A solid platform

Peter Johnson
Group Finance Director

Group summary

In a year of very significant change, the Group has sought to maximise benefits from the merger of Taylor Woodrow plc and George Wimpey Plc, while seeking to mitigate the effects of the continuing weakness of the US markets. We have positioned the UK business in anticipation of reduced housing demand in 2008.

The merger, which was effected on 3 July 2007, has resulted in a business with greater financial capability which will provide significant benefits to shareholders in the form of improved relative margins and capital returns.

Group results

The results set out in this commentary are based on the statutory accounts. Additional information is provided on a pro forma** basis in the preliminary results presentations which are available on the Company's website.

Group revenue rose by 32.0% to £4.7 billion (2006: £3.6 billion). Group completions grew by 54.0% to 20,271 (2006: 13,165) reflecting the completion of the merger and the subsequent inclusion of the results of the legacy George Wimpey business from 3 July 2007.

Group profit before tax and exceptional items amounted to £360.2 million for the year to 31 December 2007 (2006: £405.6 million). The UK Housing business performed well in 2007, returning a pro forma operating margin** in excess of 15%, significantly ahead of the performance of both legacy UK businesses.

Continuing material weakness in the Group's US and Spanish markets has resulted in land and work in progress write downs of £289.7 million. Other exceptional provisions of £90.0 million relate to restructuring costs and the write off of the Morrison Homes and Laing brands. After charging for these items and net finance costs of £112.1 million, the Group has returned a loss before tax of £19.5 million. The tax charge was £177.2 million, bringing the loss for the year to £196.7 million. Net assets total £3.7 billion, with net tangible assets amounting to £2.9 billion.

A 5% increase in the final dividend is proposed, reflecting our continuing confidence in the future of the Group. If approved, this will bring the full year dividend to 15.75 pence per share (2006: 14.75 pence) a full year increase of 6.8%.

In July we set out the conclusions of our review of capital requirements and balance sheet targets, including the plan to return £750 million of capital to shareholders through a share buyback programme. £250 million of this programme was carried out during 2007. The purpose of the review was to ensure that our requirements for growth are balanced by a suitable and efficient capital structure.

We remain committed to this strategy, however given the uncertainty in the UK housing market, the Board has decided to suspend the buyback programme temporarily.

UK Housing

Revenue increased by 73.6% to £3,053.8 million (2006: £1,759.2 million). This was primarily the result of a 79.2% increase in completions to 14,862 (2006: 8,294) as a consequence of the merger. Average selling prices were slightly lower at £191,000 (2006: £193,000). Operating profit* has grown by 86.7% to £418.2 million (2006: £224.0 million), with strong growth in the operating margin* to 13.7% (2006: 12.7%).

Group results

	UK Housing	North America Housing	Spain and Gibraltar Housing	Construction
Completions	14,862	5,197	212	
Operating profit* (£m)	418.2	67.5	2.2	3.5
Operating margin*	13.7%	6.8%	3.4%	0.6%

	Group
Pre-exceptional profit before tax (£m)	360.2
Exceptional items (£m)	(379.7)
Loss before tax (£m)	(19.5)
Tax (£m)	(177.2)
Loss for the year (£m)	(196.7)
Adjusted earnings per share	30.8p
Dividends per share	15.75p

The £379.7 million of pre-tax exceptional items consist of restructuring costs post merger, brand impairments and land and work in progress write downs. £321.3 million of the exceptionals relate to North America Housing, £47.9 million to the UK Housing, £6.3 million to Spain and Gibraltar Housing and £4.2 million to Corporate.

The tax charge includes an exceptional write off of deferred tax of £70.2 million.

North America Housing

Revenue fell by 15.7% to £986.8 million (2006: £1,170.2 million), as the enlarged scale of the business following the merger was outweighed by the effect of continuing weakness in our US markets. Completions rose to 5,197 (2006: 4,492), whilst average selling prices decreased to £182,000 (2006: £233,000) reflecting the difficult environment. As a result of the ongoing weakness of markets in the US in 2007, we have recognised land and work in progress write downs of £283.4 million. These provisions are based on management's assessment of the net selling prices required to achieve a normal sales rate and are shown as an exceptional item in the Group Consolidated Income Statement. Our markets in Canada remain robust.

Operating profit* fell by 69.7% to £67.5 million (2006: £222.6 million). The operating margin* was 6.8% (2006: 19.0%), reflecting the difficult conditions experienced during the year.

As disclosed in the 2007 interim results, we had provided £15.5 million during the first half of 2007 against a potential liability arising from a legal case in Florida. During the second half of the year the case was settled at £5.2 million and the balance of the provision has been released.

Spain and Gibraltar Housing

Revenue from our operations in Spain and Gibraltar was £64.4 million (2006: £92.1 million), with completions of 212 homes (2006: 379). Markets in mainland Spain remained challenging. However, average selling prices were higher at £279,000 (2006: £205,000), reflecting an increased proportion of completions from our Gibraltar business.

Operating profit* was £2.2 million (2006: £26.8 million) with an operating margin of 3.4%.

We have undertaken a review of the carrying value of our land and work in progress in Spain and have recognised an exceptional write down of £6.3 million in December 2007.

