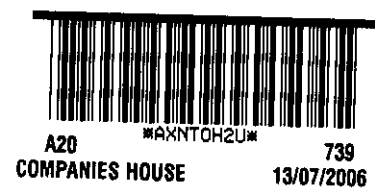


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Taylor Woodrow plc
Report and Accounts 2005



Taylor Woodrow

Our aim is to be the homebuilder of choice. Our primary business is the development of sustainable communities of high quality homes in selected markets in the UK, North America, Spain and Gibraltar. We seek to add shareholder value through the achievement of profitable growth and by improving capital management.

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Group Financial Highlights

- Profit before tax up 2% to £411m
- Full year dividend up 21% to 13.4 pence
- Landbank up 18% to 75,160 plots, 4.9 year supply at 2005 year end
- Gearing down 7.9 percentage points to 23.7%
- Equity Shareholders' funds per share up 11.4% to 338.4 pence

Profit before tax

£m

2005	411.0
2004	403.9
2003 (UK GAAP)	300.5

Full year dividend

pence

(Represents interim dividends declared and paid and final dividend for the year as declared by the Board)

2005	13.4
2004	11.1
2003	8.9

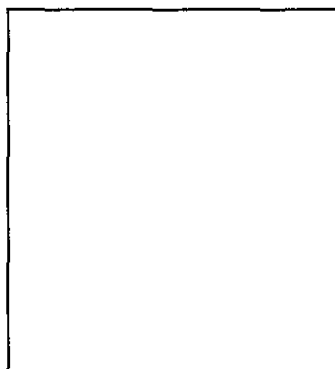
Landbank

plots

2005	75,160
2004	63,701
2003	62,085

Chairman's Statement

2005 has shown the benefits of our strategy of operating in different geographical and product markets and allocating capital where we see the best opportunities. The UK market has continued to be subdued in 2005, although the stability of prices assisted by a quarter point interest rate cut in August contributed to improved reservation rates in the second half. Our housing business in North America continued to benefit from strong markets, resulting in another year of significant organic growth. We also achieved excellent results in Spain.



Norman Askew, Chairman

In 2005 we:

- Achieved a robust performance, despite challenging conditions in the UK
- Continued to grow our housing operations in North America
- Increased our investment in our housing operations in Spain
- Substantially exited our property operations
- Reduced gearing to 23.7%
- Increased land in all markets

Maintaining growth in dividends through the cycle

In line with our intention at the half year to increase full-year dividends by 20 per cent, the Board recommends an increase in the final dividend for 2005 to 8.9 pence from 8.1 pence in 2004. This, together with the interim dividend of 4.5 pence paid on 1 November 2005, makes a total dividend for the year of 13.4 pence, an increase of 21 per cent. Subject to confirmation at the Annual General Meeting on 3 May 2006, the dividend will be paid on 3 July 2006 to shareholders on the register at close of business on 2 June 2006.

This dividend will be paid as a conventional cash dividend but shareholders are once again being offered the opportunity to reinvest some or all of their dividend under the Dividend Re-Investment Plan, details of which are contained in a separate circular to shareholders.

Board Changes

As previously announced, Denis Mac Daid retired from the company and the Board on 30 June 2005. On behalf of the Board, I would like to extend our sincere

thanks for his exceptional contribution to the Group over his 39 year career with us.

Our people

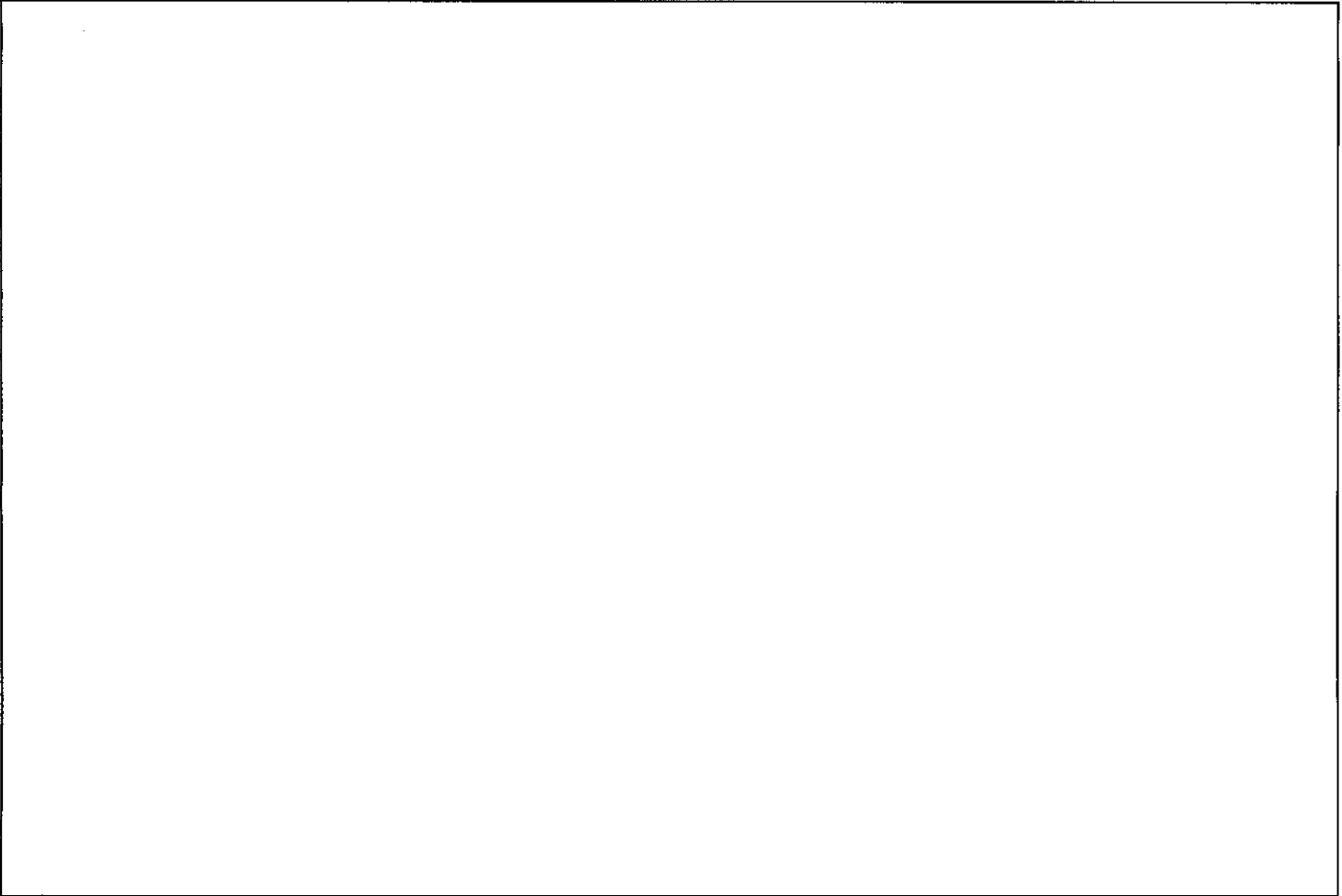
The performance that we have achieved this year is a reflection of the skill and enthusiasm of our team members. I would like to take this opportunity to thank all of my colleagues throughout the Group for their hard work over the year.

As a business we are also dependent on our customers, trading partners, shareholders and our other stakeholders. I would like to take this opportunity to offer our thanks for all the support they give us.

Shareholder information

Full details of the facilities available to shareholders can be found on page 94 and on the company's website, www.taylorwoodrow.com

Norman Askew
Chairman
27 February 2006



Our presence in different markets provides us with alternative growth channels.

Above: Bryant at Lichfield

Chief Executive's Review

Taylor Woodrow has completed the transformation from a group of diverse, semi-autonomous companies into one focused housing business.

In order to achieve continuing growth in shareholder value, we conduct our business through a portfolio of selected housing markets – across the UK and within North America, Spain and Gibraltar.

Our presence in different markets provides us with alternative growth channels. These enable us to allocate capital where we see the best opportunities for returns and optimises our ability to mitigate any short term weakness in any particular market or sub market.

Housing

Our housing operations worldwide reported a slight rise in profit from operations* to £456.0m (2004: 448.8m) on turnover of £2,864.9m (2004: £2,876.6m). During 2005 we sold a total of 12,516 homes, compared to 13,092 in 2004.

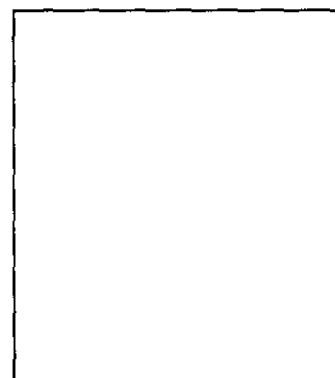
As expected, the UK market continued to be relatively subdued in 2005 after a number of years of unusually strong performance came to an end in the second half of 2004. We sold 8,178 homes in the UK in 2005 (2004: 9,053). We saw a fall in visitor numbers, resulting from a lack of confidence due to widespread forecasts of a house price collapse that did not materialise. This fall was partially offset by improvements in our conversion rate of visitors into customers.

Profit from operations* was £233.4m (2004: £301.1m). The reduction in our UK Housing operating margin from 15.6 per cent in 2004 to 14.2 per cent in 2005 reflects the difficult conditions that we faced and the impact of reduced volumes on overhead absorption not withstanding year on year reduction in overhead costs.

The second half of 2005 saw the potential for a return to a more favourable environment and our order book of £411m at the end of 2005 (2004: £407m) sees us well-placed for 2006.

During 2005 we have grown our UK landbank of owned and controlled plots to 34,985 (2004: 32,459) of which 41 per cent is sourced from strategic land. Our strategic landbank has also grown and we now have 80,000 potential plots, most of which are held under option. Options enable us to purchase land at an agreed discount to open market value when planning is received, with no obligation to buy if satisfactory planning is not forthcoming.

During 2005, 19 per cent of our home completions were from strategic land holdings. We continue to build the



Iain Napier, Chief Executive

* Throughout the Chief Executives and Operating Performance Reviews, profit from operations and operating margins are before exceptional pension credits in 2004 and exclude joint ventures' interest and tax (see note 3, page 57). Joint venture revenue is used in the margin calculation (see note 3, page 57); all 2004 comparatives have been represented under international financial reporting standards.

Chief Executive's Review continued

We have made good progress on strategy by improving our forward sales position, managing our cost base and providing for future growth.

majority of our homes on brownfield land, with 68 per cent of completions in 2005 coming from this source.

In the challenging conditions experienced in the UK housing market this year, we have made good progress on strategy by improving our forward sales position, managing our cost base and providing for future growth. During the year we have also delivered the £25m of synergies identified at the time of the Wilson Connolly transaction. We saw improved reservation rates towards the end of 2005, albeit against low comparatives, which has enabled us to enter 2006 with an increased order book. We continue to operate regional offices that are serviced by support functions based at our central office in Solihull, and have an organisational structure in place to support growth as market conditions allow.

Our operations in North America had an excellent year, benefiting from increased investment and careful target marketing.

We saw another year of strong organic growth, with profit from operations* growing by 56 per cent to £199.6m. Return on capital employed rose again

to 49.2 per cent (2004: 39.2 per cent). Our business in Phoenix, Arizona continues to perform strongly, with over 1,000 home completions in 2005. Our strategy of acquiring large land parcels where we retain the premier plots for our homebuilding business continues to generate exceptional results.

In California, we continue to benefit from our reputation as a luxury homebuilder. Whilst at the same time we have now successfully moved our product offerings into the mid-market, where we offer quality homes with high brand values at premium prices.

Our Florida business continues to experience strong growth as we have increased the scale of our homebuilding operations. All of our low-rise operations are well placed for continued growth, having made promising land acquisitions in 2005 and previous years. During the year, we also completed several luxury high-rise waterfront condominiums which enhanced our profits and returns.

The California, Arizona and Florida markets all experienced strong price growth in 2005, albeit partially offset by increased construction costs. Sourcing

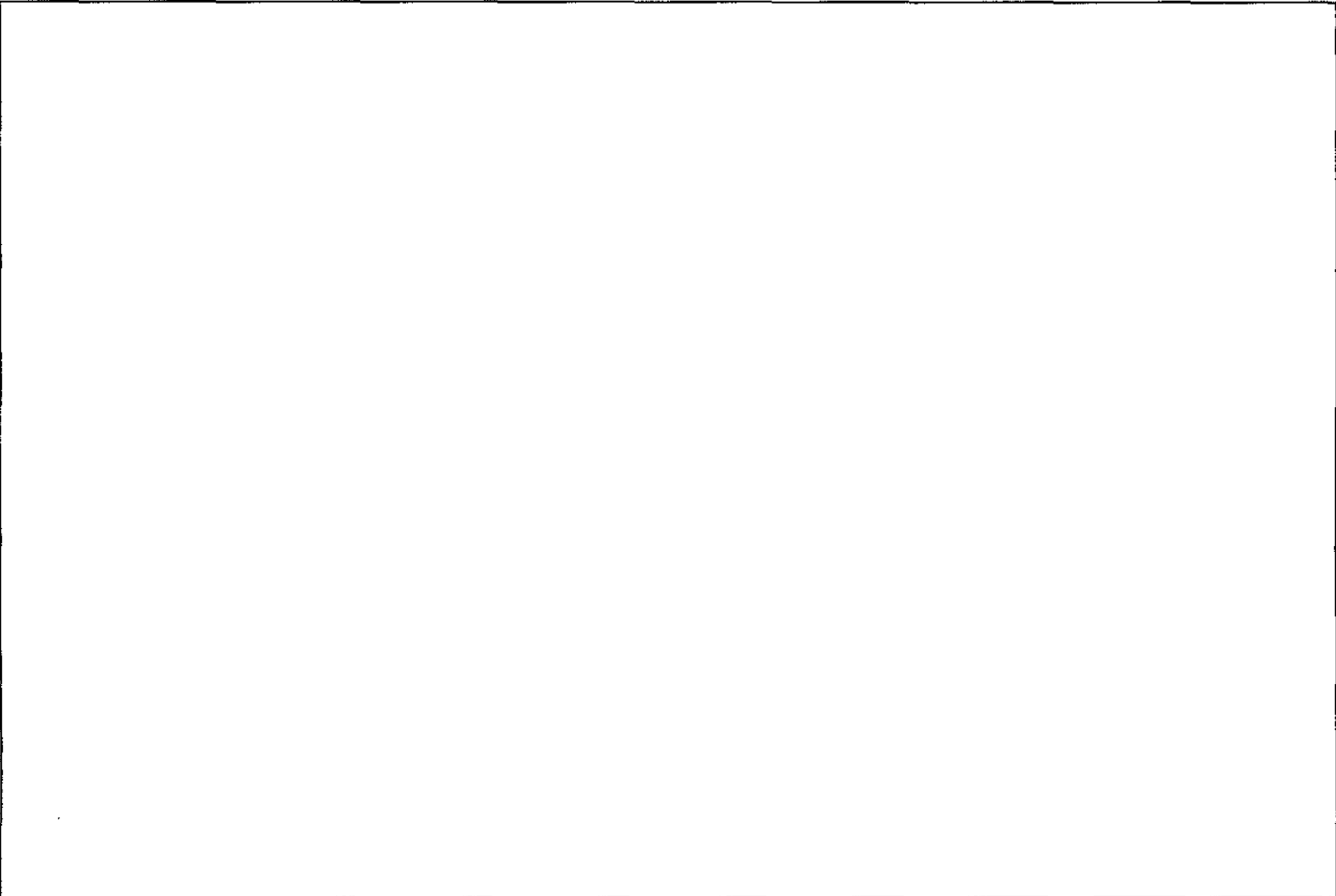
land in these markets remains competitive, however we continue to find attractive opportunities to replenish and grow our landbanks.

In recent years, the markets in Texas have not seen the exuberance of other states where we operate. However during the fourth quarter of 2005 we experienced increasing demand for our homes.

Our business in Ontario, Canada, continues to provide excellent returns. The greater Toronto area remains a supply constrained market ensuring demand for well located high quality developments.

2005 has been another year of growth for our operations in Spain and Gibraltar. Profit from operations has grown by 14 per cent to £23.0m. We continue to focus on the British second home market in our three core regions of the Balearic Islands, Alicante and Malaga, where we offer a mix of apartments and townhouses. Our Los Arqueros development, near Marbella, has recently been declared 'Best Spain Development' as one of five awards achieved at the prestigious Bentley International Property Awards. In Gibraltar we focus on the premium end of the market,

Belcara, Southern California



We will continue to invest all across our portfolio in the best interests of our shareholders.

Above: Calders Green, Cheshire

Chief Executive's Review continued

As the Government seeks to address the chronic shortage of developable land in the UK and pursue its sustainable development agenda, Taylor Woodrow plays an active part in consultation to ensure that practicalities of implementation are considered in Government planning.

selling offplan well in advance of the start of construction.

Construction and property

Taylor Woodrow Construction has also had a successful year in terms of industry recognition. As well as being voted Contract Journal's 'Building Contractor of the Year' for 2005, our work on the new stand at The Oval received praise and significant media exposure as the Ashes cricket series drew to a nail-biting close.

As previously announced, we completed the sale of the K2 development at St. Katharine's Dock in London on 1 July 2005. This substantially completes our exit from property operations. We have, however, retained the expertise required to deliver future 'mixed use' schemes in our housing business.

Prospects for 2006

The long term imbalance between demand and supply for new housing, added to continuing low UK interest rates, continue to underpin the market. However, margin pressures remain with consented land in short supply and the need for increased use of incentives in a tighter market. Larger builders are

likely to fare better in this environment. We are addressing these issues through increasing the pull-through of our strategic landbank, working with our supplier base to drive out cost and increasing the use of our rationalised range of standard housetypes.

A large amount of potential legislation is pending to accompany the introduction of new technical standards as the Government seeks to address the chronic shortage of developable land in the UK and pursue its sustainable development agenda. Taylor Woodrow plays an active part in consultation to ensure that practicalities of implementation are considered in Government planning. Whilst we broadly welcome the thrust of the Government's intent, we remain concerned about the country's ability to deliver consented land without a wholesale overhaul of the current planning regime. We are encouraged by the Government's apparent determination to bring about reform in this area.

We have experienced substantial levels of house price inflation in parts of North America over the last two years, which has been reflected in our strong

performance. Although pricing strength and demand moderated during the fourth quarter of 2005, we remain confident that we can successfully deliver superior results in a more normal market. Due to our record forward order book and strong landbank, we anticipate a successful 2006.

The market for second homes in Spain continues to be attractive, with demand remaining robust from British buyers. As in the UK and North America, we have an in-depth knowledge of the markets that we operate in under an experienced and capable team of local managers.

Therefore, we will continue to invest all across our portfolio in the best interests of our shareholders.



Iain Napier
Chief Executive
27 February 2006

Operating Performance Review

Highlights

- Profit before tax up 2% to £411m
- Full year dividend up 21% to 13.4 pence
- Group landbank up 18% to 75,160 plots equating to 4.9 years supply at 2005 year end
- Group housing profit from operations* up 1.6% to £456m
- North American housing margin* up 2.7 percentage points to 17.5%
- Order book up 16.5% to £1,317m

Revenue (£m) (see note below)

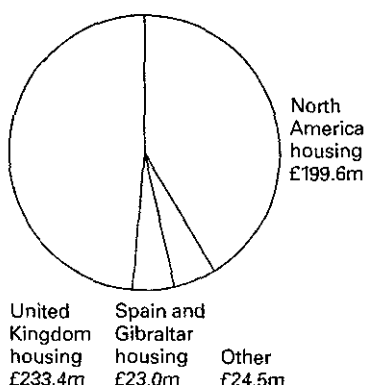
2005	3,476.9
2004	3,311.5
2003	2,669.4
2002	2,208.6
2001	2,138.4

Group profit before tax (£m) (see note below)

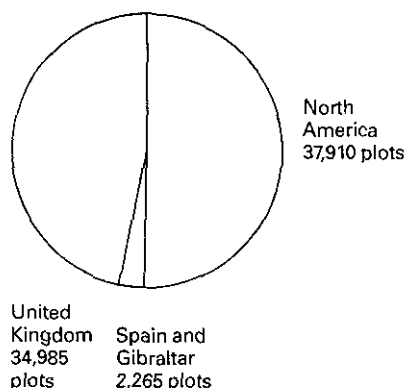
2005	411.0
2004	403.9
2003	300.5
2002	233.1
2001	202.3

2003 and prior are reported under UK GAAP. See further details on page 92

Profit from operations* split by operating divisions



Land bank split by operating divisions



* Throughout the Chief Executives and Operating Performance Reviews, profit from operations and operating margins are before exceptional pension credits in 2004 and exclude joint ventures' interest and tax (see note 3, page 57). Joint venture revenue is used in the margin calculation (see note 3, page 57); all 2004 comparatives have been represented under international financial reporting standards.

Operating Performance Review continued

A Homebuilder of Choice

With over 95 per cent of profit from operations* coming from housing, Taylor Woodrow's aim is to be the homebuilder of choice in our selected markets across the United Kingdom and within North America, Spain and Gibraltar. Taylor Woodrow seeks to build sustainable shareholder value through the business cycle. The Board's confidence in the long-term fundamental characteristics of our markets is supported by the Board's commitment to a 20% increase in the full year dividends declared for 2005.

The markets in which we operate share characteristics that sustain demand for new homes. In the UK, an ageing housing stock, increasing numbers of households, and an increasingly complex process for the delivery of those additional homes, combine to create ever widening disparity between demand and supply.

This complexity arises in a variety of different ways. Regulatory design constraints, onerous planning requirements and remediation of brownfield sites all present additional difficulties for housebuilding operations.

The company's UK homebuilding business has the commercial and construction skills necessary to compete effectively in this challenging but rewarding market.

Our US markets are in the sunbelt states. All benefit from inward migration from the colder Northern states. Arizona and Florida benefit from healthy and sustainable demand for retirement and

second homes, whilst California and Texas enjoy markets sustained by high levels of employment. In Canada, our business also benefits from immigration and economic growth.

Spain and Gibraltar present good growth prospects within the European second home market and our mainly British-based customers benefit from the reassurance of buying from a familiar UK brand name backed by over 40 years' experience in this market.

We are proud of the achievements of our people and their commitment to our company's success. In 2005 the success of investing in the wellbeing, training and development of our people, from senior managers to trade apprentices, is demonstrated by the wealth of industry awards that our team members win across a wide variety of disciplines.

These included the NHBC's highest level of 'Pride in the Job' recognition; a Supreme Award amongst 29 individual Quality Award winners in the UK.

Four US Building Industry Association 'Pinnacle' Awards and eight National Sales and Marketing Council's Awards were among the highlights achieved by North American team members.

Also, Monarch High-Rise was declared Sales and Marketing team of the year by the Greater Toronto Housebuilders Association.

Scaffolding in progress
at Stamford Brook, Manchester

Operating Performance Review continued

Total home completions

2005	12,516
2004	13,092
2003	10,819
2002	8,370
2001	7,096

Total UK home completions

2005	8,178
2004	9,053
2003	7,690
2002	6,238
2001	5,226

Results

Consolidated revenue for the year to 31 December 2005 was up 5 per cent at £3,476.9m (2004: £3,311.5m). Profit before tax was 2 per cent up on the previous year at £411.0m (2004: £403.9m), with an increase in housing profit* accompanied by a smaller contribution from property and construction.

At 31 December 2005, total equity before minority interests was £1,928.4m (2004: £1,702.8m). Net debt was £456.9m (2004: £538.8m). Net gearing was 23.7 per cent (2004: 31.6 per cent).

