

# A solid foundation for growth

Annual Report 2011



Cover image: Persimmon Homes at Picket Twenty, Andover, Hampshire

Below: Charles Church at Maresfield Park, East Sussex

## What's inside:

### Business Review – Overview

- |   |                          |
|---|--------------------------|
| 2 | Chairman's Statement     |
| 6 | Our Business             |
| 8 | How We Create Value      |
| 9 | Our Strategic Priorities |

### Business Review – Strategy and KPIs

- |    |                           |
|----|---------------------------|
| 10 | Chief Executive's Review  |
| 16 | Measuring our Performance |

### Business Review – Performance

- |    |                                |
|----|--------------------------------|
| 18 | Operational Performance Review |
| 25 | Principal Risks                |
| 26 | Sustainability                 |

### Governance

- |    |  |
|----|--|
| 29 | Chairman's Corporate Governance Introduction         |
| 30 | Board of Directors                                   |
| 32 | Directors' Report and Corporate Governance Statement |
| 41 | Remuneration Report                                  |

### Financials

- |    |   |
|----|---|
| 50 | Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements |
| 51 | Independent Auditor's Report to the Members of Persimmon Plc  |
| 52 | Consolidated Statement of Comprehensive Income  |
| 53 | Balance Sheets  |
| 54 | Statements of Changes in Shareholders' Equity   |
| 56 | Cash Flow Statements  |
| 57 | Notes to the Financial Statements   |

### Other information

- |    |                         |
|----|-------------------------|
| 94 | Directory               |
| 96 | Shareholder Information |
| 96 | Financial Calendar 2012 |
| 96 | Five Year Record        |
| 97 | Company Information     |



# Introduction

Persimmon is one of the leading UK housebuilders. We sold 9,360 new homes from our 24 regional offices in 2011.

Despite economic uncertainty the UK new homes market remains resilient, underpinned by restricted supply and underlying demand from an increasing population.

We are debt free with a strong balance sheet and improving margins and remain confident of our prospects in the UK housing market.

## Financial highlights:

**£1.54bn -2%**

Revenue (2010: £1.57bn)

**£148.1m\* +55%**

Profit before tax (2010: £95.5m\*)

**£119.4m -47%**

Free cash flow (2010: £225.6m)

**10.0p +33%**

Dividend (2010: 7.5p)

**10.0%\* +22%**

Operating margin (2010: 8.2%\*)

\*Stated before exceptional credits of £13.3m (2010: £80.2m credit) and goodwill impairment of £4.4m (2010: £4.6m)

Read more about our KPIs on **pages 16 to 17**

## Operational highlights:

**9,360 -0.25%**

Homes sold (2010: 9,384)

**£166,142\*\* -2%**

Average selling price (2010: £169,339\*\*)

**390 +3%**

Average site numbers (2010: 380)

**£615.0m +8.8%**

Forward sales (2010: £565.1m)

**63,335 plots +7.6%**

Landbank (2010: 58,862 plots)

\*\*Stated before fair value charge of £20.1m (2010: £19.6m) on shared equity sales

See Operational Performance Review on **page 18**



## Chairman's Statement

I am pleased to announce the conclusion of a strategic review which will see Persimmon return £1.9 billion to shareholders over the next 9½ years.



Nicholas Wrigley  
Chairman

The strategy we have consistently pursued over the last four years has again resulted in a significant improvement in Persimmon's results for the year ended 31 December 2011. Underlying profit before tax has increased by c.55% and we now hold £41 million of cash balances, having generated £119 million of free cash flow over the year. We have continued to invest in high quality land with our higher margin strategic land holdings contributing an increased share of our replacement land requirements. Whilst we expect the UK housing market to remain challenging, with the constrained supply of mortgage credit continuing, the Group is in a strong position to deliver further improvements in returns for shareholders. We are therefore pleased to announce a long term capital return of £1.9 billion to shareholders over the next nine and a half years.

## Strategy and capital return

Our stated strategy has been to deliver improving operating margins, invest in high quality land, increase profitability and generate surplus cash to pay down debt. This strategy has proved very successful on all of these measures.

The Board has conducted a detailed strategy review that seeks to take full advantage of Persimmon's excellent prospects, while maintaining the Group's capital discipline. Implementation of this strategy will support the development of the Group into a stronger, larger business over the next decade, while also maximising the return on capital employed and providing greater certainty of returns to shareholders.

This review has been conducted against the current market backdrop and is based on an assumption that, whilst the situation appears to be improving, the industry may remain constrained by the availability of mortgage credit.

The conclusion of this review is that it is important for the Company to maintain its record of controlled, profitable growth whilst recognising the timing of the development cycle. The Group will continue to focus on increasing margins, profitability and free cash flow, while ensuring that the land replacement needs of the business remain a priority. In addition, having reviewed the capital structure of the business, the Board has decided to commit to return surplus capital to shareholders, whilst maintaining a largely ungeared balance sheet.

Management will continue to balance improvement in margins with opportunities to grow sales volumes. The Group will continue to invest in its existing nationwide network of offices and retain the capacity to support good growth in sales volumes as market conditions allow. Similarly, we remain focused on investing in high quality land, the conversion of strategic land and optimising the landbank. The stronger cash margins delivered from strategic land will support the long term capital return strategy.

The Board has reviewed mechanisms for delivering surplus capital to shareholders and has concluded that the excess should be released to shareholders by way of dividends over a planned nine and a half year timeframe.

The plan to return £1.9 billion (£6.20 per share) by way of dividends commences in 2013 and ends in 2021. On completion of the Capital Return Plan, the Board anticipates that Persimmon will be achieving a greater level of sales activity, enhanced margins, and will possess the same robust capabilities that it holds today.

We believe that the successful execution of this strategy will optimise the financial performance of the business and enhance value for shareholders.

## Results

Sales revenues for the year ended 31 December 2011 were £1.54 billion (2010: £1.57 billion). Underlying pre-tax profits, stated before exceptional items and goodwill charges of £148.1 million, were 55% ahead of £95.5 million achieved in the prior year. Group profitability improved further in the second half of the year, with underlying operating margins of 10.8% compared with 9.0% in the first half. Full year underlying operating profits of £153.0 million were 19% ahead of the prior year (2010: £128.7 million), representing a full year operating margin of 10.0% (2010: 8.2%).

Our focus on optimising planning consents, maximising our selling prices and minimising our development costs delivered further underlying gross margin gains which we anticipate will continue.

Legal completions for the year were 9,360 (2010: 9,384) at an average selling price of £166,142 (2010: £169,339) stated before the fair value charge on our shared equity sales.

Net finance costs for the year were £4.9 million, £28.3 million lower than the prior year, reflecting lower average borrowings and strong cash generation. Our discipline controlling work in progress and overhead costs has supported the delivery of £163 million of cash from operations, whilst continuing to invest in our landbank. We expect to see further improvement in our return on capital employed of 8.3% for 2011 (2010: 6.9%) as we deliver our strategy in 2012.

The Group now owns and controls c.63,300 plots of land which represents over six and a half years of supply. Persimmon has a well established record of delivering significant value through working with local planning authorities, landowners and local communities over the long term to achieve residential planning consents on high quality strategic land. This continued in 2011 with c.50% of the c.14,300 plots of land acquired through the year being converted from the c.16,500 acres of strategic land that the Group either owns or has the option to purchase.

## Dividends

The Board has considered the underlying profitability and cash generation for the past year, together with current trading and outlook and has decided to recommend an increased final dividend of 6.0 pence per share (2010: 4.5 pence). This final dividend will be paid on 15 June 2012 to shareholders on the Register on 11 May 2012. The resulting total dividend for the year of 10.0 pence will be 33% higher than last year (2010: 7.5 pence) and will be covered 3.7x 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 2012.

The payment of future dividends is incorporated in the Capital Return Plan.

Persimmon's successful strategy of improving operating margins, investing in high quality land and generating surplus cash to pay down debt proved highly effective.

# We have made a strong start to the year with forward sales up by 9% to £927 million.

## Outlook

With the return of the traditional seasonality to the housing market in 2011, we achieved improved sales rates through the autumn, resulting in a healthy forward order book at the end of the year. The £615 million of forward sales carried into 2012 was 9% higher than for the previous year and places us in a strong position for the first half of 2012.

The encouraging improvement in visitor levels and reservations noted first in the Autumn of 2011 has so far continued into 2012. Our weekly private sales rate per site is c.22% ahead of the prior year over the first eight weeks of 2012. We currently have total forward sales of c.£927.4 million (2010: £848.1 million) for 2012, including legal completions taken so far this year which is 9% up on the previous year. Prices remain stable and we have seen some further improvement in gross margins for reservations taken in early 2012.

## Board

David Thompson, Persimmon's Senior Independent Director, will stand down from the Board at the conclusion of our forthcoming AGM in April. David joined Persimmon in 1999 as a non-executive Director and has served the Board and its Committees with great distinction and dedication and has been a tremendous asset to the Company for over 12 years.

As previously announced, I am pleased to report that Mark Preston was appointed as non-executive Director with effect from 9 January 2012. Mark (44), a chartered surveyor, is the Group Chief Executive of Grosvenor Group Limited, an appointment he took up in 2008. Mark brings valuable experience and expertise to the Board to complement the existing team.

In addition, again as previously announced, with effect from 9 January 2012 Jeff Fairburn (45), was promoted to Group Managing Director with responsibility for Group operational functions and management of the Group's strategic land portfolio. Jeff joined Persimmon in 1989 and was appointed to the Board on 1 June 2009. He will continue as North Division Chief Executive.

2011 has been another year of significant achievement for Persimmon. This success is the result of the hard work, dedication and loyalty of all our staff. On behalf of the Board I would like to congratulate our management and employees for all their efforts and I look forward to their future success in the execution of our new strategy.

**Nicholas Wrigley**  
Chairman  
27 February 2012

The Persimmon Group is a national housebuilder, building a wide range of new homes across the UK using four brands.

### Persimmon Homes

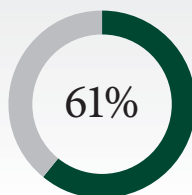


Archers Gate, Amesbury, Wiltshire

#### Contribution to Group revenue %



**PERSIMMON**  
Together, we make a home



**£167,582**

Average selling price\*

**5,643**

Units sold

**43,305**

Landbank

\*Stated before fair value charge of £16.5m on shared equity sales

Persimmon Homes is our biggest brand. 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.

Read more about Persimmon Homes on **page 19**

### Charles Church

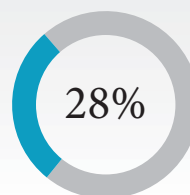


Pembroke Gate, Shaftesbury, Dorset

#### Contribution to Group revenue %



**CHARLES CHURCH**  
THE NAME ON THE FINEST HOMES



**£225,251**

Average selling price\*

**1,928**

Units sold

**7,691**

Landbank

\*Stated before fair value charge of £3.6m on shared equity sales

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 from our 24 regional offices.

Read more about Charles Church on **page 20**



<b>North Division</b> This division includes operating businesses in Scotland, North West, North East and Yorkshire.	<b>2,545</b> Units sold <b>21,375</b> Landbank	Offices: York, Leeds, Glasgow, Bathgate, Manchester, Lancaster, Newcastle Upon Tyne, Durham
<b>Central Division</b> Our Central Division includes our Birmingham, Shires and Eastern regions.	<b>3,346</b> Units sold <b>16,340</b> Landbank	Offices: Leicester, Wolverhampton, Studley, Northampton, Peterborough, Maidenhead, Witham, Lowestoft
<b>South Division</b> This division includes our Southern, Western and Wales regions and Space4.	<b>3,469</b> Units sold <b>25,620</b> Landbank	Offices: Weybridge, Fareham, Malmesbury, Bristol, Llantrisant, Exeter, Camberley, Cardiff, Birmingham (Space4)

National presence through a network of 24 regional offices.

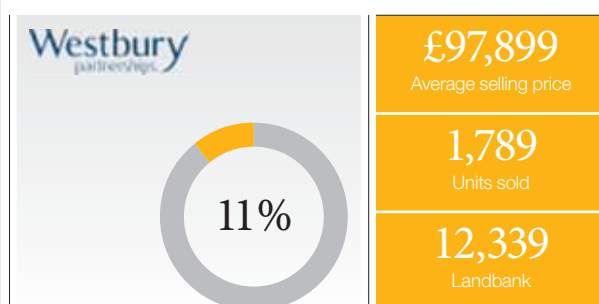


## Westbury Partnerships



Partnership housing for Waterloo Housing Association at Olton, Solihull, West Midlands

### Contribution to Group revenue %



Westbury Partnerships housing sales to Housing Associations from our regional office network accounted for 19% of our new homes sales in 2011.

Read more about Westbury Partnerships on [page 21](#)

## Space4



Space4 office and production facilities at Castle Bromwich, Birmingham

**space4...**  
...fast-track construction system

**+19%**  
Production output increase in 2011

**3,252**  
Homes built with Space4 timber frames

Space4 operates the largest automated timber frame manufacturing plant in the UK. Patented foam insulation injection moulded timber frames were used in 34% of the homes we built in 2011, achieving excellent energy compliance under the Code for Sustainable Homes.

Read more about Space4 on [page 22](#)






## How We Create Value

Our knowledge of the UK housing market and simple business model allow us to build quality homes for our customers, while ensuring long term financial stability and returns for our shareholders.



# Our Strategic Priorities

Our objective is to deliver our Capital Return Plan to shareholders by building a range of sustainable homes across the UK and selling to both the private market and housing associations. Our strategic priorities are set out below.

<b>Improving margins</b>   See Profit measures on <b>page 16</b>	<ul style="list-style-type: none"> <li>Continue to control development costs</li> <li>Re-plan existing sites</li> <li>Acquisition of new land at attractive prices</li> <li>Conversion of strategic land at enhanced margins</li> <li>Maximise sale prices</li> </ul>	<ul style="list-style-type: none"> <li>Our divisional structure is designed to utilise our local market expertise. 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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Selective new site acquisitions</b>   See Landbank on <b>page 17</b>	<ul style="list-style-type: none"> <li>Increased southern exposure</li> <li>More traditional site layouts</li> <li>Appropriate product mix</li> </ul>	<ul style="list-style-type: none"> <li>We reduce our exposure to local market volatility by maintaining operations across markets throughout the UK to enhance our sales potential.</li> </ul>	<ul style="list-style-type: none"> <li>We acquire new sites in locations where our market experience confirms good levels of customer demand for new homes.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Build sustainable homes</b>   See Waste generated per home sold on <b>page 17</b>	<ul style="list-style-type: none"> <li>Improve the energy efficiency of our homes and reduce running costs</li> <li>Use modern methods of construction to support site production rates and overcome any potential labour shortages</li> <li>Invest in Space4</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	
<b>Continue to focus on cash generation</b>   See Cash and cash flow measures on <b>page 17</b>	<ul style="list-style-type: none"> <li>Appropriate capital structure</li> <li>Capital discipline</li> <li>Deliver returns to shareholders</li> <li>Reduce finance costs</li> <li>Good flexibility</li> </ul>	<ul style="list-style-type: none"> <li>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, will continue to maintain liquidity and an appropriate capital structure for our balance sheet.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>We consider that a landbank equivalent of c. five years supply would align our landbank with expected future customer demand for our homes.</li> </ul>	<ul style="list-style-type: none"> <li>The planned optimisation of our landbank will take account of the new National Planning Policy Framework and will improve our return on capital employed.</li> </ul>
<b>Health and Safety</b>   See RIDDORS on <b>page 16</b>	<ul style="list-style-type: none"> <li>Continued management training</li> <li>Continue to improve safety culture</li> <li>Maintain a high level of compliance with health and safety standards</li> </ul>	<ul style="list-style-type: none"> <li>The health and safety of our employees, subcontractors, customers and visitors to our sites remains a key priority for us.</li> </ul>	<ul style="list-style-type: none"> <li>Our Board sets objectives and targets and our health and safety department oversees implementation and performance by all our operating businesses.</li> </ul>	<ul style="list-style-type: none"> <li>We work closely with the Health and Safety Executive and the Home Builders Federation to ensure compliance with best practice and legislative requirements.</li> </ul>	

Our strategic priorities continue to improve the performance and strength of our business.



Mike Farley  
Group Chief Executive



£1.9bn

Capital Return Plan

620p

Per share return  
to shareholders

## Our strategy

Persimmon has a long term record of delivering industry leading returns. Since the onset of the global financial crisis in 2007 the Group has pursued a strategy designed to protect the value of shareholders' equity in the business. This strategy of improving operating margins and targeting profitable growth of the business has proved very effective in the prevailing market conditions. We have delivered significant cash inflows through this period, resulting in cash balances of £41 million at 31 December 2011. Continued investment in high quality land and working relentlessly to improve the quality of the existing land portfolio have been central elements of this strategy over the last four years. Over this period we have invested c.£1 billion in acquiring c.32,000 plots of land, c.40% of which have been successfully pulled through from our strategic landbank. This conversion of strategic land is a defining feature of the Persimmon business model and will, we believe, provide excellent returns for the business in the future.

From these firm foundations and against a backdrop of a stable housing market, we are in a strong position from which to consider options for the delivery of value to shareholders over the long term. In performing our analysis we have paid particular attention to the impact of the following factors on the Persimmon business model:

- a) maintenance of an optimal scale for the business, which allows land investment activity to be performed most effectively;
- b) the extent of strategic land investment and conversion required to maximise shareholder returns over the long term;

- c) discipline over the quantity of capital employed within the business through the development cycle and the capital structure; and,
- d) creation of greater certainty over the value and timing of returns to shareholders.

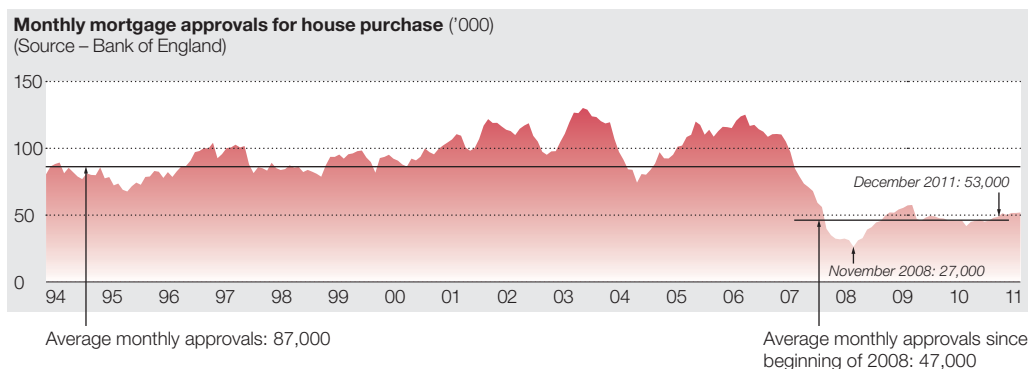
The conclusion of the review is a long term plan that capitalises on the strength of the Persimmon business model to return excess capital to shareholders while also ensuring that the business remains sufficiently well-capitalised to fund its future growth.

The Board is therefore proposing a return of £1.9 billion (£6.20 per share) to shareholders over the next nine and a half years according to the following timetable.

	Pence Per Share	Dividends (£m)
30 June 2013	75p	226.5
30 June 2015	95p	286.9
30 June 2017	110p	332.2
30 June 2019	110p	332.2
30 June 2020	115p	347.3
30 June 2021	115p	347.3
	620p	1,872.4

In preparing the Capital Return Plan, full consideration has been taken of the timing of the working capital needs of the business, the availability of bank facilities and the need to ensure that appropriate headroom is available to support the Group's development based on a zero debt model.

The capital return programme will provide shareholders with strategic clarity and regular defined returns over the long term, while ensuring Persimmon can maintain its track record of controlled, profitable growth.



**£615.0m**

Forward sales at  
31 December 2011  
(2010: £565.1m)

## The UK housing market and trading

During 2011 our focus on both improving profitability and healthy cash generation again delivered strong results for the Group. Our three brands, Persimmon, our family housing brand, Charles Church, our premium brand, and Westbury Partnerships, our social housing brand, have all performed well.

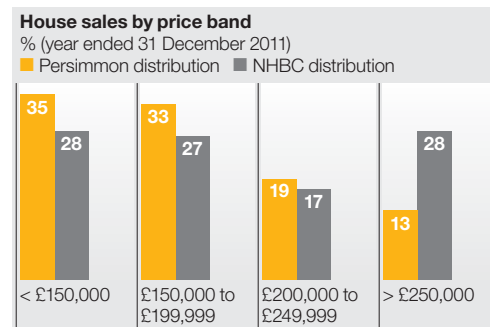
The UK housing market experienced challenging conditions throughout 2011. The shortage of mortgage credit, the Government's austerity measures and continuing poor general economic conditions in the UK all combined to create a tough trading environment.

