Notes to the Consolidated Financial Statements

for the year to 31 December 2007

1. Significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as adopted for use in the European Union, IFRIC interpretations 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 2007.

The consolidated financial statements have been prepared on the historical cost basis, except where stated below. The principal accounting policies adopted, which have been applied consistently unless otherwise stated, are set out below.

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 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.

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, 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 attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment 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.

Segmental reporting

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

- Housing United Kingdom
- Housing North America
- Housing Spain and Gibraltar
- Construction
- Corporate

The Corporate component has been added in 2007 to reflect better the way the Group is managed following the acquisition of George Wimpey Plc. Corporate costs of £19.6m (including exceptional restructuring costs) have been separately identified in 2007 (2006: £13.2m).

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.

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 and of such significance that they require separate disclosure on the face of the income statement in accordance with IAS1 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 reserves 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.

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 arise.

1. Significant accounting policies continued

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.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Other intangible assets

Brands

Internally generated brands are not capitalised. Brands that have been acquired are capitalised as intangible assets. Acquired brand values are calculated based on the Group's valuation methodology, which is based on valuations of discounted cash flows. The George Wimpey brand is considered to have a finite life and is therefore amortised over its estimated useful life of 15 years on a straight line basis.

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

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 their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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 per cent; and

Computer equipment 33 per cent.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds 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 (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. 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 (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 (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.

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

1. Significant accounting policies continued

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 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 forseeable 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 payments. 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

Site valuations and work in progress
Internal site valuations are carried out at regular intervals throughout the year. The valuations will include an estimation of the costs to complete and remaining revenues, in order to determine the profit that the Group is able to recognise on the proportion of completions in the period, for each development. In addition, the carrying value of land and work in progress can involve considerable judgment around future margins from sites in assessing whether any impairment provisions need to be recognised.

Impairment of goodwill
The determination of whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires 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 carrying amount of goodwill at the balance sheet date was £699.8m (2006: £363.1m).

Contracting work
Profits in respect of contracts will be recognised by reference to the stage of completion when an estimate of a profitable outcome can be measured reliably. Determining the outcome of a contract will require a survey. This includes an estimate of the value of costs to complete and in certain instances estimates of the contract price as well as any variations in the contract work.

1. Significant accounting policies continued

Pensions

The value of plan assets and liabilities is determined based on various actuarial assumptions. Note 23 details the main assumptions made for the accounting of the Group's defined benefit pension schemes.

Tax

Aspects of tax accounting require management judgment and interpretation of tax legislation across many jurisdictions.

Deferred tax

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.

Acquisition accounting

On acquisition, the assets, liabilities and contingent liabilities are measured at their fair values on the date of acquisition. On the merger with George Wimpey Plc, particular judgment was required around the valuation of inventory and brands (see note 35).

Adoption of new and revised standards and interpretations

Standards, amendments and interpretations effective in 2007

IFRS 7, Financial instruments: Disclosures, and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial statements, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, Scope of IFRS 2, requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.

IFRIC 10, Interim financial reporting and impairment, prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

IRFS 4, Insurance contracts;

IFRIC 7, Applying the restatement approach under IAS 29, financial reporting in hyper-inflationary economies; and

IFRIC 9, Re-assessment of embedded derivatives.

Standards and interpretations in issue but not yet effective

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

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. The Group will apply the amendment from the annual period commencing 1 January 2009 and its impact is currently being assessed.

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.

IFRIC11, IFRS 2 – Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007). 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 (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations:

IFRIC 12 Service concession arrangements; and
IFRIC 13 Customer loyalty programmes.

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 113. 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 14 to 21.

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 page 60.

3. Revenue

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

	2007 £m	2006 £m
Housing	3,947.5	2,716.6
Construction	609.3	550.6
Land sales	157.5	304.9
Consolidated revenue	4,714.3	3,572.1
Interest receivable	9.7	9.1
	4,724.0	3,581.2

Housing revenue includes £180.9m (2006: £171.0m) 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 five operating divisions – Housing United Kingdom, Housing North America, Housing Spain and Gibraltar, Construction and Corporate. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2007	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Construction £m	Corporate £m	Consolidated £m
Revenue:						
External sales	3,053.8	986.8	64.4	609.3	–	4,714.3
Inter-segment sales	–	–	–	34.5	–	34.5
Eliminations	–	–	–	(34.5)	–	(34.5)
Total revenue	3,053.8	986.8	64.4	609.3	–	4,714.3
Result:						
Operating profit/(loss) before joint ventures, brand amortisation and exceptional items	409.1	53.3	2.2	3.4	(15.4)	452.6
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	418.2	67.5	2.2	3.5	(15.4)	476.0
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	366.6	(253.8)	(4.1)	3.5	(19.6)	92.6
Finance costs (net)						(112.1)
Taxation						(177.2)
Loss for the year						(196.7)

Inter-segment Construction and Housing revenue relates to contracts conducted on an arm's-length basis.

4. Business and geographical segments continued

2007	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Construction £m	Corporate £m	Consolidated £m
Asset and liabilities:						
Segment assets	5,350.1	976.7	182.1	96.6	39.5	6,645.0
Joint ventures	39.6	20.0	0.2	0.1	–	59.9
Segment liabilities	(1,548.7)	(316.4)	(66.7)	(232.0)	(70.6)	(2,234.4)
Net operating assets/(liabilities)*	3,841.0	680.3	115.6	(135.3)	(31.1)	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 on an actuarial basis by entity. However, for the purposes of the segmental analysis above the Group has allocated the deficit on the basis of members in the plan. This allocation is performed solely for the purposes of providing a more 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 UK Housing.

2007	Housing United Kingdom £m	Housing North America £m	Housing Spain and Gibraltar £m	Construction £m	Corporate £m	Consolidated £m
Other information:						
Property, plant and equipment additions	6.2	5.8	0.3	1.3	–	13.6
Amortisation of intangibles*	15.7	20.0	–	–	–	35.7
Depreciation – plant and equipment	3.3	3.6	0.1	1.3	–	8.3
Other non-cash expenses:						
Provisions provided	48.7	28.7	0.6	–	–	78.0

* The amortisation of intangibles includes impairment losses of £10.0m on the Laing Homes brand (Housing United Kingdom) and £20.0m on the Morrison Homes brand (Housing North America) following their current retirements.

4. Business and geographical segments continued

2006	Housing United Kingdom* £m	Housing North America* £m	Housing Spain and Gibraltar* £m	Construction* £m	Corporate* £m	Consolidated £m
Revenue:						
External sales	1,759.2	1,170.2	92.1	550.6	–	3,572.1
Inter-segment sales	4.1	–	–	60.8	–	64.9
Eliminations	(4.1)	–	–	(60.8)	–	(64.9)
Total revenue	1,759.2	1,170.2	92.1	550.6	–	3,572.1

* Restated see note 1.

2006	Housing United Kingdom* £m	Housing North America* £m	Housing Spain and Gibraltar* £m	Construction* £m	Corporate* £m	Consolidated £m
Result:						
Operating profit/(loss) before joint ventures	215.4	209.1	26.8	9.6	(13.2)	447.7
Share of results of joint ventures	8.6	13.5	–	–	–	22.1
Profit/(loss) on ordinary activities before finance costs	224.0	222.6	26.8	9.6	(13.2)	469.8
Finance costs, net						(64.2)
Taxation						(115.0)
Profit for the year						290.6

* Restated see note 1.

2006	Housing United Kingdom* £m	Housing North America* £m	Housing Spain and Gibraltar* £m	Construction* £m	Corporate* £m	Consolidated £m
Assets and liabilities:						
Segment assets	2,160.0	865.0	173.7	106.1	18.1	3,322.9
Joint ventures	33.5	19.4	–	3.3	–	56.2
Segment liabilities	(609.5)	(318.9)	(82.2)	(249.1)	(25.9)	(1,285.6)
Net operating assets/(liabilities)†	1,584.0	565.5	91.5	(139.7)	(7.8)	2,093.5
Goodwill						363.1
Current taxation (net)						(54.4)
Deferred taxation (net)						94.6
Net debt						(391.3)
Net assets						2,105.5

* Restated see note 1.