Basic and adjusted earnings per share was 50.6 pence (2004: 49.1 pence basic and 51.1 pence adjusted). Equity shareholders' funds per share increased by 11.4 per cent to 338.4 pence.

Group Housing

	2005	2004
Revenue, including joint ventures £m	2,864.9	2,876.6
Profit from Operations* £m	456.0	448.8
Operating Margin* %	15.9	15.6
Home completions	12,516	13,092

Overall group housing had a satisfactory year. Strong North American markets compensated for a challenging year in the UK. Average sales price was up 3 per cent to £204k (2004: £199k) - and operating margins by 0.3 percentage points to 15.9 per cent - helping to offset a reduction in volumes. Housing profit from operations* rose 2 per cent to £456.0m (2004: £448.8m).

49 per cent of 2005 housing profit from operations* came from overseas operations (2004: 33 per cent). This reflects both our decision to increase investment into those markets over the last few years, and their relative strength compared to the UK.

We remain well placed to grow our housing business, with the group order book up 16.5 per cent to £1.32bn (2004: £1.13bn) and the group landbank up 18 per cent at 75,160 plots (2004: 63,701 plots).

Operating Performance Review continued

Our strategic landbank is a key strength with some 18,300 gross acres representing 80,000 potential plots. Typically, land acquired this way is secured on option at a discount to the open market, and this has helped us to manage the average cost of plots in our landbank.

UK Housing

	2005	2004
Revenue, including joint ventures £m	1,647.4	1,936.2
Profit from Operations* £m	233.4	301.1
Operating Margin* %	14.2	15.6
Home completions	8,178	9,053

During 2005, the UK housing market was challenging, with overall demand lower than in 2004. Visitor levels over the year were approximately 20 per cent down on 2004 but this was partially compensated for by a higher conversion rate. We made good progress on strategy by improving our forward sales position, managing our cost base and providing for future growth by increasing the landbank.

Against the market average, the company delivered a strong sales performance during 2005. Demand in the final quarter was stronger than in the equivalent period of 2004 and we start 2006 with an order book of £411m, up 1 per cent on last year, from 4.2 per cent fewer sites.

Average selling prices were lower at £185k (2004: £197k), with the reduction mainly attributable to a higher proportion of social housing and apartment

completions than last year. The average square footage of our homes in the UK fell as a consequence from 1,032 sq ft to 960 sq ft.

Bryant Design provides an attractive options programme that provides a 'one-stop', convenient solution for flooring, kitchen, garden, bathroom, lighting and fittings enhancements to our standard home package. In 2005, 73 per cent (2004: 69 per cent) of our customers took advantage of the Bryant Design service to personalise their home.

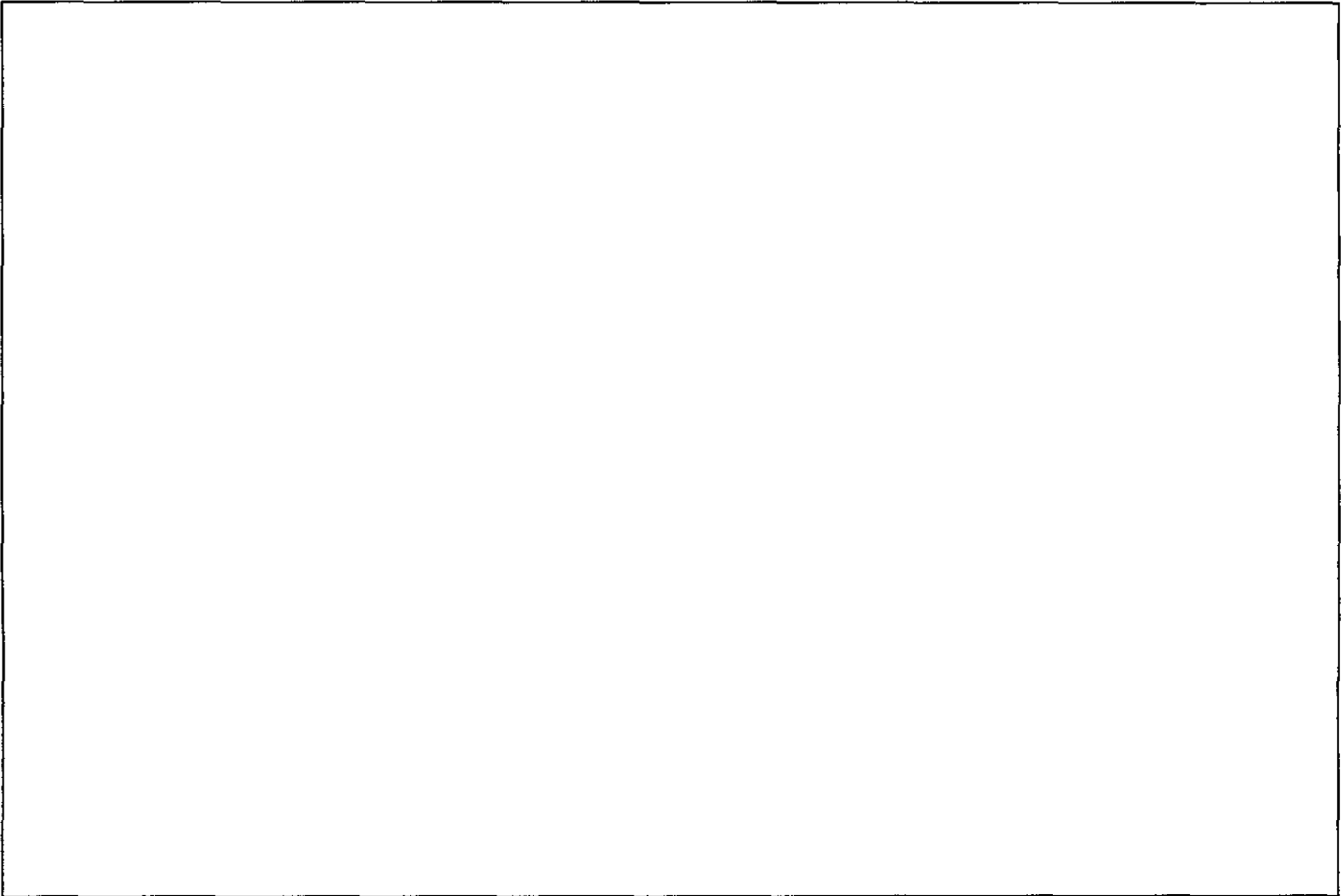
Operating margins* fell to 14.2 per cent (2004: 15.6 per cent). This includes the benefit of higher than usual land sales during the year, primarily due to the disposal of our interest in the Quartermile project in Edinburgh, the sale of which was completed in January.

We continue to focus on cost control, reducing overhead costs through supply chain management, use of standard housetypes and pull-through from strategic land. Through our logistics business, WVCL (acquired as part of the Wilson Connolly business), we have managed to reduce materials costs, improve quality and speed up delivery

times by implementing an integrated solution that works in partnership with our key materials suppliers.

We continue to reduce the overall number of suppliers, achieve common standards and quality controls, with challenging performance criteria for suppliers. In conjunction with our partners we have also developed commercial solutions that streamline the ordering, verification and payment administration burden.

We are particularly pleased with the progress of our timber frame construction company, Prestoplan (also acquired with Wilson Connolly), which achieved record results in 2005 and has embarked on an expansion programme that will develop its position as one of the UK's leading timber frame suppliers. A second off-site manufacturing facility has been opened this year at Quedgeley in Gloucestershire to complement the existing facility.



Design and innovation will continue to be a key theme for Bryant, to meet customers needs. We work with planning authorities to design developments that meet the housing needs of the locality, while being sensitive to issues of context and environment.

Above: Constable Park, Salisbury

Operating Performance Review continued

Although planning remains difficult, we have been successful in securing consents on strategic land. In 2005 we obtained approval for 2,300 sustainable homes in Swindon, the largest current greenfield site in Southern Britain. As a result of this and prudent purchasing in the land market, we have increased our landbank by 8 per cent to 34,985 plots (2004: 32,459 plots).

In 2005, 68 per cent (2004: 64 per cent) of our developments in the UK were on brownfield sites and we seek, in

partnership with central and local government, to develop all our land responsibly with due regard to local sensitivities. Several of our largest schemes, including Grand Union Village in Northolt and the Swindon Development Area have been cited as model schemes by local authorities and Urban Design programmes.

Our strategic landbank is a key strength with some 18,300 gross acres representing 80,000 potential plots. Typically, land acquired this way is

secured on option at a discount to the open market, and this has helped us to manage the average cost of plots in our landbank. The benefits of this investment continue to be realised, with 19 per cent of completions coming from plots originally sourced from our strategic landbank (2004: 18 per cent). Around 41 per cent of our landbank has been sourced through our strategic land programme, with the resulting benefits to be realised in future years.

UK Housing Organisation

Our UK business operates across the UK and is organised currently into 11 regions designed to provide cost effective management of around 200 individual developments at any one time. We aim to achieve optimal scale economies from our national presence predominantly under our Bryant Homes brand, without compromising the value of our regional offices' local market knowledge.

Scotland

The Livingston regional office is placed strategically between Scotland's two largest cities with developments focused around the highly populated central belt. In the West, TaylorWoodrow is participating in the £500 million regeneration of Glasgow Harbour, whilst in the East the Western Harbour development in Leith is a key part of Edinburgh's waterside regeneration. Combined housing and development expertise within the business has also delivered Newington Grange – a remarkable refurbishment and new build project in one of the city's most desirable areas.

Yorkshire and North East

The Yorkshire and North East region has its regional office in Leeds. Sites range from Centurion Square in the heart of historic York to Carey Meadows' development of executive detached homes in Longhoughton in Northumberland, and Newcastle Great Park's phased development of some 2,500 energy efficient new homes.

North West

Based in Warrington, the North West region sold in excess of 1,000 homes from over 30 active sites during the year. The Deck at Runcom Old Quay is a waterside project of 466 apartments set to transform the region and breathe new life into the town, while the Botanic in Ancoats will be part of the New Islington Millennium community regenerating east central Manchester.

West Midlands

West Midlands region is based at the company's central offices in Solihull and offers a diverse range of homes from traditional family properties to both new build and refurbished apartments. Work has also commenced on the major regeneration of Diglis Basin in Worcester to provide new homes in a vibrant community alongside the River Severn.

East Midlands

From its base in Leicester, East Midlands provides new homes across Derbyshire, Leicestershire, Lincolnshire and Northamptonshire and manages several large scale brownfield redevelopments on ex-public sector land. In Northampton, for example, two former hospital sites, St Crispins and Mansfield Grange have both been transformed into impressive communities incorporating sensitive refurbishment of historic buildings.

Anglia

The counties of Norfolk, Suffolk and Cambridgeshire are covered by our Anglia regional office, based in Newmarket. A key feature of the region is the broad range of housing offered, including affordable homes for key workers and first-time buyers as well as family homes. The company is playing a lead role in establishing the new town of Cambourne near Cambridge to help meet the area's high demand for additional housing.

Eastern

Eastern Region covers Bedfordshire, Hertfordshire, Buckinghamshire and Essex, including the key development areas along the M1, A1 and M11 corridors where we have very high quality landbank holdings. From offices in Welwyn Garden City the region is sensitive to this part of England's architectural heritage. Many of its developments are designed to blend with vernacular styling whilst its flagship site redeveloping part of the old barracks in Colchester revealed the remains of a Roman circus track for chariot racing. The traces of the remains will be suitably marked for future generations at the same time as some 2,500 new homes are created.

South West and Wales

Developments in Gloucestershire, Wiltshire, Somerset, Devon and South Wales are managed from a South West office based near Bristol. Sites range from the high profile 477 apartment Victoria Wharf at the revitalised Cardiff Bay to a selection of traditional homes of varying size in Cotswolds towns like Cirencester and Cheltenham. The region has been particularly successful in acquiring new land and building a growing reputation in South Wales.

South

Based in Newbury, the South region is responsible for our developments south of Oxford, west of Surrey and Sussex and east of

multi-media solutions, as well as advanced security systems. It's also important to us that home-buying is made as straightforward and as stress-free as possible and we strive to achieve this by constantly reviewing our 'Customer Journey' process to ensure that it meets the needs of Bryant home-buyers.

London

South East

The South East region based in Crawley, covering Kent, Surrey and Sussex provides a wide variety of house styles within easy commuting distance of London. Current sites include the centrally located Delta Riverside development in Maidstone, a range of stylish new homes in Canterbury and a waterfront development at Shoreham by Sea near Brighton.



Operating Performance Review continued

Our operations in North America had an excellent year, benefiting from the increased investment over the past few years, as well as from a strong market.

North America Housing

	2005	2004
Revenue, including joint ventures £m	1,141.8	863.9
Profit from Operations* £m	199.6	127.6
Operating Margin* %	17.5	14.8
Home completions	3,932	3,635

Our operations in North America had an excellent year, benefiting from the increased investment over the past few years, as well as from a strong market. Profit from operations* increased by 56 per cent to £199.6m (2004: £127.6m), driven by 8.2 per cent growth in home completions and a 2.7 percentage point improvement in operating margins.

We continue to improve our forward sales position with the order book 14 per cent higher (excluding high-rise, 38 per cent) than at year-end 2004, at US\$1.42bn.

The landbank increased by 26 per cent to 37,910 plots (2004: 30,009 plots). More than half our landbank is controlled through options rather than owned, which improves capital efficiency. We also continue to manage actively our landbank by selling plots to other builders where we consider it to be value creating.

Our Florida operations cover both coasts from Tampa Bay to Naples on the Gulf of Mexico and from Jacksonville to Fort Lauderdale on the Atlantic. We offer a wide range of middle market to luxury homes and condominiums targeted to move-up families, retirees, and second home purchasers. This year, the Florida market continued the trend of 2004 and remained strong. During 2005, we completed 752 homes (2004: 505) at an average sales price of US\$727k (2004: US\$544k). The Florida average selling

price increased significantly by three high-rise beachfront condominiums that completed in the second half of the year.

Our California operations are concentrated in two key markets. In the North, we have a growing urban infill business that caters to the local working population with a range of products from townhomes to mid-market family homes. Our business in Southern California focuses mainly on the mid-market in Riverside and San Bernardino counties but also sells luxury homes on the Southern Californian coast. Some parts of the market are showing signs of cooling after several years of considerable price appreciation. Therefore, we have continued to operate mainly in the stronger mid-market as opposed to the luxury segment. We have also expanded our footprint by re-entering the Palm Springs market. The average sales price in 2005 was US\$835k (2004: US\$776k), with home completions up 3 per cent at 721 homes (2004: 697).

Our Arizona division serves the Phoenix metropolitan area and continued its exceptional performance, targeting entry level and mid-market homebuyers. Recent sales releases indicate that the market is moderating with price appreciation levelling off, although Phoenix is one of the fastest growing cities in the US, benefiting from migration from other less affordable markets. Home completions increased by 20 per cent to 1,009 (2004: 841) with average sales price up 14 per cent to US\$209k (2004: US\$183k).

In Texas we are growing our homebuilding operations in both Austin and Houston. We are targeting the move-up market by leveraging our existing reputation as a high quality community developer. Home

completions increased to 190 (2004: 94) with average sales price down 4 per cent to US\$424k (2004: US\$440k).

In Ontario, Canada, the group trades under the Monarch brand which benefits from a long-standing reputation for quality and value. Operating in the Greater Toronto area and Ottawa in southern Ontario, Monarch builds both low-rise, mid-market family homes and high-rise condominiums as well as affordable, urban townhomes. Completions in the year of 2005 were 1,260 homes (2004: 1,498). The average sales price was Can\$326k (2004: Can\$302k).

In North America, we meet our customers' needs through a mixture of high-quality targeted developments, professional finishes, and exceptional customer service. Our 'Inspired By You' programme ensures that customers remain at the very top of our priorities by giving them opportunity for direct input into the design, construction and presentation of our product. Finally, we maintain open communications with our home-buyers, to exceed their expectations and to deliver on our promises.

Above: Waterchase, Florida

In North America we meet our customers' needs through a mixture of high-quality targeted developments, professional finishes, and exceptional customer service.

Total North America profit from operations* (£m)

2005	199.6
2004	127.6
2003 †	90.1
2002 †	66.2
2001 †	53.4

† Operating profit as reported under UK GAAP before goodwill amortisation and exceptional pension credits.

Operating Performance Review continued

We operate on the Costa del Sol, Costa Blanca and in Mallorca, developing sites for the holiday home market such as villa-type community and country club projects together with some products designed to meet local market demand.

Spain and Gibraltar Housing

	2005	2004
Revenue £m	75.7	76.5
Profit from Operations £m	23.0	20.1
Operating Margin %	30.4	26.3
Home completions	406	404

Trading under the Taylor Woodrow brand in Spain, we operate on the Costa del Sol, Costa Blanca and in Mallorca, developing sites for the holiday home market such as villa-type community and country club projects together with some products designed to meet local market demand.

In Gibraltar, Taylor Woodrow serves the luxury second home market through apartment and penthouse developments.

Our Spain and Gibraltar housing operations enjoyed a strong 2005. Completions increased by 1 per cent, with average sales prices down by 5 per cent to £169k (2004: £178k) reflecting a change in geographic mix. Profits from operations rose to £23.0m, up 14 per cent on 2004, while operating margins grew by 4.1 percentage points to 30.4 per cent.

The order book increased 8 per cent at £81m (2004: £75m) and we invested for future growth by increasing our landbank by 84 per cent to 2,265 plots (2004: 1,233 plots).

Construction

Our construction business continues to build on its reputation with a growing portfolio of blue-chip and public sector clients, including Tesco, Texaco and the NHS and winning a number of industry awards in 2005, including Contract Journal's 'Building Contractor of the Year, 2005'. In the construction business, the profit from operations* before exceptional pension credits, was 51 per cent lower at £8.8m (2004: £17.8m), with the reduction partly accounted for by lower income from PFI disposals.

Property

Over the past few years Taylor Woodrow has progressed our stated strategy of divesting ourselves of our historic property portfolio. The disposal of the K2 development at St Katharine's Dock was completed on 1 July 2005. This achieved a gross profit of £17.4m. Overall, the property business recorded operating profit of £15.7m (2004: £26.7m). In future, commercial property developments will

only be undertaken where they are ancillary to housebuilding projects. Accordingly, segmental analysis of this business stream will cease.

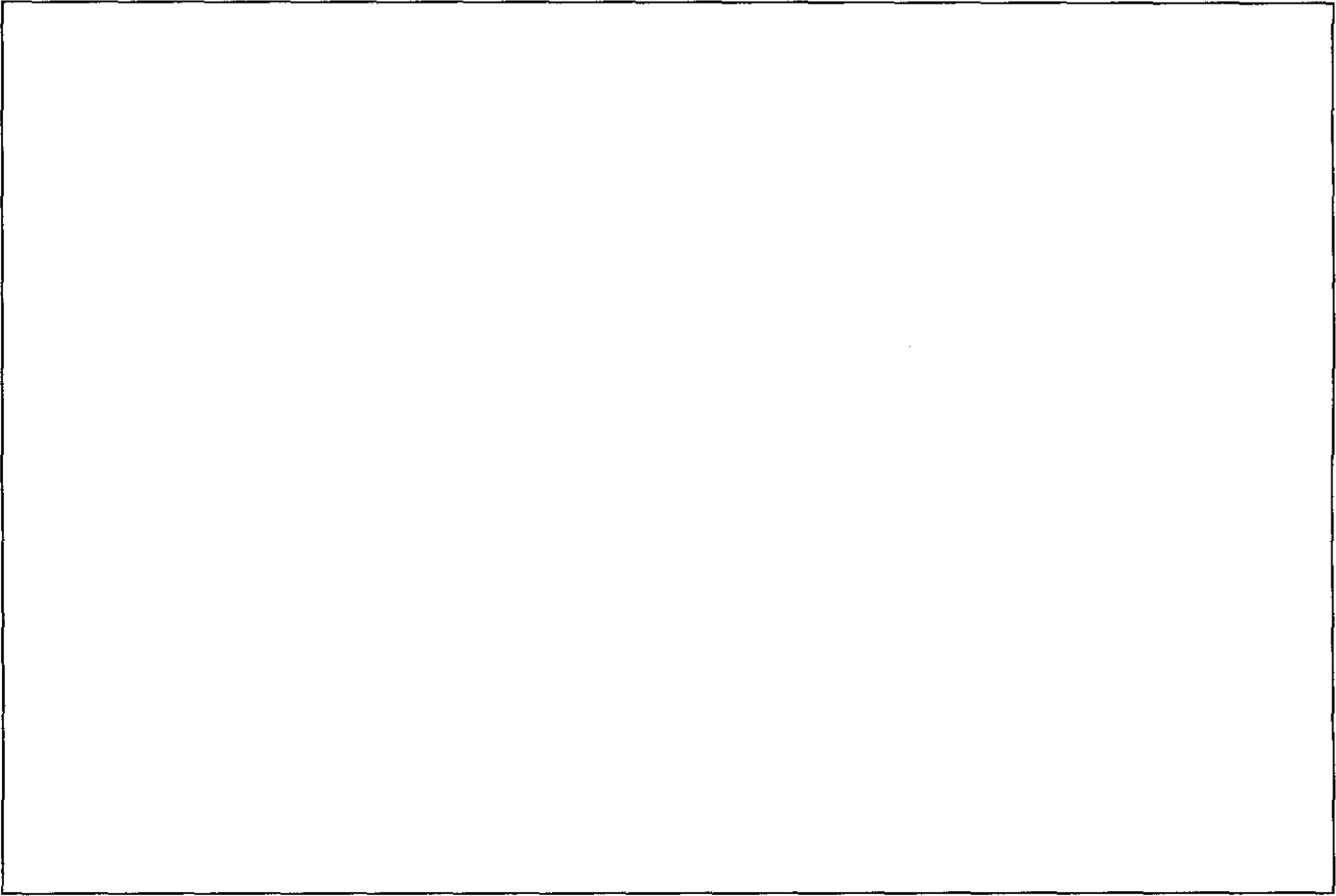
Equity Shareholders' funds

At the end of 2005, shareholders' funds were £1,928.4m, up from £1,702.8m at the end of 2004. Equity shareholders' funds per ordinary share rose to 338.4 pence at the end of 2005. This represents an increase of 11.4 per cent from the previous year.

Shareholders' returns

Basic earnings per share increased by 3.1 per cent to 50.6 pence. The proposed final dividend of 8.9 pence produces a total return of 13.4 pence per ordinary share, an increase of 21 per cent over last year. This level of dividend is consistent with the Board's policy of paying progressive dividends through the business cycle.

Also, during the year, the Board has decided to re-balance the levels of interim and final dividends to reflect a more usual weighting of profits between the first and second halves of the financial year. The dividend is covered 3.8 times by earnings.



Our Spanish housing operations enjoyed a very strong 2005. Completions increased by 1 per cent, with average sales prices down by 5 per cent to £169k (2004: £178k) reflecting a change in geographic mix. Profits from operations rose to £23.0m, up 14 per cent on 2004, while operating margins grew by 4.1 percentage points to 30.4 per cent.

Above: Los Arqueros, Spain

Operating Performance Review continued

Cash flow

Operating cashflows before movements in working capital were £461.1m (2004: £493.4m). Inventories increased by £204.9m which was partly funded by an increase in creditors of £112.6m. Of this latter increase, £92m is represented by an increase in land creditors.

