Persimmon plc
Report and Financial Statements
for the year ended 31 December 1998

REGISTERED NUMBER: 1818486

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COMPANIES HOUSE 05/05/99

Persimmon plc

Annual report
for the year ended 31 December 1998

Directors and advisers

Directors

Duncan Davidson	Group Chairman
Michael Allen ARICS	Group Deputy Chairman
John White	Group Chief Executive
Brian Taylor FCA FInstD	Group Finance Director
Geoffrey Grewer	Group Company Secretary
Michael Farley BSc (Hons) MCIOB	Regional Chairman
David Bryant	Regional Chairman
John Millar FRICS	Regional Chairman
Sir Chips Keswick*	Non-Executive
Harry Littlefair*	Non-Executive
Hamish Leslie Melville*	Non-Executive
Michael Killoran BA (Hons) ACA	Executive Director (appointed 4 January 1999)

* Members of the Nomination and Remuneration Committee and Audit Committee

Secretary and registered office

Geoffrey Grewer
Persimmon House
Fulford
York YO19 4FE

Bankers

The Royal Bank of Scotland plc
Lloyds Bank Plc
Yorkshire Bank PLC
Barclays Bank PLC
Société Générale
Bank of Scotland

Company Number

1818486

Registrars

Computershare Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Merchant bankers

S G Hambros (a division of Société Générale)

Stockbrokers

Credit Lyonnais Laing
CSFB de Zoete & Bevan Ltd

Auditors

KPMG Audit Plc

Solicitors

Rowe & Maw

Directors' report for the year ended 31 December 1998

The directors have pleasure in presenting to the members their report and the financial statements for the year ended 31 December 1998.

Principal activities and business review
The principal activity of the group is housebuilding, all of which is carried out within the United Kingdom, and is unchanged from last year.

The group's turnover and profit before taxation arising from ordinary activities were £572,407,000 and £60,533,000 respectively.

An interim dividend of 3.3p per share was paid to shareholders on 30 October 1998 and it is now proposed to pay a final dividend of 7.1p per share on 30 April 1999 to shareholders on the register at the close of business on 19 March 1999, making a total for the year of 10.4p per share (1997 : 10.0p). The dividends paid and proposed amount to £18,548,000 (1997 : £17,789,000). The directors are again offering shares instead of cash for the final dividend, as this enables shareholders to increase their holdings in a simple and cost effective manner.

Directors and directors' interests
The directors of the company at 31 December 1998, all of whom have been directors for the whole of the year ended on that date, are listed on page 1, together with Mr M H Killoran who was appointed as an executive director on 4 January 1999. In accordance with Article 100 of the Articles of Association Mr Killoran will retire at the annual general meeting and being eligible, offers himself for re-election.

In accordance with Article 102, Messrs. Davidson, Grewer and Millar retire by rotation and, being eligible, offer themselves for re-election. In order to comply with principles of good governance and the code of best practice prepared by the Committee on Corporate Governance published in June 1998 (the "Combined Code"), all directors are required to submit themselves for re-election at least every three years. Therefore, Mr I H Leslie Melville will also retire and being eligible offers himself for re-election.

Details of contracts of significance with directors are included in note 30 to the financial statements.

The interests of the directors in the shares of the company at 31 December 1998, and as at the date of this report, are disclosed in the remuneration report on page 8. Details of the interests of the directors in share options and awards of the company may be found on pages 10 - 11 within the same report.

Substantial shareholdings
In addition to the interests of Mr D H Davidson and his family, who have holdings of 19,241,880 ordinary shares (10.77% of issued share capital) the company has been notified or is aware that the following are interested in three per cent or more of the issued share capital of the company as at 3 March 1999.

	Number of ordinary shares	Percentage of issued share capital
Fidelity Investment Management Ltd	12,874,013	7.20
Mercury Asset Management Plc	10,485,075	5.87
Jupiter Asset Management	9,441,101	5.28
Prudential Portfolio Managers	8,074,762	4.52
Aberdeen Asset Management Ltd	7,000,086	3.92

Directors' report for the year ended 31 December 1998 cont.

Charitable and political donations
Charitable donations of £190,000 were made by the group during the year. No political donations were made during the year.

Employees
The importance of good communications with employees is recognised by the directors. Each operating company maintains employee relations appropriate to its own particular needs and an internal magazine is published twice a year. Various benefit schemes are available to employees, all of whom are encouraged to participate, subject to eligibility.

Equal opportunities for training, career development and promotion are available to all employees regardless of disability, age, sex, race, religion, colour, nationality or sexual orientation.

Applications for employment by disabled persons are always fully and fairly considered with appropriate regard to the aptitudes and abilities of the applicant concerned. In the event of a person becoming disabled during their employment the company will endeavour to continue their employment and arrange appropriate training.

Health and safety
It is the group's intention that its work will be carried out in accordance with the relevant statutory provisions and the group health and safety policy. All reasonable practicable measures are taken to avoid risk to its employees, subcontractors and visitors to its sites and premises.

All directors, managers and employees have responsibility for implementing group policy and for ensuring that health and safety considerations are always given due regard in planning and in day to day supervision of work.

All employees and subcontractors are expected to co-operate in carrying out group policy and must ensure that their own work, so far as is reasonably practicable, is carried out without risk to themselves or others.

Environment
The group, as one of the largest housebuilders in the UK, is aware of the effect of its operations on the environment.

Our objective is to balance the need to meet our business aims with the need to protect and improve the local environment. This is achieved by the application of a corporate environmental policy in which we:

- recognise that concern for the environment is an integral and fundamental part of our business;
- conduct our operations to comply with all existing environmental legislation and to minimise the risks of all forms of pollution; and
- raise the awareness of our employees and our subcontractors on environmental issues.

Creditor payment policy
The group's policy for the payment of most of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers, payment terms are agreed when goods and services are ordered and payment is made according to those terms. The company's average creditor payment period at 31 December 1998 was 53 days (1997 : 42 days).

Directors' report for the year ended 31 December 1998 cont.

Year 2000
To minimise the risk that the group's operations will be affected by the year 2000 date change, a project team was established at the start of 1998 to review our computer systems and suppliers. Our work has followed National Computing Centre guidelines.

We have now completed a full audit of our systems and sought written statements of compliance from our computer suppliers. During 1998 we carried out tests to verify compliance and commissioned modifications to one of our group systems. This work was completed at minimal cost.

During 1998 we wrote to over 2,000 of our key suppliers. We sought assurances and confirmation that the year 2000 issue would not affect their ability to service our business needs. Where satisfactory assurances were not forthcoming directors and management are considering our relationship with them. Contingency plans will be in place to support the business before, on and after 31 December 1999.

Annual general meeting
The annual general meeting will commence at 12 noon on Wednesday 28 April 1999 at Le Meridien Piccadilly Hotel, 21 Piccadilly, London. There are two special resolutions to be proposed at the meeting this year, as well as the routine business. The first is to amend the company's Articles of Association in order that they comply with the Combined Code.

Article 102 of the Articles of Association of the company specifies that one third of the directors should retire from office at each annual general meeting. The effect of this is that there may be circumstances where a director can remain in office for more than three years. This would be in contravention of the Combined Code which specifies that all directors should be subject to a re-election at intervals of no more than three years. The directors consider that it would be appropriate that the Articles of Association of the company be aligned with the Combined Code. Accordingly, the first special resolution that will be proposed at the annual general meeting will be to amend the Articles of Association to specify that each director should retire at least every three years. The directors have also taken the opportunity to consider whether any further changes to the Articles of Association are required, either pursuant to the Listing Rules of the London Stock Exchange, or as a matter of law or best practice. Accordingly, the following additional changes to the Articles of Association will be proposed:

(a) to Article 70.3 in order to align the Articles with certain provisions contained in the Uncertificated Securities Regulations 1995 to allow the company to close the register of members in advance of shareholders' meetings in order to determine who may attend and vote at such meetings;

(b) to Articles 94.2 and 173 to allow the acceptance of proxy forms and the delivery of notices by electronic means (to the extent permitted by law and the Listing Rules of the London Stock Exchange); and

(c) to Article 111.1 in order to allow the directors to set the level of directors' fees payable.

