7	425.5
More than two years and less than five years	809.6	143.5	3.8	430.6	1,387.5
In more than five years	–	30.6	–	514.8	545.4
31 December 2007	904.9	868.7	860.7	1,124.2	3,758.5

The following table represents the undiscounted cash flow profile of the Group's derivative financial instruments and has been calculated using implied interest rates and exchange rates derived from the respective yield curves. Interest rate swaps are settled net and foreign currency swaps and forward contracts are settled gross except in the case of a default by either party where the amounts may be settled net.

Derivatives	Net-settled derivatives net amount £m	Gross-settled derivatives receivable £m	Gross-settled derivatives payable £m	Total £m
Within one year	**(1.6)**	**9.0**	**(7.3)**	**0.1**
More than one year and less than two years	**(4.8)**	**6.6**	**(5.4)**	**(3.6)**
More than two years and less than five years	**(3.4)**	**113.3**	**(112.3)**	**(2.4)**
In more than five years	**(0.8)**	**–**	**–**	**(0.8)**
31 December 2008	**(10.6)**	**128.9**	**(125.0)**	**(6.7)**

Derivatives	Net-settled derivatives £m	Gross-settled derivatives receivable £m	Gross-settled derivatives payable £m	Total £m
Within one year	2.0	132.1	(130.8)	3.3
More than one year and less than two years	0.1	6.6	(4.5)	2.2
More than two years and less than five years	(1.4)	119.9	(96.4)	22.1
In more than five years	–	–	–	–
31 December 2007	0.7	258.6	(231.7)	27.6

24. Retirement benefit schemes

Retirement benefit obligation comprises gross pension liability of £277.2m (2007: £216.4m) and gross post-retirement health care liability of £2.6m (2007: £2.7m).

The Group operates Defined Benefit and Defined Contribution pension schemes. In the UK, the Taylor Woodrow Group Pension and Life Assurance Fund (TWGP&LAF) and the George Wimpey Staff Pension Scheme (GWSPS) are funded Defined Benefit schemes. The Taylor Woodrow NHS Pension Scheme (TWNHSPS), which was also a Defined Benefit scheme, was disposed of as part of the disposal of the construction business on 9 September 2008. The TWGP&LAF merged with the Bryant Group Pension Scheme (BGPS) on 24 June 2002 and with the Wilson Connolly Holdings Pension Scheme (WCHPS), the Wainhomes Ltd Pension Scheme (WHLPS) and the Prestoplan Pension Scheme (PPS) on 27 August 2004. These schemes are managed by boards of trustees. The Group's Defined Benefit schemes are closed to new entrants. The TWGP&LAF was closed to future pension accrual with effect from 30 November 2006. An alternative Defined Contribution arrangement, the Taylor Woodrow Personal Choice Plan, is offered to new employees and from 1 December 2006 to employees who previously accrued benefits in the TWGP&LAF. Legacy George Wimpey staff are members of a UK Stakeholder arrangement. Contributions of £8.9m (2007: £11.2m) were charged to income in respect of defined contribution schemes. The Group also operates a number of small overseas pension schemes including defined benefit schemes in the US and Canada. Of the defined benefit pension scheme net deficit of £277.2m (2007: £216.4m) at 31 December 2008, £268.3m (2007: £217.2m) related to the TWGP&LAF and GWSPS schemes in the UK and £8.9m (2007: £0.8m surplus) related to defined benefit schemes in the US and Canada.

The pension scheme assets of the Group's principal defined benefit pension schemes, TWGP&LAF and GWSPS are held in a separate trustee-administered fund to meet long term pension liabilities to past and present employees. The trustees of the schemes are required to act in the best interests of the schemes' beneficiaries. The appointment of trustees is determined by each scheme's trust documentation. The Group has a policy that at least one-third of all trustees should be nominated by members of the scheme.

The most recent formal actuarial valuation of the TWGP&LAF was carried out at 1 June 2007. The most recent formal actuarial valuation of the GWSPS was carried out at 31 March 2007. The projected unit method was used in all valuations and assets were taken into account using market values.

The next formal valuations of the TWGP&LAF and GWSPS are taking place at 1 June 2010 and 31 March 2010 respectively. The statutory funding objective is that each scheme has sufficient and appropriate assets to pay its benefits as they fall due. The general principles adopted by the trustees will be that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

In 2008 the Group agreed revised funding schedules with the Trustees of both schemes under which the Group will make annual funding contributions of £20m over eight years in respect of the TWGP&LAF and £25m over 10 years in respect of GWSPS. Following the last valuation of the GWSPS, the ordinary contribution rate was set at 18% of pensionable salaries.

