

Well positioned for the future

Annual Report December 2010



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Cover, clockwise from left:
The Vale, Portishead, Bristol
Maresfield Park, Maresfield, East Sussex
Bannerbrook, Coventry, South Midlands

Persimmon is a leading UK housebuilder operating from 25 regional offices. We sold 9,384 new homes in 2010.

Macroeconomic conditions remain challenging and we anticipate the marketplace remaining constrained for the next two to three years, principally due to mortgage availability.

However, customers continue to visit our sites across the whole country in good numbers demonstrating that underlying demand for new homes remains resilient.

Our robust balance sheet places us in a very strong position to take advantage of opportunities in the marketplace that will help our profitable growth.

We remain confident in the future prospects of the housing market in the long term.

Good progress but the future remains challenging

Persimmon plc has delivered an excellent performance for the year ended 31 December 2010 despite challenging conditions. These results reflect the successful implementation of our strategy of firm cost control, maximisation of sales revenues and pursuit of strong cash generation. During the year we increased legal completions, revenue, margins and profits. We also reduced debt by over £215 million and reinstated dividends whilst continuing to invest in our landbank.

Despite the ongoing low level of mortgage approvals, the Group is achieving improving returns and remains well positioned for the upturn in the housing market when it occurs.

Results

Pre-tax profit for the year ended 31 December 2010, before exceptional items and goodwill charges, increased significantly to £95.5 million (2009: £7.0 million). The pre-tax profit for the full year, after exceptional items and goodwill charges, was £153.9 million (2009: £77.8 million). Basic earnings per share were 38.3p (2009: 24.7p). Net assets per share increased to 579.1p (2009: 540.2p).

Underlying operating profit for the year, before exceptional items and goodwill charges, was £128.7 million (2009: £57.2 million), representing an 8.2% operating margin (2009: 4.0%). We continued to focus on tight cost control within the Group with net operating expenses of £66.1 million (2009: £66.4 million) which were slightly lower than last year.

A total net exceptional credit of £63.0 million was recognised during the year, being £80.2 million of net land provision release offset by costs incurred on the early repayment of certain Senior Loan Notes (£9.0 million) and the write-off of prepaid arrangement fees on existing credit facilities (£8.2 million).

Sales revenues increased during the year by 10.5% with a turnover of £1.57 billion (2009: £1.42 billion). This was due to increases of 4.5% in the number of legal completions achieved to 9,384 (2009: 8,976) and 5.7% in the average selling price of homes sold to £167,249 (2009: £158,272). The improvement in average selling price was as a result of a change of mix of homes sold as well as an underlying increase in selling prices of c. 3%.

Free cashflow of £225.6 million was generated during 2010 further reducing net borrowings to £51.0 million at the year end (2009: £267.5 million). Total underlying net financing costs for 2010, including imputed charges were £33.2 million (2009: £50.2 million).

We achieved this cash generation and debt reduction whilst opening c. 165 new sites during the year and also acquiring c. 10,200 plots of new land. This will underpin our future performance as we work through some of our legacy sites. We have continued to successfully secure deferred terms on our new land purchases. Land creditors at 31 December 2010 of £195.8 million were at similar levels to the prior year (2009: £183.9 million). We currently have 58,862 plots of consented land owned and under control which provides c. 6.3 years' of supply at current sales and build rates.



£1.57bn

Turnover (2009: £1.42bn)

£95.5m

Pre-tax profits* (2009: £7.0m)

£128.7m

Operating profit** (2009: £57.2m)

8.2%

Operating margin** (2009: 4.0%)

3%

Gearing (2009: 16%)

579.1p

Net assets per share (2009: 540.2p)

* Stated before exceptional credits of £63.0m (2009: £74.8m credit) and goodwill impairment of £4.6m (2009: £4.0m)

** Stated before exceptional credits of £80.2m (2009: £74.8m) and goodwill impairment of £4.6m (2009: £4.0m)

Dividend

When we announced our half year results, we confirmed that we would reinstate dividends and paid an interim dividend of 3.0p per share.

In the light of these results, current trading and the outlook for the business, the Board has decided to recommend a final dividend of 4.5p per share which will be paid on 14 June 2011 to shareholders on the register on 6 May 2011. This will bring the total dividend paid for the full year to 7.5p per share (2009: Nil) which is covered 3.3x by underlying earnings per share. The directors will again be offering a dividend reinvestment plan ("DRIP") and the latest election date for the DRIP is 23 May 2011.

Outlook

As we have previously stated activity in the housing market in the Autumn of 2010 was subdued. Whilst this resulted in us having a lower forward order book at the start of 2011 when compared to 2010, our forward sales at 1 January 2011 remained strong at £565 million (1 January 2010: £638 million).

In addition, since the beginning of the year sales have been encouraging and we currently have total sales of c. £848 million, (2010: £898 million) including legal completions already achieved during 2011. Prices remain stable whilst we are achieving some margin improvement over the comparative period of 2010.

We continue to open new developments and where we do so, benefit from good demand. Whilst we apply caution to all our investments, the current levels of visitors to our developments and the interest in our

homes is encouraging. Of course, we would like to see an increase in mortgage approvals and an increase in loan to value products for first time buyers. However, the organisation, scale and cost base of the Group enable us to operate successfully at the current levels of activity.

Board

As previously announced, I will retire from the Board at the forthcoming Annual General Meeting on 21 April and will be replaced as Group Chairman by Nicholas Wrigley. I am very proud to have served Persimmon in various roles since I joined the business in 1979 and I leave the Company with great confidence in its future.

Nicholas Wrigley has been a Non-Executive Director since 2006, during which time his contribution to the Board has been excellent. Nicholas is also an Executive Vice Chairman of Rothschild, London.

Finally, I would personally like to thank all those who have supported me and the Board over many years. Without the wonderful commitment of so many "Persimmon" people, external advisers and contractors our performances each year would not have been achieved.

Once again our results in 2010 are a credit to all the members of our teams across the whole of the business and on behalf of the Board, I thank them all.

John White

Group Chairman

28 February 2011

Respected brands



Persimmon Homes is our main business. We have 24 regional Persimmon offices from Exeter to Edinburgh, building quality homes which provide the very best in design and construction. The wide range of property types includes three, four and five bed detached properties; two and three bed town houses; semi-detached houses; bungalows and apartments.



Church Meadows, Weston-Super-Mare, Somerset



Claremont Park, Hurstpierpoint, Sussex



CHARLES CHURCH

THE NAME ON THE FINEST HOMES

Charles Church is one of the country's foremost house building brands with an unrivalled reputation for the design and quality of the homes it builds. Charles Church provides a range of premium homes, in both modern and traditional styles.



Bellsdyke Meadows, Larbert, Scotland



Wenlock Rise, Bridgnorth, Shropshire



The Westbury Partnerships business focuses on social housing, in conjunction with Space4, our timber frame manufacturing operation. By working closely with Housing Associations, this part of our business aims to offer solutions to some of the country's affordable housing problems.



Malvern, Worcestershire



Knowle, Bristol

National coverage

National presence through a network of 25 regional offices:

● North Division

2,537 Units sold

This division includes operating businesses in Scotland, North West, North East and Yorkshire.

● Central Division

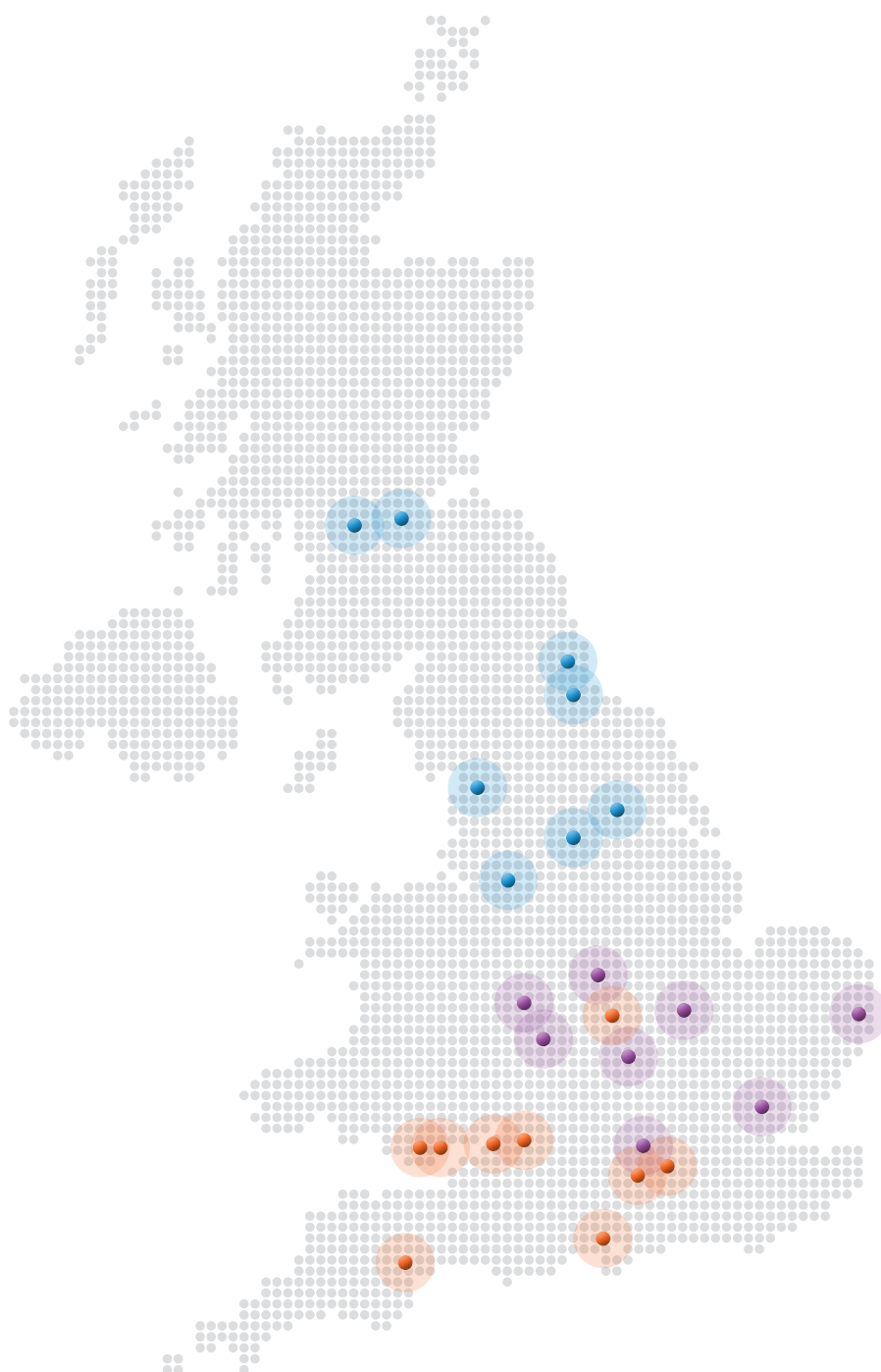
3,539 Units sold

Our Central Division includes our Birmingham, Shires and Eastern regions.

● South Division

3,308 Units sold

This division includes our Southern, Western and Wales regions, Westbury Partnerships and Space4.



How we create value

Persimmon has a simple business model designed to create value for our shareholders. We build a range of quality homes from small affordable houses to large premium family homes for our customers.

Financial strength

Our financial strength with gearing at 3% and net assets of over £1.7bn has enabled us to emerge strongly from the recent turmoil in the housing market and gives an excellent platform for future growth.

£1.7bn
Net assets

£51m
Net debt*

* Stated before finance leases and financing transaction costs

8.2%
Operating margin**

** Stated before exceptional credits of £80.2m and goodwill impairment of £4.6m

£225.6m
Free cash flow

Selective land acquisition

We carry out extensive due diligence on our land acquisitions and ensure the right housing mix for each location. Over 30% of our new land is obtained from our strategic land bank at enhanced operating margins.



Portishead Harbour, Bristol

Sales

We build quality homes across the UK from Exeter to Edinburgh and from Llanelli to Lowestoft. By maximising sales revenue and maintaining firm cost controls we aim to improve margins and create strong cash generation.





Charles Church Sales Representatives

Trust, reputation and service

Our Customer Charter is set out in the Persimmon Pledge. Our customers are at the centre of what we do and we aim to provide the highest customer satisfaction with the best quality products.

93%
of our customers would
recommend us to a friend

Building quality homes, from small to executive

We build our new homes to customer order, maintaining close control of our work in progress. We carry out extensive quality control tests at important build stages of our homes. Our homes provide the best in design and construction.



Earlsbrook, Swindon, Wiltshire



Heronsbrook, Minster, Kent



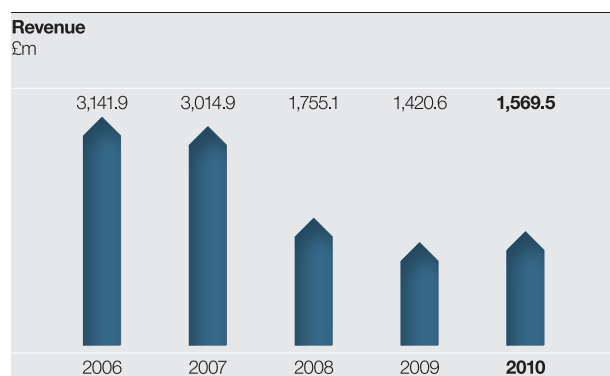
Royal Meadows, Polmaise, Shropshire

Solid performance

■ Financial KPI ■ Non-financial KPI

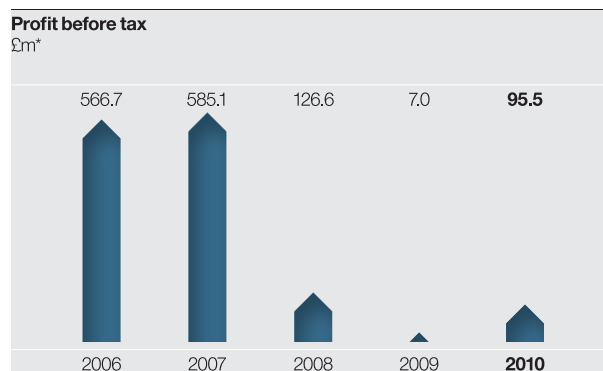
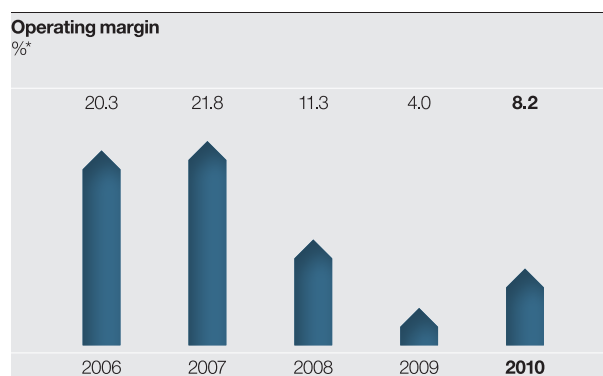
Revenue measures

Strong revenue growth is an important measure of the success of our business plan. Our emphasis on traditional housing puts us in a strong position to maximise sales.



Profit measures

Our margin has historically been one of the best in the sector and our cost reduction and efficiency programmes have been undertaken to maintain this position.



Non-financial KPIs

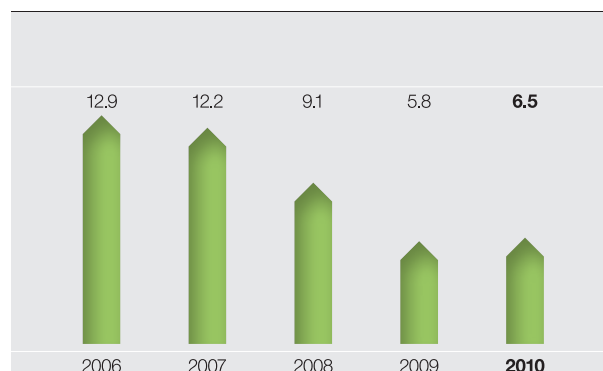
Customers that would recommend Persimmon to a friend

We undertake regular customer satisfaction surveys to ascertain our customers' opinion of our overall service and the quality of our homes.



The Reportable Injuries Disease and Dangerous Occurrences Regulations (RIDDORS)

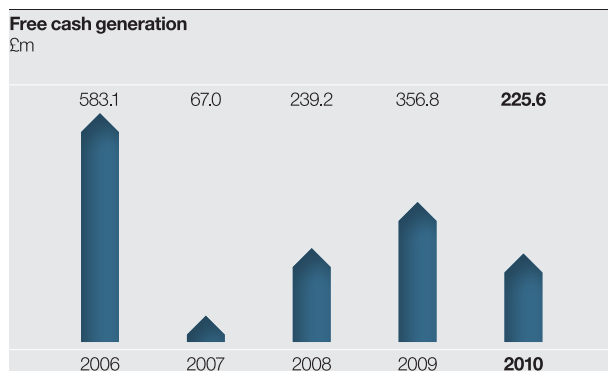
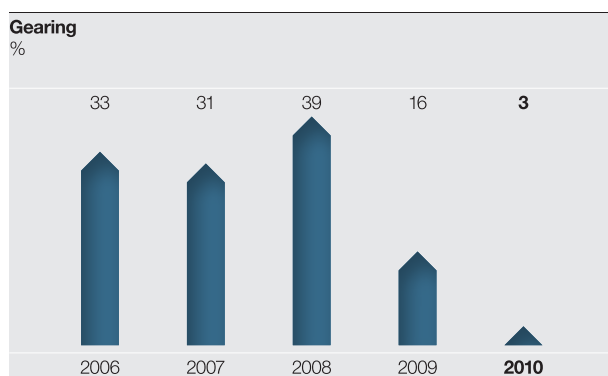
We regularly monitor our health and safety performance and review our performance based on our incident rate of RIDDORS reported per 1,000 workers.



* 2006–2010 stated before exceptional items and goodwill impairment
 After exceptional items and goodwill impairment, if different, the figures are as follows:
 Operating margin: 13.0% (2009: 9.0%; 2008: –40.7%)
 Profit before tax: £153.9m (2009: £77.8m; 2008: loss of £780.0m; 2007: £582.7m)
 Return on average capital employed: 10.1% (2009: 6.2%; 2008: –23.1%;
 2007: 21.6%; 2006: 23.1%)

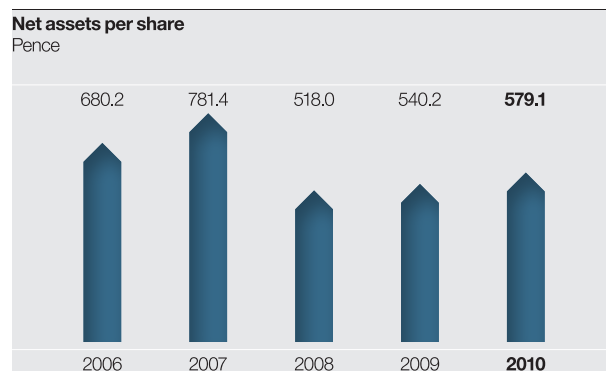
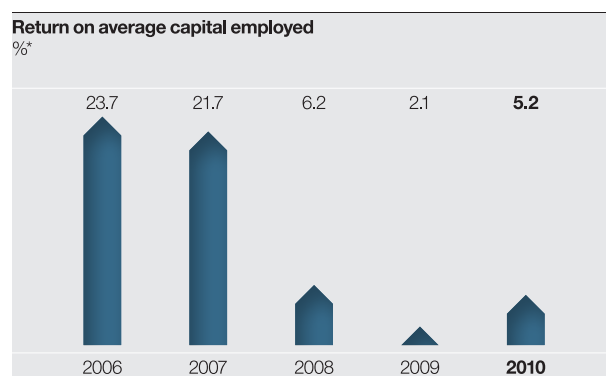
Net debt measures

Net debt is used to measure balance sheet strength. Ensuring we have an appropriate capital structure to support future growth is key to our success.



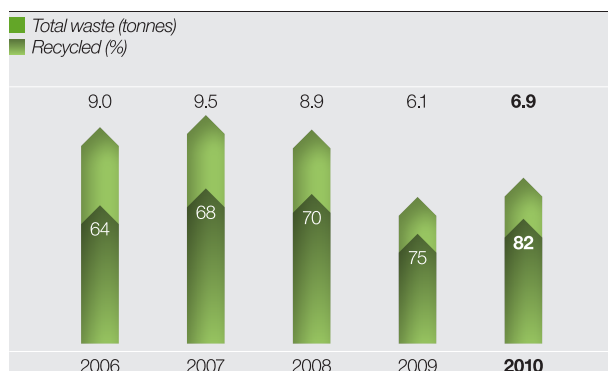
Return measures

A combination of higher revenue growth and margin improvement will deliver growth in return on invested capital. We will continue our disciplined approach to working capital management.



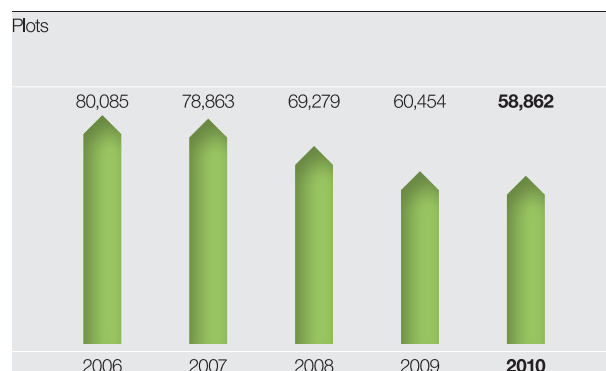
Waste generated per home sold

To monitor our operational and environmental efficiency, we collect data on the amount of waste we generate and recycle for each home we sell.



Landbank

Land is our key raw material and we monitor the amount of land we control with planning permission to ensure that we have continuity of supply.



The right strategic direction

Our objective is to be the leading national housebuilder, building homes ranging from small affordable starter homes to large premium family homes and selling to both the private market and housing associations. Our strategy to achieve this objective is set out below.

1

Continued focus on cash generation

- Appropriate capital structure
- Reduce finance costs
- Good flexibility

The housing market continues to be constrained by the lack of mortgage availability which affects housing demand throughout the country. Our strategy of cash generation, which was very successful during 2010, will continue to reduce our debt, maintain liquidity and an appropriate capital structure for our balance sheet.

Our current landbank represents over six years supply. Our strategy is to continue to optimise the scale of our landbank to a size that supports the level of trading achievable within the current market. We consider that a landbank equivalent of c. five years supply would align our landbank with expected future customer demand for our homes.

The planned optimisation of our landbank will release capital, reduce debt and improve our return on capital employed.

2

Improving margins

- Lower build costs
- Re-plan existing sites
- Acquisition of new land at attractive prices
- Pull through of strategic land at enhanced margins

Our business requires in depth knowledge of local markets in order to engage subcontractors, plan sites in accordance with local demand, anticipate customer taste and to assess the regulatory environment. Our divisional structure is designed to utilise our local market expertise.

We continue to review our business processes to control costs and rebuild our operating margin. We have dual branded our regional housebuilding operations with both Persimmon Homes and Charles Church brands to capture best working practices and economies of scale.

We have a very strong and diverse supply chain and we ensure we are not dependent on a single supplier or subcontractor for the construction of our new homes.

We maintain efficient operations by utilising standardised materials available from a variety of sources and suppliers, thereby lowering our build costs. We continue to re-plan our existing sites to maximise sales opportunities.

3

Selective new site acquisitions

Increased southern exposure

More traditional site layouts

With the right product

We reduce our exposure to local market volatility by maintaining operations across markets throughout the UK to enhance our sales potential.

We acquire new sites in locations where our market experience confirms good levels of customer demand for new homes.

We will acquire new land at attractive prices from the promotion of our strategic landbank and selectively acquire land that will deliver enhanced margins in the future.

We will undertake selective new site starts closely controlling our working capital expenditure to ensure that we have the right product availability in the right locations across the UK.

4

Build sustainable homes

Reduce costs and improve the energy efficiency of our homes

Support site production rates to overcome any potential labour shortages

Invest in Space4

In order to meet increasing sustainability requirements for our new homes and improved operational efficiency, we will continue to invest in our closed panel timber frame manufacturing facility at Space4.

Space4's new Eco-housing range will reduce costs and improve the energy efficiency of our homes. The strategy of using modern methods of construction will continue to support site production rates and overcome any potential labour shortages.

Space4 will continue to work closely with our social housing division, Westbury Partnerships, to supply affordable, sustainable, energy efficient new homes into the public sector housing market.

A strong platform for profitable growth

2010 saw Persimmon successfully deliver underlying operating margin expansion and free cash flow in line with our key strategic objectives.

9,384

Legal completions (2009: 8,976)

8.2%

Operating margins* (2009: 4.0%)

£225.6m

Net cash inflow (2009: £356.8m)

£51.0m

Net debt** (2009: £267.5m)

£169,339

Average selling price*** (2009: £160,513)

£565.1m

Forward sales (2009: £637.8m)

* Stated before exceptional credits of £80.2m (2009: £74.8m credit) and goodwill impairment of £4.6m (2009: £4.0m)

** Stated before finance leases and financing transaction costs

*** Stated before fair value charge of £19.6m (2009: £20.1m) on shared equity sales



Left: Mike Farley, Group Chief Executive
Right: Mike Killoran, Group Finance Director

Market place & trading

2010 saw Persimmon successfully deliver underlying operating margin expansion and free cash flow in line with our key strategic objectives. We have continued to invest in our business across the country and have opened c.165 new sites this year as well as acquiring c.10,200 plots of land which will sustain the business for the future.

During 2010 the UK housing market experienced another challenging period. We entered the year with a strong forward order position with forward revenues of £638 million. The uncertainty during the lead up to the General Election was settled in early May. Throughout this period the housing market remained active with a positive Spring selling season.

Sales rates through the first half of the year were encouraging with continued low cancellation rates of c.16% which was in line with the prior year.

Whilst mortgage availability has remained tightly constrained, mortgage approvals have proved to be reasonably stable at just under 50,000 approvals for house purchases each month. This scale of activity remains significantly below normal levels and reflects the much reduced risk appetite of mortgage lenders. First time buyers in particular continue to face major obstacles in gaining access to mortgage products which offer higher loan to values at affordable prices.

As a result customers continue to seek support for the purchase of a new home through both the provision of shared equity incentives and part exchange arrangements. Consequently c.28% of the Group's sales volumes in 2010 were supported with an element of shared equity.

The Government sponsored HomeBuy Direct shared equity scheme came to an end on 30 September 2010. We were able to partner with Government in supporting customers to buy approximately 2,200 new homes from the Group using this facility. We have been successful in securing support under the subsequent Government Kickstart programmes to allow us to offer c.1,200 additional new homes on c.40 sites through to the end of March 2012. We are working hard to introduce our customers to this opportunity as part of our ongoing marketing campaigns.

Shared equity receivables with a fair value of £115 million were outstanding at 31 December 2010 and are disclosed as "available for sale financial assets".

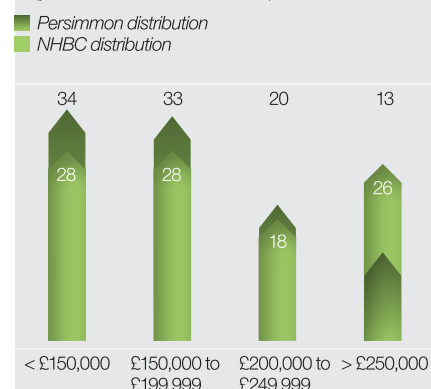
In addition customers are increasingly keen to take advantage of our part exchange facilities. However, the value of our holdings of part exchange second hand properties at 31 December 2010 remained at historically low levels at £33m (2009: £9m).