The second special resolution would provide the directors with the authority to make market purchases of the company's ordinary shares as the directors consider that it would be beneficial to the company if, in certain circumstances, the company had the power to purchase its own ordinary shares. At the present time, the directors have no wish to exercise the power to purchase any of the shares of the company, but consider that it is appropriate to have the flexibility to do so. Accordingly, the second special resolution authorises the directors to purchase up to a maximum of 17,872,686 ordinary shares, being 10% of the issued share capital of the company and provides that the maximum price per ordinary share payable on any exercise of the authority shall not be more than 5% above the average of the middle market quotation for the ordinary shares as derived from the Daily Official List of the London Stock Exchange for the five business days prior to making any purchase. The minimum price payable shall be 10p per ordinary share, being the nominal value of an ordinary share. For this purpose, both the maximum and minimum prices permitted are to be paid exclusive of any expenses payable by the company. The authority would expire on 28 October 2000 or at the conclusion of the next annual general meeting, whichever is the sooner.

Directors' report for the year ended 31 December 1998 cont.

Annual general meeting cont.

The directors will only implement such purchases, which will reduce the issued share capital of the company, if they are satisfied, after careful consideration, that such purchases are in the best interest of the company and its shareholders and would result in an increase in expected earnings per share. Furthermore, account will be taken of the overall financial implications for the company.

Auditors

A resolution is to be proposed at the annual general meeting for the reappointment of KPMG Audit Plc as auditors of the company.

By order of the board

G Grewer
Group Company Secretary
5 March 1999

Remuneration report for the year ended 31 December 1998

The board of directors presents its remuneration report for the year ended 31 December 1998.

The company's policy is to provide the remuneration package required to attract, retain and motivate its executive directors.

The Nomination and Remuneration Committee is responsible for advising and making recommendations to the board on all aspects of executive directors' remuneration. Throughout the year, the committee comprised all of the non-executive directors, that is, Sir Chips Keswick - Chairman, Mr H G Littlefair and Mr I H Leslie Melville. The Combined Code requires that the committee should consist entirely of independent non-executive directors. Although Sir Chips Keswick and Mr I H Leslie Melville are not independent non-executives, as defined by the Combined Code, the board consider that it is in the best interests of the company for both to remain as members of this committee. The company is seeking to appoint an additional independent non-executive director, and at such time that an appointment is made, the membership of the committee will be reviewed.

The remuneration package for each executive director who served during the year is set out later in this report and comprises the following elements:

Basic salary
The company pays competitive salaries to its directors. In calculating the level of basic salary for executive directors, the committee gives full consideration to market data available concerning similar roles in comparable organisations. In April 1998, after reviewing the market, the committee decided that the small element of bonus which had previously been guaranteed to each executive director, be integrated into basic salary. This change does not reflect an increase in overall remuneration as performance related pay was adjusted accordingly. The committee considers that this remuneration structure best aligns directors' remuneration with the performance of the group.

Profit related pay scheme
All executive directors participate in the group profit related pay scheme which is available to all group employees. Following changes in legislation this type of scheme will not be available to Persimmon employees after 31 December 1999.

Performance related bonus
All executive directors receive further payments based on the group's performance. Payments to Messrs. Davidson, Allen, White, Taylor and Grewer are linked to group profits. Messrs. Farley, Bryant and Millar receive performance related pay linked to the profits of the regional companies for which they are responsible. Performance related payments are capped. The committee considers that the performance criteria applying to the annual performance related pay arrangements enhance the business operations and that this results-focused approach is in the best interests of shareholders.

Benefits in kind
These cover membership of the group private medical scheme, motor vehicles, subscriptions and some telephone costs. These benefits are not pensionable.

Remuneration report for the year ended 31 December 1998 cont.

Pension and life assurance
All executive directors, with the exception of Mr D H Davidson, are full members of the Persimmon plc Pension and Life Assurance Scheme. This is a defined benefit scheme which is open to all eligible group employees. Mr Davidson is a member of the scheme for life assurance purposes only. For pension purposes Mr Davidson is a member of a Friends Provident Life Scheme. A Funded Unapproved Retirement Benefit Trust ("FURB") has also been set up for each executive director. Performance related pay has always been an integral part of pensionable remuneration, and after due consideration the committee has determined that this should continue to be the case. The basis of the committee's remuneration policy is to reward directors when the company performs well. The committee considers that the directors are further motivated to perform well by allowing performance related pay to continue to make up a part of pensionable remuneration. This policy is also extended to all scheme members throughout the group. Details of each executive director's pension benefits are listed under the heading "Directors' pension entitlements" later in this report.

Share options and awards
The grant of options and awards under the executive share schemes is considered annually by way of encouragement and motivation.

The Persimmon plc Company Share Option Plan (the "Plan") and the Persimmon plc Executive Share Option Scheme (the "Scheme") were approved by shareholders at the annual general meeting held in 1997. A further scheme, the Persimmon plc Long Term Incentive Plan 1998 (the "LTIP"), was approved by shareholders at the annual general meeting held on 22 April 1998. In normal circumstances shares granted will not vest, and options are not exercisable, in less than three years from the date of grant.

In June 1998 awards of 421,000 shares were granted to executive directors in respect of the LTIP and in October 1998 723,500 share options were granted to other directors and senior employees throughout the group in respect of the Scheme and the Plan. The option and award entitlements of executive directors are set out under the heading "Directors' interests in share options and awards" at the end of this report.

The rules of the Scheme, Plan and LTIP are all consistent with guidelines published by institutional shareholders and are open to all executive directors and employees throughout the group. All options and awards granted under the Plan, the Scheme and the LTIP are subject to performance conditions set by the committee. The conditions link the exercise of options and vesting of awards to sustained improvement in the underlying financial performance of the group, through growth in earnings per share, relative to the performance of other comparable companies that constitute the FT-SE Construction Sector.

Inland Revenue approval has been granted for the Plan to enable executives to benefit from tax relief on exercising options. Options would not be granted to an executive or employee under the Plan, if it would result in that person holding options with an aggregate value in excess of £30,000. The Scheme rules allow the committee to grant a total number of options, to each executive or employee, of up to a maximum value of four times their annual remuneration. The value of options is calculated by multiplying the number of shares held under each option by the exercise price of those options.

Awards of shares in respect of the LTIP may be granted up to a maximum value of one year's salary in any financial year. The value of an award is calculated by multiplying the number of shares by their market value at the date of grant. The committee will not grant to any executive or employee both share options under the Scheme or the Plan, and awards of shares under the LTIP in the same year.

Remuneration report for the year ended 31 December 1998 cont.

Service contracts
All executive directors, with the exception of Mr M H Killoran, are employed on rolling contracts subject to two years notice at any time. Mr Killoran is employed on a one year rolling contract in accordance with current best practice. Contracts expire at the normal retirement age of 65. The committee has resolved that it would be costly and de-motivating to reduce the two year contracts to one year. There are no specific compensation commitments for early termination.

Messrs. Davidson, Grewer and Millar, who retire by rotation at the annual general meeting and are offering themselves for re-election, have notice periods of two years. Mr I H Leslie Melville, who also retires by rotation, does not have a service contract.

Mr M H Killoran also retires at the annual general meeting and being eligible, offers himself for re-election. He has a notice period of one year.

Non-executive directors
Non-executive directors are paid a fee which is non-pensionable and they do not qualify for performance related bonuses. The board as a whole determines their fees subject to the Articles of Association. Non-executive directors do not have service contracts.

External appointments
Mr M J Allen has been a non-executive director of Arriva plc since July 1997. None of the other executive directors have external appointments.

Schedule of directors' emoluments

	Salaries and fees £	Performance related £	Benefits £	1998 Total £	1997 Total £
Group Chairman					
D H Davidson	101,176	269,650	18,286	389,112	334,966
Executive					
M J Allen	101,176	248,824	17,924	367,924	367,632
J White	116,176	433,824	17,846	567,846	519,575
B D Taylor	80,088	139,912	20,802	240,802	239,838
G Grewer	78,976	71,024	20,049	170,049	169,377
M P Farley	92,088	317,347	16,854	426,289	383,089
D G Bryant	92,088	215,727	18,253	326,068	360,673
J Millar	92,088	263,637	17,730	373,455	340,348
Non-executive					
Sir Chips Keswick	20,000	-	-	20,000	20,000
H G Littlefair	20,000	-	-	20,000	20,000
I H Leslie Melville	20,000	-	-	20,000	20,000
	813,856	1,959,945	147,744	2,921,545	2,775,498

During the year no director waived his entitlement to any emoluments and there were no payments made to former directors.