The main financial assumptions, which were used for the triennial funding valuation and are all relative to the inflation assumption, are as set out below:

Assumptions	TWGP&LAF	GWSPS
RPI inflation	3.15%	3.15%
Discount rate – pre/post-retirement	5.60%	6.75/4.75%
General pay inflation	–	5.15%
Real pension increases	0.00%	0.00%

Valuation results	TWGP&LAF	GWSPS
Market value of assets	£764m	£668m
Past service liabilities	£926m	£883m
Scheme funding levels	82.00%	76.00%

The valuations of the Group's pension schemes have been updated to 31 December 2008 and the position of overseas schemes has been included within the IAS 19 disclosures. The principal actuarial assumptions used in the calculation of the disclosure items are as follows:

	United Kingdom		North America	
	2008	2007	2008	2007
As at 31 December				
Discount rate for scheme liabilities	6.30%	5.80%	5.80-7.00%	5.30-5.80%
Expected return on scheme assets	5.80-6.45%	6.20-6.25%	5.50-8.00%	5.50-6.60%
General pay inflation	4.30%	4.60%	3.00%	2.60%
Deferred pension increases	2.80%	3.10%	0.00%	0.00%
Pension increases	2.15-3.35%	2.25-3.35%	0.00-3.00%	0.00-3.00%

The basis for the above assumptions are prescribed by IAS 19 and do not reflect the assumptions that may be used in future funding valuations of the Group's pension schemes.

24. Retirement benefit schemes continued

The current life expectancies (in years) underlying the value of the accrued liabilities for the main UK plans are:

Life expectancy at age 65	2008 Male	2008 Female	2007 Male	2007 Female
Member currently age 65	**86**	**89**	84	87
Member currently age 45	**87**	**90**	85	88

The fair value of assets and present value of obligations of the Group's defined benefit pension schemes are set out below:

	Expected rate of return % p.a	United Kingdom £m	North America £m	Total plans £m	Percentage of total plan assets held
31 December 2008					
Assets:					
Equities	**6.90%**	**422.2**	**9.3**	**431.5**	**34%**
Bonds	**6.50%**	**324.2**	**5.8**	**330.0**	**26%**
Gilts	**3.40%**	**474.8**	**–**	**474.8**	**37%**
Other assets	**2.00%**	**44.2**	**–**	**44.2**	**3%**
		1,265.4	**15.1**	**1,280.5**	**100%**
Present value of defined benefit obligations		**(1,533.7)**	**(24.0)**	**(1,557.7)**	
Deficit in schemes recognised as non-current liability		**(268.3)**	**(8.9)**	**(277.2)**	
31 December 2007					
Assets:					
Equities	8.10%	488.0	8.3	496.3	35%
Bonds/Gilts	5.80/4.60%	836.0	4.4	840.4	58%
Other assets	5.50%	97.5	–	97.5	7%
		1,421.5	12.7	1,434.2	100%
Present value of defined benefit obligations		(1,638.7)	(11.9)	(1,650.6)	
(Deficit)/surplus in schemes recognised as non-current liability		(217.2)	0.8	(216.4)	

To develop the expected long term rate of return on assets assumption, the Group considered the current level of expected returns on investments (particularly government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class were then weighted based on the asset allocation to develop the expected long term rate of return on assets assumption for the portfolio.

The expected return on scheme assets is based on market expectations at the beginning of the financial period for returns over the life of the related obligation. The expected yield on bond investments with fixed interest rates can be derived exactly from their market value. Some of these bond investments are issued by the UK Government. The risk of default on these is very small. The trustees also hold bonds issued by public companies. There is a more significant risk of default on these which is assessed by various rating agencies.

The trustees also have a substantial holding of equity investments. The investment return related to these is variable, and they are generally considered 'riskier' investments.

It is generally accepted that the yield on equity investments will contain a premium, 'the equity risk premium', to compensate investors for the additional risk of holding this type of investment. There is significant uncertainty about the likely size of this risk premium.