However, despite this backdrop we saw the return of the traditional seasonality of the market, with healthier levels of sales reservations being taken in spring and autumn. Our private sales reservation rates were c.4% ahead of the prior year in the first half of 2011 and c.11% ahead in the second six months.

We continued to experience strong visitor levels to our websites through the year with customers taking advantage of our internet based property search tools to identify their preferred new home. Visitors to our development sites were c.6% ahead of the prior year. Cancellation rates continued to run at a historically low level of c.18%.

Despite forward sales at the start of the year being 11% behind that of 2010, we legally completed 4,439 new homes in the first half of 2011, just 5% below the prior year (2010: 4,657 new homes).

Difficulty in securing mortgage credit remains the key constraint on the market. We have observed some gradual improvement during the year, with a small increase in the availability of mortgage products with slightly reduced levels of deposit requirement. Whilst mortgage approvals increased gradually through the year to c.53,000 in December 2011 (c.25% up on December 2010), the average monthly approvals for 2011 remain c.43% lower than the long run average of c.87,000 approvals.



A significant increase in mortgage availability will be required to support a sustainable improvement in industry output levels from the c.110,000 new homes per year currently being produced.

To help address these funding challenges we continued to support customers in buying a new home by offering to retain an equity share in their property. Approximately 26% of our legal completions in 2011 were sold with an element of equity retained. FirstBuy, the Government's shared equity initiative, was launched in partnership with the industry on 1 July 2011, to help first time buyers to purchase a new home. Under the FirstBuy scheme the Government supports an equal share of retained equity in partnership with the developer, to assist a qualifying first time buyer to purchase a newly built home.

**£35m**

FirstBuy shared equity funding secured

**£166,142\***

Average selling price (2010: £169,339)

The Group was successful in securing c.£35 million of FirstBuy funding to offer c.2,100 first time buyer units across 290 developments nationwide. This initiative has been well received and we have secured over 900 reservations to date. In addition, we have seen a c.30% increase in first time buyer visitors to our development sites. Our investment in shared equity receivables held at fair value increased to £164 million (2010: £115 million) at 31 December 2011.

Our legal completions in the second half of 2011 of 4,921 new homes were 4% ahead of the prior year (2010: 4,727 units), resulting in full year volumes of 9,360 in line with the previous year (2010: 9,384 units). For the full year we legally completed 60% of our new homes in southern markets and 40% in northern markets including Scotland.

The combination of improved private sales rates and continued strong sales to our housing association partners enabled us to strengthen our forward order book at the end of 2011, with forward revenues of £615 million, an increase of 9% on the prior year (2011: £565 million).

Selling prices remained stable throughout the year. The Group's 2011 average selling price of £166,142\* was 2% lower than the prior year. This small reduction was due to a change in sales mix with the Group's sales including a greater proportion of smaller units at lower price levels, in part driven by the success of the FirstBuy initiative. We believe the stability of new home prices reflects the resilient underlying demand for new accommodation in the UK together with the continued shortage of supply in the wider market place.

We have again been successful in increasing the utilisation of our part exchange facilities. Our part exchange process allows customers to proceed with confidence in the knowledge that the purchase of their new home is going to be successfully completed. At 31 December 2011 the value of our part exchange second-hand homes had increased modestly to £39 million (2010: £33 million).

Below: Persimmon Homes at Linburn View, Dunfermline, Fife

Right: Charles Church at Picket Twenty, Andover, Hampshire



\*Stated before fair value charge of £20.1m (2010: £19.6m) on shared equity sales

## Profitability

We maintained a focus on the basics of good housebuilding, concentrating on the maximisation of the development value of our land assets whilst exercising strong control over development costs and overhead expenses. I am particularly pleased to see the benefits of all this hard work deliver a further improvement in underlying operating margins, which increased to 10.0% for the year. The improvement accelerated in the second half to 10.8%, up from 9.0% in the first half of the year. We expect a further improvement in the current year and continue to believe that the business can return to operating margins of 15–17% over the medium term.

**10.0%\***

Operating margin  
(2010: 8.2%)

**£119.4m**

Free cash generation  
(2010: £225.6m)

## Cash generation

Our strategy of maximising selling prices and minimising costs has again resulted in strong underlying cash generation. This enables us to invest in high quality new land and establishes greater liquidity for the business. After accommodating our working capital requirements we generated £119 million of free cash in the year which has resulted in the Group holding cash balances of £41 million at 31 December 2011.

It is important to note that the Group has generated £163 million of cash inflows from operations before working capital needs. We have funded the investment in sales incentives of deferred shared equity receivables and part exchange properties through a reduction in the Group's other working capital requirements.

We remain singularly focused on the consistent delivery of healthy free cash inflows which is fundamental to the long term commitment we have proposed to shareholders to return £1.9 billion of capital over the next nine and a half years.

## Land

An essential ingredient to our sustained delivery of industry leading returns and cash flows is securing high quality replacement land. A key element of the Persimmon business model over many years has been to secure interests in land which we promote through the planning system over the long term.

Our strategic landbank of c.16,500 acres has consistently provided a significant proportion of our replacement land requirements. 2011 is yet another good example of this approach working in practice, with c.50% of our replacement land of c.14,300 plots successfully converted from our strategic landbank. Our strategic land portfolio is well balanced across the country with 60% in southern markets and 40% in northern markets including Scotland.

Persimmon prides itself on its record of success in working proactively with all local stakeholders to deliver housing developments that local communities are keen to support. Approximately 37% of our consented landbank was previously held within our strategic land portfolio. Our strategic landbank promises to deliver significant value to the business over many years to come.

At 31 December 2011 we held a consented landbank of c.63,300 plots. Whilst this currently represents over six and a half years forward land supply, our longer term objective remains to return to a five year supply. We expect to achieve this through both the expansion of our output as the market allows and the selective replacement of the plots we legally complete each year. In the event we experience a greater degree of success with the conversion of strategic land, this will allow us greater discretion in our open market land acquisition activities. It is this approach to land replacement which supports the Group's delivery of superior cash returns over the long term.

\*Stated before exceptional credits of £13.3m (2010: £80.2m credit) and goodwill impairment of £4.4m (2010: £4.6m)



84%

Waste recycled  
(2010: 82%)

£927m

Forward sales at  
27 February 2012  
(2010: £848m)

## Corporate responsibility

At the heart of our organisation is the objective to provide the best possible product, service and experience to all our customers. We have increased our investment in staff training right across the business in a drive to continually improve the delivery of our new homes to our customers. Whilst we are pleased to report that customer satisfaction surveys indicate that 91% of our customers would recommend us to a friend (2010: 93%) we are striving for improvements in our approach and processes to make further progress as our business develops in the future. We are confident that the independent HBF survey of customer satisfaction in 2012 will recognise the progress we are making.

We continue to focus on build quality and site management. Congratulations go to four site managers Richard Channon, Mark Thomas, Ray Winney and Lee Tysoe for winning a Seal of Excellence Award in the NHBC Pride in the Job Quality Awards in 2011.

We continue to work with local communities in improving local environments and to try and achieve as low an impact in our development activities as possible. Our waste management systems continue to minimise the amount of waste we produce and maximise the proportion of waste we recycle. During 2011 the quantity of waste we produced decreased to 6.6 tonnes per new home sold (2010: 6.9 tonnes) and we recycled 84% of the total waste produced (2010: 82%). This resulted in a 14.5% reduction in the actual quantity of waste being sent to landfill per home sold to 1.06 tonnes (2010: 1.24 tonnes).

Our health and safety performance remains a priority for the Group. Over a number of years we have seen a great improvement, with the number of reportable incidents (RIDDORs) substantially reducing. However, more recently, this trend has reversed due to increased production on our sites. As a result we are looking to improve not only the health and safety culture amongst our employees and sub-contractors, but we have also implemented changes to our policies and procedures. Through our worker engagement initiative we are carrying out extensive training and communications with both our management teams and our supply chain workforce to reinforce our commitment to improving our health and safety performance.

## Current trading outlook

Customer interest in the early weeks of 2012 has started at better levels than for the same period in the prior year. As indicated in our Trading Update on 9 January 2012 we have continued to refresh our outlet network and have brought forward c.390 active sites into 2012, having opened 25 new sites in the last quarter of 2011.

Visitor levels to our developments are c.10% higher than for the prior year over the first eight weeks. Cancellation rates over the same period have remained at historically low levels of c.18% and our weekly private sale net reservation rate per site is c.22% ahead. This is an encouraging start to 2012.

We anticipate that trading conditions will remain difficult in the current year but Persimmon is in a strong position to meet the challenge. We welcome the Government's further recent announcement detailing plans for the introduction of NewBuy, a new 95% loan-to-value mortgage product, this spring. This has the potential to allow a greater number of home buyers across the country to purchase a newly built home with a deposit of 5%. We expect that this will prove attractive in encouraging a greater number of purchasers to re-enter the UK housing market. As one of the UK's leading housebuilders we will fully support this scheme through our sales and marketing initiatives and the construction activity on our developments.

Our current forward sales revenue, including legal completions for the first eight weeks of 2012, is c.£927 million, 9.4% higher than at the same point last year (2011: £848.1 million). Forward sales volumes are 6,509 units (2011: 5,758 units) with an average selling price of £142,482 (2011: £147,282). These strong forward sales, together with our extensive outlet network (with another c.60 new sites to open in the first half of 2012), supported by our further investment in work in progress on site, provide a solid platform for our sales activity for the current year.

We expect to deliver further margin improvement in the current year as new sites enter production and we continue to drive forward further cost efficiencies. This increased profitability will enhance the generation of underlying free cash inflows which will support the long term Capital Return Plan.

**Mike Farley**  
Group Chief Executive  
27 February 2012

# Measuring our Performance

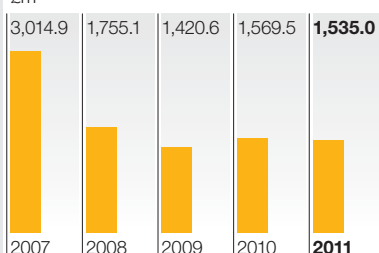
## Financial KPIs

### Revenue measures

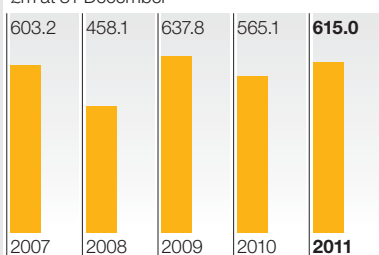
#### Relevance to business

Strength of revenue 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.

**Revenue**  
£m



**Forward sales**  
£m at 31 December



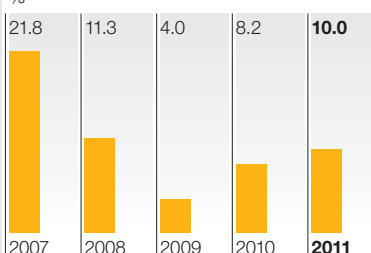
See Strategic Priorities on page 9

### Profit measures

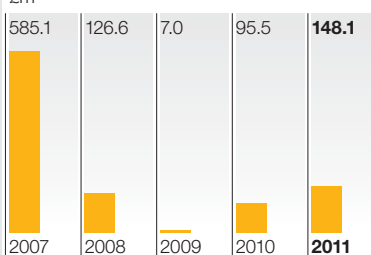
#### Relevance to business

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.

**Operating margin**  
%\*



**Profit before tax**  
£m\*



\*2007–2011 stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment, if different, the figures are as follows:  
Operating margin: 10.5% (2010: 13.0%; 2009: 9.0%; 2008: –40.7%)  
Profit before tax: £147.2m (2010: £153.9m; 2009: £77.8m; 2008: loss of £780.0m; 2007: £582.7m)

See Strategic Priorities on page 9

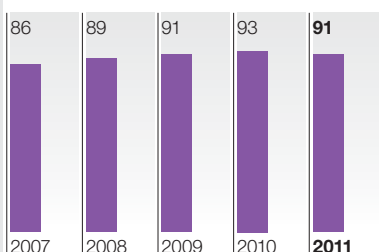
## Non-financial KPIs

### Customers that would recommend Persimmon to a friend

#### Relevance to business

We undertake regular customer satisfaction surveys to help improve our overall service and the quality of our homes.

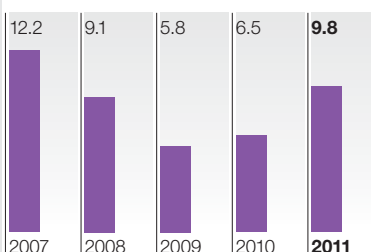
%



### The Reportable Injuries Disease and Dangerous Occurrences Regulations

#### Relevance to business

Our priority is the health and safety of our workforce and visitors. We regularly monitor and review our performance based on our incident rate of RIDDORS reported per 1,000 workers.



See Strategic Priorities on page 9

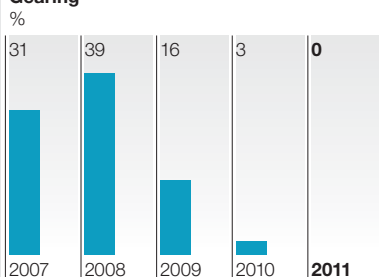
## Financial KPIs

### Cash and cash flow measures

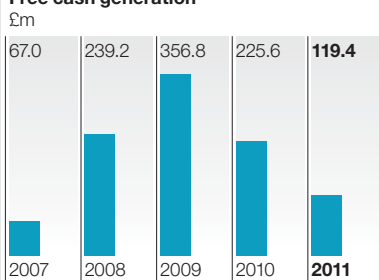
#### Relevance to business

Cash and net debt are used to measure balance sheet strength. Ensuring we have an appropriate capital structure to support our strategy is a key to our success.

#### Gearing



#### Free cash generation



See Strategic Priorities on page 9

### Return measures

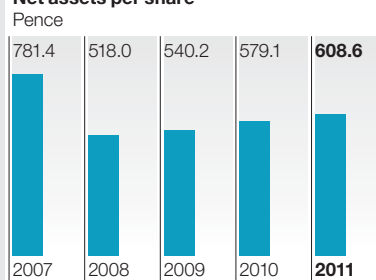
#### Relevance to business

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

#### Return on average capital employed



#### Net assets per share



\*2007–2011 stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment, if different, the figures are as follows:  
Return on average capital employed: 8.7% (2010: 10.1%; 2009: 6.2%; 2008: –23.1%; 2007: 21.6%)

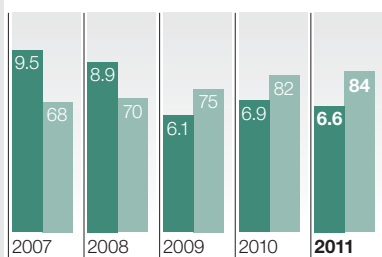
## Non-financial KPIs

### Waste generated per home sold

#### Relevance to business

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

■ Total waste per home sold: tonnes ■ Recycled: %



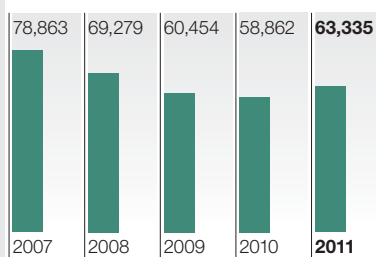
See Strategic Priorities on page 9

### Landbank

#### Relevance to business

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.

Plots



See Strategic Priorities on page 9

Persimmon successfully delivered improvement in underlying operating margin and free cash flow in line with our key strategic objectives.



Mike Killoran (left)  
Group Finance Director

Mike Farley  
Group Chief Executive



# £167,582\*

Persimmon Homes  
Average selling price  
(2010: £172,475)

## Persimmon

The Persimmon business legally completed 5,643 homes in 2011, 2.6% lower than the prior year. However, second half volumes were 7.7% higher than for the first half, a good recovery from the impact of the depleted forward sales brought into the year due to the flat autumn market in 2010.

Average selling price for the year of £167,582 (before shared equity fair value adjustment) was 2.8% lower than the prior year due to a change in sales mix, with a greater proportion of smaller houses being sold compared with the prior year, in part due to the introduction of the Government's FirstBuy shared equity initiative.

The North Division successfully grew volumes by 1.5% year on year to 1,996 legal completions at stable selling prices, the average selling price for the year being £160,766. Our North East businesses delivered good growth with sales revenue up 11% year on year and legal completions were 17% ahead.

We have continued to enjoy success in pulling through strategic land in the North with notable outcomes at Whinmoor in West Yorkshire with a detailed planning consent for 200 new homes, and at Carlisle in the North West for 150 units. The National Planning Policy Framework as drafted will provide the opportunity to make good progress with planning applications that enjoy solid local support.

The Central Division again delivered the highest number of legal completions within the Persimmon business with 2,012 new homes, despite volumes being 7% lower than the prior year. Average selling price for 2011 was £170,117, 3.7% lower than last year, although we saw improvement in the second half of the year to £173,667 due to a change in sales mix. The Shires region delivered the highest average selling price for the year at £216,012, selling a greater proportion of larger units, in particular from sites at Milton Keynes, Uxbridge and Stotfold.

The Central Division added to its long record of converting strategic land including a 145 unit scheme at Oundle in Northamptonshire and 178 new homes at Redditch. These new sites will deliver strong margins for the division in the future.

Right: Persimmon Homes  
at The Raleigh, Cambers  
Edge, Portsmouth,  
Hampshire

Below: Roebuck Park,  
Hailsham, East Sussex



\*Stated before fair value charge of £16.5m (2010: £16.7m) on shared equity sales

The South Division legal completions were similar to the prior year at 1,635 units. Good progress was made in the second half of the year with 6.7% higher volumes than in the first six months. Our standard house type portfolio has proved particularly effective in ensuring the South Division can offer an excellent choice of house types across its outlets. Whilst the average selling price for the year of £172,784 is 4.4% lower than last year this was again due to the greater number of smaller units being sold in the year.

We again enjoyed good success in securing planning permission on strategic land. The 783 unit scheme at Crawley near Gatwick and 1,650 plots secured at Plymstock in the South West will provide key anchor sites for the division in the future.

Our joint venture with St. Modwen continued with the first legal completions made this year in Birmingham. We are now operating on a further two sites and have five sites awaiting planning consent that will commence in 2012.

## Charles Church

Charles Church continued its record of outperformance growing sales by 6.9% year on year to 1,928 legal completions, and increasing total revenues by 5.0%. Average selling prices remained resilient at £225,251 for the year.

The Charles Church business has proved to be particularly robust as its customers tend to have greater access to mortgage credit to support the purchase of their home. Charles Church sales in 2011 have grown to 21% of the Group's volumes compared to 19% last year. Legal completions in the second half of the year were 22% higher than the first half.

We continue to successfully introduce both the Charles Church and Persimmon brands onto joint sites where appropriate, which increases our sales rates and return on capital in these locations.

We continue to invest in new land for Charles Church in the South East and have acquired sites where we will be selling new homes with an average selling price in excess of £1 million.

Below: Charles Church at Rowallan Castle, Ayrshire

Right: Charles Church at Machynys Bay, Llanelli, Wales

Below right: Willow Bank, Plumptre, Penrith, Cumbria



Right: Westbury Partnerships at Olton, Solihull, West Midlands

Below: Westbury Partnerships at Stowford Rise, Sidmouth, Devon



**£225,251\***

Charles Church  
Average selling price  
(2010: £229,213)

**£97,899**

Westbury Partnerships  
Average selling price  
(2010: £98,720)

## Westbury Partnerships

Our partnerships business has delivered a similar volume of affordable homes to our housing association partners year on year at 1,789 units.

Whilst the provision of social housing is undergoing significant restructuring by the current Government our average selling price has remained stable when compared to the prior year at £97,899.

The Government's root and branch review of social housing incorporates the housing benefit system as well as the reform of historical tenancy arrangements, allocation rules, rental levels and financing.

Our Westbury Partnerships business continues to develop in this evolving environment. We are progressively rolling out the Westbury Partnership brand across our regional businesses which will give us greater flexibility at an operational level and will further help develop the experience and capabilities necessary to provide the required level of service to our social housing partners.

We are pleased with the progress our partnership team has made in further strengthening the position of our partnership business. We were successful in securing c.£20 million of funding to support the delivery of 1,985 affordable homes nationwide under the Government's affordable housing programme in December 2011. These new homes will be built and occupied over the three years to March 2015. We have also been successful with the West Wiltshire Private Finance Initiative (PFI) for the provision of 240 houses on 8 sites. This PFI is unique as it involves the provision of land by both the local authority and private developer and will set the agenda for new ways of providing affordable housing in the future.

We believe demand for well designed social housing will continue to be robust. The Westbury Partnerships business is particularly well positioned with good forward visibility as we open new larger strategic sites.

\*Stated before fair value charge of £3.6m (2010: £2.9m) on shared equity sales

19%

Annual increase in  
Space4 production

£41m\*

Cash at 31 December 2011  
(2010: £51m debt)

## Space4

Space4, our factory producing our patented closed-panel timber frame system for the construction of new homes, continues to make solid progress. During 2011 Space4 sold over 3,250 new home kits, a 19% increase on the prior year. Group companies procured 98% of Space4 volume.