Cash generated by operations was £359.7m (2004: £410.5m). Income taxes and interest payments totalled £229.5m (2004: £212.4m), resulting in net cash from operating activities being down 34 per cent to £130.2m (2004: £198.1m).

Treasury Management and Funding

The Group operates within policies and procedures approved by the Board. The Group's capitalisation policy establishes overall parameters for the consolidated capital structure together with guidelines in respect of interest and currency translation exposures. The Group seeks to match long-term assets with long-term funding and short-term assets with short-term funding. Strict controls are exercised on the use of financial instruments in managing the Group's financial risk. The objectives are to ensure sufficient liquidity is maintained to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not undertake speculative or trading activity in financial instruments or foreign currencies.

The disclosures relating to the use of financial instruments and treasury risks faced by the Group, required under the EU's fair value directive, are detailed in notes 16-20 to the consolidated financial statements.

The Group maintains a balance between certainty and flexibility through the use of term borrowings, overdrafts and committed revolving credit facilities with a range of maturity dates. It is the Group's policy to maintain committed facilities or borrowings with staggered maturity dates in order to ensure continuity of funding.

Treasury functions are centralised in our main geographic locations. All treasury operations must remain in compliance with Group policy and are closely monitored by the Group treasury department.

Equity, retained profits and long-term fixed interest debt are primarily used to finance goodwill, fixed assets and land. Short-term borrowings are primarily required to finance net current assets, other than landbank assets of more than one year, and commercial developments and are therefore kept at a floating rate. Where possible, temporary cash balances made available by our construction business are used to reduce our short-term borrowing requirements. The Group also uses derivatives to manage interest rate exposure if economically appropriate.

A significant proportion of the Group's capital employed is in currencies other than sterling with the result that currency movements can affect the balance sheet. Where appropriate, foreign currency translation exposure is reduced by financing overseas assets with borrowings of the same currency and by the use of derivatives.

Net debt at the year end stood at £456.9m (2004: £538.8m) equivalent to net gearing of 23.7 per cent (2004: 31.6 per cent). Interest on borrowings, net of interest receivable was £54.4m (2004: £60m) - see note 6, page 62. Average net debt for the year was £823.4m (2004: £946.9m). At the year end Taylor Woodrow had undrawn committed revolving credit facilities totalling £685m.

Taxation

The effective tax rate in 2005 is 30.3 per cent (2004: 30.4 per cent).

Pensions

At 31 December 2005, the IAS19 deficit, net of deferred tax, was £154m (2004: £100m). The increase has been caused by continuing falls in the yield of AA-

credit rated corporate bonds. The company has now commenced discussions with the trustees with a view to reaching agreement on the means of mitigating this deficit.

International Financial Reporting Standards (IFRS)

These are the first full year statements produced under International Financial Reporting Standards. All 2004 comparatives have been restated appropriately and a full reconciliation of the 2004 income statement, balance sheet and cashflow can be found in the notes to the financial statements and at www.taylorwoodrow.com

Corporate Social Responsibility

A number of CSR issues are of material significance to Taylor Woodrow's business and our approach is to manage these issues in a proactive and balanced way.

This section of the Annual Report is an abridged version of the company's full 2005 CSR Report, which can be viewed on the Company's website.

Objectives and Targets

At the beginning of 2005 we set a number of high level business objectives for CSR in the areas of Sustainability, Safety, Health/People, Environment and Community. Further details are available in our full CSR Report.

As a leading company, the way we manage social, environmental and ethical issues is coming under increasing scrutiny. Grouped together, these come under the heading of CSR. A number of CSR issues are of material significance to Taylor Woodrow's business and our approach is to manage these issues in a proactive and balanced way.

Sustainable Development

Government policy and regulation aimed at encouraging more sustainable development is a growing and important feature of the UK market. During 2005 we saw increased utilisation of brownfield land in our housing schemes, with 68 per cent of unit sales coming from this source (2004: 64 per cent). In the UK we have been progressing

sustainable community schemes in Telford and Swindon. During the year we completed the Green Building in Manchester which incorporates renewable energy technologies and achieved an 'Excellent' rating from the EcoHomes benchmarking scheme. The number of affordable homes that we built increased to 1,048 (2004: 782).

We believe that construction of new, high quality, homes is an important factor in improving quality of life for our customers. Through planning agreements we also provide substantial investment for the benefit of local communities, for example by improving roads, construction of community centres, playgrounds and nature areas, and contributions to the Arts.

In North America, sustainability issues vary between states and are therefore managed locally.

Health and Safety

Our approach to the management of health and safety is recognised as being one of the best within the development sector. We strive to make our project sites and our offices safe working environments.

In the UK we improve safety through promoting a positive safety culture, incentivisation, supporting the development of skills and knowledge, providing a framework for the management of safety, and monitoring performance. We not only review accidents but we have an extensive programme of active monitoring that measures how our working environments are being managed. We manage occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implement health surveillance programmes.

In North America, Taylor Woodrow operates a comprehensive and independent health and safety audit process. Sites are scored against criteria which are made continually more demanding each year.

Above: Building community relations
at Mortimer Hill, Berkshire
This image: Lichfield

Corporate Social Responsibility continued

Waste management continues to be a particular focus in the UK. Waste volumes per housing unit have been reduced by 3.6% compared with 2004, maintaining a continuous improvement trend.

The UK, North America and Spanish operations all achieved the management performance standards that had been set at the beginning of the year. In the UK, accident rates also were lower in 2005 compared with 2004 and reflect a long-term trend of reducing accident incident rates. In North America the business exceeded its target audit score of 90 per cent demonstrating a year on year improvement in performance.

There were no fatalities on our development sites in 2005 (2004: 1) and no prosecutions for health and safety issues (2004:1).

Environmental issues

Waste management continues to be a particular focus in the UK. Waste volumes per housing unit have been reduced by 3.6 per cent compared with 2004, maintaining a continuous improvement trend. The cost of waste disposal continued to decline, falling from £513 per unit in 2003 to £351 per unit in 2005 as changes in waste management practice such as segregation of waste

plasterboard for recycling have been implemented. In 2005 we segregated and returned for recycling 4,677 tonnes of plasterboard waste, representing approximately 80 per cent of plasterboard waste generated. There were no prosecutions for environmental offences in 2005 (2004:1).

Customers

We remain committed to giving all of our customers a great purchasing experience. A key management objective is to achieve continual improvement in customer satisfaction ratings, which forms part of the bonus reward of directors and senior managers. During the year, the following achievements were recorded:

UK housing	75% (2004: 70%)
Construction	91% (2004: 88%)
North American housing	86% (2004: 86%)
Spanish Housing	73% (2004: 76%)

People issues

Job satisfaction for our team members is a priority. As a leading employer we

provide an excellent range of benefits. We facilitate training through an employee review process for each team member and we provide a range of development options that help our people to improve their personal performance. We have defined a core training matrix on health, safety and environmental issues which provides clarity on our minimum competency requirements for different roles. Taylor Woodrow is a long-standing supporter of apprentice, student and graduate development programmes.

Ethics

The Group's whistleblowing policy, is supported in the UK by an externally-facilitated procedure – 'Safecall' – through which team members may, in confidence, raise concerns about possible improprieties in financial reporting, ethical conduct or other matters. Safecall is widely publicised within the company. Calls received are investigated by the head of Risk Management and Audit and action taken where appropriate. The Audit Committee receives, reports on all

Extreme Makeover in Phoenix, Arizona

occasions when such concerns are raised.

Stakeholders / Community

We have a range of stakeholders that have an interest in our CSR activities. These include shareholders, customers, team members, neighbours, local authorities, government and non-government organisations. Consultation is important for new developments. We are involved in some leading edge consultation programmes, for example the Swindon Southern Development Area, which has been cited as an exemplar by Government.

We have continued to expand our participation in the Considerate Constructors Scheme and were awarded one Gold, one Silver and one Bronze Award in 2005.

As part of the ABC nationwide television 'Extreme Makeover' show Taylor Woodrow donated time, resource and money to create new homes for two families in 2005. The Okvath family in

Phoenix, Arizona had a 5,300 square foot home constructed for them in six days with the help of over 1,600 team members and suppliers. In Los Angeles, we assisted the local community's efforts to remodel the 1,300 sq ft Lewis family home. In addition, in North America the Taylor Woodrow team donated over £267,000 to other worthwhile charities during the year.

In the UK we have been actively supporting the children's charity Barnardo's through our 'building futures' partnership which helps fund skills and training programmes for disadvantaged young people.

We continue to match team members' charitable fund-raising efforts in the community through the 'Support the Team' programme.

Recognition

External benchmarking exercises are a useful means by which we can review our progress in CSR. Our comprehensive suite of policies, coupled with processes

for implementation and monitoring, are reflected in positive outcomes following external scrutiny. Taylor Woodrow is a member of FTSE4good and the Dow Jones Sustainability and Stoxx Indices. In January 2005 we were listed in the Corporate Knights Global 100 most sustainable corporations. In the second sustainability survey of UK housebuilders carried out by Insight Investment and the Worldwide Fund for Nature, Taylor Woodrow was placed fourth of 12 with a score of 74 per cent.

Our 2004 CSR report was recognised as the best in sector by 'Building' magazine at the annual Sustainability Awards 2005.

Board of Directors

1. Norman Askew Chairman

Non-Executive Director

Appointed a director and Chairman in July 2003. He is an independent director. He chairs the Nomination Committee and is a member of the Remuneration Committee. His current appointments include the Chairmanship of IMI plc, Derby Cityscape and of the Board of Governors of the University of Manchester. Age: 63

2. Iain Napier Chief Executive

Appointed a director in January 2002. He chairs the Executive Committee and is a member of the Nomination Committee. He is a non-executive director and joint Vice Chairman of Imperial Tobacco Group plc. Formerly Chief Executive of Bass Brewers, a Director of Bass plc and a member of the Executive Management Committee of Interbrew SA. Age: 56

3. Peter Johnson Finance Director

Appointed a director in November 2002. He is also a member of the Executive Committee. An experienced financial executive with a strong background in financial services and property investment, conducting business both in the UK and North America, he has held Board positions with Henderson plc, Pearl Assurance and Norwich Union Life. His career also includes experience with Hammerson Property Investment and Development Corporation plc. He is a non-executive director of Shanks Group plc. Age: 51

4. Graeme McCallum Executive Director

Appointed a director in October 2003. He is a member of the Executive Committee and an Operations Director of Taylor Woodrow Developments Limited. He was previously Chief Executive of Wilson Connolly Holdings Plc. He is a non-executive director of The National House Building Council and has had over 27 years' experience in the housebuilding industry. Age: 59

5. Mike Davies Independent Non-Executive Director,

Senior Independent Director
Appointed a director in October 2003. He is the Senior Independent Director and a member of the Audit, Remuneration and Nomination Committees. He is non-executive Chairman of Marshalls plc, a non-executive director of Pendragon plc and Chairman of Vi-Spring Limited. He was formerly a director of Williams Holdings plc. Age: 58

6. Lady Robin Innes Ker Independent Non-Executive Director

Appointed a director in July 2001. She is Chairman of the Remuneration Committee and a member of the Nomination Committee. She has considerable experience as a financial analyst gained with leading UK City financial houses with a particular interest in the media sector. Previously a non-executive director of Bryant Group plc, she is Chairman of Shed Productions plc. Her other directorships include Fibernet Group plc, Williams Lea Group Limited and Wickham Capital Limited. Age: 45

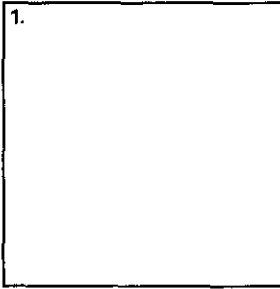
7. Andrew Dougal Independent Non-Executive Director

Appointed a director in November 2002. A Chartered Accountant, he is Chairman of the Audit Committee and a member of the Nomination Committee. He was Chief Executive of Hanson PLC until 2002, having previously been Group Finance Director. He was until recently a non-executive director of BPB plc. Age: 54

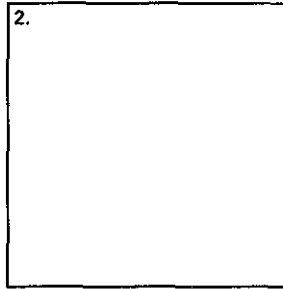
8. Vernon Sankey Independent Non-Executive Director

Appointed a director in January 2004. He is a member of the Audit, Remuneration and Nomination Committees. He is also a non-executive director of Pearson plc and of Zurich Financial Services AG (Swiss). He is Chairman of Photo-Me International plc, Deputy Chairman of Vividas Group plc, a supervisory board member of Cofra Holding AG (Swiss) and Chairman of The Really Effective Development Company Limited. Age: 56

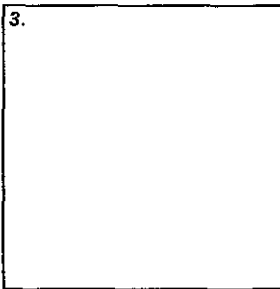
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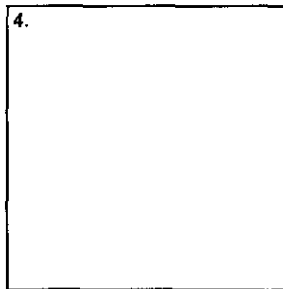
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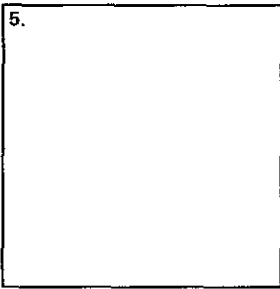
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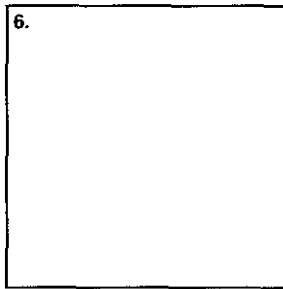
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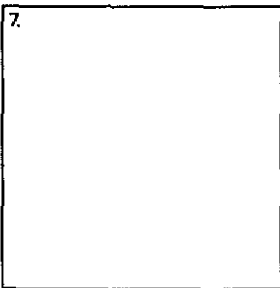
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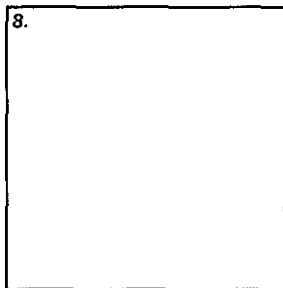
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Report of the Directors

to the members for the year ended 31 December 2005

Review of activities and future developments

A detailed review of the company's activities, the development of its businesses, and an indication of likely future developments, are contained in the reports and reviews on pages 3 to 25.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed on page 91.

Results and dividends

The Group's profit on ordinary activities before taxation was £411.0 m (2004: £403.9m). The profit after taxation and minority interests was £286.5m (2004: £280.9m).

The directors recommend a final dividend of 8.9 pence per share (2004: 8.1 pence), which subject to approval at the Annual General Meeting, will be paid on 3 July 2006 to those shareholders on the register on 2 June 2006. This, together with the interim dividend of 4.5 pence per share (2004: 3.0 pence) paid on 1 November 2005, makes a total of 13.4 pence for the year (2004: 11.1 pence). The company operates a Dividend Re-Investment Plan, details of which are set out in full in the Annual General Meeting circular, and on the company's website.

Payment of dividend has been waived in part by the Trustee of the Employee Share Ownership Trust over its holding of 4.4 million shares and in full on the company's holding of 17.4 million Treasury shares. These shares are held for delivery to participants in the company's employee share plans.

Directors

The directors of the company at the date of this report, all of whom held office throughout the year, are shown on pages 30 and 31. Denis Mac Daid retired from the Board on 30 June 2005.

Retirement and re-election of directors

Norman Askew and Mike Davies will retire by rotation at the Annual General Meeting. Both directors, being eligible, offer themselves for re-election in accordance with the company's Articles of Association.

Auditors

Deloitte & Touche LLP have confirmed their willingness to continue in office as auditors of the company and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Deloitte & Touche LLP also provide non-audit services to the Group within a policy framework which is described in Corporate Governance on page 36.

Annual General Meeting

The Annual General Meeting will be held at 2pm on Wednesday 3 May 2006 at The Renewal Conference Centre, Lode Lane, Solihull, West Midlands, B91 2JR. Formal notice and details of the meeting are set out in the Annual General Meeting circular.

Registrar

The company's registrar is Capita Registrars. Their details, together with information on facilities available to shareholders, are set out in Shareholder Information on page 94.

Treasury shares

During the year 1.7 million Treasury shares held by the company were sold to the Trustee of the Taylor Woodrow 2004 Employee Benefit Trust and to participants in certain of the company's employee share plans.

Substantial interests

Details of the share capital are shown in Note 23 to the consolidated financial statements. The following persons have notified the company pursuant to sections 198 to 208 of the Companies Act 1985 of their interests in the ordinary share capital:

Name	Number of shares held (millions)	Percentage of issued voting share capital
Beneficial interests		
Barclays PLC	23.15	4.03
Britannic Asset Management Limited	16.95	3.06
Legal & General Group plc	17.82	3.05
Non-beneficial interest		
AXA SA	101.98	17.79

At 27 February 2006, no change in these holdings had been notified nor, according to the register of members, did any other shareholder at that date have a disclosable holding of the issued share capital.

Directors' interests in the company's shares are shown in the Remuneration Report on pages 44 to 45.

Corporate Social Responsibility (CSR)

CSR issues are of material significance to Taylor Woodrow's business. The company's approach to the management of them is described on pages 26 to 29. The full Corporate Social Responsibility Report 2005 is available on the company's website www.taylorwoodrow.com by navigating through to Corporate/About Us/Corporate Social Responsibility.

Research and development

The company is committed to investing in research and development projects where there are clearly defined business benefits.

Charitable donations

During the year Group companies donated £363,000 (2004: £296,000) to various charities, £96,000 (2004: £113,000) in the UK and Europe and £267,000 (2004: £183,000) in North America. An outline of the Group's programme of charitable giving appears in Corporate Social Responsibility and fuller details can be found in the on-line CSR 2005 report.

Report of the Directors continued

Political donations

The company did not make any donations to political parties during 2005 (2004: £nil). A business subscription of £167,000 (2004: £158,000) was paid to the House Builders' Federation, which is active in supporting the interests of the housebuilding sector. Some may consider that this payment may fall within the meaning of 'EU Political Expenditure' as defined by Section 347A of the Companies Act 1985. At the 2006 Annual General Meeting shareholders are being asked to approve a renewal for up to eighteen months of the existing consent for such donations.

Policy on payment of suppliers

The nature of the Group's operations means that there is no single Group standard in respect of payment terms to suppliers. Generally, subsidiaries are responsible for establishing payment terms with suppliers when entering into each transaction or series of linked transactions. In the absence of dispute, valid payment requests are met as expeditiously as possible within such terms. This policy continues to apply in 2006. Trade creditor days for the Group for the year ended 31 December 2005 were 31 days (2004: 39 days), based on the ratio of year end Group trade creditors (excluding subcontract retentions and unagreed claims of £12.9 million (2004: £13.2 million) and land creditors, see Note 20 to the consolidated financial statements) to amounts invoiced during the year by trade creditors. The company had no significant trade creditors at 31 December 2005.

Corporate governance

Detailed statements of the company's corporate governance principles, the Group's systems of internal control and the going concern confirmation are set out in Corporate Governance on pages 34 to 37.

Important events since the year end

Except for any matters referred to elsewhere in this Report and Accounts, there have been no other important events affecting the company or any of its subsidiary undertakings since the end of the financial year.

This report of the directors was approved by the Board of directors on 27 February 2006.



Richard I Morbey
Secretary
27 February 2006

Corporate Governance Statement

The company is committed to the principles of corporate governance contained in the July 2003 FRC Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority ('the Code') and for which the Board is accountable to shareholders.

Statement of compliance with the Code of Best Practice

Throughout the year ended 31 December 2005, the company has been in compliance with the Code provisions set out in section 1 of the Code.

Statement about applying the Principles of Good Governance

In complying with the Code, the company has applied the Main and Supporting Principles of Good Governance of the Code. Further explanation of how these Principles have been applied is set out below and, in connection with directors' remuneration, in the Directors' Remuneration Report. The Chairman's Statement, the Chief Executive's Review and the Operating Performance Review seek to present a balanced and understandable assessment of the company's position and prospects.

The Board and its committees

The Board consists of eight directors whose names, responsibilities and other details appear on pages 30 and 31. Three of the directors are executive and five are non-executive.

The Board discharges its responsibilities by providing strategic and entrepreneurial leadership of the company, within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance. It also defines the company's values and standards and ensures that its obligations to its shareholders and other stakeholders are understood and met.

The following documents have been published on the company's website and outline the way the Board and its committees operate, which the Board reviews at least annually:

- A schedule of matters specifically reserved for the decision of the Board;
- A suite of board-mandated policies covering operational matters, compliance and stakeholder policies.
- The Terms of Reference of the Nomination, Audit and Remuneration Committees, which outline their objectives and responsibilities and which define a programme of activities to support the discharge of those responsibilities.

The Board has also adopted a framework of delegated commercial and operational authorities, which define the scope and powers of the chief executive and of operating management. All directors have access to the advice and services of the company secretary and the Board has established a procedure whereby directors may take independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.

Board and Committee balance, independence and effectiveness

It is the company's policy that appointments to the Board are made on merit and through a formal, rigorous and transparent process against objective criteria recommended by the Nomination Committee. The Committee guides the whole Board in arranging orderly succession for appointments to the Board and to senior management. No Board appointments were made during the year.

There is a clearly established division of responsibilities between the chairman and chief executive, set out in writing, agreed by the Board, implemented by regular review meetings between these officers and validated by the Board performance evaluation process.

The chairman is also chairman of IMI plc, a FTSE 250 company. The Board is satisfied that this and his other commitments do not detract from the extent or the quality of the time which he is able to devote to the company.

The appointment of non-executive directors is for a specified term and re-appointment is not automatic. During the three years up to and including the 2006 Annual General Meeting, every director will have sought re-election at least once.

The Board has reviewed and re-affirmed that it considers all of the non-executive directors, including the chairman, to be independent in character and judgement. Whenever any director considers that he or she is interested in any contract or arrangement to which the company is or may be a party, due notice is given in accordance with the Articles of Association. The Board has determined that any such interests as may have arisen during the year are not material to the director or to the companies concerned.

The directors possess an appropriate balance of skills and experience for the requirements of the business. The Board and its committees operate within a framework of scheduled core meetings and additional ad hoc meetings are held as required. In addition to formal meetings, the directors also participate in an annual Board planning awayday at which strategic and financial plans are reviewed and developed. All directors visit the company's operations on a regular basis, meeting employees at all levels in order to maintain and refresh directors' understanding of the business.

Corporate Governance Statement continued

The members of the Board and its committees, together with their attendances at the core meetings during 2005 are shown below. The Company Secretary is also secretary to the Board's committees.

	Board	Nomination Committee	Remuneration Committee	Audit Committee
No. of meetings held in the year	9	2	5	7
Norman Askew	9 Chairman	2 Chairman	5	7*
Mike Davies (Senior Independent Director)	8	2	5	6
Lady Robin Innes Ker	9	2	5 Chairman	7*
Andrew Dougal	9	2	4*	7 Chairman
Vernon Sankey	8	2	5	5
Iain Napier Chief Executive	9	2	4*	7*
Peter Johnson Finance Director	9			7*
Graeme McCallum Operations Director	9	-	-	3*
Denis Mac Daid Executive Director (retired 30 June 2005)	5	-	-	4*

* By invitation

Information and professional development

The company has procedures whereby directors (including non-executive directors) receive formal induction, training and continuing familiarisation about the company's business, operations and systems, the principles underlying the discharge of their duties as directors and wider issues relating to the housing and construction sector. Training needs are identified and implemented.

