



PERSIMMON PLC

Annual Report 2014

# Building value

---

## Who we are

Persimmon's aim is to be the UK's leading national housebuilder providing a range of desirable homes for all markets across England, Scotland and Wales.

Our 24 regional offices sold 13,509 new homes in 2014, an increase of 17% over the prior year.

Demand for housing is still increasing and with our very strong balance sheet, improving margins and excellent cash generation we remain confident of our future prospects.

## Inside this report

### Strategic Report

1	Highlights of the Year
2	Chairman's Statement
4	Group Overview
6	Business Model
7	Strategic Priorities
8	Strategy in Action
14	Key Performance Indicators
16	Performance Review
24	– How We Manage Risk
25	– Principal Risks
26	– Financial Review
29	– Corporate Responsibility
33	Current Trading Outlook

### Governance

40	Chairman's Corporate Governance Introduction
42	Board of Directors
44	Corporate Governance Statement and Directors' Report
52	Remuneration Committee Chairman's Statement
53	Summary of Approved Remuneration Policy
56	Annual Report on Remuneration

### Financial Statements

64	Statement of Directors' Responsibilities
65	Independent Auditor's Report
68	Consolidated Statement of Comprehensive Income
69	Balance Sheets
70	Statements of Changes in Shareholders' Equity
72	Cash Flow Statements
73	Notes to the Financial Statements

### Other Information

106	Shareholder Information
106	Financial Calendar 2015
106	Five Year Record
107	Company Information

## Highlights of the year

# Another excellent performance

## Financial highlights

**£2.57bn**

+23%

Revenue

(2013: £2.09bn)

**£388.7m**

+65%

Free cash generation<sup>1</sup>

(2013: £235.5m)

**18.4%**

+15%

Operating margin<sup>2</sup>

(2013: 16.0%)

**£475.0m**

+44%

Profit before tax<sup>2</sup>

(2013: £329.6m)

**95p**

Return of cash

(2013: 70p)

**715.4p**

+7%

Net assets per share

(2013: 671.4p)

## Operational highlights

**13,509**

+17%

Homes sold

(2013: 11,528)

**87,720**

+18%

Landbank (plots)

(2013: 74,407)

**£1,490.2m**

+5%

Forward sales<sup>3</sup>

(2014: £1,424.2m)

**380**

-3%

Average site numbers

(2013: 390)

**£190,667**

+5%

Average selling price<sup>4</sup>

(2013: £181,861)

**90%**

+0%

Construction waste recycled

(2013: 90%)

<sup>1</sup> Free cash generation is defined as net cash flow before financing activities.

<sup>2</sup> Stated before exceptional credits of £nil (2013: £14.1m credits) and goodwill impairment of £8.0m (2013: £6.6m).

<sup>3</sup> As at 23 February 2015 (2014 figure as at 24 February 2014).

<sup>4</sup> Stated before fair value charge of £1.1m (2013: £6.6m) on shared equity sales.

## Chairman's statement



# Creating value through growth and capital returns.

### Results

#### **The Group has delivered a strong and well balanced all round performance for the year ended 31 December 2014.**

Further improvements in lending by the major mortgage providers and the continued attraction of the Government's Help to Buy scheme helped increase access to the housing market during the period. Customer confidence in our regional markets across the country has been supported by the ongoing recovery in the UK's economic performance.

The Group increased the number of new homes legally completed in 2014 by 17% to 13,509 (2013: 11,528), bringing the increase in the volume of new homes brought to market by Persimmon over the last two years to 36%. The growth of the business is a fundamental element of the Group's long term strategy which is to build a stronger, larger business. This growth has been achieved by opening new outlets immediately on resolving planning requirements and actively managing build programmes to secure improved rates of new home construction on every development site.

Revenues for 2014 totalled £2.6bn, 23% ahead of the prior year (2013: £2.1bn). As the year progressed we experienced a gradual improvement in underlying selling prices across the country which accounted for around half of the overall headline increase in average selling price of 5.3% to £190,533 for the year (2013: £180,941).

As expected, the market returned to a more traditional seasonal trading pattern in the second half of 2014. Activity levels in the spring had been particularly strong. Mortgage lenders' support for Help to Buy, together with robust customer interest resulted in a significant uplift in customer enquiries. We experienced a return to more balanced market conditions in the autumn allowing us to not only increase 2014 revenues by 23% year on year, but also to increase the value of the Group's forward order book at 31 December 2014 by 7% to £973m (2013: £908m). This placed the business in a particularly strong position for the new year.

We remain focused on optimising shareholder returns in line with our long term strategic plan. The Group strives to maximise the value of each and every new home sold whilst controlling development costs to deliver the best gross margin from each site. Underlying gross margins\* increased by 200 basis points year on year to 22.2% (2013: 20.2%). This improvement in profitability results from the combination of reduced land recoveries from the 360 new sites we have opened over the last two years, strong control over development costs, and improved efficiencies from increased build productivity and overhead recoveries.

Underlying operating margin\* for the year of 18.4% is 240 basis points ahead of the prior year (2013: 16.0%). The 17% increase in new homes legally completed, combined with modest investment in operating overhead, improved the Group's operating efficiency and added 40 basis points to the Group's operating margin.

We are particularly pleased with the continued progress in the second half of the year with underlying operating margin reaching 19.0%, being 130 basis points stronger than the 17.7% achieved in the first half.

Underlying operating profits\* increased 42% year on year to £473m (2013: £333m). Our policy of minimising financial risk further underscored the improvement in profitability of the Group by helping to deliver a 44% increase in underlying profit before tax\* to £475m (2013: £330m). Underlying basic earnings per share\* of 124.5 pence is 49% higher than last year's 83.3 pence.

Our excellent liquidity has supported strong investment in new land to support and grow our site network. We are currently actively developing all sites that have an implementable detailed planning consent and look forward to opening as many new sites as soon as possible to replace those which will sell through in the near future. We generated £388m of free cash before capital returns during the year despite acquiring 26,822 plots of new land across 156 high quality locations, which represents c. 200% of current consumption. Importantly, within this new replacement land we converted 9,386 plots from our strategic land portfolio across 39 sites.

The Group held £378m of cash at the end of the year (2013: £204m). Return on capital employed\*\* was 24.6% for 2014, an improvement of 40% over the previous year (2013: 17.6%).

\* Stated before exceptional items and goodwill impairment.

\*\* 12 month rolling average and stated before exceptional items and goodwill impairment.

## Long term strategy and Capital Return Plan

We launched our long term strategy in February 2012 covering a nine-and-a-half year period ending in 2021. 2014, the third year of this plan, represents another strong step forward along this strategic path with a significant outperformance of our original expectations.

This strategic plan aims to build a stronger, larger Persimmon business based upon further disciplined investment in land and site development works at a time, and scale, that optimises both trading efficiencies and land replacement activity whilst minimising financial risk. Our long term strategy is focused on effectively mitigating the risks to sustainable value creation inherent in the UK housing market by maintaining capital discipline and delivering strong free cash generation to our shareholders over the housing cycle.

The strategic plan recognised the potential for the business to generate substantial surplus capital should the Group's operational execution be successful. The Board therefore made a commitment to deliver £1.9 billion (£6.20 per share) of surplus capital to shareholders over the nine-and-a-half year life of the plan.

To date we have returned £442m to shareholders, or 145p per share. This includes an initial planned payment of 75p per share on 28 June 2013, and a second instalment of 70p per share paid on 4 July 2014. This second payment was significantly accelerated from its planned payment in 2021 on presentation of the final results for 2013 on 24 February last year. In the same announcement the third instalment planned for July 2015 was reinstated at 95p per share.

Consistent with the principles embedded within our long term strategy and reflecting the excellent further progress Persimmon has made in 2014, combined with the confidence the Board has for the current year, the Board is recommending that the current Capital Return Plan schedule be accelerated further. Planning to minimise financial risk and retaining flexibility for reinvestment in the business remains

a priority for management at this point in the cycle. However, the combination of particularly strong trading in 2014, together with good capital discipline, resulted in total shareholder equity value per share (pre capital returns) generated for the year of 118 pence, an increase of 28% over the value generated last year (2013: 92 pence per share).

As a result the Directors now intend to return 95p per share in early April 2015 accelerating in full the payment of 95p per share previously scheduled for early July 2015.

The Group anticipates that the capital return for 2015 of 95p per share will be paid on Thursday 2 April 2015. The Directors again propose to offer shareholders the opportunity (wherever possible) to choose whether to receive the cash either as a return of capital or as dividend income by way of a B share/C share scheme in line with the procedure adopted in 2013 and 2014. Full details of the B share/C share proposal is being despatched to shareholders today, along with the required notice of a General Meeting of the Company containing a single shareholder resolution, being the vote for approval of the recommended payment of surplus capital of 95p per share on 2 April 2015.

## Outlook

Current total forward sales, including legal completions taken so far in 2015, are £1,490m, 5% ahead of the previous year (2014: £1,424m). We have experienced a solid opening period to the 2015 spring season with average visitors to site being in line with the levels of the prior year, 2014 having been particularly strong, with visitors being 16% ahead of 2013. This encouraging start has been supported by low cancellation levels, leading to our weekly private sales rate per site being 5% stronger than the prior year for the first eight weeks. The reduction of stamp duty on house purchases for the majority of home buyers introduced in the Autumn Statement last year is supporting sentiment and reducing costs for potential house buyers.

The Group has made a good start to the new year with 60 of the 120 new outlets planned for the first half of 2015 already open. By 30 June we aim to have construction underway at c. 400 active outlets, an increase of 7% over the c. 375 active sites at the start of the year.

We remain focused on maximising the value of each home sold and have experienced further modest selling price improvement for our private housing sales. Despite some uncertainty arising from the General Election in May, the ongoing gradual improvement in the UK economy and increasing mortgage lender support provides a supportive backdrop for the new homes market.

2014 represented another period of strong outperformance, with the Group delivering profitable growth and significant cash generation whilst completing substantial investment in new land which will sustain value creation for shareholders into future years. All Persimmon employees have worked extremely hard to deliver a significant increase in new homes to our customers. On behalf of the Board I would like to thank the management and all our staff, our suppliers and contractors on delivering such an outstanding performance. Your Board remains confident of the Group's further successful development in the future.

**Nicholas Wrigley**  
Chairman  
23 February 2015

## Group overview

# Offering choice and quality



**£191,028**  
Average  
selling price\*

**8,503**  
Units sold

**58,405**  
Plots



**Above:** The Oaks, Calne, Wiltshire.

Persimmon Homes is our core brand. We offer a range of quality new homes, from studio apartments to executive family homes in around 400 locations throughout the UK. With a reputation built on quality, we sell most of our homes under this brand.

\* Stated before fair value charge of £1.0m on shared equity sales.



**CHARLES CHURCH**

**£263,637**  
Average  
selling price\*

**2,750**  
Units sold

**12,198**  
Plots



**Above:** Royal Gardens, Salisbury, Wiltshire.

Charles Church is one of the country's foremost housebuilding brands with an unrivalled reputation for the design and quality of the homes it builds. We build premium homes under this brand tailored to local markets where research and experience has identified a strong demand for a more premium product.

\* Stated before fair value charge of £0.1m on shared equity sales.

**Westbury**  
partnerships

**£100,357**  
Average  
selling price

**2,256**  
Units sold

**17,117**  
Plots



**Above:** Lavender Copse, Basingstoke, Hampshire.

Westbury Partnerships is our brand with a focus on affordable, social housing. We sell these homes to housing associations across the UK and this brand plays a key part in the delivery of sustainable homes for the benefit of lower income occupiers, offering solutions to some of the country's affordable housing problems.

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

**5,085**  
Timber frames sold



**Above:** Manufactured Space4 panels on the assembly line.

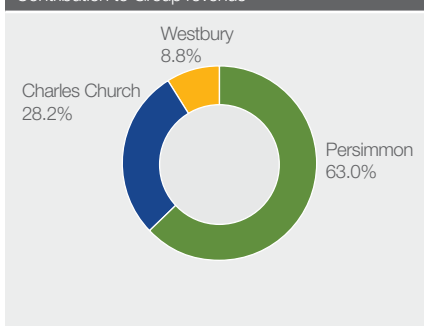
Our Space4 business operates the largest automated timber frame manufacturing plant in the UK. Space4's unique building system has been developed to address three main challenges in housing delivery; affordability, energy efficiency and construction industry skills shortages. This business supports all of our brands and over a third of the homes we build use Space4 timber frames.

# Well placed across the UK

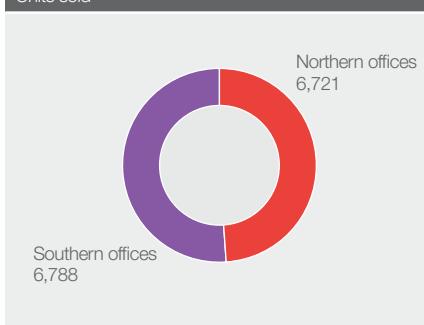
Office locations



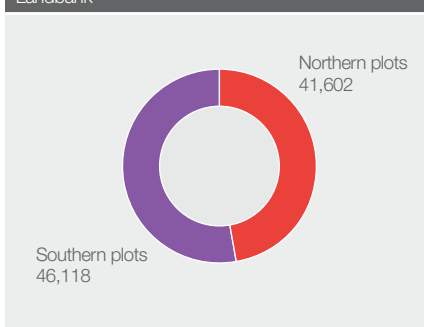
Contribution to Group revenue



Units sold



Landbank



## Business model

# How we create value

We are a national housebuilder with a local approach to building new homes. Our core housebuilding strengths in promoting our strategic land holdings and selective site acquisitions, together with efficient and modern construction methods, enable us to deliver quality homes for our customers and long term financial stability and excellent returns for shareholders.

### Strategic land



We control land which has potential for development but requires further promotion or investment in order for this potential to be realised. Our dedicated land teams maintain and replenish our strategic land portfolio and our planning teams promote land through the planning system.

# 17,000

Acres

### Consented land



Our development sites are acquired from our strategic land portfolio at a discount to open market value, or purchased on the open market with an existing planning consent. Maintaining our landbank gives continuity of supply and enables us to be selective in our land acquisitions.

# 87,720

Plots

### Construction



We focus on building family housing nationally under our key brands. Space4 technology supports our production rates by delivering energy efficient timber frames. We maintain tight control over our construction costs and work in progress, so that we can react quickly to changes in housing demand.

# 380

Average site numbers

### Sales



We build quality homes to order across the UK, from Exeter to Edinburgh and from Llantrisant to Lowestoft. By maintaining a national site network we can maximise our sales potential across the UK. Customer service from our sales teams is an important element in achieving high levels of customer satisfaction.

# 13,509

Sales

## Strategic priorities

# How we maximise performance

Our strategy is to build a larger, stronger business by improving margins, investing in high quality land and increasing profitability, thereby generating surplus cash to deliver our £1.9bn Capital Return Plan to shareholders.

### Our principal priorities are set out below

## 1 Build sustainable homes

- ▶ 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
- ▶ Improve resource and waste efficiency

 **Read more**  
See pages 23 and 30

## 2 Excellent customer focus

- ▶ Improve customer satisfaction and service levels
- ▶ Build good quality homes in attractive locations
- ▶ Continued sales and customer care training programmes

 **Read more**  
See page 29

## 3 Robust health and safety

- ▶ Continued management and staff training
- ▶ Continue to improve safety culture
- ▶ Maintain a high level of compliance with health and safety standards

 **Read more**  
See page 31

## 4 Selective new site acquisitions

- ▶ Traditional site layouts
- ▶ Buy land in excellent locations
- ▶ Appropriate product mix

 **Read more**  
See page 28


## 5 Improve margins

- ▶ Continue to control development costs
- ▶ Acquisition of new land at attractive prices
- ▶ Prioritise strategic land investment to improve shareholder returns
- ▶ Maximise sale prices

 **Read more**  
See pages 26 to 28

## 6 Strong cash generation

- ▶ Appropriate capital structure
- ▶ Capital discipline
- ▶ Accelerating returns to shareholders
- ▶ Minimise finance costs
- ▶ Good flexibility

 **Read more**  
See pages 18 and 27

## Strategy in action

# 1

## Build sustainable homes

We build sustainable energy efficient homes across the country, achieving a Standard Assessment Procedure\* rating of 83 (out of 100) in 2014. Our manufacturing plant at Space4 provided over 5,000 energy efficient insulated timber frames in 2014.



**Above:** Richard Cottier working at our Space4 timber frame factory

\* Standard Assessment Procedure is the Government's energy rating of residential dwellings.



## 2

### Excellent customer focus

We aim to take care of our customers, not just when they are buying but also after they have moved into their new home. Achieving our customers' satisfaction of value, quality and service is at the heart of what we endeavour to do.

**Above:** Sales advisor Katie Waller at our Bridleways site in Giltbrook, Nottingham

## Strategy in action continued



Our approach to health and safety centres on the concept that planning for and management of work activities on site should involve everyone. We encourage both collective and individual responsibility for health and safety risk identification and mitigation during pre-start and construction phases of our developments.

**Above:** Site manager Jim Robinson and Tom Waddell at our site in Earnock Glen, Hamilton, Scotland



# 4

## Selective new site acquisitions

Strategic land forms a core component of the Group's strategy.