With the increase in production and further process improvement, the Space4 management team has increased its efficiency of operation and provided our operational businesses further opportunity to reduce their build costs and deliver improved site margins.

During the year we have invested in an additional wall production line, with commissioning targeted for the end of February 2012. This will provide additional capacity and resilience of operations in support of Group new home sales. We are already providing new product developments to fulfil the requirements of the new Building Regulations which are to be introduced in 2013 with respect to the thermal quality of new homes built.

## Net finance costs, cash flow and borrowings

For 2011 net underlying finance costs were £4.9m (2010: £33.2m), £28.3m lower than last year. This significant reduction in net finance costs resulted from the strong free cash generation in the year and the early repayment of our remaining Senior Loan Notes.

Total free cash flow after interest and tax for the year was £119m (2010: £226m). Average borrowings for the first six months of the year (net of cash balances) were £91m and £52m for the second half. We ended the year with £41m of cash balances.

In response to the Group's strong liquidity, on 25 March 2011 we used cash balances to prepay US Senior Loan Notes due between 2013 and 2016 with a face value of \$151m and UK Senior Loan Notes due 2021 with a face value of £51m. This gave rise to an exceptional charge to the income statement of £16.9m. At the same time we cancelled associated hedging contracts resulting in an exceptional gain of £7.1m to the income statement.

## Dividends

The Board of Directors has recommended a final dividend of 6.0p per share (2010: 4.5p) based upon the performance of the business in 2011 and current market conditions, an increase of 33% on the prior year. The 2011 dividend of 10.0p per share is covered 3.7x by underlying after tax profits, and is 33% higher than the prior year. The payment of future dividends is incorporated in the Capital Return Plan announced by the Board today.

## Balance sheet

The total net assets of the Group increased by £95 million during the year to £1,839m at December 2011 (2010: £1,744m). Net assets per share increased to 608.6p, an increase of 5% on last year (2010: 579.1p), reflecting the retained profit for the year, the post tax reduction in pension deficit of £5m, the payment of the final dividend for 2010 and the interim dividend for 2011 totalling £25.6m.

Underlying return on average capital employed increased to 8.3% from 6.9% last year.

At 31 December 2011 the book value of the Group's land was £1,484m (2010: £1,576m). This reduction of £92m on the prior year reflects the disciplined replacement of land through the year together with the net write back of £13.3m of stock impairment provision.

We have again reviewed the value of our land and work in progress for impairment at the year end. As selling prices remained reasonably stable through the year there was a net reversal of previous impairments due to some modest cost improvements. This gave rise to a net exceptional credit of £13.3m to the income statement which includes a gross reversal of c.£66.2m and an additional requirement of c.£52.9m across our owned land portfolio. At 31 December 2011 we retained an impairment provision of c.£191m. We remain confident that our assessment of the carrying value of our land and work in progress is realistic in the context of the difficult market conditions we face.

\*Stated before finance leases and financing transaction costs



**10.0p**

2011 Dividend (2010: 7.5p)

**8.3%\***

ROACE (2010: 6.9%)

Further details covering 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.

## Treasury policy and related risks

As disclosed earlier in relation to our strategic review one of our key considerations is the maintenance of a capital structure which optimises our cost of capital and which ensures that the business remains a going concern to support the delivery of returns to shareholders whilst enabling the Group to pay its liabilities as they fall due.

The Group manages its capital structure by changing the level of dividends paid to shareholders, issuing or repurchasing share capital and arranging debt and cash management facilities to meet liability payments. Head Office arranges all borrowing facilities and invests cash deposits at competitive rates with high quality institutions. Head Office manages the drawn credit lines of each operating business within overall facility limits.

On 1 April 2011 the Group agreed a new £300m syndicated five year Credit Facility which matures on 31 March 2016.

The Group's operations and debt financing can expose it to a number of financial risks including changes to debt market pricing, credit risk, interest rates and liquidity risks. Liquidity risk is fully addressed through securing flexible credit facilities with an extended maturity profile from a variety of sources. In the current market the Board has concluded that to remain highly liquid is the strongest position for the business. Gearing will be carried only on a short term basis for annual working capital requirements.

We exercise a detailed system for regularly reporting and forecasting the cash flows of the business to ensure risks are promptly identified and action taken. We have undertaken long term business modelling to support the design of the capital return to shareholders which will ensure relevant facilities are arranged at the appropriate time.

We believe that our cash resources and committed credit facilities provide adequate headroom and will support the development of the business in the future.

Below: Pembroke Gate,  
Shaftesbury, Dorset

Right: Willows Edge, North  
Bersted, West Sussex

Below right: Machynys Bay,  
Llanelli, Wales



\*Stated before exceptional items and goodwill impairment

**+55%\***

Increase in underlying  
pre-tax profits

**£1.54bn**

Revenue  
(2010: £1.57bn)

Persimmon pursues a well established risk management programme that is designed to limit the impact of other risks on the Group's financial performance. The Group does not use derivative financial instruments for speculative purposes. Details of the Group's financial instruments are disclosed in notes 20 and 22 to the financial statements.

## Summary

The performance of the business in 2011 has been robust and results from our focus on improving profits and cash generation. Persimmon is now in an enviable position with excellent asset backing and strong liquidity.

As key aspects of our markets change our management teams continue to adapt to take opportunities as they present themselves. We support the National Planning Policy Framework as currently drafted and consider the presumption in favour of sustainable development is necessary if the industry is to expand its output to build the new homes that the country needs whilst simultaneously creating new employment opportunities.

We look forward to rising to the challenges ahead both in further developing our business and in delivering the benefits of our operational success as enhanced returns to shareholders via the Capital Return Plan.

We are proud of the achievements of all our staff which result from their dedication, imagination and hard work. We thank all our teams for their contribution to the continued success of Persimmon.

**Mike Killoran**  
**Group Finance Director**

**Mike Farley**  
**Group Chief Executive**  
27 February 2012

\*Stated before exceptional items and goodwill impairment

# Principal Risks

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

Risk	Impact	Mitigation
<b>Strategy</b>	The Board has adopted its new 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 be 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.
<b>National and regional economic conditions</b>	The housebuilding industry is sensitive to changes in unemployment, 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.
<b>Mortgage availability</b>	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 with small deposits to purchase our homes.
<b>Regulatory compliance</b>	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 causing us to incur substantial costs and prohibit or restrict land development and construction. Non compliance could also result in damage to the Company's reputation.	We operate comprehensive management systems to ensure regulatory compliance and reduction in reputational risk, particularly relating to the health and safety of our workforce, customers and visitors. We hold a landbank sufficient to provide security of supply for short term requirements.
<b>Capital requirements</b>	Our ability to continue to manage our business may depend 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 an appropriate mixture of medium and long term debt facilities and bonding lines to ensure sufficient funds and bonding are available to support operations. The Group regularly reviews its forecast capital requirements to ensure these facilities are sufficient to support anticipated demands.

We have developed a strong approach to sustainability over the past decade. Our integrated approach to sustainability has six key corporate responsibilities which underpin our aim to provide mutual benefits for all our key stakeholders.

91%

Customer satisfaction  
(2010: 93%)

170,000

Trees planted  
(2010: 103,000)

## Putting customers first

Ensuring our customers' satisfaction and the provision of a seamless journey through the buying process and occupation of a new home are of paramount importance to our business. We invest heavily in training to ensure that our customers are provided with a quality home and excellent service.

Our customer charter, The Persimmon Pledge fully complies with the Consumer Code for Homebuilders and sets the standards of service which our customers can expect. During 2011 we introduced new procedures to further improve our customer service, such as requiring a regional office director to inspect each property prior to handover to a customer.

During 2011 we were able to provide 26% of our customers with a shared equity loan to buy their first property.

In 2011, 91% of our customers stated that they would recommend Persimmon to a friend. This percentage is slightly lower than in 2010, but maintains the high level of previous years.

Our customers' biggest challenge is obtaining an affordable mortgage, due to lenders requirements for a substantial deposit. We are able to offer our customers shared equity loans, which reduce the deposit required to buy a new home and makes our customers' cost of borrowing affordable. During 2011 we were able to provide 26% of our customers with a shared equity loan to buy their first property.

## Prioritising health and safety

Taking care of our employees, subcontractors and customers is a key priority for us and consideration of health and safety underpins all the construction work we undertake.

We take a proactive approach to monitoring and maintaining health and safety on all our developments, with regular inspections by our site and contract managers and our Group health and safety advisors.

We ensure that appropriate instruction, training and supervision are provided to all our employees, contractors and members of the public to promote a safe environment for anyone visiting our developments. During 2011 we provided 382 days of dedicated health and safety training, an increase of 37% on the previous year.

All health and safety matters are reviewed by senior management on at least a bi-monthly basis. The primary way that we ensure that our 24 operating businesses are working safely is through the results of regular inspection and audit. The results help us to identify areas of good practice and any issues of non-conformance that need to be addressed.

In 2011 Persimmon won the Outstanding Contribution to Training category at the Construction Health and Safety Group annual awards. Persimmon was recognised for its continued commitment to improving awareness of health and safety across the Group and delivering targeted training to employees and subcontractors to ensure a safer working environment.



2,512\*

Sustainable homes  
(2010: 2,077)

57%

Homes built on brownfield  
land (2010: 61%)

During 2011 the number of accidents reportable under the Reporting of Incidents Diseases and Dangerous Occurrences (RIDDOR) increased to 90 (2010: 59), which equates to an incident rate of 9.8 RIDDORs per 1,000 workers. We are naturally disappointed in these results and whilst investigations show no adverse trends in our approach to managing health and safety we will continue to concentrate on reducing the number of slips, trips and falls on our sites.

In 2012 our health and safety training will be engaging all our workforce, including subcontractors to ensure they recognise the hazards and risks associated with their work and to promote a stronger health and safety culture within our business.

### Building sustainable homes

We have been promoting a 'fabric first' approach to building sustainable homes. This means building new homes that are inherently efficient and are designed to be sustainable, rather than having to incorporate additional renewable technologies. The key to our approach is the use of modern methods of construction, such as our Space4 timber frame system. 34% of our homes sold in 2011

contained Space4 timber frames. Research has shown that homes using the Space4 system are 50% more energy efficient than the average UK home, offering environmental benefits as well as significant reductions in energy costs for our customers.

We have also found ways to improve the efficiency of traditionally built homes by improving insulation in walls, ceilings and floors. We use the Standard Assessment Procedure (SAP) system for measuring energy efficiency of our houses, which is adjusted by floor areas so that all houses, regardless of size, can be compared one against the other. In 2011 the average SAP rating for all homes we built was 84 (2010: 83). This score is substantially higher than the industry average of 79 and the average SAP rating for UK housing stock of 53.

The Government's Code for Sustainable Homes benchmarks homes using sustainability criteria covering areas such as energy efficiency, water consumption and materials used to give a Code rating of 1 to 6. In 2011 Persimmon built 2,512 homes assessed against the Code or its preceding EcoHomes standard, equating to 27% of our total output. The majority of these 2,512 homes met Code Level 3 or equivalent.

Below: Westbury Partnerships at Singers Knoll, Frome, Somerset

Right: The Beeches, Garthamlock, Glasgow

Below right: Stowford Rise, Sidmouth, Devon.



\*Built to Code for Sustainable Homes or EcoHomes standard



## Operating efficiently

During 2011 we have worked with the Government's Waste and Resources Action Programme (WRAP). Together with WRAP we have undertaken six site audits to identify variances in waste management across our business, as well as examples of best practice that could be shared. As a result we have updated our policy and procedures to reflect the audit findings.

WRAP are promoting a programme with the construction industry to halve waste to landfill by 2012. Since 2005 when we first started recording our data, we have reduced the amount of waste generated per home built by 38%, down from 10.8 tonnes per home in 2005 to 6.6 tonnes in 2011. At the same time we have increased the amount of waste recycled from 67% in 2005 to 84% last year. During 2011 we diverted over 52,000 tonnes of waste from landfill to recycling and since 2005 we have diverted almost 500,000 tonnes of waste from landfill to be recycled.

We monitor and manage our CO<sub>2</sub> emissions from energy used in our offices and development sites, as well as fuel used in our Company vehicles. Total energy consumption in our offices and on our development sites was 25 million kWh in 2011. This equates to 7,700 tonnes of CO<sub>2</sub>, a small increase on the prior year (2010: 7,500 tonnes). During 2011 our Company car fleet used 2.4 million litres of fuel, equating to 6,200 tonnes of CO<sub>2</sub>, which is unchanged since 2010.

Our total carbon footprint for 2011 was 13,900 tonnes of CO<sub>2</sub>, a small increase compared to 2010.

## Investing in our communities

As we plan and develop our new sites we often make a significant contribution to local communities through investment in new facilities and infrastructure through planning agreements with the local authority. During 2011 we invested over £24m in community facilities, mainly in new schools, highways, public open spaces and affordable housing. In our public open space and throughout our developments we pay considerable attention to new landscaping schemes and in 2011 we planted c.170,000 trees.

In the last year we have developed a new way of building modern, stimulating primary schools by securing a new site and building a new school before redeveloping the old school site for housing. Using our design expertise and procurement controls, we are able to build schools at a lower price than local education authorities. We have provided six bespoke new schools to communities, providing a dynamic new learning environment for more than 2,000 primary school pupils.

## Investing in our people

We encourage a culture that supports our employees to develop long and fulfilling careers with Persimmon. We train all our staff to ensure that they have the necessary skills and qualifications for their roles. Specific training requirements are identified for all employees and during 2011 we undertook 3,507 days of training covering areas such as sales and information technology, equating to 1½ days training for every member of staff.

We recognise the need to retain skills within our industry and so actively promote a programme to train young people who want a career in housebuilding with Persimmon. The FIRST Management Trainee Scheme has continued its success with a further 26 new trainees inducted into the Scheme during 2011. The Scheme is a four year programme which offers the opportunity to receive working experience whilst studying at college one day a week to obtain a Construction in the Built Environment (BTEC) qualification.

## Conclusion

In our 40th anniversary year I am sure that our robust approach to sustainability means that Persimmon is well placed to respond to future challenges.

Further information on our management structure, policies and procedures together with our 2011 Sustainability Report can be found on our website at [www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com)

**Neil Davidson**  
**Chairman**  
**Corporate Responsibility Committee**  
**27 February 2012**

# Chairman's Corporate Governance Introduction



I consider that good corporate governance for a public company starts with a stable and experienced board of directors with a diverse range of expertise and experience. Persimmon has been fortunate in having a stable Board, with only three Chief Executives and three Chairmen in the 26 years since the Company floated in 1985. The Board has set the standards and values expected of all its management and employees throughout the Group and continues to provide guidance to all its operating businesses to ensure good corporate governance.

The Board supports and has implemented the principles of the UK Corporate Governance Code 2010 (the Code). We believe that the principle of comply or explain which forms the basis of the Code remains important, particularly in these difficult economic times. I am pleased to report the Company complied with the Code throughout 2011.

The Company prides itself on the quality of its Board members. The executive Directors have extensive housebuilding experience and expertise with an average 21 years service with the Company and 12 years on the Board. The non-executive Directors have extensive experience in retail, property, regulatory fields, capital raising and financial markets and an average tenure of five years on the Board.

After an extensive search, the Board appointed Mark Preston as a Director of the Board on 9 January 2012. Mark's background and experience as Group Chief Executive of Grosvenor Group brings a wealth of commercial and residential property expertise outside of the new homes market to the Board.

David Thompson has informed the Directors of his intention to retire from the Board at the conclusion of the AGM in 2012. David joined the Board in 1999 and has served with distinction on the Board and its Committees and more latterly as Senior Independent Director. His wise counsel and objectivity will be hard to replace.

The Board held its annual strategy meeting in October 2011. The non-executive Directors have a considerable understanding of our business and the experience and personality to constructively advise and assist the executive Directors in formulating the Company's strategy. The Board's strategy, including the long term capital return of £1.9bn to shareholders over the next nine and a half years is set out in the Chief Executive's Review on pages 10 to 15. It also includes the Group's health and safety strategy and performance, and matters affecting the Group's reputation. During the year the Board also reviewed its attitude to risk and continues to maintain a conservative attitude to risk. The Board has approved a revised Risk Register and the Group's principal risks are set out on page 25.

The main governance priority for the Board during 2012 is succession planning, and we will be seeking the appointment of a new non-executive Director in due course. In making a new appointment we will be taking into account our diversity policy and the recommendations of the Davies Report to increase representation of women on boards by 2015. The Board will also be undertaking its first externally assisted Board evaluation during 2012 and the results will be reported next year.

**Nicholas Wrigley**  
Chairman  
27 February 2012

# Board of Directors

## Chairman and Executive Directors



**Nicholas Wrigley**

Chairman (age 56)

*Date of appointment*

Appointed to the Board on 1 February 2006 and as Chairman of the Board on 21 April 2011.

*Committee membership*

Chairman of the Nomination Committee and member of the Remuneration Committee.

*Experience*

Nicholas Wrigley is an Executive Vice Chairman of Rothschild London. He has over 25 years' mergers and acquisitions experience at Rothschild and is a qualified accountant.



**Mike Farley** BSC (HONS.) MCIOB FRICS

Group Chief Executive (age 58)

*Date of appointment*

1 January 1989.

*Committee membership*

Chairman of the Risk Committee.

*Experience*

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



**Mike Killoran** BA (HONS.) ACA

Group Finance Director (age 50)

*Date of appointment*

4 January 1999.

*Committee membership*

Member of the Risk Committee.

*Experience*

Mike Killoran joined the Company in 1996. A chartered accountant by profession, Mike worked in manufacturing, distribution and retail sectors before joining the Group. He took over his present role in April 1999.



**Jeff Fairburn**

Group Managing Director and North Division Chief Executive (age 45)

*Date of appointment*

1 June 2009.

*Committee membership*

Member of the Risk Committee.

*Experience*

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 East Regional Chairman in 2005, before assuming the role of North Division Chief Executive in 2006. In January 2012 he was appointed Group Managing Director with responsibility for Group operational functions and the Group's strategic landbank.

## Non-executive Directors



### David Thompson

Senior Independent Director (age 57)

*Date of appointment*  
10 August 1999.

*Committee membership*  
Member of the Nomination Committee.

#### Experience

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.



### Richard Pennycook

Non-executive Director (age 48)

*Date of appointment*  
14 March 2008.

*Committee membership*  
Chairman of the Audit Committee and a member of the Nomination Committee.

#### Experience

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.



### Neil Davidson CBE

Non-executive Director (age 61)

*Date of appointment*  
19 January 2004.

*Committee membership*  
Chairman of the Corporate Responsibility Committee and a member of the Nomination and Remuneration Committees.

#### Experience

Neil Davidson is Chairman of The Cricketer Publishing Limited and Eminate, a Nottingham University spin-out business, specialising in nano-technology. He is also a director of Competition Law Process Management. He was previously Chief Executive of Arla Foods UK Plc until he retired in June 2005.



### Jonathan Davie

Non-executive Director (age 65)

*Date of appointment*  
1 January 2010.

*Committee membership*  
Chairman of the Remuneration Committee and member of the Audit Committee.

#### Experience

Jonathan Davie is a non-executive Chairman of IG Group Holdings Plc and First Avenue 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.



### Mark Preston

Non-executive Director (age 44)

*Date of appointment*  
9 January 2012.

*Committee membership*  
Member of the Audit and Remuneration Committees.

#### Experience

Mark Preston, a chartered surveyor, is the Group Chief Executive of Grosvenor Group Limited, an appointment he took up in 2008. He is a non-executive Director of Sonae Sierra SGPS. He is also a board member of The Association of Foreign Investors in Real Estate, a Member of the (University of) Cambridge Land Economy Advisory Board and a Member of the Eurohypo International Advisory Board.

# Directors' Report and Corporate Governance Statement

The Board of Directors presents its Directors' Report incorporating the Corporate Governance Statement for the year ended 31 December 2011.

## The Board

### *Composition*

The Board comprises a non-executive Chairman, three executive Directors and five non-executive Directors. Nicholas Wrigley became Chairman at the AGM on 21 April 2011, succeeding the retiring Chairman John White. Mr Wrigley had been an independent non-executive Director for five years prior to his appointment and had previously been Chairman of the Remuneration Committee and a member of the Audit Committee. Mr Wrigley remains an Executive Vice Chairman of Rothschild London.

The executive Directors have extensive experience in the housebuilding industry. Mike Farley has been with the Group for 29 years and has served as Chief Executive for the last four years. Mike Killoran joined the Group in 1996 and has been Finance Director for the last 12 years. Jeff Fairburn joined the Group in 1989 and was appointed to the Board in June 2009, having risen through the ranks of the business.