† The Group is unable to allocate the defined benefit pension scheme assets and liabilities of the Taylor Woodrow Group Pension and Life Assurance Fund on an actuarial basis by entity. However, for the purposes of the segmental analysis above, the Group has allocated the deficit on the basis of members in the plan. This allocation is performed solely for the purposes of providing a more meaningful segmental analysis and is not an appropriate apportionment in accordance with IAS 19 Retirement benefits.

2006	Housing United Kingdom* £m	Housing North America* £m	Housing Spain and Gibraltar* £m	Construction* £m	Corporate* £m	Consolidated £m
Other information:						
Property, plant and equipment additions	2.5	1.7	0.3	2.2	–	6.7
Depreciation – plant and equipment	1.1	1.1	0.1	5.4	–	7.7
Other non-cash expenses:						
Provisions provided	11.2	10.2	0.3	–	–	21.7

* Restated see note 1.

4. Business and geographical segments continued

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 is 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	
	2007 £m	2006 £m
United Kingdom	**3,614.7**	2,243.6
North America	**986.8**	1,170.1
Rest of the world	**112.8**	158.4
	4,714.3	3,572.1

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	
	2007 £m	2006 £m	**2007 £m**	2006 £m
United Kingdom	**6,205.9**	2,854.9	**6.9**	2.6
North America	**1,231.8**	1,012.3	**5.8**	1.7
Rest of the world	**231.5**	226.6	**0.9**	2.4
	7,669.2	4,093.8	**13.6**	6.7

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

Net operating expenses:	2007 £m	2006 £m
Administration expenses	302.4	200.1
Net other income	(12.9)	(9.1)
Exceptional items	90.0	–
	379.5	191.0

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

Exceptional items:	2007 £m	2006 £m
Restructuring costs	60.0	–
Brand impairments	30.0	–
Land and work in progress write-downs	289.7	–
Exceptional items	379.7	–

The exceptional charge in respect of restructuring costs arose following the merger with George Wimpey Plc on 3 July 2007. It consists of costs relating to the reorganisation and restructuring of the UK and US Housing businesses, including redundancy costs.

Profit on ordinary activities before financing costs has been arrived at after charging/(crediting):	2007 £m	2006 £m
Cost of inventories recognised as expense in cost of sales	4,148.0	2,903.8
Specific write-downs of inventories	289.7	35.3
Reversal of specific write-downs of inventories	–	(5.7)
Depreciation – plant and equipment	8.3	7.7
Amortisation – intangibles*	35.7	–
Minimum lease payments under operating leases recognised in income for the year	6.1	13.6

*The amortisation of intangibles includes impairment losses of £10.0m on the Laing Homes brand and £20.0m on the Morrison Homes brand following their current retirements.

The remuneration paid to Deloitte & Touche LLP, the Group's principal auditors, is as follows:	2007 £m	2006 £m
Fees payable to the company's auditors for the audit of the company's annual accounts and consolidated financial statements	0.3	0.3
The audit of the company's subsidiaries pursuant to legislation	0.7	0.4
Total audit fees	1.0	0.7
Other services pursuant to legislation	0.1	0.1
Tax services	0.3	0.1
Corporate finance services	0.7	–
Other services	0.1	0.1
Total non-audit fees	1.2	0.3
Total fees	2.2	1.0

Corporate finance services include reporting accountants' work performed in connection with the merger.

6. Staff costs

	2007 Number	2006 Number
Average number employed		
Housing United Kingdom including Corporate	**4,744**	2,658
Housing North America	**1,173**	1,108
Housing Spain and Gibraltar	**171**	157
Construction	**3,639**	4,235
	9,727	8,158
United Kingdom	**6,175**	4,079
Overseas	**3,552**	4,079
	9,727	8,158

	£m	£m
Remuneration		
Wages and salaries	**314.2**	245.6
Redundancy costs	**15.4**	–
Social security costs	**34.0**	23.3
Other pension costs	**16.3**	15.2
	379.9	284.1

Key management comprises the Board and other employees who serve on the Executive Committee. The Executive Committee advises the Chief Executive on issues pertaining to the business and the implementation of Board policy.

The information required by the Companies Act 1985 and the Listing Rules of the Financial Services Authority is contained on pages 46 to 55 in the Directors' Remuneration Report.

7. Finance costs

	2007 £m	2006 £m
Interest on bank overdrafts and loans	**45.9**	22.9
Interest on debenture loans	**47.4**	41.2
Movement on interest rate derivatives	**5.4**	–
	98.7	64.1
Amortisation of discount on land creditors	**19.3**	6.5
Notional interest on pension liability (note 23)	**3.8**	2.7
	121.8	73.3

8. Tax

		2007 £m	2006 £m
Current tax:			
UK corporation tax:	Current year	**88.9**	58.8
	Prior years	**(9.8)**	(9.9)
Relief for foreign tax		**(5.0)**	(8.3)
Foreign tax:	Current year	**18.0**	80.4
	Prior years	**16.9**	(8.3)
		109.0	112.7
Deferred tax:			
UK:	Current year	**(9.1)**	(3.0)
	Prior years	**6.3**	(0.2)
Foreign:	Current year	**80.9**	(4.8)
	Prior years	**(9.9)**	10.3
		68.2	2.3
		177.2	115.0

Corporation tax is calculated at 30 per cent (2006: 30 per cent) of the estimated assessable 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. This includes the effect of the change in the UK rate of corporation tax from 30 per cent to 28 per cent from 1 April 2008.

The charge for the year can be reconciled to the profit per the income statement as follows:	2007 £m	2006 £m
(Loss)/profit before tax	**(19.5)**	405.6
Tax at the UK corporation tax rate of 30% (2006: 30%)	**(5.9)**	121.7
Under/(over) provision in respect of prior years	**3.5**	(8.1)
Tax effect of share of results of joint ventures	**(2.6)**	(4.8)
Tax effect of expenses that are not deductible in determining taxable profit	**14.0**	4.8
Non taxable income	**(18.9)**	(22.5)
Effect of higher rates of tax of subsidiaries operating in other jurisdictions	**(14.5)**	19.8
Losses not recognised	**12.1**	–
Net reduction in US tax assets recognised	**189.4**	–
Other	**0.1**	4.1
Tax charge for the year	**177.2**	115.0

The tax charge for the year includes an amount in respect of exceptional items of £70.2m. This is made up of a credit of £14.9m in respect of UK tax and a net charge of £85.1m in respect of US tax.
The charge in the US reflects a write-off of US deferred tax assets held by the Group which are not seen as capable of usage in the forseeable future primarily due to the significant weakening of the US market in the second half of 2007.

9. Dividends

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2006 of 9.75p (2005: 8.9p) per share	**56.6**	51.0
Interim dividend for the year ended 31 December 2007 of 5.5p (2006: 5.0p) per share	**60.7**	28.7
	117.3	79.7
Proposed final dividend for the year ended 31 December 2007 of 10.25p (2006: 9.75p) per share	**107.7**	56.6

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

10. Earnings per share

From continuing operations

	2007	2006
Basic	**(24.2p)**	50.5p
Diluted	**(24.2p)**	50.1p
Adjusted basic	**30.8p**	50.5p
Adjusted diluted	**30.7p**	50.1p

Adjusted basic and adjusted diluted 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 Group.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings:	2007 £m	2006 £m
Earnings for basic earnings per share and diluted earnings per share	**(197.9)**	289.5
Add exceptional items (note 5)	**379.7**	–
Add tax effect of exceptional items	**70.2**	–
Earnings for adjusted basic and adjusted diluted earnings per share	**252.0**	289.5

Weighted average number of shares:	2007 m	2006 m
For basic earnings per share	**818.5**	572.9
Weighted average of dilutive options	**2.5**	5.0
Weighted average of dilutive awards under bonus plans	**–**	0.5
For diluted earnings per share	**821.0**	578.4

11. Goodwill

	£m
Cost and carrying amount	
At 1 January 2006	363.9
Changes in exchange rates	(0.8)
At 31 December 2006	363.1
Changes in exchange rates	(0.1)
Acquired on acquisition of George Wimpey Plc	336.8
At 31 December 2007	**699.8**

The Group tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired.

