



PERSIMMON PLC

Annual Report 2012

Creating *sustainable*
shareholder *value*

Persimmon is one of the leading UK housebuilders serving local markets with 24 offices across the country.

We sold 9,903 new homes in 2012.

Despite continued economic uncertainty the UK new homes market remains resilient, with good underlying demand.

We have a very strong balance sheet, improving margins, excellent cash generation and remain confident of our prospects.

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Highlights

Financial

Revenue +12%
(2011: £1.54bn)

£1.72bn

Profit before tax* +52%
(2011: £148.1m)

£225.1m

Free cash flow +49%
(2011: £119.4m)

£178.0m

Return of cash +650%
(2011 dividend: 10.0p)

75.0p

Operating margin* +30%
(2011: 10.0%)

13.0%

Operational

Homes sold +6%
(2011: 9,360)

9,903

Average selling price** +6%
(2011: £166,142)

£175,640

Average site numbers –4%
(2011: 390)

375

Forward sales*** +9%
(2012: £927.4m)

£1,010.3m

Landbank +8%
(2011: 63,335 plots)

68,200 plots

* Stated before exceptional credits of £2.8m (2011: £13.3m credit) and goodwill impairment of £6.1m (2011: £4.4m).

** Stated before fair value charge of £15.9m (2011: £20.1m) on shared equity sales.

*** As at 22 February 2013 (2012 figure as at 27 February 2012).

Chairman's Statement



Nicholas Wrigley, Chairman

Persimmon has made an excellent start to the delivery of the new long term strategic plan

Results

Persimmon made an excellent start to the delivery of its new long term strategic plan in 2012. Legal completion of new homes increased by 6% to 9,903 (2011: 9,360) year on year at an average selling price of £175,640 (2011: £166,142) stated before the fair value charge on our shared equity sales. Revenues of £1.72 billion (2011: £1.54 billion) increased by 12%.

The Group's profitability continues to improve and gross margins for 2012 of 17.5% (2011: 14.5%) were 3% higher than the prior year. This growth in profitability was driven by the opening of 125 new sites throughout 2012 as planned, along with the continued focus on operational improvement which resulted in strong control over build costs. Maintenance of our overhead efficiency has ensured this gross margin improvement translated into the same 3% gain in underlying operating margin* which was 13.0% (2011: 10.0%). The trend of continuing improvement in profitability led to the delivery of underlying operating margin* of 13.7% in the second half of 2012. As a result the Group's underlying operating profit of £223.2 million* (2011: £153.0 million) is 46% ahead of the prior year and underlying profit before tax* of £225.1 million (2011: £148.1 million) is up 52%. Underlying basic earnings per share* increased by 57% from 36.8 pence to 57.6 pence.

We continued to see good value in the land market and acquired c. 14,800 plots of land during 2012. Approximately 38% of these plots were successfully converted from our strategic landbank. At 31 December 2012 we owned and controlled 68,200 plots in our forward land bank, further

strengthening the platform for the future development of the business. We anticipate opening c. 90 new sites in the first half of 2013, a 40% increase on the first half of 2012.

The growth of the business in terms of both revenues and profitability delivered £179 million of free cash inflow before dividends. This performance highlights the balance within our business model, maximising the cash efficiency of both our land replacement activity and our trading and build activity to deliver superior cash returns for our shareholders. As a result we held £201 million of cash balances at 31 December 2012 (2011: £41 million cash) further strengthening our liquidity.

Long term strategy

On 27 February 2012 the Board announced the adoption of a new long term strategy designed to deliver greater certainty of returns to shareholders. The strategy aims to return £1.9 billion (£6.20 per share) of surplus capital to shareholders over a nine and a half year period ending in 2021, whilst at the same time building a stronger, larger business. Maintaining high quality land replacement through the housing cycle and maximising the conversion of strategic land assets into replacement plots within the Group's forward landbank will be critical to achieving this objective. The delivery of the strategy will be based upon strong free cash generation across the economic cycle, through the combination of achieving excellent levels of operating profitability and well judged land replacement. This will maximise our return on capital employed. At 31 December 2012 return on capital employed was 12.2%, a 47% improvement on last year's return of 8.3%. These results mark the completion of the first year of this strategic plan and represent a solid outperformance of our initial expectations.

Cash return to shareholders

The Board's long term strategy includes the return of surplus capital of £1.9 billion (£6.20 per share) to shareholders according to the following timetable:

Last Payment Date	Pence Per Share	Cash Payment to Shareholders (£m)
30 June 2013	75p	227
30 June 2015	95p	287
30 June 2017	110p	333
30 June 2019	110p	333
30 June 2020	115p	348
30 June 2021	115p	348
	620p	1,876

* Presented before goodwill impairment and exceptional items.

In accordance with the intended timetable, the Directors plan to return 75 pence in cash to shareholders for each ordinary share held at 6.00 pm on 19 April 2013. This first payment will be made on 28 June 2013, subject to shareholders' approval.

Following consultation with our shareholders, the Directors propose to offer the opportunity for shareholders (wherever possible) to choose whether to receive the cash as either a return of capital or as dividend income. It is anticipated that the cash payment, which in total amounts to approximately £227 million, will be returned by way of a B share/C share scheme. Full details of this B/C share proposal will be sent to shareholders, along with the AGM notice, on 18 March 2013.

Outlook

With the close of the 2012 autumn sales season our forward order book at the start of 2013 was c. 5% higher year on year at £645 million (2012: £615 million). We expect pricing to remain stable during 2013.

Whilst the restricted availability of mortgage credit continues, there are some encouraging early signs of slight improvements both in terms of accessibility and affordability. Lenders appear to be embracing the Government's Funding for Lending scheme, with increasing use of this facility reducing their funding costs and leading to some recent reductions in mortgage rates. We welcome the improved access to the housing market being supported by the Government through both the FirstBuy shared equity scheme for first time buyers and the NewBuy 5% deposit mortgage scheme for the wider new home market. We anticipate increasing our active outlet numbers to c. 390 sites by 30 June 2013 (from c. 375 currently) supporting the delivery of an increase in the number of new homes that we believe the country so desperately needs.

Since the start of 2013 sales have been encouraging and our weekly private sales rate per site is c. 3% ahead of last year over the first eight weeks of the year. Customer interest in our sites, as evidenced by our web site activity, is at an all time high. During the early weeks of 2013 visitor traffic to our sites is c. 4% higher than for the prior year. Cancellation rates so far in 2013 of c. 16% remain at historically low levels. We currently have total forward sales of £1,010.3 million (2012: £927.4 million) for 2013, including legal completions taken so far this year, which is 9% up on the prior year.

This strength in our forward order book gives us confidence that our underlying operating margins will continue to improve towards our medium term target of 15%–17%, albeit the pace of improvement will be at a slower rate than that we have recently experienced.

Board

As announced on 8 January 2013 Mike Farley is to retire at the Company's AGM in April 2013 with Jeff Fairburn, Group Managing Director, succeeding him as Group Chief Executive.

I would like to take this opportunity on behalf of the Board to thank Mike Farley for the very significant contribution he has made to the success of Persimmon over almost 30 years with the Group, the last seven of which as our Group Chief Executive. He led the business with great distinction and has established a very strong management team. He leaves a business with a very clear strategy and a robust platform from which its future success will be secured. We congratulate Mike on his many achievements and wish him a happy and fulfilling retirement.

Neil Davidson, who has been a non-executive Director for nine years, will also retire from the Board at the AGM. We thank Neil for his valuable contribution to the Company.

As also announced on 8 January 2013 Nigel Greenaway, the South Division Chief Executive, was appointed to the Board as an executive Director, and Marion Sears was appointed as a non-executive Director. We welcome them both to the Board.

2012 represents a great start to the delivery of Persimmon's long term strategy. The results for the year stand as testimony to the determination and hard work of all Persimmon management and employees. On behalf of the Board I thank all the Persimmon team, including its advisors and contractors, for their efforts and dedication and I remain confident of our future success.

Nicholas Wrigley
Chairman
22 February 2013

Our Business

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

National presence through a network of 24 regional offices.

North Division

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

Units sold: 4,718

Landbank: 31,598

Offices: York, Leeds, Glasgow, Bathgate, Manchester, Lancaster, Newcastle Upon Tyne, Durham, Wolverhampton, Peterborough, Leicester and Lowestoft

South Division

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

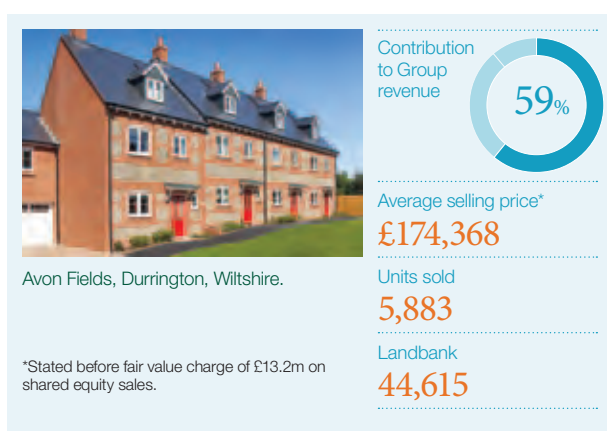
Units sold: 5,185

Landbank: 36,602

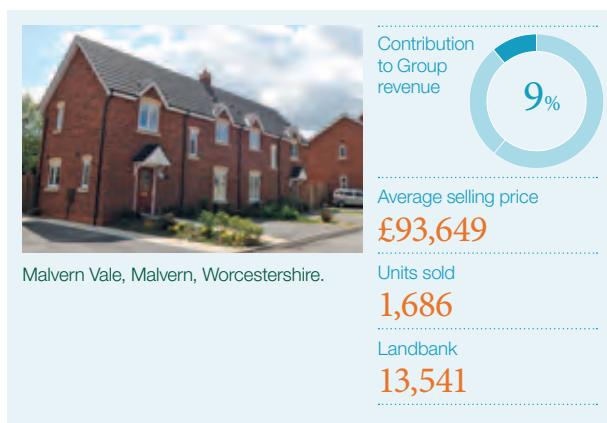
Offices: Studley, Northampton, Witham, Maidstone, Camberley, Fareham, Maidenhead, Malmesbury, Bristol, Exeter, Llantrisant, Swansea, and Space4 in Birmingham



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.



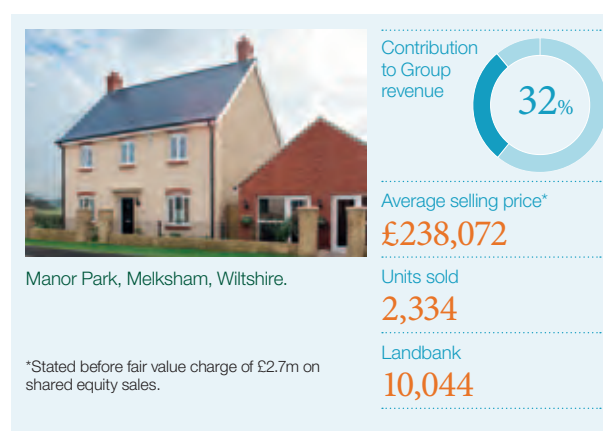
Westbury Partnerships housing sales to Housing Associations from our regional office network accounted for 17% of our new homes sales in 2012.



CHARLES CHURCH

THE NAME ON THE FINEST HOMES

Charles Church is one of the country's foremost house building brands with an unrivalled reputation for the design and quality of the homes it builds. Charles Church provides a range of premium homes, in both modern and traditional styles from our 24 regional offices.



...fast-track construction system

Space4 operates the largest automated timber frame manufacturing plant in the UK. Patented foam insulation injection moulded timber frames were used in a third of the homes we built in 2012, achieving excellent energy compliance under the Code for Sustainable Homes.









How We Create Value

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



Our Strategic Priorities

Our objective is to deliver our Capital Return Plan to shareholders whilst building a larger stronger business. Our strategic priorities are set out below.

Improving margins  See Profit measures on page 14	<ul style="list-style-type: none"> Continue to control development costs Acquisition of new land at attractive prices Conversion of strategic land at enhanced margins Maximise sale prices Re-plan existing sites 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We continue to review our business processes to control costs and improve 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
Selective new site acquisitions  See Landbank on page 15	<ul style="list-style-type: none"> Increased southern exposure More traditional site layouts Appropriate product mix 	<ul style="list-style-type: none"> We reduce our exposure to local market volatility by maintaining operations across markets throughout the UK to enhance our sales potential. 	<ul style="list-style-type: none"> We acquire new sites in locations where our market experience confirms good levels of customer demand for new homes. 	<ul style="list-style-type: none"> We 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. 	<ul style="list-style-type: none"> We undertake selective new site starts to ensure that we have the right product availability in the right locations across the UK.
Strong cash generation  See Cash and cash flow measures on page 15	<ul style="list-style-type: none"> Appropriate capital structure Capital discipline Deliver returns to shareholders Minimise finance costs Good flexibility 	<ul style="list-style-type: none"> The housing market continues to be constrained by the lack of mortgage availability. Our strategy of cash generation, will continue to maintain liquidity and an appropriate capital structure. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We consider that a landbank equivalent of c. five years supply would align our landbank with expected future customer demand for our homes. 	<ul style="list-style-type: none"> The planned optimisation of our landbank will take account of the National Planning Policy Framework and will improve our return on capital employed.
Excellent customer focus  See Customer recommendations on page 14	<ul style="list-style-type: none"> Improve customer satisfaction and service levels Achieve HBF 5* rating Build good quality homes in attractive locations 	<ul style="list-style-type: none"> We have introduced a wide range of initiatives to improve levels of service for our customers. 	<ul style="list-style-type: none"> Our sales and construction teams work closely together to provide a quality product and service levels to meet our customers' expectations. 	<ul style="list-style-type: none"> We monitor our performance regularly on feedback from HBF customer satisfaction reports to identify and improve all aspects of our service. 	
Build sustainable homes  See Waste recycled per home sold on page 15	<ul style="list-style-type: none"> Improve the energy efficiency of our homes and reduce running costs Use modern methods of construction to support site production rates and overcome any potential labour shortages Invest in Space4 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Space4's 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. 	<ul style="list-style-type: none"> 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. 	
Robust health and safety  See RIDDORS on page 14	<ul style="list-style-type: none"> Continued management training Continue to improve safety culture Maintain a high level of compliance with health and safety standards 	<ul style="list-style-type: none"> The health and safety of our employees, subcontractors, customers and visitors to our sites remains a key priority for us. 	<ul style="list-style-type: none"> Our Board sets objectives and targets and our health and safety department oversees implementation and performance by all our operating businesses. 	<ul style="list-style-type: none"> We work closely with the Health and Safety Executive and the Home Builders Federation to ensure compliance with best practice and legislative requirements. 	

Chief Executive's Review



Mike Farley, Group Chief Executive

I am very pleased with the performance of the Group during 2012 against the backdrop of what remains a challenging market

Our strategy



I am very pleased with the performance of the Group during 2012 against the backdrop of what remains a challenging market. This robust result provides the first demonstration of how our short term operational priorities are underpinning the delivery of the key objectives of our long term strategic plan.

A key longer term objective is to grow our business to an optimal larger scale. The Group has the capacity to complete

c. 14,000 homes per annum from its current 24 regional offices. We increased the volume of new home legal completions by 6% in 2012, a solid performance in the context of the current mortgage market and prevailing economic conditions.

Disciplined land replacement activity is key to maximising long term returns to shareholders and we took the opportunity during the year to acquire a further c. 14,800 plots of replacement land which offer excellent returns for the business in the future. The land market remains generally stable but we are prepared to stand back from this market if we are unable to achieve acceptable returns.

Our continued focus on ensuring that the conversion of our strategic land delivers the maximum supply of forward plots will support the delivery of superior shareholder returns over the long term. Of the new land acquired approximately 38% has been converted from our strategic landbank. We believe this land represents the most profitable and cash efficient asset for a house builder.

Good progress was also made towards our medium term objective of returning to underlying operating margins of 15% to 17%, with underlying operating margins in the second half of 2012 reaching 13.7% (2011 H2: 10.8%). In the current market, which is characterised by generally stable house prices across the UK, this continued margin improvement results from ensuring that our replacement land always fulfils our return requirements and also from the relentless pursuit of operational improvement. Our focus remains on optimising our planning consents, on eliminating costs from our business wherever possible, and on innovating to improve the quality of our new homes for our customers.

The Group's continued ability to generate strong free cash flow is fundamental to our long term capital return programme. With £179m of free cash inflow pre dividends generated during the year and cash balances of £201m at 31 December 2012, the Group's performance against these key metrics has been excellent.

The strength of the Group's financial position at 31 December 2012 is testimony to the success of our strategy and will facilitate the scheduled payment of the first element of the capital return plan in June 2013. Return on capital employed at 31 December 2012 was 12.2%, a 47% improvement on the prior year's return of 8.3%. Improvement in returns will continue with the capital discipline that is embedded within our long term strategy.



Charles Church, Picket Twenty, Andover, Hampshire.

The UK housing market and trading

Tough trading conditions in the UK housing market persisted throughout 2012. The market remained constrained, reflecting the impact of the shortage of mortgage credit, job insecurity and the continued squeeze of real disposable incomes, which combined to depress consumer confidence. However, mortgage payments currently account for c. 26% of disposable income compared with the long term average of 36%. During 2012 we saw a gradual improvement in the mortgage market, with an increase in the overall number of products available and some small improvement in mortgage interest rates progressively through the year. In addition, average mortgage loan to value ratios improved through 2012 to reach c. 81%, which whilst low by historic standards, is a significant increase from c. 75% on average in 2009/2010.

Against this backdrop, our two private sale brands Persimmon and Charles Church, traded well. Charles Church, in particular, is well positioned in current market conditions given its appeal to customers that typically enjoy greater access to mortgage credit. We have made a significant investment in Charles Church sites in recent years to capture

this market advantage. Charles Church revenues increased by 28% in 2012 over the prior year, with Persimmon delivering a 9% increase in turnover. During 2012, c. 60% of the Group's revenues were generated in southern regional markets reflecting the overall distribution of the Group's landbank and the greater exposure of Charles Church to these markets.

In addition, our Westbury Partnerships business delivered 1,686 new homes to our housing association partners (2011: 1,789 new homes) and continues to build on its strengths in the social housing market place.

The return of the traditional trading seasonality we experienced in 2011 continued in 2012 with stronger sales in spring and autumn. Our private sale reservation rates for the first half were c. 17.6% ahead of the prior year, and 1.5% ahead in the second half, the second half outperforming particularly strong comparatives of the prior year. We saw some temporary impact on visitor numbers to both our websites and our development sites around both the Queen's Diamond Jubilee and the London Olympics but overall visitor levels outpaced the levels of last year. Our website traffic for the year was over 20% up on 2011 and visitor numbers to our developments were 5% stronger.

FirstBuy shared equity funding secured

£40m

First time home buyers are finding it particularly difficult to enter the market due to the absence of higher loan-to-value mortgage products. The level of deposit required from a first time buyer as a percentage of income has doubled over the last five years from 38% to 76%. In response, we have continued to support our customers by offering to retain an equity share in their property. We also continued to use the FirstBuy shared equity product launched by the Government in mid-2011 to support the housing market and help boost economic growth. The FirstBuy scheme is proving popular with customers, accounting for c. 16% of our total legal completions for 2012. We reduced the number of shared equity sales in the second half of the year to c. 21% of total sales supported against c. 32% in the first six months. Approximately 26% of our legal completions for the year were sold with a retained equity share.

The FirstBuy scheme was refreshed with additional funding in September 2012 and the FirstBuy2 scheme was launched in December 2012. As a result we were successful in securing funding to support c. 3,000 first time buyers to enter the market. We had c. 290 FirstBuy customers in forward sales at 31 December 2012.

After a slow start we have seen more lenders join this scheme and NewBuy is now gaining additional market share as mortgage rates for this product improve. NewBuy made up c. 4% of our private sales for 2012, with the majority being legally completed in the second half of the year. At 31 December 2012 we had c. 170 NewBuy sales within our forward orders.

