

# Governance

## Corporate Governance Report

### Corporate Governance statement

The Board is fully committed to high standards of corporate governance and corporate responsibility throughout the Group. The Board supports the principles of corporate governance contained in the 2006 Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority (the 'Combined Code'). The Combined Code sets out the governance rules which apply to all UK companies which are listed on the London Stock Exchange. This Report on Corporate Governance together with the Remuneration Report on pages 46 to 55 are intended to explain how the Company has applied the principles of the Combined Code and provide an insight into how the Board and management run the business for the benefit of shareholders. The Chairman's Statement and the Group Chief Executive's Review seek to present a balanced assessment of the Company's position and prospects.

### Statement of compliance

For the year ended 31 December 2007, the Company complied with all the provisions of the Combined Code including the Principles set out in Section 1.

### The Board and its Committees

At the date of this Report the Board consists of ten Directors: the Chairman, three Executive Directors and six independent Non Executive Directors. Their names, responsibilities and other details appear on pages 38 and 39. Upon completion of the merger of Taylor Woodrow plc and George Wimpey Plc on 3 July 2007 (the 'Merger') a number of Board changes took place as set out below:

Three new Executive Directors were appointed: Pete Redfern (Group Chief Executive), Ian Sutcliffe (Chief Executive, Taylor Wimpey UK) and John Landrum (President and CEO, North America). On 31 July 2007, John Landrum stood down as a Director but remained as an employee until 31 October 2007;

Three new Non Executive Directors were appointed: Brenda Dean, Anthony Reading and David Williams;

Ian Smith stood down as Group Chief Executive and Vernon Sankey stood down as a Non Executive Director;

With effect from the Merger, David Williams became the Senior Independent Director in place of Mike Davies.

Norman Askew (Chairman), Mike Davies (Independent Non Executive Director), Andrew Dougal (Independent Non Executive Director), Katherine Innes Ker (Independent Non Executive Director) and Peter Johnson (Group Finance Director) each held these positions throughout the year.

Graeme McCallum resigned from the Board on 16 January 2007.

During the year the Board met on 10 occasions in total. Prior to the Merger, the Board met on six occasions and there were no absences except that Mike Davies missed one meeting. Post the Merger the Board met on four occasions and there were no absences.

The Board discharges its responsibilities by providing strategic and entrepreneurial leadership of the Company, within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for

the Company to meet its objectives and reviews management performance. It also defines the Company's values and standards and ensures that its obligations to its shareholders and other stakeholders are clearly understood and met.

Following the Merger the documents listed below were reviewed and adopted by the Board – they outline the way in which the Board and its Committees operate and will be regularly reviewed by the Board:

- Schedule of matters specifically reserved for the decision of the Board;
- Board policies covering operational matters, compliance and stakeholder policies;
- Terms of Reference of the the Board Committees: Audit, Nomination and Remuneration, which outline their objectives and responsibilities and which define a programme of activities to support the discharge of those responsibilities. New terms of reference were also put in place for the Corporate Responsibility Committee which was created at the time of the Merger. Each Committee's Terms of Reference is available on our website [www.taylorwimpey.com](http://www.taylorwimpey.com).

All Directors have access to the advice and services of the Group Company Secretary and General Counsel.

The Board has an established procedure whereby Directors may take independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors.

### Board and Committee balance, independence and effectiveness

It is the Company's policy that appointments to the Board are made on merit and through a formal, rigorous and transparent process against objective criteria recommended by the Nomination Committee. The Committee also guides the Board in arranging orderly succession for appointments to the Board and to senior management. The work of all Board Committees is described later in this Report.

As part of the post Merger review of procedures, the Board undertook a detailed review of responsibilities and authorities at all levels of the Group. It has adopted a framework of delegated commercial and operational authorities, which define the scope and powers of the Group Chief Executive and of operating management. The roles and responsibilities of the Chairman and the Group Chief Executive have been reviewed by the Board and in line with the Combined Code, have been clearly defined and are set out in writing.

The Board will continue to review the governance framework including delegated commercial and operational authorities to ensure that they meet the requirements of the Group going forward.

Following the Merger the Board also undertook a review of the interests of each Director outside of the Company. The Board is satisfied that the commitments of each Director do not detract from the extent or quality of time which they are able to devote to the Company.