Goodwill of £694.3m (2006: £357.5m) is allocated to the UK Housing business. Goodwill of £5.5m (2006: £5.6m) is allocated to the US Housing business. The recoverable amount in respect of UK Housing has been determined on the basis of the business' value in use. The value in use is the present value of the future cash flows expected to be derived from the cash-generating unit over the next 20 years. Key assumptions used in the calculation are:

(i) Gross margins are based upon past experience and latest forecasts which incorporate expectations of future changes in the market.
(ii) Growth rate applied for the period beyond three years is 0 per cent.
(iii) A pre-tax discount rate of 12 per cent based on the Group's weighted average cost of capital.

As a result of this review no impairment was recorded.

12. Other intangible assets

	Brands £m	Software development costs £m	£m
Cost			
At 1 January 2006 and 31 December 2006	–	–	–
Acquired on 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**
Amortisation			
At 1 January 2006 and 31 December 2006	–	–	–
Impairment loss for the period (note 5)	(30.0)	–	(30.0)
Charge for the period	(3.7)	(2.0)	(5.7)
Changes in exchange rates	(0.2)	–	(0.2)
At 31 December 2007	**(33.9)**	**(2.0)**	**(35.9)**
Carrying amount			
31 December 2007	**106.3**	**14.2**	**120.5**
31 December 2006	–	–	–

13. Property, plant and equipment

	Freehold land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2006	7.2	59.6	66.8
Additions	–	6.7	6.7
Disposals	–	(2.0)	(2.0)
Net surplus on revaluation	2.4	–	2.4
Changes in exchange rates	–	(0.7)	(0.7)
At 31 December 2006	9.6	63.6	73.2
Acquired on acquisition of George Wimpey Plc	1.2	15.2	16.4
Additions	–	13.6	13.6
Disposals	(1.5)	(13.3)	(14.8)
Changes in exchange rates	–	0.3	0.3
At 31 December 2007	**9.3**	**79.4**	**88.7**
Comprising:			
Properties valued			
Cost	8.8	–	8.8
Net surplus	0.5	–	0.5
Valuation in 2006	9.3	–	9.3
Plant and equipment – cost	–	79.4	79.4
	9.3	79.4	88.7
Accumulated depreciation			
At 1 January 2006	–	42.4	42.4
Disposals	–	(2.0)	(2.0)
Charge for the year	–	7.7	7.7
Changes in exchange rates	–	(0.4)	(0.4)
At 31 December 2006	–	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**

13. Property, plant and equipment continued

Carrying amount	Freehold land and buildings £m	Plant and equipment £m	Total £m
At 31 December 2007	**9.3**	**29.7**	**39.0**
At 31 December 2006	9.6	15.9	25.5

The fixed asset properties of the Group were valued as at 31 December 2006 by Knight Frank LLP, independent valuers not connected with the Group, on a fair value basis in accordance with RICS valuation methodology, and that valuation was £9.6m. The prior year income statement was credited with £1.4m of the £2.4m net surplus on revaluation in line with prior years' deficit treatment.

The revaluation surplus arises in a subsidiary and cannot be distributed to the parent due to legal restrictions in the United Kingdom.

14. Interests in joint ventures

	2007 £m	2006 £m
Aggregated amounts relating to share of joint ventures		
Non-current assets	–	30.0
Current assets	101.6	80.7
Total assets	101.6	110.7
Current liabilities	(40.9)	(46.5)
Non-current liabilities	(27.6)	(23.6)
Total liabilities	(68.5)	(70.1)
Carrying amount	33.1	40.6
Loans to joint ventures	26.8	15.6
Total interests in joint ventures	59.9	56.2
Share of post tax profits from joint ventures		
Revenue	81.3	106.9
Cost of sales	(51.4)	(76.3)
Gross profit	29.9	30.6
Net operating expenses	(1.6)	(1.0)
Profit on ordinary activities before finance costs	28.3	29.6
Finance costs	(0.6)	(3.9)
Profit on ordinary activities before tax	27.7	25.7
Taxation	(4.3)	(3.6)
Share of joint ventures' post tax results for the year	23.4	22.1

The Group has five (2006: four) principal joint ventures.

Particulars of principal joint ventures are as follows:

Country of incorporation	Name of joint venture equity accounted in the consolidated accounts (*interest held by subsidiary undertakings)	Taylor Wimpey plc interest in the issued ordinary share capital
Great Britain	Greenwich Millennium Village Limited*	50%
	GN Tower Limited*	50%
	Falcon Wharf Limited*	50%
	Academy Central Limited Liability Partnership*	62%
USA	Taylor Woodrow Communities/Steiner Ranch Limited*	50%

GN Tower Limited, Falcon Wharf Limited and Academy Central Limited Liability Partnership were acquired as part of the George Wimpey plc merger on the 3 July 2007. In the same transaction the Group acquired the remaining 50% shareholding of North Central Management Limited (NCM) which is now accounted for as a subsidiary. The book value of the assets and liabilities of NCM approximates the fair value as at the date of acquisition.

15. 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 2006	1.5	32.3	–	–	66.5	100.3
Credit / (charge) to income	1.6	(16.6)	–	8.9	1.6	(4.5)
Credit / (charge) to equity	–	(1.4)	–	–	0.5	(0.9)
Changes in exchange rates	–	(0.3)	–	–	–	(0.3)
At 31 December 2006	3.1	14.0	–	8.9	68.6	94.6
Acquired on acquisition of a subsidiary	0.7	12.8	(41.2)	85.6	34.5	92.4
Credit / (charge) to income	0.4	(15.0)	11.4	(54.9)	(10.1)	(68.2)
Credit / (charge) to equity	–	(2.6)	–	–	(29.6)	(32.2)
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**

The recognition of deferred tax assets on short-term timing differences and inventory write-downs takes into account the reduced expected usage in the US in future years, which has been assessed in light of the weakening market conditions in the second half of 2007.

In addition the total asset has reduced by £3.9m due to the re-evaluation of share schemes yet to vest at the end of 2007. £2.6m of this has been recorded as a reduction in the share-based payment tax reserve, (see note 30).

Deferred tax on the UK timing differences has been calculated at the rate of 28 per cent (2006: 30 per cent). The effect of the reduction in the UK corporation tax rate from 30 per cent to 28 per cent from 1 April 2008 has resulted in a reduced net deferred tax asset at the end of 2007 of an amount of £2.5m. Of this £2.5m, £2.3m has been charged directly to the statement of recognised income and expense.

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

	2007 £m	2006 £m
Deferred tax assets	**117.7**	95.4
Deferred tax liabilities	**(29.8)**	(0.8)
	87.9	94.6

At the balance sheet date the Group has unused UK capital losses of £418.0m (2006: £187.2m), of which £296.8m (2006: £62.5m) are agreed available for offset against future capital profits. No deferred tax asset has been recognised in respect of these losses because the directors do not consider 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 enlarged Group of any gains and previous losses.

The Group has not recognised potential deferred tax assets of £189.4m (2006: £nil) (primarily relating to inventory adjustments) in respect of the US and a further £9.7m (2006: £3.9m) (relating to tax losses) in other jurisdictions. These are not recognised principally due to the uncertainty of future profits against which to offset such potential deductions and losses.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

16. Inventories

	2007 £m	2006 £m
Raw materials and consumables	**2.3**	2.3
Finished goods and goods for resale	**106.4**	58.7
Residential developments		
Land*	**3,879.4**	1,857.2
Development and construction costs	**2,019.6**	999.1
Commercial, industrial and mixed development properties	**10.1**	29.2
	6,017.8	2,946.5

* Details of land creditors are in note 21.