Our strong carried forward sales and an encouraging Spring sales season enabled the Group to complete the sale of 4,657 new homes in the first half of 2010 (2009: 4,006). This 16% increase in volume together with the 9% increase in average selling price enabled us to deliver a 27% increase in revenues in the first six months of the year. We were also able to continue to strengthen our order book to the end of the first half with forward revenues of £708 million (2009: £694 million).

The 9% increase in average selling price for the first half was mainly due to sales mix changes, a greater proportion of existing home owner sales being achieved. We also delivered a greater proportion of sales in

House sales by price band*

% (year ended 31 December 2010)



southern markets which generally carry higher prices. However, we secured c.3% underlying price growth during the Spring season which supported the improvement in our underlying operating margin to 8.0% for the first six months (2009 H1: 1.6%).

With the more positive sales rates in early Spring 2010 we opened c.90 new sites during the first half. Whilst this maintained our overall active outlet network at c.380 sites, these new site openings enabled us to capture pent up demand in good quality private market locations. We were also able to deliver the required affordable homes to our Housing Association partners on opening these new sites.

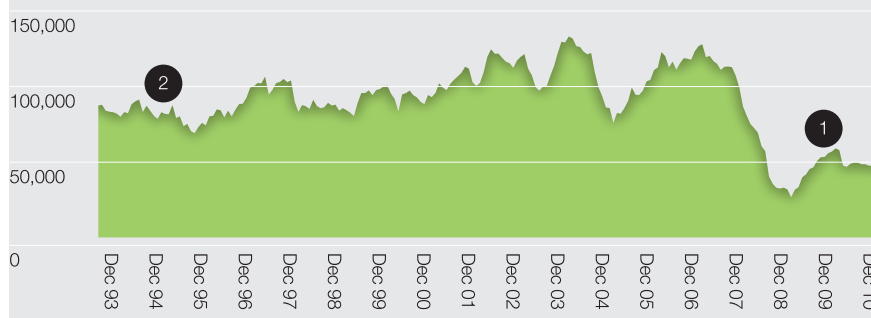
We have continued to focus on replanning existing sites to improve the overall quality of our forward landbank. The benefits of achieving greater coverage of traditional two-storey housing on our schemes, of lower build costs, tighter build control, greater flexibility of build in response to sales interest and better marketability will assist the continued improvement in our operating margins in the future.

1) Average monthly approvals since beginning of 2008: **47,000**

2) Average monthly approvals since beginning of 1994: **90,000**

Monthly mortgage approvals for house purchase

Source: Bank of England



After the traditionally quieter summer weeks the Autumn sales season was more subdued due in part to the uncertainty with respect to public sector employment and the planned significant reductions in expenditure as part of the Government's Comprehensive Spending Review. As a result, sales rates through the Autumn were lower and with the onset of the unusually extreme weather from late November through to Christmas, site activity was understandably quieter. However, forward sales at 31 December 2010 of £565 million placed us in a strong position for the first half of 2011.

Second half legal completions of 4,727 homes (2009 H2: 4,970) resulted in total sales volumes for the year of 9,384 homes (2009: 8,976), an increase of 4.5%. At 31 December 2010 we were operating from c.380 active sites.

In the second half of the year our average selling price of £169,736 (stated before shared equity fair value adjustment) was c.3% higher than for the second half of 2009 with underlying pricing remaining generally stable

when compared with the first half of the year. Total average selling price for the year on the same basis was £169,339 an increase of 5.5% over the prior year. Total revenues for the year were £1.57 billion (2009: £1.42 billion).

Our focus on maximising prices and strict business disciplines on cost control led to a further improvement in underlying operating margins in the second half to 8.4% (2009 H2: 5.8%). Underlying operating profit margin for the full year was 8.2%. The full statutory operating margin of 13.0% includes the exceptional release of net surplus inventory impairment. Underlying pre-tax profits for the year of £95.5 million were well ahead of the prior year (2009: £7.0 million).

Review of operations

Our three brands of Persimmon, Charles Church and Westbury Partnerships all made good progress over the course of last year. The majority of our 25 businesses now operate a dual branded approach delivering both Persimmon and Charles Church product to their local markets.

c.380
active sites

Spinnaker, Portishead, Bristol





Renaissance, Coventry, South Midlands



Renaissance, Coventry, South Midlands

Whilst we have retained the capacity to grow our output from this existing office network to c.14,000 units on a national basis, we have re-established an efficient level of overhead with our underlying net operating expenses representing just 4.2% of sales for 2010.

Our dual branding approach achieves significant benefits for each business, from clearly eliminating potential conflicts with respect to land acquisition and utilisation through to maximising pricing, securing procurement benefits, and removing duplication. We are able to achieve an improved asset turn by operating both brands on larger sites where circumstances allow in support of achieving increased returns. Our lean operating structure secures good levels of operational gearing which will add value as the housing market improves and output expands in the future.

During the year we entered a joint venture agreement with St. Modwen plc which will give us access to further high quality land. In Wales we are drawing down detailed planning permission for the first phase at Llanwern, Newport which will allow us to deliver 300 new homes as part of the planned 4,000 unit residential and mixed use scheme on this former steelworks. This will be the first of a number of sites that we hope to progress under these arrangements in the future.

Persimmon

The Persimmon business increased the value of sales by 3% year on year to 5,795 legal completions. Average selling price increased by 4% to £172,475 leading to an increase in sales revenues of 7% to £983m.

The North Division achieved legal completion volumes in line with the prior year at 1,967 new homes. Northern markets were the more difficult local markets for our sites particularly in Yorkshire and the North West. Whilst site activity had picked up during the Spring season sentiment in these northern markets was more subdued in the second half of the year. However, due to strong forward orders at 30 June we were still able to deliver 975 new homes in the second six months of the year, just 17 short of the first half volumes.

Despite the slow down in these markets during the second half we secured substantial increases in average selling prices both in Yorkshire (c.12%) and the North West (c.10%). This was mainly due to mix. For example, in Yorkshire sites at Driffield, Easingwold and North Hykeham all contributed a greater proportion of larger family homes in the mix of sales year on year which influenced the increase in the average price.

The total average selling price for the year for this division increased by 6% to £160,870. Underlying price improvement of c.2% was achieved by the division with the remaining increase due to change in mix towards more traditional two storey product. Less shared equity support was required in this division.

The management team was successful in pulling through a number of strategic land positions during 2010, notably c.900 plots at Doncaster in South Yorkshire where we secured a mixed use outline consent on appeal for this site which covers c.70 hectares of strategic land held under long term option. Additional development value has been secured from other land uses including a retirement village, retail and community facilities and employment land.

The Central Division delivered the highest number of legal completions within the Persimmon business for the second year running at 2,167 new homes, an increase of 8% on the prior year. The division managed to maintain its sales volumes in the second half in line with the first six months of the year. Our operations in North Midlands, West Midlands and South Midlands produced the strongest volumes, with combined volumes for the year just short of 1,000 new homes.



Chestnuts, Pype Hays, Birmingham



Mendip Chase, Weston-Super-Mare, Somerset

The total average private selling price in the Central Division of £176,685 improved by 5% with an underlying price increase of c.3%. The division benefited from a greater proportion of existing home owner sales. The greater equity available to existing home owners allows them access to more attractive mortgage products to support the purchase of larger, higher value family homes. This was a particular feature in our Thames Valley and Midlands businesses where average prices increased c.7%.

We have had a number of strategic land successes in this division including 170 plots at Stoney Stanton in North Midlands, and 120 plots at Market Deeping in East Midlands. These sites will deliver excellent margins for the division in future years.

The South Division completed 1,661 new homes in the year in line with the prior year. This division increased the proportion of smaller homes sold in the sales mix reflecting the constrained credit conditions. An underlying price increase of c.3% was achieved by this division despite the overall average selling price increasing by just 1% to £180,727.

It was pleasing to see a number of our southern based businesses again being awarded regional NHBC Pride in the Job Awards for the quality of our construction sites. In particular, for David Bullock, a Senior Site Manager in our East Wales business, to make it a hat-trick of National NHBC Supreme Award wins in 2010 is a fantastic achievement. We also received two Local Authority Building Control Excellence awards for our developments at Marina Villas in Swansea and at Parc Gwenllian, Kidwelly in West Wales.

This division again enjoyed some notable successes on achieving planning consents on strategic land parcels including 650 plots at Trowbridge in our Wessex operation and 200 plots at Cullompton in the South West. These provide high quality anchor sites for these businesses which will support our margin growth as we start activity on site.

Charles Church

Charles Church has again performed well and grew volumes by 5% year on year. Charles Church customers typically demonstrate a higher credit quality and therefore have improved access to mortgage credit in current markets. The greater southern bias to this business also supported a consistent pattern of sales throughout the year. Indeed, this business increased volumes in the second half by 8% over those of the first half. Charles Church volumes represented 19% of the Group's completions for the full year.

Charles Church also grew its total average selling price by 12% year on year to £229,213. This was assisted by fewer apartment sales. However, underlying price growth of c.4% was achieved resulting in improved site profitability.

We have continued to invest in smaller sites in premium locations to further develop the Charles Church business, approximately 70% of these sites are in more southern markets. However, on our larger Persimmon sites, the ability to offer Charles Church product as a second outlet continues to achieve improved rates of sale from the site as a whole.

Space4

Space4, our patented closed panel timber frame business has continued to thrive. Demand for this leading energy efficient construction system increased significantly in 2010 with the business delivering 2,738 housing kits, an increase of 31% over the prior year (2009: 2,089).

The improvements made to the product portfolio with the introduction of the Space4 Eco housing range in 2009 has led to a significant pick up in order intake. Space4 has delivered product to the majority of the Group's businesses as the benefits of using the system have become established.

Our ability to satisfy the more demanding building regulations associated with the Code for Sustainable Homes requirements up to Code Level 4 has provided Space4 with the opportunity to provide a build solution at an optimal cost level which reduces our costs of build when compared to more traditional construction methods. Approximately 95% of total Space4 2010 production was delivered to Group companies compared with c.85% in 2009.

Space4 currently has a forward order book of 3,000 units and we anticipate further double digit growth in output volumes for the current year. We are confident that Space4 will support our ability to respond to increasing levels of demand as market conditions improve whilst also mitigating the potential cost pressures that may arise when production volumes increase.

Westbury Partnerships

Westbury Partnerships is focused on the delivery of affordable housing across the country based upon a strong network of relationships with registered social landlords. The Coalition Government has started a review of the processes involved in the delivery of social housing together with how provision is funded. This review is likely to include the reform of the traditional tenancy arrangements, rental levels, allocation rules and council housing finance. The Government is also reviewing the housing benefit system.

This process of change is likely to have far reaching consequences for the social housing market in the UK. Westbury Partnerships is well placed to secure opportunity from this changing landscape and will be involved in helping to support the continued delivery of the affordable accommodation the country needs.

The business has just completed the first homes on a large scale regeneration scheme in Coventry for 3,500 homes as part of a joint venture with Whitefriars Housing Association and Coventry City Council. This development has received significant funding from central government and Coventry City Council. Westbury Partnerships are using Space4 product so as to fulfil the requirements for the high quality energy efficient housing specified as part of this regeneration project.

The business delivered c.200 units during 2010 within our overall Partnership housing output of 1,786 new homes. Our total Partnership housing sales volumes increased by 10% year on year and account for 19% of total Group output.

The Partnerships business has recently been awarded "Committed 2 Equality" accreditation in recognition of the approach that it brings to sustainable development for local communities which promotes fairness and equality for customers, employees and other stakeholders in the business.

Land bank

We have acquired c.10,200 plots of replacement land through the year whilst we decided not to proceed with the purchase of c.1,300 plots in line with our more selective approach to land replacement. Of the c.10,200 acquired plots c.32% were sourced from our strategic land bank. This level of success is in line with our long run average conversion rate, one third of our total consented land bank having been previously held as strategic assets. Strategic land remains the best source of consented land which will continue to help us further improve our profitability in the future. About 35% of the strategic land pulled through in the year is in southern markets, whilst c.50% of our total acquired plots are located in these regions. At 31 December 2010 we held c.17,300 acres of strategic land.

Persimmon Homes at Spring Gardens, Shrewsbury, Shropshire using Space4 construction technology



The Group's consented land bank of 58,862 plots (2009: 60,454) provides c.6.3 years of supply at current levels of output at the year end. Given the increased uncertainty surrounding the new planning regime introduced by the Coalition Government we will continue to pursue our long land bank strategy.

However, we will seek to gradually reduce our land supply to help secure an ongoing improvement in return on capital employed whilst also supporting our future growth.

We continue to review the value of our land and work in progress for impairment at both half year, and full year, ends. At the half year stage, with the gains in the profitability of our sites due to both price and cost improvements, there was a net reversal of £71m of previous write downs of inventories shown as an exceptional credit. As prices and cost performance remained reasonably stable through the second half of the year there was a further net reversal of previous impairments of inventories at 31 December 2010 of £9m.

This total net write back of £80m for the year is included as an exceptional credit in the Consolidated Statement of comprehensive income and includes an additional requirement of c.£48m and a gross reversal of previous impairments of c.£128m across our entire owned land portfolio.

At 31 December 2010 we retained a provision of £250m reflecting our current assessment of the potential development outcome of our owned land portfolio.

Further information with respect to our impairment assessment is included within the Balance Sheet section of this review below. We believe our stance with regard to the carrying value of our land and work in progress continues to be realistic in the context of the current challenging market.

Net finance costs, cash flow and borrowings

Net underlying finance costs for the year were £33 million, down from £50 million in 2009. The strong cash generation delivered through

the year together with the actions taken to optimise our debt portfolio described within the "Treasury policy and related risks" section below resulted in the majority of the reduction in finance costs year on year.

Cash generation from underlying operating activities improved to £138 million (2009: £71 million). This strong underlying cash generation together with selective land replacement and tight control over build activity and overheads delivered total free cash flow after interest and tax of £226 million (2009: £357 million).

At 31 December 2010 the Group had net debt (borrowings net of cash balances, including foreign currency swaps, excluding finance leases and prepaid transaction costs) of £51 million, a reduction of £217 million on the prior year end. Year end gearing was 3% (2009: 16%).

We remain focused on delivering strong free cash generation whilst selectively reinvesting in replacement land assets where residual land values are compelling.

Barrow Court, Burnham-on-Sea, Somerset





The Ashlands, Portishead, Severn Valley

Tax

The Group's effective rate of tax for the year was 25.1% following the recognition of deferred tax assets on temporary deductible differences mainly relating to pension scheme contributions and accruals. Tax losses of £44m are carried forward and credit will be recognised once it is probable that relief for these losses will be achieved. Until that time the Group has retained a conservative stance with respect to the recognition of deferred tax assets.

Dividends

We resumed distributions to shareholders with an interim dividend of 3.0p per share. In line with the Board's policy of determining future dividends in the light of market conditions, the Group's trading performance, and future prospects, a final dividend of 4.5p has been recommended. The full year pay out of 7.5p is covered 3.3x by underlying after tax profits.

Balance sheet

Group net assets increased by £121m to £1,744m (2009: £1,623m) through the year. Net assets per share increased by 7.2% to 579.1p reflecting the retained profit for the year, the post tax reduction in the pension deficit of £20m and the interim dividend of £9m paid to shareholders. Underlying return on average capital employed increased to 5.2% for 2010 (2009: 2.1%) statutory return on capital employed increased to 10.1% (2009: 6.2%).

The book value of the Group's land decreased by £58m to £1,576m (2009: £1,634m). This reduction reflects our selective replacement of land used through the year together with the net write back of £80m of stock impairment provision.

At 31 December we reviewed the carrying value of the Group's assets on a consistent basis to that adopted for prior periods. All owned land has again been included in the review which was performed on a site by site basis as described earlier in this report.

Further details concerning our approach to inventory impairment is disclosed in the notes to the Accounts in our Accounting Policies at Note 2, our Critical Accounting Judgements at Note 3, Exceptional Items at Note 6 and Inventories at Note 18.

We have exercised strong control over build activity. Work in progress reduced by £72m to £414m at 31 December 2010. We will continue to focus on optimising our work in progress holdings, to achieve an appropriate rate of asset turn of c.4x per year.

The gross deficit on the Group's defined benefit pension schemes decreased by £16m to £98m. This reduction in deficit mainly results from the combination of cash contributions made and good investment performance from the schemes' assets. Further details of the Group's pension arrangements can be found in Note 29 to the Accounts.

Treasury policy and related risks

One of our key objectives is to maintain an appropriate capital structure to optimise our cost of capital whilst ensuring the business remains a going concern in support of delivering returns to shareholders and meeting its liabilities as they fall due for payment.

The Group finances its operations through a combination of shareholders' funds, bank loans, overdrafts, cash in hand and private placement loan notes. The Group can manage its short term and long term capital structure by adjusting the level of ordinary dividends paid to shareholders, issuing or repurchasing share capital and arranging debt facilities to meet liability payments.

Head office manages the drawn credit lines of each operating business, which are allocated on commercial terms, within overall facility limits which may be subject to offset arrangements. Head office arranges all borrowing facilities and invests cash deposits at competitive rates with high quality counterparties.



Fairfield Park, Stotfold, Bedfordshire

The Group's operations and debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity risks, foreign currency risks and interest rates.

We address liquidity risk by ensuring we maintain secure, flexible facilities with an extended maturity profile from a variety of sources.

There is a regular, detailed system for the reporting and forecasting of cash flows from the operations to Group management so as to ensure that risks are promptly identified and appropriate actions taken. We continually assess our longer term requirements to ensure relevant facilities are arranged at the appropriate time.

As reported within our Half Year Report for 2010 we have taken action to optimise our debt portfolio given the Group's strong liquidity and significant cash deposits. On 21 June 2010 the Group used cash balances to

prepay US Senior Loan Notes due 16 April 2013 with a face value of \$160m. The prepayment resulted in an exceptional charge to the Consolidated statement of comprehensive income of £14m. However, at the same time, associated hedging contracts, including a cross currency interest rate swap with a principal amount of \$160m, were cancelled resulting in an exceptional gain of £7m recognised in the Consolidated statement of comprehensive income.

The total net cash payment in relation to the prepayment and cancellation of associated hedging contracts was £109m.

On 16 July 2010 the Group took similar action in prepaying US Senior Loan Notes due 9 November 2010 with a face value of \$104m. This prepayment resulted in an exceptional charge of £2m in the Consolidated statement of comprehensive income. The total net cash payment in relation to the prepayment and cancellation of associated hedging contracts was £75m.

We anticipate that the cost savings delivered from these actions over future periods to April 2013 will significantly exceed the initial costs.

At the year end, taken together, the Company had committed funding lines of £498m, reducing to £458m on the scheduled repayment of £40m of US Senior Loan Notes on 7 February 2011. These facilities include a £322m Forward Start Revolving Credit Facility which matures on 31 March 2012. The remaining committed facilities are predominantly the outstanding US Senior Loan Notes in issue.

At the year end the Group had committed credit facilities with an average life of c.2.5 years together with cash reserves held on deposit of £127m.

We continue to actively consider the appropriate level and nature of facilities required to support the development of the business.

We have written off c.£8m of prepaid costs relating to the Forward Start Facility as an exceptional charge in the Consolidated statement of comprehensive income due to the limited utilisation of this facility.

On the basis of our working capital projections we believe that our cash reserves and committed credit facilities provide ample headroom and significant capacity to support the future growth of the business.

The Group has in place a risk management programme that seeks to limit the adverse effects of the other risks on its financial performance in particular the use of financial instruments, including debt and derivatives, to fix interest rates and currency rates. We do not set a pre-defined balance between fixed, and floating, interest rate debt.

The Group has not entered into any new swap arrangements during the period. The Group does not use derivative financial instruments for speculative purposes.

Details of the Group's borrowings and financial instruments are disclosed in notes 20 and 22 to the financial statements.

Corporate responsibility

Our customers are at the centre of everything we do in our business and we invest considerable time in training our staff to provide the best quality homes and the best service. We regularly monitor our Customer Satisfaction Surveys and we are pleased to report that 93% of our customers would recommend us to a friend (2009: 91%). In addition, an independent HBF survey carried out in 2010 showed our customer satisfaction rating improving from 3 to 4 stars.

We monitor our waste management and recycling as a key indicator of our overall construction efficiency. During 2010 the amount of waste we produced increased to 6.9 tonnes per home sold (2009: 6.1 tonnes), primarily due to the number of new sites which were started during the year. However, we have improved our waste recycling to 82% of total waste produced. This has resulted in the actual amount of waste sent to landfill per home built reducing by 20% to 1.24 tonnes (2009: 1.55 tonnes).

The health and safety of all personnel and customers attending our sites and our office based employees is of paramount importance to us. We continue to make significant investment in health and safety training for both our management teams and our site construction staff. Whilst our production increased, regrettably the number of accidents reportable to the Health and Safety Executive (RIDDORs) also increased during 2010 to 59 (2009: 47), primarily relating to slips, trips and falls. As a result our RIDDORs per 1,000 employees increased to 6.5 (2009: 5.9). We have implemented new procedures to minimise accidents and continue to work closely with the HSE to ensure that we carry out best practice in health and safety on all our sites.



Affordable housing at Royal Meadows, Polmaise, Stirlingshire

Our customers are
at the centre of
everything we do.

Current trading outlook

Site activity for the first eight weeks of 2011 is encouraging. Visitor levels are c.10% ahead of the same period last year, cancellation rates of c.16% remain at historically low levels and net private sale reservations are c.2% ahead. Pricing currently remains stable. However, general market indicators remain mixed and there remain significant challenges ahead.

We opened c.75 new sites through the second half of 2010 and expect to open a further c.70 sites during the first half of 2011. We are currently operating from c.380 active developments and anticipate maintaining this strong outlet network throughout the rest of the year which will maintain our sales presence in all our local markets.

Due to the likely continuation of restricted mortgage availability we expect to continue to provide support to our customers by way of shared equity incentives, particularly to first time buyers. We are experiencing increased demand for our part exchange facilities and continue to have good success in the sale of the second hand homes at agreed valuations.

Current forward sales revenue (including legal completions for the first eight weeks of the year) is £848 million, with an average selling price of £147,282 and volumes of 5,758 units. The strong content of affordable housing sales in this order book (c.43% of the forward sales volumes) provides good visibility for our Partnerships business, especially at a time when it is likely that funding support from Government

for affordable housing is likely to remain under pressure.

These strong forward sales together with our planned new site openings and improved rates of sale will ensure sales are well supported for 2011.

We continue to seek further cost improvements and efficiencies which, together with the introduction of new sites into production, will assist further progress in improving our operating profit margin.

With the anticipated improvement in operating margins we expect to generate an increasing level of underlying free cash flow. Whilst we plan to continue to optimise our land bank and will gradually return to holding around five years of prospective supply the free cash delivered from the reduction in working capital invested in the business will naturally reduce. However our continued good liquidity will support our new land investment activity and new site openings whilst the rate of debt reduction moderates.

Summary

The results for 2010 demonstrate the further progress we have made in developing the business. We intend to continue to focus on the basics of running an efficient house building operation whilst ensuring we continue to invest in new sites in support of generating improving long term returns.

Our strategic direction will remain firmly focused on building sustainable homes, selective land replacement, margin improvement and growing underlying free cash generation.

This disciplined approach will ensure that we will be well positioned to meet the challenges that confront the business and that Persimmon remains at the forefront of the house building industry.

Persimmon has reacted well to significant changes in its market over recent years. We expect the rate of change in many aspects of our business to continue, from the planning regime to Zero Carbon; from the mortgage market to regulation. Our proven ability to understand and react to these influences whilst strengthening our balance sheet and maintaining our strong order book will mean that Persimmon is well placed to take advantage of market opportunities as they arise.

The performance of the business and its future potential is the direct result of the hard work and dedication of all our staff. To grow our profitability and deliver significant cash generation in such challenging markets again demonstrates the strength of Persimmon.

We would like to thank all our teams for their outstanding efforts and achievements which gives us confidence that Persimmon will continue to grow successfully and profitably in the future.

Mike Farley

Group Chief Executive

Mike Killoran

Group Finance Director

28 February 2011

The Vale, Portishead, Bristol



Assessing and mitigating risk

The Group's financial and operational performance is subject to a significant number of risks, which are subject to continual assessment by management to mitigate and minimise these risks. There are also many risks which are outside of our control which can affect our business. Our principal risks are:

Risk	Impact	Mitigation
Strategy	The Board has adopted its present strategy as it believes it is the one most likely to add the greatest value for shareholders and stakeholders. It is possible that, with time, factors become known that indicate that the strategy currently being pursued is not the most effective or efficient and that alternative strategies may have been more appropriate.	The Group's strategy is agreed by the Board at an annual strategy meeting and thereafter regularly reviewed at Board meetings and by the executive Directors. The Board engages with management and employees to ensure the strategy is communicated and understood and that all employees have a clear understanding of the potential benefits and risks of the strategy.
National and regional economic conditions	The housebuilding industry is sensitive to changes in job growth, interest rates and consumer confidence. Further deterioration in economic conditions may significantly decrease demand and pricing for new homes, which could have a material effect on our business revenues, margins and profits and result in the impairment of asset values.	We minimise the level of speculative build undertaken by closely controlling our work in progress levels. We carry out extensive due diligence prior to our land investment decisions to capture best margins.
Mortgage availability	Any further restrictions in the market availability of mortgages for our customers could reduce demand for our homes and affect revenues, margins and profits.	We ensure construction is matched to our level of sales. We can use shared equity to enable buyers without large deposits to purchase our homes.
Regulatory compliance	Our business is subject to extensive and complex laws and regulations principally relating to planning, the environment and health and safety. Our obligations to comply with legislation can result in delays in land development and housebuilding activity causing us to incur substantial costs and prohibit or restrict land development and construction.	We hold a landbank sufficient to provide security of supply for short term requirements. We operate comprehensive management systems to ensure regulatory compliance and reduction in reputational risk.
Capital requirements	Our ability to continue to manage our business depends on our ability to access capital on appropriate terms. We could be adversely affected by a change in our credit rating or disruption in the capital markets resulting in credit facilities not being available. We also require access to bonding facilities to secure planning, road and sewer agreements for our developments.	The Group actively maintains a mixture of medium and long term debt and bonding lines to ensure sufficient funds and bonding are available to support operations.

Sustainability in our business

Sustainability forms part of our day-to-day business activities and we aim to have an integrated approach. Persimmon has developed six key corporate responsibilities which provide a consistent strategy and understanding for our business, underpinning many of the decisions that we take each day. We report on these responsibilities below.

2,077

Code for Sustainable Homes (2009: 1,720)

82%

of construction waste recycled

93%

of our customers would recommend us to a friend

Building sustainable homes

As a leading housebuilder we are constantly reviewing how we can build homes that are inherently energy efficient and appealing to our customers. In the recent economic climate, perhaps more than at any other time, our customers want to live in homes that are affordable and cost effective to run. We are responding to these expectations with innovation and research and development.

Since its introduction in 2006, the Code for Sustainable Homes (the Code) has become an important factor influencing how we design and build our new homes. Progressively all our developments will include some Code requirements. During 2010 we built more homes than ever before to the Code standard, accounting for 22% of all homes we sold.