We identify opportunities for promoting land through the planning system under the National Planning Policy Framework. Strategic land activity is undertaken within each of our regional offices allowing us to benefit from local expertise and knowledge, supported by Group resources and financial strength.

**Above:** Strategic land at Cardea, Stanground, Peterborough

## Strategy in action continued

# 5

## Improve margins

Our underlying operating margin improved again during 2014 to 18.4% as a result of our focus on buying land at the right price in the right location, controlling our build costs and the improved efficiency of our business created by the increase in our annual new home sales to 13,509 units.

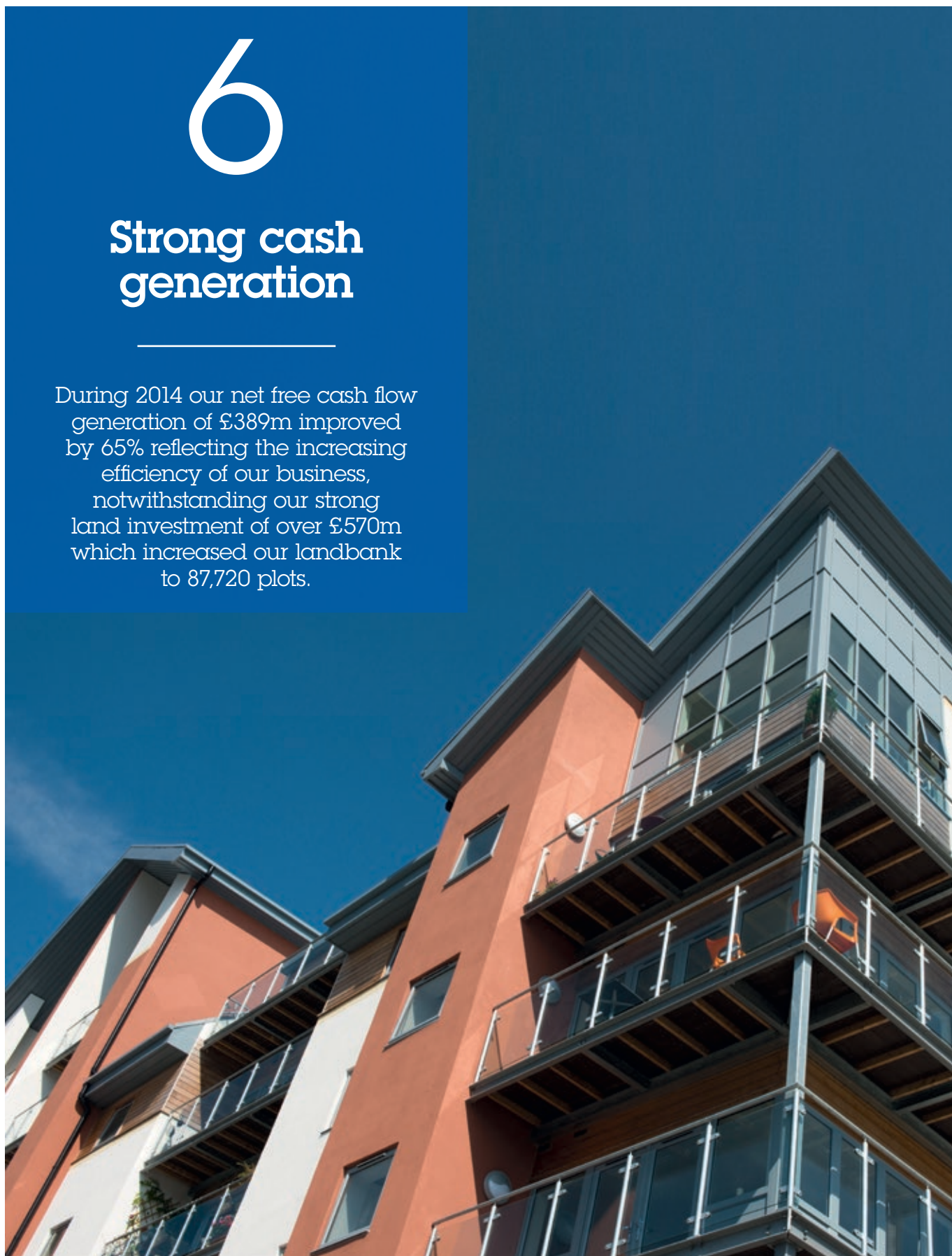


Above: Persimmon Homes, Pointers Way, Ludlow

6

## Strong cash generation

During 2014 our net free cash flow generation of £389m improved by 65% reflecting the increasing efficiency of our business, notwithstanding our strong land investment of over £570m which increased our landbank to 87,720 plots.



Above: Charles Church, Portishead, Bristol

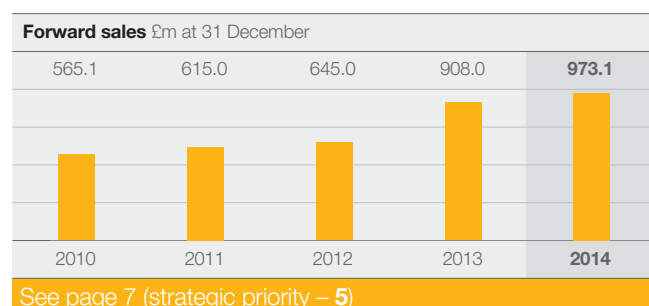
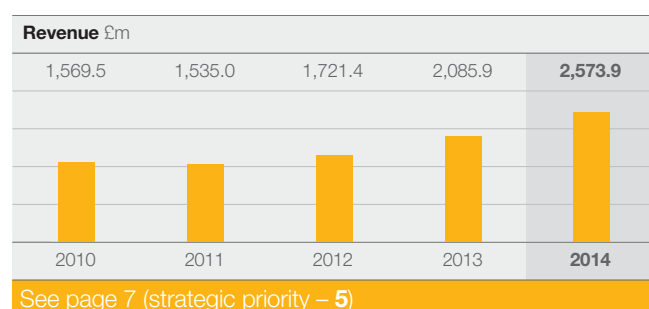
## Key performance indicators

# How we performed

## Financial KPIs

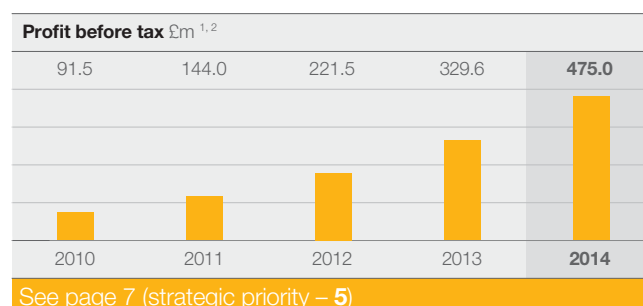
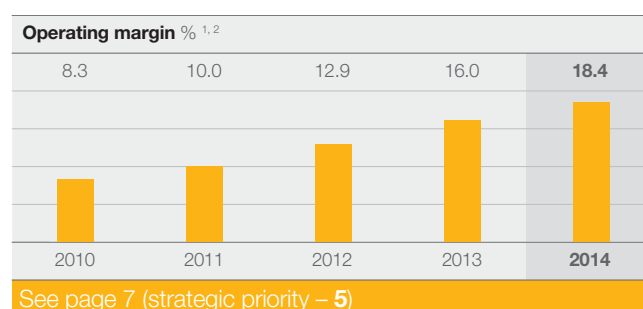
### Revenue measures

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.

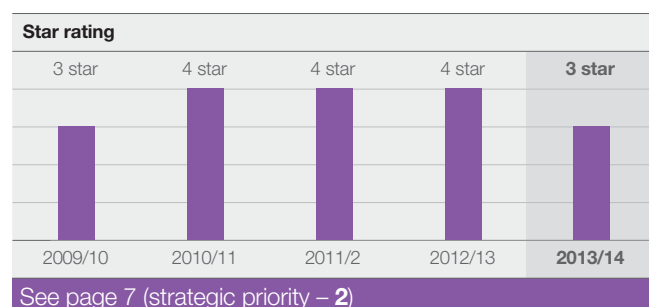


- 1 Stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment the figures are as follows: Operating margin: 18.1% (2013: 16.3%; 2012: 12.7%; 2011: 10.6%; 2010: 13.2%); Profit before tax: £467.0m (2013: £337.1m; 2012: £218.2m; 2011: £143.1m; 2010: £149.9m).
- 2 2010–2012 comparatives restated for IAS 19 Employee Benefits (revised).

## Non-financial KPIs

### Customer survey

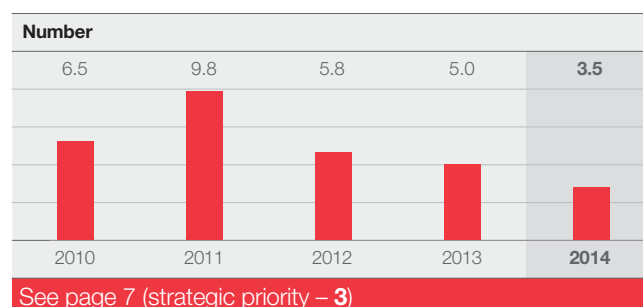
We participate in the Home Builders Federation/NHBC National New Homes Customer Satisfaction Survey\* to help improve our overall service and the quality of our homes.



\* Questionnaires returned for homes sold from October to September each year. Star rating out of 5.

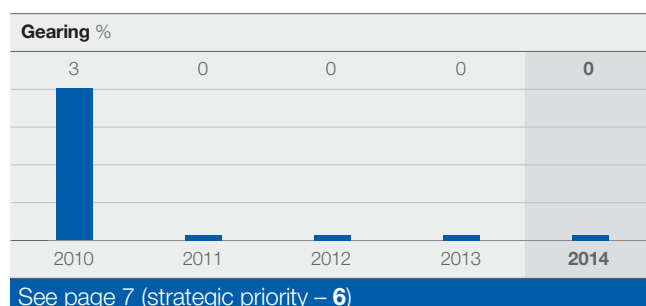
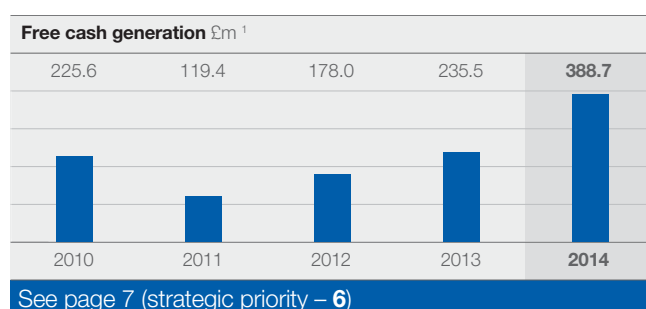
### The Reportable Injuries Disease and Dangerous Occurrences Regulations

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.



## Cash and cash flow measures

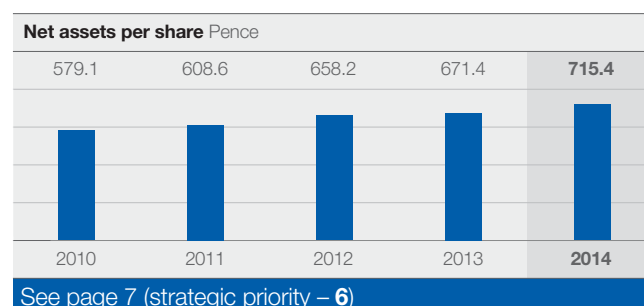
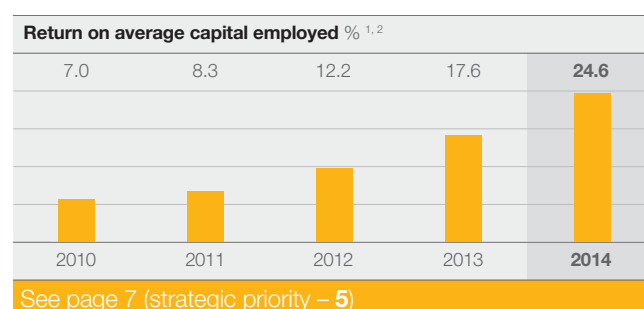
Cash and net debt are used to measure balance sheet strength. Ensuring we have an appropriate capital structure to support our strategy is a key to our success.



1 Free cash generation is defined as net cash flow before financing activities.

## Return measures

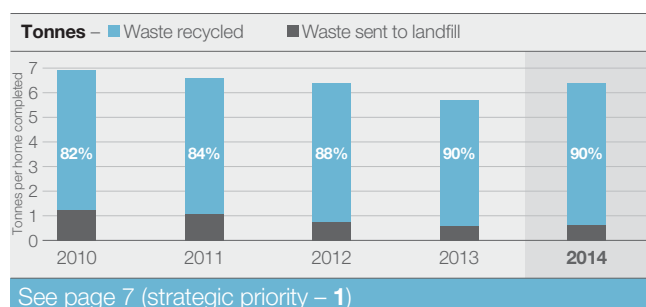
A combination of revenue and margin improvement will deliver growth in return on invested capital. We will continue our disciplined approach to working capital management.



- 1 Stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment the figures are as follows: Return on average capital employed: 24.2% (2013: 18.0%; 2012: 12.0%; 2011: 8.8%; 2010: 11.1%).  
2 2010–2012 comparatives restated for IAS 19 Employee Benefits (revised).

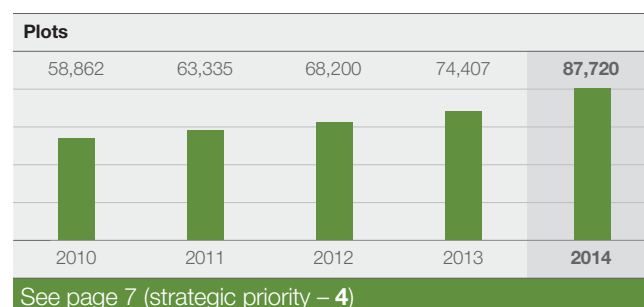
## Waste generated per home sold and % recycled

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



## Landbank

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



## Overview

# Key sections within the performance review



### Persimmon's strategy

During 2014, the Company made excellent progress in delivering its strategy. We delivered superior, sustainable shareholder value by opening new outlets across the country to meet increased demand, continuing to strengthen our landbank and maintaining strong capital discipline. Free cash generation was very strong and underlying return on capital employed\* increased by 40% to 24.6%.

 **Read more about strategy**  
See pages 17 to 18



### The UK housing market

Customer confidence strengthened gradually through the year as the UK's economic performance continued to improve. Our two private sale brands, Persimmon and Charles Church performed particularly well in the context of the recovering market with the Help to Buy scheme key to generating momentum. We have increased our construction activity substantially to fulfil the increased demand.

 **Read more about the UK housing market and trading**  
See pages 19 to 23 and 33



### Risk

Management focused on all key areas of risk, particularly the quality of new land investment and ensuring that our management and controls in health and safety were improved to keep pace with the rapid expansion in our construction activities.

 **Read more about risk management**  
See pages 24 to 25



### Financial review

Our financial performance improved again in 2014. Sales volumes increased 17% year on year and our operating margin\*\* increased 240 basis points to 18.4%. Profit before tax\*\* increased 44% over the prior year to £475m (2013: £333m). The Group ended the year with cash balances of £378m (2013: £204m).

 **Read more about the financial review**  
See pages 26 to 28 and 32



### Corporate responsibility

Our key areas of focus during 2014 were health and safety and waste recycling. Our health and safety performance improved with a 15% reduction in RIDDORs. Waste recycling was maintained at a high level of 90%.

 **Read more about corporate responsibility**  
See pages 29 to 31

\* 12 month rolling average and stated before exceptional items and goodwill impairment.

\*\* Stated before exceptional credits of £nil (2013: £14.1m credits) and goodwill impairment of £8.0m (2013: £6.6m).



### Customers

Achieving high levels of customer satisfaction remains at the core of our business. During the year we have experienced delays in handing over completed homes to customers resulting from the significant increase in construction activity. We have introduced new customer care procedures and we are working hard to improve the level of our customer satisfaction from the levels achieved in 2014.

 **Read more about customers**  
See page 29

## Performance review

# Building value



### Persimmon's Strategy

**The Group's long term strategy launched three years ago is designed to create superior sustainable shareholder value and remains focused on the most important elements of our business model:**

- The achievement and maintenance of an optimal scale for the business which enables our land replacement activity to be fulfilled most effectively;
- Prioritisation of strategic land investment and conversion to maximise shareholder returns over the long term;
- The maintenance of discipline over the level of capital employed within the business through the housing cycle and optimisation of the Group's capital structure; and
- The creation of greater certainty over the value and timing of returns to shareholders.

With the successful execution of the Group's operational objectives the strategy will lead to the generation of surplus capital across the housing cycle. Our strategic review identified the opportunity for the payment of £1.9bn (£6.20 per share) of surplus capital to shareholders over nine-and-a-half years ending in 2021.

This Capital Return Plan relies upon, and reinforces, capital discipline through the housing cycle to minimise operational and financial risk. Adoption of the strategy and the Capital Return Plan is designed to sustain superior shareholder value creation over the long term by delivering to shareholders a reliable level of cash return through the housing cycle.