A summary of the target asset allocations of the major defined benefit schemes are shown below:

	TWGP&LAF	GWSPS
UK Equities	15%	18%
Non-UK Equities	30%	12%
Index-Linked Gilts	15%	25%
Fixed-Interest Gilts	10%	16%
Other UK bonds	25%	24%
GTAA	–	5%
Property	5%	–

24. Retirement benefit schemes continued

	2008 £m	2007 £m
Amount (charged against)/credited to income:		
Current service cost	**(5.5)**	(5.1)
Curtailment loss	**(0.9)**	–
Settlement loss	**–**	–
Operating cost	**(6.4)**	(5.1)
Expected return on scheme assets	**82.0**	66.1
Interest cost on scheme liabilities	**(93.7)**	(69.9)
Finance charges	**(11.7)**	(3.8)
Total charge	**(18.1)**	(8.9)

The actual return on scheme assets was a loss of £128.4m (2007: gain of £53.4m).

	2008 £m	2007 £m
Actuarial (losses)/gains in the statement of recognised income and expenses:		
Difference between actual and expected return on scheme assets	**(210.4)**	(12.7)
Experience gains arising on scheme liabilities	**(22.1)**	26.7
Changes in assumptions	**142.3**	77.3
Total (loss)/gains recognised in the statement of recognised income and expense	**(90.2)**	91.3

The cumulative amount of actual gains and losses recognised in the statement of recognised income and expense is £73.8m loss (2007: £16.4m gain).

	2008 £m	2007 £m
Movement in present value of defined benefit obligations		
1 January	**1,650.6**	955.6
Changes in exchange rates	**5.6**	0.4
Service cost	**5.5**	5.1
Curtailment gain	**0.9**	–
Plan settlements	**–**	–
Benefits paid and expenses	**(80.4)**	(58.6)
Contributions – employee	**2.0**	1.2
Interest cost	**93.7**	69.9
Acquisitions	**–**	781.0
Actuarial gains	**(120.2)**	(104.0)
31 December	**1,557.7**	1,650.6

	2008 £m	2007 £m
Movement in fair value of scheme assets		
1 January	**1,434.2**	749.7
Changes in exchange rates	**3.0**	0.8
Expected return on scheme assets and expenses	**82.0**	63.6
Contributions – employer and employee	**52.5**	31.2
Benefits paid	**(80.8)**	(56.1)
Plan settlements	**–**	–
Acquisitions	**–**	657.7
Actuarial losses	**(210.4)**	(12.7)
31 December	**1,280.5**	1,434.2

24. Retirement benefit schemes continued

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
History of experience gains and losses:					
Fair value of scheme assets	**1,280.5**	1,434.2	749.7	706.1	627.0
Present value of defined benefit obligations	**(1,557.7)**	(1,650.6)	(955.6)	(925.9)	(769.5)
Deficit in the scheme	**(277.2)**	(216.4)	(205.9)	(219.8)	(142.5)
Difference between actual and expected return on scheme assets:					
Amount	**(210.4)**	(12.7)	24.2	61.4	22.0
Percentage of scheme assets	**16.4%**	1.0%	3.0%	9.0%	4.0%
Experience adjustments on scheme liabilities:					
Amount	**(22.1)**	26.7	0.2	(32.6)	(6.5)
Percentage of scheme liabilities	**1.4%**	2.0%	0.0%	4.0%	0.8%

The estimated amounts of contributions expected to be paid to the TWGP&LAF during 2009 are £20m, to the GWSPS are £31m.

The Group liability is the difference between the scheme liabilities and the scheme assets. Changes in the assumptions may occur at the same time as changes in the market value of scheme assets. These may or may not offset the change in assumptions. For example, a fall in interest rates will increase the scheme liability, but may also trigger an offsetting increase in the market value so there is no net effect on the Company liability.

Assumption	Change in assumption	Impact on scheme liabilities £m
Discount rate	Increase by 0.1% p.a.	Decrease by £23.0m
Rate of inflation	Increase by 0.1% p.a.	Increase by £21.0m
Rate of pay inflation	Increase by 0.1% p.a.	Increase by £1.6m
Rate of mortality	Members assumed to live 1 year longer	Increase by £38.0m

The projected liabilities of the defined benefit scheme are apportioned between members' past and future service using the projected unit actuarial cost method. The defined benefit obligation makes allowance for future earnings growth. If all active members were assumed to leave the Company and the allowance for future earnings growth was replaced by an allowance for statutory revaluation, the liabilities would reduce by £15.0m.

The gross post-retirement liability also includes £2.6m at 31 December 2008 (2007: £2.7m) in respect of continuing post-retirement health care insurance premiums for retired long-service employees. The liability is based upon the actuarial assessment of the remaining cost by a qualified actuary on a net present value basis at 31 December 2008.

The cost is calculated assuming a discount rate of 5% per annum and an increase in medical expenses of 10% per annum. The premium cost to the Group in respect of the retired long-service employees for 2008 was £0.2m (2007: £0.2m).