Remuneration report for the year ended 31 December 1998 cont.

Directors' pension entitlements

	Increase in accrued pension (net of deferred pension revaluation)	Total accrued pension at 31 December 1998	Transfer value of increase (net of member contributions)	FURB contribution
	£pa	£pa	£	£
M J Allen	3,640	96,740	24,860	28,885
J White	19,870	95,435	140,390	34,367
B D Taylor	1,890	42,120	8,550	19,891
G Grewer	450	55,040	(840)	13,352
M P Farley	9,810	48,210	58,620	22,322
D G Bryant	11,340	44,040	74,340	22,175
J Millar	7,130	51,840	65,900	26,092

A contribution of £14,000 was made by the company to Mr Davidson's personal pension scheme with Friends Provident and a contribution of £24,546 to his FURB.

Directors' interests in shares

The interests of directors serving at the end of the year, and their families, in the ordinary share capital of the company are as shown below:

	31 December 1998	1 January 1998
D H Davidson	19,241,880	19,157,180
M J Allen	354,704	334,704
J White	237,944	248,349
B D Taylor	155,620	160,188
G Grewer	254,285	244,285
M P Farley	173,221	163,221
D G Bryant	154,827	143,469
J Millar	256,068	230,326
Sir Chips Keswick	185,416	185,416
H G Littlefair	20,949	20,949
I H Leslie Melville	121,250	56,250

The interests of Messrs. Davidson, Allen, White, Taylor, Grewer, Bryant, Millar and Sir Chips Keswick include non-beneficial interests of 10,154,060; 257,876; 3,886; 46,438; 127,109; 16,559; 125,364 and 24,626 ordinary shares respectively (1997: 10,154,060; 171,702; 3,886; 46,438; 122,109; 13,430; 112,542 and 24,626 respectively). Otherwise all interests of the directors are beneficial.

There has been no change in the interests set out above between 31 December 1998 and 5 March 1999.

Remuneration report for the year ended 31 December 1998 cont.

Directors' interests in share options and awards

	1 January 1998	Granted in year	Lapsed in year	31 December 1998	Exercise price	Exercisable from	Expiry date
D H Davidson	13,097	-	-	13,097 (2)	131.7p	Nov ‘00	Apr ‘01
	-	40,000	-	40,000 (3)	-	Mar ‘02	Sep ‘02
	13,097			53,097			
M J Allen	21,713	-	-	21,713	141.5p	Mar ‘93	Mar ‘00
	42,486	-	-	42,486	227.0p	Apr ‘95	Apr ‘02
	63,729	-	-	63,729	214.0p	Apr ‘96	Apr ‘03
	31,665	-	-	31,665	269.0p	Apr ‘97	Apr ‘04
	31,665	-	-	31,665	171.5p	Apr ‘98	Apr ‘05
	7,858	-	-	7,858 (2)	131.7p	Nov ‘00	Apr ‘01
	100,000	-	-	100,000 (1)	233.0p	May ‘00	May ‘04
	2,010	-	2,010	- (2)	194.0p	Dec ‘00	May ‘01
	-	40,000	-	40,000 (3)	-	Mar ‘02	Sep ‘02
	-	3,095	-	3,095 (2)	126.0p	Dec ‘01	May ‘02
	301,126			342,211			
J White	21,713	-	-	21,713	141.5p	Mar ‘93	Mar ‘00
	53,108	-	-	53,108	227.0p	Apr ‘95	Apr ‘02
	74,351	-	-	74,351	214.0p	Apr ‘96	Apr ‘03
	2,852	-	2,852	- (2)	241.9p	Nov ‘98	Apr ‘99
	52,775	-	-	52,775	269.0p	Apr ‘97	Apr ‘04
	1,839	-	-	1,839 (2)	187.6p	Nov ‘99	Apr ‘00
	105,550	-	-	105,550	171.5p	Apr ‘98	Apr ‘05
	160,000	-	-	160,000	196.0p	Apr ‘99	Apr ‘06
	150,000	-	-	150,000 (1)	233.0p	May ‘00	May ‘04
	2,010	-	2,010	- (2)	194.0p	Dec ‘00	May ‘01
	-	47,000	-	47,000 (3)	-	Mar ’02	Sep ’02
	-	6,190	-	6,190 (2)	126.0p	Dec ’01	May ‘02
	624,198			672,526			
B D Taylor	31,865	-	-	31,865	227.0p	Apr ‘95	Apr ‘02
	63,729	-	-	63,729	214.0p	Apr ‘96	Apr ‘03
	31,665	-	-	31,665	269.0p	Apr ‘97	Apr ‘04
	52,775	-	-	52,775	171.5p	Apr ‘98	Apr ‘05
	50,000	-	-	50,000 (1)	233.0p	May ‘00	May ‘04
	230,034			230,034			
G Grewer	21,713	-	-	21,713	141.5p	Mar ‘93	Mar ’00
	31,865	-	-	31,865	227.0p	Apr ‘95	Apr ‘02
	31,865	-	-	31,865	214.0p	Apr ‘96	Apr ‘03
	31,665	-	-	31,665	269.0p	Apr ‘97	Apr ‘04
	31,665	-	-	31,665	171.5p	Apr ‘98	Apr ‘05
	7,858	-	-	7,858 (2)	131.7p	Nov ‘00	Apr ‘01
	50,000	-	-	50,000 (1)	233.0p	May ’00	May ‘04
	2,010	-	2,010	- (2)	194.0p	Dec ’00	May ’01
	-	20,000	-	20,000 (3)	-	Mar ’02	Sep ’02
	-	3,095	-	3,095 (2)	126.0p	Dec ’01	May ’02
	208,641			229,726			
M P Farley	21,713	-	-	21,713	141.5p	Mar ‘93	Mar ’00
	31,865	-	-	31,865	227.0p	Apr ‘95	Apr ‘02
	63,729	-	-	63,729	214.0p	Apr ‘96	Apr ‘03
	31,665	-	-	31,665	269.0p	Apr ‘97	Apr ‘04
	63,330	-	-	63,330	171.5p	Apr ‘98	Apr ‘05
	30,000	-	-	30,000	196.0p	Apr ‘99	Apr ‘06
	100,000	-	-	100,000 (1)	233.0p	May ‘00	May ‘04
	-	38,000	-	38,000 (3)	-	Mar ’02	Sep ’02
	342,302			380,302			

Remuneration report for the year ended 31 December 1998 cont.

Directors' interests in share options and awards cont.

	1 January 1998	Granted in year	Lapsed in year	31 December 1998		Exercise price	Exercisable from	Expiry date
D G Bryant	6,296	-	-	6,296		141.5p	Mar '93	Mar '00
	54,282	-	-	54,282		210.0p	Mar '94	Mar '01
	42,486	-	-	42,486		227.0p	Apr '95	Apr '02
	63,729	-	-	63,729		214.0p	Apr '96	Apr '03
	2,852	-	2,852	-	(2)	241.9p	Nov '98	Apr '99
	31,665	-	-	31,665		269.0p	Apr '97	Apr '04
	5,517	-	5,517	-	(2)	187.6p	Nov '99	Apr '00
	63,330	-	-	63,330		171.5p	Apr '98	Apr '05
	30,000	-	-	30,000		196.0p	Apr '99	Apr '06
	100,000	-	-	100,000	(1)	233.0p	May '00	May '04
	-	38,000	-	38,000	(3)	-	Mar '02	Sep '02
	-	7,738	-	7,738	(2)	126.0p	Dec '01	May '02
	400,157			437,526				
J Millar	21,713	-	-	21,713		141.5p	Mar '93	Mar '00
	31,865	-	-	31,865		227.0p	Apr '95	Apr '02
	63,729	-	-	63,729		214.0p	Apr '96	Apr '03
	31,665	-	-	31,665		269.0p	Apr '97	Apr '04
	1,839	-	-	1,839	(2)	187.6p	Nov '99	Apr '00
	63,330	-	-	63,330		171.5p	Apr '98	Apr '05
	30,000	-	-	30,000		196.0p	Apr '99	Apr '06
	100,000	-	-	100,000	(1)	233.0p	May '00	May '04
	4,020	-	-	4,020	(2)	194.0p	Dec '00	May '01
	-	38,000	-	38,000	(3)	-	Mar '02	Sep '02
	348,161			386,161				

(1) Persimmon plc Executive Share Option Scheme 1997
(2) Persimmon plc Save As You Earn Schemes
(3) Persimmon plc Long Term Incentive Plan 1998

No options were exercised during the year.
Unless otherwise indicated, all options were granted under the 1988 Executive Share Option Scheme.
Details of the market value of the company's shares during the year are given on page 41.