Since the downturn in 2008 we have made substantial investment in new land of £2.04bn bringing over 81,100 new plots into the Group's landbank and, in response to the improvement in market conditions since early 2013, the Group's construction activity has increased significantly.

The Group's performance in 2014 has been particularly strong, building momentum in both new site starts based on the success of our previous land investment programme, and also in our build activity to support a substantial increase in the number of new homes sold to customers. During 2014 we were again successful in achieving our short term operational priorities which delivered further significant progress of our strategic plan as follows:

#### ■ Growth

The Group increased the volume of new homes sold during the year by 17% to 13,509, c. 2,000 more than in the prior year. Since the launch of the new strategy sales volumes have increased by 44%. Our strategy is focused on achieving a sustainable market share and scale in each of our regional markets. Historically, the Group's optimal annual private sales rate from each active site has been around three new homes sold every four weeks (or c. 0.75 of a sale per site per week), with efficiencies and returns being maximised at this level. During 2014 the market supported a weekly sales rate of 0.59 for our business. Looking ahead, a key part of the Group's strategy is to secure further improvement in returns and cash generation from an increase in the sustainable scale of its operations.

#### ■ Momentum

Total forward sales at 23 February 2015, including legal completions so far this year, increased to £1.49bn, 5% stronger than at the same point last year (2013: £1.42bn).

## Performance review continued

### ■ Resilience

During 2014 we successfully opened 185 new sites compared with planned openings of 190 new sites. We are optimistic of launching a further 120 new sites in the first half of 2015. Our teams are working extremely hard to secure the required implementable detailed planning consents and overcome increasing uncertainty in the planning system as the General Election approaches. Since the launch of the new strategy we have opened a total of 485 new sites. The Group currently has a strong network of 385 sites across all regions of the UK (2014: 390).

### ■ Asset strength

At 31 December 2014 the Group owned and controlled c. 87,700 plots of land for future development, of which c. 45,700 are owned and have an implementable detailed consent to support our short term construction and sales activity. We also own c. 12,700 plots which have an outline planning consent for which we are clearing detailed pre-start requirements as swiftly as possible. During 2014 we acquired 26,822 plots of new land on 156 sites, of which 9,386 plots were converted from our strategic land portfolio. Since the launch

of the new strategy we have successfully converted c. 20,700 plots from our strategic land portfolio and invested in a further 5,500 acres of strategic land.

Approximately 44% of the plots owned or under our control within our forward consented landbank at 31 December 2014 were previously part of our strategic land portfolio.

To support the growth of the business we have acquired c. 59,300 plots of new land since the launch of the new strategy. Our cash spend on land over this period totals c. £1.46bn. During the year we have experienced continued availability of land in good locations at values which we believe will deliver excellent returns for the future.

### ■ Returns

For 2014 the Group's return on average capital employed\* ('ROACE') improved by 40% to 24.6% from 17.6% in 2013. Since the launch of the new strategy ROACE\* has improved by c. 300%.

A key driver of the improvement in returns in 2014 was the 15% growth in underlying operating margin\*\* to 18.4% (from 16.0% in 2013). Underlying operating profits\*\* of £473.3m increased 42% year on year (2013: £333.1m). The Group has combined

this improved profitability with a strong focus on disciplined site construction programmes which has resulted in the continuation of our industry leading asset turn, with work in progress representing just 18% of 2014 revenues.

The Group's strong liquidity is supported by this robust capital efficiency. Free cash generated before capital return in 2014 was £388m, or 127 pence per share. Since the launch of the new strategy the Group has generated c. £800m, or 261 pence per share, of free cash before capital returns.

### ■ Surplus capital

On 4 July 2014 Persimmon paid a second, accelerated, instalment under the Capital Return Plan of 70 pence per share, amounting to £214m. Based upon the excellent progress the business has made in 2014 we now propose a further acceleration of the original planned payments. The Board is recommending that the payment of 95 pence per share currently planned for 6 July 2015 is paid on 2 April 2015.

The revised schedule of payments under the Capital Return Plan will now be as follows:

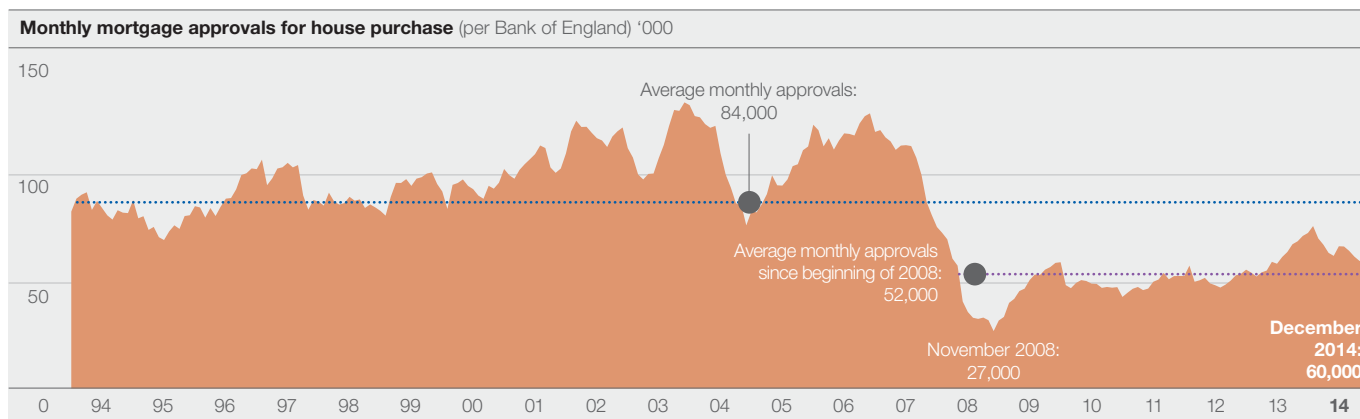
Original Plan	New Plan	Original Plan Pence Per Share	New Plan Pence Per Share
28 June 2013	28 June 2013	75 paid	75 paid
	4 July 2014	–	70 paid
30 June 2015	2 April 2015	95	95
	6 July 2016	–	10†
30 June 2017	6 July 2017	110	110
	6 July 2018	–	10†
30 June 2019	5 July 2019	110	110
30 June 2020	6 July 2020	115	115
30 June 2021	6 July 2021	115	25
Total		620	620

† At least 10p – value to be reviewed in due course.

We will continue to review future payments in the context of market conditions and the performance of the business.

\* 12 month rolling average and stated before exceptional items and goodwill impairment.

\*\* Stated before exceptional items and goodwill impairment.



## The UK housing market

**Market conditions in the first half of 2014 were particularly strong, supported by an increase in lending activity from the major mortgage lenders, in association with the Government sponsored Help to Buy shared equity scheme (“HTB”), providing compelling mortgage offers for customers. Customer confidence strengthened gradually through the year as the UK’s economic performance continued to improve.**

Whilst monthly mortgage approval volumes increased by 22% over the prior year in the first half of 2014, the reinforcement of disciplined lending practices on the introduction of the Mortgage Market Review regulations in April led to a cooling in the market from May. In addition, the Bank of England Financial Policy Committee introduced market oversight measures in June which are designed to provide a combination of guidance and direction to lenders with respect to the future balance of new

lending. We welcome these measures, as they should help ensure that sensible lending practices are maintained over the long term assisting the sustainability of the UK housing market. A number of major mortgage lenders adjusted their participation in the market through the second half of the year allowing others to pursue additional business. This healthy trend of increasing competition has delivered an improved supply of higher loan to value mortgages at compelling interest rates. We expect mortgage lenders to continue to increase their lending support to customers through 2015 based upon recent projections from the industry, despite some softening of mortgage approvals in the last quarter of 2014. Further expansion of industry output will be assisted by improvements in the availability of mortgage finance, allowing greater access to the market for customers.

The market returned to more balanced conditions in the second half of 2014. The Group’s average private sale reservation rate in the second half was c. 80% of that achieved in the particularly strong first half, but was just c. 3% lower than the second half of the prior year, a period which benefitted from the initial pent up demand released by the launch of HTB. The Group has continued to strengthen construction programmes to focus on

prompt delivery of new homes to our customers by overcoming the challenges of resourcing sites with the appropriate level of skilled site labour.

The industry has continued to pursue increases in build activity to capture the sales opportunities available across the UK. This has created increased competition for materials and skilled site labour. Whilst the supply chain has supported the industry by increasing the volume of materials manufactured and delivered to site progressively through the year, the availability of skilled trades has remained tight. Over the last three years the Group has increased the number of apprentices and graduate trainees engaged by the business. In addition, in the autumn we launched our ‘Combat to Construction’ initiative which provides re-training opportunities for service personnel on leaving the armed forces. The initiative enables ex-servicemen and women to acquire trade skills through a structured programme of training based both in the classroom and on site. We have been extremely pleased with the start to this scheme. The Group will be introducing substantial numbers of newly trained skilled employees to the business over the coming years to help rebuild the skill base and sustain growth in industry output over the longer term.

## Performance review continued



Our two private sale brands, Persimmon and Charles Church, have performed particularly well.

The Help to Buy scheme has been key to generating momentum in regional housing markets since its introduction in April 2013. Mortgage lenders have supported this 20% shared equity loan scheme with very competitive interest rates and we believe that these mortgages will remain the most attractive opportunity for customers to buy a new home. The Government created greater certainty for customers and the housebuilding industry in March 2014 when the duration of the scheme was extended from 2016 to 2020. During 2014 we sold 5,358 new homes to customers who have taken advantage of the scheme, 4,374 in England, and 984 in Wales and Scotland where we have also seen good take up of equivalent shared equity schemes.

The Government's mortgage indemnity guarantee scheme for higher loan to value mortgages, the second part of the Help to Buy scheme, was introduced across the whole of the UK housing market in early October 2013. This is helping to support an increase in existing owner occupiers moving through the market, facilitating an increase in the number of overall housing transactions. The new homes market will continue to benefit from the increase in the number of these housing chains successfully completing.

### Trading

Our two private sale brands, Persimmon and Charles Church, have performed particularly well in the context of the recovering market.

### Persimmon

With a focus on traditional family housing in popular locations our Persimmon brand increased revenue\*\*\* by 30% over last year, to £1.62bn (2013: £1.25bn), largely driven by the 24% increase in legal completions during 2014 to 8,503 new homes (2013: 6,830 new homes). This substantial increase reflects the success of targeting the first time buyer and first mover segments of the market with house types that customers have found compelling to buy in association with the availability of HTB. We remain firmly committed to providing a choice of new homes at affordable prices as reflected in the Persimmon average selling price\*\*\* of £191,028 for 2014, an increase of 4.4% over the prior year (2013: £182,899). For the Group as a whole, 57% of our total private market sales were delivered at prices of less than £200,000 (2013: 57%).

For the Persimmon brand, our northern regional markets secured 58% of legal completion volumes and 52% of revenues notwithstanding the average selling price\*\*\* for the year of £169,514 (2013: £161,188) being 23% lower than the average selling price for our southern regional markets of £221,001 (2013: £211,523). The highest average selling price was again achieved by our Shires market at £249,959 (2013: £228,619) with higher value sites at Roman Chase, Leighton Buzzard and at Princes Gate, Hatfield, delivering good

volumes of legal completions. The North East market delivered the lowest average selling price for the year at £158,061 (2013: £156,518) with notable sales to first time buyers being achieved at sites at The Grange, Bowburn and at South Shore, Blyth.

Persimmon legal completion volumes increased 24% year on year. A 16% increase in the second half followed an increase of 36% in the first half, the second half of the prior year being particularly strong due to the introduction of HTB. The Group's focus on improving build programmes and increased site resourcing enabled Persimmon to deliver over 400 more new homes in the second half of the year compared with the first half at 4,455 legal completions, a 10% increase. The largest volumes were secured in our Shires and Scottish markets with 1,359 and 1,173 legal completions respectively. Our Midlands and Western markets also produced very strong sales with each delivering over 1,000 legal completions. The significant pick up in legal completion volumes has been facilitated by the Group's focus on improving build rates and opening as many new sites as promptly as possible. Whilst opening new sites remains challenging, we will continue to work diligently to secure new site starts as quickly as possible to expand our output further in 2015 where markets allow.

The land market offered some excellent opportunities to buy new sites with attractive levels of return during the year due to an improvement in supply resulting from the prior introduction of the National Planning Policy Framework and reduced levels of competition. As a result Persimmon acquired 17,676 plots

\*\*\*Stated before fair value charge on shared equity sales.

of new land during the period and has 58,405 plots owned and under control in the forward consented landbank at 31 December 2014. Despite this strong investment for the future the landbank has shortened a little from the prior year due to the rapid increase in legal completions year on year and now represents a forward supply of 6.9 years at 2014 output levels. Asset efficiency and return on capital employed will continue to improve with the further growth of the business.

We also enjoyed further success in converting our strategic land into consented land across the UK during the year and for Persimmon we delivered 5,546 plots into our consented landbank which represents 65% of the plots consumed by legal completions in the year. Notable conversions were achieved for 148 new homes at Edinburgh, East Scotland and for 292 plots at Bishops Stortford in Essex which includes a partnership housing allocation of 105 plots.

We continue to work with St Modwen to deliver new homes from our joint operations and sold 285 new homes in 2014 from the eight active sites under joint development (2013: 150 legal completions).

### Charles Church

Through offering executive housing in premium locations, Charles Church also generated significant revenue\*\*\* growth of 14% year on year, to £725.0m (2013: £637.5m). Legal completion volumes increased 7% to 2,750 new homes at an average selling price\*\*\* of £263,637 (2013: £247,375), an increase of 6.6% on the prior year. In the first half of 2014 the Charles Church brand experienced a 20% increase in legal completion volumes over last year to 1,372 new homes and managed to maintain this volume of home completions in the second half.

Through our market research and experience we continue to identify locations across the UK where we expect to see strong demand for Charles Church homes. Around 68% of Charles Church sales were secured in more southern markets which is slightly ahead of the prior year. The increase in average selling price year on year was in part a result of this shift in geographic mix, with new homes in more southern markets typically

commanding a higher price. This was influenced by strong legal completion volumes delivered at sites at Henfield, south of Crawley, and at Wootton, south west of Bedford.

On our larger sites we continue to provide both Persimmon and Charles Church branded new homes each catering for their different customer markets where the site allows a suitably differentiated offer to be developed. This dual branding approach allows the Group to optimise its sales rates and achieve a more rapid asset turn by attracting customers from across the widest range of the home buying public. This allows our site operations to run more efficiently with consequential benefits being captured through our operations, from customer care and health and safety to continuity of site resourcing and build programming. Dual offers have been recently established at Bishopton in West Scotland where the development scheme includes 290 Persimmon plots and 30 Charles Church homes in different locations on the same large site and similarly on a 186 unit development at Swindon in Wessex where 66 Charles Church homes are available.

During the year we invested strongly in new land for Charles Church acquiring 4,233 plots. This has led to the Charles Church forward consented landbank of 12,198 plots owned and under control to extend a little to 4.4 years of forward supply at 2014 sales volumes. Despite this, as planned, we expect the Charles Church landbank to remain shorter than that for Persimmon to allow Charles Church to deliver a strong return on capital whilst accommodating a sales rate which is typically slower than for Persimmon due to the higher average pricing.

Of the new land acquired in 2014, 1,605 plots were converted from the strategic landbank representing 58% of 2014 legal completions. Our successful conversion of strategic land, for example at Holmes Chapel in the North West for a development of 56 new homes and at Cardiff in East Wales for 130 plots, will add superior returns for the Charles Church brand as these sites achieve implementable detailed residential planning consent and become active in the future.



# £263,637

**Charles Church average  
selling price\*\*\***  
(2013: £247,375)

## Performance review continued

### Westbury Partnerships

Westbury Partnerships, our partnership housing business, increased the volume of new homes delivered to our housing association partners across the UK by 6% in 2014 to 2,256 homes (2013: 2,121 homes).

We remain focused on developing sustainable communities in locations where families wish to work and live, assisting as many lower income families as possible to gain access to the housing market in line with the aims of the National Planning Policy Framework. Our partnership business is able to offer housing across all tenures at an early stage in the planning process to our housing association partners based on the projected dates for opening up new sites. We start construction on new sites as quickly as possible, working hard to fulfil all planning responsibilities to deliver newly built houses to our housing association partners as early as possible in the development programme. This remains an important market for the Group, representing 17% of total Group legal completions for 2014.

The Group continues to enjoy a very strong relationship with the Homes & Community Agency ("HCA") and the Housing Agencies in Scotland and Wales. Our partnership housing business is actively involved in managing our relationships associated with the Help to Buy equity loan scheme in England and similar schemes in Scotland and Wales. Since the introduction of these schemes the Group has sold over 7,500 new homes to customers who have secured HTB mortgages, the vast majority being first time buyers reflecting the greater access this scheme provides for customers taking their first step into the housing market.

During 2014 we made further progress with the Group's commitment to the Government's 2011-2015 Affordable Housing Programme ("AHP") which is supported with grant funding. This programme is focused on delivering low cost homes across the regions. Working closely with the HCA, Westbury Partnerships has committed to build 335 new homes under the AHP. During the year we have delivered 105 new homes on sites at East Trowbridge near Bath, Pointers Way in Redditch, and Haddenham Parkway in Buckinghamshire. Westbury Partnerships will continue to work with the HCA to secure participation in the new AHP which commences in March 2015.