25. Provisions

	Housing maintenance £m	Restructuring £m	Other £m	Total £m
At 1 January 2007	27.9	–	–	27.9
Additional provision in the year	23.5	52.8	1.7	78.0
Acquisition of George Wimpey Plc	5.8	–	13.9	19.7
Utilisation of provision	(18.7)	(19.2)	(1.2)	(39.1)
Changes in exchange rates	–	–	0.1	0.1
At 31 December 2007	38.5	33.6	14.5	86.6
Additional provision in the year	5.9	35.1	36.0	77.0
Utilisation of provision	(15.0)	(42.2)	(3.4)	(60.6)
Released	(0.7)	(5.2)	(3.2)	(9.1)
Changes in exchange rates	10.3	0.8	2.1	13.2
At 31 December 2008	**39.0**	**22.1**	**46.0**	**107.1**

	£m
Amount due for settlement within one year	**56.1**
Amount due for settlement after one year	**51.0**
31 December 2008	**107.1**

25. Provisions continued

The housing maintenance provision arises principally from warranties and other liabilities on housing sold. Whilst such warranties extend to a period of 10 years, payment of these costs is likely to occur within a period of two years. The Group has a restructuring provision relating to the second stage of the reorganisation of the UK Housing business following the merger with George Wimpey Plc in 2007. It is anticipated that the majority of this provision, which comprises redundancy costs and empty property costs will be utilised within eight years. Other provisions consist of a remedial work provision, provisions for legal claims and other contract-related costs. The remedial work provision covers various obligations, including aftercare at Springfield Environmental Limited which has a legal responsibility of a long term nature for the management of old, completed sites and provisions for losses on construction contracts for which responsibility was retained by George Wimpey Plc group following an asset swap with Tarmac Plc in 1996. Provisions for legal claims and contract-related costs comprise various matters arising across the Group, the majority of which are anticipated to be settled within a three-year period.

26. Share capital

	2008 £m	2007 £m
Authorised:		
2,000,000,000 ordinary shares of 25p each	**500.0**	500.0

	Number of shares	£m
Issued and fully paid:		
1 January 2007	594,150,096	148.5
Acquisition of George Wimpey Plc	563,919,759	141.0
Options exercised	194,175	0.1
US Employee Stock Purchase Plan	30,678	–
31 December 2007	1,158,294,708	289.6
US Employee Stock Purchase Plan	4,493	–
31 December 2008	**1,158,299,201**	**289.6**

During the year, options were exercised on 249,796 (2007: 4,347,240) ordinary shares of which 4,493 (2007: 194,175) were new issues with the balance coming from Treasury/ESOT at varying prices from 148.8p to 226.8p and shares were issued for a total consideration of nil (2007: £4.2m). Additionally, 844 (2007: nil) ordinary shares were awarded to employees for 25 or 40 years' long service. Under the Group's senior executives' share option scheme and executive share option plan, employees held options at 31 December 2008 to purchase 15,467,631 shares (2007: 855,810) at prices between 16.3p and 252.8p per share exercisable up to 16 October 2018. Under the Group's savings-related share option schemes, employees held options at 31 December 2008 to purchase 24,921,300 shares (2007: 7,043,437) at prices between 37.6p and 278.8p per share exercisable up to 31 May 2014. Under the Group's cash bonus deferral plan and executive bonus plan, employees held options at 31 December 2008 in respect of 228,126 shares (2007: 716,604) at nil pence per share exercisable up to 9 April 2010. Under the Group's performance share plan, employees held conditional awards at 31 December 2008 in respect of 7,832,194 shares (2007: 4,512,837) at nil pence per share exercisable up to 16 October 2018. Under the Group's share purchase plan, employees held conditional awards at 31 December 2008 in respect of 3,252,206 shares (2007: 871,812) at nil pence per share. The former George Wimpey plans were acquired as part of the merger in 2007. Under the George Wimpey Sharesave Scheme, employees held options at 31 December 2008 to purchase 1,257,529 shares (2007: 3,378,282) at prices between 164.2p and 276.9p per share exercisable up to 31 May 2012. Under the George Wimpey Executive Option Scheme, employees held awards at 31 December 2008 in respect of 2,908,267 shares (2007: 4,182,473) at prices between 212.6p and 456.7p per share exercisable up to 2 April 2017. Under the George Wimpey Long Term Incentive Plan, employees held awards at 31 December 2008 in respect of 1,507,710 shares (2007: 3,990,182) at nil pence per share exercisable up to 2 April 2010.