By order of the board

G Grewer
Group Company Secretary
5 March 1999

Corporate Governance

The board supports the highest standards in corporate governance and has reviewed the group's procedures following the publication of the Combined Code (the "Code") in June 1998. The principles of the Code are set out under four main headings and the company has applied them as follows:

Directors
The board currently consists of nine executive directors and three non-executive directors. Four of the executive directors have specific authority for all regional companies thus ensuring a direct line of control between the parent company and all of its subsidiaries. The board meets at least six times a year and has a formal schedule of matters reserved for its consideration and decision. This includes approval of financial strategy, reviewing performance, ensuring adequate financial resources are available and reporting to shareholders. This schedule is reviewed on a systematic basis. All directors have access to the advice and services of the Group Company Secretary and may also seek independent professional advice, at the company's expense, if so required to carry out their duties.

Except for Mr M H Killoran, the executive directors have two year rolling contracts. It is the board's objective that all newly appointed executive directors be given service contracts of no more than twelve months duration. The board considers that to reduce existing notice periods from two years to one year will be costly and de-motivating.

There are also two committees which have been established for several years. They are the Nomination and Remuneration Committee and the Audit Committee. In order to ensure both committees remain objective, the non-executive directors are their members. Each committee has specific terms of reference set by the board as a whole and they meet regularly as required.

The Nomination and Remuneration Committee is actively seeking a suitable candidate to propose to the board as an extra independent non-executive director. Following a suitable appointment the board will continue to review the balance between executive and non-executive directors.

Directors' remuneration
The details of the remuneration for each director serving during the year are set out in the remuneration report. The Nomination and Remuneration Committee is responsible for deciding the level of remuneration for each executive director and aims to align the interests of executive directors with those of the shareholders. Consequently, a large percentage of the company's executive directors' pay is performance based. The committee considers that it is in the interests of the shareholders that directors benefit when the company performs well. As reported in the remuneration report, non-executive directors receive a fee and they do not qualify for performance related bonuses.

Relations with shareholders
The board has always sought good relations with the company's shareholders and believes it is very important that shareholders receive timely information on their company's progress. The board understands that it is important for both private and institutional shareholders to have the opportunity to raise concerns or discuss matters with directors. Messrs. Davidson, Allen and White have responsibility for maintaining appropriate communications with institutional investors. All of the directors attend the company's annual general meeting and are available to answer questions at the meeting or privately.

Accountability and audit
The company has an established Audit Committee to whom the external auditors, KPMG Audit Plc, report. In addition, the company has an internal audit function whose terms of reference are recommended by the Audit Committee and are approved by the board.

The company supports the introduction of the Code and has complied throughout the accounting period under review with all of the Code provisions set out in section 1 of that Code, except as noted below.

Corporate Governance cont.

The non-executive directors comprise less than one third of the board and the majority of the non-executives are not independent (Code provisions A.3.1 and A.3.2). The board considers that the current non-executive directors are of a very high calibre and are of sufficient number for their views to carry significant weight and although two are not independent as defined by the Code, do bring a strong, independent judgement to the board. However, the board wishes to appoint another independent non-executive director and the Nomination and Remuneration Committee is currently seeking suitable candidates. An appointment will not be made until there is a candidate available with the required qualities to bring independent judgement and relevant experience to the board.

As previously set out in the remuneration report, the Nomination and Remuneration Committee does not consist entirely of independent non-executives as defined by the Code (Code provision B.2.2). Also, the Audit Committee does not consist of a majority of independent non-executives (Code provision D.3.1). The board considers that the members of these committees (all of the non-executive directors in both cases), do act independently and perform effectively. Upon the appointment of another independent non-executive, the board will consider the membership of both committees again.

The Code was introduced part way through the year under review and after the company held its 1998 annual general meeting. Proxy votes were not read out at the annual general meeting, nor was 20 business days notice of the meeting given (Code provisions C.2.1 and C.2.4). From 1999, the company will comply with these provisions.

As permitted by the London Stock Exchange, the company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting that was issued by the Rutteman Working Group. The board will review this matter once guidance for directors on internal controls has been issued by the Institute of Chartered Accountants in England and Wales.

Going concern
After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal financial control
The directors are responsible for the group's system of internal financial control. It should be recognised that any such system can provide only reasonable and not absolute assurance against material misstatement or loss.

Control environment
The group's control environment is the responsibility of the group's directors and managers at all levels. Each operating subsidiary is a separate limited company with its own board of directors. Operating and financial responsibility for subsidiaries is delegated to the local boards. The managing director of each subsidiary reports to a regional chairman who is a main board director. A Code of Ethics has been established and is in operation.

Identification of business risks
All subsidiaries are required to assess key risks and these are addressed initially by the board. Control and monitoring processes are then delegated to a subcommittee.

Major corporate information systems
Annual revenue and cash flow budgets are prepared twice each year and are updated each month. Results are monitored on a weekly, monthly and bi-monthly basis and revised forecasts are produced. Full use is made of the group's computer systems to produce sales reports, margin reports and detailed management accounts which include comparisons to budget and prior year.

Corporate Governance cont.

Monitoring systems used by the board

The board reviews and approves budgets and monitors the group's performance against those budgets and prior year performance. The group's cash flow is also monitored weekly and compared to monthly forecasts. Variances from expected outcome are investigated fully. Systems are monitored by the internal audit function, and where lapses are detected action is taken to prevent further breaches of the group's procedures. The board has reviewed the effectiveness of the system of internal financial control for the period.

By order of the board

G Grewer
Group Company Secretary
5 March 1999

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors confirm that:

a. suitable accounting policies have been selected and then applied consistently;
b. judgements and estimates have been made that are reasonable and prudent;
c. applicable accounting standards have been followed; and
d. the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group, and to prevent and detect fraud and other irregularities.

Report of the auditors KPMG Audit Plc to the members of Persimmon plc

We have audited the financial statements on pages 17 to 41.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report, including as described on page 15 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 12 to 14 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. 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 Auditing Standards 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 group'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 presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
5 March 1999

1 The Embankment
Neville Street
Leeds
LS1 4DW

Consolidated profit and loss account for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover			
Continuing operations	2	**572,407**	525,462
Cost of sales		**(478,849)**	(441,679)
Gross profit		**93,558**	83,783
Net operating expenses		**(20,336)**	(22,316)
Operating profit			
Continuing operations		**73,222**	61,467
Net interest payable and similar charges	5	**(12,689)**	(11,015)
Profit on ordinary activities before taxation	6	**60,533**	50,452
Tax on ordinary activities	7	**(15,738)**	(12,705)
Profit for the financial year	8	**44,795**	37,747
Dividends	9	**(18,548)**	(17,789)
Retained profit for the year	21	**26,247**	19,958
Basic earnings per share	10	**25.1p**	21.3p
Diluted earnings per share	10	**25.1p**	21.2p

The group has no recognised gains or losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historic cost equivalents.