We are part of the Zero Carbon Hub's Carbon Compliance Standard Working Group (www.zerocarbonhub.org) set up to find a sensible balance between sustainability and energy efficiency and affordability for customers. Our research and development has led us to the conclusion that the best way to build homes that are truly sustainable is to ensure that the building fabric is as energy efficient as possible. If we can develop this approach based on modern methods of construction, then we will avoid any potential issues of new technological products failing or becoming obsolete.



Ground source heat pump at Ravenswood, Ipswich, Suffolk and high thermal "U" valves meant homes complied with Code level 4



Code level 3 homes with solar panels at Linton Grove, Carlisle

Waste to landfill reduced by 20% per home.

At the forefront of our sustainable house design and construction is our innovative Space4 timber frame technology. Our Space4 manufacturing plant is certified to ISO14001. During 2010, 29% of the homes we sold used Space4 products. As a consequence, the average energy efficiency of our new homes as measured by the SAP rating (scale 1–100) has increased to 83 against the housebuilding industry average of 79. Our SAP rating compares favourably with an average SAP rating for existing UK housing stock of 51.

We have also established a working group to evaluate the growing list of technological products being marketed to increase the energy efficiency and sustainability of new homes. Our research evaluation and trialling of these new energy efficient products is providing clear evidence of which are the best products. This information is disseminated to our operating businesses to enable them to select the best products for their developments. A form of renewable energy was installed in 12% of the homes we sold in 2010. In addition, we have a range of eco-products available to customers through our Finishing Touches range that reduce energy, water and waste in the home.

Operating efficiently

We have an integrated environmental management system which specifies good environmental practice associated with land appraisal, remediation, purchasing, manufacturing and construction. For a number of years we have undertaken combined health and safety and environmental site audits. During 2010 we revised and updated our detailed construction manual with the aim of further embedding environmental thinking into all our site construction activity.

During 2010 we had set ourselves a target of reducing the amount of waste we generated per home sold by 5%. Unfortunately we did not achieve this target primarily because we started a higher number of new developments (c. 165) which tend to produce more waste in their early stages. Our waste per home sold increased to 6.9 tonnes (2009: 6.1 tonnes).

Although our overall waste has increased, we are pleased to report that the proportion of waste we recycled increased from 75% in 2009 to 82% in 2010. This means that the

amount of waste sent to landfill reduced to 1.24 tonnes per home sold in 2010 (2009: 1.55), a reduction of 20%.

During 2010 we developed and launched our Working Green environmental awareness campaign which aims to further encourage our employees, particularly those based at our regional offices, to consider our six sustainability responsibilities as part of their day-to-day work.

For the first time in 2010 we have been able to collate reliable data for our onsite energy use. This combined with our energy consumption data relating to our offices and our vehicle fleet has enabled us to provide comprehensive information on our carbon emissions for the first time. In 2010 our total energy consumption was 24.7 million kilowatt hours and our CO₂ emissions 14 thousand tonnes. Our energy use per home completed has remained broadly consistent with previous years. We continue to monitor our total energy use and identify ways in which this can be reduced.

Community engagement

From the very first stages of designing each new development we take into account the needs of the local community and how our activities will affect them. On our larger sites we undertake detailed consultation with the local community prior to finalising development plans with the local authority. We build our larger sites in accordance with the Considerate Constructors Scheme.

Development requirements for our sites are set out in planning agreements with local authorities. During 2010 we invested £18.2m in community infrastructure projects as part of our developments, including building new schools and community centres. We also built 1,779 (2009: 1,622) new affordable homes for housing associations for both rent and shared ownership, a 13% increase on 2009.

During the year we built 5,716 new homes on land which had been previously used, known as brownfield land, equating to 61% of all homes completed by the Group. The redevelopment of brownfield land

often transforms previously derelict or contaminated land reinvigorating the urban landscape of our towns and cities.

Prioritising health and safety

Our South Division Chief Executive Nigel Greenaway is responsible for Group health and safety matters and he is supported by the Group Health and Safety Director and a team of 12 internal regional health and safety advisors. Ensuring the health and safety of our employees, subcontractors and visitors to our development sites is a key priority for Persimmon. Underpinning our approach is instilling a culture of health and safety which ensures that all employees, but particularly our management, have a responsibility for health and safety on all our sites.

During 2010 we trialled a new Smart Pen system which has now been rolled-out across the business. This system has revolutionised the way we work, allowing our safety advisors to file reports, information and data electronically and enabling them to spend more time on site based activities.

We have strengthened the audit criteria used to measure our health and safety on our sites, to drive better practice amongst our operating businesses, employees and subcontractors. We have also provided significant investment in health and safety training for our employees and subcontractors, including onsite training and toolbox talks reinforcing our culture of health and safety on site.

During 2010 with our increase in productivity, the number of reportable incidents under the UK Reporting of Incidents Diseases and Dangerous Occurrences (RIDDORS) rose from 47 to 59. This equates to 6.5 RIDDORS per 1,000 workers in 2010 (2009: 5.8). The increase in our RIDDORS was as result of more recorded incidents of slips, trips and falls on our sites. Reversing this increase is a top priority for us over the next 12 months. We have implemented measures across the business to minimise the risk of these incidences occurring, including a more stringent auditing regime to ensure our standard operating procedures are closely adhered to.

Richard Cottier at the Space4 modern construction plant, Castle Bromwich, Birmingham





Kylie Monks and Brody at The Vale, Portishead

5,359 training days delivered to our employees.

Investing in our people

We have maintained our training focus on those areas most important to our business, primarily health and safety, customer care and information technology. In 2010 we delivered 5,359 days of training to our employees, equating to 2.2 days per employee. We have continued to support the Construction Skills Certification Scheme (CSCS) which was set up to help the construction industry to improve quality and reduce accidents. Over 98% of our workforce now meets the basic requirements of the Scheme.

Over the past year Persimmon has promoted two initiatives to encourage careers in housebuilding. Our First Management Training Scheme is aimed at recruiting and training our future management and Directions is designed to encourage young people and school leavers to choose a career in housebuilding. We now have 48 trainees and apprentices in our operating businesses.

Persimmon has a robust policy framework relating to equality issues. During 2010 we are pleased to report that our Group Head Office and two operating businesses were certified to the C2E Diversity Assured Equality Standard. We expect the C2E standard to be extended to other operating businesses during 2011.

For an unprecedented third year running Dave Bullock, Senior Site Manager at our Wynclyffe Gardens development in Cardiff, collected the NHBC Pride in the Job Supreme Winner award in 2010. It is a testament to Dave and his team that he has been recognised as the best site manager from the housebuilding industry against some very strong competition. Overall Persimmon won 30 NHBC Pride in the Job awards in 2010.

Putting customers first

Our customers are the most important aspect of our business and we invest heavily in training our staff to ensure that our customers are provided with a quality home and excellent service. At the heart of this process is our customer charter, the Persimmon Pledge, which fully complies with the Consumer Code for Homebuilders introduced in April 2010.

We measure our customer satisfaction through our own internal Customer Satisfaction Surveys which are sent to customers four weeks after they move in and through industry wide surveys undertaken by the Home Builders Federation and the NHBC. We are pleased to report we have again seen an increase in the level of satisfaction of our customers, with 93% (2009: 91%) of our customers stating that they would recommend Persimmon to a friend.

As a result of reduced mortgage availability for first time buyers without substantial deposits, Persimmon has supported around 28% of its customers in 2010 with a shared equity loan to enable them to buy their first property. Shared equity has been provided by Persimmon's Helping Hand shared equity scheme and jointly under the Government's HomeBuy Direct Schemes.

We have also launched our Living Green campaign and our online Buyer's Guide to encourage sustainable living amongst our customers. All customers reserving properties are supplied with advice and guidance in their Masterfile on the energy efficiency of their new home and how to save energy and minimise their impact on the environment.

Conclusion

As the sustainability agenda continues to evolve, Persimmon is well placed to take advantage of the benefits and opportunities that it offers. Our robust approach to these issues will contribute to the progress of a strong business where talented people want to work and which builds homes that our customers want to live in.

Further information on our management structure, policies and procedures together with our 2010 Sustainability Report can be found on our website at www.corporate.persimmonhomes.com.

Neil Davidson

Chairman
Corporate Responsibility Committee
28 February 2011

Board of Directors

Chairman



John White

Group Chairman (age 59)

John White was appointed Group Chairman in April 2006, previously having been Group Chief Executive for 13 years. He has spent all his working life in the housing industry.

Mr White was appointed to the Board in 1986 and is currently Chairman of the Nomination Committee and the Risk Committee.

Mr White has announced he will be retiring from the Company at the AGM and is not standing for re-election.

Executive Directors



Mike Farley BSC (HONS.) MCIOB

Group Chief Executive (age 57)

Mike Farley was appointed Group Chief Executive in April 2006. He joined Persimmon in 1983 and was appointed to the Board in 1989. Mr Farley is a member of the Chartered Institute of Building. He was responsible for establishing Persimmon Homes Wessex and for developing the Group's operating businesses in the Midlands before becoming Chief Executive of the original South Division.

Mr Farley is a member of the Risk Committee.



Mike Killoran BA (HONS.) ACA

Group Finance Director (age 49)

Mike Killoran joined the Company in 1996 and was appointed to the Board in January 1999. A chartered accountant by profession, Mr Killoran worked in manufacturing, distribution and retail sectors before joining the Group.

He took over his present role in April 1999 and is a member of the Risk Committee.

Non-executive Directors



Nicholas Wrigley

Non-executive Director (age 55)

Nicholas Wrigley is an Executive Vice Chairman of Rothschild London and a member of its Global Investment Banking Committee and Global Management Committee. He has over 25 years' mergers and acquisitions experience at Rothschild and is a qualified accountant.

Mr Wrigley will be appointed Chairman at the AGM following John White's retirement.

Mr Wrigley was appointed to the Board on 1 February 2006 and is currently Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.



David Thompson

Senior Independent Director (age 56)

David Thompson is Chairman of Marston's PLC and Chief Executive of Anglia Maltings (Holdings) Limited. He is also a non-executive director of Caledonia Investments Plc.

Appointed to the Board on 10 August 1999, he is the Senior Independent Director, and a member of the Audit, Nomination and Remuneration Committees.



Neil Davidson CBE

Non-executive Director (age 60)

Neil Davidson is Chairman of Wisden Cricketer Publishing Ltd and a Director of Emerging Media Ltd and Competition Law Process Management. He was previously Chief Executive of Arla Foods UK PLC until he retired in June 2005. He joined the Board on 19 January 2004.

He is Chairman of the Corporate Responsibility Committee and a member of the Nomination and Remuneration Committees.



Jeff Fairburn

North Division Chief Executive (age 44)

Jeff Fairburn joined the Group in 1989. He was promoted to Managing Director of the Group's North East operating business in 2000 and became North Eastern Regional Chairman in 2005, before assuming his current role of North Division Chief Executive in 2006.

Mr Fairburn was appointed to the Board on 1 June 2009 and is a member of the Risk Committee.



Richard Pennycook

Non-executive Director (age 47)

Richard Pennycook was appointed to the Board on 14 March 2008. A chartered accountant and graduate of Bristol University, he has been the Group Finance Director of Wm Morrison Supermarkets PLC since 2005. Previous roles include Group Finance Director of RAC plc, Finance Director of J D Wetherspoon plc, CEO of Welcome Break Holdings PLC and non-executive Director of Richer Sounds plc.

Mr Pennycook was appointed to the Board on 14 March 2008 and is Chairman of the Audit Committee and a member of the Nomination Committee.



Jonathan Davie

Non-executive Director (age 64)

Jonathan Davie was appointed to the Board on 1 January 2010. He is non-executive Chairman of IG Group Holdings Plc and First Avenue Partners LLP. Mr Davie's previous roles include Vice Chairman of Credit Suisse, CEO of BZW Global Equities and non-executive Director of Credit Suisse UK Private Bank.

Mr Davie is a member of the Audit and Remuneration Committees and will become Chairman of the Remuneration Committee when Mr Wrigley becomes the Company Chairman following the AGM.

Introduction

The Board acknowledges that it is very important for it to maintain the highest standards of corporate governance as this sets the standard for all senior directors, management and employees throughout the Group's operating businesses.

In June 2010 the Financial Reporting Council introduced a new UK Corporate Governance Code (the New Code) which applies to the Company's next accounting period starting on 1 January 2011. The Directors have considered the requirements of the New Code and where practical will be implementing its provisions prior to the requirement for formal compliance.

This report refers to the Combined Code on Corporate Governance published in June 2008 (the Combined Code) unless otherwise specifically stated and the Board sets out in this report how it has applied the principles of good corporate governance set out in the Combined Code.

The Board

Composition

As previously announced, the Chairman John White will be retiring from the Company at the AGM and Nicholas Wrigley will succeed him. Nicholas Wrigley has been a Director for four years and will be regarded by the Board as independent on his appointment as Chairman at the forthcoming AGM.

After Mr Hamish Leslie Melville's retirement from the Board at the AGM in 2010, the Board consisted of the Chairman, three executive Directors and five non-executive Directors. Following Nicholas Wrigley's appointment as Chairman the number of non-executive Directors will reduce to four.

The Board is collectively responsible for the success of the Company. The executive Directors have extensive experience in the housebuilding industry and provide a direct line of control between the Company and its operating businesses. The non-executive Directors provide a balance to the Board and bring a wide breadth of experience and skills.

In accordance with the principles of the Combined Code there is a clear written division of responsibilities between the Chairman and Chief Executive approved by the Board.

Board responsibilities and processes

The Board routinely meets on seven occasions each year and has a formal schedule of matters reserved for its consideration and decision. The schedule includes the approval of the Group's strategy, major investments, annual and half year results, interim management statements and trading updates, review of performance, dividend policy, monitoring risk and ensuring adequate financial resources are available. The schedule is reviewed on an annual basis. The implementation of the Board's strategy and policies are delegated to executive Directors and senior management within the Group.

The Board met on seven occasions in 2010, including one annual strategy meeting. There was full attendance by all Directors at Board and Committee meetings during the year, except that Hamish Leslie Melville was unable to attend one Board meeting prior to his retirement at the AGM in 2010.

Board balance and independence

The Board considers that the current and future number of executive and non-executive Directors remain appropriate to the proper management of the Group's business. The current and future Chairman are and will be non-executive and the executive Directors on the Board are the Group Chief Executive, Group Finance Director and North Division Chief Executive.

The Senior Independent Director is David Thompson. David Thompson joined the Board in August 1999 and has now served more than 11 years on the Board. As Senior Independent Director his primary responsibility is maintaining relationships with the Company's major shareholders. The Board considers David Thompson to be independent in both character and judgement, notwithstanding his long service on the Board. He brings a wide breadth of experience to his role in dealing with corporate governance, relationships with the shareholders and his knowledge of the Group and the housebuilding industry.

The Chairman has reviewed David Thompson's performance and believes that his performance continues to be very effective. The Board consider that David Thompson's objectivity and sound advice and counsel continue to be of the highest standard and invaluable to the Company's continued progress in challenging market conditions. As a consequence, the Board considers David Thompson to continue to be independent despite his length of service. Mr Thompson continues to be available for re-election to the Board on an annual basis but will retire as Senior Independent Director at the AGM in 2012. The Board intends to appoint a new independent non-executive Director during the next year.

The non-executive Directors, led by the Senior Independent Director David Thompson, have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Board considers all non-executive Directors to be independent, including the future Chairman Nicholas Wrigley.

The Company has procedures in place to ensure that Directors disclose any situation in which they may have an interest, direct or indirect, which conflicts or possibly may conflict with the interests of the Company. No authority to authorise a conflict of interest has been required during 2010.

Retirement and re-election of Directors

The Board has considered the New Code provision B.7.1 and confirms that all Directors will stand for re-election at the AGM, with the exception of John White who is retiring.

The Board's reasons for supporting the re-election of David Thompson are set out above. The Board considers that other non-executive Directors, Nicholas Wrigley, Neil Davidson, Richard Pennycook and Jonathan Davie should be re-elected as they have individually produced excellent performance in their duties and a high level of commitment to their roles. Collectively the non-executive Directors have the appropriate skills to provide sound advice, guidance and counsel during the current challenging market conditions.

Performance evaluation and professional development

The Board undertakes a written self-evaluation of its performance on an annual basis. The Company Secretary provides the Chairman with a report on the Board self-evaluation responses. The Chairman makes recommendations to the Board where appropriate to improve Board procedures and governance. As a consequence, in the past the Board has introduced an annual strategy meeting, revised agendas and processes to enhance the management and governance of the Company. No new recommendations were made for improvements in the Board's procedures during 2010.

The Chairman undertakes annual verbal evaluation of the executive Directors' performance. The non-executive Directors undertake a verbal annual performance evaluation of the Chairman, taking into account the views of the executive Directors. The Board are currently considering the New Code's recommendations for external evaluation of the Board and will report on their deliberations in the future.

The Chairman has discussed with all Directors their requirements for professional development and training, and where appropriate this has been provided to Directors. All Directors have access to the advice and services of the Group Company Secretary and may also seek independent professional advice and training at the Company's expense if so required to carry out their duties.

The Audit Committee, Remuneration Committee and Nomination Committee all undertake a written or verbal self-evaluation of their performance each year and as a result of such evaluations, a number of procedural changes have been made to committees' agendas and procedures to improve the flow of information to Directors.

Nomination Committee

The current members of the Nomination Committee are John White (Chairman), Nicholas Wrigley, David Thompson, Neil Davidson and Richard Pennycook. Following Mr White's retirement, Nicholas Wrigley will assume the Chair of the Committee. The Committee met twice during 2010 to review and consider the composition of the Board and make recommendations for new appointments. There was full attendance by Directors at the Committee meetings.

After Mr Hamish Leslie Melville retired from the Board at the AGM in 2010, the Committee reviewed the composition of the Board and considered that its composition was appropriate for the continued good management of the Company.

After Mr White notified the Board that he may retire, the Committee met to discuss and recommend the appointment of a new Chairman to the Board. Mr Thompson the Senior Independent Director chaired the Committee in considering the appointment of a new Chairman. The Committee did not use external consultants or open advertising in seeking a new Chairman, as the Committee considered it had an excellent candidate for the position already on the Board.

After due consideration, the Committee recommended to the Board that Nicholas Wrigley be appointed the new Chairman. The Committee considered that Mr Wrigley's background, experience (see his biography on page 28), and his knowledge of the Company and its business made him the ideal candidate to succeed Mr White. Mr Wrigley has confirmed that he has sufficient time to discharge his responsibilities as non-executive Chairman effectively. The Board unanimously approved Mr Wrigley's appointment as Chairman to succeed Mr White. Mr Wrigley did not take part in the Committee or the Board's respective decisions.

The Committee considers that the Board composition following the AGM will be appropriate to the continued good management of the Company and is satisfied that suitable succession planning for the Board and senior management is in place. The Committee will be recommending the appointment of a new independent non-executive Director to the Board during the next year.

Revised Terms of Reference for the Committee taking into account the New Code were approved by the Board on 23 February 2011.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Chairman and executive Directors. The current members of the Remuneration Committee are Nicholas Wrigley (Chairman), Neil Davidson, Jonathan Davie and David Thompson. When Mr Wrigley becomes Chairman of the Company he will step down as Chairman, but remain a member of the Committee.

The Remuneration Committee met three times during the year to consider and approve remuneration arrangements for both the executive Directors and the Chairman. The Committee members all attended each meeting. Details of the remuneration package for each Director serving during 2010 are set out in the Remuneration Report on pages 37 to 43.

The Remuneration Report will be put to the shareholders for approval at the AGM to be held on 21 April 2011.

Revised Terms of Reference for the Committee taking into account the New Code were approved by the Board on 23 February 2011.

Audit Committee

The current members of the Audit Committee are Richard Pennycook (Chairman), Nicholas Wrigley, Jonathan Davie and David Thompson. On 22 June 2010 David Thompson retired as Audit Committee Chairman and Mr Pennycook assumed Chairmanship of the Committee. When Mr Wrigley becomes Chairman of the Company he will retire from the Audit Committee. All members of the Committee are independent non-executive Directors and have recent relevant financial experience; please see the Directors' biographies on pages 28 and 29.

The role of the Audit Committee is to monitor the integrity of the Group's financial reporting process; monitor the effectiveness of the Group's internal control, Group Risk function and risk management systems; review reports from the Risk Committee and the Group Risk Manager; monitor the statutory audit of the annual and consolidated accounts; review and monitor the independence of the Group's external auditors and oversee the Group's relationship with them.

The Committee's Terms of Reference are reviewed on a regular basis. Following the most recent review, new Terms of Reference taking into account the New Code were approved by the Board on 23 February 2011. The Terms of Reference of the Group Risk management function, recommended by the Committee and approved by the Board, were unchanged in 2010.

The Committee met on five occasions during the year and all members were in attendance at each meeting. The Committee agreed the nature and scope of the audit with the auditors and monitored the quarterly findings of the auditors and Group Risk. The Committee regularly meets the auditors without the presence of the Company's management. The Committee's Chairman also meets the Group Risk Manager without the Company's management being present at least once each year.

The Audit Committee formulates and oversees the Company's policy on monitoring external auditor objectivity and independence in relation to non-audit services. The policy was reviewed in February 2011. To ensure that the nature of non-audit services performed or fee income relative to the audit fee, does not compromise or be seen to compromise the auditors' independence, objectivity or integrity, the auditors are excluded from undertaking a range of work on behalf of the Company which includes appraisal or valuation services, management functions and litigation support, actuarial services, legal accounting and remuneration services. From time to time non-audit services are put out to tender to a number of suitable firms. The Committee has reviewed and is satisfied with the performance of KPMG Audit Plc and therefore recommends their reappointment as auditors.

During 2010 the Committee reviewed the Group Risk Register and introduced lead indicator reporting in order to further improve risk management within the Group.

The Group has had a whistle blowing procedure in place for a number of years. The whistle blowing telephone hotline was prominently advertised on Group notice boards during the year and is publicised in the Staff Handbook. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without the concern of victimisation or disciplinary action.

The Terms of Reference of the Audit, Remuneration and Nomination Committees are available on the Company's website www.corporate.persimmonhomes.com or from the Group Company Secretary at the Company's registered address.

Risk Committee and internal control

The Board has overall responsibility for the Company's system of internal control and for the review of its effectiveness. It is the role of management to implement the Board's policies on risk control through the design and operation of appropriate internal control systems. All employees have some responsibility for internal control as part of their responsibility for achieving objectives.

The Risk Committee has the delegated task of overseeing the Board's responsibilities with regard to risk and internal control. Specifically this includes determining appropriate control procedures and the review of effectiveness of internal control. The members of the Risk Committee during 2010 were John White, Mike Farley, Mike Killoran, Jeff Fairburn and Divisional Chief Executives, David Thornton and Nigel Greenaway. The Risk Committee are supported by the Group Risk Manager. The Risk Committee reports to the Audit Committee which oversees the Risk Committee's activities.

The Company has complied with the Combined Code provisions on internal control, having continued to operate the procedures necessary to implement the guidance issued by the Turnbull Committee Report (revised October 2005) throughout the year.

The Audit Committee reviews the internal control and risk management systems in relation to the financial reporting process and in relation to the process for preparing consolidated accounts.

Senior management from the finance department monitor the Group's financial management and reporting systems and continually assess the integrity and effectiveness of the Group's accounting procedures. Senior management from the finance and company secretarial departments review financial reports, interim management statements and trading updates, with appropriate consultation with the Group's auditors. They ensure that such reports and statements are accurate and complete and comply with all relevant legislation and regulation. Each region and function is required to report to the Group to ensure that all financial reporting is accurate and that all matters which may be material to the Group as a whole have been reported to the Board. Senior management reports its findings to the Audit Committee and through that Committee to the Board.

The Group Risk management function has facilitated an update to the corporate risk register during the year to reflect the changing risk profile facing the Group. The results of this process have been reported to the Risk Committee and have been used to drive a risk focused programme of work designed to improve business processes and increase internal control effectiveness. The updated corporate risk register has been approved by both Risk and Audit Committees.

The Risk Committee met five times during 2010, ensuring that there has been an ongoing process for identification, evaluation and management of the significant risks that are faced by the Company. The processes that the Risk Committee has applied in 2010 in reviewing the effectiveness of the system of internal control include the following:

- Review of reports produced by the Group Risk management function on internal control and management of risk.
- Reviewing reports from the Corporate Responsibility Committee (a subcommittee of the Risk Committee) with particular reference to reputational, environmental, sustainability and social risks facing the Group.
- Review of representation on risk and control from all managing directors of operating businesses following individual reviews of internal control within their operating businesses.
- Review of representations on risk and control from both Head Office and Divisional management.

Members of the Risk Committee completed the following tasks, which are essential parts of the Group's control framework:

- Maintaining a continuous detailed involvement in monitoring and controlling work in progress and controls over land acquisition assessment.
- Regular site visits and discussion with site based personnel.
- Ongoing review of Group performance in comparison to operational forecasts and financial budgets.
- Involvement in each individual operating business' board discussions, particularly operational board meetings where all aspects of operational performance are analysed.

Upon completion of these processes the Risk Committee formally considers the annual review of the effectiveness of the Group's system of internal control. This review covers all material controls, including financial, operational and compliance controls as well as the Group's risk management system. The review for 2010 has been completed and approved by both the Risk and Audit Committees.

A detailed Group Risk programme of work for 2011 has been approved by both the Risk and Audit Committees.

The Company's system of internal control is designed to manage, rather than eliminate risk, in order to achieve business objectives. However the system does not provide absolute assurance against material misstatement or loss.

Capital structure

The following description summarises certain provisions of the Articles of Association of the Company (adopted by special resolution passed on 22 April 2010) (the 'Articles') and the Companies Act 2006. This is a summary only and the relevant provisions of the Companies Act 2006 and Articles should be consulted if further information is required. A copy of the Articles may be obtained by writing to the Group Company Secretary at the Registered Office.

Amendments to the Articles of the Company may be made by way of special resolution in accordance with the provisions of the Companies Act 2006.

Share capital

The Company has one class of share, being ordinary shares with a nominal value of 10p each, which carry no right to fixed income. At 28 February 2011 the issued share capital of the Company was 302,591,431 ordinary shares (including shares held in Treasury) with a nominal value of £30,259,143. Further details are provided in note 24 to the financial statements.

Shares may be issued with such preferred, deferred or other rights, or such restrictions, whether in regard to dividend, return of capital, voting or otherwise, as the Company may from time to time by ordinary resolution determine (or failing such determination as the Directors may decide), subject to the provisions of the Companies Act 2006 and other shareholders' rights. There are no securities carrying special rights with regard to control of the Company.

The Directors may allot, grant options over, or otherwise dispose of shares in the Company to such persons (including the Directors themselves) at such times and on such terms as the Directors may think proper, subject to the Articles, the Companies Act 2006 and shareholders' rights. At the AGM on 22 April 2010, shareholders gave the Directors authority to issue shares up to 33.3% of the issued share capital (excluding shares held in treasury at that date), being an aggregate nominal amount of £10,014,575 and to disapply pre-emption rights on the issue of shares up to 5% of the issued share capital being an aggregate nominal amount of £1,512,957. These authorities will expire at the conclusion of the AGM on 21 April 2011. Resolutions to renew these authorities will be put to shareholders at the forthcoming AGM.

Votes of members

All issued shares in the Company are fully paid and there are currently no restrictions on voting rights. Votes may be exercised in person, by proxy, or in relation to corporate members by a corporate representative. The deadline for delivering either written or electronic proxy forms is not less than 48 hours before the time for holding the meeting. To attend and vote at a meeting a shareholder must be entered on the Register of Members at a time that is not more than 48 hours before the time of the meeting calculated using working days only.