Under the Override Agreement (see note 37), the Company agreed to issue 57.9m warrants giving the holders the right to subscribe to an equivalent number of ordinary shares in Taylor Wimpey plc at par value. The warrants may be exercised at par by the holder within five years of the date of issue.

27. Share premium account

	£m
Balance at 1 January 2007	758.8
Amortisation of debt transferred from retained earnings	(0.7)
Balance at 31 December 2007	758.1
Amortisation of debt transferred from retained earnings	(4.5)
Balance at 31 December 2008	**753.6**

28. Reserves

	Retained earnings £m	Merger relief reserve £m	Capital redemption reserve	Translation reserve £m	Share-based payment tax reserve £m	Other £m	Total other reserves £m
Balance at 1 January 2007	1,214.3	–	31.5	(19.1)	8.2	6.3	26.9
Dividends paid	(117.3)	–	–	–	–	–	–
Transfers to share premium account	0.7	–	–	–	–	–	–
Share-based payment credit	0.6	–	–	–	–	–	–
Cash cost of satisfying share options	(8.9)	–	–	–	–	–	–
Replacement options granted on acquisition of George Wimpey Plc	2.9	–	–	–	–	–	–
Premium on ordinary shares issued to acquire George Wimpey plc	–	1,934.2	–	–	–	–	–
Actuarial gains net of deferred tax	61.7	–	–	–	–	–	–
Transfer to retained earnings	1.0	–	–	–	–	(1.0)	(1.0)
Net loss for the year	(197.9)	–	–	–	–	–	–
Exchange differences on translation of overseas operations, net of tax	–	–	–	22.0	–	–	22.0
Increase in fair value of hedging derivatives	–	–	–	0.8	–	–	0.8
Decrease for the year	–	–	–	–	(2.6)	–	(2.6)
Balance at 31 December 2007	957.1	1,934.2	31.5	3.7	5.6	5.3	46.1
Dividend paid	(107.9)	–	–	–	–	–	–
Transfer to share premium account	4.5	–	–	–	–	–	–
Share-based payment credit	6.0	–	–	–	–	–	–
Cash cost of satisfying share options	(0.9)	–	–	–	–	–	–
Actuarial losses net of deferred tax	(66.7)	–	–	–	–	–	–
Deferred tax asset write off	(47.2)	–	–	–	–	–	–
Transfer to retained earnings	1,934.7	(1,934.2)	–	–	–	(0.5)	(0.5)
Exchange differences on translation of overseas operations, net of tax	–	–	–	50.3	–	–	50.3
Decrease in fair value of hedging derivatives	–	–	–	(31.2)	–	–	(31.2)
Net loss for the year	(1,841.3)	–	–	–	–	–	–
Balance at 31 December 2008	**838.3**	**–**	**31.5**	**22.8**	**5.6**	**4.8**	**64.7**

Merger relief reserve

In accordance with Section 131 of the Companies Act 1985, the premium on ordinary shares issued on the merger with George Wimpey Plc was recorded as a merger relief reserve. The reserve is not distributable but can be used to:

- Make a bonus issue of fully paid shares;
- Transfer to the profit and loss account reserve an amount equal to the amount that has become realised by virtue of either:
  The disposal of the related investment; or
  An amount written off the related investment and charged against the profit and loss account.

During the year, £1,934.2m (2007: nil) was transferred to retained earnings to offset the write down charged to the profit and loss account of the investment to which the reserve related.

Other reserves

Capital redemption reserve

The capital redemption reserve arose on the historical redemption of parent Company shares, and is not distributable.

Translation reserve

Translation reserve consists of exchange differences arising on the translation of overseas operations. It also includes changes in fair values of hedging derivatives where such instruments are designated and effective as hedges of investment in overseas operations.

Share-based payment tax reserve

As explained in the statement of accounting policies, an expense is recorded in the Group's income statement over the period from the grant date to the vesting date of share options granted to employees. As there is a temporary difference between the accounting and tax bases, a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory tax rate, the excess is recorded directly in equity, in this share-based payment tax reserve.

29. Own shares

	£m
Balance at 1 January 2007	45.0
Acquired in the year	251.6
Disposed of on exercise of options	(14.6)
Balance at 31 December 2007	282.0
Disposed of on exercise of options	(6.3)
Balance at 31 December 2008	**275.7**

The own shares reserve represents the cost of shares in Taylor Wimpey plc purchased in the market and those held as treasury shares and held by the Taylor Wimpey plc Employee Benefit Trust to satisfy options under the Group's share options schemes.