Construction

Revenue grew to £609.3 million (2006: £550.6 million) with operating profit* of £3.5 million (2006: £9.6 million). The performance of the Construction business has been adversely affected by contract losses in Ghana. This business made an operating loss* of £14.3 million in 2007 (2006: operating profit of £2.8 million). UK Construction operating profit in 2007 was £17.8 million (2006: £6.8 million).

Net finance costs

Finance costs, net of interest receivable of £9.7 million (2006: £9.1 million), for 2007 were £112.1 million (2006: £64.2 million). Within this, interest on borrowings from financial institutions totalled £93.3 million (2006: £64.1 million). Other items included in finance costs are a pension charge of £3.8 million (2006: £2.7 million), a mark to market loss on interest rate derivatives of £5.4 million (2006: nil) and a total of £19.3 million (2006: £6.5 million) charged for imputed interest on land creditors.

Average net debt levels for 2007 were £1,197.1 million (2006: £837.8 million).

* Profit on ordinary activities before finance costs, exceptional items and amortisation of brands.

** The basis of preparation of pro forma financial information is set out on page 104.

Tax

The pre-exceptional Group tax rate for 2007 was 29.7% (2006: 28.4%). In addition, there has been a significant exceptional tax charge of £70.2 million, principally being the write off of deferred tax assets due to the weakening of the US markets in the second half of the year.

In total, the Group has unrecognised potential deferred tax assets in the US of £189.4 million as at 31 December 2007 primarily due to the reduced opportunities in the US to utilise inventory provisions in the near future against taxable income.

Earnings per share

Pre-exceptional basic earnings per share were 30.8 pence (2006: 50.5 pence), reflecting the lower level of profits and the increase in shares in issue following the merger.

The basic loss per share after exceptional items is 24.2 pence (2006: earnings of 50.5 pence).

Balance sheet and cash flow

Net assets were at £3.7 billion (2006: £2.1 billion) equivalent to 352.3 pence per share (2006: 364.7 pence per share).

The Group's cash outflow from operating activities was £163.3 million (2006: inflow £57.0 million). Year end net debt levels rose from £391.3 million in 2006 to £1,415.4 million in 2007, an increase of £1,024.1 million.

Treasury management and funding

The Group operates within policies and procedures approved by the Board. These are set out more fully in note 22 of the financial statements.

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

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

As a result of the merger all existing revolving credit facilities were replaced with new facilities totalling £1,900 million on identical terms and conditions, mostly committed for five years. During the second half of 2007 the terms and conditions of George Wimpey's private placements were renegotiated to conform to the terms and conditions of existing private placements.

Liquidity is the most important financial risk to manage for a housebuilder. Taking into account term borrowings and committed facilities the Group has access to funding in excess of £2.7 billion, most of which is committed for at least four years. At the year end £1,193 million (2006: £630 million) was committed but undrawn. The total capital available provides adequate financial resources to fund the business in this difficult financial environment. The Group continues to operate well within its financial covenants and limits of available funding and has no need to refinance or obtain additional funding in the near future.

Merger accounting and fair value

The fair value of consideration paid by Taylor Woodrow as a consequence of the merger was £2,093.9 million. The fair value of the George Wimpey net assets acquired excluding goodwill was £1,757.2 million. The fair value of the brands acquired was:

George Wimpey: £110 million with an expected life of 15 years;

Morrison Homes: £20 million with an expected life of 10 years; and

Laing Homes: £10 million with an expected life of 10 years.

Subsequent to the merger it was determined that the Laing brand would currently no longer be used and accordingly the full value of £10 million was written off.

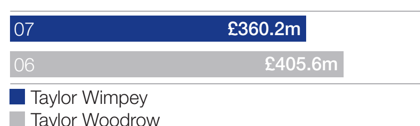
Towards the end of the year it was agreed that the US brand would change to Taylor Morrison in line with the results of a review in the US. Accordingly, the full value of the Morrison brand of £20 million was written off.

US inventories were written down by £154.2 million and UK inventories were written down by £33.9 million. Other assets and liabilities were valued down by £4 million.

Following the merger the Company has aligned all accounting policies to provide a consistent accounting basis for the 2007 accounts.

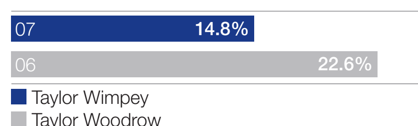
Group key performance indicators

Profit before exceptional items and tax



£360.2m

Return on average capital employed



14.8%

Dividend per share

15.75p

Pensions

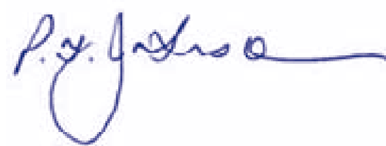
Details relating to the pension schemes of the Group are presented in the financial statements in note 23.

The fair value of the assets less the present value of obligations of the Group's defined benefit schemes based on assumptions established in accordance with IAS 19 result in a gross deficit of £216.4 million (2006: £205.9 million). Full actuarial valuations for each defined benefit scheme are carried out on a triennial basis. The main Taylor Woodrow scheme is currently undertaking such a valuation. The next valuation of the George Wimpey Staff Pension Scheme is due to be valued as at 31 March 2008.

Pursuant to prior agreements the Company continues to make additional contributions to the respective schemes in order to increase deficit reductions. These contributions are, for the Taylor Woodrow scheme, £20 million per annum for an initial 10 year period and for the George Wimpey scheme £15 million per annum.

Accounting standards

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



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