Consolidated balance sheet at 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	11	**10,569**	9,787
Current assets			
Stocks and work in progress	14	**558,865**	459,468
BES assets	28	**14,065**	25,224
Debtors due after one year	15	**4,624**	8,713
Debtors due within one year	15	**36,767**	28,396
Cash at bank and in hand	25	**184**	122
		614,505	521,923
Creditors due within one year			
Borrowings	16	**(15,809)**	(5,907)
BES advances	28	**(19,128)**	(14,353)
Other creditors	17	**(169,718)**	(120,594)
		(204,655)	(140,854)
Net current assets		**409,850**	381,069
Total assets less current liabilities		**420,419**	390,856
Creditors due after more than one year			
Borrowings	16	**(81,270)**	(62,540)
BES advances	28	-	(17,007)
Other creditors	17	**(18,403)**	(17,878)
		(99,673)	(97,425)
Net assets		**320,746**	293,431
Capital and reserves			
Called up share capital	19	**17,873**	17,796
Share premium account	21	**197,920**	197,117
Merger reserve	21	**3,123**	3,123
Revaluation reserve	21	**1,242**	1,242
Profit and loss account	21	**100,588**	74,153
Equity shareholders' funds	22	**320,746**	293,431
Net assets per share	10	**179.5p**	164.9p

The financial statements on pages 17 to 41 were approved by the board of directors on 5 March 1999 and were signed on its behalf by:

D H Davidson
Director

B D Taylor
Director

Company balance sheet at 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	11	**2,699**	2,347
Investments	12	**78,339**	78,339
		81,038	80,686
Current assets			
Stocks and work in progress	14	**473**	147
Debtors due after one year	15	**-**	22
Debtors due within one year	15	**299,893**	301,095
Cash at bank and in hand		**15,006**	1
		315,372	301,265
Creditors due within one year			
Borrowings	16	**(6,300)**	(20,191)
Other creditors	17	**(49,114)**	(22,280)
		(55,414)	(42,471)
Net current assets		**259,958**	258,794
Total assets less current liabilities		**340,996**	339,480
Creditors due after more than one year			
Borrowings	16	**(81,270)**	(62,540)
Other creditors	17	**(488)**	(1,940)
		(81,758)	(64,480)
Net assets		**259,238**	275,000
Capital and reserves			
Called up share capital	19	**17,873**	17,796
Share premium account	21	**197,920**	197,117
Merger reserve	21	**4,609**	4,609
Revaluation reserve	21	**907**	907
Profit and loss account	21	**37,929**	54,571
Equity shareholders' funds		**259,238**	275,000

The financial statements on pages 17 to 41 were approved by the board of directors on 5 March 1999 and were signed on its behalf by:

D H Davidson
Director

B D Taylor
Director

Consolidated cash flow statement for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Net cash inflow from operating activities	23	18,014	45,396
Return on investments and servicing of finance			
Interest received		153	85
Interest paid		(11,970)	(9,096)
Interest paid on finance leases		(349)	(249)
		(12,166)	(9,260)
Taxation			
UK corporation tax paid		(8,790)	(7,913)
Capital expenditure			
Purchase of tangible fixed assets		(655)	(649)
Sale of tangible fixed assets		745	692
		90	43
Acquisitions and disposals			
Acquisitions of businesses and subsidiaries	13	(6,578)	(1,133)
Equity dividends paid		(17,320)	(16,981)
Net cash (outflow)/inflow before management of liquid resources and financing		(26,750)	10,152
Management of liquid resources			
Short term deposits		-	35,000
Financing			
Bank loans advanced		187,030	37,500
Repayment of bank loans		(162,000)	(96,700)
Issue of shares		-	241
Exercise of share options		208	230
Expenses of share issue		-	(3)
Repayment of principal under finance leases		(2,028)	(1,586)
Net cash inflow/(outflow) from financing		23,210	(60,318)
Decrease in cash	24	(3,540)	(15,166)

Notes to the financial statements for the year ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The group has adopted Financial Reporting Standards 10, 11 and 14 this year. The adoption of Financial Reporting Standards 10 and 11 has not impacted upon the financial statements. The impact of Financial Reporting Standard 14 is described in note 10. A summary of the more important group accounting policies, which have been applied consistently, is set out below:

Basis of accounting
The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation
The group's financial statements consolidate the financial statements of the company and its subsidiary undertakings up to 31 December 1998. The results of any subsidiaries sold or acquired are included in the group profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

Joint arrangements
The group's share of profits and losses from its investments in joint arrangements is accounted for on a direct basis and is included in the consolidated profit and loss account. The group's share of its investments' assets and liabilities is accounted for on a direct basis in the consolidated balance sheet.

Goodwill
Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. As a consequence of the adoption of Financial Reporting Standard 10 'Goodwill and intangible assets', future goodwill arising will be capitalised as an asset and amortised over its useful economic life. This represents a change from the previous accounting policy. However, cumulative goodwill written off against reserves has not been reinstated. This amount is shown in note 13.

Depreciation
Depreciation on tangible fixed assets is provided using the straight line method to write off the cost, less estimated residual value, over the following number of years:

Plant, fixtures and fittings - 3 to 5 years

Depreciation of the leasehold premises is provided over the remaining period of the lease. No depreciation has been provided on freehold buildings. It is the group's practice to maintain these assets in a continual state of sound repair and accordingly the directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that their depreciation is insignificant. Any permanent diminution in the value of these properties is charged to the profit and loss account as appropriate.

Notes to the financial statements cont.

1 Principal accounting policies cont.

Investments
Investments are valued at cost less provision for any permanent diminution in value.

Leases
Assets financed by means of a finance lease are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on such assets is charged to the profit and loss account in accordance with the accounting policy above over the lease term.

The interest element of payments to leasing companies is calculated on a straight line basis over the lease term and charged to the profit and loss account.

Amounts payable under operating leases are charged to work in progress or net operating expenses on a straight line basis over the lease term.

Stocks and work in progress
Stocks and work in progress are stated at the lower of cost and net realisable value, after deducting deposits received. Land includes undeveloped land and land under development but excludes land being developed under licence agreements and land option payments. Work in progress and Business Expansion Scheme ("BES") assets comprise direct materials, labour costs, site overheads, associated professional charges and other attributable overheads.

Turnover
Turnover represents the total sales value of legally completed properties, excluding land sales and part exchange properties. Turnover and profit on sales are recognised upon legal completion. Turnover does not include properties sold to BES companies until the schemes mature, sales proceeds being held on the balance sheet as BES advances until that date. The properties are held on the balance sheet as BES assets until the sale is recognised.

Interest
Interest is written off to the profit and loss account as incurred.

Taxation
Provision is made for tax on taxable profit and for deferred tax which is likely to crystallise in the foreseeable future.

Pension costs
Pension costs are accounted for on the basis of charging the expected costs of providing pensions over the period during which the group benefits from the employees' services.

2 Turnover

The group has only one class of business which is housebuilding and it is wholly undertaken in the United Kingdom.

Notes to the financial statements cont.

3 Directors

Detailed disclosures of directors' individual remuneration and share options, for those directors who served during the year, are given in the remuneration report on pages 6 to 11.

	1998 £'000	1997 £'000
Fees	**60**	60
Emoluments (including salaries, benefits in kind and annual incentive payments)	**2,862**	2,715
Gains made on exercise of share options	**-**	19
	2,922	2,794

Fees, other emoluments (excluding pension contributions) and gains on exercise of share options payable to the highest paid director are as follows:

	1998 £'000	1997 £'000
Fees, other emoluments and gains on exercise of share options	**568**	524

4 Employees

The average monthly number of persons (including executive directors) employed by the group during the year was 1,861 (1997: 1,698). In addition, the group used the services of a substantial number of self employed labour only site operatives.

	1998 £'000	1997 £'000
Staff costs (for the above persons)		
Wages and salaries	**37,389**	31,943
Social security costs	**3,160**	2,659
Pension contributions	**2,279**	2,093
	42,828	36,695

Notes to the financial statements cont.

5 Net interest payable and similar charges

	1998 £'000	1997 £'000
Bank loans and overdrafts	**11,176**	9,000
BES finance cost	**1,117**	1,537
Finance leases	**349**	249
Other	**164**	319
	12,806	11,105
Less: receivable	**(117)**	(90)
	12,689	11,015

The BES finance cost represents the anticipated cost of the guarantee accrued over the period of the schemes (see note 28).

6 Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Profit on sale of fixed assets	**58**	125
Profit on sale of land	**3,539**	1,478
Rent receivable:		
BES	**242**	322
other	**1,195**	814
And after charging:		
Depreciation:		
owned assets	**369**	391
assets held under finance leases	**1,859**	1,297
Remuneration of auditor and its associates for:		
audit (company £6,000; 1997 £6,000)	**143**	135
other services to the company and its subsidiaries	**188**	185
Operating leases:		
plant hire	**6,377**	6,308
other	**715**	777

Notes to the financial statements cont.