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 £59.6m (2006: £28.2m) are recorded within Residential developments:Land.

17. Construction contracts

	2007 £m	2006 £m
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**57.3**	65.2
Amounts due to contract customers included in trade and other payables	**(39.1)**	(26.1)
	18.2	39.1
Contract costs incurred plus recognised profits less recognised losses to date.	**3,684.8**	3,571.4
Less: progress billings	**(3,666.6)**	(3,532.3)
	18.2	39.1

At 31 December 2007, retentions held by customers for contract work amounted to £11.1m (2006: £12.6m).

18. Other financial assets

Trade and other receivables

	Current		Non-current	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade receivables	**257.1**	210.0	**41.9**	37.8
Joint ventures	**9.0**	9.6	**–**	–
Currency and interest rate derivatives	**–**	–	**19.9**	15.2
Other receivables	**125.2**	75.3	**14.6**	3.0
	391.3	294.9	**76.4**	56.0

The average credit period taken on sales is 15 days (2006: 15 days). An allowance has been made for estimated irrecoverable amounts from trade receivables of £2.2m (2006: £3.7m). This allowance has been determined by reference to past default experience.

Cash and cash equivalents

	2007 £m	2006 £m
Cash and cash equivalents	**130.0**	236.5

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.

19. Bank loans and overdrafts

	2007 £m	2006 £m
Bank overdrafts repayable on demand	**12.2**	0.2
Bank loans	**708.5**	14.5
	720.7	14.7
Amount due for settlement within 12 months	**12.2**	12.3
Amount due for settlement after 12 months	**708.5**	2.4

	Bank overdraft £m	Bank loans £m
Analysis of borrowings by currency:		
31 December 2007		
Sterling	**0.7**	**295.0**
Canadian dollars	**8.0**	**–**
Ghanaian cedis	**3.5**	**–**
US dollars	**–**	**413.5**
	12.2	**708.5**
31 December 2006		
Sterling	0.2	–
Canadian dollars	–	8.4
Ghanaian cedis	–	3.9
US dollars	–	2.2
	0.2	14.5

Bank borrowings are arranged at floating rates of interest, from 5.25 per cent to 18.0 per cent (2006: 1.95 per cent to 20.6 per cent).

Secured bank loans and overdrafts totalled £4.5m (2006: £14.5m). Secured bank loans and overdrafts are secured on certain fixed asset properties and land.

At 31 December 2007, the Group had available £1,192.9m (2006: £629.5m) of undrawn committed revolving credit facilities.

There were no defaults or breaches of loan terms during the current or preceding period.

20. Debenture loans

	2007 Book value £m	2007 Fair value £m	2006 Book value £m	2006 Fair value £m
Unsecured				
6.59% US $81m notes 2008	–	–	41.3	41.8
Floating rate notes 2008	1.4	1.4	2.0	2.0
9.00% US $35m notes 2009	18.5	19.0	–	–
5.73% US $110m notes 2009	55.2	56.5	–	–
5.53% US $75m notes 2011	37.6	38.7	38.2	38.2
6.625% £250m guaranteed bonds 2012*	245.8	253.0	243.6	257.0
6.21% US $70m notes 2012	35.4	36.5	–	–
6.80% £30m notes 2012	30.0	30.6	–	–
4.72% US $28m notes 2013	13.2	13.6	–	–
6.31% US $110m notes 2014	55.4	57.1	–	–
6.03% US $175m notes 2014	87.7	90.0	89.0	89.2
4.98% US $38m notes 2015	17.7	18.0	–	–
6.72% US $30m notes 2017	15.4	15.6	–	–
5.29% US $30m notes 2018	13.9	13.9	–	–
6.375% £200m bonds 2019	197.5	194.0	197.3	199.0
Secured				
Other secured loans	–	–	1.7	1.8
	824.7	837.9	613.1	629.0

* The guarantee in respect of the 6.625% £250m guaranteed bonds due 2012 was released on th 16 January 2004.

	2007 £m	2006 £m
Repayable		
Total falling due in more than one year	823.3	610.6
Within one year or on demand	1.4	2.5

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 2007				
Sterling	1.4	473.3	6.53	7.2
US dollars	–	350.0	6.05	5.4
	1.4	823.3	6.33	6.4
31 December 2006				
Sterling	2.0	440.9	6.7	8.6
US dollars	–	168.5	6.1	5.3
Canadian dollars	–	1.7	11.4	3.0
	2.0	611.1	6.5	7.7

Interest on debenture loans of £100.0m (2006: £100.0m) has been swapped from 6.625 per cent to floating rates based on US$ LIBOR applicable to periods of three months. The above table does not reflect the impact of these swaps.

Charges for secured loans have been given principally on certain development properties.

There were no defaults or breaches of loan terms during the current or preceding period.

21. Trade and other payables

	Current		Non-current	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade payables	**920.6**	608.4	**376.6**	122.7
Joint ventures	**3.4**	2.8	**–**	–
Currency and interest rate derivatives	**1.5**	9.1	**–**	–
Other payables	**614.8**	305.7	**11.8**	0.4
	1,540.3	926.0	**388.4**	123.1

Trade payable days were 43 days (2006: 32 days), based on the ratio of year-end trade payables (excluding sub-contract retentions and unagreed claims of £23.8m (2006: £13.2m) and land creditors) to amounts invoiced during the year by trade creditors.

Other payables include customer deposits for reserving plots of £90.1m (2006:£84.2m).

Land creditors (included within trade payables) are due as follows:	2007 £m	2006 £m
Due within one year	**453.7**	252.0
Due in more than one year	**375.3**	121.0
	829.0	373.0

Land creditors are denominated as follows:	2007 £m	2006 £m
Sterling	**711.0**	239.7
US dollars	**42.4**	57.9
Canadian dollars	**38.4**	24.9
Euros	**37.2**	50.5
	829.0	373.0

Land creditors of £570.9m (2006: £350.4m) are secured against land acquired for development.

22. Financial instruments

Capital management

The Group operates within policies and procedures approved by the Board. The Group's capitalisation policy established last year sets overall parameters for the consolidated capital structure designed to maintain a strong credit rating and an appropriate funding structure.

The Group seeks to match long term assets with long term funding and short term assets with short term funding. Equity, retained profits and long term fixed interest debt are used primarily to finance intangible assets, fixed assets and land. Short term borrowings are required primarily to finance net current assets, other than landbank assets of more than one year, and work in progress. Cash balances made available by our construction business are used to reduce our short term borrowing requirements.

Net debt as a percentage of equity was 38.2% (2006: 18.6%) however, the Group aims to maintain a strong credit rating by seeking to keep year end modified net gearing (defined as borrowings less cash or cash equivalents as a percentage of tangible net assets adjusted for deferred tax assets and retirement benefit obligations) between 40% and 60% and interest cover greater than 5 times but less than 7 times. The forecast numbers are reviewed regularly. Modified net gearing on this basis was 46.9% (2006: 21.1%). Interest cover (profit on ordinary activities before exceptional items and finance costs divided by finance costs less interest receivable) was 4.2 (2006: 7.3).

22. Financial instruments continued

Financial assets and financial liabilities

Categories of financial assets and financial liabilities are as follows:

Financial assets		2007 Carrying value £m	2006 Carrying value £m
Derivative financial instruments:			
Designated as effective hedging instruments	(a)	17.7	15.2
Held for trading	(a)	2.2	–
Loans and receivables:			
Cash and cash equivalents	(b)	130.0	236.5
Land receivables	(b)	108.6	121.2
Trade and other receivables	(b)	192.3	124.7
Joint ventures	(b)	26.8	15.6
		477.6	513.2

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 18 include £146.9m (2006: £89.9m) of non financial assets.