Performance evaluation of the Board, its Committees and other functions

Between November 2005 and January 2006 the directors carried out the third annual evaluation of the performance and effectiveness of the Board and its committees, of individual directors and the internal and external auditors. The evaluations were performed using the following framework:

The Board, its members and its committees:

The evaluation of effectiveness of the Board and its committees was focused mainly on the principles of the Combined Code and the NAPF Corporate Governance Policy, but also contained a number of broader judgements covering commercial and operational issues. The evaluation was carried out by the company secretary through structured interviews with each director.

Additionally, the non-executive directors, led by the senior independent director, met without the chairman present to appraise the chairman's performance. The chairman also held meetings with the non-executive directors without the executives present.

The directors reviewed the findings of these assessments in February 2006 and concurred with the conclusions that the Board is a cohesive and effective group and that its committees operate effectively. The Board verified that each director demonstrates effectiveness and commitment and that the quality of the Board's processes and its relationship with management is of a high order. As a result of the evaluation, the Board has re-ordered a number of priorities and will intensify its focus on succession planning. The Board will continue to use the evidence gained through the evaluation process when setting objectives and procedures for 2006 and will continually review its approach to the evaluation process.

The internal Risk Management and Audit (RMA) function:

An evaluation of the RMA function was carried out through consultation with the members of the Audit Committee, the external auditors and the head of function. In addition, management provided feedback. The evaluation, which was reviewed by the Audit Committee in November 2005, confirmed a high degree of confidence in the effectiveness of the function and its ability to achieve its objectives and to meet the requirements of the Audit Committee and the business operations.

The external auditors:

An evaluation of the external auditors was carried out through consultation with Board and Audit Committee members and with senior management. The evaluation, which was reviewed by the Audit Committee in November 2005, found the performance of the external auditors to be satisfactory.

Corporate Governance Statement continued

Board Committees

Remuneration Committee and remuneration

The Board's policy and approach to the setting of remuneration for directors and senior executives and the activities of the Remuneration Committee are described in the directors' Remuneration Report on pages 38 to 46.

The Nomination Committee

The members of the Nomination Committee and their attendance at meetings during 2005 is shown on page 35. The Board has enjoyed a period of stability in recent years and the work of the Nomination Committee during the year has therefore been focused primarily on planning Board and senior management team succession and reviewing the balance of the Board's composition.

Terms and conditions of appointment of all directors are available for inspection as described in the 2006 Annual General Meeting circular to shareholders.

Audit Committee and auditors

The members of the Audit Committee are shown on page 35. All members are independent non-executive directors. The Board has determined that Andrew Dougal, the committee chairman, who is a member of the Institute of Chartered Accountants of Scotland, has recent and relevant financial experience.

The chairman of the company, the chief executive, finance director, head of RMA, representatives of the external auditors, and senior executives of major Group companies attend meetings of the committee by invitation.

The committee reviews the internal control framework, the internal audit process the financial reporting practices and the external audit process. It ensures that the Board regularly assesses business risks, and their management and mitigation.

In monitoring the financial reporting practices the committee reviews accounting policies, areas of judgement, the going concern assumption and compliance with accounting standards and the requirements of the Code. The committee also reviews, prior to publication, the interim and annual financial statements and other major statements affecting the Group concerning price-sensitive information.

Appointment of the auditors for non-audit services

The Audit Committee has approved a policy on employing the auditors to provide services other than audit services, which is to require a competitive tender except in narrowly-defined circumstances where the company considers that for confidentiality, past knowledge or other reasons, there is an advantage in using a single tender procurement procedure. The committee has determined that the following assignments should not be undertaken by the auditors:

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

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

Executive Committee

The Executive Committee consists of all the executive directors

of the company, senior executives of major Group companies and senior function heads. The chief executive chairs its meetings.

The committee meets monthly and directs, controls and reviews the financial and operational performance of all Group companies and divisions, and key issues relating to human resources, communications and legal matters. It defines and recommends to the Board forward-looking business plans and budgets.

Within the delegated authorities framework, the fortnightly investment sub-committee meetings review all major investment proposals affecting the Group's business.

Other Group committees

The Group has a number of other committees which co-ordinate activities in areas such as risk management, corporate social responsibility improvement (including health, safety and environmental matters), information technology developments and other key activities.

Internal control

The Board has applied Principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with Internal Control: Guidance for directors on the Code published in July 2003. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

A Group-level review is carried out by the members of the Executive Committee to identify the major risks facing the Group and to develop and implement appropriate initiatives to manage those risks. This process applies across the Group. Key operational and financial risks are identified and assessed at the operating process level, while strategic risks are identified as a part of the business planning process. Strategic risk reviews are carried out in each of the operating divisions to identify business risk, evaluate existing controls and develop strategies to manage the risks that remain, the results of which form part of the Board's assessment. Updates to these risk assessments are reported to the Executive Committee.

Corporate Governance Statement continued

An Executive Risk Committee, chaired by the Group Finance Director, reports to the Executive Committee. This committee, which has formally agreed terms of reference, oversees the risk and control framework of the Group and monitors the response to key risk issues identified through the assessment process. The committee meets monthly and its findings are reviewed by the Audit Committee as part of an overall process whereby assurance is obtained about the integrity of the risk management and internal control process.

Management

The Chief Executive has responsibility for preparing and reviewing a three-year corporate plan and the annual budgets. These are subject to formal approval by the Board. Budgets are re-examined in comparison with business forecasts throughout the year to ensure they are sufficiently robust to reflect the possible impact of changing economic circumstances. The chief executive and the Board conduct regular and systematic reviews of actual results and future projections with comparison against budget and prior year, together with various treasury reports. Disputes that may give rise to significant litigation or contractual claims are monitored monthly. The chief executive conducts quarterly business performance reviews, at which an assessment is made of the progress against objectives, changes to operational risk and adequacy of control.

The Group has clearly-defined policies, processes and procedures governing all areas of the business, which are accessible using a web-enabled intranet tool, which also facilitates continuous improvement. An owner is identified for each process, responsible for risk assessment and process effectiveness. Operational compliance responsibilities are also assigned to individual managers who have access to compliance testing and auditing software tools. For each process, key operational controls have been identified and these are subject to quarterly self-assessment.

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

There is a clearly identifiable organisational structure and a framework of delegated authority approved by the Board within which individual responsibilities of senior executives of Group companies are identified and can be monitored.

The RMA function oversees a quarterly programme of Controls Self Assessments across the UK development and construction businesses. A similar programme is to be implemented in the North America housing business. These activities are reinforced through process compliance and other audits conducted by RMA.

The RMA function reviews the effectiveness and efficiency of the systems of internal control in place to safeguard the assets, to quantify, price, transfer, avoid or mitigate risks and to monitor the activities of the Group in accomplishing established objectives. Regular reports from these reviews are provided to the Board and reported to the chief executive, Audit Committee

and management, who consider them on a regular basis. The head of the RMA function has direct access to the chairman of the Audit Committee.

A database of audit recommendations and improvement initiatives is maintained. A monthly follow up routine ensures that such improvements are implemented in a timely manner.

Throughout the year the Board continually considers the effectiveness of the Group's internal control systems. On 23 February 2006 it completed the annual assessment for the year to 31 December 2005 by reviewing evidence from the Audit Committee, operating divisions, RMA, and by taking account of events since the year-end.

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

Whistleblowing

The Group's whistleblowing policy is supported in the UK by an externally-facilitated procedure – 'Safecall' – through which employees of the company may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Safecall is widely publicised within the company. Calls received are investigated by the head of RMA. The Audit Committee receives reports on all occasions when such concerns are raised.

Relations with shareholders

The Board actively seeks and encourages engagement with major institutional shareholders and other stakeholders and has put in place arrangements designed to facilitate contact about remuneration and other issues. This provides the opportunity for meetings with the chairman, the Senior Independent Director as well as the chief executive and finance director and other executives in order to establish a mutual understanding of objectives. There is a structured programme of investor relations, based on formal announcements and publications covering the full year and interim results. There are associated briefings for stockbroking analysts and investors, the presentation material for which is published on the company's website.

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

The Board encourages shareholders to participate in the Annual General Meeting.

Information about the company and the Group, including full year and interim results and other major announcements, is published on the company's website www.taylorwoodrow.com

Going concern

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

Directors' Remuneration Report

Introduction

This Report has been prepared in accordance with Schedule 7A to the Companies Act 1985 ('the Act') and meets the relevant requirements of the Listing Rules of the Financial Services Authority. In it, we describe how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Act, a resolution to approve the Report will be proposed at the Annual General Meeting of the company on 3 May 2006.

The Act requires the auditors to report to the company's shareholders on certain parts of the Report and to state whether in their opinion those parts of the Report have been properly prepared in accordance with the Act. The Report has therefore been divided into separate sections for unaudited and audited information.

Unaudited information: Remuneration Committee

The Remuneration Committee is constituted in accordance with the recommendations of the Combined Code. Its principal terms of reference include:

- To determine the remuneration of the Chief Executive, executive directors and senior executives of the Group
- To agree performance thresholds and targets
- To determine amounts payable under the Bonus Plan
- To agree awards under the company's discretionary share-based reward plans

The Committee establishes and maintains formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual directors, and monitors and reports on them. It makes recommendations to the Board.

The members of the Committee during the financial year were Lady Robin Innes Ker (Committee Chairman), Norman Askev, Mike Davies, Vernon Sankey, all of whom are independent non-executive directors. Their details, including attendances at meetings held during 2005, are listed in the Corporate Governance Statement on page 35.

None of the Committee members has any personal financial interest other than as shareholders, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. No director plays a part in any discussion about his or her own remuneration.

Advice

In determining the directors' remuneration for the year, the Committee consulted Iain Napier (chief executive) and Alec Luhaste (Group director of human resources). The Committee appointed Towers Perrin to provide advice on directors' remuneration packages. Towers Perrin did not provide any other services to the company or the Group. KPMG LLP advised the company on executive pay and practices, including share-based reward and on the valuation of the company's share plans for the purposes of IFRS 2.

Remuneration policy for the executive directors and other senior executives

The company's executive remuneration packages are designed to be attractive, so as to motivate and retain high quality

management and to reward them for achieving a high level of corporate performance in line with the best interests of shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee.

The main elements of the remuneration packages for executive directors and senior management are described below. Packages are designed to include a significant element of performance-related incentive remuneration, set against challenging business performance objectives. The Committee has procedures in place to monitor the size of potential pay awards. In 2005, the proportion of fixed pay of the executive directors was 58.3 per cent (2004: 61.3 per cent) and variable pay was 41.7 per cent (2004: 38.7 per cent).

The committee reviews annually the basis and component parts of executives' reward to ensure that they remain appropriate and competitive.

Executive directors are entitled to accept appointments outside the company provided that the Board's prior permission is obtained and a determination made in respect of any fees resulting from all such appointments. Iain Napier, the chief executive, is a non-executive director of Imperial Tobacco Group plc (ITG), from which he received fees of £77,500 (2004: £40,000). £20,000 of these fees, less statutory deduction, is applied in the purchase of ITG shares. Peter Johnson is a non-executive director of Shanks Group plc (appointed 16 May, 2005) in respect of which during 2005 he received £18,885 (2004: nil). They are entitled to retain these fees.

Basic salary

The Committee reviews the basic salaries of executive directors and members of the Executive Committee annually and whenever an individual changes position or responsibility. In deciding appropriate levels, the Committee makes its judgement drawing on objective research from Towers Perrin which gives up-to-date information on FTSE 150, FTSE 100 to 150 companies, comparator groups of companies, and an industry-specific comparator group comprising 25 companies representing the housing, development and construction industry. The comparator group includes Alfred McAlpine, Amec, Balfour Beatty, Barratt Developments, Bellway Homes, Berkeley Group Holdings, Bovis Homes Group, British Land, Canary Wharf Group, Carillion, Costain, Crest Nicholson, George Wimpey, Hammerson, Kier Group, Land Securities, Liberty International, McCarthy & Stone, Mowlem, Persimmon, Westbury Homes, Redrow Group, Slough Estates, and Wilson Bowden.

The Committee considers this research and its own judgement when determining appropriate levels of remuneration, taking into account the scale and scope of individuals' responsibilities and corporate performance. Basic salaries were reviewed in November 2005 with any consequent changes being made from 1 January 2006. Reviews take account of the level of remuneration elsewhere in the business.

Executive directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting and generally as described in the 2006 Annual General Meeting circular.

Directors' Remuneration Report continued

Other benefits, including benefits-in-kind

The executive directors receive certain benefits-in-kind, principally a car or an allowance in lieu, life assurance and private medical insurance. The company also operates an Income Protection Plan. Benefits-in-kind are not pensionable.

Annual bonus payments and the deferred bonus plan

The Committee establishes the objectives that must be met for each financial year if a performance-related bonus is to be paid.

In setting appropriate bonus parameters, the Committee refers to the objective research by Towers Perrin on the comparator group of companies as noted above.

Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the Board are being met. The current maximum bonus award that can be made to an executive director in any one year is 100 per cent of salary. 2005's bonus awards were dependent upon the achievement of a number of 'stretch' business-specific and personal targets. The targets include factors which the Board considers to be commercially confidential if disclosed in detail, but which are summarised as follows:

- Achievement of specified levels of profit before tax for 2005. (A significant element of the bonus is dependent on this target);
- Achievement of improvements in health and safety performance, based on specified levels of safety management performance and site inspection results;
- Achievement of specified customer satisfaction ratings;
- Other important and relevant business issues.

Most, but not all, of the targets were achieved.

For 2005, the maximum performance-related cash bonus that can be paid is 100 per cent of basic salary (2004: 100 per cent) for the chief executive and 100 per cent (2004: 85 per cent) in the case of the other executive directors. Bonus awards for executive directors in respect of the year ended 31 December 2005 ranged between 74.3 per cent and 98.2 per cent of basic 2005 salary (2004: 65 per cent and 95 per cent), reflecting performance against the targets. For 2006, bonus targets have been set based broadly on the 2005 framework and designed to reflect the company's performance relative to the peer group. No bonus or deferred bonus is pensionable.

Bonus Plan matching award

The Committee believes share ownership by executive directors and senior executives strengthens the link between the interests of executives and the company's shareholders. Executive directors and selected senior executives have the opportunity of participating in the deferred bonus plan by investing some or all of their pre-tax bonus in the purchase of shares in the company. If these shares remain undrawn for a period of three years, the company will match them on a one for one basis, provided, in the case of awards made from 2005 onwards, that Group Earnings per share (Eps) shall have grown by at least three per cent compound in real terms during the prior three financial years. Eps is calculated using the adjusted basic earnings per share as shown in Note 9 to the consolidated financial statements.

Executive share-based reward

The Performance Share Plan

In order to incentivise executive directors and other senior executives, the company has established a Performance Share Plan (PSP). The Remuneration Committee is responsible for supervising the plan and for granting or recommending of awards under the PSP.

Conditional awards of shares are made to participants, entitling them to receive shares of the company at no direct cost. Vesting occurs on the third anniversary of the award, provided that the performance criterion is fulfilled. There is a limit for awards under the current Plan Rules of 200 per cent of basic salary per annum.

The Plan contains two elements: **Basic awards**, which under current policy are restricted to a current maximum of 75 per cent of basic salary and additional **enhanced awards**, which under current policy are restricted to a current maximum of 50 per cent of basic salary. Enhanced awards, introduced in 2005, are made on a discretionary basis to members of the Executive Committee, including the executive directors. The vesting criteria for these awards are as follows:

BASIC AWARDS		
The company's Eps outperforms the UK Index of Retail Prices (RPI) by 3 per cent per annum compound over three years	The company's Eps outperforms the RPI by 6 per cent per annum compound over three years	
50 per cent of award vests	100 per cent of award vests	
ENHANCED AWARDS		
Vesting of enhanced awards is dependent on the basic award earnings criteria first being satisfied		
Median TSR performance relative to the sector peer group	Better than median TSR performance relative to the sector peer group	Upper quartile TSR performance relative to the sector peer group
Nil vesting	40 per cent of the enhanced awards vest	100 per cent of the enhanced awards vest
There is a sliding scale between the respective targets. There will be no re-testing of the performance condition.		

In 2005, conditional awards were made to 296 participants, including each of the executive directors, in respect of a total of 2,644,102 shares. Of these, 2,356,526 were basic awards (2004: 3,244,327 shares) and 287,576 were enhanced awards (2004: Nil).

The performance criteria, which apply to all participants in the PSP, were chosen because Eps is considered to be an appropriate indicator of management's success in advancing the performance of the business. Eps is calculated as described in Note 9 to the consolidated financial statements. TSR was selected in order to incentivise improvement in performance relative to the PSP peer group, whilst continuing to focus on earnings growth. The peer group for this purpose consists of: Barratt Developments, Bellway, Berkeley Group Holdings,

Directors' Remuneration Report continued

Bovis Homes Group, Crest Nicholson, Galliford Try, MJ Gleeson Group, Kier Group, Persimmon, Westbury Homes, Redrow Group, Wilson Bowden and George Wimpey.

Executive Share Option Plan

The Taylor Woodrow Executive Share Option Plan was suspended on 9 October 2003. No awards have been made since that date and the Committee has no plans to make any such awards.

Awards made under the Plan were subject to increasingly demanding performance criteria, which in respect of options granted from 2002 onwards, require

- Eps to exceed the RPI by 12 per cent (for awards which cause aggregate option values, measured at the time of grant, to exceed three times basic salary); and
- Eps to exceed the RPI by 15 per cent (for awards which cause aggregate option values, measured at the time of grant, to exceed four times basic salary).

Eps is calculated as described on page 39.

For awards granted in October 2003, the company reduced the number of performance re-tests to two, which are applied at the fourth and fifth anniversaries of the date of grant. For these re-tests, the measurement period is four and five years respectively. If the performance test is not satisfied at the final re-test, the option lapses.

The exercise prices of all options granted under the above Plan were equal to the market value of the company's shares at the time when they were granted.

The rules of the PSP, the Executive Share Options Plan and the Deferred Bonus Plan, referred to above, and the Company's all-employee share plans referred to below provide for the early vesting or exercise of share entitlements in the event of a participant's death or cessation of employment because of a change of control, disability, redundancy or retirement.

Employment Equality (Age) Regulations 2006

The current eligibility criteria under the Deferred Bonus Plan and Performance Share Plan do not allow awards to be made to participants within one year of retirement. The introduction of the Employment Equality (Age) Regulations 2006 ('Regulations') in October 2006 on age discrimination will require this provision to be removed. To comply with the requirements of the Regulations, the Board proposes to implement changes to the rules of these Plans by way of a resolution of the directors. Such change will take effect when the Regulations come into force.

All-employee share plans

United Kingdom

The company operates a Sharesave Plan under which all UK team members with at least three months' service can save up to £250 per month and receive three or five year options to acquire the company's shares priced at a discount of up to 20 per cent of market value.

A UK Share Purchase Plan has also been introduced, under which all UK team members with at least three months' service are permitted to invest up to £1,500 per annum of their pre-tax earned income in the purchase of partnership shares of the company. Such shares, if held for a period of three years, attract an award of free matching shares. Currently participants receive one matching share for each partnership share purchased.

The executive directors are eligible to participate in these all-employee Plans.

Overseas Plans

During 2005, the company implemented an all-employee stock purchase plan in the United States and plans to introduce a share incentive plan in Canada in early 2006.

The United States Plan is based broadly on the UK Sharesave Plan and entitles participants to contribute funds of up to a US\$ amount equivalent to £3,000 per year of their post-tax income to purchase shares of the company at a discount of 15 per cent to the relevant market price.

The Canadian Plan will be based broadly on the UK Share Purchase Plan and will entitle participants to contribute funds of up to a Can\$ amount equivalent to £1,500 per year of their post-tax income to purchase shares of the company which, if held for a period of three years, would be matched by the company.

Impact of International Financial Reporting Standards on performance criteria of incentive plans

In accordance with the scheme rules and as indicated in previous Remuneration Reports, earnings per share figures for the purpose of performance measurement of share incentive schemes are restated in accordance with International Financial Reporting Standards.

Pension arrangements

Details of the Group's principal UK pension schemes are given in Note 21 the consolidation financial statements.

Of these, the Taylor Woodrow Group Pension and Life Assurance Fund, into which the Bryant Group Pension Scheme was merged in June 2002 and the Wilson Connolly Holdings Pension Scheme, the Wainhomes Limited Pension Scheme, the Prestoplan Pension Scheme and the Wilson Connolly Defined Contribution Pension Scheme were merged in August 2004, is a funded scheme with defined benefit and defined contribution elements. The Taylor Woodrow Personal Choice Plan is a Defined Contribution Pension Scheme. All members of these schemes are entitled to payment of a lump sum in the event of death in service. Dependents of members of the defined benefit elements are eligible for Dependents' pensions. Only basic salary is pensionable.

Taylor Woodrow Group Pension and Life Assurance Fund

None of the executive directors is a member of the Taylor Woodrow section of the Fund. The Fund was closed to new entrants from 31 March 2002. With effect from 1 September 2004, a restriction was applied so as to limit the amount of any increase in pensionable salary of members of this scheme to the lesser of the actual increase in basic salary or the RPI, subject to a maximum of 5 per cent per annum.

Directors' Remuneration Report continued

At 31 December 2005 Graeme McCallum was a member of the Wilson Connolly Holdings section of the Fund. He has a target benefit of 7.8 per cent of his final pensionable pay, which is restricted to the Earnings Cap, currently £105,600, at his normal retirement age of 60. To reflect the impact of the Earnings Cap on his pension, he also receives an additional salary allowance/supplement of 12.5 per cent of his basic salary. Details of Graeme McCallum's accrued pension entitlements under the Fund and the opening and closing transfer values of his accrued pension rights are shown in the tables of directors' pension entitlements on page 46.

The company contributes a sum to an individual defined contribution top up arrangement for each member calculated on the full basic salary. The company's contributions in respect of Graeme McCallum totalled £2,603 (2004: £850) for the year.

Taylor Woodrow Personal Choice Pension Plan

With effect from 1 April 2002 the company introduced the Taylor Woodrow Personal Choice Plan, a defined contribution Pension Scheme which all new eligible UK team members are invited to join.

At 31 December 2005 Iain Napier and Peter Johnson were members of this Plan. The company contributes to the Plan 38 per cent and 34.5 per cent respectively of their basic salary, of which an amount up to the maximum permitted by the Inland Revenue will be applied to the Plan and the balance paid as an additional allowance, this being reduced by the amount of employer's National Insurance contributions thereon. Iain Napier and Peter Johnson each contribute 5 per cent of basic salary, subject to the Earnings Cap.

Pensions of former directors

Denis Mac Daid retired from the Board on 30 June 2005. Prior to his retirement, terms were agreed with him in relation to his pension. The Company agreed that Mr. Mac Daid's pension should be calculated with an assumed retirement date of 5 April 2006. The difference between benefits calculated at that date and Fund benefits at his actual date of retirement is being paid by the Company to Mr. Mac Daid by monthly installments. The annual equivalent of this payment is £18,836. This additional payment will increase on 1 May annually in line with increases awarded by the Trustees on Mr. Mac Daid's main Fund benefits, with the first such increase being due on 1 May 2006. The additional payment also attracts Dependents' benefits in line with his Fund pension.

No other arrangements were made during the year for the provision of pensions for former directors.