On a vote on a show of hands each member being an individual present in person or a duly authorised representative of a corporation has one vote. Each proxy present in person who has been appointed by one member entitled to vote on a resolution has one vote. If a proxy has been appointed by more than one member and has been given the same voting instructions by those members, the proxy has one vote. If a proxy has been appointed by more than one member and has been given conflicting instructions or instructions to vote for or against by one member and discretion by another, the proxy has one vote for and one vote against a resolution. On a vote on a poll each member present in person or by proxy or by a duly authorised representative, has one vote for each share held by the member.

Details of employee share schemes are set out in note 30 of the financial statements. The Trustee of the Persimmon Employee Benefit Trust may vote or abstain as it sees fit.

Dividends and distributions

The Company may by ordinary resolution declare dividends not exceeding the amount recommended by the Directors, subject to statute. The Directors may pay interim dividends and any fixed rate dividend whenever the financial position of the Company, in the opinion of the Directors, justifies its payment.

All dividends and interest shall be paid (subject to any lien of the Company) to those members whose names are on the Register of Members on the record date, notwithstanding any subsequent transfer or transmission of shares.

Transfer of shares

There are no restrictions on the transfer of securities in the Company. Any member may transfer their shares in writing in any usual or common form or in any other form acceptable to the Directors and permitted by the Companies Act 2006 and the UK Listing Authority. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or that may result in restrictions on voting rights.

Appointment and replacement of Directors

Directors shall be no less than two and no more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board of Directors. A Director appointed by the Board of Directors holds office until the next following AGM and is then eligible for re-election by the shareholders. The Company may by special resolution remove any Director before the expiration of his term of office.

At each AGM at least one third of the Directors shall retire from office and shall be eligible for reappointment. In any event each Director shall retire from office and shall be eligible for reappointment at the AGM held in the third year following his last reappointment. In accordance with the Articles and the Combined Code, a non-executive Director who has been in office for more than nine years consecutively shall retire at each AGM and shall be eligible for reappointment.

In accordance with the New Code Provision B.7.1 the Board has determined that all directors will be subject to annual re-election by shareholders.

The office of Director shall be vacated if he resigns by notice in writing to the Company; he offers in writing to resign and the Directors resolve to accept such offer; a bankruptcy order or an interim order is made against him or he makes any arrangement or composition with his creditors generally; he is, or may be, suffering from mental disorder; he is absent from meetings of the Directors for six successive months without the permission of the Directors; he becomes prohibited by law from acting as a Director; or he is removed from office by notice in writing served upon him by all his co-Directors.

Powers of the Directors

The business of the Company shall be managed by the Directors who may exercise all the powers of the Company, subject to the Articles, the Companies Act 2006 and any directions given by the Company in general meeting. In particular the Directors may exercise all the powers of the Company to borrow money, issue and buy back shares with the authority of shareholders, appoint and remove Directors and recommend and declare dividends.

Significant shareholdings

As at 28 February 2011, the Company had been notified, under the Financial Services Authority's Disclosure & Transparency Rule 5, of the following interests of the voting rights of the Company.

Name	Number of voting rights	Percentage of total voting rights	Nature of holding
Allianz SE	18,098,600	6.03	Direct & Indirect
Aberdeen Asset Management Plc's Fund Management Operating Subsidiaries	16,877,874	5.62	Indirect
AXA SA	14,923,488	4.97	Direct & Indirect
BlackRock Inc	15,178,222	5.04	Indirect
Legal & General Group Plc	11,971,510	3.98	Direct

Relations with shareholders

The Board continues to seek good relations with the Company's shareholders and the Directors recognise that it is important for both private and institutional shareholders to have the opportunity to meet senior management. Mike Farley and Mike Killoran have responsibility for maintaining appropriate communications with institutional investors and analysts advised by the Group joint brokers, Merrill Lynch and Citigroup and financial PR consultants M:Communications.

The Company issues regular trading and interim management statements to the London Stock Exchange as well as the publication of half year and final results. The Company provides shareholders with access to detailed presentations of results at its analyst presentations which can be viewed on a webcast via the Company's website. Webcasts are available on the Company's website for a period of one year.

The Group Chairman and the Senior Independent Director maintain contact with major shareholders to understand any issues or concerns. The Board is provided with reports and feedback from Directors' presentations and meetings with both shareholders and analysts.

All the Directors attend the Company's AGM and are available to answer questions at the meeting or privately.

The Combined Code on Corporate Governance (June 2008)

The Company complied with the Combined Code throughout 2010 and continues to review the New Code as well as the Company's governance procedures to maintain proper control and accountability. The Combined Code is available from the Financial Reporting Council, tel 020 7492 2300 or online at www.frc.org.uk

Principal activities

Persimmon Plc (the 'Company') is the holding company of the Persimmon Group of companies (the 'Group') and is a public company, listed on the London Stock Exchange. The principal activity of the Group is housebuilding, which is carried out within the United Kingdom and is unchanged from last year. The Group's main trading companies are Persimmon Homes Limited and Charles Church Developments Limited. The Group trades under the brand names of Persimmon Homes, Charles Church, Westbury Partnerships and Space4.

The subsidiary undertakings which principally affect the profits and assets of the Group are listed in note 31 to the financial statements.

Business review and Corporate Governance Statement

In accordance with the requirements of the Companies Act 2006, the Business Review section of this Directors' Report, on pages 6 to 27 of this Annual Report contains a review of the development and performance of the Group's business during the year and the position at the end of the year with analysis using Key Performance Indicators. The Business Review is the management report for the purpose of DTR 4.1.8R.

A description of the Group's future prospects, research and development, the principal risks and uncertainties facing the business and details of the Group's use of financial instruments are also contained within the Business Review. Details of the financial risk management objectives and policies of the Group and associated risk exposure are given in note 22 to the financial statements.

The Corporate Governance Statement on pages 30 to 34 also forms part of this Directors' Report.

Results and dividend payment

The Group's revenue was £1,569m and its profit before taxation was £153.9m.

An interim dividend of 3.0p per share was paid to shareholders on 14 December 2010 and it is proposed to pay a final dividend of 4.5p per share on 14 June 2011 to shareholders on the register at the close of business on 6 May 2011, making a total for the year of 7.5p per share (2009: nil). A dividend reinvestment plan, which enables shareholders to invest their dividend in ordinary shares, is available in respect of the final dividend and the final date for receipt of elections is 23 May 2011. Further details are available from our Registrars, whose contact details can be found on page 89.

Going concern

After completing a full review, the Directors have a reasonable expectation that the Group has adequate resources to fund its operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Further details are provided in note 2 to the financial statements.

Directors and Directors' interests

The Directors of the Company during the whole of 2010 and their biographical details are shown on pages 28 and 29. Hamish Leslie Melville was also a Director of the Company during 2010 until he

retired from the Board on 22 April 2010. None of the Directors have any contracts of significance with the Company. Details of the executive Directors' service contracts are given in the Remuneration Report on page 39.

The beneficial and non-beneficial interests of the Directors and their connected persons in the shares of the Company at 31 December 2010 and as at the date of this report are disclosed in the Remuneration Report on page 43. Details of the interests of the executive Directors in share options and awards of shares can be found on pages 42 and 43 within the same Report.

Qualifying third party indemnity provisions and qualifying pension scheme indemnity provisions

The Company has not issued any qualifying third party indemnity provision or any qualifying pension scheme indemnity provision.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under the Forward Start Facility dated 27 February 2009 disclosed in notes 20 and 22 of the financial statements all amounts become due and payable under the terms of the facility if any person or group of persons acting in concert gains control of the Company.
- Under the private placement of senior loan notes detailed in notes 20 and 22 to the financial statements (the 'Loan Notes'), the holders of the Loan Notes have an option, within five business days of being notified by the Company of the change of control, to require the Company to prepay the Loan Notes held by each holder. If the holders exercise this option, the amount of prepayment is the principal amount of the Loan Note together with interest accrued thereon to the date of the prepayment. The date of prepayment must be within 65 days of the change of control.

'Control' has the same meaning as section 450 of the Corporation Tax Act 2010 and 'acting in concert' has the meaning given to it in the City Code on Takeovers and Mergers. Change of control is deemed to occur if at any time any person, or group of persons acting in concert, acquires control of the Company.

The Company does not have agreements with any employee (including Directors) that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover. Details of compensation payable to Directors if their employment is summarily terminated in breach of contract are provided in the Remuneration Report on page 39.

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. The Group has a wide range of suppliers for the production of new homes. Whilst the loss of or disruption to certain of these arrangements could temporarily affect the Group's business, none are considered to be essential. The Group is not dependent upon particular customers for the sales of its products as a significant majority of its sales are to private individuals.

Supplier payment policy

It is the Group's policy to agree payment terms with its trade creditors and other suppliers on an individual contract basis at the time the goods and services are ordered rather than following a standard code. The policy is to ensure that suppliers are made aware of the terms of payment and to abide by the agreed terms once satisfied that the goods or services have been provided in accordance with the contract terms and conditions. The Company's average creditor payment period at 31 December 2010 was 24 days (2009: 21 days).

Employee involvement

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various financial and economic factors affecting the performance of the Group. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate to its own particular needs. Internal Group magazines are published twice a year and distributed to all employees to ensure that they are kept well informed of the Group's operations. In addition, information concerning the financial performance of the Group is sent to each operating business for circulation. Further information can be found in our Sustainability Report at www.corporate.persimmonhomes.com.

The Company makes various benefit schemes available to employees, including a Save As You Earn Scheme which encourages the involvement of employees in the Group's performance. All permanent employees are encouraged to participate, subject to having six months' service at the date of invitation.

Equal opportunities

The Company's policy is to have equal opportunities for training, career development and promotion for all employees regardless of race, colour, nationality, ethnic origin, religion, sex, gender, sexual orientation, marital status, age or disability. Applications for employment by disabled persons are always fully considered with appropriate regard to the aptitude and abilities of the person concerned. In the event of an employee becoming disabled every effort is made to ensure that their employment with the Group continues, that appropriate training is arranged and any reasonable adjustments are made to their working environment. It is the Group's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Charitable and political donations

The Group has made donations of £93,000 (2009: £79,500) to charitable organisations during the year to support the community by donating to cancer charities and to the training of apprentice stonemasons at York Minster. Further details of the Company's community involvement and charitable activities can be found in the Sustainability Report on our website at www.corporate.persimmonhomes.com. No political donations were made during the year.

Acquisition of own shares

At the AGM held on 22 April 2010 shareholders granted the Company authority to purchase up to an aggregate of 30,043,725 of its own shares. No shares have been purchased to date under this authority and therefore at 31 December 2010 the authority remained outstanding. This authority expires on 21 April 2011 and a resolution to renew the authority will be put to shareholders at the forthcoming AGM.

At 1 January 2010, the Company held 2,154,179 shares in treasury (0.72% of the issued ordinary share capital at that date excluding treasury shares) which had previously been purchased under authorities granted by shareholders. During 2010 734,671 of these shares (representing 0.24% of the issued ordinary share capital excluding treasury shares) with a nominal value of £73,467.10 were transferred to Directors and employees to satisfy the exercise of share options or awards under the Group's various share schemes, for a total cash consideration of £14,379.86. At 31 December 2010 the Company held 1,419,508 shares in treasury, representing 0.47% of the issued share capital of the Company at that date, excluding treasury shares.

Annual General Meeting

The AGM will commence at 12 noon on Thursday 21 April 2011 at York Racecourse, The Knavesmire, York YO23 1EX. The notice of the meeting and an explanation of the ordinary and special business is given in the accompanying circular.

Auditors

A resolution for the reappointment of the auditor KPMG Audit Plc will be proposed at the AGM.

Audit statement

The Directors who held office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' responsibility

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations. Further details are provided on page 44.

By order of the Board

Neil Francis

Group Company Secretary

28 February 2011

Persimmon Plc

Company Registration Number: 1818486

Remuneration Report

The Board of Directors presents its Remuneration Report for the year ended 31 December 2010. A resolution to approve this report will be proposed at the Annual General Meeting to be held on 21 April 2011. This report has been divided into separate sections for audited and unaudited information. The first part of this report is unaudited.

Remuneration Committee

The Remuneration Committee (the 'Committee') is responsible for setting the Chairman's and each executive Director's remuneration. The Committee also reviews the remuneration of the Group's divisional boards. The Committee's terms of reference were recently reviewed and updated terms of reference were adopted on 23 February 2011. The terms of reference are available on the Company's website, www.corporate.persimmonhomes.com or from the Group Company Secretary. The Committee is comprised of four non-executive Directors, all of whom served on the Committee throughout the year to 31 December 2010:

Nicholas Wrigley (Chairman)
David Thompson
Neil Davidson
Jonathan Davie

The Board considers all of the members of the Committee to be independent. When Nicholas Wrigley is appointed Chairman of the Board on 21 April 2011, Jonathan Davie will replace him as Chairman of the Committee. Mr Wrigley will remain a member of the Committee and remains independent.

Remuneration policy for the executive Directors

The Committee's policy for the executive Directors' remuneration is to provide remuneration which is performance orientated, closely aligns the Directors' interests with those of shareholders and which will retain a talented executive team who can deliver excellent long term Group performance. The policy is to provide different elements of fixed and performance related pay, with a significant emphasis on performance related pay for achievement of stretching targets. The executive Directors' remuneration package includes basic salary, benefits, pension, annual bonus and long term incentives. If challenging performance conditions attached to variable pay are achieved in full, more than two-thirds of an executive Director's remuneration package for 2011 will be performance related. The Committee considers that the policy for executive Directors' remuneration is in line with current market standards and best practice.

During the year the Committee sought independent advice from Hewitt New Bridge Street ('HNBS'), a trading name of Aon Hewitt (part of the Aon Corporation) who was appointed by the Committee. Aon Hewitt provides advice to the Company on the Group's pension schemes via its actuarial and pension consultancy division although the Committee does not believe that the independence of HNBS is compromised by these appointments. In addition, the Committee consulted with John White, Group Chairman and Mike Farley, Group Chief Executive, although neither participated in any discussion relating to their own remuneration.

The basic salary, pension and benefits payable are fixed elements of remuneration and are intended to be at market competitive levels based on the executive Director's experience and responsibilities. Annual bonus and long term incentive plan awards are performance related and intended to incentivise the executive Directors to achieve excellent performance over the medium and longer term and to align their interests with those of the shareholders.

Basic salaries are reviewed annually with increases usually taking effect from 1 January. Annual bonus performance conditions are reviewed annually by the Committee to ensure that performance conditions take into consideration the outlook for the Group over the medium to long term and are appropriate from a risk perspective. The Committee chooses performance targets which it considers will incentivise the executive Directors to achieve excellent performance and align executive remuneration with shareholders' interests.

Long Term Incentive Plan (LTIP) awards are designed to align the executive Directors interests with the Company's longer term financial performance and with the interests of shareholders. The Committee reviews annually whether LTIP awards should be granted to executive Directors and the level of any awards made. The Committee also reviews the performance conditions attached to the vesting of new LTIP awards annually to ensure that the conditions are stretching and appropriate to current market conditions. Upper quartile level targets must be met for full vesting of the awards to be achieved.

The executive Directors may be granted awards under the Company's LTIP up to a maximum value of 250% of basic salary. LTIP awards vest after a three-year performance period if the performance conditions attached to the awards are met and may be exercised for a period of up to 10 years from the date of grant, once they have vested.

The Company's policy is to also make annual LTIP awards to senior management and staff to incentivise them to achieve excellent long term financial performance, align their interests with the executive Directors and to help retain key individuals. In addition, the Company has a policy to make invitations under the Save as You Earn Scheme to all permanent employees with more than six months' service, to encourage the interest of all employees in the financial performance of the Group.

During 2010, the Committee considered whether a non-financial target, taking into consideration environmental, social and governance matters, should comprise part of annual bonus or LTIP award performance conditions for 2011. The Committee concluded that financial targets are more appropriate for the executive Directors at this time and that there are appropriate procedures in place throughout the Group to ensure that non-financial matters are carefully considered and are integral to the Group's business operations. The Committee also considered the level of risk associated with the remuneration policy and concluded that there are sufficient safeguards in this regard.

Overall, the Committee considers that the balance of performance conditions in the annual bonus and LTIP provides a good link to the business strategy.

The Committee has considered the pay and employment conditions of Group employees generally and taken these into account when determining the remuneration of the executive Directors. Generally, employees throughout the Group received a 2% basic salary increase in 2010, which was consistent with the level of increase awarded to the executive Directors. Performance related pay makes up a significantly higher proportion of remuneration for the executive Directors and senior employees than for employees generally, reflective of the role of these individuals in managing the business to achieve the Group's strategic targets.

Full details of both the quantum of the individual components of the packages payable to executive Directors and the structure of annual bonus and LTIP awards, including details of the performance conditions are summarised below.

Basic salary

The Committee awarded Mike Farley and Mike Killoran a 2% increase in their basic salaries on 1 January 2011, after taking into consideration Group employees' salary increase in 2010 and general market conditions. Jeff Fairburn's salary was increased by 17.6% to £300,000 to reflect the Committee's intention to progressively align his salary to a market competitive level as, following his appointment to the Board on 1 June 2009, he continues to gain experience and his role and responsibilities expand. Basic salaries are as set out below:

	2011	2010
Mike Farley	£659,000	£646,119
Mike Killoran	£428,600	£420,240
Jeff Fairburn	£300,000	£255,000

Annual bonus

Annual bonuses are performance related and non-pensionable. The aim of the Committee is to set stretching targets which will incentivise the executive Directors to achieve excellent performance and reward them for doing so. The performance condition for 2010 annual bonuses was based on Group profit before tax pre exceptional items and goodwill impairment (the 'Profit Measure'), with the following sliding scale set around a target of £41.1m (where half the maximum potential would have been earned):

Target range	Profit Measure for 2010	Bonus as a Percentage of salary
Threshold	£35.0 million	5%
Target	£41.1 million	50%
Maximum	£100.0 million	100%

The Profit Measure for 2010 was £95.5m and as a result, annual bonus payments for 2010 will be made at 96.2% of basic salary.

The Committee has decided that annual bonuses for 2011 will again be based on a Profit Measure performance target, as it considers that this performance condition will incentivise the Directors in line with the Group's strategic aims, which as can be seen on pages 10 and 11 of the Business Review, include continuing to rebuild profit margins and further cash generation.

The Committee has again determined an appropriate sliding scale around a target figure for bonuses equal to 50% of basic salary. In determining the target figure the Committee has taken into consideration the current market conditions faced by the housebuilding industry and the Group's budget. The new target is based on budget figures which are commercially sensitive, but which will be disclosed in the next Remuneration Report. After taking into consideration the restoration of sustained profitability, a desire to incentivise management to deliver above target results and to ensure the packages remain competitive, the Committee has agreed to increase the level of the bonus cap so as to revert to the bonus opportunity broadly available in 2008. Accordingly, the cap for executive Directors for 2011 will be increased from 100% to 150% of salary. Reflecting the increase in bonus potential and consistent with best practice, to earn maximum bonuses, the executive Directors will need to meet very stretching performance levels above target and, any bonus earned in excess of 100% of basic salary will be required to be invested in the Company's shares ('Bonus Shares'), which will be released to the executive Director in two equal tranches on the first and second anniversary of the date on which the bonus was awarded.

The Committee considers that this bonus opportunity is broadly comparable in terms of quantum and structure to that on offer at the other major listed UK housebuilders.

Prior to 2009, the maximum annual bonus an executive Director could receive in cash was between 150% and 200% of basic salary, with any excess bonus being required to be invested in Bonus Shares. All previously awarded Bonus Shares vested prior to or during 2010 and there were no outstanding Bonus Shares at 31 December 2010. Details of the Bonus Shares that vested during the year are shown on page 43.

Long Term Incentive Plan ('LTIP')

During 2010 Mike Farley received an LTIP award of 200% of his basic salary and Mike Killoran and Jeff Fairburn received LTIP awards of 150% of their basic salary. In 2011 the Committee again intends to make the same level of award to each Director.

Long Term Incentive Plan Awards as a percentage of salary		
	2011	2010
Mike Farley	200%	200%
Mike Killoran	150%	150%
Jeff Fairburn	150%	150%

The three year performance conditions for 2011 awards will be based half on the Company's Total Shareholder Return ('TSR') versus a comparator group of the constituents of the FTSE 250 Index (excluding investment trusts) and half on a challenging range of targets based on PBT pre exceptional items and goodwill impairment.

The Committee considers this provides a good mix between rewarding stock market performance and long term financial performance in line with the Board's strategy for the Group, as outlined on pages 10 and 11. TSR combines the growth of a company's share price and dividends paid to show total return to a shareholder. As the Company is a constituent of the FTSE 250, the TSR performance condition will measure the Company's TSR against the constituents of the FTSE 250 Index (excluding Investment Trusts) as at the date of grant. The Committee considers the FTSE 250 to be the most appropriate benchmark against which to compare the Company's TSR, as there are an insufficient number of listed housebuilders to provide a robust comparator group. The vesting schedule for the half of the award linked to TSR performance will be 25% of the award for median performance, with sliding scale increases until full vesting at or above upper quartile performance.

The target range for the Profit Measure condition is commercially sensitive and will be disclosed after the maturity of the awards. However, to achieve full vesting of the part of the award subject to the Profit Measure performance condition, the Profit Measure for the performance period would have to be significantly above target, with 25% of this part of an award vesting for target performance.

The performance conditions relating to LTIP awards made in 2008 have not been achieved and as a result no shares will vest in 2011 in respect of these awards.

Pension

The executive Directors are members of the Persimmon Plc Pension and Life Assurance Scheme (the "Scheme"), the Group's main defined benefit pension scheme. Future benefit accrual in the Scheme was amended for all members on 1 July 2010 from a final salary basis to a career average revalued earnings basis. The normal retirement age for Mike Farley and Mike Killoran is 60 and their accrual rate is 45ths. Jeff Fairburn's normal retirement age is 65 and his accrual rate is 60ths.

Mike Farley elected not to accrue any further service in the Scheme after April 2006 and instead receives a salary supplement of 30% of basic salary, which the Committee considers is cost neutral to the Company. However his pension will continue to be based on his pensionable salary at the date of leaving the Group or the Scheme and he remains a member of the Scheme for life insurance purposes. A salary cap for pension purposes was introduced for Mike Farley in 2007 and his current pensionable salary is £441,252, substantially below his basic salary. His pensionable salary will increase annually by the same rate as any increase in his basic salary, up to a maximum of 5% p.a. On 1 July 2011, the start of the Scheme year, Mike Farley's pensionable salary cap will increase by 2% to £450,077.

Mike Killoran is subject to a pensionable salary cap for his service in the Scheme prior to 6 April 2006, which is £122,038. This cap increases in line with his basic salary increases, up to a maximum of 5% p.a., which means it will increase by 2% to £124,479 on 1 July 2011.

Mr Killoran has earned pension in the Scheme on his full basic salary for service since 6 April 2006. Following the government's announcement that it intends to introduce lower tax allowances for pension saving, the Committee has reviewed the pension provision for senior executives. The Committee has agreed to reduce Mr Killoran's pensionable salary to £187,500 with effect from 1 October 2010, a level which will enable him to earn pension in the Scheme equal to the annual allowance. As a result of the reduction in Mr Killoran's pensionable salary, the Committee has decided that he will be paid a salary supplement of 30% of the difference between his basic salary on 1 July each year and his pensionable salary for post 1 October 2010 service. Mr Killoran's pensionable salary for future service is expected to fall to £140,625 on 1 July 2011.

Jeff Fairburn is subject to a Scheme pensionable salary cap of £123,600, which increases on 1 July each year in line with increases in the Retail Price Index. In addition to Mr Fairburn's defined benefit scheme membership he is also a member of the Group's stakeholder pension scheme. He receives a Company contribution into his Group stakeholder policy of 9% of the difference between the Scheme cap and his basic salary. This arrangement is in place for other employees within the Group below Board level whose benefits in the Scheme are limited to the Scheme pensionable salary cap but who are paid a higher basic salary.

Benefits in kind

Benefit provision for executive Directors is comprised of fully financed cars or cash car allowance, membership of the Group private medical scheme, the Group income protection scheme, subscriptions and some telephone costs. These benefits are not pensionable.

All employee share scheme

The executive Directors may also participate in the Company's Save as You Earn Scheme, which is open to all permanent employees who have more than six months' service.

Executive Directors' service contracts

All executive Directors have service contracts with a 12-month notice period. Mike Farley and Mike Killoran's contracts are dated 24 April 2002 but are effective from 1 January 2002. Jeff Fairburn's contract is dated 4 August 2009 but is effective from 1 June 2009. Mike Farley and Mike Killoran's contracts would normally expire on their 60th birthday; Jeff Fairburn's contract would normally expire on his 65th birthday. Only where dismissed in breach of contract is an executive Director entitled to payments for termination of employment. Such payments will be subject to mitigation by the Director and will not in any event exceed 12 months' remuneration. LTIP awards are not contractual entitlements and will only vest under the rules of the LTIP in certain good leaver circumstances.

All of the Directors will retire at the 2011 Annual General Meeting and are offering themselves for re-election. The Executive Directors' service contract are as set out above. Non-executive Directors do not have service contracts and their terms of appointment are set out on page 40.

Share ownership guidelines

In order to align the interests of the executive Directors with the interests of shareholders, the Committee encourages significant long term share ownership of the Company's shares by the executive Directors. Formal share ownership guidelines have been in place for a number of years to implement this policy, requiring each executive Director to hold shares in the Company. Mike Farley is required to hold a minimum value of shares equivalent to three times his basic salary, and the other executive Directors are required to build up and maintain shareholdings equivalent in value to two times their basic salary.

Mike Farley and Mike Killoran hold significantly more than the minimum. Jeff Fairburn does not currently hold the required minimum following his appointment to the Board on 1 June 2009 and will be required to retain LTIP and other share option awards (except for sales of shares to pay income tax and National Insurance due on the exercise of the award) until he increases his shareholding to the guideline. John White is required to hold shares which vested pursuant to the Synergy Incentive Plan for the period of his term as Chairman, except for sales of shares to pay income tax and National Insurance due on the exercise of the award.

External appointments

None of the executive Directors currently has an external appointment. The Directors recognise that external appointments can broaden an individual's skills and experience. If an executive Director wishes to take up an external appointment, he must first seek approval from the Group Chairman and/or the Group Chief Executive.

Chairman

The Committee is also responsible for setting the Chairman's remuneration. The current Chairman's remuneration was reviewed and amended in 2008 when he became non-executive. Mr White has a letter of appointment dated 25 February 2009 to his role as Group Chairman. John White will be paid a salary of £301,700 during 2011 until his retirement, an increase of 2% on his salary for 2010. Mr White does not participate in the annual bonus scheme, does not receive a pension salary supplement, nor LTIP awards or other benefits, except he will remain a member of the Group's private medical scheme until his retirement at the AGM.