The non-executive Directors have complementary skill sets, bringing substantial and diverse experience to the Board. Nicholas Wrigley and Jonathan Davie have considerable experience of the financial markets and capital raising; David Thompson and Richard Pennycook have extensive retail experience in their current roles as Chairman of Marston's plc and Finance Director of Wm Morrison Supermarkets plc respectively; Neil Davidson has extensive experience in the regulatory environment, particularly with regard to competition law; Mark Preston has extensive experience in retail, commercial and residential property as Chief Executive of Grosvenor Group Limited. Further information is provided in the Directors' Biographies on pages 30 and 31.

Together the balance of skills, experience and personal characteristics of the non-executive Directors result in a diversity of views and opinions to support the executive Directors and provide excellent advice and judgement on the formation and implementation of the Group's strategy. The Chairman encourages open and honest debate in the spirit of constructive challenge, which results in high quality decision making in all areas of strategy, performance, responsibility and accountability.

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

### *Key actions of the Board*

The Board held its annual strategy meeting in October. The Chief Executive and Finance Director presented their proposed strategy to the Board and the Board received a presentation from their financial advisors. The proposed new strategy was debated and tested before being finalised in February 2012. In particular the financial budgets were stress tested for substantial changes in matters such as house price movements and mortgage availability. The Board's approved current strategy is set out in the Chief Executive's Review on pages 10 to 15.

The Board met on seven occasions in 2011, including the annual strategy meeting. There was full attendance by all Directors at Board and Committee meetings during the year, except that Jonathan Davie was unable to attend one Board and one Audit Committee meeting due to prior commitments when the date of the meeting was changed.

The Board has a formal schedule of matters reserved for its consideration and decisions. 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 annually. The implementation of the Board's strategy and policies are delegated to the executive Directors and senior management within the Group.

### *Board diversity and independence*

During 2011 the Board requested the Nomination Committee review the succession planning for the Board, in particular non-executive Directors and consider a specific diversity policy for the Company.

The Company recognises that a diverse workforce can bring benefits to the Company and by the same measure, the Board recognises the value of diversity, including gender diversity, to the Board and its decision making process. When considering the nomination and appointment of new Directors the Nomination Committee evaluates nominees on the basis of skills, knowledge and experience in order to appoint new Directors on the basis of merit and overall suitability. Before any appointment is finalised, the Board will take into account the balance of skills, knowledge, experience and diversity on the Board.

Subject to the above principle, the Directors intend to work towards a meaningful percentage of women on the Board in line with the recommendation of Lord Davies' Report, taking into account the size of the Board. The Board has requested that the Nomination Committee considers a further appointment of a non-executive Director in line with its policy on diversity.



During the course of the year the Nomination Committee recommended to the Board and the Board approved the appointment of Mark Preston, Chief Executive of Grosvenor Group Limited as a non-executive Director. Mr Preston was appointed to the Board on 9 January 2012 and brings to the Board a wealth of retail, residential and commercial property experience, complementing the existing skills of the non-executive Directors.

The Senior Independent Director, David Thompson has served on the Board now for 12 years and has informed the Directors that he will retire at the AGM on 19 April 2012. When David Thompson retires, the Board has unanimously elected Richard Pennycook to succeed him as Senior Independent Director. Mr Thompson retires from the Audit and Remuneration Committees on 27 February 2012, but remains a member of the Nomination Committee. Mr Thompson was regarded as independent by the Board despite his length of service during 2011.

The Board considers the Chairman, Nicholas Wrigley was independent upon his appointment. It also considers the non-executive Directors Richard Pennycook, Neil Davidson, Jonathan Davie and Mark Preston to be independent. The non-executive Directors to be led by the new Senior Independent Director Richard Pennycook 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 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 may possibly conflict with the interests of the Company. No authority to authorise a conflict of interest has been required during 2011.

#### *Re-election of Directors*

In accordance with Code provision B.7.1 all Directors will stand for re-election at the forthcoming AGM except David Thompson who is retiring. The Board's reasons for supporting the re-election of the non-executive Directors Nicholas Wrigley, Richard Pennycook, Neil Davidson and Jonathan Davie are that they have individually produced excellent performance in their duties and shown a high level of commitment to their roles. Mark Preston having recently been appointed to the Board is also standing for election in accordance with Article 114 of the Company's Articles of Association. The Board considers that Mark Preston's knowledge and experience make him a valuable addition to the Board.

#### *Performance evaluation and professional development*

The Board undertakes a written self-evaluation of its performance on an annual basis. The Group Company Secretary provides the Chairman with a report on the Board's self-evaluation responses. The Chairman makes recommendations to the Board where appropriate to improve Board procedures and governance. In the past this led to the introduction of the Board's annual strategy meeting, together with 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 2011.

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 Chairman undertakes an annual verbal evaluation of the non-executive Directors.

The Board will be carrying out an externally assisted Board evaluation during 2012 in accordance with Code provision B.6.2.

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. As an example, Group Head Office Directors in charge of major support functions, such as IT and Health and Safety have made presentations to the Audit Committee during the past year.

## Nomination Committee

The current members of the Nomination Committee are Nicholas Wrigley (Chairman), David Thompson, Neil Davidson and Richard Pennycook. John White was a member of the Committee in 2011 until his retirement on 21 April 2011. The Committee met twice during 2011 to review and consider the composition of the Board and to make recommendations for a new diversity policy and the appointment of a new non-executive Director. There was full attendance by Directors at the Committee meetings.

The Committee did not use a recruitment agency or open advertising as it did not consider that this would have assisted in the recruitment of a high calibre non-executive Director with the right skills to complement the Board. The Committee recommended Mark Preston to the Board and he was subsequently appointed with effect from 9 January 2012. Mr Preston has undertaken a comprehensive induction with the Company and has had detailed discussions with the Chairman, Group Chief Executive, Group Finance Director, Chairman of the Audit Committee and the Group Company Secretary. Mr Preston is also undertaking a programme of visits to regional operating businesses and their new housing sites.

## 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 Jonathan Davie (Chairman), Nicholas Wrigley, Neil Davidson and Mark Preston, the latter being appointed on 27 February 2012. On Mr Wrigley's appointment as Chairman of the Board on 21 April 2011, he stepped down as Chairman of the Committee and Jonathan Davie became Chairman. David Thompson retires as a member of the Committee on 27 February 2012. Messrs Davie, Wrigley, Davidson and Thompson served on the Committee throughout 2011.

The Committee's key action was to ensure that the executive Directors' remuneration was aligned with the Company's strategic objectives, taking into account the current housing market outlook and economic environment.

The Committee met three times during 2011 to consider and approve the remuneration arrangements for the executive Directors and the Chairman. The Committee members all attended each meeting. Details of the remuneration package for each Director serving during 2011 are set out in the Remuneration Report on pages 41 to 49.

The Remuneration Report will be put to shareholders for approval at the AGM to be held on 19 April 2012.

## Audit Committee

The current members of the Audit Committee are Richard Pennycook (Chairman), Jonathan Davie and Mark Preston, the latter being appointed on 27 February 2012. Nicholas Wrigley was a member of the Committee until the AGM in 2011 when he stepped down on becoming Chairman. David Thompson retires as a member of the Audit Committee on 27 February 2012, having served on the Committee throughout 2011. Richard Pennycook, as Chairman of the Committee has recent relevant financial experience as Finance Director of Wm Morrison Supermarkets plc. Jonathan Davie and Mark Preston also have recent relevant financial experience in their current roles respectively as Chairman of IG Group Holdings Plc and Chief Executive of Grosvenor Group Limited.

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 auditor; the provision of additional services to the Group by the auditor and oversee the Group's relationship with them.

The Committee met on four occasions during 2011 and all members were in attendance at each meeting, save that Mr Davie did not attend one meeting. The Committee regularly meets the auditor 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 key actions of the Committee during the year have been:

- oversight of the Group's health and safety strategy and policies;
- assessment of the release of NRV provisions relating to the Group's landbank;
- the review of IT strategy and procedures;
- the publication of lead indicator reports bimonthly to monitor the significant risks faced by the Group;
- review of the Group Risk Register;
- appointment of new Group Risk Manager.

During 2011 the Committee reviewed and updated the Group Risk Register which has been approved by the Board. The Group's principal risks are set out on page 25.

The Committee formulates and oversees the Company's policy on monitoring external auditor objectivity and independence in relation to non-audit services. The auditor is excluded from undertaking a range of work on behalf of the Company to ensure that the nature of non-audit services performed or fee income relative to the audit fees does not compromise or is seen to compromise the

auditor's independence, objectivity or integrity. The auditor is therefore not allowed to carry out appraisal or valuation services, management functions and litigation support, actuarial services, legal, accounting or remuneration services on behalf of the Company. 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 auditor.

Details of the audit fee and fees paid to KPMG Audit Plc for non-audit services are on page 66.

The Group has had a whistle-blowing procedure in place for a number of years. The whistle-blowing telephone hotline is prominently advertised on Group notice boards 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.

## Terms of Reference

The Terms of Reference of the Audit, Remuneration and Nomination Committees are available on the Company's website [www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com) or from the Group Company Secretary at the Company's registered office.

## Risk Committee and internal control

Effective risk management is critical to the achievement of our objectives and the long term sustainable growth of our business.

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 2011 were Mike Farley, Mike Killoran, Jeff Fairburn and Divisional Chief Executives, David Thornton and Nigel Greenaway plus John White prior to his retirement. The Risk Committee is 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 Code provisions on internal control, having continued to operate 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 of preparing consolidated accounts.

Senior management from the Finance Department monitor the Group's financial management and reporting systems and regularly 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 auditor, ensuring that such reports and statements are accurate and complete and comply with all relevant legislation and regulations. Each operating business and Group 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 Department 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 Group Risk Register has been approved by both the Risk and Audit Committees.

The Risk Committee met five times during 2011, ensuring there has been an ongoing process for the identification, evaluation and management of the significant risks that are faced by the Company. The processes that the Risk Committee has applied in 2011 in reviewing the effectiveness of the system of internal control include the following:

- review of reports produced by the Group Risk Department on internal control and management of risk;
- review of reports from the Corporate Responsibility Committee (a sub-committee of the Risk Committee) with particular reference to reputational, environmental, sustainability and social risks facing the Group;
- review of representations 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 Group and divisional management.

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

- maintaining 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 forecast and financial budgets;
- involvement in each operating business' board discussions, particularly operational board meetings where all aspects of operation and performance were 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 2011 has been completed and approved by both the Risk and Audit Committees.

A detailed Group Risk Department programme of work for 2012 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.

## Relations with shareholders

The Directors recognise that it is important to maintain good relations with the Company's shareholders as they increasingly provide perspective on governance matters, as well as strategy and financial results. Mike Farley and Mike Killoran have responsibility for maintaining appropriate communications with institutional investors and analysts, advised by the Group's joint brokers Merrill Lynch and Citigroup and financial PR consultants Citigate Dewe Rogerson.

The Company issues regular trading and interim management statements to the London Stock Exchange as well as the publication of full and half year financial results. The Company provides shareholders with access to detailed presentations of results at its analysts' 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 Chairman and Senior Independent Director maintain contact with major shareholders to understand their issues or concerns. The Company monitors the constituents of its share register to ensure that its investor relations communications are appropriately targeted at its shareholder base. The Board is provided with reports and feedback from Directors' presentations and meetings with both shareholders and analysts. All Directors attend the Company's AGM and are available to answer questions at the meeting or privately.

## The UK Corporate Governance Code 2010

The Company complied with the Code throughout 2011 and continues to review its governance procedures to maintain proper control and accountability. The Code is available from the Financial Reporting Council, telephone 0207 492 2300 or online at [www.frc.org.uk](http://www.frc.org.uk).

## Other Disclosures

### *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, pages 2 to 28 of this Annual Report form the Business Review section of this Directors' Report. This Business Review 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.



*Results and dividend payment*

The Group's revenue for 2011 was £1,535.0m and its consolidated profit before taxation was £147.2m.

An interim dividend of 4.0p per share was paid to shareholders on 13 December 2011 and it is proposed to pay a final dividend of 6.0p per share on 15 June 2012 to shareholders on the register at the close of business on 11 May 2012, making a total for the year of 10.0p per share (2010: 7.5p per share). 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 2012. Further details are available from our Registrars, whose contact details can be found on page 97.

*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.

*Significant shareholdings*

As at 31 December 2011 and as at the date of this report the Company had been notified under the Financial Service Authority's Disclosure and 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
Ameriprise Financial Inc and subsidiaries	15,321,191	5.09	Direct & Indirect
AXA SA	14,923,488	4.97	Direct & Indirect
Templeton Foreign Fund	14,827,805	4.94	Indirect
Aberdeen Asset Management's subsidiaries	14,166,097	4.70	Indirect
BlackRock Inc	13,818,947	4.59	Indirect
Legal & General Group Plc	11,971,510	3.98	Direct

*Directors and Directors' interests*

The current Directors of the Company and their biographical details are shown on pages 30 and 31. John White was also a Director of the Company during 2011 until he retired from the Board on 21 April 2011. Mark Preston was appointed to the Board on 9 January 2012. 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 45.

The beneficial and non-beneficial interests of the Directors and their connected persons in the shares of the Company at 31 December 2011 and as at the date of this report are disclosed in the Remuneration Report on page 49. Details of the interests of the executive Directors in share options and awards of shares can be found on page 48 within the same Report.

*Appointment and replacement of Directors*

Directors shall be no less than two and no more than fifteen 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 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 Company's Articles of Association ('Articles') and the 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 Code provision B.7.1 the Board has determined that all Directors will in any event be subject to annual re-election by shareholders.

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

### *Capital structure*

The following description summarises certain provisions of the Articles (adopted by special resolution passed on 22 April 2010) and the Companies Act 2006. This is only a summary 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 27 February 2012 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 restrictions, whether in regard to dividend, return of capital, or 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 21 April 2011, shareholders gave Directors authority to issue up to 33.3% of the issued share capital (excluding shares held in Treasury at that date), being an aggregate nominal amount of £10,029,025 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 19 April 2012. 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.

*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*

One significant agreement contains provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company.

Under the £300 million credit facility dated 1 April 2011 disclosed in note 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.

'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 45.

*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 sale 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 2011 was 17 days (2010: 24 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](http://www.corporate.persimmonhomes.com).

The Company makes various benefit schemes available to employees, including a Savings-Related Share Option 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 grant of options.

### *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 or belief, gender, sexual orientation, political beliefs, marital or civil partnership status, age, pregnancy or maternity 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 £94,000 (2010: £93,000) to charitable organisations during the year largely to support the training of apprentice stonemasons at York Minster. Further details of the Group's community involvement and charitable activities can be found in the Sustainability Report on our website at [www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com). No political donations were made during the year.

### *Acquisition of own shares*

At the AGM held on 21 April 2011 shareholders granted the Company authority to purchase up to an aggregate of 30,117,192 of its own shares. No shares have been purchased to date under this authority and therefore at 31 December 2011 the authority remained outstanding. This authority expires on 19 April 2012 and a resolution to renew the authority will be put to shareholders at the forthcoming AGM.

At 1 January 2011, the Company held 1,419,508 shares in treasury (0.47% of the issued ordinary share capital at that date excluding treasury shares) which had previously been purchased under authorities granted by shareholders. During 2011 1,017,482 of these shares (representing 0.34% of the issued ordinary share capital excluding treasury shares at 31 December 2011) with a nominal value of £101,748 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 £2,414,155. At 31 December 2011 the Company held 402,026 shares in treasury, representing 0.13% 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 19 April 2012 at York Racecourse, Knavesmire Road, York YO23 1EX. The notice of the meeting and an explanation of the ordinary and special business is given in the accompanying circular.

### *Auditor*

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 auditor is 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 auditor is 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 50.

By order of the Board

**Neil Francis**  
**Group Company Secretary**  
**27 February 2012**

Persimmon Plc  
Company Registration Number: 1818486

# Remuneration Report

The Board of Directors presents its Remuneration Report for the year ended 31 December 2011. A resolution to approve this report will be proposed at the Annual General Meeting to be held on 19 April 2012. This report has been divided into two sections for audited and unaudited information. The first section 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 executive Directors are Mike Farley, Group Chief Executive, Mike Killoran, Group Finance Director and Jeff Fairburn, Group Managing Director.

The Committee's terms of reference are regularly reviewed by the Board and the current terms of reference were adopted on 23 February 2011. Copies of the terms of reference are available on the Company's website, [www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com) or from the Group Company Secretary.

The Committee is comprised of four non-executive Directors. Mark Preston is appointed to the Committee on 27 February 2012, replacing David Thompson who retires from the Committee on that date. The other Committee members served throughout the year to 31 December 2011.

	Date of appointment to the Committee	Date of retirement from the Committee
Jonathan Davie (Chairman)	1 Jan 2010	–
Nicholas Wrigley	18 Dec 2007	–
Neil Davidson	25 Feb 2004	–
Mark Preston	27 Feb 2012	–
David Thompson	19 Aug 1999	27 Feb 2012

Jonathan Davie was appointed Chairman of the Committee on 21 April 2011; prior to that date, Nicholas Wrigley was the Committee Chairman. The Committee met three times during 2011 to consider and approve the remuneration arrangements of the executive Directors and the Chairman. All members attended each meeting. No Director is involved in any discussion about his own remuneration.

During the year the Committee reviewed the remuneration policy for the executive Directors and the Chairman. They have:

- considered the level of the executive Directors' basic salaries;
- set the performance conditions and targets for the annual bonus scheme;
- agreed to introduce annual bonus clawback arrangements;
- considered whether to make awards under the Long Term Incentive Plan and the performance conditions attached to any awards;
- considered the executive Directors' pension arrangements; and
- considered the level of the Chairman's fees.

The Committee has also reviewed the remuneration of the Group's Divisional Boards (the level of management below board level) and of the Group Company Secretary. In carrying out its work during the year, the Committee has taken into account pay and employment conditions of Group employees generally.

## Remuneration policy for the executive Directors

The Committee's policy for the executive Directors' remuneration has not changed, except for the introduction of annual bonus clawback arrangements. The policy 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.

To achieve this policy the remuneration of the executive Directors is made up of 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, participation in an annual bonus plan, long term incentive plan awards, pensions and benefits.

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 advice from its independent remuneration consultants New Bridge Street ('NBS'), a trading name of Aon Hewitt (part of the Aon Corporation) who were appointed by the Committee. NBS is a signatory to the Remuneration Consultants Group Code of Conduct in relation to executive remuneration consulting in the UK.

Aon Hewitt also provides advice to the Company on the Group's pension schemes via its actuarial and pension consultancy division. The Committee does not consider that the independence of NBS is compromised by this appointment. In addition, the Committee consulted with Mike Farley, Group Chief Executive, although he did not participate in any discussion relating to his own remuneration.

Basic salary, pension and benefits are fixed elements of remuneration and are intended to be at market competitive levels, based on the executive Director's experience and responsibilities. Basic salaries are reviewed annually with increases taking effect from 1 January.

The annual bonus plan and long term incentive plan (LTIP) awards are performance related and intended to incentivise the executive Directors to achieve stretching performance targets over the medium and longer term and to align their interests with those of the shareholders.

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.

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 determines the performance conditions attached to new LTIP awards to ensure that the conditions are stretching and appropriate to current market conditions and the Company's strategy.

The Board's policy is to also make LTIP awards to senior management to incentivise them to achieve excellent long term financial performance, align their interests with the executive Directors and to help retain key individuals. The value of LTIP awards granted is based on seniority. The same performance conditions are attached to awards made to senior management as apply to awards made to executive Directors.

In addition, the Board has a policy to make invitations under the Company's Savings-Related Share Option 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 2011, 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 2012. 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 any long term incentive plan awards will provide 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. Performance related pay makes up a significantly higher proportion of remuneration for the executive Directors and senior employees than for employees generally, reflecting the role of these individuals in managing the business to achieve the Group's strategic targets.

If challenging performance conditions attached to variable pay are achieved in full, a significant proportion of an executive Director's remuneration package for 2012 will be performance related.

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 as follows.



## Basic salary

The Committee awarded Mike Farley and Mike Killoran a 3% increase in their basic salaries on 1 January 2012, after taking into consideration Group employees' salary increases in 2011 and general market conditions. Jeff Fairburn's salary was increased to £360,000 upon his promotion to Group Managing Director reflecting the increased responsibilities and duties his new position will involve, in addition to recognising his increased experience. Basic salaries are as set out below:

	2012	2011
Mike Farley	<b>£678,800</b>	£659,000
Mike Killoran	<b>£441,500</b>	£428,600
Jeff Fairburn	<b>£360,000</b>	£300,000

Generally, monthly paid employees throughout the Group received a 3% basic salary increase in 2011.

## 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 2011 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 £119m (where half the maximum potential would have been earned):

Target range	Profit measure for 2011	Bonus as a percentage of salary
Threshold	£101 million	5%
Target	£119 million	50%
Maximum	£150 million	150%

The Profit Measure for 2011 was £148.1m, and exceeded that of the previous year by 55%, as a result, annual bonus payments for 2011 will be made at 147% of basic salary.