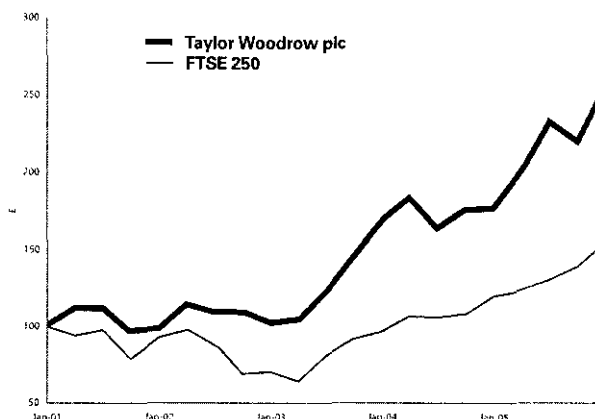
UK Pensions Legislation

The Remuneration Committee had reviewed the Company's pensions policy in the light of changes in UK pensions legislation. The Committee has agreed that where the Company's pension arrangements are no longer attractive to an employee as a result of the introduction of the new pension taxation regime on 6 April 2006, and where the employee advises the Company that he no longer wishes to participate in the company's ongoing pension arrangements, the Company will pay an additional allowance to the employee equal to the Company pension contribution that would otherwise have been paid to the pension arrangement, reduced by the amount of employer's National Insurance contribution thereon. The employee will continue to participate in the Company's lump sum life assurance arrangements. No other compensation will be offered.

Performance graph

The following graph shows the company's performance, measured by total shareholder return for the five year period to 31 December 2005, compared with the performance of the FTSE 250 Share Index also measured by total shareholder return. The FTSE 250 Share Index has been selected for this comparison because the company is a constituent of that Index and in order to provide consistency of comparison with the 2004 Directors' Remuneration Report.

Growth in value of a hypothetical £100 holding over five years



This graph has been prepared from information obtained through Datastream. It shows the theoretical growth in the value of a shareholding in the company and in FTSE 250 companies over the specified period, assuming that dividends are re-invested to purchase additional units of equity at the closing price applicable on the ex-dividend date. Historical data is based on the constituent companies at each given date.

Directors' Remuneration Report continued

Directors' contracts

It is the company's policy that executive directors should have contracts of employment providing for a maximum of one year's notice. However, it may be necessary occasionally to offer longer notice periods to new directors. Where this arises, it is the company's policy to reduce the notice period to one year within one year of appointment of the director.

The details of the directors' contracts are summarised in the table below:

Name	Date of contract	Unexpired term (months)	Notice periods Company (months)	Notice periods Director (months)	Normal retirement age	Age
Iain Napier	10 January 2002	12	12	12	60	56
Peter Johnson	1 November 2002	12	12	12	60	51
Graeme McCallum	2 October 2003	12	12	12	60	59

It is the company's policy that liquidated damages should not apply on the termination of an executive director's contract. In accordance with this approach, payment for early termination of contract (without cause) by the company is, in the case of each of the executive directors, to be determined in accordance with normal principles of English law, which requires mitigation of liability on a case by case basis. Any such payment would typically be determined by reference to the main elements of a director's remuneration, namely, salary, contractual bonus, benefits-in-kind and pension entitlements. The executive directors' contracts contain no express provisions relating to a change of control of the company. In such event the directors' rights and entitlements would be ascertained as stated above.

Non-executive directors

None of the non-executive directors has a service contract, as their terms of engagement are regulated by letters of appointment as follows:

Name of director	Date of initial letter of appointment	Term of appointment	Notice period by Company (months)	Notice period by Director (months)
Norman Askew [▲]	25 July 2003	3 years •	3	3
Mike Davies [▲]	29 September 2003	3 years •	1	1
Lady Robin Innes Ker	21 May 2001	Initially 3 years, now 1 year and reviewed annually	1	1
Andrew Dougal	31 October 2002	1 year, reviewed annually	1	1
Vernon Sankey	15 December 2003	3 years •	1	1

- ▲ Proposed for re-appointment at the Annual General Meeting
- Initial term, subject to review on first anniversary and annually thereafter.

Their fees are determined by the Board based on research of fees paid to non-executive directors of similar companies within the FTSE 150 index and the sector peer group, subject to the aggregate annual limit of £600,000 imposed by the Articles of Association.

The fees of the chairman were increased on 1 July 2005 from £150,000 to £170,000 per annum. The basic fees of each non-executive director were increased on 1 January 2005 from £37,500 to £39,000. The Senior Independent Director and the Audit Committee Chairman each receive an additional fee of £10,000 and the Remuneration Committee Chairman receives an additional fee of £5,000 in respect of these services. Non-executive directors cannot participate in any of the company's share option plans and are not eligible to join the company's pension scheme. Their fees are generally reviewed at two-yearly intervals.

Directors' Remuneration Report continued

Audited information

Directors' emoluments

Name of director	Basic salary/fees £000	Salary supplement in lieu of pension £000	Benefits- in-kind £000*	Bonus in respect of 2005 £000	2005 total £000	2004 total £000	Salary p.a. with effect from 1.1.2006 £000
Executive							
Iain Napier	575	168	27	565	1,335	1,197	610
Peter Johnson	335	83	16	329	763	654	356
Graeme McCallum	316	40	23	234	613	547	329
Denis Mac Daid (former director)	163	0	9	123	295	506	-
	1,389	291	75	1,251	3,006	2,904	-
Non-executive							
Norman Askew	160	-	-	-	160	150	-
Mike Davies	43	-	-	-	43	38	-
Lady Robin Innes Ker	43	-	-	-	43	38	-
Andrew Dougal	47	-	-	-	47	38	-
Vernon Sankey	39	-	-	-	39	38	-
Sir George Russell (former director)	-	-	-	-	-	16	-
Aggregate emoluments	1,721	291	75	1,251	3,338	-	-
2004:					-	3,222	-

Aggregate emoluments of the Executive Committee (excluding executive directors)

	Basic salary/fees £000	Salary supplement in lieu of pension £000	Benefits- in-kind £000*	Bonus in respect of 2005 £000	2005 total £000	2004 total £000	Salary p.a. with effect from 1.1.2006 £000
8 Members	1,740	79	91	2,428	4,338	3,737	-

Notes

*Includes non-cash payments.

No expense allowances are paid.

No termination payments were made to directors during the year.

No payments were made during the year to former directors.

Directors' Remuneration Report continued

Directors' share-based reward and options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company and any other share-based reward granted to or held by the directors. Details of the options exercised during the year are:

Name of director	Plan	Number of option shares exercised	Exercise price (pence)	Market price at exercise date (pence)	Gains on exercise 2005 £	Gains on exercise 2004 £
Peter Johnson	Executive option	295,857	169	359.567	563,806	-
	Bonus plan	-	-	-	-	-
	Sharesave	-	-	-	-	-
					563,806	-
Iain Napier	Executive option	1,193,819	178	300	1,456,459	-
	Executive option	236,111	180	323.2285	338,178	-
	Bonus plan	-	-	-	-	-
	Sharesave	6,350	148.8	348.75	12,697	-
					1,807,334	-
Denis Mac Daid	Executive Option	40,000	156.5	304	59,000	24,362
	Executive Option	15,000	181	304	18,450	
	Executive Option	40,392	153	304	60,992	
	Executive Option	130,000	170	304	174,200	
	Bonus plan	-	-	-	-	-
	Sharesave	-	-	-	-	7,814
					312,642	32,176
Total					2,683,782	32,176

Details of options for directors who served during the year are as follows:

Name of director	Plan	1 January 2005	Granted (Number)	Lapsed (Number)	Exercised (Number)	31 December 2005*	Exercise price (pence)	Date of Grant	Date from which exercisable	Expiry date
Iain Napier	Executive option	1,193,819	-	-	1,193,819	-	178	10.1.02	10.1.05	9.1.12
	Executive option	236,111	-	-	236,111	-	180	8.10.02	8.10.05	7.10.12
	Executive option	196,754	-	-	-	196,754	246.5	3.10.03	3.10.06	2.10.13
	Sharesave	6,350	-	-	6,350	-	148.8	18.10.02	1.12.05	31.5.06
	Bonus Plan:									
	Matching award	112,046	-	-	-	112,046	-	7.4.03	7.4.06	6.4.13
	Matching award	109,232	-	-	-	109,232	-	2.4.04	2.4.07	1.4.14
	Matching award	-	24,073 ¹	-	-	24,073	-	8.4.05	8.4.08	7.4.15
	Performance share plan	142,857	-	-	-	142,857	-	10.5.04	10.5.07	9.5.09
	Performance share plan	-	227,272 ²	-	-	227,272	-	7.9.05	7.9.08	6.9.10
	Total	1,997,169	251,345	-	1,436,280	812,234				
Peter Johnson	Executive option	295,857	-	-	295,857	-	169	9.12.02	9.12.05	8.12.12
	Executive option	174,036	-	-	-	174,036	246.5	3.10.03	3.10.06	2.10.13
	Sharesave	8,037	-	-	-	8,037	197.2	7.10.03	1.12.08	31.5.09
	Bonus Plan:									
	Matching award	52,636	-	-	-	52,636	-	2.4.04	2.4.07	1.4.14
	Performance share plan	84,905	-	-	-	84,905	-	10.5.04	10.5.07	9.5.09
	Performance share plan	-	132,410 ²	-	-	132,410	-	7.9.05	7.9.08	6.9.10
	Total	615,471	132,410	-	295,857	452,024				
Graeme McCallum	Executive option	111,561	-	-	-	111,561	246.5	3.10.03	3.10.06	2.10.13
	Sharesave	4,177	-	-	-	4,177	226.8	7.10.04	1.12.07	31.5.08
	Performance share plan	80,862	-	-	-	80,862	-	10.5.04	10.5.07	9.5.09
	Performance share plan	-	100,078 ²	-	-	100,078	-	7.9.05	7.9.08	6.9.10
	Total	196,600	100,078	-	-	296,678				

Directors' Remuneration Report continued

Details of options for directors who served during the year continued:

Name of director	Plan	1 January 2005	Granted (Number)	Lapsed (Number)	Exercised (Number)	31 December 2005*	Exercise price (pence)	Date of Grant	Date from which exercisable	Expiry date
Denis Mac Daid	Executive option	40,000	-	-	40,000	-	156.5	7.11.96	7.11.99	30.6.06
	Executive option	15,000	-	-	15,000	-	181	29.3.99	29.3.02	30.6.06
	Executive option	40,392	-	-	40,392	-	153	17.10.00	17.10.03	30.6.06
	Executive option	130,000	-	-	130,000	-	170	20.12.01	20.12.04	30.6.06
	Executive option	208,333	-	-	-	208,333	180	8.10.02	1.7.05	7.4.06
	Executive option	167,342	-	-	-	167,342	246.5	3.10.03	1.7.05	2.4.07
	Sharesave	3,215	-	-	-	3,215	197.2	7.10.03	1.7.05	31.12.05
	Bonus Plan:									
	Matching award	60,654	-	16,849	-	43,805	-	7.4.03	1.7.05	30.6.06
	Matching award	41,260	-	25,215	-	16,849	-	2.4.04	1.7.05	30.6.06
	Performance share plan	80,862	-	-	-	80,862	-	10.5.04	1.3.06	30.6.06
	Total	787,058	-	42,064	225,392	520,406				

*or date of retirement

1. Market value per share on date of grant 8 April 2005 was 300 pence.

2. Market value per share on date of grant 7 September 2005 was 326.75 pence.

By virtue of his retirement, the earliest dates for vesting or exercise of Denis Mac Daid's share entitlements were accelerated and some are subject to pro-rata reduction. The expiry dates were curtailed as shown above.

There have been no variations to the terms and conditions or performance criteria for outstanding share options during the financial year.

Details of the performance criteria relating to the exercise of options under the Taylor Woodrow Executive Share Option Plan and conditional awards under the Performance Share Plan appear earlier in this Remuneration Report.

The market price of the ordinary shares at 31 December 2005 was 380.5p and the range during the year was 256.5p to 380.5p.

Directors' interests in shares and Loan Notes of the company

Directors' interests in 25 pence ordinary shares held (fully paid) and Floating Rate Unsecured Loan Notes 2008

	at 1.1.05 25p ordinary shares	Loan notes [†]	at 31.12.05 25p ordinary shares	Loan notes [†]	Executive directors' share interests at 31 December 2005 expressed as a percentage of basic salary
Norman Askew	9,974	-	9,974	-	
Iain Napier	241,528	-	271,951*	-	180%
Mike Davies	5,000	-	5,000	-	
Lady Robin Innes Ker	1,000	-	1,000	-	
Andrew Dougal	5,000	-	5,000	-	
Peter Johnson	84,549	-	84,549*	-	96%
Graeme McCallum	102,123	172,890	102,123	172,890	123%
Vernon Sankey	10,778	-	10,778	-	

* Includes 1,250 ordinary shares held by Halifax Corporate Trustees Limited under the Taylor Woodrow 2004 Share Purchase Plan.

[†] The Floating Rate Unsecured Loan Notes 2008 were created on 31 August 2003 in connection with the acquisition of Wilson Connolly Holdings plc.

At 31 December 2005, each executive director had a notional interest in 4,952,480 ordinary shares of the company, being unappropriated ordinary shares held by the trustee of the Taylor Woodrow Group ESOP Trust in connection with the Taylor Woodrow Executive Share Option Plan and the Executive Bonus Plan; by the trustee of the Taylor Woodrow 2004 Benefit Trust, by the trustee of the Wilson Connolly Employee Share Trust in connection with the Wilson Connolly Incentive Share Plan and the trustee of the Wilson Connolly QUEST in connection with the Wilson Connolly Savings-Related Share Option Scheme.

Directors' Remuneration Report continued

Executives' shareholdings in the company

During January 2006 the Remuneration Committee approved a proposal recommending that executives accumulate holdings of Taylor Woodrow plc shares by April 2007 with values representing the following percentages of basic salary:

- Executive directors of Taylor Woodrow plc 100%
- UK members of the Group Executive Committee 75%
- North American members of the Group Executive Committee 100%
- UK Regional Managing Directors and other executives eligible to participate in the Deferred Bonus Plan 50%

Directors' pension entitlements

Defined benefit schemes

Graeme McCallum is a member of the Taylor Woodrow Group Pension and Life Assurance Fund. He has enhanced rights, which entitle him to benefits at the age of 60. His accrued rights under the scheme are as follows:

Accrued pension 31 December 2004	Increase in accrued pension in the year	Increase in accrued pension in the year including inflation	Transfer value in respect of increase in accrued pension	Accrued pension 31 December 2005
£	£	£	£	£
4,392	1,915	1,796	34,316	6,307

The following table sets out the transfer value of Graeme McCallum's accrued benefits under the scheme calculated in a manner consistent with 'Retirement Benefit Schemes – Transfer Values (GN 11)' published by the Institute of Actuaries and the Faculty of Actuaries.

Transfer value 31 December 2004	Contributions made by the director	Increase in transfer value in the year net of contributions	Transfer value 31 December 2005
£	£	£	£
85,267	5,143	48,096	138,506

The transfer values disclosed above do not represent a sum paid or payable to the director. Instead they represent a potential liability of the pension scheme. Increases in transfer values resulted from increases in salary and pensionable service. Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above tables.

Money purchase schemes

Two directors are members of money purchase schemes. Contributions paid by the company in respect of these directors were as follows:

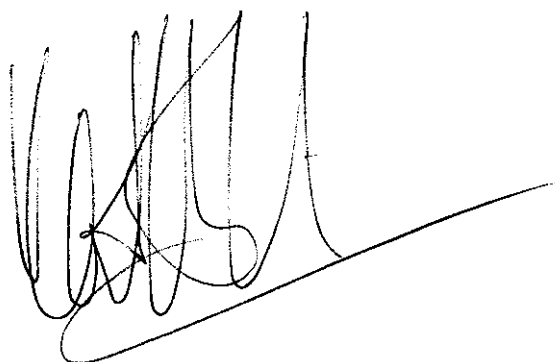
Name of director	2005	2004
	£	£
Iain Napier	26,175	25,312
Peter Johnson	20,940	20,250

Approval

This report was approved by the Board of directors on 27 February, 2006 and signed on its behalf by the Committee Chairman:



Lady Robin Innes Ker
27 February 2006



Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the group in accordance with International Financial Reporting Standards (IFRSs) and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions; other events and conditions on the entity's financial position and financial performance; and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differ from legislation in other jurisdictions.

Independent Auditors' Report to the members of Taylor Woodrow plc

We have audited the Group financial statements (the 'financial statements') of Taylor Woodrow plc for the year ended 31 December 2005 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement, the statement of accounting policies, the related notes 1 to 37 and the reconciliation of changes in shareholders' equity. These financial statements have been prepared under the accounting policies set out therein.

The directors' remuneration report is included in the individual company annual report of Taylor Woodrow plc for the year ended 31 December 2005. We have reported separately on the individual company financial statements of Taylor Woodrow plc for the year ended 31 December 2005 and on the information in the directors' remuneration report included in the individual company annual report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in the statement of accounting policies note, the Group in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
27 February 2006

Accounting Policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted for use in the European Union and as issued by the International Accounting Standards Board.

The disclosures concerning the transition from UK GAAP to IFRS, namely the reconciliations of equity at 1 January 2004 (the date of transition to IFRS), at 31 December 2004 (date of last UK GAAP financial statements) and the reconciliations of profit and cash flow for 2004, as required by IFRS 1, are set out in note 36.

The consolidated financial statements have been prepared on the historical cost basis, except where stated below. The principal accounting policies adopted 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 profit and loss 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 are consolidated under the equity accounting method rather than the alternative treatment of proportionate consolidation allowed under IAS 31 'Interests in Joint Ventures'.

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 or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately

in profit or loss and is not subsequently reversed.

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 IFRS 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.

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 is recognised as follows:

(a) Private housing, development properties and land sales

Revenue is recognised at the fair value of the consideration received or receivable on legal completion.

(b) 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.

Tender costs

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.

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 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.

Accounting Policies continued

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 the average exchange rates for the period unless exchange rates fluctuate significantly. 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.

The Group enters into forward contracts and currency options 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

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.

Property and plant

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 accumulated profits.

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 life of the asset. Other assets are depreciated using the straight-line method, on the following bases:

Plant, fixtures and equipment 20%-25%

Computer equipment 33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Own shares

The cost of the company's investment in its own shares, which comprise shares held in treasury by the company and shares held by employee benefit trusts for the purpose of funding certain of the company's share option plans, is shown as a reduction in shareholders' equity.

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 do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial Liability and Equity

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.

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 accrual basis to the profit and loss account using 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.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Accounting Policies continued

Derivative financial instruments and hedge accounting

The Group uses forward exchange contracts and currency options 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 pounds sterling which is the functional currency of the Company. Interest rate derivatives are used to manage interest rate risk in respect of specific 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 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.

Inventories

Inventories are stated at the lower of cost 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.

Taxation

The tax expense represents the sum of the tax currently payable and deferred 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 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 foreseeable future.

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 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.

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, rather than adoption of the 'corridor method' alternative available under IAS 19.

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

Consolidated Income Statement for the year to 31 December 2005

	Note	2005 £m	2004 £m
Continuing operations			
Revenue: Group and share of joint ventures		3,556.4	3,361.2
Less share of joint ventures		(79.5)	(49.7)
Consolidated revenue	2, 3	3,476.9	3,311.5
Cost of sales		(2,831.7)	(2,649.6)
Gross profit		645.2	661.9
Profit on disposal of properties and investments	4	10.2	21.7
Administrative expenses		(195.4)	(179.9)
Share of results of joint ventures	13	15.0	8.8
Profit from operations	3, 4	475.0	512.5
Interest receivable		8.3	6.3
Finance costs	6	(72.3)	(114.9)
Profit before tax		411.0	403.9
Tax	7	(124.5)	(123.0)
Profit for the year		286.5	280.9
Attributable to:			
Equity holders of the parent	30	285.7	280.3
Minority interest		0.8	0.6
		286.5	280.9
Earnings per share			
From continuing operations			
Basic	9	50.6p	49.1p
Diluted	9	49.8p	48.8p

Consolidated Statement of Recognised Income and Expense for the year to 31 December 2005

	2005 £m	2004 £m
Net exchange differences on translation of foreign operations	36.4	(6.5)
Actuarial (losses)/gains on defined benefit pension schemes	(73.3)	15.6
Tax on actuarial (losses)/gains taken directly to equity	22.0	(5.0)
Net (expense)/income recognised directly in equity	(14.9)	4.1
Profit for the year	286.5	280.9
Total recognised income for the year	271.6	285.0
Attributable to:		
Equity holders of parent	270.8	284.4
Minority interests	0.8	0.6
	271.6	285.0

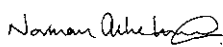
Reconciliation of movements in consolidated equity for the year to 31 December 2005

	2005 £m	2004 £m
Total recognised income for the year	271.6	285.0
Dividends on equity shares	(71.3)	(53.9)
New share capital subscribed	9.8	3.7
Proceeds from sale of own shares	7.3	3.2
Purchase of own shares	-	(46.9)
Increase/(reduction) in share-based payment tax reserve	1.2	(0.4)
Credit to equity relating to disposal of own shares	1.3	-
Share-based payment credit	5.9	-
Increase in other reserve	0.6	-
Decrease in minority interests	(0.9)	(0.7)
Net increase in equity	225.5	190.0
Opening equity	1,703.8	1,513.8
Closing equity	1,929.3	1,703.8

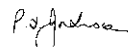
Consolidated Balance Sheet at 31 December 2005

	Note	2005 £m	2004 £m
Non-current assets			
Goodwill	10	363.9	363.2
Property and plant	11	24.4	24.2
Investment property	12	-	-
Interests in joint ventures	13	92.1	87.0
Other loans and receivables		17.8	26.5
Deferred tax assets	14	101.2	71.1
		599.4	572.0
Current assets			
Inventories	15	2,699.6	2,422.2
Trade and other receivables	16	301.3	282.5
Cash and cash equivalents	16	197.3	114.9
		3,198.2	2,819.6
Total assets		3,797.6	3,391.6
Current liabilities			
Trade and other payables	20	(822.1)	(709.7)
Tax liabilities		(61.6)	(67.8)
Debenture loans	18	(6.5)	(16.2)
Bank loans and overdrafts	17	(9.0)	(16.5)
		(899.2)	(810.2)
Net current assets		2,299.0	2,009.4
Non-current liabilities			
Trade payables	20	(76.2)	(73.6)
Debenture loans	18	(638.0)	(620.7)
Bank loans	17	(0.7)	(0.3)
Retirement benefit obligation	21	(222.5)	(146.3)
Deferred tax liabilities	14	(0.9)	(6.8)
Long-term provisions	22	(30.8)	(29.9)
		(969.1)	(877.6)
Total liabilities		(1,868.3)	(1,687.8)
Net assets		1,929.3	1,703.8
Equity			
Share capital	23	148.0	146.7
Share premium account	24	756.2	748.1
Revaluation reserve	25	0.5	0.7
Own shares	26	(53.9)	(57.8)
Share-based payment tax reserve	27	4.0	2.8
Capital redemption reserve	28	31.5	31.5
Other reserve		5.4	4.8
Translation reserve	29	29.9	(6.5)
Retained earnings	30	1,006.8	832.5
Equity attributable to equity holders of the parent		1,928.4	1,702.8
Minority interests		0.9	1.0
Total equity		1,929.3	1,703.8

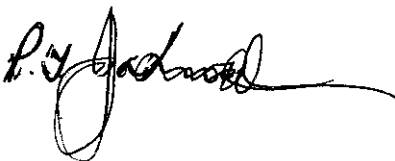
The financial statements were approved by the Board of directors and authorised for issue on 27 February 2006. They were signed on its behalf by:


Norman Askew

N B M Askew
Director


P T Johnson

P T Johnson
Director





Consolidated Cash Flow Statement for the year to 31 December 2005

	Note	2005 £m	2004 £m
Net cash from operating activities	31	130.2	198.1
Investing activities			
Interest received		8.3	6.3
Dividends received from joint ventures		3.0	2.2
Proceeds on disposal of investment properties, plant and investments		13.9	189.9
Purchases of properties, plant and investments		(6.3)	(8.5)
Amounts invested in joint ventures		(22.8)	(21.2)
Amounts repaid by joint ventures		27.2	12.5
Net cash from investing activities		23.3	181.2
Financing activities			
Equity dividends paid		(71.3)	(53.9)
Dividends paid by subsidiaries to minority shareholders		(0.9)	(0.7)
Issue of ordinary share capital		9.8	3.7
Proceeds from sale of own shares		7.3	3.2
Purchase of own shares		-	(50.3)
Redemption of preference shares		-	(100.0)
New debenture loans raised		1.8	334.4
New bank loans raised		410.2	339.4
Repayment of debenture loans		(18.5)	(116.6)
Repayment of bank loans		(416.2)	(771.4)
(Decrease)/increase in bank overdrafts		(2.3)	6.0
Net cash used in financing activities		(80.1)	(406.2)
Net increase/(decrease) in cash and cash equivalents		73.4	(26.9)
Cash and cash equivalents at beginning of year		114.9	143.8
Effect of foreign exchange rate changes		9.0	(2.0)
Cash and cash equivalents at end of year		197.3	114.9

Notes to the Consolidated Financial Statements for year to 31 December 2005

1. General information

Taylor Woodrow plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 94. The nature of the Group's operations and its principal activities are set out in note 3 and in the Operating Performance Review on pages 11 to 25.