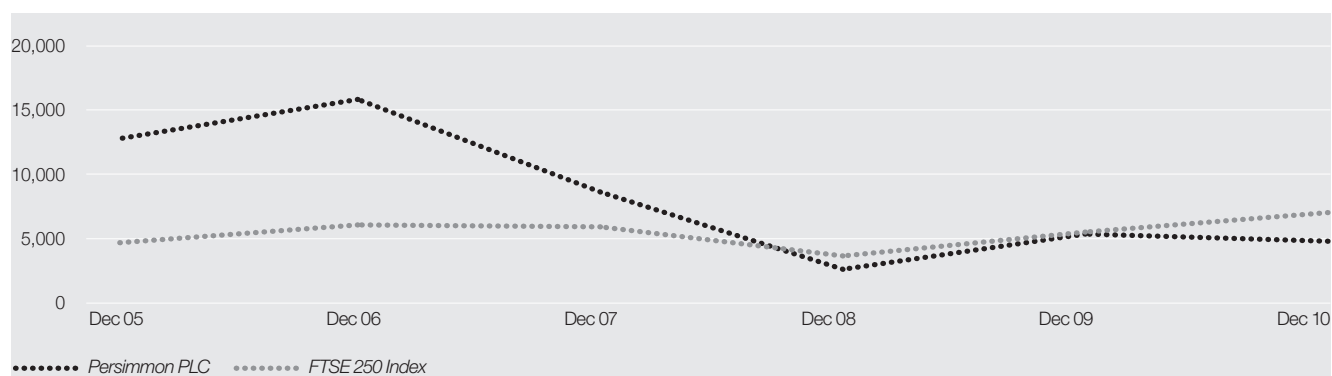
Nicholas Wrigley will become Chairman of the Group on 21 April 2011, upon John White's retirement. Mr Wrigley will have a letter of appointment to his position as Chairman and will be paid a salary of £180,000 p.a. He was not present when the Committee determined the fee level for him for his role as Chairman.

Non-executive Directors

The remuneration policy for non-executive Directors is to pay fees commensurate with their duties which are non-pensionable. Non-executive Directors have letters of appointment which set out their duties and responsibilities, they do not have service contracts. Appointments may be terminated on one month's notice. Non-executive Directors do not qualify for performance related remuneration nor are they eligible for membership of Group pension schemes. A non-executive Director's letter of appointment is effective from their date of appointment as a Director of the Company. These dates can be found on pages 28 and 29 of the Directors' Report. The Board as a whole determines the fees of the non-executive Directors. The fees for 2011 have increased by 2% to £49,900 p.a., plus an additional fee of £8,900 p.a. for extra responsibilities in chairing a committee.

Performance graph

Shown below is the Company's TSR performance against the FTSE 250 Index over the last five financial years. The Board has chosen this comparator for the 2010 report as it is a broad index of which the Company is a member and it is the TSR comparator group for performance conditions attached to LTIP awards.



The auditors are required to report on the information contained in the following part of this report.

Schedule of Directors' emoluments for the year ended 31 December 2010

	Salaries and fees £	Performance related cash bonus £	Benefits £	Salary supplement in lieu of pension £	2010 Total £	2009 Total £
Chairman						
J White	295,800	—	868	—	296,668	290,821
Executive						
M P Farley	646,119	621,760	31,065	193,836	1,492,780	1,269,210
M H Killoran†	388,026	404,397	36,066	17,456	845,945	675,492
J Fairburn†	243,876	245,387	19,143	—	508,406	237,720
Non-executive						
I H Leslie Melville†	15,133	—	—	—	15,133	48,000
D G F Thompson	53,295	—	—	—	53,295	56,500
R C N Davidson	57,630	—	—	—	57,630	56,500
N H T Wrigley	57,630	—	—	—	57,630	56,500
R J Pennycook	53,295	—	—	—	53,295	48,000
J Davie	48,960	—	—	—	48,960	—
Totals	1,859,764	1,271,544	87,142	211,292	3,429,742	2,738,743

† The Group's defined benefit pension scheme is non-contributory. As a result the salary paid to each of Mike Killoran and Jeff Fairburn as members accruing service in this scheme was reduced by 9% of their pensionable salary, which would have been the member rate of contribution to the scheme. Salary related benefits remain based on the salaries published on page 38.

† Until his retirement from the Board on 22 April 2010. Hamish Leslie Melville's non-executive fees were paid in full to his employing company, Credit Suisse Securities (Europe) Ltd.

Mr D Bryant, who retired as a Director in April 2009 received a bonus payment of £20,000 in March 2010 for his position as Eastern Regional Chairman. In accordance with Group practice, final bonus payments are made at the end of March for the previous financial year. Mr J Millar, who retired as a Director in April 2006 received a salary and bonus for 2010 of £12,500 (2009: £173,749) and benefits of £nil (2009: £2,859) in his capacity as a Group Special Projects Director. Mr D H Davidson who retired as Chairman in April 2006 remains Life President and received a payment of £7,500 (2009: £7,500) and benefits of £36,419 (2009: £36,624) for the year to 31 December 2010. Mr G Grewer, who retired as a Director in December 2001 received £40,000 (2009: £40,000) for his roles as Chairman of the Trustees of both the Persimmon Plc Pension and Life Assurance Scheme and the Prowting Pension Scheme.

During the year, no Director waived his entitlement to any emoluments.

Directors' Pension Entitlements

	Total accrued pension at 31 December 2009 £ p.a.	Total accrued pension at 31 December 2010 £ p.a.	Increase in accrued pension £ p.a.	Increase/ (decrease) in accrued pension (net of inflation) £ p.a.	Transfer value at 31 December 2009 £	Transfer value at 31 December 2010 £	Increase in transfer value, less member contributions £	Transfer value of net of inflation increase/ (decrease) in accrued pension less member contributions £
M P Farley	207,060	210,483	3,423	(6,193)	4,039,080	4,483,651	444,571	(131,928)
M H Killoran	59,258	67,168	7,910	5,157	821,009	1,012,574	191,565	77,748
J Fairburn	34,417	36,430	2,013	415	289,986	340,099	50,113	3,872

In addition the Company contributed £11,601 to Jeff Fairburn's Stakeholder Pension policy for the year to 31 December 2010 (£6,040 for the period from 1 June 2009 to 31 December 2009).

Directors' interests in share options, Long Term Incentive Plan and Synergy Incentive Plan awards

	1 January 2010	Granted in year	Exercised in year	Lapsed in year	31 December 2010	Exercisable from	Expiry date	Performance condition end date	Exercise price/ market price at date of award	Market price at date of exercise	Notional gain on exercise of option £
J White	281,250 ⁽³⁾	–	353,352*	–	–	Feb 10	Aug 10	Dec 07	1,336.0p	436.7p	1,543,088
	91,449 ⁽¹⁾	–	–	91,449	–	May 10	Nov 10	Dec 09	1,345.0p	–	–
	187,134 ⁽¹⁾	–	–	–	187,134	Mar 11	Mar 18	Dec 10	677.0p	–	–
	2,944 ⁽²⁾	–	–	–	2,944	Dec 11	May 12	–	326.0p	–	–
Total	562,777	–	353,352	91,449	190,078						1,543,088
M P Farley	150,000 ⁽³⁾	–	188,454*	–	–	Feb 10	Aug 10	Dec 07	1,336.0p	436.7p	822,979
	91,449 ⁽¹⁾	–	–	91,449	–	May 10	Nov 10	Dec 09	1,345.0p	–	–
	187,134 ⁽¹⁾	–	–	–	187,134	Mar 11	Mar 18	Dec 10	677.0p	–	–
	239,188 ⁽¹⁾	–	–	–	239,188	Apr 12	Apr 19	Dec 11	397.25p	–	–
	–	280,982 ⁽¹⁾	–	–	280,982	Mar 13	Mar 20	Dec 12	459.9p	–	–
Total	667,771	280,982	188,454	91,449	707,304						822,979
M H Killoran	121,875 ⁽³⁾	–	153,119*	–	–	Feb 10	Aug 10	Dec 07	1,336.0p	436.7p	668,671
	44,609 ⁽¹⁾	–	–	44,609	–	May 10	Nov 10	Dec 09	1,345.0p	–	–
	91,285 ⁽¹⁾	–	–	–	91,285	Mar 11	Mar 18	Dec 10	677.0p	–	–
	2,944 ⁽²⁾	–	–	–	2,944	Dec 11	May 12	–	326.0p	–	–
	103,713 ⁽¹⁾	–	–	–	103,713	Apr 12	Apr 19	Dec 11	397.25p	–	–
	–	137,064 ⁽¹⁾	–	–	137,064	Mar 13	Mar 20	Dec 12	459.9p	–	–
Total	364,426	137,064	153,119	44,609	335,006						668,671
J Fairburn	11,150 ⁽¹⁾	–	–	11,150	–	May 10	Nov 10	Dec 09	1,345.0p	–	–
	13,888 ⁽¹⁾	–	–	–	13,888	Sep 11	Sep 18	Dec 10	360.0p	–	–
	2,944 ⁽²⁾	–	–	–	2,944	Dec 11	May 12	–	326.0p	–	–
	31,466 ⁽¹⁾	–	–	–	31,466	Apr 12	Apr 19	Dec 11	397.25p	–	–
	–	83,170 ⁽¹⁾	–	–	83,170	Mar 13	Mar 20	Dec 12	459.9p	–	–
Total	59,448	83,170	–	11,150	131,468						–
Total											3,034,738

* The number of shares exercised in respect of the Synergy Incentive Plan ("SIP") includes an award for the dividend equivalent, in accordance with the rules of the SIP.

⁽¹⁾ Persimmon Plc Long Term Incentive Plan 2007

⁽²⁾ Persimmon Plc Save As You Earn Scheme

⁽³⁾ Persimmon Plc Synergy Incentive Plan

All options and awards were granted for nil consideration. The 2010 LTIP awards were made on 31 March 2010.

Vesting of LTIP awards granted in 2007 and 2008 were subject to the achievement of performance conditions based on TSR relative to the FTSE 100 (median to upper quartile TSR for between 25% to 100% of this part of the award to vest) and a range of ROCE targets (15% to 22% for between 50% and 100% of this part of the award to vest). The performance conditions for the awards granted in 2007 were not met and therefore awards lapsed in respect of these grants during 2010. The performance conditions relating to LTIP awards made in 2008 have not been achieved and as a result no shares will vest in 2011 in respect of these awards.

Performance conditions for awards granted in 2009 are based 50% on the Company's Total Shareholder Return (TSR) versus a comparator group of the constituents of the FTSE 250 and 50% on a cash generation performance condition. The TSR performance condition is median to upper quartile performance for between 25% to 100% of this part of the award to vest. The targets for the cash generation condition will be disclosed on the vesting of the awards.

The performance conditions for 2010 awards are based half on TSR versus a comparator group of the constituents of the FTSE 250 and half on the Profit Measure targets. The TSR performance condition is median to upper quartile performance for between 25% to 100% of this part of the award to vest. The targets for the Profit Measure condition will be disclosed after the maturity of the awards.

During the year the Committee agreed that options granted under the LTIP would be exercisable for 10 years from the date of grant, provided that the performance conditions attached to those awards were met.

The Synergy Incentive Plan (SIP) awards vested in two tranches. The performance conditions for both tranches of the SIP awards were met. The Company achieved synergy savings of c. £32m by the year ended 31 December 2006 and further synergy savings of over £50m in the year ended 31 December 2007; both figures were approved by the Audit and Remuneration Committees advised by external auditors. The first tranche of the awards vested in February 2009 and the second and final tranche vested in February 2010.

The closing price of a share in the Company at 31 December 2010 was 416.8p, the lowest closing price in 2010 was 336.5p and the highest closing price in 2010 was 507.5p.

Directors' Interests in Shares

The interests of Directors serving during the year and of their connected persons in the ordinary share capital of the Company are as shown below:

	Beneficial holdings		Interests in share options and awards (excluding Bonus Shares)	
	31 December 2010†	1 January 2010	31 December 2010†	1 January 2010
J White	2,125,160	2,051,971	190,078	562,777
M P Farley	1,147,753	1,052,753	707,304	667,771
M H Killoran	472,814	436,852	335,006	364,426
J Fairburn	38,270	35,454	131,468	59,448
I H Leslie Melville	150,000	150,000	–	–
D G F Thompson	39,655	60,032	–	–
R C N Davidson	38,350	38,350	–	–
N H T Wrigley	4,000	4,000	–	–
R J Pennycook	643	643	–	–
J Davie	10,000	–	–	–
Total	4,026,645	3,830,055	1,363,856	1,654,422

† At 22 April 2010 for Hamish Leslie Melville, being his date of retirement.

The Directors' beneficial holdings represent 1.3% of the Company's issued share capital as at 31 December 2010 (excluding shares held in Treasury).

John White also has a non-beneficial interest of 176,000 ordinary shares (2009: 93,000 ordinary shares) and David Thompson has a non-beneficial interest of 12,155 ordinary shares (2009: 5,454 ordinary shares). Otherwise all interests of the Directors are beneficial. There has been no change in the Directors' interests set out above between 31 December 2010 and 28 February 2011.

Bonus Shares

The interests of Directors in Bonus Shares are as shown below:

	1 January 2010	2009 Bonus Shares awarded during year	2008 Bonus Shares vested during year	31 December 2010
J White	2,837	–	2,837	–
M P Farley	2,837	–	2,837	–
M H Killoran	2,843	–	2,843	–
J Fairburn	2,816	–	2,816	–
Total	11,333	Nil	11,333	Nil

Bonus Shares vested over a two year period. There were no Bonus Share awards for 2009 and 2010.

By order of the Board

Nicholas Wrigley

Chairman Remuneration Committee

28 February 2011

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Business Review, which forms part of the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Mike Farley
Group Chief Executive

28 February 2011

Mike Killoran
Group Finance Director

28 February 2011

Independent Auditor's Report to the Members of Persimmon Plc

We have audited the financial statements of Persimmon Plc for the year ended 31 December 2010 set out on pages 46 to 85. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 44, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 30 to 34 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 35, in relation to going concern;
- the part of the Corporate Governance Statement on pages 30 to 34 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review and
- certain elements of the report to members by the Board on Directors' remuneration.

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

28 February 2011

KPMG Audit Plc
Chartered Accountants
1 The Embankment
Neville Street
Leeds LS1 4DW

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 Before exceptional items £m	Exceptional items (note 6) £m	Total £m	2009 Before exceptional items £m	Exceptional items (note 6) £m	Total £m
Continuing operations							
Revenue	5	1,569.5	–	1,569.5	1,420.6	–	1,420.6
Cost of sales		(1,374.7)	80.2	(1,294.5)	(1,297.0)	74.8	(1,222.2)
Gross profit		194.8	80.2	275.0	123.6	74.8	198.4
Other operating income		10.9	–	10.9	8.8	–	8.8
Operating expenses		(81.8)	–	(81.8)	(78.7)	–	(78.7)
Share of results of jointly controlled entities		0.2	–	0.2	(0.5)	–	(0.5)
Profit from operations before impairment of intangible assets		128.7	80.2	208.9	57.2	74.8	132.0
Impairment of intangible assets		(4.6)	–	(4.6)	(4.0)	–	(4.0)
Profit from operations	10	124.1	80.2	204.3	53.2	74.8	128.0
Finance income	9	6.0	7.4	13.4	4.8	–	4.8
Finance costs	9	(39.2)	(24.6)	(63.8)	(55.0)	–	(55.0)
Profit before tax		90.9	63.0	153.9	3.0	74.8	77.8
Tax	11.1	(21.0)	(17.6)	(38.6)	(0.7)	(3.0)	(3.7)
Profit after tax (all attributable to equity holders of the parent)	13	69.9	45.4	115.3	2.3	71.8	74.1
Other comprehensive income/(expense)							
Net gain/(loss) on cash flow hedges		0.6	–	0.6	(0.8)	–	(0.8)
Actuarial gains/(losses) on defined benefit pension schemes	29	2.5	–	2.5	(29.0)	–	(29.0)
Tax	11.2	7.9	–	7.9	19.3	–	19.3
Other comprehensive income/(expense) for the year, net of tax		11.0	–	11.0	(10.5)	–	(10.5)
Total recognised income/(expense) for the year		80.9	45.4	126.3	(8.2)	71.8	63.6
Earnings per share ⁱ							
Basic	13			38.3p			24.7p
Diluted	13			38.1p			24.5p
Non-GAAP measures – Underlying earnings per share ⁱⁱ							
Basic	13			24.8p			2.1p
Diluted	13			24.6p			2.1p

ⁱ Earnings per share is calculated in accordance with IAS 33 'Earnings Per Share'.

ⁱⁱ Underlying earnings per share excludes exceptional items and goodwill impairment.

Balance sheets

At 31 December 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Assets					
Non-current assets					
Intangible assets	14	255.5	260.4	3.2	3.5
Property, plant and equipment	15	29.1	32.0	2.2	2.4
Investments accounted for using the equity method	16.1	2.8	3.3	–	–
Investments in subsidiaries	16.2	–	–	3,198.7	3,252.0
Available for sale financial assets	17	115.2	68.0	–	–
Trade and other receivables	19	3.0	3.6	–	–
Forward currency swaps	26	20.4	20.8	20.4	17.8
Deferred tax assets	23	38.6	27.9	33.8	22.6
		464.6	416.0	3,258.3	3,298.3
Current assets					
Inventories	18	2,073.2	2,187.8	–	–
Trade and other receivables	19	50.0	50.2	437.9	263.0
Forward currency swaps	26	7.1	–	7.1	–
Cash and cash equivalents		126.8	138.0	108.0	131.0
Assets held for sale	15	2.9	3.6	–	–
		2,260.0	2,379.6	553.0	394.0
Total assets		2,724.6	2,795.6	3,811.3	3,692.3
Liabilities					
Non-current liabilities					
Loans and borrowings	20	(155.5)	(283.0)	(155.4)	(178.7)
Trade and other payables	21	(122.0)	(77.2)	(0.5)	(0.4)
Deferred tax liabilities	23	(21.8)	(24.1)	–	–
Retirement benefit obligation	29	(98.3)	(114.4)	(98.3)	(114.4)
		(397.6)	(498.7)	(254.2)	(293.5)
Current liabilities					
Loans and borrowings	20	(48.4)	(117.0)	(48.2)	(3.1)
Trade and other payables	21	(463.3)	(464.5)	(2,655.9)	(2,567.6)
Forward currency swaps	26	–	(9.5)	–	–
Current tax liabilities		(71.3)	(82.7)	(0.1)	(2.2)
		(583.0)	(673.7)	(2,704.2)	(2,572.9)
Total liabilities		(980.6)	(1,172.4)	(2,958.4)	(2,866.4)
Net assets		1,744.0	1,623.2	852.9	825.9
Equity					
Ordinary share capital issued	24	30.3	30.3	30.3	30.3
Share premium		233.6	233.6	233.6	233.6
Hedge reserve		–	(0.4)	–	–
Other non-distributable reserve		281.4	281.4	4.6	4.6
Retained earnings		1,198.7	1,078.3	584.4	557.4
Total equity		1,744.0	1,623.2	852.9	825.9

The financial statements on pages 46 to 85 were approved by the Board of Directors on 28 February 2011 and were signed on its behalf by:

M P Farley
Group Chief Executive

M H Killoran
Group Finance Director

Statements of changes in shareholders' equity

As at 31 December 2010

	Share capital £m	Share premium £m	Hedge reserve £m	Other non- distributable reserve £m	Retained earnings £m	Total £m
Group						
Balance at 1 January 2009	30.3	233.6	0.1	281.4	1,009.8	1,555.2
Profit for the year	–	–	–	–	74.1	74.1
Other comprehensive expense	–	–	(0.5)	–	(10.0)	(10.5)
Transactions with owners:						
Exercise of share options/share awards	–	–	–	–	0.2	0.2
Own shares purchased	–	–	–	–	(0.2)	(0.2)
Share-based payments	–	–	–	–	3.6	3.6
Satisfaction of share options from own shares held	–	–	–	–	0.8	0.8
Balance at 31 December 2009	30.3	233.6	(0.4)	281.4	1,078.3	1,623.2
Profit for the year	–	–	–	–	115.3	115.3
Other comprehensive income	–	–	0.4	–	10.6	11.0
Transactions with owners:						
Dividends on equity shares	–	–	–	–	(9.0)	(9.0)
Exercise of share options/share awards	–	–	–	–	0.3	0.3
Share-based payments	–	–	–	–	3.6	3.6
Satisfaction of share options from own shares held	–	–	–	–	(0.4)	(0.4)
Balance at 31 December 2010	30.3	233.6	–	281.4	1,198.7	1,744.0

The other non-distributable reserve arose prior to transition to IFRSs, and relates to the issue of ordinary shares to acquire the shares of Beazer Group Plc in 2001.

	Share capital £m	Share premium £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
Company					
Balance at 1 January 2009	30.3	233.6	4.6	87.3	355.8
Profit for the year	–	–	–	475.7	475.7
Other comprehensive expense	–	–	–	(10.0)	(10.0)
Transactions with owners:					
Share-based payments	–	–	–	3.6	3.6
Satisfaction of share options from own shares held	–	–	–	0.8	0.8
Balance at 31 December 2009	30.3	233.6	4.6	557.4	825.9
Profit for the year	–	–	–	22.0	22.0
Other comprehensive income	–	–	–	10.6	10.6
Transactions with owners:					
Dividends on equity shares	–	–	–	(9.0)	(9.0)
Share-based payments	–	–	–	3.6	3.6
Satisfaction of share options from own shares held	–	–	–	(0.2)	(0.2)
Balance at 31 December 2010	30.3	233.6	4.6	584.4	852.9

During the year the Company received dividends from wholly owned subsidiary undertakings of £84.6m (2009: £475.0m).

Retained earnings include £29.5m of non-distributable items (2009: £29.8m).

The other non-distributable reserve arose prior to transition to IFRSs.

Company statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit after tax (all attributable to equity holders)		22.0	475.7
Other comprehensive income/(expense)			
Actuarial gains/(losses) on defined benefit pension schemes	29	2.5	(29.0)
Tax		8.1	19.0
Other comprehensive income/(expense) for the year, net of tax		10.6	(10.0)
Total recognised income for the year		32.6	465.7

The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement.

Cash flow statements

For the year ended 31 December 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash flows from operating activities:					
Profit for the year		115.3	74.1	22.0	475.7
Tax charge/(credit) recognised in profit or loss	11.1	38.6	3.7	(11.3)	1.0
Finance income	9	(6.0)	(4.8)	(0.8)	(1.4)
Finance costs	9	39.2	55.0	34.0	30.5
Depreciation charge	15	4.5	6.3	0.3	0.5
Amortisation of intangible assets	14	0.3	0.3	0.3	0.2
Impairment of intangible assets	14	4.6	4.0	–	–
Impairment of investments	16.2	–	–	53.3	–
Share of results of jointly controlled entities	16.1	0.5	0.5	–	–
Profit on disposal of property, plant and equipment	10	(1.3)	(0.6)	(0.6)	–
Loss on disposal of assets held for sale	10	0.1	–	–	–
Share-based payment charge		3.4	3.6	3.4	3.6
Exceptional items	6	(63.0)	(74.8)	–	–
Other non-cash items		1.5	3.5	2.2	5.5
		137.7	70.8	102.8	515.6
Movements in working capital:					
Decrease in inventories		194.8	501.5	–	–
Decrease/(increase) in trade and other receivables		5.5	24.9	(175.0)	(0.9)
Increase/(decrease) in trade and other payables		25.9	(164.5)	70.5	(486.9)
Increase in available for sale financial assets		(47.2)	(41.8)	–	–
Cash generated from/(used in) operations		316.7	390.9	(1.7)	27.8
Interest paid		(30.1)	(45.9)	(18.2)	(26.5)
Payments on cancellation of swaps	6	(1.6)	–	–	–
Make-whole fees on early redemption of senior loan notes	6	(13.4)	–	–	–
Interest received		1.4	7.8	0.8	7.1
Receipts on cancellation of swaps	6	7.4	–	–	–
Tax (paid)/received		(54.9)	0.3	6.3	(1.2)
Net cash inflow/(outflow) from operating activities		225.5	353.1	(12.8)	7.2
Cash flows from investing activities:					
Received in respect of the disposal of jointly controlled entities	16.1	–	0.1	–	–
Received from sale of investment in subsidiary	16.2	–	–	–	334.2
Purchase of property, plant and equipment		(3.3)	(1.2)	(0.5)	(0.3)
Proceeds from sale of property, plant and equipment		3.0	4.8	1.0	0.4
Proceeds from sale of assets held for sale		0.4	–	–	–
Net cash inflow from investing activities		0.1	3.7	0.5	334.3
Cash flows from financing activities:					
Repayment of borrowings		(52.7)	(173.1)	(1.7)	(173.1)
Early redemption of senior loan notes		(174.4)	–	–	–
Financing transaction costs		–	(21.4)	–	(18.0)
Finance lease principal payments		(0.7)	(1.2)	–	(0.5)
Own shares purchased		–	(0.2)	–	–
Dividends paid		(9.0)	–	(9.0)	–
Net cash outflow from financing activities		(236.8)	(195.9)	(10.7)	(191.6)
(Decrease)/increase in net cash and cash equivalents	25	(11.2)	160.9	(23.0)	149.9
Cash and cash equivalents at the beginning of the year		138.0	(22.9)	131.0	(18.9)
Cash and cash equivalents at the end of the year	26	126.8	138.0	108.0	131.0

Notes to the financial statements

For the year ended 31 December 2010

1 Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs)

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements. Other new standards and interpretations have no significant impact on the Group.

- IFRS 2 Group Cash-settled Share-based Payment Transactions. The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
- IFRS 3 (revised) Business Combinations requires some significant changes to the way business combinations are accounted for. All costs associated with business combinations are expensed directly to the Income Statement. Additionally any changes to contingent consideration classified as debt must now be dealt with through the Income Statement subsequent to acquisition.
- Improvements to IFRSs: in April 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments, which are effective from 1 January 2010, did not have any impact on the reporting of the financial position or performance of the Group.

The Group has not applied the following new and revised IFRSs and IFRICs that are EU endorsed but are not yet effective:

- IAS 24 (revised in 2009) – Related Party Disclosures. Effective for annual periods beginning on or after 1 January 2011.
- Amendments to IAS 32 – Classification of Rights Issues. Effective for annual periods beginning on or after 1 February 2010.
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments. Effective for annual periods beginning on or after 1 July 2010.

The Group is currently considering the implications of these standards and interpretations. They are not expected to have a material impact on the Group's financial statements.

2 Accounting policies

Statement of compliance

Both the consolidated Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 12 to 22 of the Business Review. Further disclosures regarding borrowings are provided in note 20 to the financial statements. In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Directors have assessed the future funding requirements of the Group and the Company and compared it to the level of long term debt, committed bank facilities and cash resources over the medium term. The assessment included a review of the financial forecasts and the preparation of sensitivity analysis on the key factors which could affect future cash flow and funding requirements.

The Group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak working capital requirements. At 31 December 2010 the Group had cash and deposits of £126.8m, £205.3m of loan notes and £322.3m of undrawn committed bank facilities available to meet future funding requirements.

At 31 December 2010, the net debt position of the Group was £49.6m (note 26) including £205.3m of debt arranged under loan notes, of which £48.5m falls due to be repaid before the publication of the financial statements for the year ending 31 December 2011.

Having undertaken this review, the Directors have a reasonable expectation that the Group has adequate resources to fund its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries up to 31 December each year. The results of subsidiaries acquired or disposed of during the year, are included in the consolidated financial statements 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.

2 Accounting policies (continued)

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The subsidiary's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date.

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, liabilities and contingent liabilities of the acquired entity at the date of the acquisition. Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset. Goodwill allocated to the strategic land holdings is recognised as an asset, being the intrinsic value within these holdings in the acquired entities, which is realised upon satisfactory planning permission being obtained and sale of the land. Goodwill is subsequently measured at cost less any accumulated impairment losses.