With forward sales volumes at the start of 2012 being 13% higher than the prior year, we legally completed 4,712 new homes in the first six months of the year, c. 6% ahead of the previous year (2011: 4,439). In the second half of the year we legally completed 5,191 new homes, c. 5% up on the prior year (2011: 4,921). As a result full year volumes of 9,903 were c. 6% ahead year on year. The second half private sales rate was 1.5% up on 2011 which combined with stable outlet numbers to deliver a c. 5% increase in forward order revenues at 31 December 2012 of £645m (2011: £615m) providing a strong start to 2013.

Our average selling price* in the first half of the year of £171,206 was c. 7% stronger than last year (2011: £160,583) primarily due to an increase in the proportion of larger family homes in the sales mix. This mix effect continued in the second half where our average selling price* was £176,199, 5% up on 2011 (£167,080). Underlying prices remained generally stable throughout the year, with the lack of supply in the market mitigating the constrained level of customer activity.

Through the second half of 2012 we increased the utilisation of our part exchange facilities, helping customers to move home and avoid the frustration of this slower market. Approximately 25% of our private customers took advantage of the convenience of our part exchange offer during the year (2011: c. 18%), with c. 29% in the second half. In December 2012 all lenders followed the lead of Santander in supporting part exchange transactions in combination with the NewBuy mortgage which will help existing home owners to move on in the market as we progress through 2013.

Forward sales at 31 Dec 2012

(2011: £615.0m)

£645.0m

An additional Government sponsored initiative, the 5% deposit NewBuy mortgage, was launched in March 2012.

Mortgage approvals for house purchase (per Bank of England)



Average selling price*

(2011: £166,142)

£175,640

Profitability

We have continued to pursue the key drivers of profit improvement across the business. The hard work involved in maximising the returns delivered from all our development land, from optimising planning to controlling development costs and overheads, is a true team effort. By continuing to set ambitious targets we have secured further excellent improvement in our underlying operating margins to a level of 13.0% for the year (2011: 10.0%) and reaching 13.7% in the second half. Our forward order margins at 31 December 2012 point to continued progress which has been confirmed over the first few weeks of 2013. We believe we will return to operating margins in the range of 15% to 17% over the next 12 to 18 months, subject to market conditions, in line with our strategic objectives.

Operating margin**

(2011: 10.0%)

13.0%

Cash generation

During 2012 we generated £179m of free cash (pre dividends) resulting in the Group holding cash balances of £201m at 31 December 2012.

Whilst our land creditor obligations have increased by £40 million in the year to £240m (2011: £200m) the improvement in our cash margins and cash efficient land replacement activity has allowed us to not only invest in a significant supply of new land for the future, but also to assist over 2,500 customers to acquire a new home with a reduced deposit through the use of our shared equity facilities. Our shared equity receivables of £203m at 31 December 2012 (2011: £164m) will provide significant cash inflows over future periods as these homeowners move home in greater numbers.



Charles Church at Bysshop Meadow, Henfield, West Sussex

The delivery of cash returns to our shareholders with greater certainty lies at the heart of our long term strategy. The cash efficiency of our operations and land replacement activity will underpin the planned £1.9bn capital return to our shareholders. The disciplined approach to our working capital needs will maximise return on capital employed through the cycle. This is demonstrated by the fact the Group has generated £231m of cash inflows from operations before working capital requirements, allowing us to fund our investment in shared equity and part exchange property sales incentives without depleting cash made available to shareholders.

The business processes that have delivered our significant year end cash balances have underwritten the proposed payment of the first capital return of £227m (75p per share) on 28 June 2013 and provide confidence that the subsequent capital payments will be made.

Free cash generation

(2011: £119.4m)

£178.0m

Land

2012 was an excellent period for high quality land replacement, with all the c. 14,800 new plots of land secured during the year meeting or exceeding our required investment return hurdle rates. Our forward landbank of 68,200 plots provides 6.9 years of supply at current levels of output. We anticipate that the growth in our output volume will eventually lead to a reduction in the length of our landbank to an optimal level of c. five years of supply.

*Stated before fair value charge of £15.9m (2011: £20.1m) on shared equity sales.

**Stated before exceptional credits of £2.8m (2011: £13.3m credit) and goodwill impairment of £6.1m (2011: £4.4m).



Persimmon Homes at The Maltings, Shaftesbury, Dorset.

As part of our land replacement strategy, on 8 October 2012 we acquired Hillreed Homes, a builder of high quality family homes in the South East of England, for £35m. The acquisition of Hillreed and its extensive landbank of c. 1,600 plots demonstrates our commitment to the continued growth of the business in line with our long term strategic objectives.

We acquired Hillreed Homes, a builder of high quality family homes in the South East of the UK, for £35m

Of the c. 14,800 forward plots acquired in the year c. 38% were converted from our strategic land bank. The cash efficiency of strategic land conversion is reflected both in the reduction in cash absorbed on land acquisition, where we can acquire c. seven strategic plots for every three plots purchased on the market, and in the additional cash released on legal completions, which amounts to over £30m per annum at our current level of sales volume.

Our strategic landbank of c. 16,100 acres has consistently contributed a substantial proportion of our replacement plots, with c. 40% of the current consented landbank comprising plots that were previously held as strategic land. We continue to invest in new strategic land to support this process, with, for example, c. 1,800 potential strategic plots acquired with Hillreed Homes.

Our strategic land investment is widely distributed in support of the balance of our nationwide footprint, with 59% located in southern markets and 41% in northern markets, including Scotland. These strategic long term interests in land which we promote through the planning system are a fundamental pillar of the Persimmon business model.

Corporate responsibility

Customer satisfaction remains a key focus of our strategy. During 2012 we implemented new procedures to improve our overall service to customers, in particular our after sales service. We have taken the decision this year to report on external customer satisfaction surveys carried out for the industry by the NHBC and HBF. During 2012 we received a 4* rating with 84% of our customers being willing to recommend us to a friend (2011: 85%). We aspire to achieve the highest 5* status and we will be redoubling our efforts to reach this target.

Providing a safe and healthy working environment for all our employees remains our top priority. During 2012 we saw a significant improvement in safety on our construction sites, with the number of RIDDORs (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) reported down to 53 (2011: 90), a reduction of 41%. New worker engagement procedures we introduced during 2011/12 and the combined efforts of our senior management, site construction teams and subcontractors are designed to continue this improvement.

The Group has supported many national and local charities throughout its history. During 2012, as part of our 40th birthday celebrations, we decided to focus our main charitable efforts on our Charity House Competition where we donated a new home worth £250,000 to a small local charity. We were overwhelmed with interest from over 3,000 charities. Ultimately 24 charities were shortlisted and following more than 130,000 public votes, we were pleased to announce the Harley Staples Cancer Trust based in Leicester as the winning charity with the other 23 charities each receiving a donation as well.

Preservation and care for the environment is central to our operations. As a measure of the sustainability and efficiency of our housebuilding operations, we seek to minimise the amount of waste we generate for each home we build whilst maximising the waste we recycle. During the year we reduced the amount of waste generated per home built by 3.0% to 6.4 tonnes. More importantly, of the waste generated we were able to recycle 88%, an increase of 4% over the prior year (2011: 84%).

Waste recycled

(2011: 84%)

88%

The development of our employees' skills is fundamental to the success of our business. We have continued to make a significant investment in our staff, delivering 4,621 training days through 2012 (2011: 3,507 training days) throughout the business. In addition, we have expanded our recruitment of school leavers and graduates to develop the housebuilding managers of the future. I am confident that the further growth of Persimmon will provide them with excellent opportunities to develop their careers.

Current trading outlook

We expect trading conditions in the UK housing market to remain challenging but believe that the Group is in a robust position to continue its progress. To further strengthen key processes within the Group we have consolidated the three divisions of the business into two, a North Division and South Division from 1 January 2013. Each division will hold twelve regional operating businesses. We believe this internal reorganisation will ensure we capture the full benefits of best practice and business improvement in support of delivering our strategic objectives.

We have made a good start to the year. We have already opened 45 of the c. 90 sites planned for the first half of 2013 and anticipate our outlet network increasing by c. 5% to 390 sites by mid year. Our private net reservation rate per site for the opening weeks of 2013 is c. 3% ahead of the strong comparative of the prior year.

We welcome the Government initiatives to support customer activity through FirstBuy and NewBuy. The Government's £80bn Funding for Lending scheme should also support an increase in mortgage lending at more attractive interest rates. From a slow start in Q4 2012 we anticipate this scheme will support a further gradual improvement in the mortgage market through 2013, mitigating to some extent the impact of the continuing uncertain economic conditions.

Forward sales at 22 February 2013

(2011: £927m)

£1,010.3m

Our forward sales revenue including legal completions in the first eight weeks of 2013, is c. 9% ahead of the prior year at £1,010.3m (2012: £927.4 million). We remain confident of further progress in profitability as we open the planned new sites and seek out further cost efficiencies and improvements. We expect to continue to provide shareholders with clear visibility with regard to the future payments under the capital return plan.

This represents my last review of the Group as Chief Executive prior to my retirement at the Company's AGM in April. I would like to record my thanks to my colleagues for their support over many many years at Persimmon. I wish Jeff and the team all good luck in the future and I remain confident that they will continue with the successful delivery of our long term strategy.

The Group has made excellent progress towards the objectives of its long term plan in the first 12 months of its implementation, providing a solid foundation for continued progress in the years ahead.

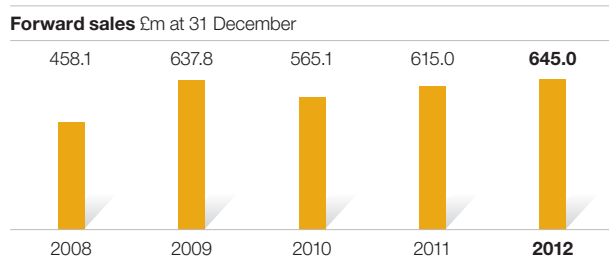
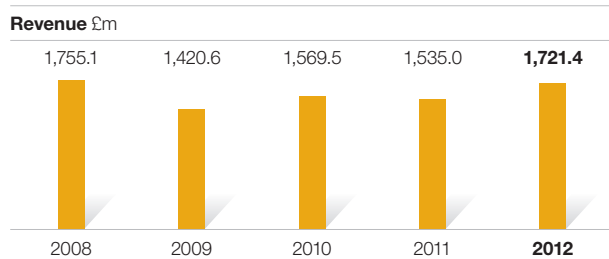
Mike Farley
Group Chief Executive
22 February 2013

Measuring our Performance

Financial KPIs

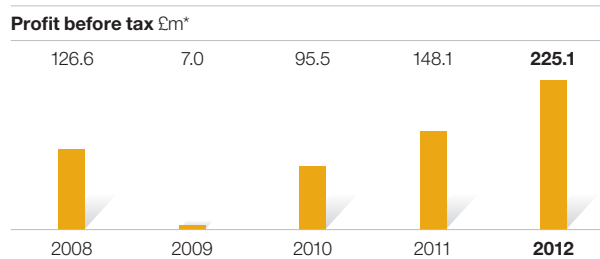
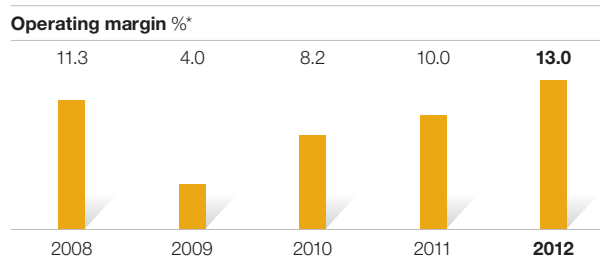
Revenue measures

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.



Profit measures

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



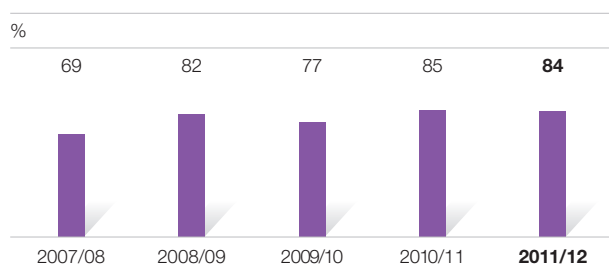
See Our Strategic Priorities on **Page 7**

*2008–2012 stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment the figures are as follows: Operating margin: 12.8% (2011: 10.5%; 2010: 13.0%; 2009: 9.0%; 2008: –40.7%) Profit before tax: £221.8m (2011: £147.2m; 2010: £153.9m; 2009: £77.8m; 2008: loss of £780.0m)

Non-financial KPIs

Customers that would recommend Persimmon to a friend

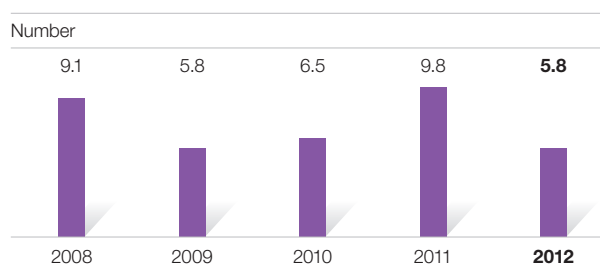
We participate in regular HBF customer satisfaction surveys* to help improve our overall service and the quality of our homes.



*Questionnaires returned for homes sold during October to September each year

The Reportable Injuries Disease and Dangerous Occurrences Regulations

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.

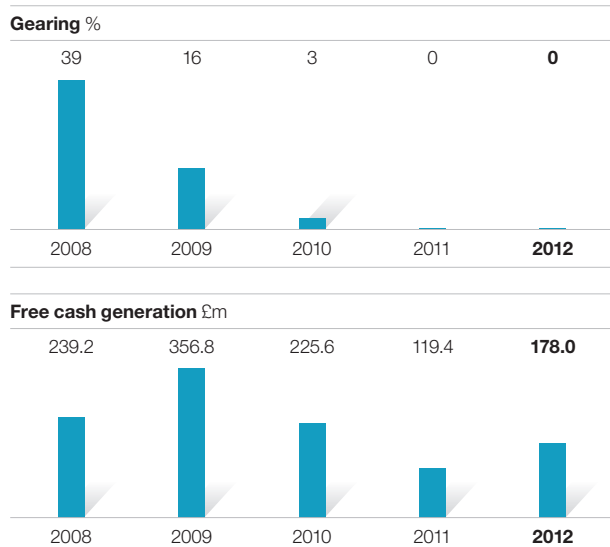


See Our Strategic Priorities on **Page 7**

Financial KPIs

Cash and cash flow measures

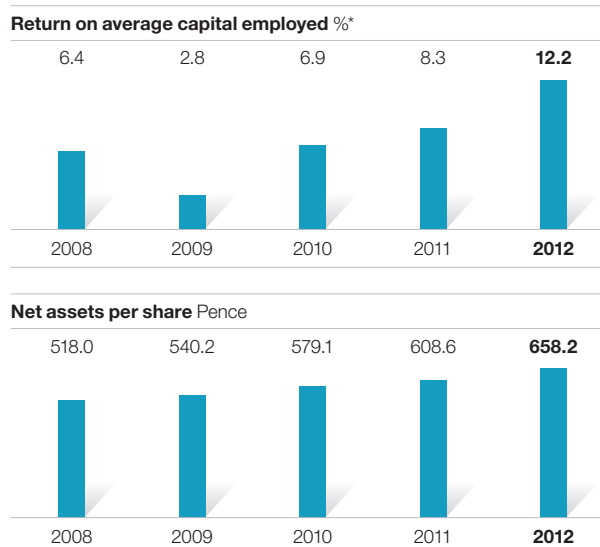
Cash and net debt are used to measure balance sheet strength. Ensuring we have an appropriate capital structure to support our strategy is a key to our success.



See Our Strategic Priorities on **Page 7**

Return measures

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.

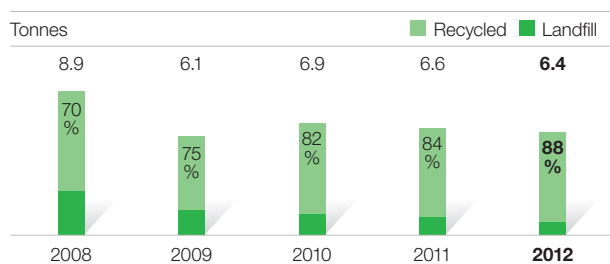


*2008–2012 stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment the figures are as follows: Return on average capital employed: 12.0% (2011: 8.7%; 2010: 11.0%; 2009: 6.2%; 2008: –23.1%)

Non-financial KPIs

Waste recycled per home sold

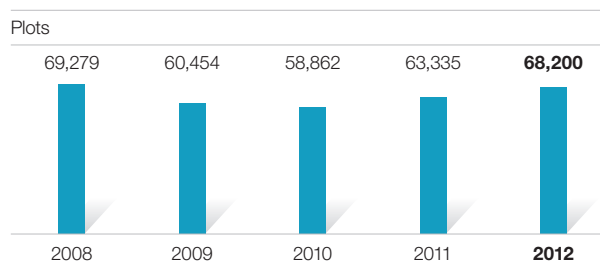
To monitor our operational and environmental efficiency, we collect data on the amount of waste we generate and recycle for each home we sell.



See Our Strategic Priorities on **Page 7**

Landbank

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



See Our Strategic Priorities on **Page 7**

Operational Performance Review



Mike Killoran, Group Finance Director

Mike Farley, Group Chief Executive

2012 has been a further year of solid achievement for the business with improvements in profitability and cash generation leading to a very strong financial position at the close of the year

Persimmon

Total revenues from the sale of new Persimmon homes increased by c. 9% in 2012 compared with the prior year. We continue to see healthy demand for our traditional house types in attractive locations right across the country. Our Persimmon business legally completed 5,883 homes in 2012, c. 4% ahead of last year.

Whilst selling prices were generally stable through 2012 we experienced an increase in the Persimmon average selling price of c. 4% to £174,368 (2011: £167,582). This increase reflects a change in sales mix with a slightly higher proportion of larger family homes in the Persimmon sales during 2012.

We experienced robust customer interest in our North Division, accounting for the largest number of legal completions across the business as a whole in 2012 with 2,236 new homes sold, an increase of c. 12% year on year. Average selling prices in the North reduced by c. 2% reflecting our focus on bringing through new developments offering homes at affordable prices. We remain flexible and responsive to the changing needs of our customers in all our regional markets.

The North Division has again capitalised on its planning skills with notable successes in converting strategic land into detailed planning consents for 250 new homes at Bamber Bridge and 175 units at Poulton-le-Fylde in West Lancashire. These schemes met the sustainable criteria set out in the new National Planning Policy Framework.

The Central Division delivered slightly lower legal completions in 2012 with 1,940 new homes sold, 4% down on last year. This reflects the sale of a greater number of larger family homes in the sales mix which led to the Division's average selling price of £186,525 increasing 10% year on year. Within the Central Division, the Shires region achieved the highest average selling price of the entire Persimmon business, at £245,267 with significant sales of higher value homes from developments at Little Chalfont, Oxford and Bracknell.

Persimmon Homes average selling price*
(2011: £167,582)

£174,368

The Central Division's forward landbank of 14,514 plots was added to by successful pull through of strategic land in a number of locations, most notably for 189 new homes near Newark in Nottinghamshire and 125 units at Solihull in the West Midlands. These sites will deliver strong cash margins for the business over future years.

The South Division delivered 29% of the Persimmon business volumes with 1,707 new homes sold across southern regional markets including Wales. Legal completions increased by 15% in the second half over the first half of 2012 principally due to the uplift in new homes sold by the Western region, to approximately 500 units in the second half of the year. New developments opened in Plymouth, Exeter and Swindon saw good levels of activity further demonstrating resilient demand in these attractive locations.