The Committee has decided that annual bonuses for 2012 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 priorities, which as can be seen on page 9 of the Business Review, include continuing to rebuild profit margins, which supports the Capital Return Plan.

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.

The maximum bonus level which can be earned by the executive Directors will be capped at 150% of salary for 2012, which has not changed since last year. Consistent with best practice, to earn maximum bonuses, the executive Directors will need to meet very stretching performance levels above target.

Any bonus earned in excess of 100% of basic salary will be granted in awards under the Company's Bonus Share Scheme ('Bonus Shares'), which vest in two equal tranches one year and two years after the date on which the Bonus Shares were granted. A dividend equivalent is payable on awards that vest based on dividends with record dates occurring between date of grant and date of vesting.

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.

During the year the Committee agreed that in line with best practice, it would introduce a clawback arrangement for annual bonus earned from 1 January 2012. The clawback arrangement allows for the Committee to recover annual bonuses made due to an error or misstatement or if a Director is guilty of gross misconduct, which substantially affects the Company's financial performance or reputation.

## Long Term Incentive Plan ('LTIP')

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.

During 2011 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.

LTIP awards granted in 2009 are due to vest in April 2012. The performance conditions relating to these awards were half of the award based on TSR versus a comparator group of the constituents of the FTSE 250 Index (excluding investment trusts) as at the date of grant and half based on cash generation targets. The vesting schedule for the TSR condition was 25% of the award for median performance, with sliding scale increases until full vesting at or above upper quartile performance. The TSR condition has been partly met and 76% of this half of the awards will vest.

The cash generation performance target was £400m for 25% of this part of the award to vest, rising to £600m or more for full vesting of this part of the award. Actual cash generation over the three-year period was £710.8m and all of this half of the award will vest on the third anniversary of the date of grant. The total vesting on awards granted in April 2009 will therefore be 88%.

A dividend equivalent is payable on awards that vest based on dividends with record dates occurring between date of grant and date of vesting.

In view of the Board's new strategy, the Committee will be consulting major shareholders on a new long term incentive plan to incentivise executive Directors to achieve the Company's new demanding capital return plan targets. Following consultation the Board intends to call a general meeting to seek shareholder approval of the Committee's proposals.

No new long term incentive plan awards will be made until after the consultation has been completed. The Committee expects any awards made under a new long term incentive plan approved by shareholders to be linked to performance conditions based on Capital Return Plan targets.

## Pension

Basic salary is the only element of an executive Director's remuneration which is pensionable. The executive Directors are members of the Persimmon Plc Pension and Life Assurance Scheme (the 'Scheme'), the Group's main defined benefit pension scheme. Accrual in the Scheme is based on a career average revalued earnings basis for all members.

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 £450,077, 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 2012, the start of the Scheme year, Mike Farley's pensionable salary cap will increase by 3% to £463,579.

Mike Killoran is eligible to earn pension in the Scheme on his full basic salary for service between 6 April 2006 and 30 September 2010.

From 1 October 2010, following the government's announcement that it would lower tax allowances for pension saving, the Committee reviewed the pension provision for senior executives. It agreed to reduce Mike Killoran's pensionable salary to a level which would enable him to earn pension in the Scheme equal to the annual allowance.

Mike Killoran's current pensionable salary is £140,625. As a result of the reduction in Mike 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 capped pensionable salary for post 1 October 2010 service.

Jeff Fairburn is subject to a Scheme pensionable salary cap of £129,600, which increases on 1 July each year in line with increases in the Retail Price Index.

In addition Jeff 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 £80,303, being an amount which would take his pensionable accrual/contributions up to the annual allowance for tax relieved pension saving.

As a result Jeff Fairburn does not earn pension on his total basic salary; the Committee has agreed that he will also be paid a salary supplement of 9% of the difference between his pensionable pay 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 and who wish to limit their pensionable pay to the annual allowance.

## Other benefits

Benefit provision for executive Directors is comprised of fully financed cars or cash car allowance, membership of the Group private medical scheme, life assurance benefits, the Group income protection scheme, subscriptions and some telephone costs.

## All employee share scheme

The executive Directors may also participate in the Company's Savings-Related Share Option Scheme, which is open to all permanent employees who have more than six months' service.

## Executive Directors' service contracts

The Company's policy is for service contracts with executive Directors to be terminated on no more than 12 months' notice.

The dates of the executive Directors' service contracts are as set out below.

	Date of contract	Effective from	Notice period	Normal expiry
Mike Farley	24 April 2002	1 January 2002	12 months	60th birthday
Mike Killoran	24 April 2002	1 January 2002	12 months	60th birthday
Jeff Fairburn	4 August 2009	1 June 2009	12 months	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 and Bonus Share awards are not contractual entitlements and will only vest under the rules of those schemes in certain good leaver circumstances.

All of the Directors will retire at the 2012 Annual General Meeting and are offering themselves for re-election with the exception of David Thompson. Non-executive Directors do not have service contracts and their terms of appointment are set out on page 46.

## 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.

	Value of shareholding requirement	Current holding
Mike Farley	300% of basic salary	850% of basic salary
Mike Killoran	200% of basic salary	540% of basic salary
Jeff Fairburn	200% of basic salary	57% of basic salary

Mike Farley and Mike Killoran hold significantly more than the minimum. Jeff Fairburn does not currently hold the required minimum. He is required to retain shares received as a result of LTIP and other share option grants (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.

## 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 Chairman and/or the Group Chief Executive.

## Chairman

The Committee is also responsible for setting the Chairman's remuneration. Mr Wrigley has a letter of appointment dated 7 March 2011 to his role as Chairman. He will be paid a fee of £185,400 p.a. for 2012, an increase of 3% on his fee for 2011. Mr Wrigley does not receive any bonus, pension, salary supplement or share scheme awards or other benefits.

Mr Wrigley was not present when the Committee determined his fee level for his role as Chairman and does not participate in any discussion relating to his own remuneration.

John White who was Chairman until 21 April 2011 did not have a service contract, but had a letter of appointment dated 25 February 2009 to his role as Group Chairman.

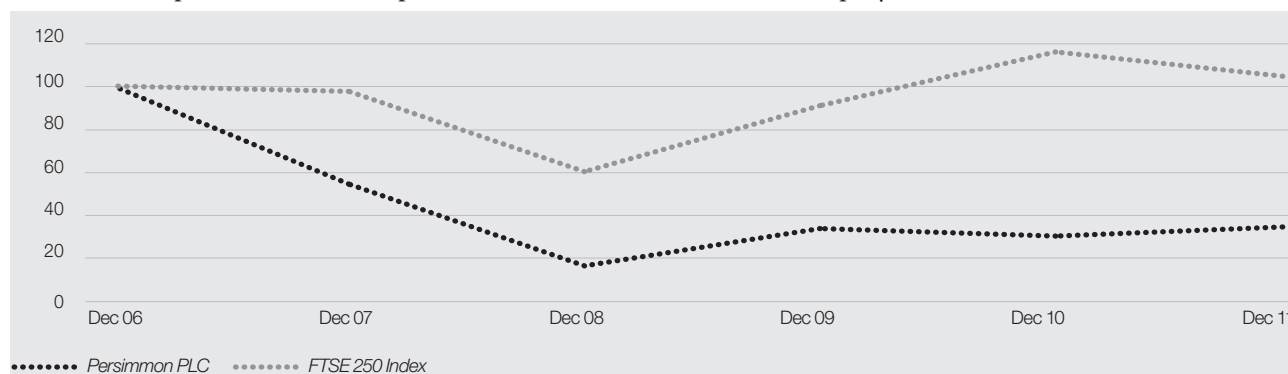
## Non-executive Directors

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 page 31 of the Directors' Report. The Board as a whole determines the fees of the non-executive Directors. The fees for 2012 have increased by 3% to £51,400 p.a., plus an additional fee of £9,160 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 2011 report as it is a broad index of which the Company is a member.



The auditor is required to report on the information contained in the following part of this report.

## Schedule of Directors' emoluments for the year ended 31 December 2011

	Salaries and fees £	Performance related cash bonus £	Benefits £	Salary supplement in lieu of pension £	Subtotal emoluments received £	Deferred bonus shares earned <sup>A</sup> £	2011 Total £	2010 Total £
<b>Chairman</b>								
N H T Wrigley	142,863	—	—	—	142,863	—	<b>142,863</b>	57,630
<b>Executive</b>								
M P Farley	659,000	659,000	31,518	197,700	1,547,218	309,257	<b>1,856,475</b>	1,492,780
M H Killoran <sup>‡</sup>	419,071	428,600	34,399	95,563	977,633	201,134	<b>1,178,767</b>	845,945
J Fairburn <sup>‡</sup>	288,606	300,000	19,153	4,054	611,813	140,785	<b>752,598</b>	508,406
<b>Non-executive</b>								
D G F Thompson	49,900	—	—	—	49,900	—	<b>49,900</b>	53,295
R C N Davidson	58,800	—	—	—	58,800	—	<b>58,800</b>	57,630
R J Pennycook	58,800	—	—	—	58,800	—	<b>58,800</b>	53,295
J Davie	56,073	—	—	—	56,073	—	<b>56,073</b>	48,960
<b>Former Chairman</b>								
J White <sup>†</sup>	100,567	—	288	—	100,855	—	<b>100,855</b>	296,668
<b>Totals</b>	<b>1,833,680</b>	<b>1,387,600</b>	<b>85,358</b>	<b>297,317</b>	<b>3,603,955</b>	<b>651,176</b>	<b>4,255,131</b>	<b>3,414,609</b>

<sup>‡</sup> 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 43.

<sup>†</sup> John White retired from the Board on 21 April 2011.

<sup>A</sup> The performance related bonus for 2011 has been earned as a result of the performance by reference to PBT (before exceptionals and goodwill). As set out in the policy section annual bonus earned for 2011 in excess of 100% of basic salary is awarded in Bonus Shares.

Mr J Millar, who retired as a Director in April 2006 received a fee for 2011 of £12,500 (2010 of £12,500) 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 fee of £7,500 (2010: £7,500) and benefits of £36,120 (2010: £36,419) for the year to 31 December 2011. Mr G Grewer, who retired as a Director in December 2001 received a fee of £40,000 (2010: £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 2010 £ p.a.	Total accrued pension at 31 December 2011 £ p.a.	Increase in accrued pension £ p.a.	Increase/ (decrease) in accrued pension (net of inflation) £ p.a.	Transfer value at 31 December 2010 £	Transfer value at 31 December 2011 £	Increase in transfer value, less member contributions £	Transfer value of net of inflation increase/ (decrease) in accrued pension less member contributions £
M P Farley	210,483	<b>213,300</b>	2,817	(3,709)	4,483,651	<b>5,223,047</b>	739,396	(90,830)
M H Killoran	67,168	<b>72,470</b>	5,302	3,308	1,012,574	<b>1,136,419</b>	123,845	51,874
J Fairburn	36,430	<b>39,623</b>	3,193	2,084	340,099	<b>364,757</b>	24,658	19,187

In addition the Company contributed £9,527 to Jeff Fairburn's Stakeholder Pension policy for the year to 31 December 2011 (2010: £11,601).

## Directors' interests in Long Term Incentive Plan awards and Savings-Related Share Scheme options

	1 January 2011	Granted in year	Exercised in year	Lapsed in year	31 December 2011	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 £
M P Farley	187,134	—	—	187,134	—	Mar 11	Mar 18	Dec 10	677.0p	—	—
	239,188	—	—	—	<b>239,188</b>	Apr 12	Apr 19	Dec 11	397.25p	—	—
	280,982	—	—	—	<b>280,982</b>	Mar 13	Mar 20	Dec 12	459.9p	—	—
	—	291,722	—	—	<b>291,722</b>	Apr 14	Apr 21	Dec 13	451.8p	—	—
Total	707,304	291,722	—	187,134	<b>811,892</b>						—
M H Killoran	91,285	—	—	91,285	—	Mar 11	Mar 18	Dec 10	677.0p	—	—
	2,944 <sup>(1)</sup>	—	2,944	—	—	Dec 11	May 12	—	326.0p	494.9p	4,972
	103,713	—	—	—	<b>103,713</b>	Apr 12	Apr 19	Dec 11	397.25p	—	—
	137,064	—	—	—	<b>137,064</b>	Mar 13	Mar 20	Dec 12	459.9p	—	—
	—	142,297	—	—	<b>142,297</b>	Apr 14	Apr 21	Dec 13	451.8p	—	—
	—	2,465 <sup>(1)</sup>	—	—	<b>2,465</b>	Dec 14	May 15	—	365p	—	—
Total	335,006	144,762	2,944	91,285	<b>385,539</b>						4,972
J Fairburn	13,888	—	—	6,944	<b>6,944</b>	Sep 11	Sep 18	Dec 10	360.0p	—	—
	2,944 <sup>(1)</sup>	—	2,944	—	—	Dec 11	May 12	—	326.0p	494.9p	4,972
	31,466	—	—	—	<b>31,466</b>	Apr 12	Apr 19	Dec 11	397.25p	—	—
	83,170	—	—	—	<b>83,170</b>	Mar 13	Mar 20	Dec 12	459.9p	—	—
	—	99,601	—	—	<b>99,601</b>	Apr 14	Apr 21	Dec 13	451.8p	—	—
	—	2,465 <sup>(1)</sup>	—	—	<b>2,465</b>	Dec 14	May 15	—	365p	—	—
Total	131,468	102,066	2,944	6,944	<b>223,646</b>						4,972
J White	187,134	—	—	187,134	—	Mar 11	Mar 18	Dec 10	677.0p	—	—
	2,944 <sup>(1)</sup>	—	—	2,944	—	Dec 11	May 12	—	326.0p	—	—
Total	190,078	—	—	190,078	—						—
Total											9,944

<sup>(1)</sup>Options granted under the Persimmon Plc Savings-Related Share Option Scheme 1998, all other awards were granted under the Persimmon Plc Long Term Incentive Plan 2007.

All options and awards were granted for nil consideration. The 2011 LTIP awards were made on 4 April 2011 and the 2011 Savings-Related Share Option Scheme grants were made on 12 October 2011.

Vesting of LTIP awards granted in 2008 was 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 2008 were not met and therefore awards lapsed in respect of these grants during 2011. The performance conditions relating to LTIP awards made in 2009 are set out on page 44.

The performance conditions for 2010 and 2011 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.

The closing price of a share in the Company at 31 December 2011 was 470.0p, the lowest closing price in 2011 was 374.0p and the highest closing price in 2011 was 518.5p.

## Directors' interests in shares

The interests of Directors serving at the end of 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	
	31 December 2011	1 January 2011	31 December 2011	1 January 2011
N H T Wrigley	<b>26,000</b>	4,000	–	–
M P Farley	<b>1,147,753</b>	1,147,753	<b>811,892</b>	707,304
M H Killoran	<b>475,758</b>	472,814	<b>385,539</b>	335,006
J Fairburn	<b>41,214</b>	38,270	<b>223,646</b>	131,468
D G F Thompson	<b>39,655</b>	39,655	–	–
R C N Davidson	<b>38,350</b>	38,350	–	–
R J Pennycook	<b>643</b>	643	–	–
J Davie	<b>10,000</b>	10,000	–	–
Total	<b>1,779,373</b>	1,751,485	<b>1,421,077</b>	1,173,778

The Directors' beneficial holdings represent 0.6% of the Company's issued share capital as at 31 December 2011 (excluding shares held in Treasury).

David Thompson has a non-beneficial interest of 12,155 ordinary shares (2010: 12,155 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 2011 and 27 February 2012.

By order of the Board

**Jonathan Davie**  
**Chairman Remuneration Committee**  
**27 February 2012**

# 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  
27 February 2012

**Mike Killoran**  
Group Finance Director

# 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 2011 set out on pages 52 to 93. 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 auditor's 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 50, 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](http://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 2011 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 32 to 40 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 37, in relation to going concern;
- the part of the Corporate Governance Statement on pages 32 to 40 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

27 February 2012

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

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	Before exceptional items £m	2011 Exceptional items (note 6) £m	Total £m	Before exceptional items £m	2010 Exceptional items (note 6) £m	Total £m
<b>Continuing operations</b>							
Revenue	5	1,535.0	–	<b>1,535.0</b>	1,569.5	–	1,569.5
Cost of sales		(1,312.0)	13.3	<b>(1,298.7)</b>	(1,374.7)	80.2	(1,294.5)
<b>Gross profit</b>		223.0	13.3	<b>236.3</b>	194.8	80.2	275.0
Other operating income		8.9	–	<b>8.9</b>	10.9	–	10.9
Operating expenses		(83.3)	–	<b>(83.3)</b>	(81.8)	–	(81.8)
Share of results of jointly controlled entities		–	–	<b>–</b>	0.2	–	0.2
<b>Profit from operations before impairment of intangible assets</b>		153.0	13.3	<b>166.3</b>	128.7	80.2	208.9
Impairment of intangible assets		(4.4)	–	<b>(4.4)</b>	(4.6)	–	(4.6)
<b>Profit from operations</b>	10	148.6	13.3	<b>161.9</b>	124.1	80.2	204.3
Finance income	9	7.5	7.1	<b>14.6</b>	6.0	7.4	13.4
Finance costs	9	(12.4)	(16.9)	<b>(29.3)</b>	(39.2)	(24.6)	(63.8)
<b>Profit before tax</b>		143.7	3.5	<b>147.2</b>	90.9	63.0	153.9
Tax	11.1	(37.3)	(0.9)	<b>(38.2)</b>	(21.0)	(17.6)	(38.6)
<b>Profit after tax</b> (all attributable to equity holders of the parent)	13	106.4	2.6	<b>109.0</b>	69.9	45.4	115.3
<b>Other comprehensive income</b>							
Net gain on cash flow hedges	9	–	–	<b>–</b>	0.6	–	0.6
Actuarial gains on defined benefit pension schemes	29	7.8	–	<b>7.8</b>	2.5	–	2.5
Tax	11.2	(3.0)	–	<b>(3.0)</b>	7.9	–	7.9
<b>Other comprehensive income for the year, net of tax</b>		4.8	–	<b>4.8</b>	11.0	–	11.0
<b>Total recognised income for the year</b>		111.2	2.6	<b>113.8</b>	80.9	45.4	126.3
<b>Earnings per share <sup>i</sup></b>							
Basic	13			<b>36.1p</b>			38.3p
Diluted	13			<b>35.9p</b>			38.1p
<b>Non-GAAP measures – Underlying earnings per share <sup>ii</sup></b>							
Basic	13			<b>36.8p</b>			24.8p
Diluted	13			<b>36.5p</b>			24.6p

<sup>i</sup> Earnings per share is calculated in accordance with IAS 33 'Earnings Per Share'.

<sup>ii</sup> Underlying earnings per share excludes exceptional items and goodwill impairment.