Goodwill is assessed for impairment at each reporting date by performing a value in use calculation, using a discount factor based on the pre-tax rate implicit in current market transactions of similar assets, covering the expected period of realisation and considering current market conditions. It is tested by reference to the proportion of legally completed plots in the period compared to the total plots which are expected to receive satisfactory planning permission in the remaining acquired strategic land holdings, taking account of historic experience and market conditions and comparing the carrying value of the assets with their recoverable amounts. Any impairment loss is recognised immediately in the statement of comprehensive income.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment. The allocation of this goodwill for impairment testing is disclosed in note 14. 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.

Brand intangibles

Internally generated brands are not held on the balance sheet. The Group carries assets on the balance sheet only for brands that have been acquired. Acquired brand values are calculated based on discounted cash flows. No amortisation is charged on brand intangibles, as the Group believes that the value of the brands is maintained indefinitely. The factors that result in the durability of the brands capitalised is that there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles. The acquired brands are tested annually for impairment by performing a value in use calculation, using a discount factor based on the Group's pre-tax weighted average cost of capital, on the branded incremental income stream.

Where a brand's life is not deemed to be indefinite it is written off over its expected useful life on a straight-line basis.

Revenue recognition

Revenue in respect of the sale of residential properties is recognised at the fair value of the consideration received or receivable on legal completion. The sales proceeds of part exchange properties are included as a reduction in cost of sales.

Government grants

Grants are included within work in progress in the balance sheet and are credited to the statement of comprehensive income over the life of the developments to which they relate. Grants related to income are deducted from the related expense in the statement of comprehensive income.

Other operating income

Other operating income comprises profits from the sale of land holdings, freehold reversions, rent receivable, and other incidental sundry income.

Operating expenses

Operating expenses represent the administration costs of the business, which are written off to the statement of comprehensive income as incurred.

Borrowing costs

Interest bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method. Finance charges, including direct issue costs are accounted for and taken to the statement of comprehensive income using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Where bank agreements include a legal right of offset for in hand and overdraft balances, and the Group intends to settle net the outstanding position, the offset arrangements are applied to record the net position in the balance sheet.

2 Accounting policies (continued)

Exceptional items

Exceptional items comprise items of income and expense that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to the disclosure of income and expense as exceptional items include, but are not limited to, reorganisation of operations and economic events which necessitate a review of asset valuations.

Share-based payment

Charges for employee services received in exchange for share-based payment have been made for all options/awards in accordance with IFRS 2 (Share-based Payment), to spread the fair value of the grant over the vesting period.

The fair value of such options has been calculated using the Binomial Option Pricing Model, based upon publicly available market data at the point of grant. Share options include both market and non-market conditions. Market conditions are considered in the establishment of the initial valuation of the options. In the event of failure to meet market conditions share-based payment charges are not reversed. In the event of failure to meet non-market conditions share-based payment charges are reversed.

Share-based payments are charged wholly in the ultimate Parent Company, which makes internal recharges to subsidiaries for these services as appropriate.

Retirement benefit costs

The Group operates two defined benefit pension schemes. It also operates a defined contribution scheme for employees who are not members of a defined benefit scheme. The liability in respect of the defined benefit schemes is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the schemes assets, together with adjustments for actuarial gains and losses. Further details of the schemes and the valuation methods applied may be found in note 29.

Expected scheme gains and losses are recognised via operating expenses in the statement of comprehensive income and actuarial gains and losses via the statement of other comprehensive income.

Subsidiary entities bear a charge for current employees based upon their current pensionable salaries. Differences between this charge and the current service cost are borne by the ultimate Parent Company as the legal sponsor, as are all experience gains and losses.

Payments to the defined contribution scheme are accounted for on an accruals basis. Once the payments have been made, the Group has no further payment obligations.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using enacted or substantially enacted tax rates, and adjusted for any tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting or taxable profit, and differences relating to investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the carrying amount of assets and liabilities, using the prevailing tax rates.

Where the deferred tax asset recognised in respect of share-based payments would give rise to a credit in excess of the related accounting charge at the prevailing tax rate the excess is recognised directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when the Group intends to settle its current tax assets and liabilities on a net basis.

Leases as lessee

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

2 Accounting policies (continued)

Property, plant and equipment

It is the Group's policy to hold property, plant and equipment at cost less accumulated depreciation, subject to the requirement to test assets for impairment.

Depreciation on property, plant and equipment is provided using the straight line method to write off the cost less any estimated residual value, over the estimated useful lives on the following bases:

Plant – 3 to 5 years.

Fixtures and fittings – 3 to 5 years.

Freehold buildings – 50 years.

No depreciation is provided on freehold land.

The assets' useful economic lives and residual values are reviewed and adjusted, if appropriate, at each financial year end. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Investments

Interests in subsidiary undertakings are valued at cost less impairment. Other investments are stated at fair value.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds an interest with one or more other parties where a contractual arrangement has established joint control over the entity.

Investments in jointly controlled entities are accounted for under the equity method of accounting.

Available for sale financial assets

Receivables on extended terms granted as part of a sales transaction are secured by way of a second legal charge on the respective property, and are stated at fair value as described in note 17. Gains and losses arising from changes in fair value are recognised in the other comprehensive income section of the statement of comprehensive income, with the exceptions of impairment losses, changes in future cash flows and interest calculated using the effective interest rate method, which are recognised within profit for the year. Where the asset is disposed of, or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is included in the income statement for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Land with planning includes undeveloped land and land under development and is initially recorded at discounted cost. Where, through deferred purchase credit terms, the carrying value differs from the amount that will ultimately be paid in settling the liability, this difference is charged as a finance cost in the statement of comprehensive income over the period of settlement. Work in progress comprises direct materials, labour costs, site overheads, associated professional charges and other attributable overheads. Net realisable value represents the estimated selling prices less all estimated costs of completion and overheads.

Investments in land without the benefit of a planning consent are initially included at cost. Regular reviews are carried out to identify any impairment in the value of the land considering the existing use value of the land and the likelihood of achieving a planning consent and the value thereof. Provision is made to reflect any irrecoverable amounts.

Expenditure relating to forward land, including options and fees, is held at cost. If the option expires or the Directors no longer consider it likely that the option will be exercised prior to the securing of planning permission, the amount is written off on that date.

Trade and other receivables

Trade receivables on normal terms do not carry any interest, are stated at amortised cost and are assessed for recoverability on an ongoing basis.

Derivative financial instruments

The Group uses currency swaps and interest rate swaps to manage financial risk. Interest charges are stated after taking account of these swaps. Certain financial liabilities are held in foreign currencies, which are translated at prevailing exchange rates.

The Group has also entered into cross currency hedges to mitigate exposure to both foreign currency and interest rates on these loans. Cash flow hedging instruments are held at fair value in the balance sheet. The effective portion of gains and losses on these instruments are taken to the hedge reserve until realised. On realisation such gains and losses are recognised in the statement of comprehensive income.

Fair value hedging instruments are held at fair value in the balance sheet with gains and losses recognised through the statement of comprehensive income. These are offset against gains and losses on the hedged item insofar as the hedges are effective.

2 Accounting policies (continued)

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Trade and other payables

Trade payables on normal terms are not interest bearing and are stated at amortised cost. Trade payables on extended terms, particularly in respect of land purchases, are initially recorded at their fair value and subsequently measured at amortised cost using the effective interest method.

Deposits

New property deposits and on account contract receipts are held within current trade and other payables until the legal completion of the related property or cancellation of the sale.

Cash and cash equivalents

Cash and cash equivalents include cash and balances in the bank accounts with no notice or less than three months' notice from inception, and are subject to insignificant risk of changes in value.

Interest bearing borrowings

Interest bearing borrowings are carried at amortised cost unless hedged using fair value hedges. Those interest bearing borrowings hedged using fair value hedges are carried at amortised cost adjusted for the fair value of hedged risks determined with reference to discounted risk-adjusted expected future cash flows and application of current foreign market exchange rates.

Dividends

Dividends receivable from subsidiaries are accounted for on a cash basis, or once formally approved by the shareholders of the subsidiary companies.

Dividends payable are recorded in the period in which they are approved or paid, whichever is earliest.

Own shares held

The Group may acquire holdings in its own shares either directly or via employee benefit trusts. The acquisition cost of such shares (including associated purchase costs) is treated as a deduction from retained earnings. Such shares may be used in satisfaction of employee options or rights, in which case the cost of such shares is reversed from the profit reserves on a 'first in first out' basis.

3 Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies which are described in note 2, the Directors have made no individual judgements that have a significant impact upon the financial statements, excepting those involving estimation which are dealt with below.

The key sources of estimation uncertainty at the balance sheet date are:

Land and work in progress

Valuations which include an estimation of costs to complete and remaining revenues are carried out at regular intervals throughout the year, during which site development costs are allocated between units built in the current year and those to be built in future years. These assessments include a degree of inherent uncertainty when estimating the profitability of a site and in assessing any impairment provisions which may be required.

During the year ended 31 December 2009, the Group conducted a review of inventories in the light of the challenging UK housing market. This resulted in a net reversal of previous write downs of inventory carrying values of £74.8m. During the year ended 31 December 2010, the Group conducted further reviews of the net realisable value of its inventory carrying values which resulted in a further net reversal of the previous write downs of inventories of £80.2m. The reviews were conducted on a site by site basis, using valuations that incorporated selling price and development cost movements, based on local management and the Board's assessment of market conditions existing at the balance sheet date. If there are significant movements in UK house prices or development costs beyond management's expectations then further impairments/reversals of previous write downs of land and work in progress may be necessary.

Goodwill

The impairment testing of goodwill is substantially dependent upon the ability of the Group to successfully progress its strategic land holdings. The assumptions on which this estimate is based may be undermined by any significant changes in the current planning regime, or adverse economic conditions in the United Kingdom. The carrying amount of goodwill at the balance sheet date was £195.0m with an impairment of £4.6m recognised during the year.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Brand intangibles

The intangible brand assets have been assessed against the discounted cash flows arising. These are based upon estimated returns from the related businesses, which may be impacted by various factors, most notably Government social housing policy and further deterioration in the economic conditions in the United Kingdom. The carrying amount of indefinite life brands at the balance sheet date was £60.0m, with no impairment recognised during the year ended 31 December 2010.

Available for sale financial assets

Available for sale financial assets principally comprise loans granted as part of sales transactions that are secured by way of a second legal charge on the respective property. Impairment allowances are determined on a portfolio basis which takes into account factors such as the length of time that the loan has been outstanding, market conditions, including those in respect of house price inflation, forced sale discount and probability of borrower default. The variables used are kept under regular review to ensure that as far as possible they reflect current economic circumstances; however changes in interest rates, unemployment levels and bankruptcy trends in the UK, could result in actual losses differing from reported impairment allowances. At 31 December 2010 the asset recognised on the balance sheet was £115.2m (2009: £68.0m).

Pensions

The Directors have employed the services of a qualified, independent actuary in assessing pension liabilities. However, they recognise that final liabilities and asset returns may differ from actuarial estimates and therefore the ultimate pension liability may differ from that included in the financial statements.

Investment in subsidiaries

Investments in subsidiaries are stated at the lower of cost and net realisable value, which is dependent upon management assessment of future trading activity and is therefore subject to a degree of inherent uncertainty. The carrying amount of investments in the Company's balance sheet is £3,198.7m (2009: £3,252.0m).

4 Principal activities

The Group's operating segments, which are North, Central and South Divisions have similar economic characteristics, products, construction processes and types of customers, and meet the aggregation criteria of IFRS 8 in full. Consequently, the Group has aggregated its geographic operations into one reportable segment which is housebuilding in the United Kingdom.

5 Revenue

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

	2010 £m	2009 £m
Revenue as noted in the statement of comprehensive income:		
Sale of goods	1,569.5	1,420.6
Other operating income	10.9	8.8
Finance income	13.4	4.8
Total revenue	1,593.8	1,434.2

Sale of goods includes £114.9m (2009: £71.0m) of revenue generated where the sale has been achieved using part exchange incentives. Proceeds received on the disposal of part exchange properties, which are not included in revenue, were £87.2m (2009: £114.3m).

6 Exceptional items

Exceptional items are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of the financial performance and significantly distort the comparability of financial performance between accounting periods. Items of income or expense that are considered by management for designation as exceptional include such items as significant restructuring, write-downs of current assets and impairments of non-current assets.

Impairment of inventories

During the year, the Group reviewed the net realisable value of its land and work in progress carrying-values of its sites. This resulted in a net reversal of the previous write-down of inventories of £80.2m (2009: £74.8m). Further details are provided in note 18.

Amended financing arrangements

In the context of the Group's strong liquidity and cash generation, management have continued to review the value and cost of credit facilities available to the Group in line with the Group's existing treasury management policies. Given prevailing low market returns on the Group's significant cash deposits, management have taken action to optimise its debt portfolio.

On 21 June 2010 the Group used cash balances to prepay, with an applicable make-whole amount, US Senior Loan Notes due 16 April 2013 with a face value of \$160m. The prepayment resulted in an exceptional charge to the statement of comprehensive income of £14.5m, including £1.2m write-off of unamortised fees.

At the same time, associated hedging contracts, including a cross currency interest rate swap with a principal amount of \$160m, were cancelled resulting in an exceptional gain of £7.4m recognised in the statement of comprehensive income.

The total net cash payment in relation to the prepayment and cancellation of associated hedging controls was £109.3m, including £1.1m of accelerated interest payments charged to underlying profit.

On 16 July 2010 the Group used cash balances to prepay, with an applicable make-whole amount, US Senior Loan Notes due 9 November 2010 with a face value of \$104m. The prepayment resulted in an exceptional charge to the statement of comprehensive income of £0.3m, including £0.2m write-off of unamortised fees.

At the same time, associated hedging contracts, including a cross currency interest rate swap with a principal amount of \$104m, were cancelled resulting in an exceptional charge of £1.6m recognised in the statement of comprehensive income.

The total net cash payment in relation to the prepayment and cancellation of associated hedging contracts was £75.2m, including £1.4m of accelerated interest payments charged to underlying profit.

On 24 November 2010, a £322m Forward Start Revolving Credit Facility from the Group's existing lenders became available for drawing. This facility is available until 31 March 2012. The Directors have assessed the future funding requirements of the Group and during the period when the facility is available the Group shows no significant use of the facility. Accordingly, of the remaining balance of unamortised costs, £8.2m has been written off as an exceptional charge in the statement of comprehensive income.

7 Key management remuneration

Key management personnel, as disclosed under IAS 24 (Related Party Disclosures), have been identified as the Board of Directors and other senior operational management. Detailed disclosures of individual remuneration, pension entitlements and share options, for those Directors who served during the year, are given in the Remuneration Report on pages 37 to 43. A summary of key management remuneration is as follows:

	2010 £m	2009 £m
Short-term benefits	4.1	3.6
Post-employment benefits	0.2	0.2
Share-based payments	1.4	2.8
	5.7	6.6

No termination benefits were paid to key management personnel.

8 Employees

Group

The average monthly number of persons (including executive Directors) employed by the Group during the year was 2,414 (2009: 2,398).

	2010 £m	2009 £m
Staff costs (for the above persons):		
Wages and salaries	87.0	76.5
Social security costs	8.8	7.9
Pensions charge	6.1	9.6
Share-based payments	3.4	3.6
	105.3	97.6

The Group also uses the services of a substantial number of self employed labour only site operatives.

Company

The average monthly number of persons (including executive Directors) employed by the Company during the year was 147 (2009: 155).

	2010 £m	2009 £m
Staff costs (for the above persons):		
Wages and salaries	10.3	8.9
Social security costs	1.2	1.2
Pensions charge	2.3	5.6
Share-based payments	3.4	3.6
	17.2	19.3

9 Net finance costs

	Before exceptional items £m	Exceptional items (note 6) £m	2010 £m	2009 £m
Recognised in profit after tax				
Gain on cancellation of interest rate swaps	–	7.4	7.4	–
Interest receivable on bank deposits	0.6	–	0.6	–
Imputed interest on available for sale financial assets	4.7	–	4.7	3.3
Other interest receivable	0.7	–	0.7	1.5
Finance income	6.0	7.4	13.4	4.8
Interest expense on bank overdrafts and loans	31.4	23.0	54.4	45.6
Loss on cancellation of interest rate swaps	–	1.6	1.6	–
Imputed interest on deferred land payables	3.7	–	3.7	5.2
Change in the fair value of cash flow hedges transferred from equity	0.3	–	0.3	0.7
Other interest expense	3.8	–	3.8	3.5
Finance cost	39.2	24.6	63.8	55.0
Net finance cost	33.2	17.2	50.4	50.2

9 Net finance costs (continued)

	2010 £m	2009 £m
Recognised in other comprehensive income/(expense)		
Change in the fair value of cash flow hedges transferred to statement of comprehensive income	0.3	0.7
Effective changes in fair value of cash flow hedges	0.3	(1.5)
	0.6	(0.8)

All amounts recognised in equity have been taken to the hedge reserve.

There was no hedging ineffectiveness in the period.

10 Profit from operations

	2010 £m	2009 £m
Profit from operations is stated after charging/(crediting):		
Staff costs (note 8)	105.3	97.6
Exceptional items (note 6)	(80.2)	(74.8)
Profit on sale of land holdings	(4.6)	(4.4)
Government grants	(10.3)	(6.6)
Rent receivable	(1.7)	(1.9)
Profit on sale of property, plant and equipment	(1.3)	(0.6)
Loss on sale of assets held for sale	0.1	–
Depreciation:		
– owned assets	4.2	5.6
– assets held under finance leases	0.3	0.7
Amortisation of intangible assets	0.3	0.3
Impairment of intangible assets	4.6	4.0
Operating lease charges	4.6	4.2

Government grants of £13.7m (2009: £10.0m) were received in the year relating to the National Affordable Housing Programme and Kickstart.

Amounts receivable by the auditor and their associates in respect of:

	2010 £'000	2009 £'000
Audit fees		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	150	145
The audit of the Company's subsidiaries pursuant to legislation	40	40
Total fees for the audit of the Company and its subsidiaries	190	185
Non-audit fees		
Tax services	86	–
Other services	32	3
Total non-audit fees	118	3
	308	188

The extent of non-audit fees and non-audit related service fees payable to KPMG Audit Plc and its affiliated entities are reviewed by the Audit Committee in the context of fees paid by the Group to its other advisors during the year. The Committee also reviews the nature and extent of non-audit services to ensure that independence is maintained.

Fees to major firms of accountants other than KPMG Audit Plc and its affiliated entities for non-audit services amounted to £14,000 (2009: £19,080).

11 Tax

11.1 Analysis of the tax charge for the year

	2010 £m	2009 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	43.5	8.2
Deferred tax relating to origination and reversal of temporary differences	0.8	(1.9)
Adjustments recognised in the current year in respect of prior years deferred tax	(5.7)	(2.6)
	(4.9)	(4.5)
	38.6	3.7

The charge for the year can be reconciled to the accounting profit as follows:

	2010 £m	2009 £m
Profit from continuing operations	153.9	77.8
Tax calculated at UK corporation tax rate of 28.0% (2009: 28.0%)	43.1	21.8
Accounting base cost not deductible for tax purposes	0.1	0.1
Goodwill impairment losses that are not deductible	1.3	1.1
Losses brought forward	–	(18.0)
Expenditure not allowable for tax purposes	0.2	1.3
Effect of change in rate of corporation tax	(0.4)	–
Adjustments in respect of prior years	(5.7)	(2.6)
Tax charge for the year recognised in profit or loss	38.6	3.7

11.2 Deferred tax recognised in other comprehensive income (note 23)

	2010 £m	2009 £m
Recognised on actuarial losses on pension schemes	(8.1)	(19.0)
Related to hedged senior loan notes	0.2	(0.3)
	(7.9)	(19.3)

11.3 Deferred tax recognised directly in equity (note 23)

	2010 £m	2009 £m
Arising on transactions with equity participants		
Relating to equity-settled transactions	(0.2)	–

12 Dividends

	2010 £m	2009 £m
Amounts recognised as distributions to equity holders in the period:		
2010 interim dividend paid of 3.0p per share (2009: nil)	9.0	–
2010 proposed final dividend of 4.5p per share (2009: nil)	13.6	–

The proposed final dividend was approved by the Board of Directors on 28 February 2011 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 31 December 2010, in accordance with IAS 10 'Events After the Balance Sheet Date'. It will be paid on 14 June 2011 to shareholders who are on the register of members on 6 May 2011.

The Parent Company received £84.6m of dividends from wholly owned subsidiary undertakings during 2010 (2009: £475.0m).

13 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year 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, the Employee Benefit Trust (see note 24) and treasury shares, all of which are treated as cancelled, which were 301.0m (2009: 300.3m).

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares from the start of the year, giving a figure of 302.9m (2009: 302.0m)

Underlying earnings per share excludes exceptional items and goodwill impairment. The earnings per share from continuing operations were as follows:

	2010	2009
Basic earnings per share	38.3p	24.7p
Underlying basic earnings per share	24.8p	2.1p
Diluted earnings per share	38.1p	24.5p
Underlying diluted earnings per share	24.6p	2.1p

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

	2010 £m	2009 £m
Underlying earnings attributable to shareholders	74.5	6.3
Exceptional items net of related taxation	45.4	71.8
Goodwill impairment	(4.6)	(4.0)
Earnings attributable to shareholders	115.3	74.1

14 Intangible assets

Group	Goodwill £m	Brand £m	Know-how £m	Total £m
Cost				
At 1 January 2009, 1 January 2010 and 31 December 2010	408.8	60.0	1.9	470.7
Accumulated impairment losses/amortisation				
At 1 January 2009	205.2	–	0.8	206.0
Impairment losses for the year – utilisation of strategic land holdings	4.0	–	–	4.0
Amortisation charge for the year	–	–	0.3	0.3
At 1 January 2010	209.2	–	1.1	210.3
Impairment losses for the year – utilisation of strategic land holdings	3.9	–	–	3.9
Impairment losses for the year – other	0.7	–	–	0.7
Amortisation charge	–	–	0.3	0.3
At 31 December 2010	213.8	–	1.4	215.2
Carrying amount				
At 31 December 2010	195.0	60.0	0.5	255.5
At 31 December 2009	199.6	60.0	0.8	260.4

Goodwill brought forward at the start of the year of £199.6m includes £162.3m (2009: £165.5m) which arose on acquisitions before the date of transition to IFRSs and is retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. £37.0m (2009: £37.0m) of this amount represented the brand value of Charles Church, acquired with Beazer Group plc in 2001.

Acquired brand values, including the brand value of Charles Church which is classified as goodwill as this was acquired before the date of transition to IFRSs, are calculated based on discounted cash flows and are tested annually for impairment. The remainder of goodwill is allocated to acquired strategic land holdings and is tested annually for impairment.

The recoverable amounts of the intangibles are determined from value in use calculations. The key assumptions for value in use calculations are those regarding discount and growth rates. Growth rates incorporate volume, selling price and direct cost changes.

14 Intangible assets (continued)

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolated for four years, to form the basis of the Group's five year business plan. When performing the impairment review of the brands, the relevant retraction/growth rates included therein vary between -1% to +14% (2009: -2% to +12%), reflecting the current state of the UK housing market.

The retraction/growth rates in relation to the impairment review of goodwill allocated to strategic land holdings vary between -1% to +4% (2009: -5% to +4%).

After this period the growth rates applied to calculate the cash flow forecasts vary between nil and 3% (2009: nil and 4%) reflecting management's estimate of the forecast recovery in the UK housing market, which do not exceed the long term average growth rates for the industry.

Management used pre-tax discount factors between 6% and 9% (2009: 8.0% and 10.0%) over the forecast periods.

The goodwill allocated to acquired strategic land holdings is further tested by reference to the proportion of legally completed plots in the period compared to the total plots which are expected to receive satisfactory planning permission in the remaining strategic land holdings, taking account of historic experience and market conditions. This review resulted in an underlying impairment of £3.9m (2009: £4.0m). The effect of testing goodwill for impairment in the manner set out is that the goodwill will be completely impaired once the final plot that management expects to receive a satisfactory planning permission, is sold.

On concluding the annual impairment testing, there remains £120.0m (2009: £123.1m) and £36.6m (2009: £37.3m) of Beazer and Westbury goodwill allocated to strategic land holdings and £37.0m (2009: £37.0m) allocated to the Charles Church brand. In addition, there is £60.0m (2009: £60.0m) of carrying value in relation to the Westbury brand. The remaining £1.4m (2009: £2.2m) represents goodwill arising on acquisitions before the date of transition to IFRSs.

Acquired know how is amortised over its estimated useful life, which is 10 years from the date of its inception.

No reasonable possible change in any of the assumptions noted above would lead to an impairment charge being required. However, in the event of deterioration in the UK housing market conditions, operating margins reducing, or appropriate discount rates increasing the possibility of impairment losses in the future remains.

Company	Trademarks £m
Cost	
At 1 January 2009, 1 January 2010 and 31 December 2010	5.0
Amortisation	
At 1 January 2009	1.3
Charge for the year	0.2
At 1 January 2010	1.5
Charge for the year	0.3
At 31 December 2010	1.8
Carrying amount	
At 31 December 2010	3.2
At 31 December 2009	3.5

15 Property, plant and equipment

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2009	29.7	47.3	12.0	89.0
Additions	–	1.0	0.2	1.2
Reclassifications	(6.1)	–	–	(6.1)
Disposals	(1.4)	(4.6)	(0.5)	(6.5)
At 1 January 2010	22.2	43.7	11.7	77.6
Additions	–	2.7	0.6	3.3
Disposals	(0.6)	(5.1)	(0.2)	(5.9)
At 31 December 2010	21.6	41.3	12.1	75.0

15 Property, plant and equipment (continued)

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Accumulated depreciation				
At 1 January 2009	1.6	31.7	10.6	43.9
Charge for the year	0.4	5.0	0.9	6.3
Reclassifications	(0.4)	–	–	(0.4)
Disposals	(0.1)	(3.6)	(0.5)	(4.2)
At 1 January 2010	1.5	33.1	11.0	45.6
Charge for the year	0.4	3.5	0.6	4.5
Disposals	(0.1)	(3.9)	(0.2)	(4.2)
At 31 December 2010	1.8	32.7	11.4	45.9
Carrying amount				
At 31 December 2010	19.8	8.6	0.7	29.1
At 31 December 2009	20.7	10.6	0.7	32.0
Assets held under finance lease:				
Carrying amount at 31 December 2010	–	0.3	–	0.3
Carrying amount at 31 December 2009	–	1.2	–	1.2

At 31 December 2010, the Group had £0.8m of contractual commitments for the acquisition of property, plant and equipment (2009: £nil).

In 2009, the Group reclassified surplus office properties with a book value of £5.7m, as assets held for sale. The value of the remaining unsold properties at 31 December 2010 of £2.9m (2009: £3.6m) is supported by external valuations, and all properties are being actively marketed.