South Division revenues of over £312m increased by 11% year on year reflecting the 4% overall increase in legal completions against the prior year as well as a 6% increase in average selling price to £183,092 (2011: £172,784). This increase in average selling price was again due to the greater proportion of larger family homes in the sales mix, in particular in the Southern region which delivered an average selling price of £197,860 (2011: £177,016) supported by good levels of higher value sales from developments at Hellingly and Leybourne.

*Stated before fair value charge of £13.2m (2011: £16.5m) on shared equity sales.

Our high quality strategic land in the South Division has again proved successful in gaining detailed planning consents including a 111 unit scheme at Four Marks in Hampshire, and most notably at Taunton in Somerset for a development of 1,370 new homes and a scheme of 1,650 units on the old aerodrome at Weston-Super-Mare south-west of Bristol. The successful delivery of these land parcels further demonstrates the benefits of promoting strategic land through the planning system in adding significant value to the business for shareholders over the long term.

Over the last five years from 2008 the Group has added over 18,000 plots of consented land to the forward land bank from strategic sources. This represents c. 38% of all replacement plots acquired over this five year period which will continue to support superior cash returns from the business.



Persimmon Homes at The Hawthorns, Chichester, West Sussex.

We have continued to work jointly with St. Modwen in identifying new developments which provide suitable investments for the Group. During 2012 we sold a total of 113 homes from sites in Birmingham, Sunderland and Llanwern, east of Newport, in Wales as part of the joint venture. We have a further five joint developments in production which will deliver their first legal completions during 2013 together with an additional site progressing through planning.

Charles Church

Our Charles Church business had another strong year in 2012, increasing legal completions by 21% to 2,334 new homes (2011: 1,928). Revenue growth of 28% was supported by a 6% increase in average selling price to £238,072 (2011: £225,251). Legal completions in the second half of the year increased by 8% over the first half reflecting the increasing appeal of the Charles Church product.

Charles Church is supported by a forward consented landbank of 10,624 plots, an increase of 26% over the prior year which represents four years of future supply. Whilst the Charles Church business has excellent visibility regarding its future land supply, its landbank will remain shorter than that for Persimmon. This policy ensures the return on capital delivered by the Charles Church business is maximised whilst recognising the generally slower rate of sales achieved on a Charles Church development given the higher selling prices.

Charles Church average selling price*
(2011: £225,251)

£238,072

We introduce both Charles Church and Persimmon brands onto the same development where our market research indicates good local appetite for the product. This strategy maximises our overall rates of sale and asset turn.

The purchase of Hillreed Homes in October 2012 added a substantial number of consented plots of land and attractive strategic land to our South East business. Hillreed new homes typically have a sales value of around £350,000 in the Kent and Sussex regional markets.

Westbury Partnerships

Westbury Partnerships delivered 1,686 new homes to our housing association partners during 2012 (2011: 1,789 new homes). Due to the timing of contract completion the second half delivery of 935 units was 25% up on the first half of the year, being in line with the second half of 2011. Our partnership housing business continues to play an important part in the delivery of sustainable developments across the country, representing c. 17% of the Group's total volumes in 2012.

*Stated before fair value charge of £2.7m (2011: £3.6m) on shared equity sales.

Westbury Partnerships average selling price

(2011: £97,899)

£93,649

The Partnership management team have continued to build on our strong relationships with the Homes & Community Agency in England (HCA) to support the delivery of the Government sponsored FirstBuy shared equity scheme and the earlier Kickstart programmes.



Westbury Partnerships, Malvern Vale, Malvern, Worcestershire.

Westbury Partnerships led the Group's engagement in the Government's 2011–2015 Affordable Rent programme which is focused on supporting increased production of social housing throughout the country. The Group has secured funding of over £12m to assist the delivery of c. 900 new social units over the next two years from developments which will provide a further c. 1,150 homes for the private market. This programme has already been instrumental in delivering 95 homes on sites at East Trowbridge, Wiltshire and at Maresfield, Sussex during 2012. In addition, during January 2012 we successfully completed the West Wiltshire Private Finance Initiative (PFI) for the delivery of 240 houses. This PFI includes the development of land owned by both the local authority and the Group for social housing as part of a new approach supporting the expansion of affordable housing supply.

We are convinced that our well designed affordable housing will continue to experience strong demand across all tenures and our Westbury Partnerships business is in an excellent position to further develop the Group's participation in this important market area.

Space4

Our Space4 business has made further good progress during 2012. The Group has procured 98% of Space4 production volume during the year. Space4 has sold over 3,300 new home kits, an increase of 2% year on year whilst also commissioning a new wall production line to support the further growth of the business over future years. This patented closed-panel timber frame system for the construction of new homes is proving increasingly competitive as its production volumes increase bringing an associated improvement in cost efficiencies.

The Space4 management team continues to pursue process improvements in partnership with the Group's housebuilding teams to deliver additional opportunities to reduce build costs and improve site margins. The production of floor cassettes is now complemented by the supply of an alternative loose fit flooring system which has improved overall on-site construction processes and costs.

Annual Space4 units produced

(2011: 3,252)

3,310

The adoption of a 'fabric first' approach to achieving the more exacting thermal efficiency standards encompassed within the improvement to building regulation in support of achieving future zero carbon objectives has doubled demand for Space4's enhanced thermal wall range. We anticipate the use of this system will continue to increase as the demands of building regulations increase in the future.

Net finance costs, cash flow and funding

Net underlying finance income for 2012 was £1.9m (2011: £4.9m net finance cost). This improvement of £6.8m year on year resulted from the combination of active cash flow management influencing the timing of key cash flows and the strong liquidity generated progressively through the year. This had the effect of limiting the call upon the Group's credit facilities to the periods of peak working capital need in April/May and October/November.

The reduction in interest paid to lenders has resulted in net finance income, principally due to the interest accretion associated with our shared equity receivables of £8.7m (2011: £7.4m).

Average cash balances for the first half of the year were c. £20m and c. £80m for the second six months. We generated £179m of free cash flow pre dividends ending the year with £201m of cash holdings.

Balance sheet

The total net assets of the Group increased by £155m during the year to £1,994m at December 2012 (2011: £1,839m). This increase reflects the retained profit for the year, the post tax decrease in pension deficit of £8m and the payment of the final dividend for 2011 of £18m. Net assets per share increased by 8% to 658.2p (2011: 608.6p). Underlying return on capital employed for 2012 was 12.2% (2011: 8.3%).

Underlying return on capital employed* (2011: 8.3%)

12.2%

The book value of the Group's land at 31 December 2012 was £1,496m, an increase of £12m on last year (2011: £1,484m). This increase reflects the acquisition of c. 14,800 plots of replacement land during the year together with the net write back of £2.8m of our stock impairment provision.

We have again reviewed the carrying value of our land and work in progress for impairment at the year end. In line with last year, generally stable prices and achieved cost improvements have resulted in a net reversal of previous impairments of £2.8m (2011: £13.3m). This is recognised as a net exceptional credit in the income statement for reasons of consistency of presentation. This net credit reflects a gross reversal of £23.8m (2011: £66.2m) and additional requirement of £21.0m (2011: £52.9m) across our owned land portfolio. At 31 December we retained an impairment provision of £151.3m which we consider appropriate in the context of the continued difficult market conditions. Further details on 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.

The value of our investment in work in progress of £443m is £15m higher than the prior year (2011: £428m). As always, we have continued to exercise tight control over build activity on site, investing primarily for the delivery of new homes already sold and held in our forward order book. At 31 December 2012 we were holding 464 units of finished stock on our sites to support our sales activity and speed delivery of finished units to our customers. We ensure we achieve a rate of asset turn of our work in progress of c. 4x a year. We believe this industry leading performance supports superior cash generation and return on capital employed for our shareholders and minimises operational and financial risk.

Through the year the Group has pursued a number of pension scheme liability management exercises which were successful in delivering a reduction in the long term risk profile associated with the scheme's liabilities. In addition, on 21 December 2012 the Group provided £58m of asset backed funding to the Persimmon Pension Scheme ('the Pension Scheme'). The asset backed funding is recognised as an asset of the Pension Scheme for the benefit of scheme members and reduces the pension deficit by its value. At 31 December 2012 the pension deficit was £4m (2011: £60m). A financial liability of £58m with respect to this asset backed funding is recognised on the Group's balance sheet which reflects the net present value of future cash payments that will be made into the scheme over a 15 year period. The Pension Scheme has a security interest in a portion of the Group's shared equity receivables should the Group be unable to meet the cash payments under the funding agreement. These arrangements remain available to provide additional support to the Pension Scheme in future periods if required. Further details are disclosed in note 29 to the Accounts, Retirement Benefit Obligations.

Treasury policy and related risks

The Group's long term strategy is to minimise financial risk whilst pursuing its strategic objectives. This involves the maintenance of a capital structure which supports the growth of the business in the future whilst ensuring the financial position of the business remains robust. Our focus on strong cash flow management will ensure the Group remains a going concern to deliver the planned returns to shareholders and meet all its liabilities as they fall due whilst optimising the cost of the capital employed in the business.

*Stated before exceptional items and goodwill impairment.

Operational Performance Review continued

The combination of retention of annual earnings, payment of shareholder capital returns, and adjustments to the Group's equity and debt and cash management facilities allows the Group the flexibility it requires to ensure the business has the appropriate funding support for it to successfully execute its operational plans. The strategy announced in early 2012 to return £1.9bn of surplus capital to shareholders over the period to 2021 demonstrates the Board's long term commitment to capital discipline through the economic cycle with the ultimate focus on delivering excellent cash returns to shareholders in a low risk manner.

Financial risks that confront the business include credit risk, debt capital market pricing risk, liquidity risk and interest rate volatility. In the current market the Board intends to remain highly liquid and gearing will be used only to support short term working capital needs within the annual trading cycle. The Group retains £300m of committed unsecured credit facilities maturing 31 March 2016 in support of this policy.

The Group maintains strong internal reporting disciplines for monitoring and forecasting cash flows to allow early identification of potential risks supporting prompt action to be taken. Long term business modelling was key in the design of the capital return plan and the long term strategy of the business and will ensure appropriate credit facilities are in place throughout.

The Group employs a well developed risk management programme with dedicated resource focussed on mitigating the impact of risk on the operational and financial performance of the business. Operational management are integral to addressing risk that the Group faces on a day to day basis.

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

2012 has been a further year of solid achievement for the business with improvements in profitability and cash generation leading to a very strong financial position at the close of the year. Our challenge is to raise our aim even higher and deliver a performance in 2013 and subsequent years that will be regarded as even stronger.

We remain committed to the realisation of the potential of the business both in the short term and in the future through our focus on the basics of good housebuilding delivering new homes that our customers enjoy living in, in communities that are both vibrant and sustainable. This will result in the successful delivery of both the planned capital returns and also a larger stronger business for the benefit of shareholders in the long term. The land portfolio owned and controlled by the Group and our extensive strategic land interests provide an excellent platform for the execution of this strategy.






All our staff continue to work tirelessly in pursuit of the best possible outcome for the Group. We believe these results reflect their hard work, creativity and dedication. On behalf of the Board we thank all our employees for their efforts and look forward to their future success in fulfilling the Group's strategic plans.

Mike Farley
Group Chief Executive
22 February 2013

Mike Killoran
Group Finance Director
22 February 2013

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
Strategy 	<p>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.</p>	<p>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.</p>
National and regional economic conditions 	<p>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.</p>	<p>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. We monitor our geographical spread to mitigate the effects of local microeconomic fluctuations.</p>
Mortgage availability 	<p>Any restrictions in the market availability of mortgages for our customers could reduce demand for our homes and affect revenues, margins and profits.</p>	<p>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.</p>
Regulatory compliance 	<p>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.</p>	<p>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.</p>
Capital requirements 	<p>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.</p>	<p>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.</p>

Sustainability



Neil Davidson, Non-executive Director

Our commitment to sustainability enhances our ability to create, shape and build thriving environments that meet our customers' expectations, whilst at the same time protecting the natural environment.

As environmentally and socially responsible practices have become more embedded in our business, we are able to demonstrate how sustainability has reduced our costs with efficiency gains, contributed to a more skilled and safer workforce and allowed us to manage risks more effectively. This has enabled sustainability to contribute to strong economic returns for both our business and our shareholders.

Putting customers first

Customer care is one of our top priorities, as it is very important to us that our customers' expectations are met from their first contact with our sales team and thereafter through the buying, moving in and after sales service processes.

During 2012 we introduced new procedures and processes across our business dedicated to ensuring our customers' satisfaction, particularly in respect of our after sales services. We are pleased that we have regained our overall 4* rating in the HBF independent survey, as our improved performance reflects the action we have taken to improve our customers' experience. In 2012, 84% of our customers responding to the HBF survey said that they would recommend Persimmon to a friend, maintaining a similar score to the prior year.

The availability of mortgages continues to be constrained, particularly for first time buyers, largely due to lenders' requirements for buyers to have substantial deposits. We have again been able to assist our customers with shared equity loans through the Government's FirstBuy

shared equity scheme and our Helping Hand shared equity scheme, enabling them to purchase a new home. During 2012, 26% of our customers benefited from a shared equity loan to acquire their new home.

We have also participated in NewBuy, the Government backed mortgage indemnity scheme launched in March 2012. Under NewBuy customers are able to obtain 95% mortgages on new build properties worth up to £500,000. As lenders' mortgage rates under NewBuy have reduced, this scheme is becoming more successful in the market and we have been able to assist around 600 customers with this product to date.

Prioritising health and safety

Ensuring the health, safety and welfare of our employees, subcontractors, customers and visitors to our sites is a key priority for us and underpins all the construction work we undertake. Our health and safety policy and procedures are regularly reviewed to ensure that they accurately reflect the demands of our continuously evolving business.

RIDDORs

2012: 53 (2011: 90)

41%

reduction in accidents

We reported last year that we would place special emphasis on finding ways to improve our health and safety performance and during the year launched our Worker Engagement Programme. The concept behind the programme is that planning for and managing safety issues on site involves all of our construction teams. Our aim is to foster a culture where employees and our subcontractors take individual responsibility for ensuring safe outcomes and putting safety first in every decision taken.

We increased the total amount of training delivered by the Group Health and Safety Department in 2012 to 540 days (2011: 382 days). The competence training of our staff and subcontractors is supported by our on site induction processes, which provide information, instruction and training relative to specific site rules and regulations. Over 96% of our construction staff hold an appropriate Construction Skills Certificate.

We are pleased to report that our reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) fell to 53 in 2012 (2011: 90), a reduction of 41%. This equates to 5.8 RIDDORs per 1,000 workers (2011: 9.8). We consider that our new procedures have played a large part in this excellent improvement in our health and safety on our construction sites.

Building sustainable homes

We are utilising our Fabric First approach and Space4 technology to build more homes that are inherently efficient, helping our customers live more sustainably and reduce their home running costs. Our Fabric First approach is based on our strong belief that new homes should be designed to be sustainable by being inherently efficient, without the need to use supplemental technologies, such as wind turbines, to improve energy efficiency.

In 2012 we built 3,200 homes using Space4 technology, representing a third of our new home completions. Our Space4 system combines the benefits of precision engineered timber frames for our homes, with the elegance of traditional design which provides many benefits including low energy costs, reduction of waste on site and a safer working environment.

We anticipate that our fabric energy efficiency concept is likely to form the basis of a minimum standard for Part L of the Building Regulations in 2016. Our adoption of a Fabric First approach and the research we are undertaking into energy technology places us in a good position to comply with future Building Regulations as they become more stringent.

The energy efficiency of homes is measured by the Standard Assessment Procedure (SAP) rating, expressed on a scale of 1 to 100. In 2012 the average SAP rating for all homes we built was 83, significantly exceeding the average SAP rating for UK housing stock of 53. In addition, during the year we completed 2,165 homes assessed against the Code for Sustainable Homes standards or the preceding EcoHomes standard, equating to 22% of our total output. The majority of these homes met Code Level 3 or equivalent. This is slightly fewer homes than we built to this standard in 2011, due to lower demand from the social housing sector for homes that adhere to these standards.



Persimmon Homes at Beck Row, Mildenhall, Suffolk.

Operating efficiently

Ensuring that our business operates efficiently brings benefits to the environment, our customers and all our stakeholders. We operate an environmental management system that has been specifically adapted for our business and modelled on IOS 14001 criteria. One of our main areas of focus is our commitment to minimising waste across our business. 2012 has again seen further improvements as we have reduced the amount of construction waste created per home sold by 3% whilst increasing the amount recycled to 88% (2011: 84%). As a result, waste sent to landfill reduced by 27% from 1.05 tonnes per new home sold in 2011 to 0.77 tonnes in 2012.

Construction waste recycled

(2011: 84%)

88%

We continue to monitor our CO₂ emissions. During the year we have improved the quality of data collected on gas and electricity consumption from our regional offices and construction sites. We also collect data on our fuel usage by our company car fleet. Total energy consumption in our offices and on our sites was 29.7 million kWh in 2012, equating to 8,336 tonnes of CO₂. Combined with our company car fleet fuel consumption, our total operational carbon footprint for 2012 was 13,548 tonnes, equating to 1.37 tonnes of CO₂ per home completed, a reduction on 2011.

Investing in our people

Persimmon encourages a culture that supports our employees to develop long, fulfilling careers with the Group, an approach that is evidenced by the fact that we have 141 employees who have more than 25 years of service, representing nearly 6% of our workforce.

As our workforce increased during 2012 we increased the number of trainees and apprentices across the Group and recruited graduates onto our graduate training programme. To ensure all our employees have the right skills to carry out their roles during 2012 we continued to invest in training and delivered a total of 4,621 training days (2011: 3,507), equating to 1.8 days of training for each employee.

Our Head Office has again been accredited with Committed to Equality (C2E), whose principles are rolled out through our Group by our HR team. We have also launched our 'Leading Excellence' programme during the year to enable our middle management to act more strategically and provide greater leadership to their staff.

Investing in our communities

As part of our 40th birthday celebrations in 2012, we ran a hugely successful Charity House Competition for small local charities to win a new house worth £250,000. Over 3,000 charities entered the competition, which was eventually won by The Harley Staples Cancer Trust based in Leicester. Including our Charity House competition, our Company and employee fundraising across the UK raised over £400,000 for charities during the year.

Our Company and employee fundraising across the UK raised over £400,000 for charities during the year

In 2012 we invested over £33m in new community facilities (2011: £24m) on our developments. Over a third of this investment has been into new educational facilities and schools, with further substantial contributions in the provision of affordable new homes, open spaces and leisure facilities for local people.

We continue to redevelop brownfield land in our towns and cities and over half of the homes that we sold during the year were built on brownfield land. We also planted more than eight trees for each new home that we sold during the year, contributing to greening our suburban environments.

Conclusion

The progress we have made in the sustainability of our business during our 40th anniversary year has placed our business in a strong position to respond to future environmental and social challenges, helping us to look forward to the future with confidence.

Further information on our management structure, policies and procedures together with our 2012 Sustainability Report can be found on our website at www.corporate.persimmonhomes.com.

Neil Davidson
Chairman
Corporate Responsibility Committee
22 February 2013

Chairman's Corporate Governance Introduction



Nicholas Wrigley, Chairman

The Board supports the highest standards in Corporate Governance

The Board's corporate governance priority during the last year has been succession planning for both executive and non-executive Directors.

Our Chief Executive Mike Farley recently informed the Board of his intention to retire at the forthcoming Annual General Meeting as he will reach his normal retirement date during this year.

I am particularly pleased that Persimmon has again been able to promote from within, continuing its long term strategy of nurturing and promoting talent from within the Company.

We were pleased to announce earlier this year that Jeff Fairburn, currently Group Managing Director and North Division Chief Executive will succeed Mike as Group Chief Executive with effect from 18 April 2013. Jeff has been with Persimmon since 1989 and has extensive housebuilding experience. I am confident that under Jeff's leadership the Company will go from strength to strength.

We were also pleased to report that Nigel Greenaway, South Division Chief Executive was promoted to the Board on 8 January 2013. Nigel has been with the Group since 1986 and has extensive experience in all areas of housebuilding.