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 policies set out on pages 49 and 50.

2. Revenue

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

	2005 £m	2004 £m
Housing	2,785.7	2,826.9
Property	192.0	74.2
Construction	499.2	410.4
Consolidated revenue	3,476.9	3,311.5
Interest receivable	8.3	6.3
	3,485.2	3,317.8

3. 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, Property and Construction. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2005	Housing United Kingdom 2005 £m	Housing North America 2005 £m	Housing Spain and Gibraltar 2005 £m	Housing Total 2005 £m	Property 2005 £m	Construction 2005 £m	Consolidated 2005 £m
Revenue:							
External sales	1,607.9	1,102.1	75.7	2,785.7	192.0	499.2	3,476.9
Inter-segment sales	4.8	-	-	4.8	-	71.1	75.9
Eliminations	(4.8)	-	-	(4.8)	-	(71.1)	(75.9)
Total revenue	1,607.9	1,102.1	75.7	2,785.7	192.0	499.2	3,476.9
Share of joint ventures' revenue	39.5	39.7	-	79.2	-	0.3	79.5
Group and share of joint ventures	1,647.4	1,141.8	75.7	2,864.9	192.0	499.5	3,556.4

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

Notes to the Consolidated Financial Statements for year to 31 December 2005

3. Business and geographical segments continued

2005	Housing United Kingdom 2005 £m	Housing North America 2005 £m	Housing Spain and Gibraltar 2005 £m	Housing Total 2005 £m	Property 2005 £m	Construction 2005 £m	Consolidated 2005 £m
Result:							
Profit before joint ventures	227.4	185.6	23.0	436.0	15.7	8.3	460.0
Share of joint ventures' profit *	6.0	14.0	-	20.0	-	0.5	20.5
Profit *	233.4	199.6	23.0	456.0	15.7	8.8	480.5
Share of joint ventures' interest and tax	(5.4)	(0.1)	-	(5.5)	-	-	(5.5)
Profit from operations	228.0	199.5	23.0	450.5	15.7	8.8	475.0
Interest receivable							8.3
Finance costs							(72.3)
Profit before tax							411.0
Tax							(124.5)
Profit for the year							286.5
*Profit is profit from operations before joint ventures' interest and tax.							
Other information:							
Property and plant additions	0.9	1.4	0.1	2.4	-	3.8	6.2
Depreciation - plant	1.1	0.8	0.2	2.1	-	3.7	5.8
Assets:							
Segment assets	2,160.2	746.9	121.5	3,028.6	25.2	152.6	3,206.4
Share of joint ventures' assets	133.7	55.9	-	189.6	-	-	189.6
Eliminations	(133.5)	(26.1)	-	(159.6)	-	-	(159.6)
	2,160.4	776.7	121.5	3,058.6	25.2	152.6	3,236.4
Goodwill							363.9
Cash and cash equivalents							197.3
Consolidated total assets							3,797.6
Liabilities:							
Segment liabilities	(575.3)	(281.1)	(64.0)	(920.4)	(17.4)	(276.3)	(1,214.1)
Share of joint ventures' liabilities	(133.5)	(26.1)	-	(159.6)	-	-	(159.6)
Eliminations	133.5	26.1	-	159.6	-	-	159.6
	(575.3)	(281.1)	(64.0)	(920.4)	(17.4)	(276.3)	(1,214.1)
Gross debt							(654.2)
Consolidated total liabilities							(1,868.3)
Capital employed	1,585.1	495.6	57.5	2,138.2	7.8	(123.7)	2,022.3
Goodwill							363.9
Net debt							(456.9)
Net assets							1,929.3

Notes to the Consolidated Financial Statements for year to 31 December 2005

3. Business and geographical segments continued

2004	Housing United Kingdom 2004 £m	Housing North America 2004 £m	Housing Spain and Gibraltar 2004 £m	Housing Total 2004 £m	Property 2004 £m	Construction 2004 £m	Consolidated 2004 £m
Revenue:							
External sales	1,899.1	851.3	76.5	2,826.9	74.2	410.4	3,311.5
Inter-segment sales	-	-	-	-	-	134.9	134.9
Eliminations	-	-	-	-	-	(134.9)	(134.9)
Total revenue	1,899.1	851.3	76.5	2,826.9	74.2	410.4	3,311.5
Share of joint ventures' revenue	37.1	12.6	-	49.7	-	-	49.7
Group and share of joint ventures	1,936.2	863.9	76.5	2,876.6	74.2	410.4	3,361.2
Result:							
Profit before joint ventures and exceptional item*	294.2	120.1	20.1	434.4	26.7	178	478.9
Share of joint ventures' profit	6.9	7.5	-	14.4	-	-	14.4
Profit before exceptional item*	301.1	127.6	20.1	448.8	26.7	178	493.3
Exceptional item*	11.6	0.9	-	12.5	-	12.3	24.8
Profit	312.7	128.5	20.1	461.3	26.7	30.1	518.1
Share of joint ventures' interest and tax	(5.5)	(0.1)	-	(5.6)	-	-	(5.6)
Profit from operations	307.2	128.4	20.1	455.7	26.7	30.1	512.5
Interest receivable							6.3
Finance costs							(114.9)
Profit before tax							403.9
Tax							(123.0)
Profit for the year							280.9
*The exceptional item relates to the curtailment of pension liability as described in note 4.							
Other information:							
Property and plant additions	1.7	1.0	0.1	2.8	-	3.4	6.2
Depreciation - plant	2.0	0.8	0.3	3.1	-	3.6	6.7
Assets:							
Segment assets	1,998.6	517.8	81.1	2,597.5	159.4	121.9	2,878.8
Share of joint ventures' assets	147.7	49.2	-	196.9	-	0.1	197.0
Eliminations	(150.0)	(12.2)	-	(162.2)	-	(0.1)	(162.3)
	1,996.3	554.8	81.1	2,632.2	159.4	121.9	2,913.5
Goodwill							363.2
Cash and cash equivalents							114.9
Consolidated total assets							3,391.6

Notes to the Consolidated Financial Statements for year to 31 December 2005

3. Business and geographical segments continued

2004	Housing United Kingdom 2004 £m	Housing North America 2004 £m	Housing Spain and Gibraltar 2004 £m	Housing Total 2004 £m	Property 2004 £m	Construction 2004 £m	Consolidated 2004 £m
Liabilities:							
Segment liabilities	(513.9)	(238.9)	(38.0)	(790.8)	(17.3)	(226.0)	(1,034.1)
Share of joint ventures' liabilities	(150.0)	(12.2)	-	(162.2)	-	(0.1)	(162.3)
Eliminations	150.0	12.2	-	162.2	-	0.1	162.3
	(513.9)	(238.9)	(38.0)	(790.8)	(17.3)	(226.0)	(1,034.1)
Gross debt							(653.7)
Consolidated total liabilities							(1,687.8)
Capital employed	1,482.4	315.9	43.1	1,841.4	142.1	(104.1)	1,879.4
Goodwill							363.2
Net debt							(538.8)
Net assets							1,703.8

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 property division is located in the United Kingdom. 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	
	2005 £m	2004 £m
United Kingdom	2,248.4	2,336.5
North America	1,102.1	851.3
Rest of the world	126.4	123.7
	3,476.9	3,311.5

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	
	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	2,725.5	2,638.6	1.2	2.7
North America	902.2	633.2	1.4	1.0
Rest of the world	169.9	119.8	3.6	2.5
	3,797.6	3,391.6	6.2	6.2

Notes to the Consolidated Financial Statements for year to 31 December 2005

4. Profit from operations

	2005 £m	2004 £m
Profit from operations includes:		
Exceptional cost of sales credit	-	16.8
Exceptional administrative expenses credit	-	8.0
Total exceptional credit – curtailment of pensions liability	-	24.8
Profit on disposal of investment and other non-current property	3.1	15.0
Profit on disposal of investments	7.1	6.7
Profit on disposal of property and investments	10.2	21.7
Profit from operations has been arrived at after charging:		
Cost of inventories recognised as expense	3,109.1	2,286.5
Depreciation – plant	5.8	6.7
Minimum lease payments under operating leases recognised in income for the year	6.0	12.8
Auditors' remuneration for assurance services:		
Recurring – external audit	0.7	0.7
Non-recurring – IFRS restatement audit	0.1	-
Other assurance	0.1	0.1
Auditors' remuneration for other services:		
Tax services	0.8	0.5

The exceptional credit on the curtailment of pensions liability was principally in respect of the Group's United Kingdom defined benefit pension arrangements and arose because defined benefit pensions will no longer be linked to final salaries but instead to 2004 salaries increased by the lowest of annual salary increase, increase in the Retail Price Index or 5%.

Notes to the Consolidated Financial Statements for year to 31 December 2005

5. Staff costs

	2005 Number	2004 Number
Average number employed		
Housing United Kingdom	2,971	3,100
Housing North America	984	901
Housing Spain and Gibraltar	167	177
Property	4	24
Construction	4,006	3,422
	8,132	7,624
United Kingdom	4,472	4,701
Overseas	3,660	2,923
	8,132	7,624
	£m	£m
Remuneration		
Wages and salaries	225.9	211.1
Social security costs	21.7	20.1
Other pension costs/(credit) (2004: including exceptional credit of £24.8m – note 4)	15.7	(11.8)
	263.3	219.4

Notes to the Consolidated Financial Statements for year to 31 December 2005

6. Finance costs

	2005 £m	2004 £m
Interest on bank overdrafts and loans	20.6	31.5
Interest on debenture loans	42.1	33.5
5.09875% preference dividend	-	1.3
Interest on borrowings	62.7	66.3
Exceptional loss on repurchase of 9.5% first mortgage debenture stock 2014	-	41.1
Amortisation of discount on land creditors	5.4	3.2
Notional interest on pension liability (note 21)	4.2	4.3
	72.3	114.9

7. Tax

	2005 £m	2004 £m
Current tax:		
UK corporation tax: Current year	111.8	66.1
Prior year	(9.7)	1.8
Relief for foreign tax	(63.0)	(1.3)
Foreign tax: Current year	82.3	60.8
Prior year	14.2	(0.4)
	135.6	127.0
Deferred tax:		
UK: Current year	9.0	(1.3)
Prior year	1.2	0.5
Foreign: Current year	(7.3)	(4.7)
Prior year	(14.0)	1.5
	(11.1)	(4.0)
	124.5	123.0

Corporation tax is calculated at 30% (2004: 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax effect of the exceptional credit and charge in 2004 was 30% (note 9).

Deferred tax recognised in the Group statement of recognised income and expense is due to actuarial gains on post-retirement liability.

Notes to the Consolidated Financial Statements for year to 31 December 2005

7. Tax continued

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 £m	2004 £m
Profit before tax	411.0	403.9
Tax at the UK corporation tax rate of 30% (2004: 30%)	123.3	121.2
(Over)/underprovision in respect of prior years	(8.3)	3.4
Tax effect of share of results of joint ventures	(4.5)	(0.8)
Tax effect of expenses that are not deductible in determining taxable profit	12.0	4.8
Non taxable income	(18.0)	(3.3)
Net overseas income receivable	0.6	0.5
Effect of higher rates of tax of subsidiaries operating in other jurisdictions	20.5	6.1
Deferred tax release relating to sale of investment properties	-	(8.9)
Other	(1.1)	-
Tax expense for the year	124.5	123.0

8. Dividends

	2005 £m	2004 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2004 of 8.1p (2003: 6.5p) per share.	45.5	37.4
Interim dividend for the year ended 31 December 2005 of 4.5p (2004: 3.0p) per share.	25.8	16.5
	71.3	53.9
Proposed final dividend for the year ended 31 December 2005 of 8.9p (2004: 8.1p) per share.	52.7	45.5

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.

Notes to the Consolidated Financial Statements for year to 31 December 2005

9. Earnings per share

From continuing operations

	2005	2004
Earnings per share		
From continuing operations		
Basic	50.6p	49.1p
Diluted	49.8p	48.8p
Adjusted basic	50.6p	51.1p
Adjusted diluted	49.8p	50.8p

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

	2005 £m	2004 £m
Earnings:		
Earnings for basic earnings per share and diluted earnings per share	285.7	280.3
Add/(less): Exceptional items (notes 4 and 6)	-	(24.8)
Curtailment of pensions liability	-	41.1
Loss on repurchase of debt	-	(4.9)
Less: Tax effect of exceptional items	-	
Earnings for adjusted basic and adjusted diluted earnings per share	285.7	291.7

	2005 m	2004 m
Weighted average number of shares:		
For basic and adjusted basic earnings per share	564.6	570.4
Weighted average of dilutive options	7.8	3.1
Weighted average of dilutive awards under bonus plans	1.1	1.0
For diluted and adjusted diluted earnings per share	573.5	574.5

Adjusted earnings per share has been shown as a note to disclose the impact of the identified exceptional items on earnings.

10. Goodwill

	£m
Cost and carrying amount	
At 1 January 2004	356.7
Changes in exchange rates	(0.4)
Additions in year	6.9
At 31 December 2004	363.2
Changes in exchange rates	0.7
At 31 December 2005	363.9

Goodwill of £357.5m (2004: £357.5m) is allocated to the UK housing business. The recoverable amount in respect of UK housing has been determined on the basis of the current business plan which extends for 6 years.

Key assumptions are:

- (i) Gross margins are consistent with latest forecasts
- (ii) Overhead reductions commensurate with the scale of the remaining business
- (iii) Discount rate of 7.8% based on the Group's weighted average cost of capital.

The fair value of the net assets acquired in the acquisition of Wilson Connolly Holdings Plc in 2003 was revised in 2004 from £369.0m to £362.1m. This comprised of a reduction in the fair value of tangible assets by £1.5m, a reduction in the fair value of stocks by £5.1m and an increase in other provisions of £0.3m. Hence goodwill on acquisition increased by £6.9m from £131.0m to £137.9m.

Notes to the Consolidated Financial Statements for year to 31 December 2005

11. Property and plant

	Freehold land and buildings £m	Plant £m	Total £m
Cost or valuation			
At 1 January 2004	9.8	68.2	78.0
Changes in exchange rates	-	(0.3)	(0.3)
Additions	-	6.2	6.2
Disposals	(2.3)	(18.4)	(20.7)
At 31 December 2004	7.5	55.7	63.2
Changes in exchange rates	-	0.5	0.5
Additions	-	6.2	6.2
Disposals	(0.3)	(2.8)	(3.1)
At 31 December 2005	7.2	59.6	66.8
Comprising:			
Properties valued			
Cost	9.3	-	9.3
Net deficit	(2.1)	-	(2.1)
Valuation in 2003	7.2	-	7.2
Others not valued - cost	-	59.6	59.6
	7.2	59.6	66.8
Accumulated depreciation			
At 1 January 2004	-	47.8	47.8
Changes in exchange rates	-	(0.2)	(0.2)
Disposals	-	(15.3)	(15.3)
Charge for the year	-	6.7	6.7
At 31 December 2004	-	39.0	39.0
Changes in exchange rates	-	0.3	0.3
Disposals	-	(2.7)	(2.7)
Charge for the year	-	5.8	5.8
At 31 December 2005	-	42.4	42.4
Carrying amount			
At 31 December 2005	7.2	17.2	24.4
At 31 December 2004	7.5	16.7	24.2

The fixed asset properties of the Group were valued as at 31 December 2003 by Knight Frank LLP, independent valuers not connected with the Group, on a fair value basis in accordance with International Valuation Standards, and that valuation, as adjusted for disposals, amounted to £7.2m.

The net deficit on revaluation includes a surplus disclosed in note 25. The revaluation surplus arises in a subsidiary and cannot be distributed to the parent due to legal restrictions in the United Kingdom.

Notes to the Consolidated Financial Statements for year to 31 December 2005

12. Investment property

	Freehold £m	Long Leasehold £m	Total £m
Fair value			
At 1 January 2004	145.8	14.4	160.2
Disposals in 2004	(145.8)	(14.4)	(160.2)
At 31 December 2004 and 31 December 2005	-	-	-

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £nil (2004: £6.2million). Direct operating expenses arising on the investment property in the year amounted to £nil (2004: £1.1million).

13. Interests in joint ventures

	2005 £m	2004 £m
Aggregated amounts relating to share of joint ventures		
Total assets	189.6	193.2
Total liabilities	(159.6)	(158.5)
Carrying amount	30.0	34.7
Loans	62.1	52.3
Total interests in joint ventures	92.1	87.0
 Revenues	 79.5	 49.7
Profit after interest and tax	15.0	8.8

Particulars of significant joint ventures are as follows:

Country of incorporation	Name of joint venture equity accounted in the consolidated financial statements (*Interests held by subsidiary undertakings)	Taylor Woodrow plc interest in the issued ordinary share capital
Great Britain	Circadian Limited*	50%
	Circadian (CH) Limited*	50%
	Greenwich Millennium Village Limited*	50%
	North Central Management Holdings Limited*	50%
USA	Taylor Woodrow Communities/Steiner Ranch Limited*	75%
	Olsen Holdings LLC*	58%

Notes to the Consolidated Financial Statements for year to 31 December 2005

14. 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	Retirement benefit obligations £m	Total £m
At 1 January 2004	(8.0)	17.8	55.8	65.6
Changes in exchange rates	-	0.1	-	0.1
Credit/(charge) to income	9.1	2.2	(7.3)	4.0
Charge to equity	-	(0.4)	(5.0)	(5.4)
At 31 December 2004	1.1	19.7	43.5	64.3
Changes in exchange rates	-	1.7	-	1.7
Charge to income	0.4	9.7	1.0	11.1
Charge to equity	-	1.2	22.0	23.2
At 31 December 2005	1.5	32.3	66.5	100.3

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

	2005 £m	2004 £m
Deferred tax assets	101.2	71.1
Deferred tax liabilities	(0.9)	(6.8)
	100.3	64.3

At the balance sheet date the Group has unused UK capital losses of £163.4m (2004: £163.4m), of which £61.7m 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.

15. Inventories

	2005 £m	2004 £m
Raw materials and consumables	2.6	3.2
Finished goods and goods for resale	66.8	85.7
Residential developments		
Land (note 20)	1,683.7	1,415.5
Development and construction costs	899.0	751.0
Commercial, industrial and mixed development properties	47.5	166.8
	2,699.6	2,422.2

Notes to the Consolidated Financial Statements for year to 31 December 2005

16. Other financial assets

Trade and other receivables

	2005 £m	2004 £m
Trade receivables	82.2	79.4
Amounts recoverable on contracts	51.8	47.3
Joint ventures	31.5	38.6
Other receivables	135.8	117.2
	301.3	282.5

The average credit period taken on sales is 8 days (2004: 9 days). An allowance has been made for estimated irrecoverable amounts from trade receivables and amounts recoverable on contracts of £2.7m (2004: £2.9m). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Cash and cash equivalents

This comprises of 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.

Credit risk

The Group's principal financial assets are bank balances and cash and, trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds and derivative financial instruments is governed by Group policy that specifies the minimum credit rating, maximum exposure and maximum tenor.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

17. Bank overdrafts and loans

	2005 £m	2004 £m
Bank overdrafts repayable on demand	2.9	5.2
Bank loans	6.8	11.6
	9.7	16.8
Bank loans are repayable as follows:		
Within one year	6.1	11.3
In more than one year but not more than two years	0.7	-
In more than two years but not more than five years	-	0.3
	6.8	11.6
Less amounts due for settlement within 12 months	(6.1)	(11.3)
Amount due for settlement after 12 months	0.7	0.3

Notes to the Consolidated Financial Statements for year to 31 December 2005

17. Bank overdrafts and loans continued

	Bank overdraft £m	Bank loans £m
<i>Analysis of borrowings by currency:</i>		
31 December 2005		
Sterling	2.9	-
Canadian dollars	-	1.5
Others	-	5.3
	2.9	6.8
31 December 2004		
Sterling	5.2	-
Canadian dollars	-	7.8
Others	-	3.8
	5.2	11.6

Bank borrowings are arranged at floating rates of interest, from 1.85% to 21.5% (2004: 4.35% to 25.49%), thus exposing the Group to cash flow interest rate risk (see Operating Performance Review on pages 11 to 25).

Secured bank loans and overdrafts totalled £6.8m (2004: £11.6m). Secured bank loans and overdrafts are secured on certain fixed asset properties and land.

The directors estimate the fair value of the Group's bank borrowings to be equivalent to its book value.

At 31 December 2005, the Group had available £685.0m (2004: £800m) of undrawn committed revolving credit.

18. Debenture loans

	2005 Book value £m	2005 Fair value £m	2004 Book value £m	2004 Fair value £m
Floating rate notes 2006 – unsecured	1.6	1.6	10.2	10.2
6.59% US \$81m notes 2008 – unsecured	47.1	49.8	42.2	44.4
7.333% debentures 2008 unsecured	-	-	7.2	7.5
Floating rate notes 2008 – unsecured	2.6	2.6	3.8	3.8
6.625% £250m guaranteed bonds 2012 – unsecured	247.0	267.9	244.5	257.5
5.53% US \$75m notes 2011 – unsecured	43.5	43.2	38.9	39.8
6.03% US \$175m notes 2014 – unsecured	101.4	101.7	90.7	94.2
6.375% £200m bonds 2019 – unsecured	197.1	218.5	196.9	208.6
Other secured loans	4.2	4.5	2.5	2.8
	644.5	689.8	636.9	668.8
			2005 £m	2004 £m
Repayable				
In more than one year but not more than two years			0.5	2.3
In more than two years but not more than five years			48.5	47.4
In more than five years – installment loans			-	-
– other			589.0	571.0
Total falling due in more than one year			638.0	620.7
Within one year or on demand			6.5	16.2
			644.5	636.9

Notes to the Consolidated Financial Statements for year to 31 December 2005

18. Debenture loans continued

Interest rates and currencies of debenture loans:

	Floating rate £m	Fixed rate £m	Weighted average interest rate %	Fixed rate debt Weighted average time until maturity years
31 December 2005				
Sterling	4.2	444.1	6.5	9.4
US dollars	-	192.0	6.2	6.3
Canadian dollars	1.8	2.4	11.4	2.1
	6.0	638.5	6.4	8.5
31 December 2004				
Sterling	14.0	441.4	6.6	10.4
US dollars	-	171.8	5.9	7.3
Canadian dollars	-	9.7	8.4	2.3
	14.0	622.9	6.4	9.4

Interest on debenture loans of £100m (2004: £100m) has been swapped from 6.625% to floating rates based on US\$ LIBOR applicable to periods of three months. The table above does not reflect the impact of these swaps.