During the year, Taylor Wimpey plc purchased none of its own shares (2007: 94.8m).

	2008 Number	2007 Number
These comprise ordinary shares of the Company:		
Treasury shares	**92.7m**	102.7m
Shares held in trust for bonus, option and performance award plans	**6.8m**	4.5m
	99.5m	107.2m

Employee Share Ownership Trusts ('ESOTs') are used to hold the Company's shares ('shares') which are either acquired on the market or (during 2008) transferred out of the Company's holding of shares in Treasury. These shares are used to meet the valid exercise and/or vesting of conditional awards (under the DBP and PSP) and options (under the Savings-Related, Executive Share Option, George Wimpey LTIP and Executive Bonus Plans) over shares, and the matching award of shares under the Share Purchase Plan.

During the year, 10.0m (2007: 4.3m) shares were transferred out of the Company's Treasury holding to the ESOTs for this purpose.

The ESOTs' entire holding of shares at 31 December 2008, aggregating 6.7m shares (2007: 4.5m), was covered by outstanding options and conditional awards over shares at that date.

30. Reconciliation of movements in consolidated equity

	2008 £m	2007 £m
Total recognised loss for the year	**(1,934.8)**	(112.2)
Dividends on equity shares	**(107.9)**	(117.3)
New share capital subscribed	**–**	2,075.3
Replacement options granted on acquisition of George Wimpey Plc	**–**	2.9
Transfer of own shares	**6.3**	14.6
Purchase of own shares	**–**	(251.6)
Decrease in share-based payment tax reserve	**–**	(2.6)
Share-based payment charge	**6.0**	0.6
Cash cost of satisfying share options	**(0.9)**	(8.9)
Dividends to minority shareholders	**(0.7)**	(1.1)
Net (decrease)/increase in equity	**(2,032.0)**	1,599.7
Opening equity	**3,705.2**	2,105.5
Closing equity	**1,673.2**	3,705.2

31. Discontinued operations and disposals

Discontinued operations

On 9 September 2008, Taylor Wimpey plc disposed of Taylor Woodrow Construction (TWC) the results of which have been presented as discontinued. The business was sold for £74.0m in cash resulting in a profit on disposal of £55.6m. On disposal, the continuing Group repaid £89.5m of intercompany balances owing to TWC. The cash costs of disposal were £3.4m, and £4.2m of cash was disposed of with the business.

During the period, TWC contributed a £4.3m outflow (2007: £28.4m inflow) to the Group's net operating cash flows, a £0.6m inflow (2007: £10.6m outflow) in respect of investing activities and nil (2007: nil) in respect of financing activities.

The analysis of the result from TWC is as follows:

	2008 £m	2007 £m
Revenue	453.4	571.5
Expenses	(451.3)	(558.1)
Profit on ordinary activities before finance costs and taxation	2.1	13.4
Net interest receivable	0.1	0.7
Profit on ordinary activities before taxation	2.2	14.1
Taxation	(4.7)	(3.8)
(Loss)/profit after tax of discontinued operation	(2.5)	10.3
Gain on disposal of discontinued operation	55.6	–
Tax on gain on sale	–	–
Profit from discontinued operation	53.1	10.3

An analysis of the assets and liabilities of TWC at the date of sale of 9 September 2008, excluding the intercompany receivable balance of £89.5m settled on disposal, and the comparative figures at 31 December 2007 is set out below:

	September 2008 £m	31 December 2007 £m
Property, plant and equipment	9.4	9.1
Investment in joint ventures	0.1	0.1
Trade and other receivables	62.7	59.3
Cash	4.2	7.0
Trade and other payables	(157.2)	(153.7)
Deferred taxation asset/(liability)	0.4	(0.1)
Net liabilities of discontinued operation	(80.4)	(78.3)

Prior to its disposal, TWC, which had been a participating employer in the TWGP&LAF defined benefit pension scheme, transferred all of its past and future obligations under the scheme to another Group company, Taylor Woodrow Developments Limited ('TWD Ltd'), part of the continuing operations of the Group. TWD Ltd is included in the Housing United Kingdom business segment. As a result of this transfer, the net assets of TWC at 31 December 2007 shown in the table above exclude a pension liability of £67.8m which was included in the operating liabilities of the Construction business segment in the 2007 published financial statements and which is now shown within the operating liabilities of the Housing United Kingdom business segment in these financial statements (see note 4). The table above also excludes the 2007 deferred tax asset of £19.2m on the pension liability.

Other disposals

During 2008, the Group also disposed of a mining operation in Ghana for £11m in cash.