During the three years up to and including the 2008 Annual General Meeting, every Director will have sought re-election at least once and Directors appointed during

2007 by the Board, namely, upon completion of the Merger, will be subject to election by shareholders at the Annual General Meeting. The Board has reviewed and re-affirmed that it considers all of the Non Executive Directors to be independent in character and judgement and that there are no relationships which could affect the Director's judgement. The Chairman, at the time of his appointment, met the independence criteria as set out in the Combined Code. In line with the Combined Code, there will be a rigorous review of any Non Executive Director wishing to hold office for more than six years with such review taking into account the need to progressively refresh the Board. Katherine Innes Ker was appointed to the Board on 1 July 2001 and accordingly a rigorous review has taken place. Following the review, both the Nomination Committee and the Board were entirely satisfied with Katherine Innes Ker's performance and contribution as a Non Executive Director and also with her ongoing independence of character and judgement. As part of this review the Board took into account the requirement of the Combined Code to refresh the Board from time to time: as a result of the changes to the Board made at the time of the Merger as set out earlier in this Report, it was concluded that this requirement of the Combined Code had been met.

Whenever any Director considers that he or she is or may be interested in any contract or arrangement to which the Company is or may be a party, the Director gives due notice to the Board in accordance with the Articles of Association. During the year no such interests have arisen in respect of any Director.

The Board considers that its Directors possess an appropriate balance of skills and experience for the requirements of the business.

The Board and its Committees operate within a framework of scheduled core meetings and additional ad hoc meetings are held as required. All Directors visit Group operations on a regular basis, engaging with employees at all levels in order to foster and maintain an understanding of the business. Board visits are arranged each year to operations in both the UK and elsewhere within the Group.

The Group Company Secretary and General Counsel acts as Secretary to the Board and its Committees and he attends all meetings. There is a policy that formal agendas and reports for Board and Committee meetings are provided to Directors one week prior to the meeting in order to allow sufficient time for detailed review and consideration beforehand.

### Information and professional development

The Company has procedures whereby Directors (including Non Executive Directors) receive formal induction. This includes training and continuing familiarisation about the Company's business, operations and systems, the principles underlying the discharge of their duties as Directors and wider issues relating to the housing and construction sector.

### Performance evaluation of the Board, its committees and other functions

In line with the Combined Code, a formal annual evaluation of the performance and effectiveness of the Board and its Committees and of individual Directors was carried out. The evaluation was carried out by the

Chairman and the Group Company Secretary. The process consisted of a bespoke questionnaire which was sent by the Group Company Secretary to all Directors for completion. The questionnaire focused on the performance of: the Board, the four Board Committees, the performance of each Director (by way of self assessment plus confidential evaluation by the Chairman) and the performance of the Chairman. The Secretary collated all of the responses and produced a summary in respect of each performance area. The Chairman and the Secretary then reviewed the summaries that had been prepared in respect of the Board, each Board Committee and each Director (other than the Chairman) and reported the findings to the Board on a non-attributable basis. Following this, a set of actions were agreed designed to increase further the overall effectiveness of the Board. A specific action item will be to arrange for Non Executive Directors to make additional visits to operations across the Group.

The Non Executive Directors, led by the Senior Independent Director, undertook the evaluation of the Chairman's performance. The evaluation was based on the non attributable summary prepared by the Secretary of the feedback from the Non Executive and Executive Directors. The summary was reviewed by the Non Executive Directors in the absence of the Chairman, following which David Williams in his capacity as the Senior Independent Director provided feedback direct to the Chairman.

In line with the Combined Code, the Chairman also holds meetings with the Non Executive Directors without the Executive Directors present.

#### **Internal Audit:**

A formal evaluation of the Group Internal Audit ('GIA') function was carried out by the Audit Committee which took into account views from Executive Directors, senior management and the external auditors.

#### **The external auditors:**

A comprehensive formal competitive tender process with regard to the carrying out of the 2008 external audit was carried out during the year. The process was conducted by a specially appointed Audit Tender Panel consisting of the Chairman of the Audit Committee, the Group Chief Executive and the Group Finance Director. The Panel also involved the Group Financial Controller, Head of Internal Audit and Group Company Secretary who each interface with the external auditors as part of their responsibilities. The Panel reviewed the tenders before making its recommendation to the Audit Committee which in turn made a recommendation to the Board. This resulted in Deloitte & Touche LLP being selected as external auditors to the Company. Deloitte & Touche LLP will therefore be proposed for re-appointment as the Company's auditors at the Annual General Meeting.

#### **Board Committees and their work Remuneration Committee and remuneration**

The Board's policy and approach to the setting of remuneration for Directors and senior executives and the activities of the Remuneration Committee are described in detail in the Directors' Remuneration Report on pages 46 to 55. The Committee is constituted in accordance with the Combined Code and its members are set out on page 46.

During the year the Remuneration Committee met on eight occasions. Prior to the Merger the Committee met on four occasions and there were no absences except that Mike Davies missed one meeting. Post the Merger there were no absences except Mike Davies and David Williams who each missed one meeting. Consistent with policy, each Director was however consulted prior to the meeting taking place and was able to provide his detailed input on the agenda items.