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



# Balance Sheets

At 31 December 2011

	Note	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	14	250.8	255.5	3.0	3.2
Property, plant and equipment	15	28.7	29.1	1.9	2.2
Investments accounted for using the equity method	16.1	3.0	2.8	–	–
Investments in subsidiaries	16.2	–	–	3,205.7	3,198.7
Available for sale financial assets	17	164.0	115.2	–	–
Trade and other receivables	19	2.7	3.0	–	–
Forward currency swaps	22	–	20.4	–	20.4
Deferred tax assets	23	25.2	38.6	21.7	33.8
		474.4	464.6	3,232.3	3,258.3
<b>Current assets</b>					
Inventories	18	2,003.4	2,073.2	–	–
Trade and other receivables	19	52.8	50.0	746.9	437.9
Forward currency swaps	22	–	7.1	–	7.1
Cash and cash equivalents		41.0	126.8	56.5	108.0
Current tax assets		–	–	3.2	–
Assets held for sale	15	2.0	2.9	–	–
		2,099.2	2,260.0	806.6	553.0
<b>Total assets</b>		<b>2,573.6</b>	<b>2,724.6</b>	<b>4,038.9</b>	<b>3,811.3</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Loans and borrowings	20	–	(155.5)	–	(155.4)
Trade and other payables	21	(94.0)	(122.0)	(0.7)	(0.5)
Deferred tax liabilities	23	(19.6)	(21.8)	–	–
Retirement benefit obligation	29	(59.5)	(98.3)	(59.5)	(98.3)
		(173.1)	(397.6)	(60.2)	(254.2)
<b>Current liabilities</b>					
Loans and borrowings	20	(0.1)	(48.4)	–	(48.2)
Trade and other payables	21	(482.4)	(463.3)	(3,137.4)	(2,655.9)
Current tax liabilities		(78.7)	(71.3)	–	(0.1)
		(561.2)	(583.0)	(3,137.4)	(2,704.2)
<b>Total liabilities</b>		<b>(734.3)</b>	<b>(980.6)</b>	<b>(3,197.6)</b>	<b>(2,958.4)</b>
<b>Net assets</b>		<b>1,839.3</b>	<b>1,744.0</b>	<b>841.3</b>	<b>852.9</b>
<b>Equity</b>					
Ordinary share capital issued	24	30.3	30.3	30.3	30.3
Share premium		233.6	233.6	233.6	233.6
Other non-distributable reserve		281.4	281.4	4.6	4.6
Retained earnings		1,294.0	1,198.7	572.8	584.4
<b>Total equity</b>		<b>1,839.3</b>	<b>1,744.0</b>	<b>841.3</b>	<b>852.9</b>

The financial statements on pages 52 to 93 were approved by the Board of Directors on 27 February 2012 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 2011

	Share capital £m	Share premium £m	Hedge reserve £m	Other non- distributable reserve £m	Retained earnings £m	Total £m
<b>Group</b>						
<b>Balance at 1 January 2010</b>	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
<b>Transactions with owners:</b>						
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)
<b>Balance at 31 December 2010</b>	<b>30.3</b>	<b>233.6</b>	<b>–</b>	<b>281.4</b>	<b>1,198.7</b>	<b>1,744.0</b>
Profit for the year	–	–	–	–	109.0	109.0
Other comprehensive income	–	–	–	–	4.8	4.8
<b>Transactions with owners:</b>						
Dividends on equity shares	–	–	–	–	(25.6)	(25.6)
Exercise of share options/share awards	–	–	–	–	(1.1)	(1.1)
Share-based payments	–	–	–	–	4.7	4.7
Satisfaction of share options from own shares held	–	–	–	–	3.5	3.5
<b>Balance at 31 December 2011</b>	<b>30.3</b>	<b>233.6</b>	<b>–</b>	<b>281.4</b>	<b>1,294.0</b>	<b>1,839.3</b>

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
<b>Company</b>					
<b>Balance at 1 January 2010</b>	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
<b>Transactions with owners:</b>					
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)
<b>Balance at 31 December 2010</b>	<b>30.3</b>	<b>233.6</b>	<b>4.6</b>	<b>584.4</b>	<b>852.9</b>
Profit for the year	–	–	–	2.1	2.1
Other comprehensive income	–	–	–	4.8	4.8
<b>Transactions with owners:</b>					
Dividends on equity shares	–	–	–	(25.6)	(25.6)
Exercise of share options/share awards	–	–	–	(1.1)	(1.1)
Share-based payments	–	–	–	4.7	4.7
Satisfaction of share options from own shares held	–	–	–	3.5	3.5
<b>Balance at 31 December 2011</b>	<b>30.3</b>	<b>233.6</b>	<b>4.6</b>	<b>572.8</b>	<b>841.3</b>

During the year the Company received dividends from wholly owned subsidiary undertakings of £9.5m (2010: £84.6m).

Retained earnings include £29.3m of non-distributable items (2010: £29.5m).

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

# Cash Flow Statements

For the year ended 31 December 2011

	Note	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
<b>Cash flows from operating activities:</b>					
Profit for the year		<b>109.0</b>	115.3	<b>2.1</b>	22.0
Tax charge/(credit) recognised in profit or loss	11.1	<b>38.2</b>	38.6	<b>1.1</b>	(11.3)
Finance income	9	<b>(7.5)</b>	(6.0)	<b>(0.2)</b>	(0.8)
Finance costs	9	<b>12.4</b>	39.2	<b>18.7</b>	34.0
Depreciation charge	15	<b>3.8</b>	4.5	<b>0.3</b>	0.3
Amortisation of intangible assets	14	<b>0.3</b>	0.3	<b>0.2</b>	0.3
Impairment of intangible assets	14	<b>4.4</b>	4.6	–	–
Impairment of investments	16.2	–	–	–	53.3
Share of results of jointly controlled entities	16.1	–	0.5	–	–
Profit on disposal of property, plant and equipment	10	<b>(0.4)</b>	(1.3)	–	(0.6)
Loss on disposal of assets held for sale	10	–	0.1	–	–
Share-based payment charge		<b>4.2</b>	3.4	<b>4.2</b>	3.4
Exceptional items	6	<b>(3.5)</b>	(63.0)	–	–
Other non-cash items		<b>2.5</b>	1.5	<b>1.8</b>	2.2
		<b>163.4</b>	137.7	<b>28.2</b>	102.8
Movements in working capital:					
Decrease in inventories		<b>83.0</b>	194.8	–	–
Decrease/(increase) in trade and other receivables		<b>7.9</b>	5.5	<b>(306.0)</b>	(175.0)
(Decrease)/increase in trade and other payables		<b>(42.6)</b>	25.9	<b>458.6</b>	70.5
Increase in available for sale financial assets		<b>(48.8)</b>	(47.2)	–	–
Cash generated from/(used in) operations		<b>162.9</b>	316.7	<b>180.8</b>	(1.7)
Interest paid		<b>(10.9)</b>	(30.1)	<b>(10.3)</b>	(18.2)
Payments on cancellation of swaps		–	(1.6)	–	–
Make-whole fees on early redemption of senior loan notes	6	<b>(15.3)</b>	(13.4)	<b>(15.3)</b>	–
Interest received		<b>0.2</b>	1.4	<b>0.1</b>	0.8
Receipts on cancellation of swaps	6	<b>7.1</b>	7.4	–	–
Tax (paid)/received		<b>(22.1)</b>	(54.9)	<b>5.2</b>	6.3
<b>Net cash inflow/(outflow) from operating activities</b>		<b>121.9</b>	225.5	<b>160.5</b>	(12.8)
<b>Cash flows from investing activities:</b>					
Investment in existing subsidiaries		–	–	<b>(7.1)</b>	–
Investment in existing jointly controlled entities	16	<b>(0.2)</b>	–	–	–
Capital redemption by existing subsidiaries	16	–	–	<b>0.1</b>	–
Purchase of property, plant and equipment		<b>(4.0)</b>	(3.3)	–	(0.5)
Proceeds from sale of property, plant and equipment		<b>1.1</b>	3.0	–	1.0
Proceeds from sale of assets held for sale		<b>0.6</b>	0.4	–	–
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(2.5)</b>	0.1	<b>(7.0)</b>	0.5
<b>Cash flows from financing activities:</b>					
Repayment of borrowings		<b>(41.4)</b>	(52.7)	<b>(41.4)</b>	(1.7)
Early redemption of senior loan notes		<b>(136.4)</b>	(174.4)	<b>(136.4)</b>	–
Financing transaction costs		<b>(3.7)</b>	–	<b>(3.7)</b>	–
Finance lease principal payments		<b>(0.5)</b>	(0.7)	<b>(0.3)</b>	–
Share options consideration		<b>2.4</b>	–	<b>2.4</b>	–
Dividends paid		<b>(25.6)</b>	(9.0)	<b>(25.6)</b>	(9.0)
<b>Net cash outflow from financing activities</b>		<b>(205.2)</b>	(236.8)	<b>(205.0)</b>	(10.7)
<b>Decrease in net cash and cash equivalents</b>	25	<b>(85.8)</b>	(11.2)	<b>(51.5)</b>	(23.0)
Cash and cash equivalents at the beginning of the year		<b>126.8</b>	138.0	<b>108.0</b>	131.0
<b>Cash and cash equivalents at the end of the year</b>	26	<b>41.0</b>	126.8	<b>56.5</b>	108.0

# Notes to the Financial Statements

For the year ended 31 December 2011

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

The following new and revised IFRSs and IFRICs have been adopted in these consolidated financial statements.

The application of these new and revised IFRSs and IFRICs 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.

- IAS 24 (revised) Related Party Disclosures. This modifies the definition of a related party and simplifies disclosures for government-related entities. This has had no impact on the Group's financial statements.
- Amendment to IAS 32 Classification of Rights Issues addresses the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. The Group is not currently involved in any arrangements that would fall within the scope of the amendments.
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement relates to the treatment of early payment of contributions to cover minimum funding requirements of a pension scheme. This has no relevance to the Group in the current period.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. The Group is not currently involved in any transactions of this nature.
- Improvements to IFRSs: in May 2010 the International Accounting Standards Board issued its third omnibus of amendments to its standards, which were designed to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. The improvements focus on areas of inconsistency in IFRSs or where clarification of wording is required. The adoption of these amendments, which are effective from 1 January 2011, did not have any impact on the reporting of the financial position or performance of the Group.

The Group has not applied the following revised IFRS that is EU endorsed but not yet effective:

- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets. Effective for annual periods beginning on or after 1 July 2011.

The Group is currently considering the implications of this amendment. It is 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 2 to 28. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 18 to 24 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.



## 2 Accounting policies (continued)

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 2011 the Group had cash and deposits of £41.0m and £300m of undrawn committed bank facilities available to meet future funding requirements.

At 31 December 2011, the net cash position of the Group was £40.9m (note 26).

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.

### *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 are 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.

## 2 Accounting policies (continued)

### *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.

### *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.

## 2 Accounting policies (continued)

### *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.

### *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.

## 2 Accounting policies (continued)

### *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 enters 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.

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.

## 2 Accounting policies (continued)

### *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 2010, 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 £80.2m. During the year ended 31 December 2011, 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 £13.3m. 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 £190.6m with an impairment of £4.4m recognised during the year.

### *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 2011.



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

#### *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. Asset valuation and 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 house prices, redemption dates, interest rates, unemployment levels and bankruptcy trends in the UK could result in actual returns differing from reported valuations. At 31 December 2011 the asset recognised on the balance sheet was £164.0m (2010: £115.2m).

#### *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 £3,205.7m (2010: £3,198.7m).

### 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:

	2011 £m	2010 £m
Revenue as noted in the statement of comprehensive income:		
Sale of goods	1,535.0	1,569.5
Other operating income	8.9	10.9
Finance income	14.6	13.4
Total revenue	1,558.5	1,593.8

Sale of goods includes £173.6m (2010: £114.9m) 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 £161.8m (2010: £87.2m).

## 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 £13.3m (2010: £80.2m). 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 25 March 2011 the Group used cash and committed credit facilities to prepay, with an applicable make-whole amount, US and UK Senior Loan Notes due between 2013 and 2021, with face values of \$151m and £51m. The prepayment resulted in an exceptional charge to the statement of comprehensive income of £16.9m, including £1.6m write-off of unamortised arrangement fees.

At the same time associated hedging contracts, including cross currency interest rate swaps with a principal amount of \$151m, were cancelled resulting in an exceptional gain of £7.1m in the statement of comprehensive income.

The total net cash payment in relation to the prepayment and cancellation of the loan notes and associated hedging contract was £145.9m.

Management anticipate cost savings over future periods to February 2021 which significantly exceed the initial cost.

## 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 41 to 49. A summary of key management remuneration is as follows:

	2011 £m	2010 £m
Short-term benefits	4.3	4.1
Post-employment benefits	0.1	0.2
Share-based payments	2.5	1.4
	6.9	5.7

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 2,432 (2010: 2,414).

	2011 £m	2010 £m
Staff costs (for the above persons):		
Wages and salaries	88.8	87.0
Social security costs	9.5	8.8
Pensions charge	5.5	6.1
Share-based payments	4.2	3.4
	108.0	105.3

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 142 (2010: 147).

	2011 £m	2010 £m
Staff costs (for the above persons):		
Wages and salaries	10.6	10.3
Social security costs	1.3	1.2
Pensions charge	1.9	2.3
Share-based payments	4.2	3.4
	18.0	17.2

## 9 Net finance costs

	Before exceptional items £m	Exceptional items (note 6) £m	2011 £m	2010 £m
<b>Recognised in profit after tax</b>				
Gain on cancellation of interest rate swaps	–	7.1	7.1	7.4
Interest receivable on bank deposits	–	–	–	0.6
Imputed interest on available for sale financial assets	7.4	–	7.4	4.7
Other interest receivable	0.1	–	0.1	0.7
<b>Finance income</b>	7.5	7.1	14.6	13.4
Interest expense on bank overdrafts and loans	6.6	16.9	23.5	54.4
Loss on cancellation of interest rate swaps	–	–	–	1.6
Imputed interest on deferred land payables	2.0	–	2.0	3.7
Change in the fair value of cash flow hedges transferred from equity	–	–	–	0.3
Other interest expense	3.8	–	3.8	3.8
<b>Finance cost</b>	12.4	16.9	29.3	63.8
<b>Net finance cost</b>	4.9	9.8	14.7	50.4

## 9 Net finance costs (continued)

	2011 £m	2010 £m
<b>Recognised in other comprehensive income</b>		
Change in the fair value of cash flow hedges transferred to statement of comprehensive income	–	0.3
Effective changes in fair value of cash flow hedges	–	0.3
	–	0.6

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

There was no hedging ineffectiveness in the period.

## 10 Profit from operations

	2011 £m	2010 £m
Profit from operations is stated after charging/(crediting):		
Staff costs (note 8)	108.0	105.3
Exceptional items (note 6)	(13.3)	(80.2)
Profit on sale of land holdings	(2.0)	(4.6)
Government grants	(10.0)	(10.3)
Rent receivable	(1.8)	(1.7)
Profit on sale of property, plant and equipment	(0.4)	(1.3)
Loss on sale of assets held for sale	–	0.1
Depreciation:		
– owned assets	3.7	4.2
– assets held under finance leases	0.1	0.3
Amortisation of intangible assets	0.3	0.3
Impairment of intangible assets	4.4	4.6
Operating lease charges	5.4	4.6

Government grants of £4.8m (2010: £13.7m) were received in the year relating to provision of affordable and first time buyer housing under the Government National Affordable Housing and Kickstart Programmes.

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

	2011 £'000	2010 £'000
<b>Audit fees</b>		
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	155	150
The audit of the Company's subsidiaries pursuant to legislation	67	40
Total fees for the audit of the Company and its subsidiaries	222	190
<b>Non-audit fees</b>		
Tax services	–	86
Other services	10	32
Total non-audit fees	10	118
	232	308

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 £32,900 (2010: £14,000).

## 11 Tax

### 11.1 Analysis of the tax charge for the year

	2011 £m	2010 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	34.4	43.5
Adjustments in respect of prior years	(4.9)	–
	29.5	43.5
Deferred tax relating to origination and reversal of temporary differences	7.4	0.8
Adjustments recognised in the current year in respect of prior years deferred tax	1.3	(5.7)
	8.7	(4.9)
	38.2	38.6

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

	2011 £m	2010 £m
Profit from continuing operations	147.2	153.9
Tax calculated at UK corporation tax rate of 26.5% (2010: 28.0%)	39.0	43.1
Accounting base cost not deductible for tax purposes	0.4	0.1
Goodwill impairment losses that are not deductible	1.2	1.3
Expenditure not allowable for tax purposes	1.8	0.2
Effect of change in rate of corporation tax	(0.6)	(0.4)
Adjustments in respect of prior years	(3.6)	(5.7)
Tax charge for the year recognised in profit or loss	38.2	38.6

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

	2011 £m	2010 £m
Recognised on actuarial gains on pension schemes	3.0	(8.1)
Related to hedged senior loan notes	–	0.2
	3.0	(7.9)

### 11.3 Deferred tax recognised directly in equity (note 23)

	2011 £m	2010 £m
<b>Arising on transactions with equity participants</b>		
Relating to equity-settled transactions	(0.5)	(0.2)

## 12 Dividends

	2011 £m	2010 £m
Amounts recognised as distributions to equity holders in the period:		
2011 interim dividend paid of 4.0p per share (2010: 3.0p)	12.1	9.0
2011 proposed final dividend of 6.0p per share (2010: 4.5p paid)	18.1	13.6

The proposed final dividend was approved by the Board of Directors on 27 February 2012 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 2011, in accordance with IAS 10 'Events After the Balance Sheet Date'. It will be paid on 15 June 2012 to shareholders who are on the register of members on 11 May 2012.

The Parent Company received £9.5m of dividends from wholly owned subsidiary undertakings during 2011 (2010: £84.6m).



### 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 Benefit Trusts (see note 24) and treasury shares, all of which are treated as cancelled, which were 301.3m (2010: 301.0m).

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 303.2m (2010: 302.9m).

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

	2011	2010
Basic earnings per share	<b>36.1p</b>	38.3p
Underlying basic earnings per share	<b>36.8p</b>	24.8p
Diluted earnings per share	<b>35.9p</b>	38.1p
Underlying diluted earnings per share	<b>36.5p</b>	24.6p

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

	2011 £m	2010 £m
Underlying earnings attributable to shareholders	<b>110.8</b>	74.5
Exceptional items net of related taxation	<b>2.6</b>	45.4
Goodwill impairment	<b>(4.4)</b>	(4.6)
Earnings attributable to shareholders	<b>109.0</b>	115.3

### 14 Intangible assets

Group	Goodwill £m	Brand £m	Know-how £m	Total £m
<b>Cost</b>				
<b>At 1 January 2010, 1 January 2011 and 31 December 2011</b>	<b>408.8</b>	<b>60.0</b>	<b>1.9</b>	<b>470.7</b>
<b>Accumulated impairment losses/amortisation</b>				
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 for the year	–	–	0.3	0.3
<b>At 1 January 2011</b>	<b>213.8</b>	<b>–</b>	<b>1.4</b>	<b>215.2</b>
Impairment losses for the year – utilisation of strategic land holdings	3.7	–	–	3.7
Impairment losses for the year – other	0.7	–	–	0.7
Amortisation charge	–	–	0.3	0.3
<b>At 31 December 2011</b>	<b>218.2</b>	<b>–</b>	<b>1.7</b>	<b>219.9</b>
<b>Carrying amount</b>				
<b>At 31 December 2011</b>	<b>190.6</b>	<b>60.0</b>	<b>0.2</b>	<b>250.8</b>
At 31 December 2010	195.0	60.0	0.5	255.5

Goodwill brought forward at the start of the year of £195.0m includes £158.5m (2010: £162.3m) 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. £37.0m (2010: £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.

## 14 Intangible assets (continued)

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.

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 -2% to +8% (2010: -1% to +14%), 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 -2% to +6% (2010: -1% to +4%).

After this period the growth rates applied to calculate the cash flow forecasts vary between nil and 3% (2010: nil and 3%) 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 5% and 8% (2010: 6% and 9%) 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 £3.7m (2010: £3.9m). 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 £117.5m (2010: £120.0m) and £35.4m (2010: £36.6m) of Beazer and Westbury goodwill allocated to strategic land holdings and £37.0m (2010: £37.0m) allocated to the Charles Church brand. In addition, there is £60.0m (2010: £60.0m) of carrying value in relation to the Westbury brand. The remaining £0.7m (2010: £1.4m) 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
<b>Cost</b>	
<b>At 1 January 2010, 1 January 2011 and 31 December 2011</b>	<b>5.0</b>
<b>Amortisation</b>	
At 1 January 2010	1.5
Charge for the year	0.3
At 1 January 2011	1.8
Charge for the year	0.2
<b>At 31 December 2011</b>	<b>2.0</b>
<b>Carrying amount</b>	
<b>At 31 December 2011</b>	<b>3.0</b>
At 31 December 2010	3.2

## 15 Property, plant and equipment

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
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 1 January 2011	21.6	41.3	12.1	75.0
Additions	–	3.7	0.3	4.0
Disposals	(0.1)	(3.6)	(0.9)	(4.6)
<b>At 31 December 2011</b>	<b>21.5</b>	<b>41.4</b>	<b>11.5</b>	<b>74.4</b>
<b>Accumulated depreciation</b>				
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 1 January 2011	1.8	32.7	11.4	45.9
Charge for the year	0.5	2.8	0.5	3.8
Disposals	(0.1)	(3.0)	(0.9)	(4.0)
<b>At 31 December 2011</b>	<b>2.2</b>	<b>32.5</b>	<b>11.0</b>	<b>45.7</b>
<b>Carrying amount</b>				
<b>At 31 December 2011</b>	<b>19.3</b>	<b>8.9</b>	<b>0.5</b>	<b>28.7</b>
At 31 December 2010	19.8	8.6	0.7	29.1
Assets held under finance lease:				
<b>Carrying amount at 31 December 2011</b>	<b>–</b>	<b>0.1</b>	<b>–</b>	<b>0.1</b>
Carrying amount at 31 December 2010	–	0.3	–	0.3

At 31 December 2011, the Group had no contractual commitments for the acquisition of property, plant and equipment (2010: £0.8m).

In 2009, the Group reclassified surplus office properties with a book value of £5.7m, as assets held for sale. During the year, one property with a value of £0.6m was disposed of. The value of the remaining unsold properties at 31 December 2011 of £2.0m (2010: £2.9m) is supported by external valuations, and all properties are being actively marketed.