Financial liabilities	Note	2007 Carrying value £m	2006 Carrying value £m
Held for trading:			
Derivative financial instruments	(a)	1.5	9.1
Amortised cost:			
Bank loans and overdrafts	(b)	720.7	14.7
Land creditors	(b)	829.0	373.0
Trade and other payables	(b)	892.0	560.3
Debentures	(c)	824.7	613.1
		3,267.9	1,570.2

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 21, include £206.2m (2006: £106.7m) 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 20.

The Group has the following types of derivatives:

	2007 Notional amount	2007 Weighted average fixed	2006 Notional amount	2006 Weighted average fixed
Designated as held for trading:				
Floating £ to fixed £ interest	£235.0m	5.10%	£35.0m	5.80%
Fixed US$ to floating US$ interest	US$145.0m	5.16%	–	–
Floating US$ to fixed US$ interest	US$50.0m	5.63%	–	–
Fixed US$ to fixed £ interest	–	–	US $(81.0)m	6.59%
			£49.5m	7.04%
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 and intra Group loans to buy or (sell) against £, US$55m, €(70.9m) and C$90.0m (2006: US$(2.2m), €(16.0m) and C$ nil). The fair values of the forward contracts are not material as they were entered into on or near the 31 December 2007 and mature not more than one month later.

22. Financial instruments continued

Profit before tax has been arrived at after charging/(crediting) the following gains and losses:	2007 £m	2006 £m
Changes in fair value of financial liabilities designated as effective hedged items	1.7	(3.7)
Change in fair value of derivatives designated as effective hedging instruments	(1.7)	3.7
Change in fair value of derivatives classified as held for trading	5.4	4.0
Net foreign exchange (gains)/losses on financial liabilities at amortised cost	–	(5.8)
	5.4	(1.8)

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.

(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 acquisitions. 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 is 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.

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 receive interest at a fixed rate of 6.625% based on a nominal of £100m matching the underlying borrowing and pay US$ floating rates on a nominal of US$160.5m. During the period the hedge was 100% effective (2006: 100%) in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the loan was increased by £1.7m (2006: reduced by £3.7m) which was included in the income statement offsetting the fair value movement of the bifurcated interest rate swap.

As a result of the merger in July 2007 the Group acquired a number of derivatives 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% rise in interest rates is £(5.8)m (2006: £2.3m), before tax, a 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% 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	Income sensitivity 2007 £m	Equity sensitivity 2007 £m	Income sensitivity 2006 £m	Equity sensitivity 2006 £m
Derivatives	5.3	1.8	1.6	(2.7)
Non derivatives (based on average for the year)	(4.6)	(4.6)	(1.8)	(1.8)
	0.7	(2.8)	(0.2)	(4.5)

1% decrease in interest rates	Income sensitivity 2007 £m	Equity sensitivity 2007 £m	Income sensitivity 2006 £m	Equity sensitivity 2006 £m
Derivatives	(5.6)	(1.9)	(2.1)	2.4
Non derivatives (based on average for the year)	4.6	4.6	1.8	1.8
	(1.0)	2.7	(0.3)	4.2

(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. Construction has certain contracts in non functional currencies and aims to match its expenditure in the same currency to reduce risk and these risks are not material in relation to the Group. 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 £. 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

22. Financial instruments continued

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 historic 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.

Hedge accounting

The Group designates the bifurcated cross currency swaps such that the nominal amount of US$160.5m (2006: US$160.5m) is used to hedge part of the Group's net investment in US$ denominated assets and liabilities.

The Group has also designated the carrying value of US$982.5m (2006: US$250.0m) borrowings as a net investment hedge of part of the Group's investment in US$ denominated assets.

During the period the hedges were 100% effective (2006: 100%) and as a result the change in the carrying amount of the derivatives and the change in the carrying value of the borrowings offset the exchange movement on the Group's US dollar net investment and are therefore 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 10% increase in the respective currencies against £ and in accordance with IFRS 7 all other variables remaining constant. A 10% decrease in the value of £ would have an equal but opposite effect.

The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to £.

	Income sensitivity 2007 £m	**Equity sensitivity 2007 £m**	Income sensitivity 2006 £m	Equity sensitivity 2006 £m
US$	**(15.1)**	**(20.2)**	(0.1)	16.2
Canadian $	**0.2**	**(15.6)**	–	(13.5)
Euro	**0.2**	**0.2**	–	–
	(14.7)	**(35.6)**	(0.1)	2.7

The sensitivity analysis does not extend to the retranslation of the Group's US dollar net investments as had such changes been included they would have offset equity sensitivity in respect of the hedging instruments included above.

Credit risk

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

Surplus cash, when not used to repay borrowings, is placed on deposit with banks in accordance with a policy that specifies the minimum acceptable credit rating and the maximum exposure to each counterparty. 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 in excess of the carrying amount of the receivable to which it relates. No amounts outstanding are past due.

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. No material amounts are past due and 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 arms length terms which will include security where appropriate and are usually repayable from sales proceeds.

There has been no change in the Group's exposure to credit risk or how that risk is managed from the prior year. The merger with George Wimpey Plc did not create any new classes of financial asset with different risk profiles for the Group.

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 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 monthly basis and funding headroom is maintained above forecast peak requirements to meet unforeseen events.

There have been no adverse changes in the Group's exposure to liquidity risk or how it is managed from the prior year.

In addition to term borrowings and on demand overdraft facilities the Group has access to committed revolving credit facilities. The total unused committed amount is £1,192.9m (2006: £629.5m) and management believe it is adequate to meet both forecast and unforseen requirements.

22. Financial instruments continued

Liquidity risk continued

The maturity profile of the anticipated future cash flows including interest where 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 £
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**

Financial liabilities	Bank loans and overdraft £m	Land creditors £m	Other trade payables £m	Debenture loans £m	Total £
On demand	12.3	–	–	–	12.3
Within one year	0.8	252.0	541.2	39.9	833.9
More than one year and less than two years	0.1	86.9	0.4	81.2	168.6
More than two years and less than five years	1.8	42.1	0.2	80.2	124.3
In more than five years	–	5.8	0.4	651.5	657.7
31 December 2006	15.0	386.8	542.2	852.8	1,796.8

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.

Derivatives	Net settled derivatives net amount £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**

Derivatives	Net settled derivatives £m	Gross settled derivatives receivable £m	Gross settled derivatives payable £m	Total £m
Within one year	(0.1)	14.6	(14.7)	(0.2)
More than one year and less than two years	(0.1)	48.6	(56.2)	(7.7)
More than two years and less than five years	(0.6)	19.9	(17.8)	1.5
In more than five years	(0.3)	106.6	(84.6)	21.7
31 December 2006	(1.1)	189.7	(173.3)	15.3

23. Retirement benefit schemes

Retirement benefit obligation comprises gross pension liability of £216.4m (2006: £205.9m) and gross post-retirement health care liability of £2.7m (2006: £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), the George Wimpey Staff Pension Scheme (GWSPS) and the Taylor Woodrow NHS Pension Scheme (TWNHSPS) are funded Defined Benefit schemes. 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. With the exception of the TWNHSPS, the 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 £11.2m (2006: £6.7m) were charged to income in respect of defined contributions schemes. The Group also operates a number of overseas pension schemes of the defined benefit and defined contribution type.

The pension scheme assets of TWGP&LAF, GWSPS and TWNHSPS 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, including at least one member by current pensioners.

The most recent formal actuarial valuation of the TWGP&LAF was carried out at 1 June 2004 and updated to 1 September 2004 to take account of subsequent mergers. The TWNHSPS commenced in December 2003 and the Actuary completed his initial valuation with an effective date of 31 December 2003. The most recent formal actuarial valuation of the GWSPS was carried out at 31 March 2005. 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, TWNHSPS and GWSPS are taking place at 1 June 2007, 31 December 2006 and 31 March 2008 respectively. These will be undertaken in accordance with new legislation and have not yet been completed.