Neil Davidson will have completed nine years' service as a non-executive Director and will not be seeking re-election at the forthcoming AGM. I would like to place on record the Board's thanks for Neil's excellent contribution to the Company over the very challenging period of his directorship, which has included our acquisition of Westbury plc as well as the housing recession in 2008.

In seeking a non-executive Director to replace Neil Davidson, the Nomination Committee was mindful of the balance of skills on the Board, our diversity policy and the recommendations of the Davies Report. After an extensive search, I am delighted to welcome Marion Sears to the Board. She has extensive experience in retail and finance and will bring a valuable new perspective to the Board.

The changes we have implemented will I believe ensure that the Board remains effective. We have exceptional housebuilding experience and knowledge with our executive Directors and a strong independent body of non-executive Directors who bring diverse skills and experience to the Board. Together the Directors have the skills and experience to deliver the Group's strategy to build a larger, stronger business whilst returning cash to shareholders.

During 2012 the Board conducted its first external evaluation with the assistance of Coefficient (part of the Equiniti Group of companies) in accordance with Code provision B.6.2. Coefficient's evaluation was that the Company was well run and that the current Board arrangements generally worked well and were fit for purpose. A few minor recommendations were made by Coefficient to improve processes and optimise arrangements which the Board have or are in the course of implementing.

We recognise that maintaining good corporate governance sets the standards and values for the Group as a whole. I am again pleased to confirm that the Company has complied with the UK Corporate Governance Code 2010 throughout 2012.

The Board will be giving consideration to the implementation of the new Code provisions introduced in September 2012 and will report on its progress next year.

Nicholas Wrigley
Chairman
22 February 2013

Board of Directors

Chairman and Executive Directors



Nicholas Wrigley

Chairman (age 57)

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.) MCIQB FRICS

Group Chief Executive (age 59)

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. Mike is a member of the Chartered Institute of Building and a Fellow of the Royal Institute of Chartered Surveyors. Mike will retire from the Board on 18 April 2013 and Jeff Fairburn will succeed him as Group Chief Executive.



Jeff Fairburn

Group Managing Director (age 46)

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 North East Managing Director and North East Regional Chairman before assuming the role of North Division Chief Executive in 2006. In January 2012 he was appointed Group Managing Director. Jeff will succeed Mike Farley as Group Chief Executive following the AGM on 18 April 2013.



Mike Killoran BA (HONS.) ACA

Group Finance Director (age 51)

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.



Nigel Greenaway

South Division Chief Executive (age 52)

Date of appointment

8 January 2013.

Committee membership

Member of the Risk Committee.

Experience

Nigel Greenaway joined the Group in 1986. He was appointed Managing Director of the South Midlands operating business in 2001 and was promoted to Birmingham Regional Chairman, in 2004. He became Western Regional Chairman in 2005 before being appointed to his current role of South Division Chief Executive in that same year.

Non-executive Directors



Richard Pennycook

Senior Independent 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 and is a non-executive Director of Thomas Cook Group Plc. 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 62)

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 Eminence, a Nottingham University spin-out business, specialising in food and health innovation. 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. Neil will retire from the Board on 18 April 2013.



Jonathan Davie

Non-executive Director (age 66)

Date of appointment

1 January 2010.

Committee membership

Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Experience

Jonathan Davie is a non-executive Chairman of IG Group Holdings Plc and First Avenue LLP and he is a non-executive Director of Hansa Trust Plc. 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 45)

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, a Member of the Greenprint Advisory Board and a Trustee of the Westminster Foundation.



Marion Sears

Non-executive Director (age 50)

Date of appointment

8 January 2013.

Committee membership

Member of the Remuneration and Corporate Responsibility Committees.

Experience

Marion Sears is the Senior Independent Director of Dunelm Group Plc. She is also a non-executive Director of investment trusts Octopus AIM VCT Plc and Fidelity European Values Plc. Marion was previously Senior Independent non-executive Director of Zetar Plc and held executive positions at Glaxo Group Plc, UBS, Baring Brothers and JP Morgan.

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 2012.

The Board

Composition

The Board comprises a non-executive Chairman, four executive Directors and five non-executive Directors. Nicholas Wrigley became Chairman on 21 April 2011. 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 30 years and has served as Chief Executive since April 2006. Mike Farley has announced that he will be retiring at the AGM on 18 April 2013. Jeff Fairburn has been appointed by the Board to succeed Mike Farley as Chief Executive. Jeff Fairburn joined the Group in 1989 and was appointed to the Board in June 2009, having held a number of positions within the business. Mike Killoran joined the Group in 1996 and has been Finance Director for the last 13 years. Nigel Greenaway has been with the Group since 1986 and was appointed to the Board on 8 January 2013.

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; Richard Pennycook has extensive retail experience gained from his role as Finance Director of Wm Morrison Supermarkets plc; Neil Davidson has extensive experience in the regulatory environment, particularly with regard to competition law; Mark Preston has wide ranging experience in retail, commercial and residential property as Chief Executive of Grosvenor Group Limited. Marion Sears was appointed to the Board on the 8 January 2013 as a non-executive Director and has significant experience in retail and banking.

During 2012 David Thompson, Senior Independent Director having served on the Board for 12 years retired at the AGM on 19 April 2012. Richard Pennycook succeeded David Thompson as the Senior Independent Director. As announced on 8 January 2013, Neil Davidson, having served nine years on the Board will retire and will not be standing for re-election at the forthcoming AGM. Further information is provided in the Directors' Biographies on pages 26 and 27.

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 UK Corporate Governance Code 2010 (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 approved the Company's Capital Return Plan and current strategy in February 2012. Full details of the current strategy are set out in the Business Review on pages 2 to 24.

The Board met on eight occasions in 2012, including the annual strategy meeting. There was full attendance by all Directors at Board and Committee meetings during the year, except that Messrs Pennycook, Davie and Preston were each unable to attend one Board meeting. Mr Preston was also unable to attend one Remuneration Committee meeting and one Audit Committee meeting.

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 controls are available. The schedule is reviewed annually. The implementation of the Board's strategy and policies are delegated to executive Directors and senior management within the Group.

Board diversity and independence

The Company recognises that a diverse workforce can bring benefits to the Company and by the same measure, the Directors recognise the value diversity, including gender can bring to the Board. When considering the nomination and appointment of new Directors the Nomination Committee evaluates candidates' skills, knowledge and experience in order that they nominate new Directors on the basis of merit and overall suitability. Before any appointment is finalised, the Board takes 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.

During the course of 2012 the Nomination Committee recommended to the Board and the Board approved the appointment of Marion Sears as a non-executive Director. Marion was appointed to the Board on 8 January 2013 and brings extensive experience in retail and banking, complementing the existing skills of the non-executive Directors.

The Board considers the non-executive Directors Richard Pennycook, Neil Davidson, Jonathan Davie, Mark Preston and Marion Sears to be independent. 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 2012.

Re-election of Directors

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

Performance evaluation and professional development

In 2012 the Board undertook an externally assisted board evaluation in accordance with Code provision B.6.2. The Company appointed Coefficient, part of the Equiniti Group of companies to assist in the Board evaluation. Coefficient does not have any other connection with the Company.

Coefficient undertook detailed discussions with the Directors, the Company Secretary and the Divisional Chief Executives. They also reviewed all corporate governance procedures together with the Board and Committee documentation and minutes of meetings held in the prior year.

Coefficient's report confirmed that the current Board arrangements worked well and were fit for purpose. A number of minor recommendations were made to improve governance and communications between the Board and senior management within the Group. A number of these recommendations to improve processes and optimise arrangements have already been implemented and the remainder will be put in place during 2013.

In addition to the Board evaluation, the Chairman undertakes an 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 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 self-evaluation of their performance each year and as a result of such evaluations a number of procedural changes have been made to the Committees' agendas and procedures to improve the flow of information to Directors. For example, Group Head Office Senior Management in charge of major support functions, such as IT, have made presentations to the Audit Committee in the past year.

Nomination Committee

The current members of the Nomination Committee are Nicholas Wrigley (Chairman), Richard Pennycook, Neil Davidson and Jonathan Davie (who was appointed on 20 February 2013). David Thompson was a member of the Committee until his retirement on 19 April 2012. Neil Davidson will retire from the Committee on 18 April 2013. The Committee met twice during 2012 to review and consider the composition of the Board, to consider Board succession planning and to make recommendations for the appointment of a new non-executive Director. There was full attendance by Directors at the Committee meetings.

In accordance with the Committee's long term succession plan it recommended to the Board Jeff Fairburn's appointment to succeed Mike Farley as Chief Executive on the latter's retirement, and Nigel Greenaway's promotion to the Board. Both recommendations were approved by the Board.

Directors' Report and Corporate Governance Statement continued

The Committee did not use a recruitment agency or open advertising in seeking a new non-executive Director, 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 Marion Sears to the Board and she was subsequently appointed with effect from 8 January 2013. Ms Sears 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. Ms Sears is undertaking a programme of visits to regional operating businesses and their new housing sites during the course of this year.

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, Mark Preston and Marion Sears. Neil Davidson will retire as a member of the Committee on 18 April 2013. David Thompson served as a member of the Committee during the year until his retirement from the Committee on 27 February 2012.

The Committee's key action during the course of the year was the review of long term incentive arrangements for executive Directors and senior managers, resulting in the introduction of the Persimmon Plc 2012 Long Term Incentive Plan (the '2012 LTIP'). Extensive consultation was carried out with shareholders prior to the 2012 LTIP being approved by shareholders at the General Meeting on 17 October 2012. The 2012 LTIP is designed to ensure that executive Directors' and the Group's senior management's remuneration is aligned to the Company's strategic objectives and the Capital Return Plan.

In addition the Committee considered in detail executive Directors' remuneration during 2012 and awards under the annual bonus plan. Details of the remuneration policy and package for each Director serving during 2012 are set out in the Remuneration Report on pages 37 to 45.

The Committee met five times during 2012 to discuss, consider and approve both the 2012 LTIP and the remuneration for executive Directors and the Chairman. The Committee members all attended each meeting, save that Mr Preston was unable to attend one meeting.

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. David Thompson was a member of the Committee until 27 February 2012. 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 Partners 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 Group Risk management systems; review reports from the Risk Committee and the Group Risk Manager; monitor the statutory audit of the annual consolidated accounts; review and monitor the independence of the Group's external auditors; 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 2012 and all members were in attendance at each meeting, save that Mr Preston did not attend one meeting. The Committee regularly meets the auditors without the presence of the Company's management. The Committee's Chairman also meets the Group Risk Manager without the Company's management being present, at least once each year.

The key actions of the Committee during the year have been:

- assessment of the release of net realisable value provisions relating to the Group's landbank;
- the review of the Group's current tax status, IT systems upgrade and internal audit reports;
- oversight of the Group's health and safety strategy and policies;
- the publication of lead indicator reports bi-monthly to monitor the significant risks faced by the Group;
- the review of the Group Risk Register;
- review of the half year and annual results.

During 2012 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 21.

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 not 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 62. The increase in non-audit fees paid to the auditor during the year was approved by the Committee. They considered the auditor was best placed to provide the required advice in this instance.

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, which was reissued to all staff during 2012. 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 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 2012 were Mike Farley, Mike Killoran, Jeff Fairburn, David Thornton and Nigel Greenaway. 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 continually assess the integrity and effectiveness of the Group's accounting procedures. Senior management from the Finance and Company Secretarial Departments review financial reports, interim management statements and trading updates, with appropriate consultation with the Group's 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 Risk and Audit Committees. The principal risks have not changed.

Directors' Report and Corporate Governance Statement continued

The Risk Committee met six times during 2012, 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 2012 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;
- reviewing 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 2012 has been completed and approved by both the Risk and Audit Committees. A detailed Group Risk Department programme of work for 2013 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, Jeff Fairburn 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 together with financial PR consultants Citigate Dewe Rogerson.

The Chairman and Senior Independent Director maintain contact with major shareholders. During 2012 the Chairman and Jonathan Davie (Chairman of the Remuneration Committee) undertook extensive consultation with major shareholders on the structure and implementation of the new 2012 LTIP which was designed to align the executive Directors and senior management objectives with the Company's new strategy and Capital Return Plan. The Company also 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 major shareholders and 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 Company issues regular trading and interim management statements to the London Stock Exchange as well as the publication of annual and half year financial results. The Company provides shareholders with access to detailed presentations of results at its analysts' presentations, a recording of which can be viewed on the Company's website for a period of one year.

The UK Corporate Governance Code 2010

The Company complied with the Code throughout 2012 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

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 in the UK and traded 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, Hillreed Homes and Space4.

The subsidiary undertakings which principally affect the profits and assets of the Group are listed in note 32 to the financial statements.

Business review

Pages 2 to 24 of this Annual Report form the Business Review section of this Directors' Report in accordance with the requirements of the Companies Act 2006. 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 return of cash

The Group's revenue for 2012 was £1,721.4m and its consolidated profit before taxation was £221.8m.

In accordance with the previously announced Capital Return Plan, it is proposed to return 75p in cash per ordinary share on 28 June 2013 to shareholders on the register at 6.00 pm on 19 April 2013. No interim dividend was paid during the year and no final dividend will be paid in addition to the 75p return of cash. The total return for the year will be 75p per share (2011: dividend of 10p per share). As set out in the Chairman's Statement the Directors propose to effect the return of cash through an issue of B shares and/or C shares. This is intended to give shareholders the opportunity (wherever possible) to choose whether to receive the cash as a return of capital or as dividend income. Full details of the B/C share proposal will be sent to shareholders on 18 March 2013.

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 2012 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

Directors and Directors' interests

The current Directors of the Company and their biographical details are shown on pages 26 and 27. David Thompson also served as a non-executive Director until his retirement on 19 April 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 42.

The beneficial and non-beneficial interests of the Directors and their connected persons in the shares of the Company at 31 December 2012 and as at the date of this report are disclosed in the Remuneration Report on page 45. Details of the interests of the executive Directors in share options and awards of shares can be found on page 44 within the same Report.

Directors' Report and Corporate Governance Statement continued

Appointment and replacement of Directors

Directors shall be no less than two and no more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board of Directors. A Director appointed by the Board of Directors holds office until the next following Annual General Meeting ('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. During 2012 291,717 ordinary shares were issued with a nominal value of £29,171.70 to employees exercising share options for a cash consideration of £624,268. At 22 February 2013 the issued share capital of the Company was 302,916,147 ordinary shares with a nominal value of £30,291,614.70. 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 19 April 2012, shareholders gave Directors authority to issue up to one-third of the issued share capital (excluding shares held in Treasury at that date), being an aggregate nominal amount of £10,068,876 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 18 April 2013. Resolutions to renew these authorities will be put to shareholders at the forthcoming AGM. In addition, shareholders will be asked to approve the return of cash through a B and/or C share structure at a General Meeting to be held immediately following the 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 31 of the financial statements. The Trustee of the Persimmon Employee Benefit Trust may vote or abstain on shareholder resolutions 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 £300m 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 terminated in breach of contract are provided in the Remuneration Report on page 42.

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 2012 was 29 days (2011: 17 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. The Group regularly updates its employment policies and employees have been issued with a revised Staff Handbook to update them with information relevant to their employment. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate. 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

Directors' Report and Corporate Governance Statement continued

The Company makes various benefit schemes available to employees, including a Savings-Related Share Option Scheme which encourages the awareness and 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 £359,000 (2011: £94,000) to support charitable organisations during the year. The principal donation was £250,000 to the Harley Staples Cancer Trust the winner of the Company's 40th Birthday Charity House Competition. 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. No political donations were made during the year.

Acquisition of own shares

At the AGM held on 19 April 2012 shareholders granted the Company authority to purchase up to an aggregate of 30,236,865 of its own shares. No shares have been purchased to date under this authority and therefore at 31 December 2012 the authority remained outstanding. This authority expires on 18 April 2013 and a resolution to renew the authority will be put to shareholders at the forthcoming AGM.

At 1 January 2012, the Company held 402,026 shares in treasury (0.13% of the issued ordinary share capital at that date excluding treasury shares) which had previously been purchased under authorities granted by shareholders. During 2012 all of these shares (representing 0.13% of the issued ordinary share capital at 31 December 2012) with a nominal value of £40,202.60 were transferred to employees to satisfy the exercise of share options or awards under the Group's various share schemes, for a total cash consideration of £648,114. At 31 December 2012 the Company no longer held any shares in treasury.

Annual General Meeting

The AGM will commence at 12 noon on Thursday 18 April 2013 at York Racecourse, Knavesmire Road, York YO23 1EX. The notice of the meeting and an explanation of the ordinary and special business are given in the AGM 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 46.

By order of the Board

Neil Francis
Group Company Secretary
22 February 2013

Persimmon Plc
Company Registration Number 1818486

Remuneration Report

The Board of Directors presents its Remuneration Report for the year ended 31 December 2012. A resolution to approve this report will be proposed at the Annual General Meeting to be held on 18 April 2013. 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 (who retires on 18 April 2013), Jeff Fairburn, Group Managing Director (who will become Group Chief Executive from 18 April 2013), Mike Killoran, Group Finance Director and Nigel Greenaway, South Division Chief Executive (who was appointed on 8 January 2013).

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 or from the Group Company Secretary.

The Committee is comprised of five non-executive Directors, who all served throughout the year except for Mark Preston and Marion Sears who were appointed to the Committee on 27 February 2012 and 20 February 2013 respectively. David Thompson (previously the Senior Independent Director) also served on the Committee until 27 February 2012.

Current members	Date of appointment to the Committee
Jonathan Davie (Chairman)	1 Jan 2010
Nicholas Wrigley	18 Dec 2007
Neil Davidson	25 Feb 2004
Mark Preston	27 Feb 2012
Marion Sears	20 Feb 2013

The Committee met five times during 2012 to consider and approve the remuneration arrangements of the executive Directors and the Chairman. 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;
- considered the performance conditions and targets for the annual bonus scheme;

- reviewed the long term incentive arrangements for executive Directors and senior managers, resulting in a new long term incentive plan being approved by shareholders in October 2012. The Persimmon Plc 2012 Long Term Incentive Plan closely aligns the Directors' interests with the Company's new strategy and Capital Return Plan announced in February 2012;
- considered the executive Directors' pension arrangements; and
- considered the level of the Chairman's fees.

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.

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.

Remuneration policy for the executive Directors

The Committee's policy for the executive Directors' remuneration is to provide remuneration which is largely 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, an annual bonus plan, long term incentive plan awards, pension (or pay in lieu of pension) and benefits.

Basic salary, pension and benefits are fixed elements of remuneration and are intended to be at market competitive levels, commensurate with the executive Director's experience and responsibilities.

Remuneration Report continued

The Company's policy is for service contracts with executive Directors to have no more than a 12 months' notice period.

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. Annual bonus performance conditions are reviewed annually by the Committee to ensure that the conditions take into consideration the outlook for the Group over the medium term and are appropriate from a risk perspective.

Any bonus earned in excess of 100% of basic salary will be made through awards under the Company's Bonus Share Scheme ('Bonus Shares'), which vest and become exercisable in two equal tranches, half on the announcement of the Company's final results in the year following the award and half on the announcement of the Company's results in the second year following the award. A dividend equivalent is payable on awards that vest based on dividends and returns of cash to shareholders with record dates occurring between the date of grant and the date of vesting.

Long term incentive plan awards are designed to align the executive Directors' interests with the Company's long term financial performance and with the interests of shareholders. The Committee determines whether awards should be granted to executive Directors and the level of any awards made. The Committee also determines the performance conditions attached to awards to ensure that the conditions are stretching and appropriate to the Company's strategy.

Overall, the Committee's policy is to ensure that the balance of performance conditions in the annual bonus and long term incentive plan awards provide a good link to the Group's business strategy. If challenging performance conditions attached to variable pay are achieved in full, a significant proportion of an executive Director's remuneration will be performance related.

During 2012 the Committee, in line with best practice, introduced a clawback arrangement to the annual bonus plan and to the Company's long term incentive plans. The clawback arrangement allows for the Company to recover annual bonuses made and share awards which vested 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.