7 Tax on ordinary activities

	1998 £'000	1997 £'000
Current year:		
Corporation tax at 31% (1997: 31.5%)	**13,718**	11,448
Deferred tax	**2,185**	1,285
Over provision in respect of prior years:		
Corporation tax	**(1,820)**	-
Deferred tax	**1,655**	(28)
	15,738	12,705

The taxation charge for the year has been reduced by the utilisation of tax losses acquired with the Ideal Homes group.

8 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £1,718,000 (1997: £15,615,000).

9 Dividends

	1998 £'000	1997 £'000
On equity shares		
Ordinary - Interim paid of 3.3p per share (1997: 3.2p)	**5,880**	5,688
Ordinary- Final proposed of 7.1p per share (1997: 6.8p)	**12,668**	12,101
	18,548	17,789

Under the scrip dividend scheme, £257,000 of the 1997 final dividend (1996 final : £ nil), and £403,000 of the 1998 interim dividend (1997 interim : £109,000) were paid by way of shares, and these amounts have been added back to the profit and loss account reserve (see note 21).

Notes to the financial statements cont.

10 Earnings and net assets per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Employee Share Ownership Trust and the Employee Benefit Trust (see note 19), which are treated as cancelled.

As a consequence of the adoption of Financial Reporting Standard 14 'Earnings per share', diluted earnings per share is now shown. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares from the start of the accounting period. The company has only one category of dilutive potential ordinary shares: those share options and awards granted to directors and employees where the exercise price is less than the average market price of the company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Earnings	**Weighted average number of ordinary shares**	Earnings	Weighted average number of ordinary shares
	1998 £'000	**1998**	1997 £'000	1997
Basic earnings per share	**44,795**	**178,134,131**	37,747	177,104,642
Options	**-**	**444,163**	-	812,117
Diluted earnings per share	**44,795**	**178,578,294**	37,747	177,916,759

The net assets per share calculation is based on net assets of £320,746,000 (1997:£293,431,000) and 178,726,861 ordinary shares (1997: 177,959,148 ordinary shares), being the number in issue at 31 December 1998.

Notes to the financial statements cont.

11 Tangible assets

Group

	Land and buildings £'000	Plant £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation				
At 1 January 1998	4,631	7,901	2,525	15,057
Additions	278	2,823	594	3,695
Disposals	(440)	(1,012)	(530)	(1,982)
At 31 December 1998	**4,469**	**9,712**	**2,589**	**16,770**
Depreciation				
At 1 January 1998	219	3,427	1,624	5,270
Charge for the year	27	1,774	427	2,228
Disposals	-	(813)	(484)	(1,297)
At 31 December 1998	**246**	**4,388**	**1,567**	**6,201**
Net book value at 31 December 1998	**4,223**	**5,324**	**1,022**	**10,569**
Net book value at 31 December 1997	4,412	4,474	901	9,787
Cost or valuation at 31 December 1998 is represented by:				
External surveyors valuation 1988	2,266	-	-	2,266
Cost	2,203	9,712	2,594	14,509
	4,469	**9,712**	**2,594**	**16,775**

The group's net book value of tangible fixed assets of £10,569,000 includes an amount of £5,800,000 (1997: £4,850,000) in respect of assets held under finance leases.

The net book value of the group's land and buildings includes £3,810,000 of freehold and £413,000 of short leasehold (1997: £3,973,000 and £439,000).

The group's land and buildings have an original cost of £3,331,000.

Notes to the financial statements cont.

11 Tangible assets cont.

Company

	Land and buildings £'000	Plant £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation				
At 1 January 1998	1,824	712	820	3,356
Additions	190	274	200	664
Disposals	-	(107)	(47)	(154)
At 31 December 1998	**2,014**	**879**	**973**	**3,866**
Depreciation				
At 1 January 1998	218	201	590	1,009
Charge for the year	27	144	95	266
Disposals	-	(61)	(47)	(108)
At 31 December 1998	**245**	**284**	**638**	**1,167**
Net book value at 31 December 1998	**1,769**	**595**	**335**	**2,699**
Net book value at 31 December 1997	1,606	511	230	2,347
Cost or valuation at 31 December 1998 is represented by:				
External surveyors valuation 1988	1,480	-	-	1,480
Cost	534	879	973	2,386
	2,014	**879**	**973**	**3,866**

The company's net book value of tangible fixed assets of £2,699,000 includes an amount of £807,000 (1997: £650,000) in respect of assets held under finance leases.

The net book value of the company's land and buildings includes £1,356,000 of freehold and £413,000 of short leasehold (1997: £1,167,000 and £439,000). The company's land and buildings have an original cost of £1,107,000.

Group and company land and buildings were valued on an open market existing use basis.

Notes to the financial statements cont.

12 Investments

Company

Interests in subsidiary undertakings

Cost	**£'000**
At 1 January 1998 and 31 December 1998	**78,339**

Details of the group undertakings are set out in note 32.

The company did not make any acquisitions during the year. However, details of acquisitions made by group undertakings are set out in note 13.

13 Acquisitions

On 20 April 1998 Persimmon Homes (Scotland) Limited, a wholly owned subsidiary of Persimmon plc, acquired the trade and assets of the Scottish housebuilding business of Laing Homes Limited.

Subsequent to the acquisition, the group's Scottish business was divided between two subsidiaries, Persimmon Homes (West Scotland) Limited (formerly Persimmon Homes (Scotland) Limited) and Persimmon Homes (East Scotland) Limited (formerly Lockva Limited, a dormant subsidiary) to enhance operational performance.

The acquisition has been accounted for by the acquisition method of accounting.

The assets and liabilities of the Laing business acquired are set out below:

	Book value £'000	Adjustments £'000	Fair value £'000
Stocks and work in progress	19,862	(1,300)	18,562
Debtors	478	-	478
Creditors	(192)	(165)	(357)
Net assets	20,148	(1,465)	18,683
Satisfied by:			
Cash paid			6,578
Deferred consideration payable in 1999			12,105
Total cost of assets acquired			18,683

The book value of the assets and liabilities shown above are as stated in the completion accounts prepared pursuant to the business sale agreement at the date of acquisition.

Notes to the financial statements cont.

13 Acquisitions cont.

The fair value adjustments above principally arise for the following reasons:

- write down of stocks following an assessment of the realisable value of stocks and work in progress; and
- recognition of amounts in respect of unprovided liabilities.

The acquired business generated turnover of £9,966,000 and operating profit of £1,257,000 during the period from the date of acquisition.

In addition, on 16 March 1998 the group entered into a conditional agreement to purchase a group of companies with an interest in land. The acquisition is conditional upon planning permission being granted at which point the consideration will be determined. Until planning permission is obtained the group has no control over the companies. Consequently, the acquired companies have been excluded from the consolidated group balance sheet in accordance with Financial Reporting Standard 2 'Accounting for subsidiary undertakings'.

Goodwill

The cumulative amount of goodwill resulting from acquisitions which has been written off to reserves is £32,729,000 (1997: £32,729,000).

14 Stocks and work in progress

	Group		**Company**	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Land	**337,008**	297,500	-	-
Work in progress	**168,379**	120,487	**473**	147
Part exchange properties	**28,614**	19,292	-	-
Deposits received	**(2,189)**	(2,389)	-	-
Showhouses	**27,053**	24,578	-	-
	558,865	459,468	**473**	147

Notes to the financial statements cont.

15 Debtors

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Amounts due after more than one year				
Secured loans	**4,323**	5,776	**-**	22
Other debtors	**301**	2,937	**-**	-
	4,624	8,713	**-**	22
Amounts due within one year				
Secured loans	**1,830**	2,370	**13**	3
Trade debtors	**14,897**	5,785	**166**	126
Other debtors	**4,093**	6,339	**2,367**	3,867
Amounts owed by group undertakings	**-**	-	**296,256**	296,676
Licensed land prepayments	**13,926**	12,015	**184**	184
Other prepayments and accrued income	**2,021**	1,887	**907**	239
	36,767	28,396	**299,893**	301,095
Total debtors	**41,391**	37,109	**299,893**	301,117

16 Borrowings

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Amounts due within one year				
Bank overdrafts	**9,509**	5,907	**-**	20,191
US senior loan notes	**6,300**	-	**6,300**	-
	15,809	5,907	**6,300**	20,191
Amounts due after more than one year				
Bank loans	**44,920**	19,890	**44,920**	19,890
US senior loan notes	**36,350**	42,650	**36,350**	42,650
	81,270	62,540	**81,270**	62,540

Syndicated loan
The group has a syndicated loan facility of £120 million of which £45 million was drawn down at 31 December 1998. The facility is reviewable by March 2001. The loan is unsecured and has a floating rate of interest linked to LIBOR.