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.

As part of the discussions with the Trustees of the TWGP&LAF around the closure of the scheme to future accrual, the Group has agreed to increase deficit reduction payments to £20m p.a. for 10 years. These payments will be reviewed at each valuation. The first such payment was made on 19 December 2006.

Following the valuation of the GWSPS as at 31 March 2005, the ordinary contribution rate increased to 15.7% of pensionable salaries. The Group has agreed with the trustees it will aim to eliminate the deficit over the next 16 years by means of contributions of £15m per annum paid monthly.

The contribution rate to the TWNHSPS has been agreed as 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	TWNHSPS	GWSPS
RPI Inflation	2.5% p.a.	2.5% p.a.	2.75% p.a.
Discount rate – pre/post retirement	5.0/3.0% p.a.	3.0/3.0% p.a.	4.25/2.25% p.a.
General real pay inflation	N/A	1.0% p.a.	2.0% p.a.
Real pension Increases	0% p.a.	0% p.a.	0% p.a.

Valuation results	TWGP&LAF	TWNHSPS	GWSPS
Market value of assets	£563.3m	£0.05m	£591.0m
Past service liabilities	£627.9m	£0.09m	£739.0m
Scheme funding levels	90%	58%	80%

The valuations of the Group's pension schemes have been updated to 31 December 2007 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	
	2007	2006	**2007**	2006
As at 31 December				
Discount rate for scheme liabilities	**5.80%**	5.10%	**5.30-5.80%**	5.0-5.7%
Expected return on scheme assets	**6.20-6.25%**	5.87%	**5.50-6.60%**	5.5-6.6%
General pay inflation	**4.60%**	2.75%	**2.60%**	3.5-4.0%
Deferred pension increases	**3.10%**	3.00%	**0%**	2.5-3.5%
Pension increases	**2.25-3.35%**	2.75%	**0-3.00%**	3.5-4.0%

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.

23. 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	Male	Female
Member currently age 65	19.4	22.2
Member currently age 45	20.3	23.1

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 2007					
Assets:					
Equities	8.1%	488.0	8.3	496.3	35%
Bonds/Gilts	5.8/4.6%	836.0	4.4	840.4	58%
Other assets	5.5%	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	
Surplus/(deficit) in schemes recognised as non-current liability		(217.2)	0.8	(216.4)	
31 December 2006					
Assets:					
Equities	8%	346.9	7.5	354.4	47%
Bonds/Gilts	5.1%/4.5%	376.4	4.0	380.4	51%
Other assets	5.12%	14.7	0.2	14.9	2%
		738.0	11.7	749.7	100%
Present value of defined benefit obligations		(944.4)	(11.2)	(955.6)	
Surplus/(deficit) in schemes recognised as non-current liability		(206.4)	0.5	(205.9)	

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 was 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%	30%
Fixed-Interest Gilts	10%	20%
Other UK bonds	25%	20%
Property	5%	0%

23. Retirement benefit schemes continued

	2007 £m	2006 £m
Amount (charged against)/credited to income:		
Current service cost	**(5.1)**	(10.3)
Curtailment gain	**–**	2.4
Settlement loss	**–**	(1.2)
Operating cost	**(5.1)**	(9.1)
Expected return on scheme assets	**66.1**	40.1
Interest cost on scheme liabilities	**(69.9)**	(42.8)
Finance charges	**(3.8)**	(2.7)
	(8.9)	(11.8)

Of the charge for the year, £1.0m (2006:£6.8m) has been included in cost of sales and £4.1m (2006: £3.5m) has been included in administrative expenses. The actual return on scheme assets was £53.4m (2006:£64.3m)

	2007 £m	2006 £m
Actuarial (losses)/gains in the statement of recognised income and expenses:		
Difference between actual and expected return on scheme assets	**(12.7)**	24.2
Experience gains arising on scheme liabilities	**26.7**	0.2
Changes in assumptions	**77.3**	(26.0)
Total gains/(loss) recognised in the statement of recognised income and expense	**91.3**	(1.6)

	2007 £m	2006 £m
Movement in present value of defined benefit obligations		
1 January	**955.6**	925.9
Changes in exchange rates	**0.4**	(1.6)
Service cost	**5.1**	10.3
Curtailment gain	**–**	(2.4)
Plan settlements	**–**	(5.9)
Benefits paid and expenses	**(58.6)**	(41.3)
Contributions	**1.2**	2.0
Interest cost	**69.9**	42.8
Acquisition of George Wimpey Plc	**781.0**	–
Actuarial (gains)/losses	**(104.0)**	25.8
31 December	**1,650.6**	955.6

	2007 £m	2006 £m
Movement in fair value of scheme assets		
1 January	**749.7**	706.1
Changes in exchange rates	**0.8**	(1.6)
Expected return on scheme assets and expenses	**63.6**	36.7
Contributions	**31.2**	29.3
Benefits paid	**(56.1)**	(37.9)
Plan settlements	**–**	(7.1)
Acquisition of George Wimpey Plc	**657.7**	–
Actuarial gains/(losses)	**(12.7)**	24.2
31 December	**1,434.2**	749.7

23. Retirement benefit schemes continued

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
History of experience gains and losses:					
Fair value of scheme assets	**1,434.2**	749.7	706.1	627.0	581.6
Present value of defined benefit obligations	**(1,650.6)**	(955.6)	(925.9)	(769.5)	(764.7)
Deficit in the scheme	**(216.4)**	(205.9)	(219.8)	(142.5)	(183.1)
Difference between actual and expected return on scheme assets					
Amount	**(12.7)**	24.2	61.4	22.0	44.9
Percentage of scheme assets	**1%**	3%	9%	4%	8%
Experience adjustments on scheme liabilities					
Amount	**26.7**	0.2	(32.6)	(6.5)	(43.6)
Percentage of scheme liabilities	**2%**	0%	4%	0.8%	5.7%

The estimated amounts of contributions expected to be paid to the TWGP&LAF during 2008 is £20.0m, to the GWSPS is £19.9m and to the TWNHSPS is £0.3m.

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 25.2
Rate of inflation	Increase by 0.1% p.a.	Increase by 23.3
Rate of pay inflation	Increase by 0.1% p.a.	Increase by 1.6
Rate of mortality	Members assumed to live 1 year longer	Increase by 45.7

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 £22m.

An alternative measure of liability is the cost of buying out benefits at the balance sheet date with a suitable insurer. This amount represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than the Group continuing to fund the on-going liabilities of the scheme. The Group estimates the amount required to settle the schemes' liabilities at the balance sheet date is £1,177m in excess of the assets held by the schemes.

The gross post-retirement liability also includes £2.7m at 31 December 2007 (2006: £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 2007. The cost is calculated assuming a discount rate of 5 per cent per annum and an increase in medical expenses of 10 per cent per annum. The premium cost to the Group in respect of the retired long-service employees for 2007 was £0.2m (2006:£0.2m).

24. Provisions

	Housing maintenance £m	Restructuring £m	Other £m	Total £m
At 1 January 2006	30.8	–	–	30.8
Additional provision in the year	21.7	–	–	21.7
Utilisation of provision	(22.3)	–	–	(22.3)
Changes in exchange rates	(2.3)	–	–	(2.3)
At 31 December 2006	27.9	–	–	27.9
Acquired on acquisition of George Wimpey Plc	5.8	–	13.9	19.7
Additional provision in the year	23.5	52.8	1.7	78.0
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**

	£m
Amount due for settlement within 12 months	**48.2**
Amount due for settlement after 12 months	**38.4**
31 December 2007	**86.6**

The housing maintenance provision arises principally from warranties and other liabilities on housing sold. Whilst such warranties extend to a period of ten years, payment of these costs is likely to occur within a period of two years. The Group has a restructuring provision relating to the redundancies and relocation costs which arise as a result of the George Wimpey Plc merger. It is anticipated that the majority of this provision will be utilised in 2008. Other provisions consist of a remedial work provision and rental guarantee provision. 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.