The Committee considers the pay and employment conditions of Group employees generally and takes 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 objectives.

The Board's policy is to also make long term incentive plan 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 long term incentive plan 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 and awareness of all employees in the financial performance of the Group.

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.

The Committee considers that the policy for executive Directors' remuneration is in line with current market standards and best practice.

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

Basic salaries are reviewed by the Committee annually with any increases normally taking effect from 1 January. Generally, monthly paid employees throughout the Group received a 3% basic salary increase in 2012.

After taking into consideration Group employees' salary increases in 2012 and general market conditions, the Committee awarded Mike Farley and Mike Killoran a 3% increase in their basic salaries on 1 January 2013. Commensurate with his increased responsibility, Jeff Fairburn's salary was increased to £450,000 from 1 January 2013. Jeff's salary will be further increased to £600,000 upon his promotion to Group Chief Executive on 18 April 2013. Basic salaries are as set out below:

		2013	2012
Mike Farley		£699,000	£678,800
Jeff Fairburn	1 Jan to 17 Apr	£450,000	£360,000
	from 18 Apr	£600,000	
Mike Killoran		£454,750	£441,500
Nigel Greenaway (appointed 8 January 2013)		£320,000	N/A

Annual bonus

The performance condition for 2012 annual bonuses was based on Group profit before tax before exceptional items and goodwill impairment (the 'Profit Measure'), with the following target figures and straight line vesting between the relevant target figures.

Target range	Profit measure for 2012	Bonus as a percentage of salary
Threshold	£150 million	5%
Target	£180 million	100%
Maximum	£220 million	150%

The Profit Measure for 2012 was £225.1m and exceeded that of the previous year by 52%, as a result, annual bonus payments for 2012 will be made at 150% of basic salary. Bonus equal to 100% of basic salary will be paid in cash and the remainder will be paid in Bonus Share Scheme awards.

The Committee considered whether a non-financial target, taking into consideration environmental, social and governance matters, should comprise part of annual bonus award performance conditions. 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.

The Committee has decided that annual bonuses for 2013 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 7 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 profit target figure for bonuses equal to 100% 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 2013, unchanged from last year. Consistent with best practice, to earn maximum bonuses, the executive Directors will need to meet very stretching performance levels above target.

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

Long Term Incentive Plans

During 2012 the Committee undertook a review of the Company's existing long term incentive arrangements for executive Directors and senior management and concluded that a new long term incentive plan should be introduced, so as to provide a closer link between reward to executive Directors and senior management for the successful implementation of the Company's new strategy and Capital Return Plan, announced in February 2012. While undertaking the review, the Committee consulted extensively with the Company's major shareholders.

Following this review, the Committee concluded that a new long term incentive plan should be introduced with a much longer vesting period and a performance condition directly linked to the return of £1.9bn (£6.20 per share) to shareholders over the 9½ year Capital Return Plan period. The new Persimmon Plc 2012 Long Term Incentive Plan was approved by shareholders at a general meeting on 17 October 2012. Proxy votes were received on the resolution to approve this plan for 72% of the total voting rights and of those, 85% voted in favour.

Remuneration Report continued

Persimmon Plc 2012 Long Term Incentive Plan (the '2012 LTIP')

Following the approval of the 2012 LTIP, awards were made to approximately 140 members of senior management, including the executive Directors, the aim being to ensure the whole senior management team is incentivised to meet the Group's long term objectives.

This first tranche of options granted under the 2012 LTIP have an initial exercise price of £6.20, which will reduce by an amount equal to the value of cash returns to shareholders made by the Company during the period from date of grant to the earlier of 31 December 2021 or the date of exercise of an option (subject to the rules of the 2012 LTIP).

The options are subject to a performance condition based on the cumulative aggregate value of cash returns (the 'Cumulative Cash Return') paid by the Company by five specific measurement dates (the 'Measurement Dates') over the period starting on 1 January 2012 and ending on 31 December 2021 (the 'Cash Return Period'). Options will also be subject to the Underpin, see below.

For an option (or proportion of an option) to vest, the following Cumulative Cash Return targets must normally be achieved by the Measurement Dates, as set out in the table below:

Cumulative Cash Return paid by the Company during the Cash Return Period by the Measurement Dates set out opposite (the 'Cumulative Cash Return Targets')	Measurement Dates
£1.70 per share or more	by 31 December 2015
£2.80 per share or more	by 31 December 2017
£3.90 per share or more	by 31 December 2019
£5.05 per share or more	by 31 December 2020
£6.20 per share or more	by 31 December 2021

The aggregate number of shares held under an option that will vest by each Measurement Date will normally be determined by reference to the fraction $x/£6.20$, where x is the value of the Cumulative Cash Return paid by the date of the relevant Measurement Date.

In considering the extent to which the performance condition has been satisfied, no options shall vest and become exercisable unless, in the opinion of the Committee, acting fairly and reasonably, the cash returns paid by the Company during the Cash Return Period were financed out of retained earnings and the Company has an ungearing balance sheet at the relevant Measurement Date except to take account of events and/or circumstances which the Committee fairly and reasonably determines are appropriate (the 'Underpin').

If the Cumulative Cash Return Target of £1.70 is not met by 31 December 2015 the performance condition will not have been satisfied and the Plan will expire on 31 December 2015 and all options will lapse in full on that date.

Generally, the options granted will normally become exercisable in two tranches. To the extent options vest on or before 31 December 2017, up to 40% of the total number of shares held under an option may be exercised from 31 December 2017 and the remainder of the vested options shall normally become exercisable on 31 December 2021.

If the Cumulative Cash Return Targets are achieved early, an award will vest and become exercisable on the date this is achieved, but no options will become exercisable before 31 December 2015.

If the Cumulative Cash Return Targets are not achieved by a Measurement Date (except 31 December 2015) options will vest and become exercisable on the Measurement Date by which the Cumulative Cash Return Targets for that date have not been achieved and the number of shares that vest will be reduced accordingly.

The awards made to the executive Directors in 2012 were as follows:

Name	Initial exercise price per share on the Grant Date, (subject to adjustment under the rules of the Plan)	Total number of shares subject to the Option
Mike Farley	£6.20	4,832,000
Mike Killoran	£6.20	3,382,400
Jeff Fairburn	£6.20	2,416,000
Nigel Greenaway	£6.20	1,540,200

The Committee intends to make a further grant to Jeff Fairburn over 2,174,400 shares in view of his impending promotion to Group Chief Executive. The option price for this additional award will be £6.20 or if higher, the market value of a Persimmon share immediately prior to the date of grant. This will take Mr Fairburn's total award under the 2012 LTIP to 4,590,400 shares.

As the completion of the first year of the Capital Return Plan has placed the Company in a position ahead of our initial expectations the Committee has decided that when Mike Farley retires in April 2013, 966,400 shares under the award made to him in 2012 will remain exercisable, subject to the performance condition. The earliest date that Mike Farley could exercise this option would be 31 December 2015 at an anticipated option price of £4.50.

For the same reason, it has also been decided in principle by the Committee that none of the shares under the 2011 award made to Mike Farley under the Persimmon Plc Long Term Incentive Plan 2007 will lapse on his retirement. Therefore, subject to the performance condition his full award may become exercisable in April 2014.

Persimmon Plc Long Term Incentive Plan 2007 (the '2007 LTIP')

Awards granted in 2010 under the 2007 LTIP will vest in March 2013. The vesting of the 2010 awards is subject to a performance condition made up of two parts. Half of the award is subject to a condition measuring the relative Total Shareholder Return ('TSR') of the Company against the constituents of the FTSE 250 index (excluding investment trusts). The other half of the award is subject to a performance condition measuring the Company's profit before tax (pre exceptional items) ('PBT'). Both parts of the performance condition relating to these awards are measured over a performance period of three years starting on 1 January 2010.

The TSR vesting schedule is:

Rank of the Company's TSR against comparator companies over the Performance Period	Percentage of shares subject to the TSR performance condition that will Vest
Below median	Nil
Median	25%
Between median and upper quartile	Between 25% and 100% pro-rata on a straight-line basis
Upper quartile	100%

The TSR performance condition was met in full and 100% of this half of the award will vest in March 2013.

The PBT vesting schedule is:

The Group's profit before tax (pre exceptional items) over the Performance Period	Percentage of shares subject to the Group's profit before tax (pre exceptional items) performance condition that will Vest
Below £300m	Nil
£300m	20%
£350m	50%
£440m or more	100%

The Company's PBT over the three year performance period was £453.6m and 100% of this half of the award will also vest in March 2013.

A dividend equivalent will be payable on this award, based on dividends and returns of cash to shareholders with record dates occurring between date of grant and date of vesting.

Pension

Basic salary is the only element of an executive Director's remuneration which is pensionable. Mike Farley and Jeff Fairburn 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.

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 is 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 £463,579, substantially below his basic salary. The normal retirement age in the Scheme for Mike Farley is 60 and his accrual rate was 45ths.

Jeff Fairburn's normal retirement age is 65 and his accrual rate is 60ths. Jeff Fairburn is subject to a Scheme pensionable salary cap of £137,400, 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 £74,222, being an amount which would take his pensionable accrual/contributions up to the HMRC annual allowance for pension saving attracting income tax relief.

As 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.

Mike Killoran elected to cease accrual in the Scheme with effect from 1 April 2012. The Committee agreed that Mike Killoran will be paid a salary supplement of 30% of his basic salary, which the Committee (after taking advice from Aon Hewitt the Scheme's pension consultants) considers is cost neutral to the Company based on the pension benefits Mike Killoran previously earned. Prior to 1 April 2012, Mike's Scheme retirement age was 60 and his accrual rate was 45ths. He earned pension in the Scheme on a pensionable salary of £140,625 (a level which enabled him to earn pension in the Scheme equal to the HMRC annual allowance) and in addition, received a salary supplement of 30% of the difference between his basic salary and his pensionable salary.

Nigel Greenaway is not a member of a Group pension scheme and receives a salary supplement of 9% of his basic salary.

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.

Remuneration Report continued

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 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	65th birthday
Jeff Fairburn	4 August 2009	1 June 2009	12 months	65th birthday
Nigel Greenaway	8 January 2013	8 January 2013	12 months	65th birthday

An executive Director is only entitled to payments for termination of employment where dismissed by the Company in breach of contract. Such payments will be subject to mitigation by the Director and will not in any event exceed 12 months' basic salary and benefits. In addition, if Mike Killoran's contract is terminated in breach of contract by the Company, his termination payment may include any payment for bonus earned prior to the date of termination. LTIP and Bonus Share awards are not contractual entitlements and Directors' awards will lapse under the rules of those schemes (save in certain good leaver circumstances).

All of the Directors will retire at the 2013 Annual General Meeting and (except for Mike Farley and Neil Davidson) are offering themselves for re-election. Non-executive Directors do not have service contracts.

Share ownership guidelines

The Directors' current share ownership requirements are as follows:

	Value of shareholding requirement	Current holding including shares held by spouse
Mike Farley	3 times basic salary	14.9 times basic salary
Mike Killoran	2 times basic salary	9.5 times basic salary
Jeff Fairburn	2 times basic salary	0.8 times basic salary
Nigel Greenaway	2 times basic salary	0.9 times basic salary

Mike Farley and Mike Killoran hold significantly more than the minimum. As Jeff Fairburn and Nigel Greenaway do not currently hold the minimum, they are required to retain shares received as a result of share scheme awards (except for sales of shares to pay income tax and National Insurance due on the exercise of awards) until they increase their shareholdings to the guideline requirement.

External appointments

None of the executive Directors currently have 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 £190,000 p.a. for 2013, an increase of 3% on his fee for 2012. 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.

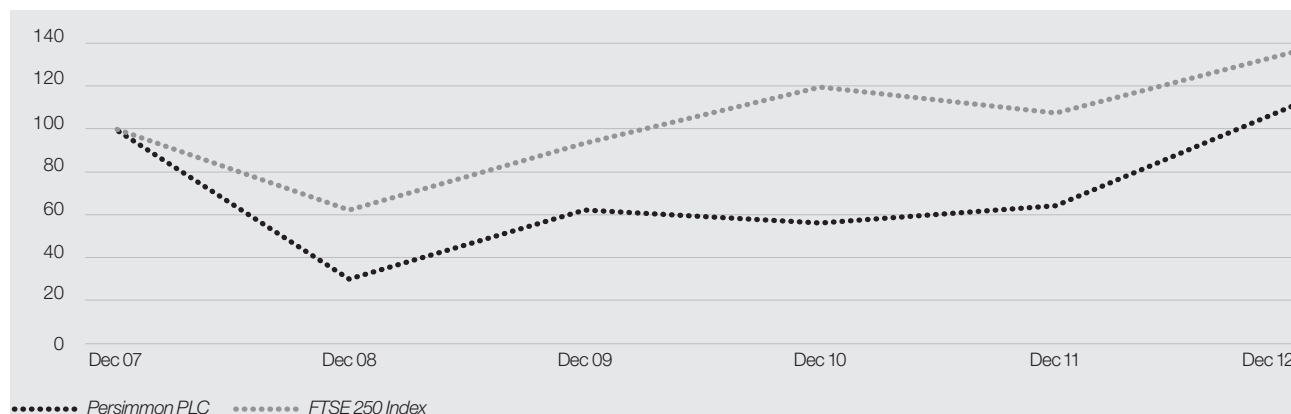
Non-executive Directors

The remuneration policy for non-executive Directors is to pay fees commensurate with their duties. 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 27. The Board as a whole determines the fees of the non-executive Directors. The fees for 2013 have increased by 3% to £53,000 p.a., plus an additional fee of £9,400 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 2012 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 2012

	Salaries and fees £	Performance related cash bonus £	Benefits £	Salary supplement in lieu of pension £	Deferred bonus shares earned £	2012 Total £	2011 Total £
Chairman							
N H T Wrigley	185,400	—	—	—	—	185,400	142,863
Executive							
M P Farley	678,800	678,800	32,843	203,640	339,400	1,933,483	1,856,475
J Fairburn [†]	347,985	360,000 [^]	23,180	10,731	180,000	921,896	752,598
M H Killoran [†]	434,117	441,500 [^]	32,972	120,936	220,750	1,250,275	1,178,767
Non-executive							
R C N Davidson	60,600	—	—	—	—	60,600	58,800
R J Pennycook	60,600	—	—	—	—	60,600	58,800
J Davie	60,600	—	—	—	—	60,600	56,073
M Preston [*]	50,133	—	—	—	—	50,133	—
Former non-executive							
D G F Thompson [†]	15,617	—	—	—	—	15,617	49,900
Totals	1,893,852	1,480,300	88,995	335,307	740,150	4,538,604	4,154,276

[‡] The Group's defined benefit pension scheme is non-contributory. As a result the salary paid to each of Mike Killoran and Jeff Fairburn while 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 39.

[†] David Thompson retired from the Board on 19 April 2012.

[^] Jeff Fairburn and Mike Killoran have each sacrificed part of their cash bonus entitlement before its award. Pension contributions equal to the amount given up were made into pension plans for the benefit of their dependants.

^{*} Mark Preston's fees are paid in full to his employing company, Grosvenor Estate Holdings.

Mr J Millar, who retired as a Director in April 2006 received a fee for 2012 of £12,500 (2011: £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 (2011: £7,500) and benefits of £37,840 (2011: £36,120) for the year to 31 December 2012. Mr G Grewer, who retired as a Director in December 2001 received a fee of £40,000 (2011: £40,000) for his role as Chairman of the Trustees of both the Persimmon Plc Pension and Life Assurance Scheme and the Prowting Pension Scheme.

During the year other than referred to above, no Director waived his entitlement to any emoluments.

Remuneration Report continued

Directors' pension entitlements

	Total accrued pension at 31 December 2011 £ p.a.	Total accrued pension at 31 December 2012 £ p.a.	Increase in accrued pension £ p.a.	Increase/(decrease) in accrued pension (net of inflation) £ p.a.	Transfer value at 31 December 2011 £	Transfer value at 31 December 2012 £	Increase in transfer value, less member contributions £	Transfer value of net of inflation increase/(decrease) in accrued pension less member contributions £
M P Farley	213,300	218,291	4,991	(5,674)	5,223,047	5,563,269	340,222	(144,612)
J Fairburn	39,623	43,660	4,037	2,198	364,757	430,929	66,172	21,691
M H Killoran	72,470	76,370	3,900	742	1,136,419	1,279,282	142,862	12,437

In addition the Company contributed £6,954 to Jeff Fairburn's Stakeholder Pension policy for the year to 31 December 2012 (2011: £9,527).

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

	1 January 2012	Granted in year	Exercised in year	Lapsed in year	31 December 2012	Exercisable from	Expiry date	Performance condition end date	Exercise price/ market price at date of award
M P Farley	239,188 ⁽²⁾	–	–	28,703	210,485	Apr 12	Apr 19	Dec 11	397.25p
	280,982 ⁽²⁾	–	–	–	280,982	Mar 13	Mar 20	Dec 12	459.9p
	291,722 ⁽²⁾	–	–	–	291,722	Apr 14	Apr 21	Dec 13	451.8p
	– 4,832,000 ⁽³⁾	–	–	–	4,832,000	40% Jan 18 100% Jan 22	Oct 22 Oct 22	Dec 21	620p
Total	811,892	4,832,000	–	28,703	5,615,189				
J Fairburn	6,944 ⁽²⁾	–	–	–	6,944	Sep 11	Sep 18	Dec 10	360.0p
	31,466 ⁽²⁾	–	–	3,776	27,690	Apr 12	Apr 19	Dec 11	397.25p
	83,170 ⁽²⁾	–	–	–	83,170	Mar 13	Mar 20	Dec 12	459.9p
	99,601 ⁽²⁾	–	–	–	99,601	Apr 14	Apr 21	Dec 13	451.8p
	2,465 ⁽¹⁾	–	–	–	2,465	Dec 14	May 15	–	365p
	– 2,416,000 ⁽³⁾	–	–	–	2,416,000	40% Jan 18 100% Jan 22	Oct 22 Oct 22	Dec 21	620p
Total	223,646	2,416,000	–	3,776	2,635,870				
M H Killoran	103,713 ⁽²⁾	–	–	12,446	91,267	Apr 12	Apr 19	Dec 11	397.25p
	137,064 ⁽²⁾	–	–	–	137,064	Mar 13	Mar 20	Dec 12	459.9p
	142,297 ⁽²⁾	–	–	–	142,297	Apr 14	Apr 21	Dec 13	451.8p
	2,465 ⁽¹⁾	–	–	–	2,465	Dec 14	May 15	–	365p
	– 3,382,400 ⁽³⁾	–	–	–	3,382,400	40% Jan 18 100% Jan 22	Oct 22 Oct 22	Dec 21	620p
Total	385,539	3,382,400	–	12,446	3,755,493				
Grand Total	1,421,077	10,630,400	–	44,925	12,006,552				

⁽¹⁾ Options granted under the Persimmon Plc Savings-Related Share Option Scheme 1998.

⁽²⁾ Options granted under the Persimmon Plc Long Term Incentive Plan 2007.

⁽³⁾ Options granted under the Persimmon Plc 2012 Long Term Incentive Plan.

All options and awards were granted for nil consideration. The 2012 LTIP awards were made on 17 October 2012 and the performance condition relating to these awards is set out on page 40.

Vesting of LTIP awards granted in 2009 was subject to the achievement of performance conditions based half on TSR relative to the FTSE 250 (excluding investment trusts) 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 cash generation 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. The TSR condition was partly met and the cash generation target was met in full, which meant that overall 88% of the 2009 award vested. The performance conditions relating to LTIP awards made in 2010 are set out on page 41.

Remuneration Report continued

The performance conditions for 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 2012 was 800p, the lowest closing price in 2012 was 471.5p and the highest closing price in 2012 was 820p.