## 15 Property, plant and equipment (continued)

Company	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
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 1 January 2011	1.9	0.1	3.8	5.8
Additions	–	–	0.1	0.1
Disposals	–	(0.1)	(0.4)	(0.5)
<b>At 31 December 2011</b>	<b>1.9</b>	<b>–</b>	<b>3.5</b>	<b>5.4</b>
<b>Accumulated depreciation</b>				
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 1 January 2011	0.3	0.1	3.2	3.6
Charge for the year	0.1	–	0.2	0.3
Disposals	–	(0.1)	(0.3)	(0.4)
<b>At 31 December 2011</b>	<b>0.4</b>	<b>–</b>	<b>3.1</b>	<b>3.5</b>
<b>Carrying amount</b>				
<b>At 31 December 2011</b>	<b>1.5</b>	<b>–</b>	<b>0.4</b>	<b>1.9</b>
At 31 December 2010	1.6	–	0.6	2.2
Assets held under finance lease:				
<b>Carrying amount at 31 December 2011</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Carrying amount at 31 December 2010	–	0.1	–	0.1

## 16 Investments

### 16.1 Investments accounted for using the equity method

Group	Investments in jointly controlled entities £m
<b>Cost</b>	
At 1 January 2010	3.3
Share of results of jointly controlled entities	(0.5)
At 31 December 2010	2.8
Share of results of jointly controlled entities	–
Investment in existing jointly controlled entities	0.2
<b>At 31 December 2011</b>	<b>3.0</b>

## 16 Investments (continued)

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 – Portugal	50%	31 December
Sociedade Torre de Marinha Realizacoes Turistocos SA – Portugal	50%	31 December
Empreendimentos Turisticos da Armacao Nova Lda – Portugal	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:

	2011 £m	2010 £m
Non-current assets	0.5	0.5
Current assets	5.2	5.2
Current liabilities	(2.7)	(2.9)
<b>Net assets of jointly controlled entities</b>	<b>3.0</b>	<b>2.8</b>

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

	2011 £m	2010 £m
Income	2.2	2.6
Expenses	(2.2)	(3.1)
	–	(0.5)
Tax	–	–
<b>Share of results of jointly controlled entities</b>	<b>–</b>	<b>(0.5)</b>

### 16.2 Investments in subsidiaries

Company	2011 £m	2010 £m
<b>Cost</b>		
At 1 January	3,533.7	3,533.7
Additional investment in existing subsidiary company	7.1	–
Redemption of preference capital by existing subsidiary company	(0.1)	–
At 31 December	3,540.7	3,533.7
<b>Impairment</b>		
At 1 January	335.0	281.7
Charge for the year	–	53.3
At 31 December	335.0	335.0
<b>Net book value</b>		
At 31 December	3,205.7	3,198.7

The annual review of the carrying value of the investment in subsidiaries identified no impairment issues (2010: £53.3m impairment).

Details of Group undertakings are set out in note 31.



## 17 Available for sale financial assets

Group	2011 £m	2010 £m
At 1 January	115.2	68.0
Additions	44.8	43.8
Redemptions	(3.3)	(1.3)
Imputed interest	7.3	4.7
At 31 December	164.0	115.2

Available for sale financial assets comprise loans, largely with either a ten or twenty-five year term 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 2011 (2010: £nil). None of the financial assets are past their due dates (2010: £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

	2011 £m	2010 £m
Land	1,484.2	1,575.8
Work in progress	427.8	413.5
Part exchange properties	39.1	32.8
Showhouses	52.3	51.1
	2,003.4	2,073.2

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.

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 2011. 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 £13.3m (2010: £80.2m). A reversal of £66.2m (2010: £127.8m) on inventories that were written down in a previous accounting period and an impairment of land and work in progress of £52.9m (2010: £47.6m) were recognised in the year. This reversal/charge 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 2010.

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 2011 review, £318.6m (2010: £433.1m) of inventories are valued at fair value less costs to sell rather than at historical cost.

Land with a carrying value of £354.7m (2010: £312.4m) was used as security for land payables (note 21).

The value of inventories expensed in 2011 and included in cost of sales was £1,266.5m excluding an exceptional impairment reversal of £13.3m on inventories that were written down in a previous accounting period (2010: £1,322.2m, excluding the £80.2m exceptional impairment reversal).

## 19 Trade and other receivables

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
<b>Non-current assets</b>				
Other receivables	2.7	3.0	–	–
<b>Current assets</b>				
Trade receivables	22.5	27.0	0.1	0.1
Other receivables	19.5	16.6	12.1	6.7
Amounts owed by Group undertakings	–	–	730.5	429.0
Prepayments and accrued income	10.8	6.4	4.2	2.1
	52.8	50.0	746.9	437.9

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.

	2011 £m	2010 £m
Ageing of overdue but not impaired receivables		
Less than 3 months	3.1	5.2
Over 3 months	0.4	1.4
	3.5	6.6

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

	2011 £m	2010 £m
Group		
At 1 January	3.3	6.5
Impairment losses charged	0.4	0.9
Amounts written off during the year as uncollectable	(0.1)	(2.7)
Impairment losses reversed	(0.3)	(1.4)
At 31 December	3.3	3.3

## 20 Borrowings

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
<b>Non-current liabilities</b>				
US, UK and EU senior loan notes	–	156.8	–	156.8
Finance lease obligations	–	0.1	–	–
Financing transaction costs	–	(1.4)	–	(1.4)
	–	155.5	–	155.4
<b>Current liabilities</b>				
US and UK senior loan notes	–	47.3	–	47.3
Other loan notes	–	1.2	–	1.2
Finance lease obligations	0.1	0.5	–	0.3
Financing transaction costs	–	(0.6)	–	(0.6)
	0.1	48.4	–	48.2

## 20 Borrowings (continued)

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	2011 £m	2010 £m
Bank overdrafts	GBP	Base +1%–3.25%	2011	–	–
Syndicated loan	GBP	LIBOR +1.625%	2016	–	–
UK senior loan notes	GBP	8.84%	2011–2021*	–	51.0
US senior loan notes	USD	8.15%–9.32%	2011–2016*	–	148.7
EU senior loan notes	EUR	6.52%	2011	–	4.4
Other loan notes	GBP	LIBOR –0.5%	2011	–	1.2
Finance lease obligations	GBP	7.00%–9.00%	2011–2012	0.1	0.6
Financing transaction costs				–	(2.0)
Carrying value of borrowings				0.1	203.9

\* Note: senior loan notes due 2013–2021 were repaid early during the year (see note 6).

Additional data on the maturity of financial liabilities and effective interest rates after consideration of these hedges is found in note 22. Hedges were 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 formed both a hedge of foreign exchange rate and interest rate risk.

Finance lease obligations – total minimum lease payments:

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Within one year	0.1	0.5	–	0.3
In the second to fifth years inclusive	–	0.1	–	–
Less: future finance charges	–	–	–	–
Present value of finance lease obligations	0.1	0.6	–	0.3

There are no finance lease obligations in excess of five years (2010: none).

## 21 Trade and other payables

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
<b>Non-current liabilities</b>				
Land payables	74.0	95.9	–	–
Other payables	20.0	26.1	0.7	0.5
	94.0	122.0	0.7	0.5

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
<b>Current liabilities</b>				
Trade payables	144.4	130.9	0.8	0.9
Land payables	125.7	99.9	–	–
Deposits and on account contract receipts	41.1	74.5	–	–
Other payables	26.6	28.2	7.7	4.9
Accrued expenses	144.6	129.8	17.5	18.9
Amounts owed to Group undertakings	–	–	3,111.4	2,631.2
	482.4	463.3	3,137.4	2,655.9

## 21 Trade and other payables (continued)

Trade payables subject to payment terms were 15 days (2010: 12 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 previously 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 applied a hedge accounting to these arrangements in order to minimise income statement volatility.

Following the repayment of all private placement loan notes during the year (see note 6) the Group no longer has any significant exposure to foreign exchange risk. All hedge derivative arrangements were terminated on repayment of these loan notes.

## 22 Financial risk management (continued)

### Currency risk

The Group has in previous years issued loan notes denominated in US Dollars and Euros. The currency risk of these instruments was offset by hedging arrangements entered into on issue of these loan notes, effectively swapping them into Sterling on issue. All such loan notes were repaid during the year and the related hedges cancelled (see note 6).

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:

	2011		2010	
	Average rate	Year end spot rate	Average rate	Year end spot rate
US Dollar	<b>1.603</b>	<b>1.546</b>	1.546	1.566
Euro	<b>1.153</b>	<b>1.195</b>	1.166	1.167

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

	2011		2010	
	USD \$m	Euro €m	USD \$m	Euro €m
Investments	–	<b>3.2</b>	–	3.0
Senior loan notes	–	–	(216.0)	(5.0)
Forward exchange contracts	–	–	216.0	5.0
Net exposure	–	<b>3.2</b>	–	3.0

### Sensitivity analysis

A rise/fall in the Euro/Sterling exchange rate of 10% would result in a £0.3m loss/gain in relation to investments (2010: £0.3m).

### Interest rate risk

The Group currently holds no fixed interest borrowings. This reflects both the low borrowing requirements of the Group and the current low interest rates applicable to floating borrowings. 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.

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

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Fixed rate	<b>0.1</b>	50.8	–	50.6
Floating rate	<b>(41.0)</b>	(1.2)	<b>(56.5)</b>	17.5
Net (cash)/debt	<b>(40.9)</b>	49.6	<b>(56.5)</b>	68.1



## 22 Financial risk management (continued)

### *Sensitivity analysis*

If in the year ended 31 December 2011 UK interest rates had been 0.5% higher/lower then the Group's pre-tax profit would have decreased/increased by £0.3m (2010: £0.5m). The Group's post-tax profit would have decreased/increased by £0.2m (2010: £0.4m).

These sensitivities have been prepared in respect of the direct impact of such an interest rate change on the net 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.

### *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 2011, 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 £8.2m (2010: £5.8m).

### *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 \$151m and £51m of Senior Loan Notes in advance of their due date with applicable make-whole amounts (see note 6). 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.

On 1 April 2011 the Group arranged a new five year £300m revolving credit facility committed to March 2016 which replaced the previous facility which was due to mature on 31 March 2012. Undrawn committed facilities at the reporting date amount to £300m (2010: £322.3m).

## 22 Financial risk management (continued)

### 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 cash/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 Board has proposed changes to the Group strategy in relation to shareholder returns as detailed on page 11.

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:

Group	2011 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Finance lease obligations	0.1	0.1	0.1	–	–	–
Interest bearing financial liabilities	0.1	0.1	0.1	–	–	–
Trade and other payables	335.6	338.4	316.7	5.0	12.6	4.1
Land payables	199.7	201.5	126.9	41.3	33.3	–
Financial liabilities	535.4	540.0	443.7	46.3	45.9	4.1

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

## 22 Financial risk management (continued)

Company	2011 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
Interest bearing financial liabilities	–	–	–	–	–	–
Trade and other payables	3,138.1	3,138.1	3,137.5	0.4	0.2	–
Financial liabilities	3,138.1	3,138.1	3,137.5	0.4	0.2	–

It is noted that £3,111.4m (2010: £2,631.2m) 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	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

*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 (2010: £nil).

## 22 Financial risk management (continued)

The maximum total credit risk is as follows:

Group	2011 £m	2010 £m
Trade and other receivables	44.7	46.6
Available for sale financial assets	164.0	115.2
Cash and cash equivalents	41.0	126.8
	249.7	288.6
<b>Company</b>		
Loans and receivables (including intercompany balances)	742.7	435.8
Cash and cash equivalents	56.5	108.0
	799.2	543.8

The maximum credit exposure of the Group to overseas parties is under £0.1m (2010: under £0.1m) (Company: £nil (2010: £nil)). The Group's credit risk is widely distributed. The maximum credit risk should any single party (excepting financial institutions) fail to perform is £3.1m (2010: £2.3m) and is not yet due (Company: £305.7m (2010: £224.0m) 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 £12.0m (2010: £35.9m).

### Fair value

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

Group	2011		2010	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	44.7	44.7	46.6	46.6
Available for sale financial assets	164.0	164.0	115.2	115.2
Cash and cash equivalents	41.0	41.0	126.8	126.8
UK senior loan notes	–	–	(50.0)	(51.0)
US senior loan notes	–	–	(148.7)	(148.7)
EU senior loan notes	–	–	(4.4)	(4.4)
Other loan notes	–	–	(1.2)	(1.2)
Finance lease obligations	(0.1)	(0.1)	(0.6)	(0.6)
Trade and other payables	(335.6)	(335.6)	(315.0)	(315.0)
Land payables	(199.7)	(199.7)	(195.8)	(195.8)
Forward currency swaps	–	–	27.5	27.5
Financing transaction costs	–	–	–	2.0
	(285.7)	(285.7)	(399.6)	(398.6)

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

## 22 Financial risk management (continued)

Company	2011		2010	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	742.7	742.7	435.8	435.8
Cash and cash equivalents	56.5	56.5	108.0	108.0
UK senior loan notes	–	–	(50.0)	(51.0)
US senior loan notes	–	–	(148.7)	(148.7)
EU senior loan notes	–	–	(4.4)	(4.4)
Other loan notes	–	–	(1.2)	(1.2)
Finance lease obligations	–	–	(0.3)	(0.3)
Trade and other payables	(3,138.1)	(3,138.1)	(2,656.4)	(2,656.4)
Forward currency swaps	–	–	27.5	27.5
Financing transaction costs	–	–	–	2.0
	(2,338.9)	(2,338.9)	(2,289.7)	(2,288.7)
Unrecognised loss		–		1.0

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

Financial assets and liabilities by category:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Financial assets held at fair value	–	27.5	–	27.5
Available for sale financial assets	164.0	115.2	–	–
Trade and other receivables	44.7	46.6	742.7	435.8
Cash and cash equivalents	41.0	126.8	56.5	108.0
Financial liabilities at amortised cost adjusted for the fair value of hedged risks	–	(151.7)	–	(151.7)
Financial liabilities at amortised cost	(535.4)	(563.0)	(3,138.1)	(2,708.3)
	(285.7)	(398.6)	(2,338.9)	(2,288.7)

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	2011			2010		
	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
Available for sale financial assets	–	164.0	164.0	–	115.2	115.2
	–	164.0	164.0	27.5	115.2	142.7

Company	2011			2010		
	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
	–	–	–	27.5	–	27.5



## 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 hedged only foreign currency denominated private placement loan notes. All hedging instruments were in the form of forward currency swap agreements, and the entirety of the Group's forward currency swap agreements were designated hedges. The fair value of hedging instruments is £nil (2010: an asset of £27.5m).

As foreign currency loan notes all bore fixed interest rates it was 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 hedged 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, hedged 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 had the effect of mirroring a UK LIBOR linked loan arrangement. These swaps were designated fair value hedges and hedged foreign currency risk.

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

There was no hedge ineffectiveness during the period.

During the year the Group repaid all private placement loan notes. The related hedges were cancelled at the same time (see note 6). As at 31 December 2011 the Group has no designated hedging contracts.

## 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 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)	1.0	(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 1 January 2011		2.9	26.6	1.2	2.2	–	(16.1)	16.8
(Charge)/credit to profit and loss	11.1	(0.7)	(8.7)	0.3	(0.5)	–	0.9	(8.7)
Charge to other comprehensive income	11.2	–	(3.0)	–	–	–	–	(3.0)
Amounts credited directly to equity	11.3	–	–	0.5	–	–	–	0.5
<b>At 31 December 2011</b>		<b>2.2</b>	<b>14.9</b>	<b>2.0</b>	<b>1.7</b>	<b>–</b>	<b>(15.2)</b>	<b>5.6</b>

## 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:

	2011 £m	2010 £m
Pension scheme	14.9	26.6
Other items, including capital allowances	10.3	12.0
Deferred tax assets	25.2	38.6
Brands	(15.0)	(16.2)
Other items, including capital allowances	(4.6)	(5.6)
Deferred tax liabilities	(19.6)	(21.8)
Net deferred tax asset	5.6	16.8

The Group has recognised deferred tax assets of £14.9m (2010: £26.6m) on the total pension deficit of £59.5m (2010: £98.3m).

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 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 1 January 2011	0.2	26.6	1.2	5.8	33.8
Credit/(charge) to profit and loss	0.2	(8.7)	0.3	(1.4)	(9.6)
Charge to other comprehensive income	–	(3.0)	–	–	(3.0)
Amounts taken directly to equity	–	–	0.5	–	0.5
<b>At 31 December 2011</b>	<b>0.4</b>	<b>14.9</b>	<b>2.0</b>	<b>4.4</b>	<b>21.7</b>

No deferred tax assets and liabilities have been offset (2010: £nil).

## 24 Share capital

	2011 £m	2010 £m
Allotted, called up and fully paid		
302,591,431 (2010: 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 to hold shares for participants of the Company's various share schemes. The Trustee is Persimmon (Share Scheme Trustees) Limited, a subsidiary company. During 2011, the Trustee made no market purchases of shares and transferred 90 shares to employees. At 31 December 2011 the trust held 737 shares (2010: 827) on which dividends have been waived. The market value of these shares at 31 December 2011 was £3,464 (2010: £3,447). At 31 December 2011 the Company held 402,026 (2010: 1,419,508) shares in treasury with a market value of £1.9m (2010: £5.9m) on which dividends are not payable.

## 24 Share capital (continued)

### Own shares

Own shares held at cost are reconciled as follows:

	Group £m	Company £m
Balance at 31 December 2010	11.8	11.8
Disposed of on exercise/vesting to employees	(8.9)	(8.9)
<b>Balance at 31 December 2011</b>	<b>2.9</b>	<b>2.9</b>

## 25 Reconciliation of net cash flow to net debt

Group	2011 £m	2010 £m
Decrease in net cash and cash equivalents	(85.8)	(11.2)
Decrease in debt and finance lease obligations	178.3	227.8
Decrease in net debt from cash flows	92.5	216.6
Non-cash movements	(2.0)	(15.5)
Decrease in net debt	90.5	201.1
Net debt at 1 January	(49.6)	(250.7)
Net cash/(debt) at 31 December	40.9	(49.6)

Company	2011 £m	2010 £m
Decrease in net cash and cash equivalents	(51.5)	(23.0)
Decrease in debt and finance lease obligations	178.1	1.7
Decrease/(increase) in net debt from cash flows	126.6	(21.3)
Non-cash movements	(2.0)	(13.8)
Decrease/(increase) in net debt	124.6	(35.1)
Net debt at 1 January	(68.1)	(33.0)
Net cash/(debt) at 31 December	56.5	(68.1)

## 26 Analysis of net debt

Group	2011 £m	Cash flow £m	Other non-cash movements £m	2010 £m
Cash and cash equivalents	41.0	(85.8)	–	126.8
US, UK and EU senior loan notes due within one year	–	40.2	7.1	(47.3)
US, UK and EU senior loan notes due after more than one year	–	136.4	20.4	(156.8)
Other loan notes due within one year	–	1.2	–	(1.2)
Forward currency swaps	–	–	(27.5)	27.5
Finance lease obligations	(0.1)	0.5	–	(0.6)
Financing transaction costs	–	–	(2.0)	2.0
Net cash/(debt) at 31 December	40.9	92.5	(2.0)	(49.6)

## 26 Analysis of net debt (continued)

Company	2011 £m	Cash flow £m	Other non-cash movements £m	2010 £m
Cash and cash equivalents	56.5	(51.5)	–	108.0
US, UK and EU senior loan notes due within one year	–	40.2	7.1	(47.3)
US, UK and EU senior loan notes due after more than one year	–	136.4	20.4	(156.8)
Other loan notes due within one year	–	1.2	–	(1.2)
Forward currency swaps	–	–	(27.5)	27.5
Finance lease obligations	–	0.3	–	(0.3)
Financing transaction costs	–	–	(2.0)	2.0
Net cash/(debt) at 31 December	56.5	126.6	(2.0)	(68.1)

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 £279m (2010: £278m), 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	2011 £m	2010 £m
Expiring within one year	0.8	0.2
Expiring in the second to fifth years inclusive	8.9	10.4
Expiring after five years	10.1	11.9
	19.8	22.5
Company as lessee		
Expiring within one year	0.2	–
Expiring in the second to fifth years inclusive	0.2	0.4
	0.4	0.4

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 1.6 years to expiry (2010: 2.2 years). Property leases have an average term of 5.5 years to expiry (2010: 6.6 years).

## 29 Retirement benefit obligations

At 31 December 2011 the Group operated three employee pension schemes, namely a stakeholder scheme and two defined benefit schemes. Actuarial gains and losses in the defined benefit schemes 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 £1.0m (2010: £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. Active members of the Persimmon Scheme accrue benefits on a career average revalued earnings basis. 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. 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.

### *Inflationary growth assumptions*

In December 2010 the UK Government passed 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. As disclosed in the financial statements for the year ended 31 December 2010, the Group's obligations in respect of deferred members and pensioners are complex, due to the merger of multiple schemes with differing member rights into the Persimmon Scheme, following various acquisitions. No gain was recognised at 31 December 2010 as the Directors were reviewing all pension obligations in detail to assess the effect of this change. During the period to 31 December 2011 the Group has concluded its review of the rights to inflationary pension increase of its different groups of scheme members. Where it has been concluded that there is no RPI obligation the actuarial assumptions have been amended to a CPI measure. The resulting gain of £32.5m from this change in assumption has been included within the actuarial gain recognised within other comprehensive income during the period.