25. Share capital

	2007 £m	2006 £m
Authorised:		
2,000,000,000 (2006: 780,000,000) ordinary shares of 25p each	**500.0**	195.0

	Number of shares	£m
Issued and fully paid:		
1 January 2006	591,891,384	148.0
Options exercised	2,227,950	0.5
US Employee Stock Purchase Plan	30,573	–
Long service awards	189	–
31 December 2006	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**

During the year, options were exercised on 4,347,240 (2006: 8,562,360) ordinary shares of which 194,175 (2006: 2,227,950) were new issues with the balance coming from Treasury/ESOT at varying prices from 125.2p to 278.8p and shares were issued for a total consideration of £4.2m (2006: £1.6m). Additionally nil (2006: 189) ordinary shares were issued and awarded to employees for twenty-five or forty years' long service. Under the Group's senior executives' share option scheme and executive share option plan, employees held options at 31 December 2007 to purchase 855,810 shares (2006:1,821,306) at prices between 153.0p and 252.8p per share exercisable up to 8 October 2013. Under the Group's savings related share option schemes, employees held options at 31 December 2007 to purchase 7,043,437 shares (2006: 5,135,009) at prices between 127.2p and 278.8p per share exercisable up to 31 May 2013. Under the Group's cash bonus deferral plan and executive bonus plan, employees held options at 31 December 2007 in respect of 716,604 shares (2006: 991,217) at nil p per share exercisable up to 1 April 2014. Under the Group's performance share plan employees held conditional awards at 31 December 2007 in respect of 4,512,837 shares (2006: 6,750,224) at nil p per share exercisable up to 30 June 2010. Under the Group's share purchase plan employees held conditional awards at 31 December 2007 in respect of 871,812 shares (2006: 687,045) at nil p per share. The former George Wimpey plans were acquired as part of the merger. The awards were adjusted by the merger ratio of 1.3914 shares for each George Wimpey share. Under the George Wimpey Sharesave Scheme, employees held options at 31 December 2007 to purchase 3,378,282 shares at prices between 164.2p and 277.0p per share exercisable up to 31 May 2012. Under the George Wimpey Executive Option Scheme, employees held awards at 31 December 2007 in respect of 4,182,473 shares 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 2007 in respect of 3,990,182 shares at nil p per share exercisable up to 2 April 2017.

26. Share premium account

	£m
Balance at 1 January 2006	756.2
Amortisation of debt transferred from retained earnings	(0.7)
Premium on ordinary shares issued during the year less expenses of issues	3.3
Balance at 31 December 2006	758.8
Amortisation of debt transferred from retained earnings	(0.7)
Balance at 31 December 2007	**758.1**

27. Merger relief reserve

	£m
Balance at 1 January 2006 and 31 December 2006	–
Premium on ordinary shares issued on acquiring 100% equity in George Wimpey Plc	1,934.2
Balance at 31 December 2007	**1,934.2**

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.

28. Revaluation reserve

	£m
Balance at 1 January 2006	0.5
Net surplus on revaluation	1.0
Balance at 31 December 2006	1.5
Transfer to retained earnings	(1.0)
Balance at 31 December 2007	**0.5**

The revaluation reserve is not a distributable reserve until realised.

29. Own shares

	£m
Balance at 1 January 2006	53.9
Acquired in the year	8.1
Disposed of on exercise of options	(17.0)
Balance at 31 December 2006	45.0
Acquired in the year	251.6
Disposed of on exercise of options	(14.6)
Balance at 31 December 2007	**282.0**

The own shares reserve represents the cost of shares in Taylor Wimpey plc purchased in the market and 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 94.8m of its shares consistent with the announcement of the share buy back program in July 2007.

	2007 Number	2006 Number
These comprise ordinary shares of the company:		
Treasury shares	**102.7m**	12.2m
Shares held in trust for bonus, option and performance award plans	**4.5m**	5.1m
	107.2m	17.3m

Employee Share Ownership Trusts ('ESOTs') are used to hold the company's shares ('shares') which are either acquired on the market or (during 2007) 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 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 2007, aggregating 4.5m shares, was covered by outstanding options and conditional awards over shares at that date.

30. Share-based payment tax reserve

	£m
Balance at 1 January 2006	4.0
Increase for the year	4.2
Balance at 31 December 2006	8.2
Decrease for the year	(2.6)
Balance at 31 December 2007	**5.6**

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.

A decrease for the year has been recorded as a result of the revaluation of share schemes at the end of 2007. This has resulted in a smaller amount of tax relief obtained and expected than previously considered. This decreases the amount of the deferred tax asset held in respect of share schemes yet to vest as indicated in note 15.

31. Capital redemption reserve

	£m
Balance at 31 December 2007 and 31 December 2006	**31.5**

32. Translation reserve

	£m
Balance at 1 January 2006	29.9
Exchange differences on translation of overseas operations	(61.2)
Increase in fair value of hedging derivatives	12.2
Balance at 31 December 2006	(19.1)
Exchange differences on translation of overseas operations, net of tax	22.0
Increase in fair value of hedging derivatives	0.8
Balance at 31 December 2007	**3.7**

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.

33. Retained earnings

	£m
Balance at 1 January 2006	1,006.8
Dividends paid	(79.7)
Transfers to share premium account	0.7
Share-based payment credit	6.1
Cash cost of satisfying share options	(8.0)
Actuarial losses net of deferred tax	(1.1)
Net profit for the year	289.5
Balance at 31 December 2006	1,214.3
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)
Actuarial gain net of deferred tax	61.7
Transfer from revaluation reserve	1.0
Replacement options granted on acquisition of George Wimpey Plc	2.9
Net loss for the year	(197.9)
Balance at 31 December 2007	**957.1**

34. Reconciliation of movements in consolidated equity

	2007 £m	2006 £m
Total recognised income for the year	**(112.2)**	241.5
Dividends on equity shares	**(117.3)**	(79.7)
New share capital subscribed	**2,075.3**	3.8
Replacement options granted on acquisition of George Wimpey Plc	**2.9**	–
Disposal of own shares	**14.6**	15.0
Purchase of own shares	**(251.6)**	(6.1)
(Decrease)/Increase in share-based payment tax reserve	**(2.6)**	4.2
Share-based payment charge	**0.6**	6.1
Cash cost of satisfying share options	**(8.9)**	(8.0)
Decrease in other reserve	**–**	(0.6)
Dividends to minority shareholders	**(1.1)**	–
Net increase in equity	**1,599.7**	176.2
Opening equity	**2,105.5**	1,929.3
Closing equity	**3,705.2**	2,105.5

35. Merger with George Wimpey Plc

On 3 July 2007, Taylor Woodrow plc and George Wimpey Plc merged their operations. Taylor Woodrow plc (subsequently renamed Taylor Wimpey plc) acquired 100% of the share capital of George Wimpey Plc for a total consideration of £2,093.9m. George Wimpey Plc is the parent company of a group of companies involved in housebuilding in the UK and USA. This transaction has been accounted for using the purchase method of accounting. The book values, fair value adjustments and provisional fair values are set out in the table below.