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 2012	1 January 2012	31 December 2012	1 January 2012
N H T Wrigley	26,000	26,000	–	–
M P Farley	1,147,753	1,147,753	5,674,467	811,892
J Fairburn	41,214	41,214	2,662,856	223,646
M H Killoran	475,758	475,758	3,794,046	385,539
R C N Davidson	35,500	38,350	–	–
R J Pennycook	643	643	–	–
J Davie	10,000	10,000	–	–
M Preston	–	–	–	–
Total	1,736,868	1,739,718	12,131,369	1,421,077

The Directors' beneficial holdings represent 0.6% of the Company's issued share capital as at 31 December 2012. All interests of the Directors are beneficial. There has been no change in the Directors' interests set out above between 31 December 2012 and 22 February 2013. Interests in share options and awards include the Directors' interests in Bonus Share awards, as set out below.

Bonus Shares

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

	1 January 2012	2011 Bonus Shares awarded during year	Vested during year	31 December 2012
M P Farley	–	59,278	–	59,278
J Fairburn	–	26,986	–	26,986
M H Killoran	–	38,553	–	38,553
Total	–	124,817	–	124,817

Bonus Shares vest over a two year period. The proposed Bonus Share awards earned under the annual bonus arrangements for 2012 for Mike Farley, Jeff Fairburn and Mike Killoran are 39,635, 21,020 and 25,779 respectively. The proposed Bonus Share awards for 2012 were calculated at the average share price of 856.3p over the period from 1 January 2013 to 14 February 2013, inclusive.

By order of the Board

Jonathan Davie
Chairman Remuneration Committee
22 February 2013

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

Each of the Directors who are listed on pages 26 and 27 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
22 February 2013

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 2012 set out on pages 48 to 89. 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 46, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 2012 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 28 to 36 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 33, in relation to going concern;
- the part of the Corporate Governance Statement on pages 28 to 36 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.

Iain Moffatt (Senior Statutory Auditor)
for and on behalf of **KPMG Audit Plc, Statutory Auditor**
22 February 2013

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 Before exceptional items £m	2012 Exceptional items (note 6) £m	Total £m	2011 Before exceptional items £m	2011 Exceptional items (note 6) £m	Total £m
Continuing operations							
Revenue	5	1,721.4	–	1,721.4	1,535.0	–	1,535.0
Cost of sales		(1,419.5)	2.8	(1,416.7)	(1,312.0)	13.3	(1,298.7)
Gross profit		301.9	2.8	304.7	223.0	13.3	236.3
Other operating income		10.1	–	10.1	8.9	–	8.9
Operating expenses		(94.9)	–	(94.9)	(83.3)	–	(83.3)
Profit from operations before impairment of intangible assets		223.2	2.8	226.0	153.0	13.3	166.3
Impairment of intangible assets		(6.1)	–	(6.1)	(4.4)	–	(4.4)
Profit from operations	10	217.1	2.8	219.9	148.6	13.3	161.9
Finance income	9	9.2	–	9.2	7.5	7.1	14.6
Finance costs	9	(7.3)	–	(7.3)	(12.4)	(16.9)	(29.3)
Profit before tax		219.0	2.8	221.8	143.7	3.5	147.2
Tax	11.1	(50.9)	(0.7)	(51.6)	(37.3)	(0.9)	(38.2)
Profit after tax (all attributable to equity holders of the parent)	13	168.1	2.1	170.2	106.4	2.6	109.0
Other comprehensive (expense)/income							
Actuarial (losses)/gains on defined benefit pension schemes	29	(10.5)	–	(10.5)	7.8	–	7.8
Tax	11.2	2.5	–	2.5	(3.0)	–	(3.0)
Other comprehensive (expense)/income for the year, net of tax		(8.0)	–	(8.0)	4.8	–	4.8
Total recognised income for the year		160.1	2.1	162.2	111.2	2.6	113.8
Earnings per share ⁱ							
Basic	13			56.3p			36.1p
Diluted	13			55.7p			35.9p
Non-GAAP measures – Underlying earnings per share ⁱⁱ							
Basic	13			57.6p			36.8p
Diluted	13			57.0p			36.5p

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

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

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 2012

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Assets					
Non-current assets					
Intangible assets	14	244.5	250.8	2.8	3.0
Property, plant and equipment	15	29.9	28.7	1.8	1.9
Investments accounted for using the equity method	16.1	3.0	3.0	–	–
Investments in subsidiaries	16.2	–	–	3,205.7	3,205.7
Available for sale financial assets	17	202.9	164.0	–	–
Trade and other receivables	19	4.5	2.7	–	–
Deferred tax assets	23	13.4	25.2	10.1	21.7
		498.2	474.4	3,220.4	3,232.3
Current assets					
Inventories	18	2,051.0	2,003.4	–	–
Trade and other receivables	19	47.3	52.8	829.2	746.9
Cash and cash equivalents	26	201.5	41.0	146.8	56.5
Current tax assets		–	–	–	3.2
Assets held for sale	15	1.1	2.0	–	–
		2,300.9	2,099.2	976.0	806.6
Total assets		2,799.1	2,573.6	4,196.4	4,038.9
Liabilities					
Non-current liabilities					
Trade and other payables	21	(128.6)	(94.0)	(1.7)	(0.7)
Deferred tax liabilities	23	(20.7)	(19.6)	–	–
Partnership liability	30	(52.5)	–	–	–
Retirement benefit obligations	29	(4.1)	(59.5)	(4.1)	(59.5)
		(205.9)	(173.1)	(5.8)	(60.2)
Current liabilities					
Loans and borrowings	20	–	(0.1)	–	–
Trade and other payables	21	(535.9)	(482.4)	(3,368.4)	(3,137.4)
Partnership liability	30	(5.3)	–	–	–
Current tax liabilities		(58.3)	(78.7)	–	–
		(599.5)	(561.2)	(3,368.4)	(3,137.4)
Total liabilities		(805.4)	(734.3)	(3,374.2)	(3,197.6)
Net assets		1,993.7	1,839.3	822.2	841.3
Equity					
Ordinary share capital issued	24	30.3	30.3	30.3	30.3
Share premium		234.2	233.6	234.2	233.6
Other non-distributable reserve		281.4	281.4	4.6	4.6
Retained earnings		1,447.8	1,294.0	553.1	572.8
Total equity		1,993.7	1,839.3	822.2	841.3

The financial statements on pages 48 to 89 were approved by the Board of Directors on 22 February 2013 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 2012

Group	Share capital £m	Share premium £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2011	30.3	233.6	281.4	1,198.7	1,744.0
Profit for the year	–	–	–	109.0	109.0
Other comprehensive income	–	–	–	4.8	4.8
Transactions with owners:					
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
Balance at 31 December 2011	30.3	233.6	281.4	1,294.0	1,839.3
Profit for the year	–	–	–	170.2	170.2
Other comprehensive expense	–	–	–	(8.0)	(8.0)
Transactions with owners:					
Dividends on equity shares	–	–	–	(18.2)	(18.2)
Issue of new shares	–	0.6	–	–	0.6
Own shares purchased	–	–	–	(0.5)	(0.5)
Exercise of share options/share awards	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	–	9.6	9.6
Satisfaction of share options from own shares held	–	–	–	1.4	1.4
Balance at 31 December 2012	30.3	234.2	281.4	1,447.8	1,993.7

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.

Statements of Changes in Shareholders' Equity continued

Company	Share capital £m	Share premium £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2011	30.3	233.6	4.6	584.4	852.9
Profit for the year	–	–	–	2.1	2.1
Other comprehensive income	–	–	–	4.8	4.8
Transactions with owners:					
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
Balance at 31 December 2011	30.3	233.6	4.6	572.8	841.3
Loss for the year	–	–	–	(3.8)	(3.8)
Other comprehensive expense	–	–	–	(8.0)	(8.0)
Transactions with owners:					
Dividends on equity shares	–	–	–	(18.2)	(18.2)
Issue of new shares	–	0.6	–	–	0.6
Exercise of share options/share awards	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	–	9.6	9.6
Satisfaction of share options from own shares held	–	–	–	1.4	1.4
Balance at 31 December 2012	30.3	234.2	4.6	553.1	822.2

During the year the Company received dividends from wholly owned subsidiary undertakings of £nil (2011: £9.5m).

Retained earnings include £29.1m of non-distributable items (2011: £29.3m).

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

Cash Flow Statements

For the year ended 31 December 2012

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flows from operating activities:					
Profit/(loss) for the year		170.2	109.0	(3.8)	2.1
Tax charge recognised in profit or loss	11.1	51.6	38.2	1.8	1.1
Finance income	9	(9.2)	(7.5)	(0.3)	(0.2)
Finance costs	9	7.3	12.4	3.2	18.7
Depreciation charge	15	3.9	3.8	0.3	0.3
Amortisation of intangible assets	14	0.2	0.3	0.2	0.2
Impairment of intangible assets	14	6.1	4.4	–	–
Profit on disposal of property, plant and equipment	10	(0.1)	(0.4)	–	–
Share-based payment charge		5.7	4.2	5.7	4.2
Exceptional items	6	(2.8)	(3.5)	–	–
Other non-cash items		(1.5)	2.5	(0.7)	1.8
Cash inflow from operating activities		231.4	163.4	6.4	28.2
Movements in working capital:					
(Increase)/decrease in inventories		(40.9)	83.0	–	–
Decrease/(increase) in trade and other receivables		13.6	7.9	(83.2)	(306.0)
Increase/(decrease) in trade and other payables		75.2	(42.6)	166.7	458.6
Increase in available for sale financial assets		(38.9)	(48.8)	–	–
Cash generated from operations		240.4	162.9	89.9	180.8
Interest paid		(2.5)	(10.9)	(2.1)	(10.3)
Make-whole fees on early redemption of senior loan notes	6	–	(15.3)	–	(15.3)
Interest received		0.5	0.2	0.3	0.1
Receipts on cancellation of swaps	6	–	7.1	–	–
Tax (paid)/received		(56.6)	(22.1)	19.3	5.2
Net cash inflow from operating activities		181.8	121.9	107.4	160.5
Cash flows from investing activities:					
Investment in existing subsidiaries		–	–	–	(7.1)
Investment in existing jointly controlled entities	16	–	(0.2)	–	–
Capital redemption by existing subsidiaries	16	–	–	–	0.1
Purchase of property, plant and equipment		(4.4)	(4.0)	(0.2)	–
Proceeds from sale of property, plant and equipment		0.2	1.1	–	–
Proceeds from sale of assets held for sale		0.4	0.6	–	–
Net cash outflow from investing activities		(3.8)	(2.5)	(0.2)	(7.0)
Cash flows from financing activities:					
Repayment of borrowings		–	(41.4)	–	(41.4)
Early redemption of senior loan notes		–	(136.4)	–	(136.4)
Financing transaction costs		–	(3.7)	–	(3.7)
Finance lease principal payments		(0.1)	(0.5)	–	(0.3)
Own shares purchased		(0.5)	–	–	–
Share options consideration		1.3	2.4	1.3	2.4
Dividends paid		(18.2)	(25.6)	(18.2)	(25.6)
Net cash outflow from financing activities		(17.5)	(205.2)	(16.9)	(205.0)
Increase/(decrease) in net cash and cash equivalents	25	160.5	(85.8)	90.3	(51.5)
Cash and cash equivalents at the beginning of the year		41.0	126.8	56.5	108.0
Cash and cash equivalents at the end of the year	26	201.5	41.0	146.8	56.5

Notes to the Financial Statements

For the year ended 31 December 2012

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

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

- Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets. Introduces a presumption that for any asset valued using the fair value model in IAS 40 Investment Property, the carrying amount will be recovered through sale, rather than use, for deferred tax measurement purposes. No assets held by the Group at 31 December 2012 are valued in this way.
- Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets. Requires additional disclosures around transfers of financial assets including any risks that remain with an entity which has transferred any such asset. This has no relevance to the Group in the current period.

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

- Amendments to IAS 19 Employment Benefits.
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income.
- Amendments to IAS 27 Separate Financial Statements.
- Amendments to IAS 28 Investments in Associates and Joint Ventures.
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.
- IFRS 10 Consolidated Financial Statements.
- IFRS 11 Joint Arrangements.
- IFRS 12 Disclosure of Interests in Other Entities.
- IFRS 13 Fair Value Measurement.

The Group is currently considering the implications of these standards. With the exception of Amendments to IAS 19 Employment Benefits it is anticipated that the impact of these standards will be minimal and principally relate to amendment and extension of current disclosures.

Amendments to IAS 19 Employment Benefits, effective 1 January 2013, will restrict the assumed actuarial returns on assets to the pension scheme discount rate. This will increase the reported net finance costs of the scheme. The impact of the new standard on the reported profit before tax for the year ended 31 December 2012 would be a reduction of £3.5m.

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.

2 Accounting policies (continued)

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 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 16 to 20 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 committed bank facilities and cash resources over the medium term. The assessment included a review of the financial forecasts and the preparation of sensitivity analysis on the key factors which could affect future cash flow and funding requirements.

The Group's policy on funding capacity is to ensure that it always has sufficient committed bank facilities in place to meet foreseeable peak working capital requirements. At 31 December 2012 the Group had cash and deposits of £201.5m and £300m of undrawn committed bank facilities available to meet future funding requirements.

At 31 December 2012, the net cash position of the Group was £201.5m (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.

2 Accounting policies (continued)

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.

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, overdrafts and Partnership liabilities 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, either by nature or size, 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.

2 Accounting policies (continued)

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 generally accepted option pricing models, based upon publicly available market data at the point of grant. Share options include both market and non-market conditions. Market conditions are considered in the establishment of the initial valuation of the options. In the event of failure to meet market conditions share-based payment charges are not reversed. In the event of failure to meet non-market conditions share-based payment charges are reversed.

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

Retirement benefit costs

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

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

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

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

Taxation

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

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

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

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

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

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

Leases as lessee

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

2 Accounting policies (continued)

Property, plant and equipment

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

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

Plant – 3 to 5 years.

Fixtures and fittings – 3 to 5 years.

Freehold buildings – 50 years.

No depreciation is provided on freehold land.

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

Investments

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

Jointly controlled entities

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

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

Available for sale financial assets

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

Inventories

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

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

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

Trade and other receivables

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

2 Accounting policies (continued)

Derivative financial instruments

Until March 2011 the Group used currency swaps and interest rate swaps to manage financial risk. Interest charges were stated after taking account of these swaps.

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

Trade and other payables

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

Deposits

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

Cash and cash equivalents

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

Interest bearing borrowings

Interest bearing borrowings and Partnership liabilities are carried at amortised cost.

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:

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

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 2011, 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 £13.3m. During the year ended 31 December 2012, 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 £2.8m. 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 £184.5m with an impairment of £6.1m 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 2012.

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 2012 the asset recognised on the balance sheet was £202.9m (2011: £164.0m).

Pensions

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

Investment in subsidiaries

Investments in subsidiaries are stated at the lower of cost and net realisable value, which is dependent upon management assessment of future trading activity and is therefore subject to a degree of inherent uncertainty. The carrying amount of investments in the Company's balance sheet is £3,205.7m (2011: £3,205.7m).

4 Principal activities

The Group's operating segments, which were 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.

Notes to the Financial Statements continued

5 Revenue

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

	2012 £m	2011 £m
Revenue as noted in the statement of comprehensive income:		
Sale of goods	1,721.4	1,535.0
Other operating income	10.1	8.9
Finance income	9.2	14.6
Total revenue	1,740.7	1,558.5

Sale of goods includes £266.8m (2011: £173.6m) 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 £243.6m (2011: £161.8m).

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 £2.8m (2011: £13.3m). Further details are provided in note 18.

Amended financing arrangements

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.

7 Key management remuneration

Key management personnel, as disclosed under IAS 24 (Related Party Disclosures), have been identified as the Board of Directors and other senior operational management. Detailed disclosures of individual remuneration, pension entitlements and share options, for those Directors who served during the year, are given in the Remuneration Report on pages 37 to 45. A summary of key management remuneration is as follows:

	2012 £m	2011 £m
Short-term benefits	4.6	4.3
Post-employment benefits	0.1	0.1
Share-based payments	3.2	2.5
	7.9	6.9

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 2,515 (2011: 2,432).

	2012 £m	2011 £m
Staff costs (for the above persons):		
Wages and salaries	97.1	88.8
Social security costs	10.7	9.5
Pensions charge	2.4	5.5
Share-based payments	5.7	4.2
	115.9	108.0

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 (2011: 142).

	2012 £m	2011 £m
Staff costs (for the above persons):		
Wages and salaries	12.2	10.6
Social security costs	1.7	1.3
Pensions (credit)/charge	(0.6)	1.9
Share-based payments	5.7	4.2
	19.0	18.0

9 Net finance income/costs

	2012 £m	2011 £m
Recognised in profit after tax		
Gain on cancellation of interest rate swaps	–	7.1
Interest receivable on bank deposits	0.3	–
Imputed interest on available for sale financial assets	8.7	7.4
Other interest receivable	0.2	0.1
Finance income	9.2	14.6
Interest expense on bank overdrafts and loans	2.9	23.5
Imputed interest on deferred land payables	2.9	2.0
Other interest expense	1.5	3.8
Finance costs	7.3	29.3
Net finance income/(costs)	1.9	(14.7)

Notes to the Financial Statements continued

10 Profit from operations

	2012 £m	2011 £m
Profit from operations is stated after charging/(crediting):		
Staff costs (note 8)	115.9	108.0
Exceptional items (note 6)	(2.8)	(13.3)
Profit on sale of land holdings	(6.2)	(2.0)
Government grants	(1.8)	(10.0)
Rent receivable	(1.6)	(1.8)
Profit on sale of property, plant and equipment	(0.1)	(0.4)
Depreciation:		
– owned assets	3.9	3.7
– assets held under finance leases	–	0.1
Amortisation of intangible assets	0.2	0.3
Impairment of intangible assets	6.1	4.4
Operating lease charges	5.3	5.4

Government grants of £nil (2011: £4.8m) 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, KPMG Audit Plc, and their associates in respect of:

	2012 £'000	2011 £'000
Audit fees		
Audit of the Parent Company and consolidated financial statements	109	105
Audit related assurance services	50	50
The audit of the Company's subsidiaries pursuant to legislation	40	67
Total fees for the audit of the Company and its subsidiaries	199	222
Non-audit fees		
Tax advisory services	100	–
Other services	28	10
Total non-audit fees	128	10
	327	232

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 £195,000 (2011: £32,900).

11 Tax

11.1 Analysis of the tax charge for the year

	2012 £m	2011 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	41.4	34.4
Adjustments in respect of prior years	(6.0)	(4.9)
	35.4	29.5
Deferred tax relating to origination and reversal of temporary differences	15.6	7.4
Adjustments recognised in the current year in respect of prior years deferred tax	0.6	1.3
	16.2	8.7
	51.6	38.2

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

	2012 £m	2011 £m
Profit from continuing operations	221.8	147.2
Tax calculated at UK corporation tax rate of 24.5% (2011: 26.5%)	54.3	39.0
Accounting base cost not deductible for tax purposes	1.3	0.4
Goodwill impairment losses that are not deductible	1.5	1.2
Expenditure not allowable for tax purposes	0.1	1.8
Effect of change in rate of corporation tax	(0.2)	(0.6)
Adjustments in respect of prior years	(5.4)	(3.6)
Tax charge for the year recognised in profit or loss	51.6	38.2

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

	2012 £m	2011 £m
Recognised on actuarial (losses)/gains on pension schemes	(2.5)	3.0

11.3 Deferred tax recognised directly in equity (note 23)

	2012 £m	2011 £m
Arising on transactions with equity participants		
Relating to equity-settled transactions	(3.9)	(0.5)

Notes to the Financial Statements continued

12 Dividends/Return of cash

	2012 £m	2011 £m
Amounts recognised as distributions to equity holders in the period:		
2011 interim dividend paid of 4.0p per share	–	12.1
2011 final dividend paid of 6.0p per share	–	18.2
2013 proposed return of cash of 75.0p per share	227.1	–

The Company plans to return 75p in cash to shareholders for each ordinary share held at 6.00pm on 19 April 2013. The payment will be made on 28 June 2013, subject to shareholder approval.