The Government continues to dispose of public land through the Delivery Partner Panel ("DPP") to facilitate increased land supply to support growth in new house construction. Westbury Partnerships leads the Group's review and examination of all these opportunities having secured the Group's participation in the DPP until May 2017. During the year 273 plots of land at Eldon Whins in County Durham were secured via the DPP for future development on successfully achieving planning consent. In addition, we are about to start constructing 155 new homes at Pleasley Hill, Mansfield sourced through the DPP. We are confident that the Group will continue to identify further good development opportunities working with Government to help to increase overall supply of newly built homes across the UK.



# 5,085

**Space4 timber frames**  
(2013: 4,204)

## Space4

During 2014 the Group's housebuilding businesses have increased their use of our unique in-house Space4 manufacturing facility, with volumes of closed-panel timber frame house kits increasing by 21% to c. 5,100 units (2013: 4,204 units). Our Space4 system is a modern method of construction using factory based manufacturing techniques to produce a timber frame and highly insulated panels that are integral to the system. This 'fabric first' technique delivers very high levels of thermal efficiency. The system is ideally placed to fulfil the increasing standards of construction required by the progressive improvements to building regulations, which will deliver the zero carbon objectives for the construction of all new homes over the long term.

Space4 has assisted the Group to react swiftly to the increase in sales rates experienced in the market over the last two years and to deliver more new homes more quickly, as reflected in the 36% increase in legal completion volumes over that two year period. This has supported increased productivity on site with more efficient build programmes and improved asset turn in our housebuilding businesses. The Space4 factory has the capacity to increase production to around 8,000 kits each year. We will continue to focus on maximising the utilisation of this capacity to support the future growth of the business.

## Seasonality and pricing

Reflecting the strong forward sales reservation position at the start of 2014 (28% up on the prior year) and the buoyant spring sales season, the Group's sales volume in the first half of 6,408 new homes was 28% ahead of last year (2013: 5,022 new homes). The Group's average weekly private sales rate was 17% stronger through the first half of the year. We opened 90 new sites in the first half to maintain our active outlet network at c. 385 sites.

Our forward order volumes at 30 June 2014 were 20% stronger than the prior year due to the improved sales rate achieved over a stable and strong outlet network. Legal completion volumes in the second half of the year increased further to 7,101 new homes, 11% ahead of the volume of the first six months and 9% ahead of the second half volume of the previous year (2013: 6,506 new homes). We ended 2014 with forward order volumes 5% stronger than the prior year providing a robust platform for sales delivery into 2015.

Selling prices across our regional markets gradually increased through 2014, being influenced by normal regional economic factors to reach £190,533 for the whole Group (2013: £180,941). Underlying average selling price firmed by c. 2.5%, around half the headline year on year increase of 5.3%. The remainder of the increase largely resulted from a change in mix with a slightly smaller proportion of housing association sales this year and increased sales in southern markets at higher price points. We have been able to maintain lower levels of marketing incentives as customer confidence continued to improve. The Group's average selling price increased from £186,970 in the first half to £193,749 in the second half.

During 2014 our southern regional markets accounted for c. 63% of total sales revenues (2013: 61%), reflecting both a higher proportion of Charles Church activity in these southern markets and the distribution of our active site network during the year.



During 2014 the Group's housebuilding businesses have increased their use of our unique in-house Space4 manufacturing facility, with volumes of closed panel timber frame house kits increasing by 21% to 5,085 units (2013: 4,204 units).

## Performance review continued

# How we manage risk



## Risk

**Persimmon has a long established and effective framework for identifying, monitoring and managing the risks faced by the Group. Management implement the Board's policies on risk control through the design and operation of appropriate internal control systems.**

### Board

- Sets the Group strategy
- Establishes the policy of risk mitigation and control
- Ensures appropriate financial controls are available
- Regularly monitors Group risks

### Audit Committee

- Monitors the integrity of the Group's financial reporting process
- Approves the Group Risk Manager's annual risk management programme
- Reviews the effectiveness of internal controls
- Monitors the statutory audit

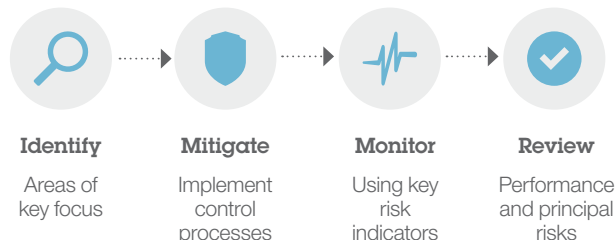
### Risk Committee

- Determines appropriate control procedures are in place
- Reviews Group performance against budget and forecasts
- Involvement in each operating business management meetings
- Reviews reports from Group Risk, the Health and Safety Director and the Corporate Responsibility Committee

### Group Risk Department

- Risk based programme of internal audit project work
- Compliance testing and assurance
- Production of KPI data on the Group's key risks
- Maintenance of Group Risk Register

### Our risk management process



### Key areas of focus during 2014

Quality of new land investment

Monitoring health and safety policy and procedures

Review of the carrying value of the Group's land and work in progress

Review of the carrying value of shared equity receivables

Review of customer care, procedures and resources

Reviewing Group sales and marketing policy and procedures

Review of upgrade of information technology

# What could affect our business

## Principal risks

Risk	Impact	Mitigation
<b>National and regional economic conditions</b>	The housebuilding industry is sensitive to changes in unemployment, interest rates and consumer confidence. Any 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. The General Election in 2015 could affect Government policy and lead to changes in housing market conditions.	We control the level of build on-site by closely managing our work in progress levels. We carry out extensive due diligence prior to our land investment decisions to capture best returns. We monitor our geographical spread to mitigate the effects of local microeconomic fluctuations. We monitor lead indicators on the future direction of the UK housing market so as to manage our exposure to any future market disruption.
<b>Mortgage availability</b>	Any restrictions in the market availability of mortgages for our customers could reduce demand for our homes and affect revenues, margins and profits.	We monitor Bank of England commentary on credit conditions. We ensure that our investment in land and construction is appropriate for our level of sales and our expectations for market conditions. We monitor the Council of Mortgage Lenders' monthly reports and lenders' announcements for trends in lending.
<b>Health and safety</b>	The health and safety of our employees, subcontractors, home owners and visitors to our construction sites is of paramount importance to us. Accidents on our sites could lead to reputational damage and financial penalties.	We ensure that the Board's health and safety strategy is implemented by our comprehensive management systems and controls, overseen by our Group Health and Safety Department to minimise accidents on our sites.
<b>Regulatory compliance</b>	Our business is subject to extensive and complex laws and regulations relating to planning and the environment. 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 Group's reputation.	We operate comprehensive management systems to ensure regulatory compliance. We hold a landbank sufficient to provide security of supply for short to medium term requirements and engage extensively with planning stakeholders.
<b>Resources</b>	Rapid expansion in UK housebuilding has driven an increase in demand for both materials and skilled labour and may cause costs to increase ahead of our expectations.	We closely monitor our build programmes enabling us to manage and react to any supply chain issues. We operate in-house apprentice and training programmes to support our need for increased skilled labour.
<b>Strategy</b>	The Board has adopted its strategy as it believes it is the one most likely to add the greatest sustainable value for shareholders and stakeholders. It is possible that, with time, factors become known that indicate that the strategy currently being pursued is not the most effective or efficient and that alternative strategies may be more appropriate.	The Group's strategy is agreed by the Board at an annual strategy meeting and thereafter regularly reviewed at Board meetings and by the Executive Directors. The Board engages with management and employees to ensure the strategy is communicated and understood and that all employees have a clear understanding of the potential benefits and risks of the strategy.

## Performance review continued

# Delivering a strong financial performance



## Profitability

**We are pleased to report that the underlying operating margin\*\* for the Group continued to respond to our operational improvements and new land investments, increasing 240 basis points year on year to 18.4% (2013: 16.0%). This improvement continued through the second half of the year where we achieved a margin of 19.0% (2013: 16.6%).**

The benefits of our unrelenting focus on achieving new site starts through working in partnership with all our planning stakeholders has again reaped significant rewards with a further 130 basis point contribution to the Group's gross margin as a result of improved land cost recoveries year on year. For 2014 the value of the Group's land recoveries totalled 20.0% of sales, down from 21.3% in 2013. This continued improvement reflects the quality of the land acquired by our management teams across the UK as well as the drive to optimise planning opportunities to engineer the maximum value from the land acquired by the business. These critical value-added

activities have been combined with strong control over development costs.

We have continued to improve the effectiveness of the processes used to manage our build programmes. As we continue to open new sites we have been able to introduce a greater proportion of Group house types across our network delivering benefits from more efficient procurement and construction activities. We have taken advantage of the improvement in sales reservation rates to secure increased productivity and efficiency across the business. As a result we have driven a further reduction in our build and direct costs of 70 basis points to 57.8% of sales (2013: 58.5% of sales). We would like to thank all our site management teams, suppliers, site workers and sub-contractors for their support and hard work which has enabled the Group to achieve substantial profitable growth this year. These benefits have been captured by the whole team.

We have continued to make the necessary investment in our management and support teams during the year to place the growth of the business on a sustainable footing. With the 17% increase in sales volumes delivered this year our operating expense efficiency has improved, reducing average operating costs per new home sold by 7% year on year. We expect this trend of operational efficiency improvement to continue which will in turn support the future growth of the business.



## 18.4%

**Underlying operating margin\*\***  
(2013: 16.0%)

\*\* Stated before exceptional items and goodwill impairment.

### Cash generation, net finance income, and financial assets

Securing strong liquidity through the housing cycle is at the core of our long term strategy. This will be delivered through maximising the cash efficiency of our operational activities together with exercising capital discipline through the cycle. The Group generated £388m of free cash before capital returns during 2014, or 127 pence per share (2013: £231m, 76 pence per share) and held £378m of cash balances at 31 December 2014 (2013: £204m).

During the first half of the year the Group held an average cash balance of c. £120m, and c. £40m in the second half. We used the committed facilities held by the Group for working capital purposes during the second half but only for a limited period. As a result the Group realised net finance income for the year of £1.7m (2013: net finance cost of £3.5m). This net income position was primarily due to the imputed interest generated on the Group's deferred shared equity receivables offsetting the funding costs associated with the Group's pension schemes, imputed interest payable on land creditors, and cash interest costs paid to the Group's funding partners.

Reinvestment of free cash in the business is always of primary importance. The level of reinvestment will vary over the cycle depending upon actual and prospective conditions in the sales and land markets. Discipline over the level of reinvestment will remain a priority of the Group over the long term. During 2014 we have made further significant investment in work in progress to deliver the significant increase in sales year on year. In addition, the cash

efficiency of our land replacement activity, the expansion in our cash margins and our superior asset turn has allowed us to invest in substantial new land holdings at a rate of c. 200% of 2014 consumption.

During the year the land market has provided very attractive investment opportunities, a number with deferred payment terms. The Group has taken advantage of these opportunities to expand land creditors by £154m year on year to £460m (2013: £306m). This allows the continued growth of the business to be financed through the generation of cash inflows from operations before working capital requirements, which totalled £488m in 2014 (2013: £346m), without reducing cash resources available to shareholders.

With the introduction of the Government's Help to Buy scheme the Group has experienced a significant reduction in the requirement to offer shared equity loans to customers. As a result, the Group's 'Available for sale financial assets', being deferred receivables from our customers, reduced in the year by £14m to £201m (2013: £215m). We have experienced increasing redemption cash inflows and an absence of any significant distress associated with the outstanding loans. The Board has again reviewed the carrying value of these receivables and has concluded that the value is appropriate. Further details with respect to our approach to these assets are disclosed in Notes 2,3,17 and 22 to the Financial Statements with further commentary with respect to the review of these matters by the Audit Committee in the Audit Committee Report on pages 46 to 48, and, to the review by the external auditor in the Independent Auditor's Report to the Members of Persimmon plc on pages 65 to 67.



## £378m

**Cash balance**  
(2013: £204m)



The Group generated £388m of free cash before capital returns during 2014, or 127 pence per share (2013: £231m, 76 pence per share).

## Performance review continued

The delivery of the Capital Return Plan depends upon the cash efficiency of our business processes. We remain confident that our operational approach will underpin the delivery of our long term strategy as reflected in the further acceleration of the Capital Return Plan announced today. Indeed, this focus has supported a 40% growth in the rate of return on the capital employed in the business which climbed to 24.6% for the year (2013: 17.6%).

### Land and construction

Investing in new land opportunities at the appropriate point in the housing market cycle at attractive values is critical in sustaining superior shareholder value creation over the longer term. The Group's land replacement activity is focused on securing high quality returns for each of our housebuilding businesses in their regional markets. Our management teams' capabilities enable us to create significant value by identifying compelling acquisition opportunities both in the short term land market and for strategic land investment. This value is enhanced by our planning teams through optimising our development schemes and bringing the sites into production as quickly as possible. The quality of these investments is revealed not only in the strong profitability and cash generation in the short term, but in the superior quality of the landbank we hold for future development which stood at 87,720 plots owned and under control at the end of the year.

The Group's carrying value of its land assets at 31 December 2014 of £1,842m was £206m higher than the prior year (2013: £1,636m) reflecting the strong investment for the future development of the business by acquiring 26,822 plots of new land in 2014.

Our owned and controlled landbank at 31 December 2014 represents c. 6.5 years of supply at 2014 output volumes in line with the position last year. Our long term strategy remains to reduce our forward supply to nearer five years at optimal levels of output. The anticipated further growth of the Group in achieving the optimal sustainable market share of each of our regional businesses, in conjunction with exercising investment discipline, continues to secure the required capital efficiency of our land holdings.

A key element of our business model is the continued investment in strategic land and its successful promotion and conversion into consented land through the planning system. We successfully obtained planning permission for 9,386 plots of land from our strategic land portfolio during the year, representing c. 69% of the Group's land consumption in 2014. In addition, we acquired interests in a further c. 2,650 acres of strategic land. We are confident that we will secure a detailed planning consent for this land on proving its sustainable qualities through the normal planning application processes over future months and years.

We are working very hard to convert as much of our strategic land as possible as swiftly as possible. The risk of change to UK planning policies increases with the upcoming General Election, with the ensuing increased uncertainty for decision making by local planning authorities in their communities. The new National Planning Policy Framework has started to improve the efficiency of the UK planning process and is gradually increasing the supply of land for residential use. Whatever the result of the next General Election a continuation of the new policy framework will be a key ingredient in supporting the required level of confidence that the housebuilding industry needs to continue to increase its output and make the further substantial investment required to facilitate this growth. We have substantial numbers of applications for residential land use submitted with the planning authorities across our regional businesses. We are confident that our strategic land portfolio of c. 17,000 acres will yield in excess of 100,000 forward plots for future development by the business in due course.

At 31 December 2014 the carrying value of our work in progress of £465m was just £1m higher than the prior year (2013: £464m). Whilst this lean work in progress position reflects the Group's strong control over build programmes, which is focused on delivering completed new homes to customers as promptly as possible, it also results in part from the tight market for skilled labour mentioned earlier in this report. The Group's work in progress investment represents just 18% of 2014 sales and represents a further 18% improvement on last year's asset turn.

This remains a key support to superior cash generation and returns. We anticipate that additional substantial investment will continue to be made in work in progress and we will continue to convert our work in progress as swiftly as possible over future periods to minimise operational and financial risks.

The Board has again reviewed the net realisable value of land and work in progress at the year end using consistent principles to prior years. Overall, the Board concluded that there was no significant net change in impairment provision required at the year end due to the balance between the firming of selling prices through the year being mitigated by a degree of cost inflation on the relevant sites. This position resulted from a gross reversal of provision no longer required on certain development sites being offset by additional requirements on others of £9.9m. At the year end the Group retained an impairment provision of £80.4m (2013: £102.8m) which is considered adequate to address the potential impact of current market uncertainties on future revenues and direct costs. Further details of our approach to inventory impairment are included in the Notes to the Accounts in our Accounting Policies at Note 2, our Critical Accounting Judgements at Note 3 and Inventories at Note 18. Further commentary with respect to the review of these matters by the Audit Committee is also included in the Audit Committee Report on pages 46 to 48, and, to the review by the external auditor in the Independent Auditor's Report to the Members of Persimmon plc on pages 65 to 67.

# Building a sustainable business



## Corporate responsibility

### Corporate responsibility and sustainability remain key elements to the Group's business model.

Our approach is focused on the creation of vibrant communities that provide much needed new homes across the UK. We believe sustainability and good corporate responsibility practices produce tangible benefits for both our business and the communities in which we build.

We ensure that these objectives remain a priority on the agenda of each of our operating businesses and that best practice across the Group is shared effectively. The Group's policies and procedures that deliver high levels of corporate responsibility and sustainability remain at the forefront of our approach to planning new developments.

## Customers

Achieving good levels of customer service remains at the core of our business. At times during 2014 keeping pace with construction to meet sales demand has meant our customer satisfaction level has deteriorated. Our customer satisfaction survey results indicate that the primary cause of the deterioration has been delays in the estimated completion

date of properties following reservation. Such delays have primarily been caused by periodic shortages of skilled labour.