#### **Nomination Committee**

The Committee is chaired by the Chairman of the Board and is comprised of a majority of Non Executive Directors as required by the Combined Code. Prior to the Merger the Committee was comprised of the Chairman, Mike Davies, Andrew Dougal, Katherine Innes Ker, Vernon Sankey and Ian Smith. Following the Merger the Committee was comprised of the Chairman, Mike Davies, Brenda Dean, Andrew Dougal, Katherine Innes Ker, Tony Reading, Pete Redfern and David Williams. The Committee has processes in place with regard to the appointment of new Directors to the Board in order to ensure that appointments are made on merit. For the appointment of non executive directors, the use of an external search agency will usually be incorporated as part of the process.

The Nomination Committee is responsible for succession planning for the Board and senior management and assesses the balance of the Board's composition. The Committee met on two occasions during the year at which there was full attendance.

#### **Audit Committee and auditors**

Prior to the Merger the Committee was comprised of Andrew Dougal (Committee Chairman), Mike Davies and Vernon Sankey. Following the Merger the Committee was comprised of Andrew Dougal who continued to Chair the Committee, Mike Davies, Tony Reading and David Williams. All members are independent Non Executive Directors. The Board has determined that Andrew Dougal, who is a member of the Institute of Chartered Accountants of Scotland, has recent and relevant financial experience as have other members of the Committee including Anthony Reading and David Williams. The Chairman of the Company and other Non Executive Directors, the Chief Executive, Group Finance Director, Head of Internal Audit, Group Financial Controller and other senior executives attend meetings of the Committee by invitation. Deloitte and Touche LLP are invited to attend meetings of the Audit Committee.

During the year the Audit Committee met on six occasions in total. Prior to the Merger, the Committee met on two occasions and there were no absences except that Mike Davies missed one meeting. Post the Merger the Committee met on four occasions and there were no absences.

The Committee's remit includes reviewing the internal control framework, the internal audit process, the financial reporting practices and the external audit process. It ensures that the Board regularly assesses business risks, and their management and mitigation. In doing so, the Committee places reliance on regular reports from executive management. In monitoring the financial reporting practices the Audit Committee reviewed accounting policies, areas of judgement,

the going concern assumption and compliance with accounting standards and the requirements of the Combined Code. During the year, post Merger, the Committee was required to undertake two major reviews namely, the review of the fair value process which required the Company under IFRS to fair value the consideration given and the assets acquired of George Wimpey Plc as a result of the Merger and secondly an accounting policy alignment as between the Company and George Wimpey Plc. The Committee also reviewed, prior to publication, the interim and annual financial statements and other major statements affecting the Group concerning price sensitive information.

#### **Appointment of the auditors for non audit services**

The Audit Committee has approved a policy on employing the auditors to provide services other than audit services, which is to require a competitive tender except in narrowly-defined circumstances where the Company considers that for confidentiality, past knowledge or other reasons, there is an advantage in using a single tender procurement procedure.

The Committee has determined that the following assignments should not be undertaken by the auditors:

- the provision of internal audit services;
- advice on major IT systems.

The Board is satisfied that this policy is conducive to the maintenance of auditor independence and objectivity.

#### **Corporate Responsibility Committee**

Following the Merger, the Corporate Responsibility Committee was established as a formal Committee of the Board. The Committee is chaired by Katherine Innes Ker and the other members are Norman Askew, Pete Redfern, Brenda Dean, Andrew Dougal and Ian Sutcliffe.

The Corporate Responsibility Committee met on two occasions and there were no absences except that Brenda Dean missed one meeting.

The Company's corporate responsibility practices outline its approach to the challenge of sustainable development. Our policies and practices help the business to demonstrate high standards of governance, reduce risk and comply with current and future legislation.

The Committee is responsible for recommending the Company's corporate responsibility strategy, policies, reporting and performance monitoring to the Board.

The Committee's remit includes ensuring that the Company's corporate responsibility strategy and activity are adequately resourced, have appropriate standing within the Company and are aligned to the needs of the business. The Board regards corporate responsibility as an integral part of good governance.

Full details of the Company's achievements and initiatives in these areas during 2007 and going forward are set out in Taylor Wimpey's first Corporate Responsibility Report which is published separately and is also available in electronic form on the Group's website [www.taylorwimpey.com](http://www.taylorwimpey.com).

## Internal control

The Board has applied Principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews its application of the Revised Turnbull Guidance on Internal Control to ensure the process of internal control remains effective and appropriate. The process, which has been in place from the start of the year to the date of approval of this Report is in accordance with Internal Control: Guidance for Directors on the Combined Code. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

In compliance with provision C.2.1 of the Combined Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. This process is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Report and Accounts. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of Internal Audit. The Audit Committee assists the Board in discharging its review responsibilities. Key elements of the system of internal control are detailed below.

A Group-level review is carried out to identify the major risks facing the Group and to develop and implement appropriate initiatives to manage those risks. This process applies across the Group.