The Directors propose to offer the opportunity for shareholders (wherever possible) to choose whether to receive the cash as a return of capital or as dividend income. It is anticipated the cash payment will be returned by way of a B share/C share scheme. Full details of this B/C share proposal will be sent to shareholders, along with the AGM notice, on 18 March 2013.

The Parent Company received £nil dividends from wholly owned subsidiary undertakings during 2012 (2011: £9.5m).

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 302.6m (2011: 301.3m).

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares from the start of the year, giving a figure of 305.4m (2011: 303.2m).

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

	2012	2011
Basic earnings per share	56.3p	36.1p
Underlying basic earnings per share	57.6p	36.8p
Diluted earnings per share	55.7p	35.9p
Underlying diluted earnings per share	57.0p	36.5p

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

	2012 £m	2011 £m
Underlying earnings attributable to shareholders	174.2	110.8
Exceptional items net of related taxation	2.1	2.6
Goodwill impairment	(6.1)	(4.4)
Earnings attributable to shareholders	170.2	109.0

14 Intangible assets

Group	Goodwill £m	Brand £m	Know-how £m	Total £m
Cost				
At 1 January 2011, 1 January 2012 and 31 December 2012	408.8	60.0	1.9	470.7
Accumulated impairment losses/amortisation				
At 1 January 2011	213.8	–	1.4	215.2
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 for the year	–	–	0.3	0.3
At 1 January 2012	218.2	–	1.7	219.9
Impairment losses for the year – utilisation of strategic land holdings	5.4	–	–	5.4
Impairment losses for the year – other	0.7	–	–	0.7
Amortisation charge	–	–	0.2	0.2
At 31 December 2012	224.3	–	1.9	226.2
Carrying amount				
At 31 December 2012	184.5	60.0	–	244.5
At 31 December 2011	190.6	60.0	0.2	250.8

Goodwill brought forward at the start of the year of £190.6m includes £155.3m (2011: £158.5m) which arose on acquisitions before the date of transition to IFRSs and is retained at the previous UK GAAP amounts, subject to being tested for impairment. £37.0m (2011: £37.0m) of this amount represented the brand value of Charles Church, acquired with Beazer Group plc in 2001.

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

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

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 –4% to +3% (2011: –2% to +8%), 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 +3% (2011: –2% to +6%).

After this period the growth rates applied to calculate the cash flow forecasts vary between nil and 3% (2011: 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% (2011: 5% and 8%) over the forecast periods.

Notes to the Financial Statements continued

14 Intangible assets (continued)

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 £5.4m (2011: £3.7m). 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 £113.1m (2011: £117.5m) and £34.4m (2011: £35.4m) of Beazer and Westbury goodwill allocated to strategic land holdings and £37.0m (2011: £37.0m) allocated to the Charles Church brand. In addition, there is £60.0m (2011: £60.0m) of carrying value in relation to the Westbury brand.

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

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

Company	Trademarks £m
Cost	
At 1 January 2011, 1 January 2012 and 31 December 2012	5.0
Amortisation	
At 1 January 2011	1.8
Charge for the year	0.2
At 1 January 2012	2.0
Charge for the year	0.2
At 31 December 2012	2.2
Carrying amount	
At 31 December 2012	2.8
At 31 December 2011	3.0

15 Property, plant and equipment

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
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)
At 1 January 2012	21.5	41.4	11.5	74.4
Additions	1.1	2.7	0.6	4.4
Reclassifications	0.9	–	–	0.9
Disposals	–	(0.5)	(0.5)	(1.0)
At 31 December 2012	23.5	43.6	11.6	78.7
Accumulated depreciation				
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)
At 1 January 2012	2.2	32.5	11.0	45.7
Charge for the year	0.4	3.0	0.5	3.9
Reclassifications	0.1	–	–	0.1
Disposals	–	(0.4)	(0.5)	(0.9)
At 31 December 2012	2.7	35.1	11.0	48.8
Carrying amount				
At 31 December 2012	20.8	8.5	0.6	29.9
At 31 December 2011	19.3	8.9	0.5	28.7
Assets held under finance lease:				
Carrying amount at 31 December 2012	–	–	–	–
Carrying amount at 31 December 2011	–	0.1	–	0.1

At 31 December 2012, the Group had £nil contractual commitments for the acquisition of property, plant and equipment (2011: £nil).

At 31 December 2012, the Group had assets held for sale with a book value of £1.1m (2011: £2.0m). During the year one property with a value of £0.4m was disposed of, one property with a value of £0.6m was reclassified as a non-current asset and one property, with a value of £0.1m was deemed surplus and reclassified as an asset held for sale. The unsold properties are supported by external valuations and are being actively marketed.

Notes to the Financial Statements continued

15 Property, plant and equipment (continued)

Company	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2011	1.9	0.1	3.8	5.8
Additions	–	–	0.1	0.1
Disposals	–	(0.1)	(0.4)	(0.5)
At 1 January 2012	1.9	–	3.5	5.4
Additions	–	–	0.2	0.2
Disposals	–	–	(0.2)	(0.2)
At 31 December 2012	1.9	–	3.5	5.4
Accumulated depreciation				
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)
At 1 January 2012	0.4	–	3.1	3.5
Charge for the year	–	–	0.3	0.3
Disposals	–	–	(0.2)	(0.2)
At 31 December 2012	0.4	–	3.2	3.6
Carrying amount				
At 31 December 2012	1.5	–	0.3	1.8
At 31 December 2011	1.5	–	0.4	1.9

16 Investments

16.1 Investments accounted for using the equity method

Group	Investments in jointly controlled entities £m
Cost	
At 1 January 2011	2.8
Share of results of jointly controlled entities	–
Investment in existing jointly controlled entities	0.2
At 31 December 2011	3.0
Share of results of jointly controlled entities	–
Investment in existing jointly controlled entities	–
At 31 December 2012	3.0

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 Turisticos 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.

16 Investments (continued)

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

	2012 £m	2011 £m
Non-current assets	0.5	0.5
Current assets	5.0	5.2
Current liabilities	(2.5)	(2.7)
Net assets of jointly controlled entities	3.0	3.0

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

	2012 £m	2011 £m
Income	2.0	2.2
Expenses	(2.0)	(2.2)
	–	–
Tax	–	–
Share of results of jointly controlled entities	–	–

16.2 Investments in subsidiaries

Company	2012 £m	2011 £m
Cost		
At 1 January	3,540.7	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	3,540.7
Impairment		
At 1 January	335.0	335.0
Charge for the year	–	–
At 31 December	335.0	335.0
Net book value		
At 31 December	3,205.7	3,205.7

The annual review of the carrying value of the investment in subsidiaries identified £nil impairment issues (2011: £nil impairment).

Details of Group undertakings are set out in note 32.

16.3 Acquisition

On 5 October 2012 the Group acquired the entire issued share capital of Hillreed Holdings Limited and Hillreed Developments Limited for aggregate cash consideration of £34.7m.

Management considers these transactions to be primarily land purchases, the fair value of the acquired assets and liabilities being £34.7m. Consequently there is no goodwill arising on these transactions. Further disclosures are not made in respect of these transactions on account of materiality, these transactions being immaterial to the profits, assets, liabilities and cash flows of the Group.

Notes to the Financial Statements continued

17 Available for sale financial assets

Group	2012 £m	2011 £m
At 1 January	164.0	115.2
Additions	36.5	44.8
Redemptions	(7.1)	(3.3)
Imputed interest	9.5	7.3
At 31 December	202.9	164.0

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 2012 (2011: £nil). None of the financial assets are past their due dates (2011: £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

	2012 £m	2011 £m
Land	1,495.7	1,484.2
Work in progress	443.1	427.8
Part exchange properties	58.6	39.1
Showhouses	53.6	52.3
	2,051.0	2,003.4

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 2012. 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 £2.8m (2011: £13.3m). A reversal of £23.8m (2011: £66.2m) on inventories that were written down in a previous accounting period and an impairment of land and work in progress of £21.0m (2011: £52.9m) 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 2011.

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.

18 Inventories (continued)

Following the 2012 review, £234.5m (2011: £318.6m) of inventories are valued at fair value less costs to sell rather than at historical cost.

Land with a carrying value of £394.7m (2011: £354.7m) was used as security for land payables (note 21).

The value of inventories expensed in 2012 and included in cost of sales was £1,351.9m excluding a net exceptional impairment reversal of £2.8m on inventories that were written down in a previous accounting period (2011: £1,266.5m, excluding the £13.3m exceptional impairment reversal).

19 Trade and other receivables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current assets				
Other receivables	4.5	2.7	–	–
Current assets				
Trade receivables	25.7	22.5	0.1	0.1
Other receivables	10.6	19.5	7.2	12.1
Amounts owed by Group undertakings	–	–	818.8	730.5
Prepayments and accrued income	11.0	10.8	3.1	4.2
	47.3	52.8	829.2	746.9

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.

	2012 £m	2011 £m
Ageing of overdue but not impaired receivables		
Less than 3 months	4.3	3.1
Over 3 months	1.2	0.4
	5.5	3.5

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

	2012 £m	2011 £m
Group		
At 1 January	3.3	3.3
Impairment losses charged	1.0	0.4
Amounts written off during the year as uncollectable	(0.1)	(0.1)
Impairment losses reversed	(0.9)	(0.3)
At 31 December	3.3	3.3

Notes to the Financial Statements continued

20 Borrowings

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Current liabilities				
Finance lease obligations	–	0.1	–	–
	–	0.1	–	–

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

The contractual repayment terms of borrowings are as noted below.

	Currency	Nominal interest rate	Year of maturity	2012 £m	2011 £m
Bank overdrafts	GBP	Base +1%–3.25%	2013	–	–
Syndicated loan	GBP	LIBOR +1.625%	2016	–	–
Finance lease obligations	GBP	7.00%–9.00%	2011–2012	–	0.1
Carrying value of borrowings				–	0.1

Finance lease obligations – total minimum lease payments:

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Within one year	–	0.1	–	–
Present value of finance lease obligations	–	0.1	–	–

21 Trade and other payables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current liabilities				
Land payables	105.3	74.0	–	–
Other payables	23.3	20.0	1.7	0.7
	128.6	94.0	1.7	0.7
Current liabilities				
Trade payables	146.8	144.4	0.8	0.8
Land payables	134.6	125.7	–	–
Deposits and on account contract receipts	45.0	41.1	–	–
Other payables	28.6	26.6	12.1	7.7
Accrued expenses	180.9	144.6	18.8	17.5
Amounts owed to Group undertakings	–	–	3,336.7	3,111.4
	535.9	482.4	3,368.4	3,137.4

Trade payables subject to payment terms were 16 days (2011: 15 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 2011 (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.

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 2011 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.

Notes to the Financial Statements continued

22 Financial risk management (continued)

The following exchange rates applied during the year:

	2012		2011	
	Average rate	Year end spot rate	Average rate	Year end spot rate
Euro	1.234	1.226	1.153	1.195

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

	2012 €m	2011 €m
Investments	3.3	3.2

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 (2011: £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	
	2012 £m	2011 £m	2012 £m	2011 £m
Fixed rate	–	0.1	–	–
Floating rate	(201.5)	(41.0)	(146.8)	(56.5)
Net (cash)/debt	(201.5)	(40.9)	(146.8)	(56.5)

Sensitivity analysis

If in the year ended 31 December 2012 UK interest rates had been 0.5% higher/lower then the Group's pre-tax profit would have increased/decreased by £0.3m (2011: decreased/increased by £0.3m). The Group's post-tax profit would have increased/decreased by £0.2m (2011: decreased/increased by £0.2m).

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.

22 Financial risk management (continued)

Housing market risk

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

Whilst it is not possible for the Group to fully mitigate such risks on a national macroeconomic basis the Group does continually monitor its geographical spread within the UK, seeking to balance its investment in areas offering the best immediate returns with a long term spread of its operations throughout the UK to minimise the risk 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 2012, 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 £10.1m (2011: £8.2m).

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 the syndicated loan 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.

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

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

The Group maintains a £300m revolving credit facility committed to March 2016. These committed facilities are sufficient to meet projected liquidity requirements to this date. Undrawn committed facilities at the reporting date amount to £300m (2011: £300m).

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.

22 Financial risk management (continued)

Capital risk

The capital structure of the Group consists of net cash/debt (borrowings as detailed in note 20 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 Group is currently pursuing a strategy of capital return to shareholders, whilst at the same time building a stronger, larger business, as announced on 28 February 2012. Full details are available on www.corporate.persimmonhomes.com

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

Group	2012 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
Trade and other payables	379.6	382.3	358.0	0.9	11.3	12.1
Land payables	239.9	259.6	136.4	56.7	52.6	13.9
Partnership liability	57.8	82.2	5.3	5.3	16.1	55.5
Financial liabilities	677.3	724.1	499.7	62.9	80.0	81.5

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

22 Financial risk management (continued)

Company	2012 Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
Trade and other payables	3,370.1	3,370.1	3,368.4	1.0	–	0.7
Financial liabilities	3,370.1	3,370.1	3,368.4	1.0	–	0.7

It is noted that £3,336.7m (2011: £3,111.4m) 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	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
Trade and other payables	3,138.1	3,138.1	3,137.4	0.5	0.2	–
Financial liabilities	3,138.1	3,138.1	3,137.4	0.5	0.2	–

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 onwards. 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 £0.5m requirement for a charge in relation to credit impairment in the year (2011: £nil).

The maximum total credit risk is as follows:

Group	2012 £m	2011 £m
Trade and other receivables	40.8	44.7
Available for sale financial assets	202.9	164.0
Cash and cash equivalents	201.5	41.0
	445.2	249.7
Company		
Loans and receivables (including intercompany balances)	826.1	742.7
Cash and cash equivalents	146.8	56.5
	972.9	799.2

The maximum credit exposure of the Group to overseas parties is under £0.1m (2011: under £0.1m) (Company: £nil (2011: £nil)). The Group's credit risk is widely distributed. The maximum credit risk should any single party (excepting financial institutions) fail to perform is £1.2m (2011: £3.1m) and is not yet due (Company: £333.1m (2011: £305.7m) 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 £85.6m (2011: £12.0m).

Notes to the Financial Statements continued

22 Financial risk management (continued)

Fair value

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

Group	2012		2011	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	40.8	40.8	44.7	44.7
Available for sale financial assets	202.9	202.9	164.0	164.0
Cash and cash equivalents	201.5	201.5	41.0	41.0
Finance lease obligations	–	–	(0.1)	(0.1)
Trade and other payables	(379.6)	(379.6)	(335.6)	(335.6)
Land payables	(239.9)	(239.9)	(199.7)	(199.7)
Partnership liability	(57.8)	(57.8)	–	–
	(232.1)	(232.1)	(285.7)	(285.7)

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

Company	2012		2011	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	826.1	826.1	742.7	742.7
Cash and cash equivalents	146.8	146.8	56.5	56.5
Trade and other payables	(3,370.1)	(3,370.1)	(3,138.1)	(3,138.1)
	(2,397.2)	(2,397.2)	(2,338.9)	(2,338.9)
Unrecognised loss	–	–	–	–

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

Financial assets and liabilities by category:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Available for sale financial assets	202.9	164.0	–	–
Trade and other receivables	40.8	44.7	826.1	742.7
Cash and cash equivalents	201.5	41.0	146.8	56.5
Financial liabilities at amortised cost	(677.3)	(535.4)	(3,370.1)	(3,138.1)
	(232.1)	(285.7)	(2,397.2)	(2,338.9)

22 Financial risk management (continued)

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

Group	2012 Level 3 £m	2011 Level 3 £m
Available for sale financial assets	202.9	164.0

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.

During 2011 the Group repaid all private placement loan notes. The related hedges were cancelled at the same time (see note 6). As at 31 December 2012 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	Other temporary differences £m	Total £m
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)	(8.7)
Charge to other comprehensive income	11.2	–	(3.0)	–	–	(3.0)
Amounts credited directly to equity	11.3	–	–	0.5	–	0.5
At 1 January 2012	2.2	14.9	2.0	1.7	(15.2)	5.6
(Charge)/credit to profit and loss	11.1	(0.9)	(16.5)	–	0.3	(16.2)
Credit to other comprehensive income	11.2	–	2.5	–	–	2.5
Amounts credited directly to equity	11.3	–	–	3.9	–	3.9
Other adjustments	–	–	–	–	(3.1)	(3.1)
At 31 December 2012	1.3	0.9	5.9	2.0	(17.4)	(7.3)

Notes to the Financial Statements continued

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:

	2012 £m	2011 £m
Pension scheme	0.9	14.9
Other items, including capital allowances	12.5	10.3
Deferred tax assets	13.4	25.2
Brands	(15.0)	(15.0)
Other items, including capital allowances	(5.7)	(4.6)
Deferred tax liabilities	(20.7)	(19.6)
Net deferred tax (liability)/asset	(7.3)	5.6

The Group has recognised deferred tax assets of £0.9m (2011: £14.9m) on the total pension deficit of £4.1m (2011: £59.5m).

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 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
At 1 January 2012	0.4	14.9	2.0	4.4	21.7
Charge to profit and loss	(0.3)	(16.5)	–	(1.2)	(18.0)
Credit to other comprehensive income	–	2.5	–	–	2.5
Amounts taken directly to equity	–	–	3.9	–	3.9
At 31 December 2012	0.1	0.9	5.9	3.2	10.1

No deferred tax assets and liabilities have been offset (2011: £nil).

24 Share capital

	2012 £m	2011 £m
Allotted, called up and fully paid		
302,883,148 (2011: 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. During the year 291,717 shares (2011: nil) were issued to employees in satisfaction of share option exercises.

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 2012, the Trustee made a market purchase of 65,000 shares at an average price of £7.58 and transferred no shares to employees. At 31 December 2012 the trust held 65,737 shares (2011: 737) on which dividends have been waived. The market value of these shares at 31 December 2012 was £525,896 (2011: £3,464). At 31 December 2012 the Company held nil (2011: 402,026) shares in treasury with a market value of £nil (2011: £1.9m) 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 2011	2.9	2.9
Own shares purchased	0.5	–
Disposed of on exercise/vesting to employees	(2.9)	(2.9)
Balance at 31 December 2012	0.5	–

25 Reconciliation of net cash flow to net cash/(debt)

Group	2012 £m	2011 £m
Increase/(decrease) in net cash and cash equivalents	160.5	(85.8)
Decrease in debt and finance lease obligations	0.1	178.3
Increase in net cash/decrease in net debt from cash flows	160.6	92.5
Non-cash movements	–	(2.0)
Increase in net cash/decrease in net debt	160.6	90.5
Net cash/(debt) at 1 January	40.9	(49.6)
Net cash at 31 December	201.5	40.9

Company	2012 £m	2011 £m
Increase/(decrease) in net cash and cash equivalents	90.3	(51.5)
Decrease in debt and finance lease obligations	–	178.1
Increase in net cash/decrease in net debt from cash flows	90.3	126.6
Non-cash movements	–	(2.0)
Increase in net cash/decrease in net debt	90.3	124.6
Net cash/(debt) at 1 January	56.5	(68.1)
Net cash at 31 December	146.8	56.5

26 Analysis of net cash

Group	2012 £m	Cash flow £m	2011 £m
Cash and cash equivalents	201.5	160.5	41.0
Finance lease obligations	–	0.1	(0.1)
Net cash at 31 December	201.5	160.6	40.9

Notes to the Financial Statements continued

26 Analysis of net cash (continued)

Company	2012 £m	Cash flow £m	2011 £m
Cash and cash equivalents	146.8	90.3	56.5
Net cash at 31 December	146.8	90.3	56.5

Net cash/debt is defined as cash and cash equivalents, bank overdrafts, finance lease obligations and interest bearing borrowings.

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 £260m (2011: £279m), 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 33.