Company	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2009	2.2	1.1	3.7	7.0
Additions	–	0.3	0.1	0.4
Disposals	–	(0.9)	(0.4)	(1.3)
At 1 January 2010	2.2	0.5	3.4	6.1
Additions	–	–	0.5	0.5
Disposals	(0.3)	(0.4)	(0.1)	(0.8)
At 31 December 2010	1.9	0.1	3.8	5.8
Accumulated depreciation				
At 1 January 2009	0.3	0.5	3.3	4.1
Charge for the year	–	0.3	0.2	0.5
Disposals	–	(0.5)	(0.4)	(0.9)
At 1 January 2010	0.3	0.3	3.1	3.7
Charge for the year	–	0.1	0.2	0.3
Disposals	–	(0.3)	(0.1)	(0.4)
At 31 December 2010	0.3	0.1	3.2	3.6
Carrying amount				
At 31 December 2010	1.6	–	0.6	2.2
At 31 December 2009	1.9	0.2	0.3	2.4
Assets held under finance lease:				
Carrying amount at 31 December 2010	–	0.1	–	0.1
Carrying amount at 31 December 2009	–	0.2	–	0.2

16 Investments

16.1 Investments accounted for using the equity method

Group	Investments in jointly controlled entities £m
Cost	
At 1 January 2009	3.9
Share of results of jointly controlled entities	(0.5)
Disposal of jointly controlled entities	(0.1)
At 31 December 2009	3.3
Share of results of jointly controlled entities	(0.5)
At 31 December 2010	2.8

The Group's investments in jointly controlled entities comprise:

	Share of ordinary allotted capital held by the Group	Accounting date
Balaia Golf Village Realizacoes Imobiliaria Turisticos Lda	50%	31 December
Sociedade Torre de Marinha Realizacoes Turisticos SA	50%	31 December
Empreendimentos Turisticos da Armacao Nova Lda	50%	31 December

Investments in jointly controlled entities are accounted for under the equity method of accounting.

The Group's share of assets and liabilities of jointly controlled entities is shown below:

	2010 £m	2009 £m
Non-current assets	0.5	0.6
Current assets	5.2	5.2
Current liabilities	(2.9)	(2.5)
Net assets of jointly controlled entities	2.8	3.3

The Group's share of the income and expenses of jointly controlled entities is as follows:

	2010 £m	2009 £m
Income	2.6	3.1
Expenses	(3.1)	(3.5)
	(0.5)	(0.4)
Tax	–	(0.1)
Share of results of jointly controlled entities	(0.5)	(0.5)

16.2 Investments in subsidiaries

Company	2010 £m	2009 £m
Cost		
At 1 January	3,533.7	3,867.9
Sale of investment in subsidiary to another subsidiary company	–	(334.2)
At 31 December	3,533.7	3,533.7
Impairment		
At 1 January	281.7	281.7
Charge for the year	53.3	–
At 31 December	335.0	281.7
Net book value		
At 31 December	3,198.7	3,252.0

The annual review of the carrying value of the investment in subsidiaries identified an impairment of £53.3m arising from a Group reorganisation. In 2009 the Company sold a directly held subsidiary investment to another wholly owned subsidiary at cost following internal restructuring. Details of Group undertakings are set out in note 31.

17 Available for sale financial assets

Group	2010 £m	2009 £m
At 1 January	68.0	26.2
Additions	43.8	39.4
Redemptions	(1.3)	(0.9)
Imputed interest	4.7	3.3
At 31 December	115.2	68.0

Available for sale financial assets comprise loans, largely with non fixed repayment dates and variable repayment amounts, provided as part of sales transactions that are secured by way of a second legal charge on the related property. The assets are recorded at fair value, being the estimated future amount receivable by the Group, discounted to present day values. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The Directors revisit the future anticipated cash receipts from the assets at the end of each financial reporting period. The difference between the anticipated future receipt and the initial fair value is credited over the estimated deferred term to finance income, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. Credit risk, which the Directors currently consider to be largely mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The Directors review the financial assets for impairment at each balance sheet date. There were no indicators of impairment at 31 December 2010 (2009: £nil). None of the financial assets are past their due dates (2009: £nil) and the Directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

Further disclosures relating to financial assets are set out in note 22.

18 Inventories

	2010 £m	2009 £m
Land	1,575.8	1,633.9
Work in progress	413.5	485.5
Part exchange properties	32.8	9.3
Showhouses	51.1	59.1
	2,073.2	2,187.8

The Directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of issues including consumer demand and planning permission delays.

18 Inventories (continued)

As set out in note 6, the Group conducted a further review of the net realisable value of its land and work in progress portfolio during 2010. The impact of these reviews on the net realisable value of inventories is a net exceptional credit to the consolidated statement of comprehensive income of £80.2m (2009: £74.8m). An impairment of land and work in progress of £47.6m was recognised in the year (2009: £209.3m) and a reversal of £127.8m (2009: £284.1m) on inventories that were written down in a previous accounting period. These charges/reversal arose due to forecast selling prices and development costs on individual sites being higher or lower than previously estimated by management as a result of changing conditions, and/or development plans. Our approach to our net realisable value review has been consistent with that conducted at 31 December 2009.

The key judgements in estimating the future net present realisable value of a site was the estimation of likely sales prices, house types and costs to complete the developments. Sales prices and costs to complete were estimated on a site-by-site basis based upon existing market conditions. If the UK housing market were to improve or deteriorate in the future then further adjustments to the carrying value of land and work in progress may be required.

Following the 2010 review, £433.1m (2009: £752.3m) of inventories are valued at fair value less costs to sell rather than at historical cost.

Land with a carrying value of £312.4m (2009: £304.8m) was used as security for land payables (note 21).

The value of inventories expensed in 2010 and included in cost of sales was £1,322.2m excluding an exceptional impairment reversal of £80.2m on inventories that were written down in a previous accounting period (2009: £1,248.9m, excluding the £74.8m exceptional impairment reversal).

19 Trade and other receivables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Non-current assets				
Other receivables	3.0	3.6	–	–
Current assets				
Trade receivables	27.0	25.1	0.1	0.1
Other receivables	16.6	17.7	6.7	6.1
Amounts owed by Group undertakings	–	–	429.0	256.2
Prepayments and accrued income	6.4	7.4	2.1	0.6
	50.0	50.2	437.9	263.0

Trade and other receivables are non-interest bearing, and the Group has no concentration of credit risk, with exposure spread over a large number of customers. The Directors consider that the carrying value of trade receivables approximates to their fair value.

	2010 £m	2009 £m
Ageing of overdue but not impaired receivables		
Less than 3 months	5.2	4.2
Over 3 months	1.4	1.8
	6.6	6.0

The carrying value of trade and other receivables are stated after the following allowance for doubtful receivables:

	2010 £m	2009 £m
Group		
At 1 January	6.5	6.5
Impairment losses charged	0.9	2.1
Amounts written off during the year as uncollectable	(2.7)	(0.5)
Impairment losses reversed	(1.4)	(1.6)
At 31 December	3.3	6.5

20 Borrowings

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Non-current liabilities				
US, UK and EU senior loan notes	156.8	299.7	156.8	194.4
Finance lease obligations	0.1	0.2	–	–
Financing transaction costs	(1.4)	(16.9)	(1.4)	(15.7)
	155.5	283.0	155.4	178.7
Current liabilities				
US and UK senior loan notes	47.3	115.4	47.3	1.2
Other loan notes	1.2	1.7	1.2	1.7
Finance lease obligations	0.5	1.0	0.3	0.2
Financing transaction costs	(0.6)	(1.1)	(0.6)	–
	48.4	117.0	48.2	3.1

Detailed disclosure of the Group's usage of financial instruments is included in note 22.

Excepting finance leases all borrowings are unsecured. The contractual repayment terms of borrowings are as noted below.

	Currency	Nominal interest rate	Year of maturity	2010 £m	2009 £m
Bank overdrafts	GBP	Base + 1%–3.25%	2011	–	–
Syndicated loan	GBP	LIBOR + 1.75%	2012	–	–
UK senior loan notes	GBP	8.84%	2011–2021	51.0	55.2
US senior loan notes	USD	8.15%–9.32%	2011–2016	148.7	355.4
EU senior loan notes	EUR	6.52%	2011	4.4	4.5
Other loan notes	GBP	LIBOR – 0.5%	2011	1.2	1.7
Finance lease obligations	GBP	7.00%–9.00%	2011–2012	0.6	1.2
Financing transaction costs				(2.0)	(18.0)
Carrying value of borrowings				203.9	400.0

Additional data on the maturity of financial liabilities and effective interest rates after consideration of these hedges is found in note 22. Hedges have been taken out against all foreign currency denominated borrowings to hedge all principal payments to Sterling and to hedge foreign currency forward interest payments into Sterling payments at either fixed rates or rates linked to UK Libor. These hedges therefore form both a hedge of foreign exchange rate and interest rate risk.

Finance lease obligations – total minimum lease payments:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Within one year	0.5	1.1	0.3	0.2
In the second to fifth years inclusive	0.1	0.2	–	0.1
Less: future finance charges	–	(0.1)	–	(0.1)
Present value of finance lease obligations	0.6	1.2	0.3	0.2

There are no finance lease obligations in excess of five years (2009: none).

21 Trade and other payables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Non-current liabilities				
Land payables	95.9	76.4	–	–
Other payables	26.1	0.8	0.5	0.4
	122.0	77.2	0.5	0.4

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current liabilities				
Trade payables	130.9	139.6	0.9	0.8
Land payables	99.9	107.5	–	–
Deposits and on account contract receipts	74.5	67.1	–	–
Other payables	28.2	27.2	4.9	4.3
Accrued expenses	129.8	123.1	18.9	17.9
Amounts owed to Group undertakings	–	–	2,631.2	2,544.6
	463.3	464.5	2,655.9	2,567.6

Trade payables subject to payment terms were 12 days (2009: 16 days), based on the ratio of year end trade payables (excluding retentions and unagreed claims), to amounts invoiced during the year by trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

Land payables are reduced for imputed interest, which is charged to the statement of comprehensive income over the credit period of the purchase contract.

22 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Liquidity risk
- Capital risk
- Credit risk

This note presents basic information regarding the Group's exposure to these risks and the Group's objectives, strategy and processes for measuring and managing exposure to them. Unless otherwise stated references to Group should be considered to apply to the Company as well.

The Board of Directors has overall responsibility for risk management of the Group. The Board has established the Risk Committee which has the delegated task of overseeing the Board's responsibility with respect to risk and internal control. The Risk Committee reports to the Audit Committee on a regular basis.

The Risk Committee is supported in this task by the Group Risk management function. The Group Risk function performs an annual assessment of the risks faced by the Group. This assessment is used to drive a risk focused programme of work aimed to improve business processes and increase internal control effectiveness.

Market risk

Market risk represents the potential for changes in foreign exchange prices and interest rates to affect the Group's profit and the value of its financial instruments. It also incorporates the effect of the overall UK housing market on the Group. The Group's objective in market risk management is to minimise its exposures to fluctuations within such variables whilst optimising returns.

The Group has entered into a number of hedge derivative arrangements to limit its exposure to these risks, particularly exchange risk. The Group enters into such transactions only as part of periodic wider refinancing undertakings to take advantage of the mature private placement markets in other countries (notably the USA) and only with the approval of the Board of Directors. The Group applies hedge accounting to these arrangements in order to minimise income statement volatility.

22 Financial risk management (continued)

Currency risk

The Group's currency risk principally resides in senior loan notes issued in US dollars and Euros to institutional investors. The Group has entered into hedge arrangements for all such loan notes swapping them into Sterling on issue. These hedges match the contractual maturity of all principal payments and also match foreign currency contractual interest payment maturities, swapping these to either fixed Sterling payments (designated cash flow hedges) or Sterling payments linked to UK LIBOR (designated fair value hedges). All loan notes hedged to fixed Sterling payments were repaid, along with the related hedge during the year.

In this manner the Group's foreign currency senior loan note cash flows are effectively hedged to mirror those of either a fixed or floating rate Sterling denominated loan.

The Group also has investments in a number of Portuguese jointly controlled entities. These interests are not hedged. These investments are considered to be long term in nature.

The Group has no other significant currency exposures.

The following exchange rates applied during the year:

	2010		2009	
	Average rate	Year end spot rate	Average rate	Year end spot rate
US Dollar	1.546	1.566	1.567	1.615
Euro	1.166	1.167	1.123	1.126

The Group's exposure to foreign currency risk may be summarised as follows:

	2010		2009	
	USD \$m	Euro €m	USD \$m	Euro €m
Investments	–	3.0	–	3.0
Senior loan notes	(216.0)	(5.0)	(555.0)	(5.0)
Forward exchange contracts	216.0	5.0	555.0	5.0
Net exposure	–	3.0	–	3.0

Sensitivity analysis

The hedging arrangements in place over borrowings are such that the Group's profit will be unaffected by any reasonably expected variation in US dollar/sterling exchange rate at the reporting date (2009: £nil). A rise/fall in the Euro/Sterling exchange rate of 10% would result in a £0.3m loss/gain in relation to investments (2009: £0.3m).

Interest rate risk

The Group holds a mixture of both fixed and floating interest borrowings to control its exposure to interest rate risk. The Group has no formal target for a ratio of fixed to floating funding. The responsibility for setting the level of fixed rate debt lies with the Board of Directors and is continually reviewed in the light of economic data provided by a variety of sources.

Fixed rate borrowings are achieved by issuance of fixed rate GBP denominated senior loan notes and by interest rate swaps entered into as part of the hedging arrangements put in place for foreign currency denominated senior loan notes detailed under currency risk above. The latter hedging arrangements were all terminated during the year.

The relative fixed/floating balance of net debt, after consideration of hedging arrangements, is as follows:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Fixed rate	50.8	127.8	50.6	51.7
Floating rate	(1.3)	122.9	17.5	(18.7)
Net debt	49.5	250.7	68.1	33.0

Sensitivity analysis

If in the year ended 31 December 2010 UK interest rates had been 0.5% higher/lower then the Group's pre-tax profit would have decreased/increased by £0.5m (2009: £2.2m). The Group's post-tax profit would have decreased/increased by £0.4m (2009: £1.6m).

These sensitivities have been prepared in respect of the direct impact of such an interest rate change on the financing expense of financial instruments only, and do not attempt to estimate the indirect effect such a change may have on wider economic environment such as house pricing, mortgage availability and exchange rates.

22 Financial risk management (continued)

Housing market risk

The Group is fundamentally affected by the level of UK house prices. These in turn are affected by factors such as credit availability, employment levels, interest rates, consumer confidence and supply of land with planning.

Whilst it is not possible for the Group to fully mitigate such risks on a national macroeconomic basis the Group does continually monitor its geographical spread within the UK, seeking to balance its investment in areas offering the best immediate returns with a long term spread of its operations throughout the UK to minimise the effect of local microeconomic fluctuations. The Group has taken steps to control its speculative build, land acquisition activities and work in progress levels so as to manage the exposure of the Group to any further market disruption.

Sensitivity analysis

At 31 December 2010, if UK house prices had been 5% higher/lower, and all other variables were held constant, the Group's house price linked financial instruments, which are solely available for sale financial assets, would increase/decrease in value, excluding any effects of current or deferred tax, by £5.8m (2009: £3.4m).

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial obligations as they fall due. The Group's strategy to managing liquidity risk is to ensure that the Group has sufficient liquid funds to meet all its potential liabilities as they fall due.

This is true not only of normal market conditions but also of negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation, which would in turn reduce the Group's ability to borrow at optimal rates. Therefore the Group remains confident of its continued compliance with financial covenants under both syndicated loan and private placement arrangements even in the event of further deterioration in market conditions.

The Group has entered into a number of deferred payment guarantees and performance bonds in the normal course of operations. The liabilities to which these guarantees relate are recognised and accounted for in accordance with our standard accounting policies.

Liquidity forecasts are produced on (i) a daily basis to ensure that utilisation of current facilities is optimised; (ii) a monthly basis to ensure that covenant compliance targets and medium term liquidity is maintained and (iii) a long term projection basis for the purpose of identifying long term strategic funding requirements.

In light of the low gearing and strong cash generation of the Group the Directors have, following detailed review of liquidity projections, elected to repay \$264m (note 6) and £3m of Senior Loan Notes in advance of their due date with applicable make-whole amounts. Related hedge instruments were also terminated at the same date. The Group retains committed facilities sufficient to meet its projected liquidity requirements following this repayment.

The Directors also continually assess the balance of capital and debt funding of the Group. They consider the security of capital funding against the potentially higher rates of return offered by debt financing in order to set an efficient but stable balance appropriate to the size of the Group.

The Group operates short term uncommitted overdraft facilities to meet day to day liquidity requirements. These facilities are cancellable on request from the bank; however the Group generally maintains low levels of borrowing on these in favour of more cost efficient facilities. These overdraft facilities are provided by five leading clearing banks to minimise exposure to any one lender.

The Group has a syndicated revolving credit facility committed to March 2012, at a rate linked to LIBOR. Undrawn committed facilities at the reporting date amount to £322.3m (2009: £600.0m).

Cash deposits

The Group has a policy of ensuring cash deposits are made with the primary objective of security of principal. Accordingly deposits are made only with approved, respected, high credit rating financial institutions. Deposits are spread across such institutions to minimise exposure to any single entity and are made on a short term basis only to preserve liquidity.

Capital risk

The capital structure of the Group consists of net debt (borrowings as detailed in notes 20 and 26 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in the statement of changes in shareholders' equity). The Group's objective in managing capital is primarily to ensure the continued ability of the Group to meet its liabilities as they fall due whilst also maintaining an appropriate balance of equity and borrowings and minimising costs of capital. Close control of deployment of capital is maintained by detailed management review procedures for authorisation of significant capital commitments, such as land acquisition, capital targets for local management and a system of internal interest recharges, ensuring capital cost impact is understood and considered by all management tiers.

Decisions regarding the balance of equity and borrowings, dividend policy and all major borrowing facilities are reserved for the Board.

The following are the contractual maturities of financial liabilities, including interest payments (not discounted). These have been calculated using market exchange and LIBOR rates at the year end:

22 Financial risk management (continued)

Group	2010 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
UK senior loan notes	51.0	98.3	4.5	4.5	13.5	75.8
US senior loan notes	148.7	176.4	52.2	9.0	61.7	53.5
EU senior loan notes	4.4	4.6	4.6	–	–	–
Other loan notes	1.2	1.3	1.3	–	–	–
Finance lease obligations	0.6	0.6	0.6	–	–	–
Forward currency swaps	(27.5)	(26.9)	(9.2)	(2.4)	(8.9)	(6.4)
Financing transaction costs	(2.0)	–	–	–	–	–
Interest bearing financial liabilities	176.4	254.3	54.0	11.1	66.3	122.9
Trade and other payables	315.0	315.0	288.9	4.9	13.6	7.6
Land payables	195.8	197.9	103.4	53.1	41.4	–
Financial liabilities	687.2	767.2	446.3	69.1	121.3	130.5

Group	2009 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
UK senior loan notes	55.2	107.4	9.1	4.5	13.5	80.3
US senior loan notes	355.4	434.5	141.1	59.9	177.0	56.5
EU senior loan notes	4.5	4.9	0.3	4.6	–	–
Other loan notes	1.7	1.7	1.7	–	–	–
Finance lease obligations	1.2	1.3	1.1	0.2	–	–
Forward currency swaps	(11.3)	(9.9)	5.0	(6.4)	(3.3)	(5.2)
Financing transaction costs	(18.0)	–	–	–	–	–
Interest bearing financial liabilities	388.7	539.9	158.3	62.8	187.2	131.6
Trade and other payables	290.7	290.7	289.9	0.4	0.4	–
Land payables	183.9	186.5	110.0	26.1	50.4	–
Financial liabilities	863.3	1,017.1	558.2	89.3	238.0	131.6

22 Financial risk management (continued)

Company	2010 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
UK senior loan notes	51.0	98.3	4.5	4.5	13.5	75.8
US senior loan notes	148.7	176.4	52.2	9.0	61.7	53.5
EU senior loan notes	4.4	4.6	4.6	–	–	–
Other loan notes	1.2	1.3	1.3	–	–	–
Finance lease obligations	0.3	0.3	0.3	–	–	–
Forward currency swaps	(27.5)	(26.9)	(9.2)	(2.4)	(8.9)	(6.4)
Financing transaction costs	(2.0)	–	–	–	–	–
Interest bearing financial liabilities	176.1	254.0	53.7	11.1	66.3	122.9
Trade and other payables	2,656.4	2,656.4	2,655.9	0.4	0.1	–
Financial liabilities	2,832.5	2,910.4	2,709.6	11.5	66.4	122.9

It is noted that £2,631.2m (2009: £2,544.6m) of other payables refer to amounts owed to subsidiary undertakings. Whilst generally repayable upon demand, in practice it is unlikely there will be any required repayment in the short term.

Company	2009 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
UK senior loan notes	52.2	104.1	5.8	4.5	13.5	80.3
US senior loan notes	138.9	183.0	12.0	50.6	63.9	56.5
EU senior loan notes	4.5	4.9	0.3	4.6	–	–
Other loan notes	1.7	1.7	1.7	–	–	–
Finance lease obligations	0.2	0.3	0.2	0.1	–	–
Forward currency swaps	(17.8)	(20.8)	(3.0)	(6.3)	(6.3)	(5.2)
Financing transaction costs	(15.7)	–	–	–	–	–
Interest bearing financial liabilities	164.0	273.2	17.0	53.5	71.1	131.6
Trade and other payables	2,568.0	2,568.0	2,567.6	0.2	0.2	–
Financial liabilities	2,732.0	2,841.2	2,584.6	53.7	71.3	131.6

Credit risk

The nature of the UK housing industry and the legal framework surrounding it results in the Group having a low exposure to credit risk.

In the majority of cases the full cash receipt for each sale occurs on legal completion, which is also the point of revenue recognition under the Group's accounting policies.

In certain specific circumstances the Group has entered into shared equity arrangements (not applicable to the Company). The pressures of recent market conditions necessitated an increase in this form of sales structure from 2008. In such cases the long term debt is secured upon the property concerned. The Group does not recognise collateral rights as a separate asset, nor does it have rights to trade such collateral. Reductions in property values leads to an increase in the credit risk of the Group in respect of such sales. There was no requirement for a charge for credit impairment in the year (2009: £nil).

22 Financial risk management (continued)

The maximum total credit risk is as follows:

Group	2010 £m	2009 £m
Trade and other receivables	46.6	46.4
Available for sale financial assets	115.2	68.0
Cash and cash equivalents	126.8	138.0
	288.6	252.4
Company		
Loans and receivables (including intercompany balances)	435.9	262.4
Cash and cash equivalents	108.0	131.0
	543.9	393.4

The maximum credit exposure of the Group to overseas parties is under £0.1m (2009: under £0.1m) (Company: £nil (2009: £nil)). The Group's credit risk is widely distributed. The maximum credit risk should any single party (excepting financial institutions) fail to perform is £2.3m (2009: £2.2m) and is not yet due (Company: £224.0m (2009: £115.0m) being a subsidiary debtor). The Directors consider these financial assets to be of high quality and the credit risk is assessed as low. The maximum credit risk associated with a financial institution in respect of short term cash deposits is £35.9m (2009: £51.7m).

Fair value

The fair value of financial assets and liabilities is as follows:

Group	2010		2009	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	46.6	46.6	46.4	46.4
Available for sale financial assets	115.2	115.2	68.0	68.0
Cash and cash equivalents	126.8	126.8	138.0	138.0
UK senior loan notes	(50.0)	(51.0)	(61.3)	(55.2)
US senior loan notes	(148.7)	(148.7)	(358.4)	(355.4)
EU senior loan notes	(4.4)	(4.4)	(4.5)	(4.5)
Other loan notes	(1.2)	(1.2)	(1.7)	(1.7)
Finance lease obligations	(0.6)	(0.6)	(1.2)	(1.2)
Trade and other payables	(315.0)	(315.0)	(290.7)	(290.7)
Land payables	(195.8)	(195.8)	(183.9)	(183.9)
Forward currency swaps	27.5	27.5	11.3	11.3
Financing transaction costs	–	2.0	–	18.0
	(399.6)	(398.6)	(638.0)	(610.9)

In aggregate, the fair value of financial assets and liabilities are not materially different from their carrying value.

22 Financial risk management (continued)

Company	2010		2009	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	435.8	435.8	262.4	262.4
Cash and cash equivalents	108.0	108.0	131.0	131.0
UK senior loan notes	(50.0)	(51.0)	(61.3)	(52.2)
US senior loan notes	(148.7)	(148.7)	(138.9)	(138.9)
EU senior loan notes	(4.4)	(4.4)	(4.5)	(4.5)
Other loan notes	(1.2)	(1.2)	(1.7)	(1.7)
Finance lease obligations	(0.3)	(0.3)	(0.2)	(0.2)
Trade and other payables	(2,656.4)	(2,656.4)	(2,568.0)	(2,568.0)
Forward currency swaps	27.5	27.5	17.8	17.8
Financing transaction costs	–	2.0	–	15.7
	(2,289.7)	(2,288.7)	(2,363.4)	(2,338.6)
Unrecognised loss		1.0		24.8

Income and expense in relation to financial instruments is disclosed in note 9.

Financial assets and liabilities by category:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Financial assets held at fair value	27.5	20.8	27.5	17.8
Available for sale financial assets	115.2	68.0	–	–
Trade and other receivables	46.6	46.4	435.8	262.4
Cash and cash equivalents	126.8	138.0	108.0	131.0
Financial liabilities at fair value	–	(9.5)	–	–
Financial liabilities at amortised cost adjusted for the fair value of hedged risks	(151.7)	(292.3)	(151.7)	(141.9)
Financial liabilities at amortised cost	(563.0)	(582.3)	(2,708.3)	(2,607.9)
	(398.6)	(610.9)	(2,288.7)	(2,338.6)

Financial assets and liabilities carried at fair value are categorised with the hierarchical classification of IFRS 7 Revised (as defined within the standard) as follows:

Group	2010			2009		
	Level 2 £m	Level 3 £m	Total £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value	27.5	–	27.5	20.8	–	20.8
Available for sale financial assets	–	115.2	115.2	–	68.0	68.0
Financial liabilities at fair value	–	–	–	(9.5)	–	(9.5)
	27.5	115.2	142.7	11.3	68.0	79.3

Company	2010			2009		
	Level 2 £m	Level 3 £m	Total £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value	27.5	–	27.5	17.8	–	17.8
	27.5	–	27.5	17.8	–	17.8

22 Financial risk management (continued)

Fair values of financial assets and liabilities are determined by reference to the rates at which they could be exchanged between knowledgeable and willing parties. Where no such price is readily available then fair value is determined by discounting net forward cash flows for the residual period of the contract by a risk adjusted rate. In the case of available for sale assets there exists an element of uncertainty over the precise final timing and value of receipts which cannot be fully assessed from observable market data. Available for sale assets consist of a substantial number of low value individual assets and have therefore, due to practical constraints, been valued based on market indices and not individual valuations.

Hedge accounting

Persimmon currently hedge only foreign currency denominated private placement loan notes. All hedging instruments are in the form of forward currency swap agreements, and the entirety of the Group's forward currency swap agreements are designated hedges. The fair value of hedging instruments is an asset of £27.5m (2009: £11.3m).

As foreign currency loan notes all bear fixed interest rates it has been possible to exactly match the foreign currency cash flow requirements with these forward currency swaps, resulting in a very high level of effectiveness. These swaps hedge all foreign currency cash flows; both principal and interest.

The swap agreements in respect of certain US private placement loan notes, and all EU private placement loan notes, hedge the fixed foreign currency interest cash flows to sterling cash flows linked to UK LIBOR. These swaps, taken in conjunction with the hedged loan note, therefore have the effect of mirroring a UK LIBOR linked loan arrangement. These swaps are designated fair value hedges and hedge foreign currency risk.

Further swap agreements existed during the period in respect of certain US private placement loan notes hedge the fixed foreign currency cash flows to fixed sterling cash flows. These swaps, taken in conjunction with the hedged loan note therefore have the effect mirroring a UK fixed rate loan arrangement. These swaps are designated cash flow hedges and hedge both foreign currency risk and interest rate risk. All such fixed interest rate swaps and the related private placement loan notes were settled during the year.

The resulting balance of fixed and floating net debt after application of these hedges is disclosed under liquidity risk above.