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

19. Derivative financial instruments

The Group has the following derivatives at 31 December 2005:

- Forward contracts to hedge intra-Group loans of US\$ nil (2004: US\$79m) to Canadian dollars, US\$96.4m (2004: US\$110m) to sterling and Euros 6.0m (2004: Euros nil) to sterling.
- Currency swaps relating to part of its 6.625% bonds 2012 which have swapped £100m into US\$160.5m to hedge part of its investment in the United States of America and the interest on this has been swapped from 6.625% to floating rates based on US\$ LIBOR applicable to periods of three months.
- A currency swap relating to the 7.04% loan notes 2008 acquired with Bryant Group plc in 2001. These notes were issued by way of a US\$81m 6.59% fixed rate US private placement. The dollar proceeds were swapped into £49.5m at a fixed rate of interest of 7.04%.
- A five year collar to December 2007, acquired with Wilson Connolly in 2003, limiting the three month LIBOR interest rate to between 3.99% and 6.5% on £30m.
- A ten year interest swap to December 2012, acquired with Wilson Connolly in 2003, on £35m from floating rate to a fixed interest rate of 5.8%.

At 31 December 2005, the fair value of the Group's derivatives is a net debtor of £1.6m (2004: £5.7m). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £6.7m (2004: £15.2m) assets included in trade and other receivables and £5.1m (2004: £9.5m) liabilities included in trade and other payables. The fair value of derivatives that are designated and effective as net investment hedges amounting to £7.2m (2004: £17.8 m) has been deferred in equity. Changes in the fair value of non-hedging currency derivatives amounting to £0.5m have been charged to income in the year (2004: £1.0m).

Notes to the Consolidated Financial Statements for year to 31 December 2005

20. Other financial liabilities

Trade and other payables

	Current 2005 £m	2004 £m	Non-current 2005 £m	2004 £m
Trade payables	435.6	383.4	58.0	61.7
Payments received on account	114.9	116.7	17.6	9.7
Joint ventures	0.4	0.5	-	-
Currency and interest rate derivatives	5.1	9.5	-	-
Other payables	266.1	199.6	0.6	2.2
	822.1	709.7	76.2	73.6

Trade payable days were 31 days (2004: 39 days), based on the ratio of year end trade payables (excluding subcontract retentions and unagreed claims of £12.9m (2004: £13.2m) and land creditors) to amounts invoiced during the year by trade creditors.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Land creditors, included within trade payables, of £241.9m (2004: £149.9m) are secured against land acquired for development. Land creditors are due as follows:

	2005 £m	2004 £m
Due within one year	183.9	88.2
Due in more than one year but not more than two years	34.0	43.2
Due in more than two years but not more than five years	23.4	18.4
Due in more than five years	0.6	0.1
	241.9	149.9
Current liability	183.9	88.2
Non-current liability	58.0	61.7
	241.9	149.9

Land creditors are denominated as follows:

	2005 £m	2004 £m
Sterling	188.8	116.0
US dollar	4.3	8.7
Canadian dollar	12.7	16.3
Euros	36.1	8.9
	241.9	149.9

Notes to the Consolidated Financial Statements for year to 31 December 2005

21. Retirement benefit schemes

Retirement benefit obligation comprises gross pension liability of £219.8m (2004: £142.5m) and gross post-retirement health care liability of £2.7m (2004: £3.8m).

The Group operates Defined Benefit and Defined Contribution pension schemes. In the UK, the Taylor Woodrow Group Pension and Life Assurance Fund (TWGP&LAF) and the Taylor Woodrow NHS Pension Scheme (TWNHSPS) are funded Defined Benefit schemes providing pensions related to pay at retirement. 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. The schemes are managed by trustees. All scheme assets are held separately from the Group. With the exception of the TWNHSPS the Defined Benefit schemes are closed to new entrants. An alternative Defined Contribution arrangement, the Taylor Woodrow Personal Choice Plan, is offered to new employees. Contributions of £6.9m (2004: £3.1m) were charged to income in respect of defined contribution schemes. The Group also operates a number of overseas pension schemes of the defined benefit type.

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 has now completed his initial valuation with an effective date of 31 December 2003. The projected unit method was used in all valuations and assets were taken into account using market values.

The main financial assumptions, which are all relative to the inflation assumption, are as set out below:

Assumptions	TWGP&LAF	TWNHSPS
Inflation	2.5% pa	2.5% pa
Investment return – pre/post retirement	5.0/3.0% pa	3.0/3.0% pa
General pay inflation	0% pa	1.0% pa
Pension increases	0% pa	0% pa
Valuation results	TWGP&LAF	TWNHSPS
Market value of assets	£563.3m	£0.05m
Past service liabilities	£627.9m	£0.09m
Scheme funding levels	90%	58%

The actuaries to each scheme calculated the long-term funding rates to be 16.0% (TWGP&LAF) and 18%pa (TWNHSPS) of each scheme's respective pensionable salary roll.

The funding policy of the Trustees is to maintain a stable contribution rate with a funding level in excess of 100%.

The valuations of the Group's pension schemes have been updated to 31 December 2005 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 2005	2004	North America 2005	2004
As at 31 December				
Discount rate for scheme liabilities	4.75%	5.3%	5.0-5.4%	5.9-6.0%
Expected return on scheme assets	5.8%	5.8%	6.6%	5.7%
General pay inflation	2.6%	2.5%	3.5-4.0%	4.0-4.5%
Pension increases	2.6%	2.5%	0.0-3.0%	0.0-3.0%

The above annual 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. The key change in assumptions in the year relates to future bond yields.

Notes to the Consolidated Financial Statements for year to 31 December 2005

21. Retirement benefit schemes continued

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

	Expected rate of return % pa	United Kingdom £m	North America £m	Total plans £m	Percentage of total plan assets held
31 December 2005					
Assets:					
Equities	6.2	322.0	9.9	331.9	47.0%
Bonds/Gilts	3.7/4.35	349.4	5.7	355.1	50.3%
Other assets	4.35	13.7	5.4	19.1	2.7%
		685.1	21.0	706.1	100.0%
Present value of defined benefit obligations		(903.1)	(22.8)	(925.9)	
Deficit in schemes recognised as non-current liability		(218.0)	(1.8)	(219.8)	
	Expected rate of return % pa	United Kingdom £m	North America £m	Total plans £m	Percentage of total plan assets held
31 December 2004					
Assets:					
Equities	6.6	381.1	10.8	391.9	62.5%
Bonds/Gilts	4.1/4.9	228.9	6.2	235.1	37.5%
		610.0	17.0	627.0	100.0%
Present value of defined benefit obligations		(751.7)	(17.8)	(769.5)	
Deficit in schemes recognised as non-current liability		(141.7)	(0.8)	(142.5)	

To develop the expected long term rate of return on assets assumption, the Group considered the current level of expected returns on risk for 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. The expected return for 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.

	2005 £m	2004 £m
Amount (charged against)/credited to income:		
Current service cost	(8.8)	(9.9)
Exceptional credit – curtailment of pensions liability (note 4)	-	24.8
Opening (cost)/credit	(8.8)	14.9
Expected return on scheme assets	36.2	36.7
Interest cost on scheme liabilities	(40.4)	(41.0)
Finance charges	(4.2)	(4.3)
	(13.0)	10.6

Of the (charge)/credit for the year, £0.4m (2004: £10.4m) has been included in cost of sales and £8.4m (2004: £4.5m) has been included in administrative expenses. The actual return on scheme assets was £97.6m (2004: £58.8m).

	2005 £m	2004 £m
Actuarial (losses)/gains in the statement of recognised income and expenses:		
Difference between actual and expected return on scheme assets	61.4	22.1
Experience losses arising on scheme liabilities	(32.6)	(21.5)
Changes in assumptions	(102.1)	15.0
	(73.3)	15.6

Notes to the Consolidated Financial Statements for year to 31 December 2005

21. Retirement benefit schemes continued

	2005 £m	2004 £m
Movement in present value of defined benefit obligations		
1 January	769.5	764.7
Changes in exchange rates	2.6	-
Service cost	8.8	9.9
Curtailment gain	-	(24.8)
Benefits paid	(32.8)	(30.8)
Contributions	2.7	3.0
Interest cost	40.4	41.0
Actuarial gains and losses	134.7	6.5
31 December	925.9	769.5

	2005 £m	2004 £m
Movement in fair value of scheme assets		
1 January	627.0	581.6
Changes in exchange rates	2.5	-
Expected return on scheme assets	36.2	36.7
Contributions	11.8	17.4
Benefits paid	(32.8)	(30.8)
Actuarial gains and losses	61.4	22.1
31 December	706.1	627.0

	2005 £m	2004 £m	2003 £m	2002 £m
History of experience gains and losses:				
Fair value of scheme assets	706.1	627.0	581.6	482.1
Present value of defined benefit obligations	(925.9)	(769.5)	(764.7)	(645.1)
Deficit in the scheme	(219.8)	(142.5)	(183.1)	(163.0)
Difference between actual and expected return on scheme assets				
Amount	61.4	22.0	44.9	(78.1)
Percentage of scheme assets	9%	4%	8%	16%
Experience adjustments on scheme liabilities				
Amount	(32.6)	(6.5)	(43.6)	(69.1)
Percentage of scheme liabilities	4%	0.8%	5.7%	11%

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £8.4m.

The gross post-retirement liability also includes £2.7m at 31 December 2005 (2004: £3.8m) 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 2005. The cost is calculated assuming a discount rate of 5% per annum and an increase in medical expenses of 12.2% per annum. The premium cost to the Group in respect of retired long service employees for 2005 was £0.2m (2004: £0.2m).

Notes to the Consolidated Financial Statements for year to 31 December 2005

22. Long-term provisions

	Housing Maintenance £m
At 1 January 2004	31.8
Changes in exchange rates	(0.7)
Additional provision in the year	39.6
Utilisation of provision	(40.8)
At 31 December 2004	29.9
Changes in exchange rates	1.3
Additional provision in the year	30.7
Utilisation of provision	(31.1)
At 31 December 2005	30.8

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.

23. Share capital

	2005 £m	2004 £m
Authorised:		
780,000,000 (2004: 780,000,000) ordinary shares of 25p each	195.0	195.0
	Number of shares	£m
Issued and fully paid:		
1 January 2004	584,188,384	146.1
Options exercised	2,108,373	0.5
Share Purchase Plan	267,270	0.1
Long service awards	9,226	-
31 December 2004	586,573,253	146.7
Options exercised	5,120,487	1.3
Share Purchase Plan	160,298	-
US Employee Stock Purchase Plan	36,699	-
Long service awards	647	-
31 December 2005	591,891,384	148.0

During the year, options were exercised on 8,993,562 ordinary shares at varying prices from 90.88p to 246.5p and that number of shares was issued for a total consideration of £1.5m. Additionally 647 ordinary shares with fair values of 300.0p to 339.5p were issued and awarded to employees for twenty-five or forty years' long service totalling £0.0m.

Under the Group's senior executives' share option scheme and executive share option plan, employees held options at 31 December 2005 to purchase 9,248,375 shares (2004: 17,164,564) at prices between 149.0p and 252.75p per share exercisable up to 8 October 2013. Under the Group's savings related share option schemes, employees held options at 31 December 2005 to purchase 6,031,457 shares (2004: 6,908,480) at prices between 90.88p and 261.0p per share exercisable up to 31 May 2011. Under the Group's cash bonus deferral plan and executive bonus plan, employees held options at 31 December 2005 in respect of 1,512,848 shares (2004: 1,293,849) 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 2005 in respect of 5,404,999 shares (2004: 3,207,284) at nil p per share exercisable up to 9 May 2008. Under the Group's share purchase plan employees held conditional awards at 31 December 2005 in respect of 446,651 shares (2004: nil) at nil p per share.

Notes to the Consolidated Financial Statements for year to 31 December 2005

24. Share premium account

	Share premium £m
Balance at 1 January 2004	655.7
Amortisation of debt transferred from retained earnings	(0.7)
Premium on ordinary shares issued during the year less expenses of issues	3.1
Redemption of preference shares	90.0
Balance at 31 December 2004	748.1
Transfer from own shares	0.3
Amortisation of debt transferred from retained earnings	(0.7)
Premium on ordinary shares issued during the year less expenses of issues	8.5
Balance at 31 December 2005	756.2

25. Revaluation reserve

	Properties revaluation reserve £m
Balance at 1 January 2004	0.7
Transfer to retained earnings	-
Balance at 31 December 2004	0.7
Transfer to retained earnings	(0.2)
Balance at 31 December 2005	0.5

The revaluation reserve is not a distributable reserve until realised.

26. Own shares

	Own shares £m
Balance at 1 January 2004	14.1
Acquired in the year	46.9
Disposed of on exercise of options	(3.2)
Balance at 31 December 2004	57.8
Transfer to retained earnings	4.4
Transfer to share premium account	0.3
Disposed of on exercise of options	(7.3)
Charge to income	(1.3)
Balance at 31 December 2005	53.9

The own shares reserve represents the cost of shares in Taylor Woodrow plc purchased in the market and held by the Taylor Woodrow plc Employee Benefit Trust to satisfy options under the Group's share options schemes. At 31 December 2004 own shares reserve included the share-based payment reserve of £4.4m, this has been transferred to retained earnings.

	2005 Number	2004 Number
<i>These comprise ordinary shares of the company:</i>		
Treasury shares	17.6m	19.4m
Shares held in trust for bonus, option and performance award plans	4.4m	6.6m
	22.0m	26.0m

Notes to the Consolidated Financial Statements for year to 31 December 2005

27. Share-based payment tax reserve

	Share-based payment tax reserve £m
Balance at 1 January 2004	3.2
Reduction for the year	(0.4)
Balance at 31 December 2004	2.8
Increase for the year	1.2
Balance at 31 December 2005	4.0

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.

28. Capital redemption reserve

	Capital redemption reserve £m
Balance at 1 January 2004	21.5
Redemption of preference shares	10.0
Balance at 31 December 2004	31.5
Balance at 31 December 2005	31.5

29. Translation reserve

	Translation reserve £m
Balance at 1 January 2004	-
Exchange differences on translation of overseas operations	(15.0)
Increase in fair value of hedging derivatives	7.1
Transfer to income	1.4
Balance at 31 December 2004	(6.5)
Exchange differences on translation of overseas operations	46.8
Decrease in fair value of hedging derivatives	(10.4)
Balance at 31 December 2005	29.9

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.

Notes to the Consolidated Financial Statements for year to 31 December 2005

30. Retained earnings

	Retained earnings £m
Balance at 1 January 2004	694.8
Dividends paid	(53.9)
Redemption of preference shares	(100.0)
Transfers to share premium account	0.7
Actuarial gains net of deferred tax	10.6
Net profit for the year	280.3
Balance at 31 December 2004	832.5
Dividends paid	(71.3)
Transfers to share premium account	0.7
Transfers from revaluation reserve	0.2
Share based payment credit	5.9
Transfers from own shares	4.4
Actuarial losses net of deferred tax	(51.3)
Net profit for the year	285.7
Balance at 31 December 2005	1,006.8

31. Notes to the cash flow statement

	2005 £m	2004 £m
Profit from operations	475.0	512.5
Adjustments for:		
Exchange adjustments	-	6.3
Depreciation of plant	5.8	6.7
Share based payment charge	5.9	-
Gain on disposal of property and plant	(10.2)	(21.7)
Share of results of joint ventures	(15.0)	(8.8)
Decrease in provisions	(0.4)	(1.6)
Operating cash flows before movements in working capital	461.1	493.4
Increase in inventories	(204.9)	(12.2)
(Increase)/decrease in receivables	(9.1)	42.1
Increase/(decrease) in payables	112.6	(112.8)
Cash generated by operations	359.7	410.5
Income taxes paid	(153.7)	(98.4)
Interest paid	(75.8)	(114.0)
Net cash from operating activities	130.2	198.1

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 a maturity of three months or less.

	2005 £m	2004 £m
Net debt		
Cash and cash equivalents	197.3	114.9
Bank overdrafts and bank loans	(9.7)	(16.8)
Debenture loans	(644.5)	(636.9)
Net debt	(456.9)	(538.8)

Notes to the Consolidated Financial Statements for year to 31 December 2005

32. Contingent liabilities

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 known legal claims and 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.

33. 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:

	2005 £m	2004 £m
Within one year	14.0	12.0
In more than one year but not more than five years	32.9	33.5
After five years	31.9	38.2
	78.8	83.7

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:

	2005 £m	2004 £m
Within one year	0.8	1.6
In more than one year but not more than five years	3.0	5.5
After five years	2.3	7.6
	6.1	14.7

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

34. 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 39 and 40.

	Options	2005 Weighted average exercise price (in £)	Options	2004 Weighted average exercise price (in £)
Outstanding at beginning of period	28,574,177	1.63	28,573,461	1.78
Granted during the period	4,655,232	0.62	6,134,206	0.80
Lapsed during the period	(1,591,517)	(1.37)	(1,780,344)	(1.45)
Exercised during the period	(8,993,562)	(1.67)	(4,353,146)	(1.48)
Outstanding at the end of the period	22,644,330	1.42	28,574,177	1.63
Exercisable at the end of the period	3,269,283	1.51	4,458,477	1.53

Notes to the Consolidated Financial Statements for year to 31 December 2005

34. Share based payments continued

The weighted average share price at the date of exercise for share options exercised during the period was £3.17 (2004: £2.61). The options outstanding at 31 December 2005 had a range of exercise prices from £nil to £2.61 (2004: £nil to £2.5275) and a weighted average remaining contractual life of 4.9 years (2004: 6.3 years).

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:

	2005	2004
Weighted average share price	£3.11	£2.15
Weighted average exercise price	£0.68	£0.68
Expected volatility	32.4% - 32.9%	32.4% - 33.6%
Expected life	3/5 years	3/5 years
Risk-free rate	4.33% - 4.36%	4.76% - 4.82%
Expected dividend yield	3.6% - 3.8%	3.4% - 3.5%

The weighed average fair value of share options granted during the year is £2.29 (2004: £1.95).

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:

	2005	2004
Weighted average share price	£3.19	-
Weighted average exercise price	£nil	-
Expected volatility	26% - 30%	-
Expected life	3 years	-
Risk-free rate	4.2%	-
Expected dividend yield	3.6%	-

The weighted average fair value of share options granted during the year is £1.75 (2004: £nil)

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 £5.9m and £3.4m related to equity-settled share-based payment transactions in 2005 and 2004 respectively.

35. 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 £7.3m (2004: £6.6m). Purchases were based on open market values.

Remuneration of key management personnel

Details of the remuneration of the directors, who are the key management personnel of the Group, are contained in the audited part of the Remuneration Report on pages 43 to 46 and form part of these financial statements.

Notes to the Consolidated Financial Statements for year to 31 December 2005

36. Explanation of transition to IFRS

The disclosures concerning the transition from UK GAAP to IFRS, namely the reconciliations of equity at 1 January 2004 and at 31 December 2004 and the reconciliations of profit and cash flow for 2004, were published on the Group's website, www.taylorwoodrow.com on 6 September 2005. These provide details of all adjustments on a line by line basis.

	2004 £m	2003 £m
Reconciliation of equity		
Total equity as previously reported under UK GAAP at 31 December	1,638.8	1,577.0
Proposed dividend (IAS 10)	45.5	37.4
Goodwill not amortised (IFRS 3)	20.4	-
Share-based payment tax reserve (IAS 12)	2.8	3.2
Asset valuation rules (IAS 19)	(1.2)	(1.2)
Financial instruments (IAS 32/39)	1.8	1.4
Discounting of land creditors (IAS 32/39)	(4.3)	(2.9)
Preference shares to debt (IAS 32/39)	-	(101.1)
Total equity as restated under IFRS at 31 December	1,703.8	1,513.8
Reconciliation of retained profit for 2004		
Profit for the financial year as previously reported under UK GAAP		264.8
Goodwill not amortised (IFRS 3)		20.4
Translation realised (IAS 21)		(1.4)
Asset valuation rules (IAS 19)		(0.1)
Financial instruments (IAS 32/39)		(0.7)
Discounting of land creditors (IAS 32/39)		(1.4)
Preference shares to debt (IAS 32/39)		(1.3)
Retained profit for the year as restated under IFRS		280.3

IAS 10 Events After the Balance Sheet Date

IAS 10 provides that any dividends declared after the year end represent a non-adjusting post balance sheet event and therefore no liability should be recognised. In accordance with this provision Taylor Woodrow has decreased its current liabilities at the year end for dividends declared after the year end.

IFRS 3 Business combinations

This standard requires goodwill to be carried at cost with impairment reviews carried out both annually and when there are indications that the carrying value may not be recoverable. Under the transitional arrangements set out in IFRS 1 Taylor Woodrow has applied IFRS 3 prospectively from the transition date. The net carrying value of goodwill as at 31 December 2003 has therefore been brought forward as cost at 1 January 2004 with no amortisation charge from this date.

IAS 21 The effects of changes in foreign exchange rates

On the disposal of a foreign operation or part thereof, the cumulative amount of the exchange differences deferred in translation reserve relating to that foreign operation are now recognised in profit or loss when the gain or loss on disposal is recognised. Previously, exchange differences on share capital, revaluation reserve, pre-acquisition retained profit and loss account, inter-company long-term loans and foreign currency borrowings, to the extent they hedged the Group's investment in overseas operations, were taken to revaluation reserve and transferred directly to profit and loss account reserve on disposal; exchange differences on post-acquisition profit and loss account were previously taken to and remained in profit and loss account reserve.

Notes to the Consolidated Financial Statements for year to 31 December 2005

36. Explanation of transition to IFRS continued

IAS 12 Income Taxes

IAS 12 requires separate disclosure of deferred tax asset from its associated pension deficit on the balance sheet. The impact has therefore been to reclassify the deferred tax asset in respect of retirement benefit obligations that had previously been used to reduce this provision.

IAS 19 Employee Benefits

Defined benefit pension scheme assets are required to be valued at bid prices rather than mid-market prices.

IAS 32 & IAS 39 Financial Instruments

IAS 39 requires derivative financial instruments to be disclosed separately at fair value, the movement of which is taken to profit or loss, and the loans related to them to be disclosed separately on the basis of their original currency at amortised cost. Previously such loans were stated using the currency into which they had been swapped by the derivatives and the derivatives were not themselves included on the balance sheet. In addition, land payables are now discounted and the discount amortised to finance costs over the period of liability.

In accordance with IAS 32, preference shares were reclassified and disclosed as financial liabilities.

Material adjustments to the cash flow statement for 2004

Cash flows under IFRS include those in respect of cash equivalents. An adjustment was therefore made to include the cash flows in respect of cash held on deposit for the purpose of meeting short-term cash commitments.