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	2012 £m	2011 £m
Expiring within one year	0.8	0.8
Expiring in the second to fifth years inclusive	5.5	8.9
Expiring after five years	9.2	10.1
	15.5	19.8
Company as lessee		
Expiring within one year	0.2	0.2
Expiring in the second to fifth years inclusive	0.1	0.2
	0.3	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 1.0 years to expiry (2011: 1.6 years). Property leases have an average term of 6.1 years to expiry (2011: 5.5 years).

29 Retirement benefit obligations

At 31 December 2012 the Group operated three employee pension schemes, being a stakeholder scheme and two defined benefit schemes. Actuarial gains and losses in the defined benefit schemes are recognised in full as other comprehensive income/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 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 (2011: £1.0m) 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 2011 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. SAPs 'All' tables adjusted to allow for individual years of birth and individual scaling factors were used for post-retirement mortality. Future improvements were assumed to be in line with CMI 2010 Core Projections with a long term improvement rate of 1.25% p.a. for males and females. For pre-retirement mortality, 100% of Standard AMC/AFC00 mortality tables were used.

Liability Reduction Exercises

During the year a series of exercises have been undertaken with both deferred and pensioner members seeking to reduce the Persimmon Scheme's long term risk exposure. These have included enhanced transfer value, pension increase exchange and flexible retirement offer exercises. These have resulted in a net curtailment credit of £1.5m (2011: £nil) which has been included in the operating charge for the year.

Asset Backed Funding

On 21 December 2012 Persimmon Plc made a one-off cash contribution of £57.8m to the Persimmon Scheme. The Persimmon Scheme used these funds to invest in an interest in Persimmon Scottish Limited Partnership, which has undertaken to provide fixed cash payments to the Persimmon Scheme to meet its liabilities over a fifteen year period. See note 30 for further details.

Prowting Pension Scheme

The Group also operates 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. Active members accrue benefits on a career average revalued earnings basis. The most recent completed actuarial valuation of the Prowting Scheme was carried out as at 31 March 2012 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 AMC/AFC00 mortality tables were used for pre-retirement mortality. SAPs 'Light' tables with 100% scaling factor were used for post-retirement mortality, with allowance for future improvements in line with the CMI 2011 Core Projections assuming a long term annual rate of improvement of 1.25% p.a. for males and females.

Notes to the Financial Statements continued

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):

	2012 % p.a.	2011 % p.a.
Discount rate	4.60	4.90
General pay increases	3.10	3.10
RPI Inflation assumption	3.10	3.10
CPI Inflation assumption	2.40	2.10
Pension increases – Limited Price Indexation	3.00	2.90
Expected return on Scheme assets:		
Equities	8.00	8.00
Bonds	3.10	3.40
Property	7.00	7.00
Asset Backed Funding	5.25	N/A
Other	5.65	5.67

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 2012.

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

	2012 %	2011 %
Equities	47	50
Bonds	31	36
Property	1	–
Asset Backed Funding	14	–
Other	7	14

The amounts recognised in the statement of comprehensive (expense)/income are as follows:

	2012 £m	2011 £m
Current service cost	2.8	2.8
Past service credit	(2.7)	–
Settlement cost	1.2	–
Interest cost	18.6	21.5
Expected return on scheme assets	(18.5)	(19.8)
Total (included in staff costs)	1.4	4.5
Actuarial losses/(gains) recognised in other comprehensive (expense)/income	10.5	(7.8)
Total defined benefit scheme loss/(gain) recognised	11.9	(3.3)

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 £60.3m (2011: £49.8m).

	2012 £m	2011 £m
Expected return on scheme assets	18.5	19.8
Actuarial gain/(loss) on scheme assets	11.4	(13.0)
Actual return on scheme assets	29.9	6.8

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

	2012 £m	2011 £m
Present value of funded obligations	(406.2)	(392.6)
Fair value of scheme assets	402.1	333.1
Deficit in the scheme and net liability in the balance sheet	(4.1)	(59.5)

A deferred tax asset totalling £0.9m (2011: £14.9m) 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:

	2012 £m	2011 £m
At 1 January	(59.5)	(98.3)
Total (loss)/gain recognised in the period	(11.9)	3.3
Company contributions paid in the period	67.3	35.5
At 31 December	(4.1)	(59.5)

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

	2012 £m	2011 £m
At 1 January	(392.6)	(403.1)
Current service cost	(2.8)	(2.8)
Interest cost	(18.6)	(21.5)
Actuarial (losses)/gains on liabilities	(21.9)	20.8
Past service credit	2.7	–
Liabilities extinguished on settlement	15.7	–
Benefits paid	11.3	14.0
At 31 December	(406.2)	(392.6)

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

	2012 £m	2011 £m
At 1 January	333.1	304.8
Expected return	18.5	19.8
Actuarial gains/(losses) on assets	11.4	(13.0)
Contributions	67.3	35.5
Assets distributed on settlement	(16.9)	–
Benefits paid	(11.3)	(14.0)
At 31 December	402.1	333.1

The Group has agreed to minimum contributions to the schemes during 2013 of £5.3m.

Notes to the Financial Statements continued

29 Retirement benefit obligations (continued)

A three year history of experience adjustments is as follows:

	2012 £m	2011 £m	2010 £m
Present value of defined benefit obligation	(406.2)	(392.6)	(403.1)
Fair value of scheme assets	402.1	333.1	304.8
Deficit in the scheme	(4.1)	(59.5)	(98.3)
Experience adjustments on scheme assets	11.4	(13.0)	9.1
Percentage of scheme assets	2.8%	(3.9%)	3.0%

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

	2012 Years	2011 Years
Male current pensioner	22.5	22.3
Female current pensioner	24.7	24.6
Male future pensioner	23.6	23.6
Female future pensioner	26.0	25.8

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

30 Partnership Liability to the Persimmon Plc Pension & Life Assurance Scheme

Persimmon Scottish Pension Trustees Limited, a wholly owned Group subsidiary, is general partner in Persimmon Scottish Limited Partnership ('the Partnership'). Persimmon Plc Pension & Life Assurance Scheme ('the Persimmon Scheme') is a limited partner. As such the Partnership is included in the consolidated results of the Group.

The terms of the Persimmon Scheme's interest in the Partnership give obligatory rights to cash returns and insignificant operational control over the Partnership. As such the interest has been classified as a financial liability and is accounted for on an amortised cost basis.

Under IAS 19 the partnership interest of the Persimmon Scheme is included within the UK pension scheme assets. For further details see note 29.

The Partnership is the beneficial owner of a bond secured on a proportion of the Group's Available for Sale Assets and guaranteed by Persimmon Plc, which will support the limited partnership investment return to the Persimmon Scheme.

The initial Fair Value of the Partnership Liability to the Persimmon Scheme is £57.8m, of which £5.3m is due for settlement in under one year.

31 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 Group's long term incentive plans. Vesting of options is dependent upon:

1. 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.
2. Return of cash to shareholders in line with the Capital Return Plan announced on 28 February 2012 for options granted in 2012.

31 Share-based payments (continued)

Options granted under the Persimmon Long Term Incentive Plan 2007 ('2007 LTIP') between September 2010 and September 2011 consisted of an HMRC approved award where appropriate, with an exercise price equivalent to market value on the date of the award, plus a linked award. In the event that the market price of a share at the date of exercise of an approved option exceeds the option price, then the value of the linked award that vests is restricted to an amount capped at the cost of exercise of the approved option.

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

Group and Company	2012 Savings-Related Share Option Scheme		2011 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)
Outstanding at the beginning of the year	1,592,685	354.9	1,763,139	355.1
Granted during the year	291,726	598.0	824,393	365.0
Forfeited during the year	(130,861)	(361.0)	(272,954)	(462.6)
Exercised during the year	(351,164)	(353.8)	(721,893)	(326.1)
Outstanding at the end of the year	1,402,386	405.2	1,592,685	354.9
Exercisable at the end of the year	54,902	400.0	206,676	326.0

Group and Company	2012 Executive Share Schemes		2011 Executive Share Schemes	
	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	7,150	419.5	19,550	388.1
Exercised during the year	(7,150)	(419.5)	(12,400)	(370.1)
Outstanding at the end of the year	–	–	7,150	419.5
Exercisable at the end of the year	–	–	7,150	419.5

Group and Company	2012 Bonus Share Scheme		2011 Bonus Share Scheme	
	Number of shares under option		Number of shares under option	
Outstanding at the beginning of the year	–		–	
Granted during the year	124,817		–	
Outstanding at the end of the year	124,817		–	
Exercisable at the end of the year	–		–	

Group and Company	2012 Long Term Incentive Plan 2007 Non HMRC Approved		2011 Long Term Incentive Plan 2007 Non HMRC Approved	
	Number of shares under option		Number of shares under option	
Outstanding at the beginning of the year	3,119,794		3,283,781	
Granted during the year	–		1,197,109	
Forfeited during the year	(155,119)		(1,082,258)	
Exercised during the year	(335,429)		(278,838)	
Outstanding at the end of the year	2,629,246		3,119,794	
Exercisable at the end of the year	426,173		61,952	

Notes to the Financial Statements continued

31 Share-based payments (continued)

Group and Company	2012 Long Term Incentive Plan 2007 HMRC Approved		2011 Long Term Incentive Plan 2007 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	884,155	418.7	630,277	398.4
Granted during the year	–	–	360,869	452.1
Forfeited during the year	(49,280)	(430.3)	(106,991)	(412.1)
Outstanding at the end of the year	834,875	418.0	884,155	418.7
Exercisable at the end of the year	–	–	–	–

Group and Company	2012 Long Term Incentive Plan 2012*	
	Number of shares under option	
Outstanding at the beginning of the year	–	
Granted during the year	28,499,582	
Outstanding at the end of the year	28,499,582	
Exercisable at the end of the year	–	

* Under 2012 LTIP grants the option exercise price is variable dependant on the performance condition being return of cash to shareholders.

The weighted average share price at the date of exercise for share options exercised during the period was 641.8p (2011: 472.6p). The options outstanding at 31 December 2012 had a range of exercise prices from zero to 620.0p and a weighted average remaining contractual life of 7.8 years (2011: 1.7 years).

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

	LTIP 2012 Tranche1	LTIP 2012 Tranche2	SAYE 2012
Grant date	17 Oct 12	26 Nov 12	4 Oct 12
Risk free interest rate*	0.34%–1.67%	0.34%–1.67%	0.2%
Exercise price*	£6.20–Nil	£6.20–Nil	£5.98
Share price at date of grant	£7.92	£7.60	£7.53
Expected dividend yield	9%	9%	9%
Expected life*	3–9 Yrs	3–9 Yrs	3 Yrs
Date of vesting*	Dec 15–Dec 21	Dec 15–Dec 21	Dec 15
Expected volatility	30%	30%	30%
Fair value of option*	£1.34–£2.75	£1.22–£2.67	£0.78

* Exercise price, expected life and date of vesting are all variable under the 2012 LTIP grants, dependant on performance of the key condition of dividend payment. The Group has calculated fair values applicable at each of the key assessment dates.

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 2012, the Group recognised total expenses before tax of £5.7m (2011: £4.2m) 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 2012 the total credit recognised in relation to equity settled share-based payments was £10.2m (2011: £6.2m) of which £0.1m (2011: £0.3m) 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.

32 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 2012. All of these companies are registered in England. All 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 ^o	Charles Church Developments Limited ^Δ
Persimmon Holdings Limited*	Persimmon Shared Equity Limited**

^o The shares of this company are held by Persimmon Holdings Limited and Persimmon Plc.

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

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

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

33 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 (Related Party Disclosures). Summary information of the transactions with key management personnel is provided in note 7. Detailed disclosure of the individual remuneration of Board members is included in the Remuneration Report on pages 37 to 45. 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:

	2012 £m	2011 £m
Interest charges on intra-group funding	3.6	11.8
Group services recharges	25.9	23.0
	29.5	34.8

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 2012 totalled £818.8m (2011: £730.5m). Amounts owed to subsidiary undertakings by the Company at 31 December 2012 totalled £3,336.7m (2011: £3,111.4).

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.

The Company guarantees a bond issued from Persimmon Shared Equity Limited to Persimmon Scottish Limited Partnership (both subsidiary undertakings). The fair value of the bond at 31 December 2012 is £57.8m (2011: £nil).

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 2012 was £nil (2011: £nil). The Company has entered into guarantees over bank loans and borrowings of the subsidiary undertakings. The total value of such borrowings at 31 December 2012 was £nil (2011: £nil).

The Company has suffered £nil expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2011: £nil).

Directory

North Division Board

Dave Jenkinson

Division Chief Executive

John Cassie

Regional Chairman

David & ornton

Regional Chairman

Persimmon Homes Yorkshire

Charles Church Yorkshire

Persimmon House

Fulford

York YO19 4FE

Telephone (01904) 642199

Director in Charge: Simon Usher

Peter Jordan

Division Strategic Land Director

Persimmon Homes North West

Charles Church North West

30–34 Crofts Bank Road

Urmston

Manchester M41 0UH

Telephone (0161) 7463737

Regional Managing Director: Neil Follows

Persimmon Homes North Midlands

Charles Church North Midlands

Davidson House

Meridian East

Meridian Business Park

Leicester LE19 1WZ

Telephone (0116) 2815600

Managing Director: Paul Hurst

Persimmon Homes West Yorkshire

Charles Church West Yorkshire

3 Hepton Court

York Road

Leeds LS9 6PW

Telephone (0113) 2409726

Managing Director: Wayne Gradwell

Persimmon Homes Lancashire

Charles Church Lancashire

Persimmon House

Lancaster Business Park

Caton Road

Lancaster LA1 3RQ

Telephone (01524) 542000

Managing Director: Mark Cook

Persimmon Homes West Midlands

Charles Church West Midlands

Venture Court

Broadlands

Wolverhampton

West Midlands WV10 6TB

Telephone (01902) 787989

Director in Charge: Tim Brickley

Persimmon Homes West Scotland

Partnerships Scotland

Charles Church West Scotland

180 Findochty Street

Garthamlock

Glasgow G33 5EP

Telephone (0141) 7662600

Managing Director: Douglas Law

Persimmon Homes North East

Charles Church North East

2 Esh Plaza

Sir Bobby Robson Way

Great Park

Newcastle Upon Tyne NE13 9BA

Telephone (0191) 2389950

Deputy Managing Director: John Eynon

Persimmon Homes East Midlands

Charles Church East Midlands

Persimmon House

19 Commerce Road

Peterborough Business Park

Lynch Wood

Peterborough PE2 6LR

Telephone (01733) 397200

Managing Director: Adrian Evans

Persimmon Homes East Scotland

Charles Church East Scotland

Unit 1

Wester Inch Business Park

Old Well Court

Bathgate EH48 2TQ

Telephone (01506) 638300

Managing Director: Jim Kirkpatrick

Persimmon Homes Teesside

Charles Church Teesside

Persimmon House

Bowburn North Industrial Estate

Durham Road

Bowburn

County Durham DH6 5PF

Telephone (0191) 3774000

Managing Director: Neil Foster

Persimmon Homes Anglia

Charles Church Anglia

Persimmon House

Colville Road Works

Oulton Broad

Lowestoft

Suffolk NR33 9QS

Telephone (01502) 516784

Managing Director: Andrew Fuller

Directory continued

South Division Board

Nigel Greenaway
Division Chief Executive

Adrian Morgan
Regional Chairman

Andrew Hammond
Regional Chairman

Ian Jones
Division Finance Director

Richard Briggs
Divisional Strategic Land Director

Persimmon Homes South Midlands

Charles Church South Midlands

Westbury Partnerships

Aspen House
Birmingham Road
Studley
Warwickshire B80 7BG
Telephone (01527) 851200
Managing Director: Richard Oldroyd
Group Partnerships Director:
Ashley Lane

Persimmon Homes South East

Charles Church South East

Scholars House
60 College Road
Maidstone
Kent ME15 6SJ
Telephone (01622) 626816
Director in Charge: Chris Heney

Persimmon Homes Severn Valley

Charles Church Severn Valley

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

Persimmon Homes Midlands

Charles Church Midlands

3 Waterside Way
Bedford Road
Northampton NN4 7XD
Telephone (01604) 884600
Deputy Managing Director:
Judith Potter

Persimmon Homes Southern

Charles Church Southern

Charles Church House
Knoll Road
Camberley
Surrey GU15 3TQ
Telephone (01276) 808080
Director in Charge: Stephen Trenwith

Persimmon Homes South West

Charles Church South West

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

Persimmon Homes Essex

Charles Church Essex

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

Persimmon Homes South Coast

Charles Church South Coast

Park View House
100 Wickham Road
Fareham
Hampshire PO16 7HT
Telephone (01329) 514300
Director in Charge: Simon Perks

Persimmon Homes West Wales

Charles Church West Wales

Dragon House
Parc Y Ddraig
Penllergaer Business Park
Swansea SA4 9HJ
Telephone (01792) 229800
Regional Managing Director:
Glyn Mabey
Managing Director: Huw Llewellyn

Persimmon Homes Thames Valley

Charles Church Thames Valley

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

Persimmon Homes Wessex

Charles Church Wessex

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

Persimmon Homes East Wales

Charles Church East Wales

Llantrisant Business Park
Llantrisant
Rhondda Cynon Taff CF72 8YP
Telephone (01443) 223653
Managing Director: Steve Williams

Space4 Ltd

Tameside Drive
Castle Bromwich
Birmingham B35 7AG
Telephone: (0121) 7488383
Managing Director: Chris Hagan

Shareholder Information

Analysis of shareholding at 31 December 2012

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1 – 5,000	9,934	91.4	7,224,611	2.4
5,001 – 50,000	561	5.2	8,661,968	2.9
50,001 – 250,000	209	1.9	24,423,753	8.0
250,001 and over	162	1.5	262,572,816	86.7
Total	10,866	100.0	302,883,148	100.0

Share price – year ended 31 December 2012

Price at 31 December 2012	800.0p
Lowest for year	471.5p
Highest for year	820.0p

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

Financial Calendar 2013

Annual General Meeting and General Meeting	18 April 2013
Interim Management Statement	18 April 2013
Record date for B and/or C share entitlement	19 April 2013
Final date for B/C share elections	3 May 2013
Allotment of B/C shares to shareholder accounts	6 May 2013
Payment of cash return to shareholders	28 June 2013
Trading Update	2 July 2013
Announcement of Half Year Results	20 August 2013
Interim Management Statement	12 November 2013

Five Year Record

	2012	2011	2010	2009	2008
Unit sales	9,903	9,360	9,384	8,976	10,202
Revenue	£1,721.4m	£1,535.0m	£1,569.5m	£1,420.6m	£1,755.1m
Average selling price ^Δ	£175,640	£166,142	£169,339	£160,513	£172,994
Profit from operations	£223.2m	£153.0m	£128.7m	£57.2m	£198.3m
Profit before tax	£225.1m	£148.1m	£95.5m	£7.0m	£126.6m
Basic earnings per share	57.6p	36.8p	24.8p	2.1p	35.3p
Diluted earnings per share	57.0p	36.5p	24.6p	2.1p	35.2p
Cash return/dividend per share	75.0p	10.0p	7.5p	nil	5.0p
Net assets per share	658.2p	608.6p	579.1p	540.2p	518.0p
Total shareholders' equity	£1,993.7m	£1,839.3m	£1,744.0m	£1,623.2m	£1,555.2m
Return on capital employed	12.2%	8.3%	6.9%	2.8%	6.4%

All figures stated before exceptional items, goodwill amortisation/impairment where applicable.

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

Je& Fairburn
Group Managing Director

Mike Killoran
Group Finance Director

Nigel Greenaway
South Division Chief Executive

Richard Pennycook
Senior Independent Director

Neil Davidson
Non-executive Director

Jonathan Davie
Non-executive Director

Mark Preston
Non-executive Director

Marion Sears
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

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

Information to be found on our websites:



Find a home

www.persimmonhomes.com
www.charleschurch.com

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



Persimmon Group

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



Recruitment

www.persimmonjobs.com
Information on the careers and positions available within the Persimmon Group.



Corporate responsibility

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



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