US private placement of senior loan notes
The group issued US$ 65 million of unsecured 7% fixed interest loan notes on 16 May 1996. The notes are repayable in annual instalments from May 1999. The notes have been swapped into £42.7 million of floating rate debt linked to LIBOR with the same maturity profile.

Notes to the financial statements cont.

17 Other creditors

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts due within one year				
Obligations under finance leases	**2,241**	1,676	**329**	263
Trade creditors	**66,890**	53,861	**514**	355
Land creditors	**35,131**	20,184	**-**	-
Licensed land agreements	**994**	554	**-**	-
Amounts owed to group undertakings	**-**	-	**17,226**	2,266
Corporation tax	**11,018**	4,796	**2,602**	4,095
Advance corporation tax	**1,224**	4,500	**1,224**	-
Other taxation and social security	**1,513**	1,285	**215**	215
Other creditors	**16,925**	4,791	**13,029**	1,211
Accruals and deferred income	**21,114**	16,846	**1,307**	1,774
Dividends payable	**12,668**	12,101	**12,668**	12,101
	169,718	120,594	**49,114**	22,280
Amounts due after more than one year				
Obligations under finance leases	**3,574**	3,125	**488**	390
Land creditors	**13,654**	12,713	**-**	-
Accruals and deferred income	**1,175**	2,040	**-**	1,550
	18,403	17,878	**488**	1,940

Certain of the land creditors are secured upon land but there is no interest accruing thereon.

The following amounts are repayable by instalments:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Bank loans				
Between one and two years	**7,900**	6,300	**7,900**	6,300
Between two and five years	**68,620**	43,590	**68,620**	43,590
In five years or more	**4,750**	12,650	**4,750**	12,650
	81,270	62,540	**81,270**	62,540
Land creditors				
Between one and two years	**7,875**	8,399	**-**	-
Between two and five years	**5,679**	4,314	**-**	-
In five years or more	**100**	-	**-**	-
	13,654	12,713	**-**	-

Notes to the financial statements cont.

17 Other creditors cont.

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Finance leases				
Between one and two years	**1,813**	1,532	**261**	177
Between two and five years	**1,761**	1,593	**227**	213
	3,574	3,125	**488**	390

18 Deferred tax

There is no potential liability in the group for deferred tax (company £ nil). The following net deferred tax assets have been recognised in other debtors as at 31 December 1998 (company £ nil):

Group

	£'000
Short term timing differences	**(654)**
Losses	**1,176**
	522

The movement is as follows:	
At 1 January 1998	4,362
Profit and loss account	(3,840)
At 31 December 1998	**522**

There is a potential liability to capital gains tax of approximately £157,000 (1997: £110,000), which would arise if the group disposed of its freehold and leasehold properties at their revalued amounts. No provision has been made as the group has sufficient capital losses to cover any such gains.

Notes to the financial statements cont.

19 Called up share capital

	1998 £'000	1997 £'000
Authorised		
220,000,000 (1997: 220,000,000) ordinary shares of 10p each	**22,000**	22,000
Allotted, called up and fully paid		
178,726,861 (1997: 177,959,148) ordinary shares of 10p each	**17,873**	17,796

During the year 351,371 ordinary shares of 10p each were issued in lieu of payment of ordinary dividends and a total of 113,533 ordinary shares of 10p each were allotted in respect of the exercise of share options.

An Employee Share Ownership Trust (ESOT) was established on 9 October 1997. During 1998 the ESOT, funded by Persimmon plc, subscribed for 202,809 ordinary shares of 10p each at a market value of £2.595 per share for a total cost of £526,000. Profit and loss reserves totalling £526,000 have been capitalised on issuing these shares (see note 21). The ESOT's entire holding of shares will be distributed to participating employees as they exercise SAYE scheme contracts. Dividends on these shares have been waived. The market value of these shares at 31 December 1998 was £330,000.

On 1 June 1998 the Persimmon 1998 Employee Benefit Trust (EBT) was established to hold shares under the terms of the trust deed until required to satisfy awards under the LTIP (see page 7). During 1998 the EBT, funded by Persimmon plc, subscribed for 100,000 ordinary shares of 10p each at a market value of £1.46 per share for a total cost of £146,000. Profit and loss reserves totalling £146,000 have been capitalised on issuing these shares (see note 21). Dividends on these shares have been waived. The market value of these shares at 31 December 1998 was £163,000.

Notes to the financial statements cont.

20 Options in shares of Persimmon plc

Under the various schemes, options to subscribe for a total of 8,271,697 ordinary shares have been granted to employees (including full time directors of the company) and were outstanding on 5 March 1999 (the latest practicable date prior to publication of this document) as follows:

a) Persimmon plc 1988 Executive Share Option Scheme

Number of shares	Price per share	Dates of exercise
205,666	141.5p	March 1993 to March 2000
173,703	210.0p	March 1994 to March 2001
42,486	262.0p	Sept 1994 to Sept 2001
536,400	227.0p	April 1995 to April 2002
39,317	139.5p	Sept 1995 to Sept 2002
754,136	214.0p	April 1996 to April 2003
21,243	266.5p	Sept 1996 to Sept 2003
633,300	269.0p	April 1997 to April 2004
955,229	171.5p	April 1998 to April 2005
36,943	158.5p	Oct 1998 to Oct 2005
835,000	196.0p	April 1999 to April 2006
190,000	208.5p	Oct 1999 to Oct 2006
4,423,423		

b) Persimmon plc 1997 Executive Share Option Scheme

Number of shares	Price per share	Dates of exercise
1,450,090	233.0p	May 2000 to May 2004
572,700	158.0p	Oct 2001 to Oct 2005
2,022,790		

c) Persimmon plc 1997 Executive Share Option Plan

Number of shares	Price per share	Dates of exercise
140,410	233.0p	May 2000 to May 2007
150,800	158.0p	Oct 2001 to Oct 2008
291,210		

d) Persimmon plc 1987 Savings Related Share Option Scheme

Number of shares	Price per share	Dates of exercise
64,166	187.6p	Nov 1999 to April 2000
228,645	131.7p	Nov 2000 to April 2001
145,840	168.0p	Dec 1999 to May 2000
140,835	194.0p	Dec 2000 to May 2001
579,486		

e) Persimmon plc 1998 Savings Related Share Option Scheme

Number of shares	Price per share	Dates of exercise
954,788	126.0p	Dec 2001 to May 2002

In addition, 421,000 shares may be awarded under the terms of the LTIP (as described on page 7) during the period March 2002 to September 2002. £200,000 has been charged in the profit and loss account reflecting management's best estimate of the cost of this award in the current year.

Notes to the financial statements cont.

21 Share premium account and reserves

	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
Group				
At 1 January 1998	197,117	3,123	1,242	74,153
Exercise of share options	196	-	-	-
Scrip dividends	(35)	-	-	660
ESOT capitalisation issue	506	-	-	(526)
LTIP	136	-	-	54
Retained profit for the year	-	-	-	26,247
At 31 December 1998	**197,920**	**3,123**	**1,242**	**100,588**
Company				
At 1 January 1998	197,117	4,609	907	54,571
Exercise of share options	196	-	-	-
Scrip dividends	(35)	-	-	660
ESOT capitalisation issue	506	-	-	(526)
LTIP	136	-	-	54
Deficit for the year	-	-	-	(16,830)
At 31 December 1998	**197,920**	**4,609**	**907**	**37,929**

22 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Group		
Profit for the financial year	**44,795**	37,747
Dividends	**(18,548)**	(17,789)
	26,247	19,958
New share capital issued (excluding scrip issue)	**880**	5,456
Expenses of share issue	-	(3)
Scrip dividends	**660**	109
ESOT capitalisation issue	**(526)**	(153)
LTIP	**54**	-
Goodwill arising during the year	-	(1,486)
Net increase to shareholders' funds	**27,315**	23,881
Opening shareholders' funds	**293,431**	269,550
Closing shareholders' funds	**320,746**	293,431

Notes to the financial statements cont.