Despite these challenges, we have worked hard to deliver high quality new homes on time but we have had to delay handover to customers in some cases where production programmes have slipped. As a result, we have achieved an NHBC/HBF 3\* rating for 2014, down from 4\* for the previous three years.

We are taking measures to address these challenges and to ensure that our customers are more clearly informed of the progress of construction of their new homes. We are confident that with continued hard work we will see the benefits of our actions in future improvement in customer satisfaction levels.

In addition we have committed further resources to training our sales staff to improve customer service. We have also increased our sales and marketing resources, particularly relating to electronic and digital communications, to ensure our potential customers are aware of the available opportunities to buy a new home.

We continue to focus on ensuring our new homes remain affordable for our customers. Our average selling price in 2014 was £190,533 but c. 37% of our properties were sold for £150,000 or less. The Group delivered 2,256 new homes to

our Housing Association partners for their customers on lower incomes. We remain committed to building sustainable communities across the UK on an inclusive basis.

On the introduction of the Government's Help to Buy equity loan scheme we were successful in securing a substantial allocation of funding to support our customers in buying a newly built home. During the year an additional 5,358 of our customers utilised the Government's scheme. This has enabled our customers to purchase a newly built house with just a 5% deposit by securing a 20% shared equity loan and obtain favourable mortgage rates from lenders.

We have also continued to provide our own Helping Hand shared equity scheme to customers, particularly in Wales and Scotland where there has been more limited Government provision of assistance through schemes similar to HTB.

The Group has also continued to support customers to move home by making available our Home Change and Part Exchange facilities. During 2014 16% of our customers chose to take advantage of this opportunity in what is still a slower moving second hand market (2013: 24%). These customers have been able to achieve a move whilst taking advantage of the convenience of these arrangements to fulfil their family's aspirations.

## Performance review continued



Operating efficiently by minimising waste, resource use and energy consumption provides tangible cost savings as well as reducing our environmental impact.

### Sustainable Homes

We strive to ensure our new homes possess superior environmental efficiency throughout their lifecycle through careful design and construction. We focus on a “fabric first” approach to achieve higher standards of energy efficiency of our new homes. During 2014 the energy efficiency of our new homes based on the Standard Assessment Procedure (SAP), the Government’s rating system for evaluating energy performance of homes, remained at 83.

During 2014 the Group built 4,255 (2013: 2,797) homes assessed against the Code for Sustainable Homes or its preceding standard EcoHomes. Both standards assess energy efficiency, water consumption and material use as well as other sustainability criteria. A significant component of our ability to deliver superior energy efficient properties is the use of our insulated timber frame panel construction system from our manufacturing business, Space4.

In 2014 Space4 supplied c. 5,100 insulated timber frame kits to the Group’s housebuilding businesses across the regions. As well as generating over 60% less CO<sub>2</sub> emissions than older existing housing stock, our new homes built using Space4 timber frames exceed acoustic performance standards set by building regulations. The Space4 construction processes generate less waste on site and use considerably less water than conventional building methods and can be quickly assembled, resulting in a better and safer working environment for our employees.

### Resource Efficiency

Operating efficiently by minimising waste, resource use and energy consumption provides tangible cost savings as well as reducing our environmental impact. Waste is our most significant environmental impact and we have embedded good sustainability practices within our business to minimise waste through efficient design, logistics and stock control, the use of prefabricated and pre-sized materials, minimising packaging and executing efficient construction processes.

During 2014 we maintained our waste recycling at a high level of 90% of the 86,000 tonnes of waste generated (2013: 90%). However we are disappointed that the average waste generated per home sold increased by 12% to 6.3 tonnes (2013: 5.7 tonnes). This increase was principally caused by the large number of sites closed during the year as sites sold out. Reducing the amount of waste that we send to landfill is a continuing priority. However, in view of our success over the last decade in improving our recycling rates, our rate of progress is likely to slow in the future. We will continue to investigate the use of any new techniques supporting material recycling as they become available.

We monitor our energy use and CO<sub>2</sub> emissions and use DEFRA environmental reporting guidelines and emission factors from DEFRA’s Greenhouse Gas Conversion Factors Repository as a methodology for calculating our emissions.

We consumed 23.1m kWh of energy to power and heat our regional offices, site offices, sales offices, show homes and our Space4 timber frame manufacturing plant. The amount of energy used decreased by 23% in 2014 (2013: 30.0m kWh), equating to 6,829 tonnes of CO<sub>2</sub>e (2013: 7,790 tonnes of CO<sub>2</sub>e). This reduction is as a result of the increasing efficiency of our site operations and improvements to the manufacturing processes in our Space4 plant which have significantly reduced our gas consumption.

With the expansion of our business during 2014, our company car fleet increased by 12% to 962 vehicles from 858 in 2013, with the amount of fuel used increasing by the same percentage to 2.69m litres (2013: 2.4m litres). The total carbon footprint from our motor fleet operation has increased by only 7% to 6,900 tonnes of CO<sub>2</sub>e since 2009 when our fleet was less than 650 vehicles.

Our total operational carbon footprint for 2014 was 13,700 tonnes (2013: 14,100 tonnes), equating to 1.00 tonne of CO<sub>2</sub> per home legally completed (2013: 1.22 tonnes of CO<sub>2</sub> per home completed). This 3% reduction reflects the increasing efficiency of our operations despite the substantial increase in production on our sites, which offset the increase in our transport related emissions.



## Workforce Diversity and Skills Development

During 2014 our workforce increased to 3,453 employees on average, an increase of 24% (2013: 2,791) of which 1001 staff are female, representing 29% of our workforce. We have eight male directors and one female director of Persimmon plc. Our Group senior management team comprises 130 employees of which 19 are female.

As part of the rapid expansion of our workforce, we have put in place apprentice, trainee and graduate recruitment programmes. We currently have over 480 trainees, apprentices and graduates working within our business.

In September we launched our Combat to Construction training scheme which enables Armed Forces service leavers to retrain in a rewarding career within the housebuilding industry. We have now engaged over 60 trainees and expect to substantially increase the number of trainees on this scheme during the forthcoming year.

In addition we continue to deliver training programmes to our employees. During 2014 we provided over 7,900 training days to our staff including management and health and safety training to our construction workforce. Overall we provided 2.3 training days per employee (2013: 1.6 days per employee) an increase of 44%.

We have no material issues to report concerning human rights. Information on our employees and our human rights policy can be found on our website [www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com) in the corporate responsibility section.

## Health and Safety

The health and safety of our employees, subcontractors, home owners and visitors to our construction sites continues to be of paramount importance to us. Our approach to health and safety is based on careful planning and management of our construction activities on site. We encourage both collective and individual responsibility for health and

safety, risk identification and mitigation during the planning and construction phases of our developments. During the last two years we have substantially increased the resources in our Health and Safety Department to ensure that the quality of our management systems and controls are improved and keep pace with the rapid expansion in our construction activities.

We are pleased to report a 15% reduction in worker related reportable accidents under the Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDORs) in 2014 to 41 (2013: 48).

We continue to support the Qualifying the Workforce initiative which requires construction based personnel to obtain the Construction Skills Certification Scheme (CSCS) card. This is a skills based programme and aims to provide evidence of an individual's ability to carry out work in a safe manner. In 2014 95% of the Group's site based workforce held a CSCS card (2013: 97%).

## Community

Building sustainable communities requires a detailed appreciation of the social, environmental and economic forces that shape them and we play our part in supporting community projects, sponsorship and fund raising. During 2014 the Group and its staff made charitable donations of £171,000 to good causes.

In 2014 we delivered over £48m in new community facilities, a 26% increase over the previous year (2013: £38m). Over one third of this investment related to new educational facilities and 18% related to the provision of new affordable social housing.

We built 55% of our new homes on brownfield land, often carrying out substantial remediation of contaminated sites to the benefit of the community. Utilising such land reduces the pressure to build on greenfield sites and provides substantial benefits in the regeneration of our towns and cities.

## Performance review continued

### Shareholders' equity, treasury policy and related risks

The Group's long term strategy relies upon disciplined use of capital through the housing cycle. This requires management to retain funding flexibility to support investment in land and work in progress at the appropriate point in the cycle whilst returning surplus capital to shareholders. This approach will deliver and sustain greater shareholder value over the longer time horizon recognising the inherent cyclicity of the housing market. We believe this strategy actively supports the development of the business over the long term whilst securing a strong financial position to minimise financial risk. We believe the Board's undertaking to return £1.9bn of surplus capital to shareholders over the 9 ½ year period to 2021 demonstrates our commitment to exercise the required capital discipline.

The Group's total after tax retained profits for the year were 45% higher than last year at £372.0m (2013: £257.2m). The Group's retained earnings were offset in part by an after tax remeasurement loss of £33.3m associated with the Group's pension schemes deficit of £0.5m, and added to by share based payments of £18.8m.

As a result of the Group's long term strategy a second instalment under the Capital Return Plan of £214m was accelerated and paid to shareholders on 4 July 2014. Shareholders elected to

receive £154m as dividends and £60m in cash-redeemed B shares on receipt of the B share/C share offer for the payment of the second instalment.

The Group's total net asset value of £2,193m (2013: £2,046m) increased by 7% or £147m for the year ended 31 December 2014. Net assets per share increased 7% over the prior year end to 715.4 pence (2013: 671.4 pence).

The generation of strong annual after tax earnings, management of the Group's equity and debt and cash management facilities, together with changes to planned shareholder capital returns will continue to provide the appropriate resources through the housing cycle for management to deliver its operational plans. We will continue to focus on generating strong liquidity and will only use funding gearing to support short term working capital needs in line with the seasonality of the business. This approach will mitigate the financial risks the Group faces which includes credit risk, liquidity risk, interest rate volatility and debt capital market pricing risk.

We concluded an amendment of the Group's £300m Revolving Credit Facility on 31 March 2014 with our five relationship banks which included an extension of the facility's maturity date to 31 March 2019.

Further details of the Group's financial instruments and approach to risk management are included in Note 22 to the financial statements.



# £214m

**Returned to shareholders**  
(2013: £228m)



The Group's total net asset value of £2,193m (2013: £2,046m) increased by 7% or £147m for the year ended 31 December 2014.

# Current trading outlook

## Current trading outlook

Customer activity during the first few weeks of the spring market in 2015 has been encouraging. Whilst the broader economic outlook remains uncertain, the personal finances of hard working families across the UK are forecast to improve this year. The UK population continues to prioritise home ownership as its preferred choice with respect to housing provision. We are confident that increasing numbers of home buyers will select a new home from the Group as being the right choice for them, securing a high quality home in locations they wish to live and work. We expect the recent reduction in the cost of stamp duty on buying a new home to support increased access to the market, particularly for first time buyers.

Against comparatives which reflect a particularly strong period in the market last year buoyed by the introduction of Help to Buy, our weekly private sales rate per site is 5% stronger for the year to date. Despite the expectation of a little continued weakness in the short term due to the approach of the General Election, with improved mortgage lender support we anticipate that the market will continue a more balanced recovery as we progress through 2015. Customers remain keen to secure mortgages supported by the provision of Help to Buy and we have sold c. 39% of our volume so far this year to customers using these mortgage products.

The typical seasonality of trading in the industry may be disturbed this year with sales rates picking up into the autumn depending upon the implications of the result of the General Election. To mitigate the risk to sales rates in the short term we are working extremely hard to open new sites as early in the spring season as possible. Whilst planning-related pre-start conditions continue to increase the time taken to bring new outlets to market, we are pleased to have already opened 60 of the 120 new outlets planned for the first half of 2015. We are working hard to increase our active outlet network to around 400 sites by the middle of 2015 up from c. 375 sites at the start of the year.

Our forward sales revenue including legal completions in the first eight weeks of 2015 is up 5% year on year at £1.49bn (2014: £1.42bn) and the order book points to further margin improvement to come. This is supported by our drive to capture further operational efficiencies and our plans to expand our sales network during 2015.

We plan to continue significant investment in new land during 2015 to support the further growth of our regional businesses towards optimal sustainable scale in their markets. We expect our free cash generation will support land replacement activity at healthy levels whilst also providing increasing levels of confidence regarding the delivery of the Capital Return Plan to our shareholders.

The achievements of the Persimmon team during 2014 provide us with great confidence in the future prospects of the Group. We would like to thank all our employees for their hard work, tenacity and dedication in delivering such an outstanding performance for the business.

We will remain focused on the basics of good housebuilding, buying good land, building quality homes and creating sustainable communities in locations where people want to live. This lies at the heart of our strategy and we are confident of making further progress in fulfilling our strategic objectives over the coming year.

## Strategic Report

The Strategic Report contained on pages 1 to 33 has been approved by the Board of Directors and signed on its behalf by

**Jeff Fairburn**  
Group Chief Executive

**Mike Killoran**  
Group Finance Director  
23 February 2015

## Charles Church, Picket Twenty, Andover, Hampshire





## Westbury Partnerships, Lavender Copse, Basingstoke, Hampshire





## Persimmon Homes, Quakers Walk, Devizes, Wiltshire





## Introduction to corporate governance

# High standards in corporate governance



**The stewardship and governance of our Company continues to be a high priority for the Board to ensure that the Board's strategy and its requirements for excellence and good governance are instilled into the culture of the business.**

Our Executive and Non-Executive Directors regularly meet with management teams and staff across our 24 operating businesses. The Group's excellent performance during 2014 again provides assurance to shareholders that the Directors, management and staff are communicating well to ensure that the Group's strategy is implemented.

The composition of the Board remained unchanged during 2014, following three changes in 2013. The Nomination Committee has undertaken a further review of succession planning for the Board and senior management. It is the Committee's intention to recommend the appointment of further Non-Executive Directors during the course of 2015, in the light of requirements to refresh Board membership, specifically for diversity and to comply with the recommendations of the Davies Report.

It has been the Company's policy to promote its Executive Directors from senior management within the Group. Senior management succession planning within the Divisional Boards ensures future suitable executive candidates are identified and have experience within the Group.

The Board has again undertaken an internal evaluation of its performance. The evaluation concluded that the Board and its Committees are working effectively but there were further minor improvements that could be made, which have been implemented. During the course of 2015 the Board will conduct an externally assisted evaluation of itself and its Committees, with evaluation criteria linked to the Company's strategy and performance.

The Board held its annual strategy meeting in October and undertook a full and detailed review of its current strategy which is set out in the Strategic Report on pages 7, 17 and 18. The strategy includes ensuring the Group maintains appropriate levels of resource to successfully execute Group policies in all key areas of the business, in particular with regard to strategic land, health and safety, customer care and sales and construction activities.

As a result of our significant increase in production over the last two years the Board has also committed resources to training and recruitment. I am in particular pleased that our Combat to Construction training initiative has received widespread support and will provide a good career path for ex-UK Armed Forces personnel and address the widespread industry shortage of skilled tradesmen. Overall we have 439 trainees and apprentices working in the Group.

Finally, I am again pleased to report that the Company has complied with the UK Corporate Governance Code 2012 throughout 2014. The Board has reviewed the new 2014 Code and will be making a number of small changes to ensure continued good governance and future compliance with the new Code.

**Nicholas Wrigley**  
Chairman

23 February 2015

## Overview

# Key sections within the governance report



### Leadership and effectiveness

#### Our Board, structure and activities

The Board's new strategy introduced in 2012 has proved very successful, as shown by the significant improvement in the Group's performance. During 2014 the Board placed particular focus on:

- increased staff training;
- health and safety resources; and
- measures to improve customer care

in the light of our significant increase in production

 **Read more about the structure, role and activities of the Board** See pages 44 and 45



### Accountability

#### Report from the Audit Committee

The Audit Committee undertook a detailed review of the principal risks facing the Group. The Committee assessed the key risks of misstatement of the Group's financial statements relating to the carrying value of both the Group's land and work in progress and available for sale financial assets and concluded that the carrying values were appropriate.

 **Read our Audit Committee report** See pages 46 to 48



### Remuneration

#### Oversight of executive remuneration

The Group's strong performance has resulted in Executive Directors achieving around 91% of their maximum bonus targets in 2014. Directors' base salaries and fees have been increased from 1 January 2015 by 3% in line with increases given to salaried staff. Executive Directors' bonus arrangements for 2015 are similar to the prior year, with stretching targets for further improvement in the Group's performance.

 **Read our remuneration report** See pages 52 to 63

## Board of Directors



**Nicholas Wrigley**  
Chairman (age 59)

**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 30 years' mergers and acquisitions experience at Rothschild and is a qualified accountant. He was also Senior Steward of the Jockey Club from 2009 to 2014.

**Skills** Nicholas' leadership style encourages open and honest debate in the spirit of constructive challenge, which enables effective decision making by the Board in all areas of strategy, responsibility and governance.



**Jeff Fairburn**  
Group Chief Executive (age 48)

**Date of appointment** 1 June 2009

**Committee membership** Member of the Risk Committee.

**Experience** Jeff Fairburn has been Group Chief Executive since April 2013. He joined the Group in 1989 and became North East Managing Director in 2002. He was promoted to North Division Chief Executive in 2006 and subsequently to Group Managing Director in 2012.

**Skills** Jeff has 31 years' experience in the construction industry, 27 of which have been in the housebuilding sector. He has an in depth knowledge of Persimmon having started as a quantity surveyor in our Yorkshire business. This, together with his strong leadership skills, enables him to effectively direct and manage the delivery of our strategy.