Subsequent to the year end, on 21 April 2009, the Group disposed of its remaining construction operations in Ghana to existing local management for £1 in cash.

32. Notes to the cash flow statement

	2008 £m	2007 (restated) £m
(Loss)/profit on ordinary activities before finance costs – continuing	**(1,798.2)**	55.8
– discontinued	**2.1**	13.4
Non-cash exceptional items:		
Impairment of goodwill	**699.8**	–
Impairment of brands and software development	**116.3**	30.0
Land and WIP write downs	**1,012.8**	289.7
Adjustments for:		
Amortisation of brands	**2.4**	3.7
Amortisation of software development costs	**4.3**	2.0
Depreciation of plant and equipment	**7.9**	8.3
Share-based payment charge	**6.0**	0.6
Gain/(loss) on disposal of property and plant	**1.0**	(5.7)
Increase in provisions	**6.8**	38.6
Operating cash flows before movements in working capital	**61.2**	436.4
Decrease/(increase) in inventories	**393.7**	(316.0)
Decrease in receivables	**135.9**	38.9
Decrease in payables	**(390.8)**	(81.6)
Pension contributions in excess of charge	**(44.1)**	(30.0)
Cash generated by operations	**155.9**	47.7
Income taxes received/(paid)	**112.6**	(127.3)
Interest paid	**(114.9)**	(83.7)
Net cash from/(used in) operating activities	**153.6**	(163.3)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with an original maturity of three months or less.

	2008 £m	2007 £m
Net debt		
Cash and cash equivalents	**752.3**	130.0
Bank overdrafts and bank loans	**(1,312.5)**	(720.7)
Debenture loans	**(969.1)**	(824.7)
Net debt	**(1,529.3)**	(1,415.4)

33. Contingent liabilities and capital commitments

General

The Company and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of the Group's share of certain contractual obligations of joint ventures.

The Group has entered into counter-indemnities in the normal course of business in respect of performance bonds.

Provision is made for the Directors' best estimate of all known legal claims and all legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

The Group has no material capital commitments as at 31 December 2008 (2007: nil).

34. Operating lease arrangements

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	**8.4**	16.1
In more than one year but not more than five years	**26.6**	44.1
After five years	**12.3**	17.4
	47.3	77.6

Operating lease payments principally represent rentals payable by the Group for certain office properties and vehicles.

35. Share-based payments

Equity-settled share option plan

Details of all equity-settled share-based payment arrangements in existence during the year are set out in the paragraphs on 'Executive share-based reward' in the Directors' Remuneration Report on pages 44 to 52.

	2008		2007	
Schemes requiring consideration from participants:	**Options**	**Weighted average exercise price (in £)**	Options	Weighted average exercise price (in £)
Outstanding at beginning of period	**15,460,002**	**2.72**	6,956,315	2.28
Granted during the period	**42,697,752**	**0.69**	2,640,216	2.65
Lapsed during the period	**(11,273,011)**	**2.07**	(421,974)	(2.94)
Exercised during the period	**(242,076)**	**1.92**	(2,142,532)	(2.00)
Acquired with subsidiary	**–**	**–**	8,427,977	2.93
Outstanding at the end of the period	**46,642,667**	**1.01**	15,460,002	2.72
Exercisable at the end of the period	**2,649,887**	**2.58**	3,222,426	2.04

The weighted average share price at the date of exercise for share options exercised during the period was £1.73 (2007: £3.30). The options outstanding at 31 December 2008 had a range of exercise prices from £0.16 to £4.57 (2007: £1.27 to £4.57) and a weighted average remaining contractual life of 6.3 years (2007: 4.8 years).

Schemes not requiring consideration from participants include the George Wimpey Long Term Incentive Plan and the Performance Share Plan.

	2008		2007	
Schemes not requiring consideration from participants:	**Options**	**Weighted average exercise price (in £)**	Options	Weighted average exercise price (in £)
Outstanding at beginning of period	**10,091,435**	**–**	8,428,486	–
Granted during the period	**9,695,831**	**–**	2,062,377	–
Lapsed during the period	**(9,047,250)**	**–**	(2,230,286)	–
Exercised during the period	**(7,720)**	**–**	(2,204,708)	–
Acquired with subsidiary	**–**	**–**	4,035,566	–
Outstanding at the end of the period	**10,732,296**	**–**	10,091,435	–
Exercisable at the end of the period	**175,153**	**–**	88,538	–

The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 8.2 years (2007: 4.2 years).