The periods when the balances relating to cash flow hedges will affect profit are as follows:

	2010 £m	Group 2009 £m
Less than 1 year	–	(0.6)
Carrying value	–	(0.6)

There was no hedge ineffectiveness during the period. The Company did not operate cash flow hedges during the year (2009: nil).

23 Deferred tax

The following are the deferred tax assets and liabilities recognised by the Group and the movements thereon during the current and prior year:

Note	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payment £m	Imputed interest £m	Derivatives £m	Other temporary differences £m	Total £m
At 1 January 2009	1.6	2.1	–	2.8	(0.1)	(26.4)	(20.0)
Credit/(charge) to profit and loss	11.1	1.2	–	(0.1)	–	2.2	4.5
Credit to other comprehensive income	11.2	–	19.0	–	0.3	–	19.3
At 1 January 2010	2.8	22.3	–	2.7	0.2	(24.2)	3.8
Credit/(charge) to profit and loss	11.1	0.1	(3.8)	(0.5)	–	8.1	4.9
Credit/(charge) to other comprehensive income	11.2	–	8.1	–	(0.2)	–	7.9
Amounts credited directly to equity	11.3	–	0.2	–	–	–	0.2
At 31 December 2010	2.9	26.6	1.2	2.2	–	(16.1)	16.8

23 Deferred tax (continued)

As permitted by IAS 12 (Income Taxes), certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £m	2009 £m
Pension scheme	26.6	22.3
Other items, including capital allowances	12.0	5.6
Deferred tax assets	38.6	27.9
Brands	(16.2)	(16.8)
Other items, including capital allowances	(5.6)	(7.3)
Deferred tax liabilities	(21.8)	(24.1)
Net deferred tax asset	16.8	3.8

The Group has recognised deferred tax assets of £26.6m (2009: £22.3m) on the total pension deficit of £98.3m (2009: £79.6m of total deficit of £114.4m). The Group has not recognised deferred tax assets on c.£44m of tax losses carried forward (2009: c.£44m).

The following are the deferred tax assets and liabilities recognised by the Company and the movements thereon during the current and prior year:

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payment £m	Other temporary differences £m	Total £m
At 1 January 2009	0.3	2.1	–	–	2.4
Credit to profit and loss	–	1.2	–	–	1.2
Credit to other comprehensive income	–	19.0	–	–	19.0
At 1 January 2010	0.3	22.3	–	–	22.6
(Charge)/credit to profit and loss	(0.1)	(3.8)	1.0	5.8	2.9
Credit to other comprehensive income	–	8.1	–	–	8.1
Amounts taken directly to equity	–	–	0.2	–	0.2
At 31 December 2010	0.2	26.6	1.2	5.8	33.8

No deferred tax assets and liabilities have been offset (2009: £nil).

24 Share capital

	2010 £m	2009 £m
Allotted, called up and fully paid		
302,591,431 (2009: 302,591,431) ordinary shares of 10p each	30.3	30.3

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid. There have been no movements in share capital during the year.

The Company has established Employee Benefit Trusts (EBT) to hold shares for participants of the Company's various share schemes. The Trustee is Persimmon (Share Scheme Trustees) Limited, a subsidiary company. During 2010, the Trustee made no market purchases of shares and transferred 39,453 shares to employees. At 31 December 2010 the trust held 827 shares (2009: 40,280) on which dividends have been waived. The market value of these shares at 31 December 2010 was £3,447 (2009: £160,729). At 31 December 2010 the Company held 1,419,508 (2009: 2,154,179) shares in treasury with a market value of £5.9m (2009: £10.1m) on which dividends have been waived.

24 Share capital (continued)**Own shares**

Own shares held are reconciled as follows:

	Group £m	Company £m
Balance at 31 December 2009	18.9	18.8
Disposed of on exercise/vesting to employees	(7.1)	(7.0)
Balance at 31 December 2010	11.8	11.8

25 Reconciliation of net cash flow to net debt

Group	2010 £m	2009 £m
(Decrease)/increase in net cash and cash equivalents	(11.2)	160.9
Decrease in debt and finance lease obligations	227.8	174.3
Financing transaction costs	–	21.4
Decrease in net debt from cash flows	216.6	356.6
Non-cash movements	(15.5)	(6.1)
Decrease in net debt	201.1	350.5
Net debt at 1 January	(250.7)	(601.2)
Net debt at 31 December	(49.6)	(250.7)

Company	2010 £m	2009 £m
(Decrease)/increase in net cash and cash equivalents	(23.0)	149.9
Decrease in debt and finance lease obligations	1.7	173.6
Financing transaction costs	–	18.0
(Decrease)/increase in net debt from cash flows	(21.3)	341.5
Non-cash movements	(13.8)	(4.3)
(Increase)/decrease in net debt	(35.1)	337.2
Net debt at 1 January	(33.0)	(370.2)
Net debt at 31 December	(68.1)	(33.0)

26 Analysis of net debt

Group	2010 £m	Cash flow £m	Other non-cash movements £m	2009 £m
Cash and cash equivalents	126.8	(11.2)	–	138.0
US, UK and EU senior loan notes due within one year	(47.3)	124.3	(56.2)	(115.4)
US, UK and EU senior loan notes due after more than one year	(156.8)	102.3	40.6	(299.7)
Other loan notes due within one year	(1.2)	0.5	–	(1.7)
Forward currency swaps	27.5	–	16.2	11.3
Finance lease obligations	(0.6)	0.7	(0.1)	(1.2)
Financing transaction costs	2.0	–	(16.0)	18.0
Net debt at 31 December	(49.6)	216.6	(15.5)	(250.7)

Company	2010 £m	Cash flow £m	Other non-cash movements £m	2009 £m
Cash and cash equivalents	108.0	(23.0)	–	131.0
US, UK and EU senior loan notes due within one year	(47.3)	1.2	(47.3)	(1.2)
US, UK and EU senior loan notes due after more than one year	(156.8)	–	37.6	(194.4)
Other loan notes due within one year	(1.2)	0.5	–	(1.7)
Forward currency swaps	27.5	–	9.7	17.8
Finance lease obligations	(0.3)	–	(0.1)	(0.2)
Financing transaction costs	2.0	–	(13.7)	15.7
Net debt at 31 December	(68.1)	(21.3)	(13.8)	(33.0)

Net debt is defined as cash and cash equivalents, bank overdrafts, finance lease obligations, interest bearing borrowings and related hedging swap instruments.

27 Contingent liabilities

In the normal course of business the Group has given counter indemnities in respect of performance bonds and financial guarantees. Management estimate that the bonds and guarantees amount to £278m (2009: £300m), and confirm that the possibility of cash outflow is considered minimal and no provision is required.

Provision is made for the Directors' best estimate of all known legal claims and all legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or a sufficiently reliable estimate of the potential obligation cannot be made.

The Company has entered into guarantees of certain financial liabilities of related undertakings as detailed in note 32.

28 Operating leases

At 31 December total outstanding commitments for future minimum lease payments under non-cancellable operating leases were as follows:

Group as lessee	2010 £m	2009 £m
Expiring within one year	0.2	0.8
Expiring in the second to fifth years inclusive	10.4	4.6
Expiring after five years	11.9	15.4
	22.5	20.8
Company as lessee		
Expiring within one year	–	0.1
Expiring in the second to fifth years inclusive	0.4	0.2
	0.4	0.3

The Group receives sundry rental income under short term leases arising from its long term land holdings. There are no minimum lease receipts as no lease is held under a non-cancellable agreement.

Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicles. Motor vehicles leases have an average term of 2.2 years to expiry (2009: 1.0 year). Property leases have an average term of 6.6 years to expiry (2009: 7.9 years).

29 Retirement benefit obligations

At 31 December 2010 the Group operated three employee pension schemes, a stakeholder scheme and two defined benefit schemes. Actuarial gains and losses are recognised in full as other comprehensive expense through the statement of comprehensive income. All other pension scheme costs are reported as operating expenses in the statement of comprehensive income. Expected costs in relation to current employees are charged to the relevant operating business. All other pension scheme costs are borne by the Company.

Persimmon Group Stakeholder Scheme

The Persimmon Group Stakeholder Scheme is a defined contribution scheme available to new salaried employees. The Group matches employees' own contributions to their individual Stakeholder plans up to 9% of basic salary, depending on the length of service. Group contributions to this scheme of £0.9m (2009: £0.9m) are expensed through the statement of comprehensive income as incurred.

Persimmon Plc Pension & Life Assurance Scheme

The Persimmon Plc Pension & Life Assurance Scheme (the 'Persimmon Scheme') is a defined benefit scheme which was closed to new members in 2001. The assets of the Persimmon Scheme are held separately from those of the Group. An actuarial valuation of the Persimmon Scheme was carried out as at 1 January 2008 by a professionally qualified actuary and adopted the projected unit method. Under the projected unit method the current service cost, as a percentage of Persimmon Scheme members' pensionable pay, will increase as the active members approach retirement. Standard 2000 mortality tables applying a medium cohort effect with an underpin of 1.25% p.a. for males and 0.75% p.a. for females were used as a basis to calculate the future liability. On 1 July 2010 the Persimmon Scheme accrual for active members changed from final salary to career average revalued earnings. An actuarial valuation at 1 January 2011 is currently underway.

Prowting Pension Scheme

On the acquisition of Westbury plc in 2006 the Group assumed control of the Prowting Pension Scheme (the 'Prowting Scheme'), a defined benefit scheme. The assets of the Prowting Scheme are held separately from those of the Group. The most recent completed actuarial valuation of the Prowting Scheme was carried out as at 31 March 2009 by a professionally qualified actuary and adopted the projected unit method. Under the projected unit method the current service cost, as a percentage of Prowting Scheme members' pensionable pay, will increase as the active members approach retirement. Standard 2000 mortality tables, applying a medium cohort effect with an underpin of 1.25% p.a. for males and 0.75% p.a. for females were used as a basis to calculate the future liability. On 1 January 2011 the Prowting Scheme accrual for active members changed from final salary to career average revalued earnings.

29 Retirement benefit obligations (continued)

Inflationary growth assumptions

In July 2010 the UK Government announced its intention to pass legislation amending the statutory revaluation of pension scheme benefits and increases to pensions in payment under defined benefit pension schemes from RPI to CPI measures. After reviewing UITF Abstract 48 the Directors have considered whether any reduction in pension liabilities has arisen at the balance sheet date as a result of the ministerial announcement. This change will affect the Persimmon Scheme and the Prowting Scheme by reducing the deficit in the schemes and therefore the net liability recognised in the balance sheet.

The Group's current obligations to active members within the pension schemes is to revalue CARE benefits at RPI with a cap of 2.5%. The Group's obligations in respect of deferred members and pensioners are complex, given the merger of multiple schemes with differing member rights into the Persimmon Scheme, following various acquisitions. The Directors' estimate that the pension deficit would be reduced by circa £5m (post tax) at 31 December 2010 in relation to those deferred members where there is no RPI obligation when calculating the deferred member pension liability revaluation. This actuarial gain has not been credited to other comprehensive income in the year as the Directors believe that all pension obligations require detailed review in light of the finalised legislation. The Directors have continued to apply prudent inflationary assumptions in relation to benefit increases.

The assets of both defined benefit schemes have been calculated at fair value and the liabilities, at each balance sheet date, have been calculated based on the following financial assumptions (figures presented are an aggregation of both defined benefit schemes):

	2010 % p.a.	2009 % p.a.
Discount rate	5.40	5.60
General pay increases	3.50	3.60
Inflation assumption	3.50	3.60
Pension increases – Limited Price Indexation	3.30	3.40
Expected return on Scheme assets:		
Equities	8.00	8.25
Bonds	4.75	5.00
Property	7.75	8.00
Cash	4.25	4.50

Persimmon Plc employs a building block approach in identifying the long term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return of each asset class over the actual asset allocation for the scheme at 31 December 2010.

The major categories of scheme assets as a percentage of the total fair value of scheme assets are as follows:

	2010 %	2009 %
Equities	62	65
Bonds	33	32
Property	–	–
Other	5	3

The amounts recognised in the statement of comprehensive income are as follows:

	2010 £m	2009 £m
Current service cost	3.2	3.2
Curtailement credit	(0.9)	–
Interest cost	21.3	19.3
Expected return on scheme assets	(18.4)	(13.8)
Total (included in staff costs)	5.2	8.7
Actuarial (gain)/loss recognised in other comprehensive income	(2.5)	29.0
Total defined benefit scheme loss recognised	2.7	37.7

The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class.

29 Retirement benefit obligations (continued)

The cumulative loss recognised in other comprehensive income/(expense) since the adoption of IAS 19 (Revised) is £57.6m (2009: £60.1m loss).

	2010 £m	2009 £m
Expected return on scheme assets	18.4	13.8
Actuarial gain on scheme assets	9.1	28.8
Actual return on scheme assets	27.5	42.6

The amounts included in the balance sheet arising from the Group's obligation in respect of its defined benefit schemes are as follows:

	2010 £m	2009 £m
Present value of funded obligations	(403.1)	(387.3)
Fair value of scheme assets	304.8	272.9
Deficit in the scheme and net liability in the balance sheet	(98.3)	(114.4)

A deferred tax asset totalling £26.6m (2009: £22.3m) has been recognised on the balance sheet in relation to the net pension obligation.

Movements in the liability recognised on the balance sheet were as follows:

	2010 £m	2009 £m
At 1 January	(114.4)	(95.3)
Total loss recognised in the period	(2.7)	(37.7)
Company contributions paid in the period	18.8	18.6
At 31 December	(98.3)	(114.4)

Changes in the present value of the defined benefit obligation were as follows:

	2010 £m	2009 £m
At 1 January	(387.3)	(324.0)
Current service cost	(3.2)	(3.2)
Interest cost	(21.3)	(19.3)
Actuarial losses on liabilities	(6.6)	(57.8)
Gain on curtailment	0.9	–
Benefits paid	14.4	17.0
At 31 December	(403.1)	(387.3)

Changes in the fair value of scheme assets were as follows:

	2010 £m	2009 £m
At 1 January	272.9	228.7
Expected return	18.4	13.8
Actuarial gains on assets	9.1	28.8
Contributions	18.8	18.6
Benefits paid	(14.4)	(17.0)
At 31 December	304.8	272.9

29 Retirement benefit obligations (continued)

A three year history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	(403.1)	(387.3)	(324.0)
Fair value of scheme assets	304.8	272.9	228.7
Deficit in the scheme	(98.3)	(114.4)	(95.3)
Experience adjustments on scheme assets	9.1	28.8	(66.5)
Percentage of scheme assets	3.0%	10.6%	(29.1%)

The expected employer contributions to the defined benefit schemes during 2011 is £18.7m.

Post retirement life expectancy assumptions for retirement aged staff are as follows:

	2010 Years	2009 Years
Male current pensioner	22.2	21.9
Female current pensioner	24.4	23.9
Male future pensioner	23.5	23.5
Female future pensioner	25.7	25.4

The Company does not present valuations of its own separate assets and liabilities under the defined benefit schemes as this is a multi-employer plan in existence for many years and it has been impractical to separately identify such assets and liabilities subsequent to the transition to IFRS.

30 Share-based payments

The Group operates a number of share option schemes, the details of which are provided below. All schemes are equity settled.

The Save As You Earn Scheme is an HMRC approved scheme open to all permanent employees with more than six months' service. Options can normally be exercised three years after the date of grant.

Options have been issued to senior management (including the executive Directors) under the Group's various executive share option schemes, which include four awards under the long term incentive plan (LTIP). Vesting of options granted under the LTIP is dependent upon:

Return on capital employed (ROCE) and total shareholder return (TSR) versus a comparator group of constituents of the FTSE 100 at the date of grant for options granted between January 2007 and March 2008;

Group operating cash flow generation and TSR versus a comparator group of constituents of the FTSE 250 at the date of grant for options granted between September 2008 and September 2010;

Options granted under the LTIP in September 2010 consisted of an HMRC approved LTIP award, with an exercise price equivalent to market value on the date of the award, plus a linked option. In the event that the market price of a share at the date of exercise of an approved option exceeds the option price, then the value of the linked award that vests is restricted to an amount capped at the cost of exercise of the approved option.

Reconciliations of share options outstanding during each period, under each type of share scheme are as follows:

	2010 Save As You Earn Scheme		2009 Save As You Earn Scheme	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
Group and Company				
Outstanding at the beginning of the year	1,660,468	387.1	2,027,039	697.9
Granted during the year	420,427	324.0	347,330	400.0
Forfeited during the year	(313,345)	(483.7)	(711,080)	(548.8)
Exercised during the year	(4,411)	(326.0)	(2,821)	(326.0)
Outstanding at the end of the year	1,763,139	355.1	1,660,468	387.1
Exercisable at the end of the year	78,878	742.7	53,486	990.6

30 Share-based payments (continued)

	2010 Executive Share Schemes		2009 Executive Share Schemes	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
Group and Company				
Outstanding at the beginning of the year	19,550	388.1	103,271	430.3
Forfeited during the year	–	–	(83,721)	(440.2)
Outstanding at the end of the year	19,550	388.1	19,550	380.1
Exercisable at the end of the year	19,550	388.1	19,550	388.1

	2010 Bonus Shares Scheme	2009 Bonus Shares Scheme
	Number of shares under option	Number of shares under option
Group and Company		
Outstanding at the beginning of the year	39,453	140,811
Exercised during the year	(39,453)	(101,358)
Outstanding at the end of the year	–	39,453
Exercisable at the end of the year	–	–

	2010 Long Term Incentive Plan Non HMRC Approved	2009 Long Term Incentive Plan Non HMRC Approved
	Number of shares under option	Number of shares under option
Group and Company		
Outstanding at the beginning of the year	2,595,936	2,092,593
Granted during the year	1,184,187	876,520
Forfeited during the year	(496,342)	(373,177)
Outstanding at the end of the year	3,283,781	2,595,936
Exercisable at the end of the year	–	–

	2010 Long Term Incentive Plan HMRC Approved		2009 Long Term Incentive Plan HMRC Approved	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
Group and Company				
Granted during the year	636,552	398.4	–	–
Forfeited during the year	(6,275)	398.4	–	–
Outstanding at the end of the year	630,277	398.4	–	–
Exercisable at the end of the year	–	–	–	–

30 Share-based payments (continued)

Group and Company	2010 Synergy Incentive Plan	2009 Synergy Incentive Plan
	Number of shares under option	Number of shares under option
Outstanding at the beginning of the year	581,250	775,000
Granted during the year*	149,010	52,990
Exercised during the year	(730,260)	(246,740)
Outstanding at the end of the year	–	581,250
Exercisable at the end of the year	–	–

* Represents the dividend equivalent in accordance with the rules of the Synergy Incentive Plan

The weighted average share price at the date of exercise for share options exercised during the period was 437.3p (2009: 394.8p). The options outstanding at 31 December 2010 had a range of exercise prices from zero to 753.0p and a weighted average remaining contractual life of 1.6 years (2009: 1.5 years).

The inputs into the binomial option-pricing model for options that were granted in the year were as follows:

	LTIP March 2010	LTIP September 2010 Unapproved	LTIP September 2010 Approved	LTIP September 2010 Linked	SAYE 2010
Grant date	31 March	23 September	23 September	23 September	13 October
Risk free interest rate	1.76%	0.86%	0.86%	0.86%	0.82%
Exercise price	nil	nil	398p	nil	324p
Share price at date of grant	466p	399p	399p	399p	382p
Expected dividend yield*	0%	0%	0%	0%	1%
Expected life	3 years	3 years	3 years	3 years	3 years
Date of vesting	31 March 2013	23 September 2013	23 September 2013	23 September 2013	31 October 2013
Expected volatility	47%	47%	47%	47%	47%
Fair value of option	393p	322p	120p	202p	138p

*Recent LTIP option awards will accrue dividends on any options which vest.

Expected volatility was determined by calculating the historic volatility of the Group's share price over various timescales.

The expected life used in the model has been adjusted, based on best estimates, to reflect exercise restrictions and behavioural considerations.

In 2010, the Group recognised total expenses before tax of £3.4m (2009: £3.6m) in relation to equity settled share-based payment transactions in the Consolidated statement of comprehensive income. These option charges have been credited against the retained earnings reserve. All share-based payments are expensed by the Company. The Company makes management charges to its subsidiaries which include the cost of providing this benefit to their employees.

31 Details of Group undertakings

The Directors set out below information relating to the major subsidiary undertakings (those that principally affect the profits and assets of the Group) of Persimmon Plc at 31 December 2010. All of these companies are registered in England. 100% of voting rights are held by companies within the Group. Having made use of the exemption in section 410 of the Companies Act 2006, a full list of subsidiary undertakings and jointly controlled entities will be annexed to the Company's next annual return.

Major subsidiary undertakings

Persimmon Homes Limited [°]	Charles Church Developments Limited ^Δ	Westbury Limited ^{**}
Persimmon Holdings Limited [*]	Beazer Group Limited ^{***}	

[°] The shares of this company are held by Persimmon Holdings Limited and Persimmon Plc.

^Δ The shares of this company are held by Persimmon Holdings Limited.

^{*} The shares of this company are held by Persimmon Finance Limited and Persimmon Plc.

^{**} The shares of this company are held by Persimmon Plc.

^{***} The shares of this company are held by Persimmon Homes Limited.

32 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 (Related Party Disclosures). Summary information of the transactions with key management personnel is provided in note 7. Detailed disclosure of the individual remuneration of Board members is included in the Remuneration Report on pages 37 to 43. There is no difference between transactions with key management personnel of the Company and the Group.

The Company has entered into transactions with its subsidiary undertakings in respect of the following: internal funding loans and provision of Group services (including senior management, IT, accounting, marketing, purchasing, legal and conveyancing services). Recharges are made to subsidiary undertakings for Group loans, based on funding provided, at an interest rate linked to average Group borrowing costs. No recharges are made in respect of balances due to or from otherwise dormant subsidiaries. Recharges are made for Group services based on utilisation of those services.

During the year these recharges amounted to:

	2010 £m	2009 £m
Interest charges on intra-group funding	9.9	29.9
Group services recharges	23.5	24.0
	33.4	53.9

In addition to these services the Company acts as a buying agent for certain Group purchases, such as insurance. These are recharged at cost based on utilisation by the subsidiary undertaking.

The amount outstanding from subsidiary undertakings to the Company at 31 December 2010 totalled £429.0m (2009: £256.2m). Amounts owed to subsidiary undertakings by the Company at 31 December 2010 totalled £2,631.2m (2009: £2,544.6m).

The Company provides the Group's defined benefit pension schemes. Expected service costs are charged to the operating businesses at cost. There is no contractual arrangement or stated policy relating to the net defined benefit cost. Experience and actuarial gains and losses are recognised in the Company.

Certain subsidiary undertakings have entered into guarantees of external bank loans and overdrafts of the Company. The total value of such borrowings at 31 December 2010 was £204.1m (2009: £195.6m). The Company has entered into guarantees over bank loans and borrowings of the subsidiary undertakings. The total value of such borrowings at 31 December 2010 was £nil (2009: £241.4m).

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2009: £nil).

North Division

North Division Board

Jeff Fairburn

Division Chief Executive

Corinne Gill

Associate Director – Group Finance

John Cassie

Scotland Regional Chairman

David Jenkinson

North West & North East Regional Chairman

**Persimmon Homes Yorkshire
Charles Church Yorkshire**

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Telephone (01904) 642199

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Managing Director: Andrew Bowes

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Charles Church West Yorkshire**

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Managing Director: Wayne Gradwell

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Charles Church West Scotland**

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Managing Director: Douglas Law

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Charles Church East Scotland**

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Managing Director: John Cassie

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Managing Director: Neil Follows

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Charles Church North East**

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Deputy Managing Director: Richard Tindale

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Charles Church Teesside**

Persimmon House

Bowburn North Industrial Estate

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Bowburn

County Durham DH6 5PF

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Fax (0191) 3774001

Managing Director: Neil Foster

Central Division

Central Division Board

David Thornton

Division Chief Executive

Judith Potter

Division Finance Director

Andrew Hammond

Shires Regional Chairman

**Persimmon Homes North Midlands
Charles Church North Midlands**

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Meridian East

Meridian Business Park

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Managing Director: Paul Hurst

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Charles Church West Midlands**

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Charles Church East Midlands**

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Managing Director: Adrian Evans

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Charles Church Thames Valley**

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Managing Director: Ian Menham

**Persimmon Homes Essex
Charles Church Essex**

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Managing Director: Ian Jeffrey

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Charles Church Anglia**

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Oulton Broad
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Managing Director: Andrew Fuller

South Division

South Division Board

Nigel Greenaway
Division Chief Executive

Judith Potter
Division Finance Director

Adrian Morgan
Western Regional Chairman

**Persimmon Homes South East
Charles Church South East**

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Managing Director: Andrew Golawski

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Charles Church Wessex**

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**Persimmon Homes Severn Valley
Charles Church Severn Valley**

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Charles Church East Wales**

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Charles Church South West**

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**Persimmon Homes Southern
Charles Church Southern**

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**Persimmon Homes West Wales
Charles Church West Wales**

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Fax: 0121 748 3583
Managing Director: Andrew McDermott

Group Partnerships Director:
Ashley Lane

Space4 Ltd

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Birmingham B35 7AG
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Fax: 0121 776 7369
Managing Director: Chris Hagan

Shareholder Information

Analysis of shareholding at 31 December 2010

Size of shareholding	Number of shareholders	%
1 – 5,000	10,904	91.99
5,001 – 50,000	583	4.92
50,001 – 250,000	204	1.72
250,001 and over	163	1.37
Total	11,854	100.0

Share price – year ended 31 December 2010

Price at 31 December 2010	416.8p
Lowest for year	336.5p
Highest for year	507.5p

The above share prices are the middle-market closing share prices as derived from the London Stock Exchange Daily Official List.

Financial Calendar 2011

Annual General Meeting	21 April 2011
Interim Management Statement	21 April 2011
Shares ex-dividend	4 May 2011
Record date for final dividend entitlement	6 May 2011
Final date for receipt of dividend reinvestment plan elections	23 May 2011
Payment of final dividend 2010	14 June 2011
Trading Update	5 July 2011
Announcement of Half Year Results	23 August 2011
Interim Management Statement	15 November 2011

Five Year Record

	2010*	2009*	2008*	2007	2006†
Unit sales	9,384	8,976	10,202	15,905	16,701
Revenue	£1,569.5m	£1,420.6m	£1,755.1m	£3,014.9m	£3,141.9m
Average selling price ^Δ	£169,339	£160,513	£172,994	£189,558	£188,129
Profit from operations	£128.7m	£57.2m	£198.3m	£657.3m	£637.3m
Profit before tax	£95.5m	£7.0m	£126.6m	£585.1m	£566.7m
Basic earnings per share	24.8p	2.1p	35.3p	138.3p	133.8p
Diluted earnings per share	24.6p	2.1p	35.2p	137.6p	133.1p
Dividend per share	7.5p	nil	5.0p	51.2p	46.5p
Net assets per share	579.1p	540.2p	518.0p	781.4p	680.2p
Total shareholders' equity	£1,744.0m	£1,623.2m	£1,555.2m	£2,345.4m	£2,031.3m
Return on capital employed	5.2%	2.1%	6.2%	21.7%	23.1%

All figures shown before goodwill amortisation/impairment where applicable.

* 2008, 2009 and 2010 figures stated before exceptional items.

† 2006 figures stated after reorganisation costs.

^Δ Average selling price calculated from nominal value of revenue (before IAS 18 adjustment to fair value shared equity sales).



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