**Mike Killoran ACA**  
Group Finance Director (age 53)

**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.

**Skills** Mike has extensive financial and operational skills and over 18 years' experience and knowledge of both the industry and our business. These skills enable Mike to make a strong contribution to strategy development.



**Jonathan Davie**  
Non-Executive Director (age 68)

**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, a chartered accountant, is Non-Executive Chairman of First Avenue LLP and a Non-Executive Director of Hansa Trust Plc. Jonathan's previous roles include Non-Executive Chairman of IG Group Holdings Plc, Vice Chairman of Credit Suisse, CEO of BZW Global Equities and Non-Executive Director of Credit Suisse UK Private Bank.

**Skills** Jonathan's experience has given him sound judgement and the ability to constructively challenge the Executive Directors. He has extensive experience of the financial markets and capital raising.



**Mark Preston**  
Non-Executive Director (age 47)

**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.

**Skills** Mark's experience as Chief Executive of Grosvenor Group Limited has given him extensive knowledge of the commercial and residential property market, which enables him to add a valuable contribution to discussions regarding the Group's strategy.



**Marion Sears**  
Non-Executive Director (age 52)

**Date of appointment** 8 January 2013

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

**Experience** Marion Sears is a Non-Executive Director of Dunelm Group Plc where she is the Nominations Committee Chair and the Remuneration Committee Chair. She was the Senior Independent Director from 2006 to 2014. 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, UBS, Baring Brothers and JP Morgan.

**Skills** Marion has extensive retail industry knowledge and customer understanding together with an all-round view of the consumer markets. Her banking skills, financial background and current involvement in the investment industry enable her to provide useful advice and judgement on the implementation of the Company's strategy.



**Nigel Greenaway**  
South Division Chief Executive (age 54)

**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 and was promoted through the Group ultimately being appointed to his current role of South Division Chief Executive in 2005.

**Skills** Nigel has extensive experience of the business and the housebuilding industry, having held various roles within the Group before being promoted to his current role. He is the Board Director responsible for health and safety.



**David Jenkinson**  
North Division Chief Executive (age 47)

**Date of appointment** 13 December 2013

**Committee membership** Member of the Risk Committee.

**Experience** Dave Jenkinson joined the Group in 1997. He was appointed Managing Director of the North East operating business in 2005 and was promoted to Regional Managing Director in 2007. He was appointed to his current role as North Division Chief Executive in January 2013.

**Skills** Dave has extensive experience of our business and of the housebuilding industry. He has particular strengths in land buying and development and is a qualified town planner.



**Richard Pennycook**  
Senior Independent Director (age 50)

**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, Richard is Chief Executive Officer of The Co-Operative Group, Non-Executive Chairman of The Hut Group and Chairman of the Audit Committee at Howden Joinery Group Plc. Previous roles include Group Finance Director of Wm Morrison Supermarkets Plc and RAC Plc, Finance Director of J D Wetherspoon Plc, CEO of Welcome Break Holdings Plc and Non-Executive Director of Richer Sounds Plc.

**Skills** Richard has extensive financial and retail skills, which enable him to inform the debate on strategy and particularly participate in evaluating the robustness of the Group's risk management.



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.

**Nicholas Wrigley**  
Chairman

## Corporate Governance Statement and Directors' Report

**The Board of Directors presents its Directors' Report incorporating the Corporate Governance Statement for the year ended 31 December 2014.**



### Leadership and effectiveness

#### Board composition

The Board comprises a Non-Executive Chairman, four Executive Directors and four Non-Executive Directors. Nicholas Wrigley became Chairman in April 2011 and he remains an Executive Vice Chairman of Rothschild London. The Executive Directors have extensive experience in the housebuilding industry. Jeff Fairburn became Chief Executive in April 2013. He 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 15 years. Nigel Greenaway has been with the Group since 1986 and was appointed to the Board in January 2013; David Jenkinson joined the Group in 1997 and was appointed to the Board on 13 December 2013 and both held senior operational positions within the Group prior to their appointments.

The Senior Independent Director is Richard Pennycook, who has held the position since April 2012. The Non-Executive Directors have complementary skill sets bringing substantial and diverse experience to the Board. Nicholas Wrigley and Jonathan Davie both have considerable experience of financial markets and capital raising. Richard Pennycook has extensive financial and retail experience gained from his current role as Group Chief Executive of the Co-operative Group and formerly in his role as Finance Director of Wm Morrison Supermarkets Plc. Mark Preston has wide ranging experience in retail, commercial and residential property as Chief Executive of Grosvenor Group Limited. Marion Sears has extensive experience in banking and retail.

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 2012 (the 'Code') there is a clear written division of responsibilities between the Chairman and the Chief Executive, which is approved by the Board.

#### Key actions of the Board

The Board reviewed and approved the Company's current strategy and Capital Return Plan at its annual strategy meeting in October 2014. Full details of the current strategy are set out in the Strategic Report on pages 7, 17 and 18.

The Board met on six occasions in 2014, including the annual strategy meeting. There was full attendance by all Directors at Board and Committee meetings during the year.

The Board has a formal schedule of matters reserved for its consideration and decision. The schedule includes the approval of the Group's strategy, major investments, annual and half year results, interim management statements and trading updates, review of performance, dividend and cash return policy, monitoring risk and ensuring adequate financial controls are available. The schedule is reviewed annually.

The implementation of the Board strategy and policies are delegated to Executive Directors and senior management within the Group. Particular focus during 2014 was placed on increasing staff training to drive improvements in both health and safety and customer care.

#### Board diversity and independence

The Board recognises that a diverse workforce can bring benefits to the Group 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. When considering a new appointment the Board takes into account the balance of skills, knowledge, experience and diversity of the Board. Subject to the above principle, the Directors continue to work towards appointing a meaningful percentage of women to the Board in line with the recommendation of Lord Davies' Report, whilst taking into account the total size of the Board.

The Board considers the Non-Executive Directors Richard Pennycook, 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 2014.

#### Re-election of Directors

In accordance with the Code all Directors will stand for re-election at the forthcoming AGM. The Board's reasons for supporting the re-election of the Chairman Nicholas Wrigley and Non-Executive Directors Richard Pennycook, Jonathan Davie, Mark Preston and Marion Sears are that they have individually produced excellent performance in their duties and have shown a high level of commitment to their roles.

## Performance evaluation and professional development

During 2014 the Board undertook a self assessment evaluation based on the principles outlined in the Code. The Directors confirmed that the Board and its Committees were operating effectively in accordance with high corporate governance standards. Further procedural improvements have been implemented. An externally assisted Board evaluation will be undertaken during 2015.

In addition to the Board evaluation, the Chairman undertakes an annual verbal evaluation of the Executive Directors' performance and an evaluation of the Non-Executive Directors. The Non-Executive Directors undertake a verbal annual performance evaluation of the Chairman, taking into account the views of the 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.

## Nomination Committee

The members of the Nomination Committee are Nicholas Wrigley (Chairman), Richard Pennycook and Jonathan Davie. The Committee met once during 2014 to review and consider the composition of the Board and to consider Board succession planning.

The Committee considered the criteria required for the appointment of further Non-Executive Director(s) to refresh Board membership. The criteria and requirements for an appointment have been agreed by the Committee and an executive search firm appointed to assist the Committee in preparing a list of candidates for consideration. The Committee hopes to announce further appointment(s) during 2015.

The Committee has also reviewed succession planning for internal management promotions during the year.

## Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Chairman and Executive Directors. The members of the Remuneration Committee are Jonathan Davie (Chairman), Nicholas Wrigley, Mark Preston and Marion Sears.

The Committee met four times during 2014 to discuss, consider and approve the policy and remuneration for Executive Directors and the Chairman. The Committee's key actions during the course of the year were the review and implementation of the Executive Directors' remuneration during 2014 and the annual bonus plan for 2015, both in accordance with the remuneration policy approved by shareholders at the AGM in April 2014.

Further details of the remuneration policy and package for each Director serving during 2014 are set out in the Remuneration Report on pages 52 to 63.

## Terms of reference

Terms of reference for the Board Committees are available on the Company's website [www.corporate.persimmonhomes.com](http://www.corporate.persimmonhomes.com) or from the Group Company Secretary at the Company's registered office.

## Shareholder relations

The Board is committed to establishing and maintaining good relations with the Company's shareholders as they provide useful perspective on corporate governance matters and strategy.

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 the financial PR consultants, Citigate Dewe Rogerson. Jonathan Davie has responsibility for consulting with shareholders and institutions on matters relating to remuneration policy.

The Chairman and Senior Independent Director are available for consultation with major shareholders. The Company monitors the constituents of its share register to ensure that its investor relations communications are appropriately targeted at its shareholder base. The Board is provided with reports and feedback from major shareholders and following Directors' presentations and meetings with both shareholders and analysts. All Directors attend the Company's Annual General Meeting and are available to answer questions at the meeting or privately.

The Company issues regular trading 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 analyst presentations, a recording of which can be viewed on the Company's website for a period of one year.

## The UK Corporate Governance Code 2012

This Corporate Governance Statement, together with the Directors' Remuneration Report on pages 52 to 63, provides a description of how the main principles of the Code have been applied within Persimmon Plc during 2014.

The Company complied with the Code throughout 2014 and continues to review its governance procedures to maintain proper control and accountability. The Code is available from the Financial Reporting Council, telephone 0207 492 2300 or online at [www.frc.org.uk](http://www.frc.org.uk).

## Corporate Governance Statement and Directors' Report continued



### Audit Committee

#### Composition

The Audit Committee members are Richard Pennycook (Chairman), Jonathan Davie and Mark Preston. Richard Pennycook, as Chairman of the Committee, has recent relevant financial experience as Chief Executive of the Co-operative Group and formerly as Group Finance Director of Wm Morrison Supermarkets Plc. Mark Preston has recent relevant financial experience in his current role as Chief Executive of Grosvenor Group Limited. The Committee met on four occasions during 2014 and all members were in attendance at each meeting. The Committee regularly meets the auditor without the presence of the Company's management. The Committee's Chairman also meets the Group Risk Manager without the Company's management being present at least twice each year.

#### Role

The Committee's key priorities are the effective governance over the Group's financial reporting, the adequacy of related disclosures, the performance of the Group risk management function and the management of the Group's systems of internal control, business risks and related compliance activities. The Committee also reviews and monitors the performance and independence of the Group's external auditor, the provision of additional services to the Group by the auditor and oversees the Group's relationship with them.

Committee meetings generally take place prior to but on the same day as Board meetings and the Committee Chairman provides the Board with a report on the activity of the Committee and the matters of particular relevance to the Board in the conduct of their work.

#### 2014 priorities

The significant financial issues considered by the Committee during 2014 have been assessed by determining the key risks of misstatement of the Group's financial statements relating to:

- the carrying value of the Group's available for sale financial assets comprising shared equity receivables; and
- the carrying value of the Group's land and work in progress including the accuracy of cost recoveries.

The Committee also regularly reviewed and addressed the Group's risk register and in particular:

- the monitoring of the Group's health and safety performance and the additional staffing to increase inspection and advisory roles to minimise risks associated with the Group's increase in production;
- the continued implementation of new information technology systems across the Group; and
- human resources recruitment and training given the Group's increase in staffing to meet its significant increase in production.

#### Carrying value of shared equity receivables

The Committee reviews reports of the performance of the loan monies remaining due to the Group under the shared equity contracts. These are held as receivables and reported as 'Available for sale financial assets' on the Group's balance sheet.

At 31 December 2014 the carrying value of these receivables was £201.3m. The Committee has reviewed the assumptions adopted by management in support of the carrying value of these receivables and concluded they are appropriate. The Committee monitors the ongoing performance of these receivables with respect to redemptions and delinquency and are satisfied that management have adopted appropriate assumptions in this regard in support of the carrying value of these assets.

The Committee considers that the Group management's application of its accounting policies has resulted in an appropriate position being taken which reflects the inherent risks of recoverability of the Group's inventory balances and shared equity receivables.

The other key actions of the Committee during the year were:

- full review of liquidity risk and whether the Group can continue to adopt the going concern basis in preparing the accounts;
- review of half year and annual results;
- review of the Group's current tax status;
- oversight of the Group's health and safety strategy, policies and performance reporting;
- review of the Group risk register;
- review of the Group's IT systems upgrade policy and implementation; and
- oversight of the Group's customer care policies, procedures and performance reporting.

#### Carrying value of land and work in progress

The Committee monitors the effectiveness of the internal controls exercised over the key processes employed by the Group in the acquisition of new land and the investment in site development activities. The Committee receives regular reporting on management's adherence to the Group's policies and procedures in both of these critically important areas of the business. The carrying value of the Group's land totalled £1,842.4m at 31 December 2014, and the carrying value of work in progress on site totalled £464.7m.

Similarly, the Committee ensures the approach adopted by management in recovering the cost of both land and work in progress remains in line with established Group policies and procedures through regular risk monitoring reports. The Committee has again reviewed management's assessment of the net realisable value of the Group's land and work in progress held at 31 December 2014. The Committee concluded that the approach adopted by management supported the asset carrying values.

## External audit

KPMG LLP is the Group's external auditor and they produce a detailed audit plan identifying their assessment of key risks each year. For the 2014 financial year the significant risks identified were in relation to the carrying value of the Group's land and work in progress and the carrying value of the Group's shared equity receivables.

Other areas of audit focus included testing of key controls, an assessment of the adequacy of closed site provisions held, accuracy of revenue recognition, valuation of the Group's defined benefit pension scheme obligations, valuation of goodwill and intangible assets, accuracy of current tax accrual and deferred tax balances, and a review to confirm that the Group should properly be considered as a going concern.

The Audit Quality Review team of the Financial Reporting Council undertook a routine review of the 2013 external audit files following which the Audit Committee Chairman met the FRC to review its findings. The Committee is satisfied that these were adequately reflected in the 2014 audit approach adopted.

The Committee assesses the effectiveness of the external audit process annually with the auditor and the Company's management. The Committee holds private meetings with the auditor following each Committee meeting. Matters discussed include the auditor's assessment of business risks and management activity thereon, the transparency and openness of interactions with management and confirmation that there has been no restriction in scope placed on them by management. The Committee ensures that the auditor has exercised its professional scepticism. The Committee has reviewed and is satisfied with the performance of KPMG LLP.

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 Group to ensure that the nature of non-audit services performed or fee income earned relative to the audit fees does not compromise and 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 Group. From time to time non-audit services are put out to tender to a number of suitable firms. The ratio of audit fees to non-audit fees paid to the auditor in 2014 was 8 to 1.

Details of the audit fee and fees paid to KPMG LLP for non-audit services are on page 80. Non-audit fees principally related to pension advice on an abortive acquisition of a small housebuilding company relating to its defined benefit pension scheme liabilities.

The auditor is required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner has now been in place for three years.

The Committee has noted the changes to the Code introduced by the FRC in September 2012 and in particular, the new requirement contained in the Guidance on Audit Committees to put the external audit contract out to tender in the future at least every 10 years. The FRC has suggested possible transitional arrangements, under which an external audit tender process would fit the cycle of audit partner rotation.

The audit was last tendered in 1994 and since then lead audit partners have been appointed in accordance with KPMG LLP's own guidance on independence, most recently for the year ended 31 December 2012. During 2015 the Committee will conduct a full audit tender process in respect of the financial year ending 31 December 2016.

At the request of the Board, the Audit Committee considered whether the 2014 Annual Report taken as a whole was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance, business model and strategy. The Audit Committee is satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

## Internal control and risk management

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. Please also see sections on 'How we manage risk' and 'What could affect our business' on pages 24 and 25.

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 the effectiveness of internal control.

The members of the Risk Committee are Jeff Fairburn (Chairman), Mike Killoran, Nigel Greenaway and Dave Jenkinson. 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 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. 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.

## Corporate Governance Statement and Directors' Report continued

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 external advisors, ensuring that such reports and statements are accurate, 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 Group 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 faced by the Group set out on page 25 have been reviewed and amended with the changes in risk to the Group.

In particular the risks associated with the Company's strategy have declined as economic conditions have improved. We have also prioritised risks associated with health and safety by specifying this as a discrete risk aside from other regulatory compliance. Overall, the risks faced by the Group have not reduced but their relevant scale of importance has changed during 2014.

The Risk Committee met six times during 2014, ensuring there has been an ongoing process for the identification, evaluation and management of the significant risks that are faced by the Group. The key features of 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 the 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;
- assessment of the security around IT infrastructure and customer information; and
- monitoring of whistleblowing reports or other significant control issues or incidents.

Following review by the Risk Committee where minor weaknesses in internal controls were identified action has been taken to improve and strengthen procedures as part of the regular de-briefing of senior management by the Group Risk Department on conclusion of their work.

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 discussions with site based personnel;
- ongoing review of Group performance in comparison to operational forecasts and financial budgets; and
- involvement in each operating business' Board discussions, particularly operational Board meetings where all aspects of operation and performance were analysed.

On 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. There were no material matters identified from the review. The review for 2014 has been completed and approved by both the Risk and Audit Committees. A detailed Group Risk Department programme of work for 2015 has also been approved by 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 can only provide reasonable assurances and does not provide absolute assurance against material misstatement or loss.