## 29 Retirement benefit obligations (continued)

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):

	2011 % p.a.	2010 % p.a.
Discount rate	<b>4.90</b>	5.40
General pay increases	<b>3.10</b>	3.50
RPI Inflation assumption	<b>3.10</b>	3.50
CPI Inflation assumption	<b>2.10</b>	N/A
Pension increases – Limited Price Indexation	<b>2.90</b>	3.30
Expected return on Scheme assets:		
Equities	<b>8.00</b>	8.00
Bonds	<b>3.40</b>	4.75
Property	<b>7.00</b>	7.75
Other	<b>5.67</b>	4.25

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 2011.

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

	2011 %	2010 %
Equities	<b>50</b>	62
Bonds	<b>36</b>	33
Property	–	–
Other	<b>14</b>	5

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

	2011 £m	2010 £m
Current service cost	<b>2.8</b>	3.2
Curtailment credit	–	(0.9)
Interest cost	<b>21.5</b>	21.3
Expected return on scheme assets	<b>(19.8)</b>	(18.4)
Total (included in staff costs)	<b>4.5</b>	5.2
Actuarial gain recognised in other comprehensive income	<b>(7.8)</b>	(2.5)
Total defined benefit scheme (gain)/loss recognised	<b>(3.3)</b>	2.7

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 since the adoption of IAS 19 (Revised) is £49.8m (2010: £57.6m).

	2011 £m	2010 £m
Expected return on scheme assets	19.8	18.4
Actuarial (loss)/gain on scheme assets	(13.0)	9.1
Actual return on scheme assets	6.8	27.5

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

	2011 £m	2010 £m
Present value of funded obligations	(392.6)	(403.1)
Fair value of scheme assets	333.1	304.8
Deficit in the scheme and net liability in the balance sheet	(59.5)	(98.3)

A deferred tax asset totalling £14.9m (2010: £26.6m) 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:

	2011 £m	2010 £m
At 1 January	(98.3)	(114.4)
Total gain/(loss) recognised in the period	3.3	(2.7)
Company contributions paid in the period	35.5	18.8
At 31 December	(59.5)	(98.3)

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

	2011 £m	2010 £m
At 1 January	(403.1)	(387.3)
Current service cost	(2.8)	(3.2)
Interest cost	(21.5)	(21.3)
Actuarial gains/(losses) on liabilities	20.8	(6.6)
Gain on curtailment	–	0.9
Benefits paid	14.0	14.4
At 31 December	(392.6)	(403.1)

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

	2011 £m	2010 £m
At 1 January	304.8	272.9
Expected return	19.8	18.4
Actuarial (loss)/gains on assets	(13.0)	9.1
Contributions	35.5	18.8
Benefits paid	(14.0)	(14.4)
At 31 December	333.1	304.8

The Group has agreed to minimum contributions to the scheme during 2012 of £4.2m.

## 29 Retirement benefit obligations (continued)

A three year history of experience adjustments is as follows:

	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligation	<b>(392.6)</b>	(403.1)	(387.3)
Fair value of scheme assets	<b>333.1</b>	304.8	272.9
Deficit in the scheme	<b>(59.5)</b>	(98.3)	(114.4)
Experience adjustments on scheme assets	<b>(13.0)</b>	9.1	28.8
Percentage of scheme assets	<b>(3.9%)</b>	3.0%	10.6%

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

	2011 Years	2010 Years
Male current pensioner	<b>22.3</b>	22.2
Female current pensioner	<b>24.6</b>	24.4
Male future pensioner	<b>23.6</b>	23.5
Female future pensioner	<b>25.8</b>	25.7

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 Savings-Related Share Option 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 awards under the long term incentive plan (LTIP). Vesting of options granted under the LTIP is dependent upon:

1. Return on capital employed and TSR versus a comparator group of constituents of the FTSE 100 at the date of grant for options granted in March 2008;
2. 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 April 2009;
3. TSR versus a comparator group of constituents of the FTSE 250 at the date of grant and Profit Before Tax before exceptional items and amortisation for options granted in 2010 and 2011.

Options granted under the LTIP since September 2010 consisted of an HMRC approved LTIP award where appropriate, 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.

### 30 Share-based payments (continued)

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

	2011 Savings-Related Share Option Scheme		2010 Savings-Related Share Option Scheme	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
<b>Group and Company</b>				
Outstanding at the beginning of the year	1,763,139	355.1	1,660,468	387.1
Granted during the year	824,393	365.0	420,427	324.0
Forfeited during the year	(272,954)	(462.6)	(313,345)	(483.7)
Exercised during the year	(721,893)	(326.1)	(4,411)	(326.0)
Outstanding at the end of the year	1,592,685	354.9	1,763,139	355.1
Exercisable at the end of the year	206,676	326.0	78,878	742.7

	2011 Executive Share Schemes		2010 Executive Share Schemes	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
<b>Group and Company</b>				
Outstanding at the beginning of the year	19,550	388.1	19,550	388.1
Exercised during the year	(12,400)	(370.1)	–	–
Outstanding at the end of the year	7,150	419.5	19,550	388.1
Exercisable at the end of the year	7,150	419.5	19,550	388.1

	2011 Bonus Shares Scheme	2010 Bonus Shares Scheme
	Number of shares under option	Number of shares under option
<b>Group and Company</b>		
Outstanding at the beginning of the year	–	39,453
Exercised during the year	–	(39,453)
Outstanding at the end of the year	–	–
Exercisable at the end of the year	–	–

	2011 Long Term Incentive Plan Non HMRC Approved	2010 Long Term Incentive Plan Non HMRC Approved
	Number of shares under option	Number of shares under option
<b>Group and Company</b>		
Outstanding at the beginning of the year	3,283,781	2,595,936
Granted during the year	1,197,109	1,184,187
Forfeited during the year	(1,082,258)	(496,342)
Exercised during the year	(278,838)	–
Outstanding at the end of the year	3,119,794	3,283,781
Exercisable at the end of the year	61,952	–

## 30 Share-based payments (continued)

Group and Company	2011 Long Term Incentive Plan HMRC Approved		2010 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)
Outstanding at the beginning of the year	630,277	398.4	–	–
Granted during the year	360,869	452.1	636,552	398.4
Forfeited during the year	(106,991)	(412.1)	(6,275)	398.4
Outstanding at the end of the year	884,155	418.7	630,277	398.4
Exercisable at the end of the year	–	–	–	–

Group and Company	2011 Synergy Incentive Plan	2010 Synergy Incentive Plan
	Number of shares under option	Number of shares under option
Outstanding at the beginning of the year	–	581,250
Granted during the year*	–	149,010
Exercised during the year	–	(730,260)
Outstanding at the end of the year	–	–
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 472.6p (2010: 437.3p). The options outstanding at 31 December 2011 had a range of exercise prices from zero to 419.5p and a weighted average remaining contractual life of 1.7 years (2010: 1.6 years).

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

	LTIP 2011 Unapproved	LTIP 2011 Approved	LTIP 2011 Linked	SAYE 2011
Grant date	4 Apr 2011	4 Apr 2011	4 Apr 2011	12 Oct 2011
Risk free interest rate	1.86%	1.86%	1.86%	0.93%
Exercise price	nil	4.52p	nil	3.65p
Share price at date of grant	4.63p	4.63p	4.63p	4.89p
Expected dividend yield*	0%	0%	0%	1.8%
Expected life	3 years	3 years	3 years	3 years
Date of vesting	4 Apr 2014	4 Apr 2014	4 Apr 2014	12 Oct 2014
Expected volatility	45%	45%	45%	45%
Fair value of option	394p	151p	243p	185p

\* 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 2011, the Group recognised total expenses before tax of £4.2m (2010: £3.4m) 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. As at 31 December 2011 the total liability recognised in relation to equity settled share-based payments was £6.2m (2010: £6.8m) of which £0.3m (2010: £0.1m) related to options currently vested awaiting exercise. 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 2011. 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 <sup>°</sup>	Charles Church Developments Limited <sup>Δ</sup>	Westbury Limited <sup>**</sup>
Persimmon Holdings Limited <sup>*</sup>	Beazer Group Limited <sup>***</sup>	

<sup>°</sup> The shares of this company are held by Persimmon Holdings Limited and Persimmon Plc.

<sup>Δ</sup> The shares of this company are held by Persimmon Holdings Limited.

<sup>\*</sup> The shares of this company are held by Persimmon Finance Limited and Persimmon Plc.

<sup>\*\*</sup> The shares of this company are held by Persimmon Plc.

<sup>\*\*\*</sup> 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 41 to 49. 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:

	2011 £m	2010 £m
Interest charges on intra-group funding	11.8	9.9
Group services recharges	23.0	23.5
	34.8	33.4

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 2011 totalled £730.5m (2010: £429.0m). Amounts owed to subsidiary undertakings by the Company at 31 December 2011 totalled £3,111.4m (2010: £2,631.2).

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 2011 was £nil (2010: £204.1m). The Company has entered into guarantees over bank loans and borrowings of the subsidiary undertakings. The total value of such borrowings at 31 December 2011 was £nil (2010: £nil).

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2010: £nil).



# Directory

## **North Division Board**

*Jeff Fairburn*  
Division Chief Executive

*John Cassie*  
Regional Chairman

*David Jenkinson*  
Regional Chairman

*Persimmon Homes Yorkshire*  
*Charles Church Yorkshire*  
Persimmon House  
Fulford  
York YO19 4FE  
Telephone (01904) 642199  
Fax (01904) 656142  
Managing Director: Andrew Bowes

*Persimmon Homes West Yorkshire*  
*Charles Church West Yorkshire*  
3 Hepton Court  
York Road  
Leeds LS9 6PW  
Telephone (0113) 2409726  
Fax (0113) 2408967  
Managing Director: Wayne Gradwell

*Persimmon Homes West Scotland*  
*Partnerships Scotland*  
*Charles Church West Scotland*  
180 Findochty Street  
Garthamlock  
Glasgow G33 5EP  
Telephone (0141) 7662600  
Fax (0141) 7662605  
Managing Director: Douglas Law

*Persimmon Homes East Scotland*  
*Charles Church East Scotland*  
Unit 1  
Wester Inch Business Park  
Old Well Court  
Bathgate EH48 2TQ  
Telephone (01506) 638300  
Fax (01506) 638301  
Managing Director: Jim Kirkpatrick

*Persimmon Homes North West*  
*Charles Church North West*  
30-34 Crofts Bank Road  
Urmston  
Manchester M41 0UH  
Telephone 0161 7463737  
Fax 0161 7483272  
Managing Director: Neil Follows

*Persimmon Homes Lancashire*  
Persimmon House  
Lancaster Business Park  
Caton Road  
Lancaster LA1 3RQ  
Telephone (01524) 542000  
Fax (01524) 542001  
Managing Director: Mark Cook

*Persimmon Homes North East*  
*Charles Church North East*  
2 Esh Plaza  
Sir Bobby Robson Way  
Great Park  
Newcastle Upon Tyne  
NE13 9BA  
Telephone (0191) 238 9950  
Fax (0191) 238 9993  
Deputy Managing Director: John Eynon

*Persimmon Homes Teesside*  
*Charles Church Teesside*  
Persimmon House  
Bowburn North Industrial Estate  
Durham Road  
Bowburn  
County Durham DH6 5PF  
Telephone (0191) 3774000  
Fax (0191) 3774001  
Managing Director: Neil Foster

## **Central Division Board**

*David Thornton*  
Division Chief Executive

*Judith Potter*  
Division Finance Director

*Andrew Hammond*  
Regional Chairman

*Persimmon Homes North Midlands*  
*Charles Church North Midlands*  
Davidson House  
Meridian East  
Meridian Business Park  
Leicester LE19 1WZ  
Telephone (0116) 2815600  
Fax (0116) 2815601  
Managing Director: Paul Hurst

*Persimmon Homes West Midlands*  
*Charles Church West Midlands*  
Venture Court  
Broadlands  
Wolverhampton  
West Midlands WV10 6TB  
Telephone (01902) 787989  
Fax (01902) 624333  
Managing Director: Steve Hird

*Persimmon Homes South Midlands*  
*Charles Church South Midlands*  
Aspen House  
Birmingham Road  
Studley  
Warwickshire B80 7BG  
Telephone (01527) 851200  
Fax (01527) 851222  
Managing Director: Richard Oldroyd

*Persimmon Homes Midlands*  
*Charles Church Midlands*  
3 Waterside Way  
Bedford Road  
Northampton NN4 7XD  
Telephone (01604) 884600  
Fax (01604) 884601  
Managing Director: Andrew Hammond

### **South Division Board**

*Nigel Greenaway*  
Division Chief Executive

*Judith Potter*  
Division Finance Director

*Adrian Morgan*  
Regional Chairman

#### *Persimmon Homes East Midlands Charles Church East Midlands*

Persimmon House  
19 Commerce Road  
Peterborough Business Park  
Lynch Wood  
Peterborough PE2 6LR  
Telephone (01733) 397200  
Fax (01733) 397255  
Managing Director: Adrian Evans

#### *Persimmon Homes Thames Valley Charles Church Thames Valley*

Persimmon House  
Vanwall Business Park  
2 Vanwall Road  
Maidenhead  
Berkshire SL6 4UB  
Telephone (01628) 502800  
Fax (01628) 502801  
Managing Director: Ian Menham

#### *Persimmon Homes Essex Charles Church Essex*

10 Collingwood Road  
Witham  
Essex CM8 2EA  
Telephone (01376) 518811  
Fax (01376) 521145  
Managing Director: Duncan Jackson

#### *Persimmon Homes Anglia Charles Church Anglia*

Persimmon House  
Colville Road Works  
Oulton Broad  
Lowestoft  
Suffolk NR33 9QS  
Telephone (01502) 516784  
Fax (01502) 561656  
Managing Director: Andrew Fuller

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

11 De Havilland Drive  
Brooklands Business Park  
Weybridge  
Surrey KT13 0YP  
Telephone (01932) 350555  
Fax (01932) 350022  
Managing Director: Richard Matthews

#### *Persimmon Homes South Coast Charles Church South Coast*

Park View House  
100 Wickham Road  
Fareham  
Hampshire PO16 7HT  
Telephone (01329) 514300  
Fax (01329) 514333  
Managing Director: Andrew Golawski

#### *Persimmon Homes Wessex Charles Church Wessex*

Verona House  
Tetbury Hill  
Malmesbury  
Wiltshire SN16 9JR  
Telephone (01666) 824721  
Fax (01666) 826152  
Managing Director: Steve Roche

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

Churchward House  
Churchward Road  
Yate  
Bristol BS37 5NN  
Telephone (01454) 333877  
Fax (01454) 327123  
Managing Director: Carl Haley

#### *Persimmon Homes East Wales Charles Church East Wales*

Persimmon House  
Llantrisant Business Park  
Llantrisant  
Mid Glamorgan CF72 8YP  
Telephone (01443) 223653  
Fax (01443) 237328  
Managing Director: Steve Williams

#### *Persimmon Homes South West Charles Church South West*

Mallard Road  
Sowton Trading Estate  
Exeter  
Devon EX2 7LD  
Telephone (01392) 252541  
Fax (01392) 430195  
Managing Director: Simon Perks

#### *Persimmon Homes Southern Charles Church Southern*

Charles Church House  
Knoll Road  
Camberley  
Surrey GU15 3TQ  
Telephone (01276) 808080  
Fax (01276) 808081  
Deputy Managing Director:  
Danny O'Connor

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

34-37 Lambourne Crescent  
Cardiff Business Park  
Llanishen  
Cardiff CF14 5GG  
Telephone (02920) 768415  
Fax (02920) 761044  
Director in Charge: Andy Baker-Edwards

#### *Westbury Partnerships*

Tameside Drive  
Castle Bromwich  
Birmingham B35 7AG  
Telephone: 0121 748 8350  
Fax: 0121 748 3583  
Group Partnerships Director:  
Ashley Lane

#### *Space4 Ltd*

Tameside Drive  
Castle Bromwich  
Birmingham B35 7AG  
Telephone: 0121 748 8383  
Fax: 0121 776 7369  
Managing Director: Chris Hagan

# Shareholder Information

## Analysis of shareholding at 31 December 2011

Size of shareholding	Number of shareholders	%
1 – 5,000	10,318	92.09
5,001 – 50,000	528	4.71
50,001 – 250,000	189	1.69
250,001 and over	169	1.51
<b>Total</b>	<b>11,204</b>	<b>100.00</b>

## Share price – year ended 31 December 2011

Price at 31 December 2011	470.0p
Lowest for year	374.0p
Highest for year	518.5p

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

## Financial Calendar 2012

Annual General Meeting	19 April 2012
Interim Management Statement	19 April 2012
Shares ex-dividend	9 May 2012
Record date for final dividend entitlement	11 May 2012
Final date for receipt of dividend reinvestment plan elections	23 May 2012
Payment of final dividend 2011	15 June 2012
Trading Update	3 July 2012
Announcement of Half Year Results	21 August 2012
Interim Management Statement	13 November 2012

## Five Year Record

	2011*	2010*	2009*	2008*	2007
Unit sales	<b>9,360</b>	9,384	8,976	10,202	15,905
Revenue	<b>£1,535.0m</b>	£1,569.5m	£1,420.6m	£1,755.1m	£3,014.9m
Average selling price <sup>Δ</sup>	<b>£166,142</b>	£169,339	£160,513	£172,994	£189,558
Profit from operations	<b>£153.0m</b>	£128.7m	£57.2m	£198.3m	£657.3m
Profit before tax	<b>£148.1m</b>	£95.5m	£7.0m	£126.6m	£585.1m
Basic earnings per share	<b>36.8p</b>	24.8p	2.1p	35.3p	138.3p
Diluted earnings per share	<b>36.5p</b>	24.6p	2.1p	35.2p	137.6p
Dividend per share	<b>10.0p</b>	7.5p	nil	5.0p	51.2p
Net assets per share	<b>608.6p</b>	579.1p	540.2p	518.0p	781.4p
Total shareholders' equity	<b>£1,839.3m</b>	£1,744.0m	£1,623.2m	£1,555.2m	£2,345.4m
Return on capital employed	<b>8.3%</b>	6.9%	2.8%	6.4%	21.7%

All figures shown before goodwill amortisation/impairment where applicable.

\* 2008, 2009, 2010 and 2011 figures stated before exceptional items.

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

## Directors

Nicholas Wrigley  
Chairman

Mike Farley  
Group Chief Executive

Mike Killoran  
Group Finance Director

Jeff Fairburn  
Group Managing Director and  
North Division Chief Executive

David Thompson  
Senior Independent Director

Neil Davidson  
Non-executive Director

Richard Pennycook  
Non-executive Director

Jonathan Davie  
Non-executive Director

Mark Preston  
Non-executive Director

## Life President

Duncan Davidson founded Persimmon in 1972. The Company floated on the London Stock Exchange in 1985 and became the first pure housebuilder to enter the FTSE 100 in December 2005. Mr Davidson retired as Chairman in April 2006 and assumed the role of Life President.

## Company Information

Group Company Secretary  
Neil Francis

Registered office  
Persimmon House  
Fulford, York YO19 4FE  
Telephone (01904) 642199  
Fax (01904) 610014

Company number  
1818486  
Incorporated in England

Auditor  
KPMG Audit Plc

Bankers  
The Royal Bank of Scotland plc  
Lloyds TSB Bank plc  
Barclays Bank PLC  
HSBC plc  
National Australia Bank Ltd  
Santander UK plc

Financial advisors/stockbrokers  
Merrill Lynch International  
Citigroup Global Markets Limited

Solicitors  
Mayer Brown International LLP

Registrars  
Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone (0870) 7030178  
[www.investorcentre.co.uk](http://www.investorcentre.co.uk)

## Information to be found on our website



Find a home  
[www.persimmonhomes.com](http://www.persimmonhomes.com)  
[www.charleschurch.com](http://www.charleschurch.com)

A buyers' guide to  
Persimmon and Charles  
Church new homes.



Persimmon Group  
[www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com)

Financial and corporate  
information on the Group  
including current share  
price.



Recruitment  
[www.persimmonjobs.com](http://www.persimmonjobs.com)

Information on the careers  
and positions available  
within the Persimmon  
Group.



Corporate responsibility  
[www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com)

This section includes  
the Sustainability Report,  
our report on corporate  
responsibility and the  
sustainability of our  
new homes.



**Persimmon Plc**

Persimmon House

Fulford

York YO19 4FE

Telephone 01904 642199

Fax 01904 610014

E-mail [feedback@persimmonhomes.com](mailto:feedback@persimmonhomes.com)

**[www.persimmonhomes.com](http://www.persimmonhomes.com)**