23 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £'000	1997 £'000
Operating profit	73,222	61,467
Depreciation charge	2,228	1,688
Profit on sale of fixed assets	(58)	(125)
LTIP charge	200	-
Increase in stocks and work in progress and BES assets	(71,231)	(13,845)
(Increase)/decrease in debtors	(7,679)	941
Increase/(decrease) in creditors	21,332	(4,730)
Net cash inflow from operating activities	18,014	45,396

24 Reconciliation of net cash flow to net debt

	1998 £'000	1997 £'000
Decrease in cash in the year	(3,540)	(15,166)
(Increase)/decrease in debt and lease finance	(23,002)	60,786
Decrease in liquid resources	-	(35,000)
(Increase)/decrease in net debt from cash flows	(26,542)	10,620
New finance leases	(3,042)	(3,781)
(Increase)/decrease in net debt in the year	(29,584)	6,839
Net debt at 1 January	(73,126)	(79,965)
Net debt at 31 December	(102,710)	(73,126)

Notes to the financial statements cont.

25 Analysis of net debt

	1998	Cash flow and lease financing	1997
	£'000	£'000	£'000
Net cash:			
Cash at bank and in hand	**184**	62	122
Bank overdrafts (see note 16)	**(9,509)**	(3,602)	(5,907)
Net cash per cash flow statement	**(9,325)**	(3,540)	(5,785)
Debt and lease financing:			
Bank loans (see note 16)	**(44,920)**	(25,030)	(19,890)
US senior loan notes (see note 16)	**(42,650)**	-	(42,650)
Finance leases (see note 17)	**(5,815)**	(1,014)	(4,801)
Debt and lease financing	**(93,385)**	(26,044)	(67,341)
Net debt	**(102,710)**	(29,584)	(73,126)

26 Capital commitments

At 31 December 1998 there were capital commitments contracted for amounting to £586,000 (1997: £50,000) in the group and capital commitments contracted for in the company of £569,000 (1997: £50,000).

27 Contingent liabilities

In the normal course of business the group has given counter indemnities in respect of performance bonds and financial guarantees and in respect of the overdrafts of its subsidiary undertakings. At 31 December 1998 the overdrafts amounted to £15,043,000 (1997: £ nil).

The company has guaranteed the return to investors in the companies formed under the Business Expansion Scheme and has indemnified the company's bankers who have provided guarantees of up to £24,000,000 in support of these obligations.

The group has entered into a number of licence agreements with third parties, which give it the right to build and sell houses on land owned by the third party. Upon legal completion the house purchaser makes a land payment to the third party and the balance of the sales proceeds is paid to the group. In many instances, the group has guaranteed minimum aggregate land payments at appropriate dates. If it becomes necessary to make advance payments to the licensor, amounts paid are included as prepayments in the balance sheet and are subsequently recovered on the sale of the properties.

Notes to the financial statements cont.

28 Properties in Business Expansion Scheme (BES) companies

The group sold properties into BES companies set up under BES assured tenancy schemes from 1989 to 1993.

Persimmon plc has guaranteed the return to investors in the companies formed under the BES (see note 27). Because the company has guaranteed that the BES companies will have sufficient cash resources at scheme maturity to pay the guaranteed return to investors, the proceeds received for the properties are treated as loans under BES advances on the balance sheet. The finance cost implicit in the BES arrangements, calculated by reference to the difference between the sales proceeds received and the guaranteed distribution to investors, is being charged in the profit and loss account over the appropriate term. In addition, the net rental income arising in the BES companies is recognised in the profit and loss account in the appropriate period.

Turnover does not include properties sold to BES companies until the schemes mature, the properties being held at cost on the balance sheet as BES assets until the sale is recognised.

At 31 December 1998 only one scheme remained, all obligations under previous schemes having been fulfilled. The maturity date of the remaining scheme was 31 January 1999. The company has acted on behalf of the BES companies in the sale of the properties prior to the scheme maturity date in accordance with the original scheme rules. The company has exercised its option to repurchase the properties that remained unsold at maturity in fulfilling its obligations under the guarantees.

29 Financial commitments

At 31 December annual contributions under non cancellable operating leases were as follows:

	1998		1997	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Group				
Expiring within one year	**-**	**474**	-	356
Expiring between two and five years inclusive	**59**	**1,988**	29	896
Expiring in over five years	**1,032**	**2**	1,032	-
	1,091	**2,464**	1,061	1,252
Company				
Expiring within one year	-	3	-	16
Expiring between two and five years inclusive	-	93	-	43
Expiring in over five years	25	-	25	-
	25	96	25	59

Notes to the financial statements cont.

30 Related party disclosures

The company acquired from the Chairman, Mr D H Davidson, an interest in land in 1984 for £180,000. In the event of planning permission being granted a further payment will be made to him by reference to the then current market value. The maximum further amount payable to Mr Davidson is £1,250,000.

31 Pension and life assurance scheme

The group operates a contracted out defined benefit pension scheme, the assets of which are held in a separate trustee administered fund.

In the past the fund has been valued at least every three years by a professionally qualified independent actuary but it has now been agreed that with effect from 1 July 1998 that the fund will be valued every two years.

The most recent valuation of the scheme was undertaken as at 1 July 1998 and used the projected unit method. The main long term actuarial assumptions used were that the investment return would be 8.75% per annum, salaries would increase by 6% per annum, pensions would increase at a rate of 4.5% per annum for Limited Price Indexation purposes and at 3% per annum for service prior to April 1997, and dividends would increase at 5.5% per annum. The market value of the scheme's assets on 1 July 1998 was £29,958,000. The actuarial value of these assets represents 87% of the value of the benefits for past years' service to the date of the valuation allowing for future salary increases. The joint contribution rate was increased to 18% of pensionable salaries from 1 January 1999 with a view to making up the deficiency over the expected average remaining service lives of the members. The rates of contribution payable are recommended by the actuary and agreed with the company. In the intervening years the actuary reviews the continuing appropriateness of the rates. The effects of variations from regular costs are spread over the expected average remaining service lives of members of the scheme.

The total pension cost for the group was £2,279,000 (1997: £2,093,000).

The next actuarial valuation will take place on 1 July 2000.

Other than the FURB which has been set up for each executive director of the company the group provides no other post retirement benefits.

Notes to the financial statements cont.

32 Details of group undertakings

The directors set out below information relating to the major trading subsidiary undertakings and joint arrangements. All of these companies operate and are incorporated in Great Britain. A full list of subsidiary undertakings will be annexed to the company's next annual return.

Subsidiary undertakings

The following subsidiaries are all wholly owned.

Persimmon Homes (Yorkshire) Limited
Persimmon Homes (West Yorkshire) Limited
Persimmon Homes (East Yorkshire) Limited
Persimmon Homes (East Midlands) Limited
Persimmon Homes (Wessex) Limited
Persimmon Homes (Midlands) Limited
Persimmon Homes (North Midlands) Limited
Persimmon Homes (Wales) Limited
Persimmon Homes (Anglia) Limited
Persimmon Homes (South East) Limited
Persimmon Homes (South Coast) Limited
Persimmon Homes (Thames Valley) Limited
Persimmon Homes (South West) Limited
Persimmon Homes (West Scotland) Limited
Persimmon Homes (East Scotland) Limited
Persimmon Homes (North East) Limited
Persimmon Homes (North West) Limited
Persimmon Homes Limited
Persimmon Developments Limited
Ideal Homes Holdings Limited
Ideal Homes Limited *
E.F.G.H. Limited *

Joint Arrangements

Name of undertaking	Description of shares held	Proportion of nominal value of ordinary shares held %	Accounting year end
Locking Castle Limited*	'B' Ordinary shares of £1 each	33.33	30 September
Rothley Temple Estates Limited*	Ordinary shares of £10 each	22.50	31 March
Trafalgar Metropolitan Homes Limited*	'A' Ordinary shares of £1 each	50.00	30 September

*The shares of these companies are held by Ideal Homes Holdings Limited.

Share price - year ended 31 December 1998

Price at 31 December 1998	162.5p
Lowest for year	139.5p
Highest for year	259.5p