## Directors' Report other disclosures

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 Group's main trading companies are Persimmon Homes Limited and Charles Church Developments Limited. The Group trades under the brand names of Persimmon Homes, Charles Church, Westbury Partnerships and Space4.

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

## Strategic Report

The management report for the purposes of DTR 4.1.8.R is included in the Strategic Report on pages 1 to 33. 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 contained within the Strategic Report. Details of the financial risk management objectives and policies of the Group and associated risk exposure are given in note 22 of the Financial Statements.

## Results and return of cash

The Group's revenue for 2014 was £2,573.9m and its consolidated profit before taxation was £467m.

The Company may by ordinary resolution declare dividends not exceeding the amount recommended by 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 dividend 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.

As set out in the Chairman's Statement it is proposed to pay a cash return of 95p per ordinary share on 2 April 2015 to shareholders on the register at 6pm on 19 March 2015 under the Company's Capital Return Plan. The total return for the year will be 95p per share (2014: return of cash of 70p per share).

## 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 2014 and as at the date of this report, the Company had been notified under the Financial Conduct Authority's Disclosure and Transparency Rule 5 of the following interests in the voting rights of the Company.

As at 31 December 2014 and 23 February 2015			
Name	No. of voting rights	% of total voting rights	Nature of holding
AXA S.A.	14,923,488	4.97	Direct and indirect

## Directors and Directors' interests

The current Directors of the Company and their biographical details are shown on pages 42 and 43. Details of the Executive Directors' service contracts are given in the Remuneration Report on page 61. All of the Directors served for the whole of the year.

The beneficial and non-beneficial interests of the Directors and their connected persons in the shares of the Company at 31 December 2014 and as at the date of this report are disclosed in the Remuneration Report on page 60. Details of the interests of the Executive Directors in share options and awards of shares can be found on page 59 within the same report.

## Appointment and replacement of Directors

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

In accordance with the Code the Board has determined that all Directors will be subject to annual re-election by shareholders. The Company's Articles of Association (Articles) in any event provide that at each AGM at least one third of the Directors shall retire from office and shall be eligible for re-appointment and therefore each Director shall retire from office and shall be eligible for re-appointment at the AGM held in the third year following their last re-appointment. In accordance with the 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 re-appointment.

## Powers of the Directors

The business of the Company shall be managed by the Directors who may exercise all powers of the Company, subject to the Articles, the Companies Act 2006 and any directions given 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.

## Corporate Governance Statement and Directors' Report continued

### Capital structure

The following description summarises certain provisions of the Articles (adopted by special resolution passed on 16 April 2014) 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 in issue, being ordinary shares with a nominal value of 10p each, which carry no right to fixed income. During 2014 1,802,151 ordinary shares were issued with a nominal value of £180,215.10 to employees exercising share options for cash consideration of £3,470,218.06. At 23 February 2015 the issued share capital of the Company was 306,506,445 ordinary shares with a nominal value of £30,650,644.50. Further details are provided in Note 24 to the Financial Statements.

In accordance with the resolution to return 70p of cash to shareholders passed at the AGM on 16 April 2014, the Company issued 85,725,061 B shares and 220,072,490 C shares on 23 June 2014. The B shares were redeemed in their entirety for 70p each on 4 July 2014 and immediately cancelled. The C share dividend of 70p per share was paid on 4 July 2014 and the C shares reclassified as deferred shares and subsequently purchased by the Company for a nominal sum of one penny. The deferred shares were subsequently cancelled on 7 July 2014. As a result, the Company no longer has any B/C shares in issue.

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 16 April 2014 shareholders gave Directors authority to issue up to one-third of the issued share capital of the Company being an aggregate nominal amount of £10,157,703 and to disapply pre-emption rights on the issues of shares up to 5% of the issued share capital, being an aggregate nominal amount of £1,523,655. These authorities will expire at the conclusion of the AGM on 16 April 2015. Resolutions to renew these authorities will be put to shareholders at the forthcoming AGM.

### Votes of members

All issued shares in the Company are fully paid and there are currently no restrictions on voting rights. Votes may be exercised in person, by proxy, or in relation to corporate members by a corporate representative. The deadline for delivering either written or electronic proxy forms is not less than 48 hours before the time for holding the meeting. To attend and vote at a meeting a shareholder must be entered on the register of members at a time that is not more than 48 hours before the time of the meeting calculated using business 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 the proxy has been appointed by more than one member and has been given conflicting instructions, or instructions to vote for or against 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 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 Employment Benefit Trust may vote or abstain on shareholder resolutions as it sees fit.

### 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.

### Change of control provisions

One significant agreement contains provisions entitling 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 (as amended and re-stated on 31 March 2014) 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.

### Emissions

The Company's greenhouse gas emissions are set out in the Strategic Report on page 30.

### 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 various financial and economic factors affecting the performance of the Group. The Group regularly updates its employment policies and all employees have been issued with a staff handbook to keep them up to date with information relating to their employment. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate. Internal Group magazines are published quarterly and distributed to all employees to ensure 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.

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 option.

### Equal opportunities

The Group policy is to have equal opportunities for training, career development and promotion for all employees without discrimination and apply fair and equitable policies which seek to promote entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability and competency 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 any 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. The Group has achieved accreditation for its approach to equality and diversity.

### Acquisition of own shares

At the AGM held on 16 April 2014 shareholders granted the Company authority to purchase up to an aggregate of 30,473,110 of its own shares. No shares have been purchased to date under this authority and therefore at 31 December 2014 the authority remained outstanding. This authority expires on 16 April 2015 and a resolution to renew the authority will be put to shareholders at the forthcoming AGM.

At 31 December 2014 the Company held no shares in treasury.

### General Meeting

A General Meeting to approve the return of 95p per share under the Capital Return Plan and the associated B/C share scheme will be held at Persimmon House, Fulford, York YO19 4FE at 3pm on 19 March 2015.

### Annual General Meeting

The AGM will commence at 12 noon on Thursday 16 April 2015 at York Racecourse, Knavesmire Road, York YO23 1EX. The Notice of Meeting and an explanation of the ordinary and special business are given in the AGM circular.

### Auditor

As recommended by the Audit Committee, the Board has decided to put KPMG LLP forward to be re-appointed as auditor and a resolution concerning their re-appointment will be made at the Company's AGM on 16 April 2015.

### Disclosure of information to auditors

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 steps 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. The Directors consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance position, business model and strategy. The Board reached this conclusion after receiving advice from the Audit Committee. Further details are provided on pages 47 and 64.

By order of the Board

#### Neil Francis

Group Company Secretary  
23 February 2015

Persimmon Plc  
Company registration number 1818486

## Remuneration Committee Chairman's Statement



### Remuneration

#### Introduction

I am pleased to introduce the Remuneration Report for 2014, which includes my statement, a summary of the Directors' Remuneration Policy approved by shareholders at the AGM last year and the Annual Report on Remuneration for the year ended 31 December 2014. A resolution to approve the Annual Report on Remuneration will be put to shareholders at the forthcoming AGM.

During the year, the Remuneration Committee (the 'Committee') undertook its regular annual review of the Executive Directors' base salaries, finalised the performance conditions and targets for annual bonus for 2014 and undertook the annual review of the Chairman's fees.

The Committee also reviewed long term incentive plan awards for senior management below Board level. The Committee originally issued awards to 130 of the Group's senior management below Board level. The Committee has agreed that additional awards should be made in 2015 to employees who have either been promoted or recruited to a senior role. The LTIP has been successful in retaining many key members of the Persimmon team whilst also helping to attract new senior management at a time in the cycle when demand for experienced staff is high.

#### 2014 remuneration outcomes

The Group delivered a strong performance again in 2014 and the business is growing and continuing to meet its strategic objectives. As set out on page 7, the Group's strategy is to build a larger, stronger business by improving margins, investing in high quality land and increasing profitability, thereby generating strong cash flows. We remain focused on our overall business performance and the Group's reputation and sustainability, hence our priorities include customer satisfaction and health and safety.

In line with the policy approved by shareholders, the Committee set the Executive Director's 2014 annual bonus targets primarily on stretching financial metrics, being profit before tax and cash generation (up to 50% and 40% of bonus potential, respectively), but for the first time also introduced conditions relating to customer satisfaction (up to 10% of bonus potential) and health and safety performance (which could act as a downward modifier of up to 10% of any bonus earned). Jeff Fairburn, Group Chief Executive, could earn a potential bonus of up to 200% of his base salary for 2014; the maximum bonus potential for the other Executive Directors was 150% of base salary.

The Group achieved profit (before goodwill impairment) of £475m for 2014, which exceeded that of the previous year by 44%, as a result this target has been met in full. The Group generated £388.7m of free cash generation during 2014 and this target has also been met in full.

The customer care annual bonus performance condition was based on the number of customers who would recommend Persimmon to a friend, as measured by the NHBC's Customer Satisfaction Survey. The Committee set the targets for this part of the performance condition at the Group achieving a score of at least 71%. The Group's score during the period was 71.9%, meaning that this performance condition was only partly achieved.

Full details of the performance conditions are set out on pages 56 and 57.

The Company's excellent performance in 2014 has resulted in annual bonus payments for 2014 at 91.6% of the maximum potential bonus for Jeff Fairburn, the Group Chief Executive, and at 91.3% of the maximum potential for the other Executive Directors. Bonuses will be paid in cash up to the value of base salary, the remainder will be deferred and paid in Bonus Share Scheme awards.

Executive Directors did not have long term incentive plan awards with performance conditions ending in 2014, which means that no awards will vest this year. The Committee has previously awarded options under the Long Term Incentive Plan 2012 with a 10-year performance condition based on the Company's Capital Return Plan to return £1.9bn of surplus capital to shareholders by December 2021, being the market capitalisation of the Company when the plan was announced in 2012.

#### 2015 remuneration

The focus of the remuneration policy for the Executive Directors is to have a significant proportion of remuneration performance-related and linked closely to the Company's strategy.

Performance conditions for 2015 annual bonus will be unchanged from 2014 and will again be primarily linked to profit and cash generation targets, with two non-financial metrics. Again, 10% of the annual bonus will depend on customer care performance and the Committee will also have the discretion to reduce the total bonus by up to 10% if health and safety performance is not maintained at a high level.

When Jeff Fairburn was appointed Group Chief Executive, the Committee deliberately granted him a lower award of shares under the LTIP 2012 than that of his predecessor, pending their assessment of his performance. The Committee now considers that Jeff's excellent performance and strong leadership since his appointment merit an additional award of an option under the LTIP 2012 to bring his total award to the maximum approved by shareholders for the Group Chief Executive. Jeff will therefore be granted an option over 241,600 shares in 2015 with an initial market value exercise price.

When undertaking the annual review of salaries for Executive Directors, the Committee agreed that base salary should be increased by 3% for the Executive Directors, in line with the average annual review increase for Persimmon's salaried workforce.

The Committee would welcome your support for the remuneration resolution to be tabled at the forthcoming AGM.

**Jonathan Davie**  
Chairman Remuneration Committee  
23 February 2015

## Directors' remuneration policy



The Group's remuneration policy was approved by shareholders at the AGM held on 16 April 2014, and took effect from that date. A summary of the policy for the Executive Directors, Chairman and Non-Executive Directors is set out below in the policy table, which is reproduced in full. The entire policy, as approved by shareholders, may be found on the Company's website at [www.corporate.persimmonhomes.com/investors](http://www.corporate.persimmonhomes.com/investors) in the 2013 Annual Report.

### Executive Directors

The Committee's policy for the Executive Directors 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 Company performance.

To achieve the aim of this policy the remuneration of the Executive Directors is made up of different elements of fixed and variable pay, with a significant emphasis on performance-related pay for achievement of stretching targets. If challenging performance conditions attached to variable pay are achieved in full, a substantial proportion of an Executive Director's remuneration will be performance related. Overall, the Committee's policy is to ensure that the balance of performance conditions in the annual bonus and long term incentive plan awards provides a good link to the Company's business strategy and continues to make the Company successful on a sustainable basis.

### Summary of remuneration policy for Executive Directors

Base salary			
Purpose	How it operates	Maximum payable	Performance framework
Market competitive salaries commensurate with a Director's experience are paid to attract and retain Executive Directors with the skills necessary to lead the business and successfully implement the Company's strategy.	<p>Salaries are paid by 12 equal monthly instalments. They are reviewed annually with any increases normally taking effect from 1 January.</p> <p>When reviewing salaries, consideration is given to current market conditions; any increases awarded to staff in the business generally and any change in a Director's role and experience.</p> <p>Where an Executive Director is to be promoted or where their role is to be expanded or changed, the Committee will review the salary payable and decide whether an increase/decrease is appropriate, in order that base salaries remain appropriate.</p>	<p>The Committee does not consider it appropriate to set maximum salary levels. Any future increases will generally be in line with inflation and with increases applied to Group monthly paid employees, unless there is a change in responsibilities.</p> <p>The Committee will retain discretion to increase base salaries above the framework set out above for any promotions, where the Committee has purposefully set a lower starting salary for a newly appointed Director, or if a Director's salary is no longer market competitive.</p> <p>Current salary levels are set out in the Annual report on remuneration.</p>	None
Annual bonus			
Annual bonuses are performance related. The aim is to set stretching targets which will incentivise the Executive Directors to achieve excellent performance in line with the Company's strategic objectives.	<p>Any annual bonuses earned are paid in cash up to 100% of base salary.</p> <p>To further link the Executive Director's pay to the interests of shareholders, any bonus earned in excess of 100% of base salary is made through awards under the Company's Bonus Share Scheme. Any Bonus Share awards are made at the same time as cash bonuses are paid.</p> <p>Vesting of Bonus Share Scheme awards is not subject to further performance conditions, other than the Director must remain employed at the date of exercise subject to the standard good leaver provisions. Bonus Share Scheme awards vest and become exercisable in two equal tranches, on the announcement of the Company's final results one year and two years after the date of the award.</p> <p>A dividend equivalent is payable on Bonus Share Scheme 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.</p> <p>A clawback arrangement allows for the Company to recover annual bonuses made as a result of an error or misstatement, or if a Director is guilty of gross misconduct which substantially affects the Company's financial performance or reputation.</p>	<p>The maximum annual bonus potential is 200% of base salary for the Group Chief Executive and 150% of base salary for other Executive Directors. Maximum bonus is only payable if stretching targets are met and excellent Company performance is achieved.</p>	<p>Annual bonus performance conditions are set annually by the Committee to ensure that they take into consideration the Company's strategy and the outlook for the Company over the medium term and are appropriate from a risk perspective.</p> <p>Financial metrics such as profit and cash generation will have the majority weighting. Non-financial metrics such as customer care and health and safety, where applied, will have a minority weighting.</p>

## Directors' remuneration policy continued

### Long Term Incentive Plan awards

Purpose	How it operates	Maximum payable	Performance framework
<p>The Committee considers that it is appropriate for a significant component of an Executive Director's remuneration to be share based with long term performance conditions closely linked to the Company's long term strategy. This aligns the interests of the Executive Directors with the Company's long term financial performance and with the interests of shareholders.</p>	<p>Awards made under the Persimmon Plc 2012 Long Term Incentive Plan (the '2012 LTIP') have a 10-year performance condition directly linked to the Capital Return Plan.</p> <p>The plan was designed to provide participants with an initial award, granted in the first year of the performance period, with additional awards only granted for circumstances such as promotions or increased responsibilities. Awards will be granted with an initial option price equal to the market value of a share, or £6.20 if higher.</p> <p>Subject to performance, up to 40% of options may be exercisable at 31 December 2017. The balance of options may be exercisable on the earlier of 31 December 2021 and the date the performance condition is achieved in full.</p> <p>After sales to meet tax, no more than 50% of shares received upon exercise of an option may be sold within 12 months of the date of exercise. The Committee may waive this condition for good leavers and in exceptional circumstances.</p> <p>A clawback arrangement under the Company's long term incentive plans allows the Company to recover share awards which have vested as a result of an error or misstatement, or if a Director is guilty of gross misconduct which substantially affects the Company's financial performance or reputation.</p>	<p>The maximum number of shares that can be awarded under the 2012 LTIP is:</p> <p>Chief Executive: 4,832,000</p> <p>Finance Director: 3,382,400</p> <p>Group Managing Director: 2,416,000</p> <p>Non-Board level: 1,540,200</p> <p>The overall aggregate plan limit is 30.2 million shares (10% of the then issued share capital). 2012 LTIP awards are larger than previous awards due to the 10 year performance period.</p>	<p>Options granted under the 2012 LTIP have a performance condition directly linked to the return of £1.9bn (£6.20 per share) to shareholders over the 10-year Capital Return Plan period and a vesting period over the same timescale.</p> <p>The initial exercise price will reduce by the value of cash returns to shareholders during the period from date of grant to the earlier of 31 December 2021 or the date of exercise of an option.</p> <p>There is an underpin requirement in the 2012 LTIP being that the cash returns paid by the Company are financed out of retained earnings and the Company has an ungeared balance sheet at the relevant performance measurement date.</p> <p>For achieving the minimum performance target, 27% of the options will vest.</p>