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Goodwill	5.4	(5.4)	–
Brand values	–	140.0	140.0
Other intangible assets	20.0	(4.2)	15.8
Property, plant and equipment	16.1	0.3	16.4
Joint ventures	28.7	–	28.7
Deferred tax (net)	70.3	22.1	92.4
Inventories	3,208.6	(188.1)	3,020.5
Trade and other receivables	120.8	–	120.8
Current tax (net)	(102.0)	–	(102.0)
Derivative financial instruments (net)	6.9	–	6.9
Cash and cash equivalents	43.9	–	43.9
Financial liabilities	(569.8)	1.1	(568.7)
Trade and other payables	(917.1)	2.6	(914.5)
Deficit on defined benefit pension schemes	(123.3)	–	(123.3)
Provisions	(19.7)	–	(19.7)
	1,788.8	(31.6)	1,757.2
Goodwill			336.7
			2,093.9
Satisfied by:–			
Issue of Taylor Woodrow plc shares			
– issued			2,075.2
– to be issued			2.9
Directly attributable costs			15.8
			2,093.9
Net cash inflow arising on acquisition			
Cash and cash equivalents			43.9
Directly attributable costs			(15.8)
			28.1

Taylor Woodrow plc issued 563,919,759 shares of 25p nominal value to shareholders of George Wimpey Plc. The fair value of the shares issued was £2,075.2m, which was determined using the opening mid-market price of Taylor Woodrow plc on 3 July 2007. In addition, at 3 July 2007, the company has a liability to issue shares with a fair value using the Monte Carlo method of £2.9m for the period up to 3 July to satisfy the remaining George Wimpey share option holders. The number of shares issuable under share options is 12,463,543. The directly attributable costs relate chiefly to legal and banking costs.

The most significant fair value adjustments comprise:

- £140.0m related to the valuation of the George Wimpey, Laing Homes and Morrison Homes brands. The valuations were £110m, £10m and £20m respectively. See note 5.
- A £188.1m reduction in inventories to reflect the fair value of land and work in progress. Of this amount, £154.2m relates to the US and £33.9m to the UK.
- The adjustment to deferred tax mainly relates to the brand values and adjustments to inventory referred to above.

The total provisional goodwill arising is £336.7m and reflects anticipated synergy benefits from the merger. This includes build cost efficiencies, rationalisation of operating divisions, greater operational flexibility from a larger landbank, elimination of duplication in head office functions, an expanded portfolio of strategic land and benefits from merging the skills and experience of the Taylor Woodrow and George Wimpey workforce.

George Wimpey Plc contributed £1,647m of revenue and £65m (after charging restructuring costs of £15m and brand impairments of £30m) to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

It is not practicable to restate George Wimpey's results to 3 July because of the impact of fair value adjustments. However, if the acquisition of George Wimpey Plc had been completed on the first day of the financial year Group revenue for the period on a pro forma basis would have been £5,887.5m and Group profit on ordinary activities before taxation and exceptional items on a pro forma basis, would have been £535.6m. The pro forma basis combines George Wimpey Plc's adjusted interim results and the full year results of Taylor Wimpey plc.

The operating review gives details of how the Taylor Woodrow and George Wimpey businesses have been combined together following the merger, including details of certain regional offices which have been closed.

36. Notes to the cash flow statement

	2007 £m	2006 £m
Profit on ordinary activities before finance costs	**92.6**	469.8
Adjustments for:		
Amortisation of brands	**33.7**	–
Amortisation of software development costs	**2.0**	–
Depreciation of plant and equipment	**8.3**	7.7
Share-based payment charge	**0.6**	6.1
Gain on disposal of property and plant	**(5.7)**	(9.1)
Share of joint ventures' operating profit	**(23.4)**	(22.1)
Increase in provisions	**38.6**	8.5
Operating cash flows before movements in working capital	**146.7**	460.9
Increase in inventories	**(26.3)**	(347.5)
Decrease/(increase) in receivables	**38.9**	(37.2)
(Decrease)/increase in payables	**(81.6)**	174.4
Pension contributions in excess of charge	**(30.0)**	(27.3)
Cash generated by operations	**47.7**	223.3
Income taxes paid	**(127.3)**	(95.2)
Interest paid	**(83.7)**	(71.1)
Net cash (used in)/from operating activities	**(163.3)**	57.0

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.

	2007 £m	2006 £m
Net debt		
Cash and cash equivalents	**130.0**	236.5
Bank overdrafts and bank loans	**(720.7)**	(14.7)
Debenture loans	**(824.7)**	(613.1)
Net debt	**(1,415.4)**	(391.3)

37. 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.

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 2007 (2006: £nil).

38. 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:

	2007 £m	2006 £m
Within one year	16.1	14.6
In more than one year but not more than five years	44.1	41.1
After five years	17.4	30.7
	77.6	86.4

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

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007 £m	2006 £m
Within one year	1.5	1.5
In more than one year but not more than five years	5.0	5.5
After five years	3.7	5.2
	10.2	12.2

Operating lease receipts represent rental income in respect of certain office and commercial properties.

39. 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 46 and 55.

	2007		2006	
Schemes requiring consideration from participants:	Options	Weighted average exercise price (in £)	Options	Weighted average exercise price (in £)
Outstanding at beginning of period	6,956,315	2.28	15,279,832	2.10
Granted during the period	2,640,216	2.65	1,409,702	2.79
Lapsed during the period	(421,974)	(2.94)	(1,726,908)	(2.16)
Exercised during the period	(2,142,532)	(2.00)	(8,006,311)	(2.06)
Acquired with subsidiary	8,427,977	2.93	–	–
Outstanding at the end of the period	15,460,002	2.72	6,956,315	2.28
Exercisable at the end of the period	3,222,426	2.04	3,358,276	1.78

The weighted average share price at the date of exercise for share options exercised during the period was £3.30 (2006: £3.74). The options outstanding at 31 December 2007 had a range of exercise prices from £1.27 to £4.57 (2006: £1.25 to £2.79) and a weighted average remaining contractual life of 4.8 years (2006: 4.4 years).

	2007		2006	
Schemes not requiring consideration from participants:	Options	Weighted average exercise price (in £)	Options	Weighted average exercise price (in £)
Outstanding at beginning of period	8,428,486	–	7,364,498	–
Granted during the period	2,062,377	–	2,652,653	–
Lapsed during the period	(2,230,286)	–	(1,032,616)	–
Exercised during the period	(2,204,708)	–	(556,049)	–
Acquired with subsidiary	4,035,566	–	–	–
Outstanding at the end of the period	10,091,435	–	8,428,486	–
Exercisable at the end of the period	88,538	–	31,592	–

The options outstanding at 31 December 2007 had a weighted average remaining contractual life of 4.2 years (2006: 1.7 years).

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

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

39. Share-based payments continued

	2007	2006
Weighted average share price	**£2.81**	£3.74
Weighted average exercise price	**£2.65**	£1.02
Expected volatility	**30%**	27.0%-29.3%
Expected life	**3/5 years**	3/5 years
Risk-free rate	**5.1%**	4.5%-4.8%
Expected dividend yield	**3.6%**	4.1%

The weighted average fair value of share options granted during the year is £0.69 (2006: £2.56).

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 these options were determined using the Monte Carlo simulation model. The inputs into that model were as follows:

	2007	2006
Weighted average share price	**£4.92**	£3.82
Weighted average exercise price	**£nil**	£nil
Expected volatility	**26%**	27%
Expected life	**3 years**	3 years
Risk-free rate	**5.4%**	4.5%
Expected dividend yield	**3.6%**	4.1%

The weighted average fair value of share options granted during the year is £4.35 (2006: £1.01).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term. The expected life used in the model is based on historic exercise patterns.

The Group recognised total expenses of £0.6m and £6.1m related to equity-settled share-based payment transactions in 2007 and 2006 respectively. Although there was a modification to certain Performance Share Plan awards during the year following the merger with George Wimpey Plc, no incremental fair value charge has been recognised as an additional cost as a result of the modification. The company does not currently expect the performance vesting criteria to be met, causing the awards to lapse at the end of the specified period.

40. 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 £21.4m (2006: £30.7m). Purchases were based on open market values.

Remuneration of key management personnel

Details of the remuneration of the directors and members of the Executive Committee, who are the key management personnel of the Group, are contained in the audited part of the Remuneration Report on pages 46 to 55 and form part of these financial statements.