Cash flows arising from taxes on income were reclassified as cash flows from operating activities, as it was not possible to identify elements associated with financing and investing activities.

Cash flows arising from interest payments were reclassified as cash flows from operating activities on the basis that they enter into the determination of profit.

Under IAS 31 an entity must account for joint ventures using either proportional consolidation or equity method accounting. The policy adopted is applied to all joint ventures. Taylor Woodrow has chosen to adopt the policy of equity method accounting in respect of its joint ventures. Under UK GAAP joint arrangements for certain housing and property developments were not considered entities and were proportionally consolidated. An adjustment was therefore made to reverse the cash flows associated with joint ventures that were previously proportionally consolidated.

37. Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7 Financial Instruments: Disclosures, and the related amendment to IAS 1 on capital disclosures.

IFRIC 4 Determining whether an Arrangement contains a Lease.

IFRIC 8 Scope of IFRS 2

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on financial instruments when the relevant standard comes into effect for periods commencing on or after 1 January 2007.

Independent Auditors' Report to the members of Taylor Woodrow plc

We have audited the individual company financial statements (the 'financial statements') of Taylor Woodrow plc for the year ended 31 December 2005 which comprise the balance sheet, the statement of accounting policies and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Taylor Woodrow plc for the year ended 31 December 2005.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the individual company financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

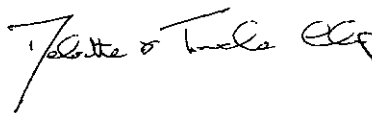
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

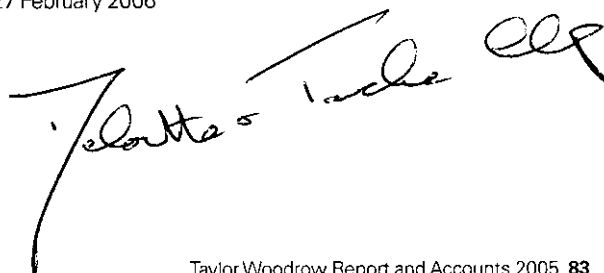
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005;
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
27 February 2006



Accounting Policies

The following accounting policies have been used consistently, unless otherwise stated, in dealing with items which are considered material.

Basis of preparation

The Companies Act financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention. As permitted by the Companies Act 1985 the company has not presented its own profit and loss account.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that its consolidated financial statements, which include the company, are publicly available.

Note 21, on pages 72 to 74, and note 34, on pages 79 and 80, to the Taylor Woodrow plc consolidated financial statements form part of these financial statements.

The principal accounting policies adopted are set out below.

Group undertakings

Investments are included in the balance sheet at cost less any provision for permanent diminution in value.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Overseas currencies

Transactions denominated in foreign currencies are recorded in sterling at actual rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account. Unrealised exchange differences on inter-company long term loans and foreign currency borrowings, to the extent that they hedge the company's investment in overseas investments, are taken to translation reserve.

Derivative financial instruments and hedge accounting

The company uses foreign currency borrowings and currency swaps to hedge its investment in overseas investments. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of investment in overseas operations are recognised directly in reserves and the ineffective portion, if any, is recognised immediately in the profit and loss account.

The hedged items are adjusted for changes in exchange rates, with gains or losses from re-measuring the carrying amount being recognised directly in reserves.

Share-based payments

The company has applied the requirements of FRS 20 'Share-based payments'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The company issues equity-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 estimate of shares that will eventually vest.

Employee benefits

The company accounts for pensions and similar benefits under FRS 17 'Retirement 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 consolidated 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 consolidated statement of recognised income and expense.

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

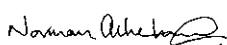
Own shares

The cost of the company's investment in its own shares, which comprise shares held in treasury by the company and shares held by employee benefit trusts for the purpose of funding certain of the company's share option plans, is shown as a reduction in shareholders' funds.

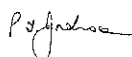
Company Balance Sheet at 31 December 2005

	Note	2005 £m	2004 As restated (note 1) £m
Fixed assets			
Group undertakings	4	1,671.7	1,431.2
		1,671.7	1,431.2
Current assets			
Debtors	5	860.6	882.3
Cash at bank and in hand		34.1	-
		894.7	882.3
Creditors: amounts falling due within one year	6	(581.0)	(446.8)
Net current assets		313.7	435.5
Total assets less current liabilities		1,985.4	1,866.7
Creditors: amounts falling due after one year	7	(589.0)	(571.0)
Net assets		1,396.4	1,295.7
Capital and reserves			
Called up share capital	10	148.0	146.7
Share premium account	11	756.2	748.1
Capital redemption reserve	12	31.5	31.5
Translation reserve	13	(13.6)	(9.2)
Profit and loss account	14	528.1	440.7
Own shares	15	(53.8)	(62.1)
Shareholders' funds	18	1,396.4	1,295.7

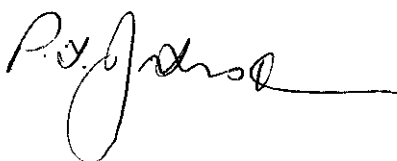
The financial statements were approved by the Board of directors and authorised for issue on 27 February 2006. They were signed on its behalf by:



N B M Askew
Director



P T Johnson
Director





Notes to the Company Financial Statements for year to 31 December 2005

1. Prior year adjustment

Following the adoption of FRS21 'Events after the balance sheet date', dividends declared after the balance sheet date are no longer recognised as a liability at the balance sheet date. Comparative figures for 2004 have been restated accordingly.

The adoption of FRS21 led to an increase of £8.1m in retained profit for the year to 31 December 2004 and an increase of £45.5m in net assets at 31 December 2004.

The effect of the prior year adjustment on the current year has been an increase of £7.2m in retained profit.

Following the adoption of FRS 26 'Financial Instruments: Measurement', derivative financial instruments that are designated and effective as hedges of investments in foreign operations are measured at fair value. Changes in fair value are recognised directly in reserves and the ineffective portion, if any, is recognised immediately in the profit and loss account. Comparative figures for 2004 have been restated accordingly.

The adoption of FRS26 led to an increase in net assets at 31 December 2004 of £1.3m. There were no changes to retained profit for the year to 31 December 2004. There have been no changes in retained profit for the current year as a result of the prior year adjustment.

2. Particulars of employees

	2005 No.	2004 No.
Directors	4	4

The executive directors received all of their remuneration, as disclosed in the Remuneration Report on page 43 from Taylor Woodrow Developments Limited. However, it is not practicable to allocate such costs between their services as executives of Taylor Woodrow Developments Limited and their services as directors of Taylor Woodrow plc and other Group companies. The remuneration of the non-executive directors, which is wholly attributable to the company is disclosed on page 43 of the Remuneration Report.

3. Auditors' remuneration

	2005 £m	2004 £m
External audit services	0.1	0.1
Other assurance	0.1	0.1
Other services:		
Tax services	0.1	0.1

4. Investments in Group undertakings

	Shares £m	Loans £m	Total £m
Cost and net values			
31 December 2004	1,431.2	-	1,431.2
Changes in exchange rates	13.2	7.1	20.3
Additions	613.8	417.2	1,031.0
Reductions	(810.8)	-	(810.8)
31 December 2005	1,247.4	424.3	1,671.7

All of the above investments are unlisted.

Particulars of principal subsidiary undertakings are listed on page 91, which forms part of these financial statements.

Notes to the Company Financial Statements for year to 31 December 2005

5. Debtors

	2005	2004 As restated (note 1)
	£m	£m
Receivable within one year		
Due from Group undertakings	844.3	856.0
Other debtors	6.1	7.0
Prepayments and accrued income	3.0	3.6
Receivable after one year		
Deferred taxation	0.5	0.6
Other debtors	6.7	15.1
	860.6	882.3

The movement in the deferred taxation asset is as follows:

	£m
31 December 2004	0.6
Credited to profit and loss account	(0.1)
31 December 2005	0.5

The deferred taxation asset relates to short-term timing differences.

6. Creditors: amounts falling due within one year

	2005	2004 As restated (note 1)
	£m	£m
Debenture loans	4.0	6.1
Bank loans and overdrafts	-	4.8
Due to Group undertakings	556.0	410.7
Other creditors	0.3	0.2
Accruals and deferred income	20.7	25.0
	581.0	446.8

7. Creditors: amounts falling due after one year

	2005	2004 As restated (note 1)
	£m	£m
Debenture loans	589.0	571.0

8. Debenture loans

	2005	2004 As restated (note 1)
	£m	£m
Floating rate notes 2006 – unsecured	1.4	2.3
Floating rate notes 2008 – unsecured	2.6	3.8
6.625% £250m bonds 2012 – unsecured	247.0	244.5
5.53% US \$75m notes 2011 – unsecured	43.5	38.9
6.03% US \$175m notes 2014 – unsecured	101.4	90.7
6.375% £200m bonds 2019 – unsecured	197.1	196.9
	593.0	577.1

Notes to the Company Financial Statements for year to 31 December 2005

8. Debenture loans continued

	2005 £m	2004 As restated (note 1) £m
Repayable		
In more than five years		
- installment loans	-	-
- other	589.0	571.0
Total falling due in more than one year	589.0	571.0
Within one year or on demand	4.0	6.1
	593.0	577.1

9. Retirement benefit obligations

The company participates in the Taylor Woodrow Group Pension and Life Assurance Fund. This is a defined benefit multi-employer plan, the assets and liabilities of which are held independently from the Group. The company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the plan as if it were a defined contribution plan.

Information in respect of the scheme is provided in note 21, on pages 72 to 74, to the Taylor Woodrow plc consolidated financial statements. The fair value of assets as disclosed in those financial statements has been calculated in accordance with International Accounting Standard 19 'Employee Benefits'. In accordance with Financial Reporting Standard No. 17 'Retirement Benefits' (FRS 17) the total fair value of scheme assets would be £707.2m (2004: £628.2m). All other information provided in those financial statements meets the disclosure requirements set out in FRS 17.

Contributions in respect of the defined contribution scheme for directors can be found in the Remuneration Report on page 46. There were no outstanding contributions at the year end.

10. Share capital

	2005 £m	2004 £m
Authorised:		
780,000,000 (2004: 780,000,000) ordinary shares of 25p each	195.0	195.0
	Number of shares	£m
Issued and fully paid:		
31 December 2004	586,573,253	146.7
Options exercised	5,120,487	1.3
Share Purchase Plan	160,298	-
US Employee Stock Purchase Plan	36,699	-
Long service awards	647	-
31 December 2005	591,891,384	148.0

11. Share premium account

	£m
31 December 2004	748.1
Transfer from own shares	0.3
Amortisation of debt transferred from retained earnings	(0.7)
Premium on ordinary shares issued during the year less expenses of issues	8.5
Balance at 31 December 2005	756.2

Notes to the Company Financial Statements for year to 31 December 2005

12. Capital redemption reserve

	£m
31 December 2004	31.5
31 December 2005	31.5

13. Translation reserve

	£m
31 December 2004 as previously stated	-
Prior year adjustment (note 1)	(9.2)
31 December 2004 as restated	(9.2)
Exchange differences on translation of investments	20.3
Exchange differences on translation of borrowings	(14.2)
Decrease in fair value of hedging derivatives	(10.5)
31 December 2005	(13.6)

14. Profit and loss account

	£m
31 December 2004 as previously stated	384.7
Prior year adjustments (note 1)	56.0
31 December 2004 as restated	440.7
Transfers to share premium account	0.7
Balance for the year retained	86.7
31 December 2005	528.1

As permitted by section 230 of the Companies Act 1985, Taylor Woodrow plc has not presented its own profit and loss account. The profit of the company for the financial year was £157.9m (2004: £220.6m).

15. Own shares

	2005 £m	2004 £m
Own shares	53.8	62.1
These comprise ordinary shares of the company:	Number	Number
Treasury shares	17.6m	19.4m
Shares held in trust for bonus, options and performance award plans	4.4m	6.5m

The market value of the shares at 31 December 2005 was £83.7m (2004: £70.4m) and their nominal value was £5.5m (2004: £6.5m). Dividends on these shares have been waived except for 0.01p per share in respect of the shares held in trust. The shares held in trust are all held to meet options to be exercised by employees.

Notes to the Company Financial Statements for year to 31 December 2005

16. Share based payments

Details of share options granted by Group companies to employees, and that remain outstanding, over the company's shares are set out in note 34, on pages 79 and 80, to the Taylor Woodrow plc consolidated financial statements. The company did not recognise any expense related to equity-settled share-based payment transactions in the current or preceding year.

17. Contingent liabilities

The company has, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts.

Provision is made for the Directors' best estimate of known legal claims and 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.

18. Reconciliation of movement in shareholders' funds

	2005 £m	2004 £m
Opening shareholders' funds as previously stated	1,248.9	1,236.2
Prior year adjustment (note 1)	46.8	47.9
Opening shareholders' funds as restated	1,295.7	1,284.1
Dividends paid	(71.2)	(56.3)
Profit for the financial year	157.9	220.6
Redemption of preference shares	-	(100.0)
New share capital subscribed	9.8	3.7
Proceeds from sale of own shares	7.3	3.2
Purchase of own shares	-	(50.4)
Credit to equity relating to own shares	1.3	-
Net currency translation differences	(4.4)	(9.2)
Closing shareholders' funds	1,396.4	1,295.7

19. Post balance sheet event

On 27 February 2006 the Board declared a final dividend for the year to 31 December 2005 of 8.9p (2004: 8.1p). This dividend has not been included as a liability as at 31 December 2005.

Particulars of Principal Subsidiary Undertakings

Country of
incorporation and
principal operations

Taylor Woodrow plc interest is 100% in the issued ordinary share
capital of these undertakings included in the consolidated financial statements
(*Interests held by subsidiary undertakings)

Housing

United Kingdom

Taylor Woodrow Developments Limited*#

Canada

Taylor Woodrow Holdings Limited

Taylor Woodrow Holdings of Canada Limited

Monarch Corporation *##

Monarch Development Corporation*

Irish Republic

(resident in the United Kingdom)

Taylor Woodrow Finance Ireland

Spain

Taylor Woodrow de Espana S.A.###

USA

Taylor Woodrow Holdings/Arizona, Inc.*

Taylor Woodrow Homes, Inc.*

Taylor Woodrow Homes Florida, Inc.*

Taylor Woodrow, Inc.*

Monarch Holdings (USA), Inc.

Monarch Homes of Florida, Inc.*

Property Development and Investment

United Kingdom

Taylor Woodrow Developments Limited*#

Taylor Woodrow Property Company Limited

Clipper Investments Limited*

Pennant Investments Limited*

St Katharine by the Tower Limited*

Construction

United Kingdom

Taylor Woodrow Construction Limited

Notes: #

Variable rate, cumulative, non-voting, irredeemable preference shares
are additionally held.

##

9.5% non-cumulative, non-voting, redeemable preference shares and 9%

non-cumulative, non-voting, redeemable preference shares are additionally held.

###

9% cumulative, redeemable preference shares are additionally held.

FiveYear Review

	IFRS 2005 £m	IFRS 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m	UK GAAP 2001 £m
Profit and loss account					
Group turnover (plus share of joint ventures' turnover)	3,556.4	3,361.2	2,672.9	2,215.8	2,149.9
Group operating profit (plus share of joint ventures' results)	464.8	490.8	340.6	259.7	227.5
Profit on disposal of properties and investments	10.2	21.7	6.3	8.1	7.9
Net interest payable and other finance charges	(64.0)	(108.6)	(46.4)	(34.7)	(33.1)
Profit before taxation	411.0	403.9	300.5	233.1	202.3
Taxation charge	(124.5)	(123.0)	(100.6)	(76.9)	(64.8)
Minority interests	(0.8)	(0.6)	(0.4)	(1.1)	(2.5)
Profit for the financial year	285.7	280.3	199.5	155.1	135.0
Balance sheet					
Intangible assets - goodwill	363.9	363.2	356.7	241.4	247.0
Investment properties	-	-	160.2	183.9	259.9
Other fixed assets	24.4	24.2	33.6	24.3	72.2
Interests in joint ventures	92.1	87.0	-	-	-
Non-current loans and receivables	17.8	26.5	-	-	-
Deferred tax asset	101.2	71.1	-	-	-
Net current assets (excluding cash and debt)	2,117.2	1,936.7	2,041.6	1,303.3	1,114.5
Non-current creditors (excluding debt) and provisions	(330.4)	(266.1)	(272.2)	(99.2)	(39.2)
Capital employed	2,386.2	2,242.6	2,319.9	1,653.7	1,654.4
Represented by:					
Called up non-equity preference share capital	-	-	10.0	-	-
Called up equity ordinary share capital	148.0	146.7	146.1	138.2	137.9
Share premium account	756.2	748.1	745.7	591.2	590.5
Revaluation reserve	0.5	0.7	38.4	63.4	134.2
Capital redemption reserve	31.5	31.5	21.5	21.5	21.5
Other reserve	5.4	4.8	1.1	-	-
Share-based payment tax reserve	4.0	2.8	-	-	-
Translation reserve	29.9	(6.5)	-	-	-
Profit and loss account	1,006.8	832.5	627.8	591.6	472.1
Own shares	(53.9)	(57.8)	(14.7)	(12.6)	(4.3)
Shareholders' funds	1,928.4	1,702.8	1,575.9	1,393.3	1,351.9
Minority interests	0.9	1.0	1.1	-	0.6
Net debt	456.9	538.8	742.9	260.4	301.9
	2,386.2	2,242.6	2,319.9	1,653.7	1,654.4
Statistics					
Number of ordinary shares in issue at year end (millions)	591.9	586.6	584.2	552.7	551.5
Basic earnings per share	50.6p	49.1p	36.0p	28.2p	25.3p
Dividends per ordinary share	13.4p	11.1p	8.9p	7.4p	6.7p
Equity shareholders' funds per share	338.4p	290.3p	256.2p	255.6p	246.3p
Dividend cover (times)	3.8	4.4	4.0	3.8	3.8
Net gearing	23.7%	31.6%	47.1%	18.7%	22.3%

Five Year Review continued

The figures for 2004 were restated in 2005 in respect of the transition from UK GAAP to IFRS. The figures for 2001 to 2003 above, have not been restated to an IFRS basis as it is not practicable to do so.

The figures for 2003 were restated in 2004 in respect of the change of accounting policy for retirement benefits to comply with FRS 17.

The figures for 2000 to 2002 were restated in 2003 to include investments in own shares as a deduction from shareholders' funds rather than within net debt.

The figures for 2001 were restated in 2002 in respect of the change in accounting policy for deferred tax to comply with FRS 19.

Dividends per ordinary share comprise the interim and final dividends declared for the year.

Shareholder Information

Registrar

For enquiries concerning your shareholding or details of shareholder services, please contact:

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: +44 (0) 870 162 3103
Email: ssd@capitaregistrars.com

Secretary and registered office

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2 Princes Way
Solihull
West Midlands B91 3ES
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Auditors

Deloitte & Touche LLP

Bankers

HSBC Bank plc

Stockbrokers

UBS Investment Bank
Morgan Stanley & Co. International Limited

Financial Calendar

Latest date for receipt of proxy instructions
in respect of the 2006 Annual General Meeting
2pm on 1 May 2006

Annual General Meeting

2pm on 3 May 2006

Shares quoted ex-dividend on London
Stock Exchange
31 May 2006

Record date for final dividend entitlement
2 June 2006

Latest date for receipt of Dividend Re-Investment
Plan mandate forms to be effective for the 2005
final dividend
2 June 2006

Latest date for receipt of notice of withdrawal from
the Dividend Re-Investment Plan to be effective for
the 2005 final dividend
16 June 2006

Payment date for 2005 final dividend (subject
to shareholders' approval at the Annual General
Meeting)
3 July 2006

Despatch date for Dividend Re-Investment Plan
share certificates and tax vouchers
24 July 2006

2006 interim results announcement date
3 August 2006

Shareholder Information

Electronic communications

The company actively encourages shareholders to elect to receive certain shareholder information electronically rather than in paper format and an increasing number of shareholders are taking advantage of this facility. For further information and to register for electronic communications, please go to www.taylorwoodrow.com and navigate through to Corporate/Investor Relations/Shareholder Facilities and click on 'How do I register for Electronic Communication?'

On-line facilities for shareholders

The company's Annual and Interim Reports and copies of recent shareholder communications can be accessed on-line at www.taylorwoodrow.com. Shareholders who have registered for on-line access at Capita Registrars' website can make on-line enquiries about their shareholdings and advise the company of changes in personal details. To register for on-line access, go to www.taylorwoodrow.com and navigate through to Corporate/Investor Relations/Shareholder Facilities, and click on 'Shortcut to Shareholder Services'. To access some of these services you will first be required to apply on-line for a User ID.

On-line proxies

Shareholders may also submit forms of proxy for shareholder meetings on-line at www.taylorwoodrow.com by navigating through to Corporate/Investor Relations/Shareholder Facilities and clicking on '2006 Annual General Meeting Information'.

Dividend mandates

The company encourages all shareholders to receive their cash dividends by direct transfer to a bank or building society account. This ensures that dividends are credited promptly to shareholders without the cost and inconvenience of having to pay in dividend cheques at a bank. Shareholders who wish to use this cost-effective and simple facility should complete the dividend mandate form attached to their dividend cheques. Additional mandate forms may be obtained from Capita Registrars.

Dividend Re-Investment Plan

Shareholders can choose to invest their cash dividends in purchasing shares of the company on the market under the terms of the Dividend Re-Investment Plan. For further information on the Plan and how to join, go to www.taylorwoodrow.com and navigate through to Corporate/Investor Relations/Dividend Issue Information.

Low-cost share dealing services

The company has arranged both telephone and on-line share dealing services for individual transactions to buy or sell up to £25,000 worth of shares in Taylor Woodrow. Both services are operated by Capita Registrars. To use the services either telephone + 44 (0) 870 458 4577 or visit www.capitadeal.com. To deal, you will need to provide your surname, postcode, date of birth and investor code (which can be found on your share certificate).

Taylor Woodrow and 'CREST'

Taylor Woodrow's listed securities can be held in 'CREST' accounts, which do not require share certificates. This may make it quicker and easier for some shareholders to settle stock market transactions. Shareholders who deal infrequently may, however, prefer to continue to hold their shares in certificated form and the company will continue to offer this facility for the time being.

Taylor Woodrow share price

The company's share price is printed in most UK daily newspapers and is also available on the company's website www.taylorwoodrow.com. It appears on Ceefax (BBC1 page 232, BBC2 page 223) and Teletext (C4 page 520) and may be obtained by telephoning the Financial Times Cityline Service, telephone: + 44 (0) 906 843 4177 (calls cost 60 pence per minute).

Gifting shares to charity

Shareholders who wish to gift Taylor Woodrow shares to charity may do so through 'ShareGift', run by a registered charity Orr Mackintosh Foundation Limited. The shares gifted are re-registered into the name of the charity, combined with other donated shares and then sold through stockbrokers who charge no commission. The proceeds are distributed to a wide range of recognised charities. For further details, contact Capita Registrars or approach ShareGift directly on www.sharegift.org/sharegift or telephone them on + 44 (0) 20 7337 0501.

Personal equity plan

The Taylor Woodrow General and Single Company PEPs through Bradford & Bingley (PEPs) Limited closed for new investments on 5 April 1999. They are managed by The Share Centre, 1st Floor, Oxford House, Oxford Road, Aylesbury, Bucks. HP21 8PB. Telephone: + 44 (0) 1296 439000.

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