35. Share-based payments continued

For share options with non-market conditions granted during the current and preceding year, the fair value of the options at grant date was determined using the Binomial model. The inputs into that model were as follows:

	2008	2007
Weighted average share price	**£0.38**	£2.81
Weighted average exercise price	**£0.69**	£2.65
Expected volatility	**37%**	30%
Expected life	**3/5 years**	3/5 years
Risk free rate	**4.4%**	5.1%
Expected dividend yield	**0.5%**	3.6%

The weighted average fair value of share options granted during the year is £0.10 (2007: £0.69).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term.

For share options with market conditions granted during the current year, the fair value of the options was determined using the Monte Carlo simulation model. The inputs into that model were as follows:

	2008	2007
Weighted average share price	**£0.69**	£4.92
Weighted average exercise price	**£nil**	£nil
Expected volatility	**40%**	26%
Expected life	**3 years**	3 years
Risk free rate	**4.3%**	5.4%
Expected dividend yield	**0.9%**	3.6%

The weighted average fair value of share options granted during the year is £0.33 (2007: £4.35).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term, however due to the exceptional volatility in this financial year we have excluded the period between 1 May 2008 and 31 October 2008 as allowed by IFRS 2 Share based payment. The expected life used in the model is based on historical exercise patterns.

The Group recognised total expenses of £6.0m and £0.6m related to equity-settled share-based payment transactions in 2008 and 2007 respectively. Of this amount, £1.6m related to the accelerated vesting of share options held by employees of Taylor Wimpey Construction, which was disposed of on 9 September 2008, and which is included in profit from discontinued operations in the income statement.

36. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below. Transactions between the Company and its subsidiaries and joint ventures are disclosed in the Company's separate financial statements.

Trading transactions

During the year, Group companies' purchases from joint ventures totalled £8.1m (2007: £21.4m). Purchases were based on open market values.

Remuneration of key management personnel

Details of the remuneration of the Directors and the Group Company Secretary and General Counsel and the President and Chief Executive Officer of Taylor Morrison, Inc., who are the key management personnel of the Group, are contained in the audited part of the Remuneration Report on pages 44 to 52 and form part of these financial statements.

37. Post-balance sheet events

On 7 April 2009 the Group successfully reached agreement with its banks and private placement holders regarding a revised covenant and financing package (the Override Agreement). The principal terms of the refinancing consisted of an alignment of all debt maturity dates to 3 July 2012, with extension fees payable on a sliding scale dependent on the length of the extension to those lenders who have agreed to defer repayment of their loans; a day one reduction of the revolving credit facility, resulting in the cancellation of £235m of the £1.65 billion facility; amendments to the margins and coupon rates on borrowings equivalent to an increase of 455 basis points, with the potential for a reduction in the event of an equity raising and subsequent reduction in the Group's gearing level; an additional interest charge in the form of payment in kind (PIK), being cash or equity, which accrues at 1.50% per annum and becomes payable at the earlier of repayment and maturity; possible further additional interest charges, also in the form of PIK, which would accrue in the event that the Company does not meet agreed step downs in the level of facilities of £150m by 30 June 2009 and a further £350m by 30 June 2010; warrants giving all lenders the right to subscribe in cash (exercisable at par) for a combined total of approximately 5% of the Company's ordinary share capital; a reduction in the level of the Group's UK overdrafts from £95m to £45m; guarantees and securities to be available for the currently undrawn committed facilities to be provided to the Group for the duration of the Override Agreement, which total a maximum of £416m.

The existing covenant package has been replaced with a revised financial covenant package which is consistent across all of the Group's borrowings. There are three financial covenants which, if breached, would cause an event of default. These comprise:

- Net operating cash flow covenant which will 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 or absorbed in each period;
- Consolidated tangible net worth which will be tested on a quarterly basis beginning on 30 June 2009 with varying covenanted minimum amounts over the life of the facilities; and
- 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 levels for these three covenants have been set after making allowance for what the Directors consider to be appropriate adverse sensitivities including, inter alia, a further weakening of Sterling relative to the US dollar; a potential increase in interest rates and a possible further decline in UK selling prices. All of these covenants are to be calculated on an adjusted frozen IFRS basis, based on the accounting principles used in these consolidated financial statements.

The financial terms of this agreement were also approved on 30 April 2009 by the requisite numbers of both the Company's 2012 Eurobonds and 2019 Eurobonds and also have the support of the Boards of Trustees of the two UK defined benefit pension schemes with each of whom a Deed of Covenant has been entered into.

In addition, the Group has also agreed to provide operational covenants and information undertakings to its banks and private placement holders.