Key operational and financial risks are identified and assessed at the operating process level, while strategic risks are identified as a part of the business planning process. Strategic risk reviews are carried out in each of the operating divisions to identify business risk, evaluate existing controls and develop strategies to manage the risks that remain, the results of which form part of the Board's assessment. Updates to these risk assessments are reported to the Board.

The Executive Committee, chaired by the Group Chief Executive, oversees the risk and control framework of the Group. The Head of Group Internal Audit regularly attends the Executive Committee which meets monthly. The Group Chief Executive reports on the key elements arising from each Executive Committee meeting at the next Board Meeting and the minutes from such meetings are routinely included in each Board pack of documents.

During 2007 the Audit Committee assessed the Group's risk management and the internal control framework, particularly in the light of the integration process post-Merger. It also reviewed business change issues and GIA activities across the Group.

As a result of these reviews the Board has acknowledged that inevitably, there have been issues in bringing together different legacy procedures. Controls have been identified, appropriately prioritised and are being actively managed.

## Management

The Group Chief Executive has responsibility for preparing and reviewing strategic plans for the Group and its divisions and the annual budgets. These are subject to formal approval by the Board. Budgets are re-examined in comparison with business forecasts throughout the year to ensure they are sufficiently robust to reflect the possible impact of changing economic circumstances. The Group Chief Executive and the Board conduct regular reviews of actual results and future projections with comparison against budget and prior year, together with various treasury reports.

Disputes that may give rise to significant litigation or contractual claims are monitored quarterly by the Board.

The Group has clearly defined policies, processes and procedures governing all areas of the business which will continue to be reviewed and refined in order to meet the requirements of the business post Merger.

Defined authority limits are in place. In particular, any investment in land, property and other significant assets, including acquisitions and disposals, require detailed appraisals and are subject to defined authorisation levels and post-investment review procedures. Investment decisions, projects, and tenders for contracts are subject to approval by the Board, the Group Chief Executive or subsidiary operating management, depending on the value and nature of the investment or contract.

There is a clearly identifiable organisational structure and a framework of delegated authority approved by the Board within which individual responsibilities of senior executives of Group companies are identified and can be monitored. These activities are reinforced through process compliance and other audits conducted by GIA.

The GIA function reviews the effectiveness and efficiency of the systems of internal control in place to safeguard the assets, to quantify, price, transfer, avoid or mitigate risks and to monitor the activities of the Group in accomplishing established objectives. Regular reports from these reviews are provided to the Board and reported to the Group Chief Executive, Audit Committee, the Executive Committee and senior management, who consider them on a regular basis. The Head of the GIA function has direct access to the Chairman of the Audit Committee, the Chairman and the Group Chief Executive. A database of audit recommendations and improvement initiatives is maintained. Follow up routines ensures that such improvements are implemented in a timely manner.

Throughout the year the Board continually considers the effectiveness of the Group's internal control systems. On 5 March 2008 it completed the annual assessment for the year to 31 December 2007 by reviewing reports submitted to the Audit Committee and by taking account of events since the year end.

The annual employee performance appraisal process is objective-based, with individual objectives cascaded down from the appropriate business objectives. Development reviews identify training needs to support achievement of objectives.

## Whistleblowing

The Group's whistleblowing policy is supported by a clear process that includes an externally-facilitated hotline through which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, other operational matters or inappropriate personal behaviours in the work place.

All whistleblowing cases are investigated by the Head of GIA, Group HR Director and/or the Group Company Secretary. Whistleblowing incidents and their outcome are reported to the Audit Committee. Whistleblowing is a standing item on each Audit Committee agenda which allows the Committee to regularly review the adequacy of the policy in line with its requirements to do so under the Combined Code.

## Relations with shareholders

The Board actively seeks and encourages engagement with major institutional shareholders and other stakeholders and has put in place arrangements designed to facilitate contact about business, governance, remuneration and other issues. This provides the opportunity for meetings with the Chairman, the Senior Independent Director as well as the Group Chief Executive, Group Finance Director and other Executives in order to establish a mutual understanding of objectives. The Company also operates a structured programme of investor relations, based on formal announcements and publications covering the full year and interim results. There are associated briefings for stockbroking analysts and investors, the presentation material for which is published on the Company's website [www.taylorwimpey.com](http://www.taylorwimpey.com).

All Directors receive formal reports and briefings during the year about the Company's investor relations programme and receive detailed feedback through surveys, direct contact and other means, through which they are able to develop an understanding of the views of major shareholders about the Company.

The Board encourages all shareholders to participate in the Annual General Meeting which is attended by all Directors. Information about the Company, including full year and interim results and other major announcements, is published on the Company's website [www.taylorwimpey.com](http://www.taylorwimpey.com).

## Going concern

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.