### Pension/Salary supplement

<p>Market competitive pension/salary supplements are offered to attract and retain Directors with the skills necessary to lead the business and successfully implement the Company's strategy.</p>	<p>Base salary is the only component of remuneration which is pensionable. The Company operates a defined benefit (DB) pension scheme, which is closed to new members and a defined contribution (DC) scheme. Accrual in the DB scheme is based on a career average revalued earnings (CARE) basis for all active members and normal retirement age for Directors is 60 or 65, dependent on date of appointment to the Board.</p> <p>If a Director opts out of future pension accrual, a salary supplement is payable.</p>	<p>Pension accrual in the DB scheme is on a CARE basis at one-sixtieth of Pensionable Salary per year.</p> <p>The Company will match a Director's contributions into the DC scheme up to a maximum of 9% of base salary. The Committee retains the discretion to amend the contribution level should market conditions change.</p> <p>The maximum salary supplement in lieu of pension is between 9% and 30% of base salary, dependent upon the level of pension benefits given up.</p>	<p>None</p>
--	--	---	-------------

### Benefits

<p>Market competitive benefits are offered to attract and retain Directors with the skills necessary to lead the business and successfully implement the Company's strategy.</p>	<p>The benefits include: fully financed cars or cash car allowance, Group Medical Scheme membership, life assurance, income protection scheme membership, professional subscriptions and some telephone costs.</p> <p>The Committee does not currently expect to change the benefits offered to Executive Directors but retains the discretion to add to or remove some of the benefits available if market conditions change. It would also consider relocation benefits where appropriate.</p>	<p>The Committee has not set a maximum for benefits. Benefit costs will remain a small component of total remuneration.</p>	<p>None</p>
--	--	---	-------------

### HMRC approved all-employee scheme

<p>HMRC approved all-employee share schemes are to encourage employees to take a stake in the business, which aligns their interest with that of shareholders.</p>	<p>Executive Directors are eligible to participate in all-employee schemes.</p>	<p>Maximum is subject to HMRC approved limits.</p>	<p>None</p>
--	---	--	-------------

## Share ownership guidelines

Purpose	How it operates	Maximum holding	Performance framework
To align the interests of the Executive Directors with those of shareholders.	Executive Directors are required to retain the net of tax vested shares under all of the Company's share schemes until the guideline is met.	200% of base salary.	None

## Choice of performance conditions

Annual bonus conditions	Rationale for selection and how performance targets are set
Profit before tax and cash generation	Aligned with the Company's strategy to improve margins and return cash to shareholders.
Customer satisfaction and health and safety	These are important factors in ensuring overall business performance, sustainability and reputation.  Annual bonus performance conditions are reviewed annually by the Committee to ensure that they take into consideration the Company's strategy and the outlook for the Company over the medium term and are appropriate from a risk perspective.
2012 LTIP conditions	Rationale for selection and how performance targets are set
Cash returns to shareholders	Directly aligned to the Company's Capital Return Plan to return £1.9bn, equivalent to £6.20 per share to shareholders over the period 2012 to 2021 (being the Company's market capitalisation at the date of announcement). Future awards will be granted with an initial option price equal to the market value of a share, or £6.20 if higher.

## Differences between the Executive Directors' and general employees' remuneration policy

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 Company's strategic objectives. The Committee considers that the emphasis on performance related pay for Executive Directors and senior employees closely aligns the Directors' interests with those of shareholders and helps to deliver excellent long term Company performance.

## Legacy arrangements

For avoidance of doubt, in approving this Directors' Remuneration Policy, the authority is given to the Company to honour any previously disclosed commitments entered into with current or former Directors (such as the payment of pensions or the vesting/exercise of past share awards).

## Chairman

Fee			
Purpose	How it operates	Maximum payable	Performance framework
Market competitive fees are paid to attract a Chairman with the skills necessary to lead the Board and ensure it is effective in setting the right strategy for the business and for its successful implementation.	<p>The Chairman's fees are set by the Committee.</p> <p>The Chairman's initial fee was set at a market competitive level, commensurate with the size and complexity of our business.</p> <p>Fees are reviewed annually with any increases normally taking effect from 1 January.</p> <p>When reviewing the Chairman's fees, consideration is given to current market conditions, the size of the business and any increases awarded to staff in the business generally.</p>	<p>The Chairman's fees will be increased in line with inflation and with increases applied to Group monthly paid employees unless there is an exceptional reason for a larger increase.</p> <p>The Chairman does not receive bonus, pension or salary supplement payments or share scheme awards but may receive other benefits.</p>	N/A

## Non-Executive Directors

Fees			
Purpose	How it operates	Maximum payable	Performance framework
Market competitive fees are paid to attract Non-Executive Directors with a broad range of skills and experience to complement the Board.	<p>Fees are determined by the Board as a whole. They are set at market competitive levels, commensurate with their duties and responsibilities for a company of our size and complexity.</p> <p>Fees are reviewed annually with any increases normally taking effect from 1 January.</p> <p>When reviewing the Non-Executive Directors' fees consideration is given to current market conditions, the size of the business and any increases awarded to staff in the business generally.</p>	<p>The Non-Executive Directors' fees will be increased in line with inflation and increases applied to Group monthly paid employees unless there is an exceptional reason for a larger increase.</p> <p>Additional fees are payable to Non-Executive Directors for extra responsibilities, such as chairing a Board committee.</p> <p>Non-Executive Directors do not receive bonus, pension or salary supplement payments, share scheme awards or other benefits.</p>	N/A
Non-Executive Directors with diverse skills and strategy will assist the Board when setting the Company's strategy and overseeing its successful implementation.			

## Annual report on remuneration



The Remuneration Committee's Annual Report on Remuneration for the year ended 31 December 2014 is set out below, including remuneration for 2014 and the proposed implementation of the approved Remuneration Policy for 2015.

The auditor is required to report on the following information up to and including the Statement of Directors' shareholding requirements and share interests.

### Single total figure of remuneration for the year ended 31 December 2014

	Salaries and fees 2014 £	Salaries and fees 2013 £	Benefits 2014 £	Benefits 2013 £	Annual bonus 2014 £	Annual bonus 2013 £	Value of LTIP awards vesting 2014 £	Value of LTIP awards vesting 2013† £	Value of pension benefits earned/salary supplement 2014 £	Value of pension benefits earned/salary supplement 2013 £	Value of SAYE options maturing 2014 £	Value of SAYE options maturing 2013 £	2014 Total £	2013 Total £
<b>Chairman</b>														
N H T Wrigley	195,700	190,000	–	–	–	–	–	–	–	–	–	–	195,700	190,000
<b>Executive</b>														
J Fairburn^	605,094	542,472	34,425	29,143	1,131,762	832,500	nil	1,429,772	90,673	83,257	28,964	–	1,890,918	2,917,144
M H Killoran	468,390	454,750	47,064	43,366	641,226	682,125	nil	2,042,673	140,517	136,425	28,964	–	1,326,161	3,359,339
N P Greenaway	329,600	320,000	39,811	37,104	451,222	480,000	nil	317,719	29,664	28,800	–	–	850,297	1,183,623
D Jenkinson≠^	316,694	10,999	28,264	813	451,222	17,420	nil	158,852	64,307	456	11,586	–	872,073	188,540
<b>Non-Executive</b>														
R J Pennycook	64,270	62,400	–	–	–	–	–	–	–	–	–	–	64,270	62,400
J Davie	64,270	62,400	–	–	–	–	–	–	–	–	–	–	64,270	62,400
M Preston*	54,590	53,000	–	–	–	–	–	–	–	–	–	–	54,590	53,000
M Sears≠	64,270	58,658	–	–	–	–	–	–	–	–	–	–	64,270	58,658
<b>Totals</b>	<b>2,162,878</b>	<b>1,754,679</b>	<b>149,564</b>	<b>110,426</b>	<b>2,675,432</b>	<b>2,012,045</b>	<b>–</b>	<b>3,949,016</b>	<b>325,161</b>	<b>248,938</b>	<b>69,514</b>	<b>–</b>	<b>5,382,549</b>	<b>8,075,104</b>

≠ 2013 figures are from 8 January 2013 for Marion Sears and from 13 December 2013 for David Jenkinson.

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

† The original 2013 figures were estimates, please see page 58.

^ There is a salary sacrifice arrangement in place for the Company's defined benefit pension scheme. As a result the actual salary paid to an Executive Director while accruing service in this scheme was reduced by 9% of pensionable salary, which would have been the member rate of contribution to the scheme.

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

Additional information on the amounts which make up the single figure for total remuneration is set out below.

### Benefits

Benefits include fully financed cars or cash car allowance, private medical scheme membership, life assurance benefits, income protection scheme membership, professional subscriptions and some telephone costs.

### Annual bonus 2014

The performance condition for Executive Directors' 2014 annual bonus was made up of two financial metrics, being profit and cash generation measures (up to 50% and 40% of maximum bonus potential, respectively), and also included two non-financial metrics, being a customer care measure (up to 10% of maximum bonus) and a health and safety measure (which could act as a downward modifier of up to 10% of bonus).

The profit performance condition for 2014 annual bonuses was the achievement of Group profit before tax (before exceptional items and goodwill impairment) for the year (the 'profit measure'). The cash generation performance condition was the Group net cash inflow together with capital return plan payments for the year (the 'cash generation measure').

The customer care condition was to achieve a minimum percentage of customers who would recommend Persimmon, as measured by the results of the NHBC's Customer Satisfaction Survey question, 'Would you recommend Persimmon to a friend?' (the 'customer care measure'). This is an independent measure of customer satisfaction for houses legally completed from October to September each year, measured to December 2014.

The health and safety performance condition can reduce the total annual bonus payments (if any) to the Executive Directors by up to 10% if in the view of the Committee, the health and safety management and/or performance of the Group is below the standard expected of a reputable market-leading housebuilder.

Having reviewed the Group's health and safety performance, the Committee agreed not to reduce the Executive Directors' annual bonuses for 2014.

The following target figures were set for each part of the performance condition, with straight-line vesting between the relevant target figures:

Target range	Profit measure for 2014	Bonus achievable as a percentage of salary for Group Chief Executive	Bonus achievable as a percentage of salary for other Executive Directors	Cash generation measure for 2014	Bonus achievable as a percentage of salary for Group Chief Executive	Bonus achievable as a percentage of salary for other Executive Directors	Customer care measure for 2014	Bonus achievable as a percentage of salary for Group Chief Executive	Bonus achievable as a percentage of salary for other Executive Directors
Threshold	£380m	6.66%	5%	£252m	6.66%	5%	71%	2%	1%
Target	£420m	66.66%	50%	£280m	53.33%	40%	80%	13.33%	10%
Maximum	£460m	100%	75%	£308m	80%	60%	85%	20%	15%

Annual bonus performance conditions were achieved during 2014 as shown in the following table:

Condition	Target range	Actual achieved	Jeff Fairburn		Mike Killoran		Nigel Greenaway		Dave Jenkinson	
			Maximum % of salary achievable	Actual percentage achieved	Maximum % of salary achievable	Actual percentage achieved	Maximum % of salary achievable	Actual percentage achieved	Maximum % of salary achievable	Actual percentage achieved
Profit measure	£380m to £460m	£475m	100%	100%	75%	75%	75%	75%	75%	75%
Cash generation measure	£252m to £308m	£389m	80%	80%	60%	60%	60%	60%	60%	60%
Customer care measure	71% to 85%	71.9%	20%	3.13%	15%	1.9%	15%	1.9%	15%	1.9%
Health and safety modifier	Health and safety performance of the Group at the standard expected		Up to 10% deductible	No deduction	Up to 10% deductible	No deduction	Up to 10% deductible	No deduction	Up to 10% deductible	No deduction
Value of total bonus payable			£1,131,762		£641,226		£451,222		£451,222	

Bonus equal to 100% of salary is payable in cash, any balance is deferred and paid in bonus share scheme awards, as set out below.

Executive Director	Value of total bonus payable £	Amount paid in cash		Amount deferred and paid in bonus share scheme awards		Bonus shares awarded
		Value £	Percentage of overall bonus	Value £	Percentage of overall bonus	
J Fairburn	£1,131,762	618,000	54.6%	513,762	45.4%	33,088
M H Killoran	£641,226	468,390	73.0%	172,836	27.0%	11,131
N P Greenaway	£451,222	329,600	73.0%	121,622	27.0%	7,833
D Jenkinson	£451,222	329,600	73.0%	121,622	27.0%	7,833

The bonus share awards earned under the annual bonus arrangements for 2014 were calculated at the average share price of 1552.7p over the period from 1 January 2015 to 13 February 2015, inclusive. These awards will ordinarily vest half on the announcement of the annual results in 2016 and half on the announcement of the annual results in 2017.

### Long term incentive plan awards vesting in 2015

Executive Directors did not have LTIP awards with performance conditions ending in 2014, which means that no awards will vest this year. Executive Directors' LTIP awards have been made under the 2012 LTIP and have a ten year performance period due to end in 2021.

## Annual report on remuneration continued

### Long term incentive plan awards which vested in April 2014

The awards granted in April 2011 under the Long Term Incentive Plan 2007 did not vest until 4 April 2014 but an estimated value was included in the single total figure of remuneration for the year ended 31 December 2013. The value of the awards stated in the 2013 table was estimated using a share price of £11.866, being the average of the closing price of a Persimmon share over the last quarter of 2013, plus 89.5p per share which was the value of the dividend equivalent payable on the awards that vested. The share price at the date of vesting was £13.46, which together with the dividend equivalent of 89.5p gave an actual value of £14.355 per share vesting. The actual value has been included in the 2013 comparator figure in the 2014 single total figure of remuneration table. The difference between the estimated value and the actual value, is set out below.

2011 LTIP awards	Number of shares vested	Actual value of shares vesting (as stated in the 2014 table)	Estimated value of shares vesting (as stated in the 2013 table)	Difference
J Fairburn	99,601	£1,429,772	£1,270,971	£158,801
M H Killoran	142,297	£2,042,673	£1,815,799	£226,874
N P Greenaway	22,133	£317,719	£282,431	£35,288
D Jenkinson	11,066	£158,852	£141,209	£17,643

### Directors' pension entitlements

Jeff Fairburn and David Jenkinson each earn pension in the Company's defined benefit scheme on a career average revalued earnings basis and on a scheme capped salary (currently £145,800). The cap increases on 1 July each year in line with increases in the Retail Price Index. Their scheme retirement age is 65 and their accrual rate is sixtieths. As Jeff Fairburn and David Jenkinson's pensionable salaries in the DB scheme are capped, they do not earn pension on their total base salary. They are paid a salary supplement of 9% of the difference between their pensionable salary and their base salary. This is the same as the supplement available to monthly paid employees who have a pension scheme earnings cap or who cease pension scheme membership due to reaching the HMRC Lifetime Allowance for pension saving.

Mike Killoran and Nigel Greenaway have both ceased membership of Company pension schemes. Mike Killoran is paid a salary supplement of 30% of his base salary, which the Committee (after taking advice) considers is cost neutral to the Company based on the pension benefits Mike Killoran previously earned. Nigel Greenaway receives a salary supplement of 9% of his base salary.

No additional benefits are receivable by the Directors on early retirement.

The defined benefit pension benefits accrued for each Director serving through the year are as set out below:

	Accrued pension as at 31 December 2014	Accrued pension as at 31 December 2013	Increase in accrued pension	Increase in accrued pension during the year (net of inflation) £
J Fairburn	50,614	46,929	3,685	2,418
D Jenkinson	39,420	36,049	3,371	2,398

### SAYE

The SAYE Scheme is an all employee HMRC approved savings related share option scheme. There are no performance conditions attached to SAYE options. The value of SAYE options maturing has been calculated on the difference between the market value of a Persimmon share on 1 December 2014 (the date the option became exercisable), being £15.40 and the option exercise price of £3.65, multiplied by the number of shares under option.

### LTIP awards

Awards under the Persimmon Long Term Incentive Plan 2012 ('2012 LTIP') have a maximum 10-year performance period specifically aligned to the Company's Capital Return Plan. Due to the long performance period, the intention with the 2012 LTIP is to make awards with much longer performance and vesting periods, rather than making lower annual awards with shorter performance periods.

Therefore there were no 2012 LTIP awards to Executive Directors in 2014.

### Payments for loss of office

There were no payments for loss of office for 2014.

### Payments to past Directors

There were no payments to past Directors for the year ended 31 December 2014, where the total payment to the former Director exceeded a threshold set by the Company of £60,000.

## Directors' share option scheme interests

	Scheme	31 December 2013	Granted in year	Exercised in year	Lapsed in year	Exercise price/ market price at date of award	Interests without performance conditions	Interests with performance conditions	Total interests outstanding at 31 December 2014	Options vested but unexercised	Exercisable from
J Fairburn	2007 LTIP	99,601	–	99,601	–	451.8p	–	–	–	–	Apr 14
	2012 LTIP	2,416,000	–	–	–	620p	–	2,416,000	2,416,000	–	40% Jan 18 100% Jan 22
	2012 LTIP	2,174,400	–	–	–	1109p	–	2,174,400	2,174,400	–	40% Jan 18 100% Jan 22
	Bonus share scheme	13,493	–	13,493	–	640p	–	–	–	–	Feb 14
	Bonus share scheme	21,020	–	10,510	–	1130p	10,510	–	10,510	–	50% Feb 14 50% Feb 15
	Bonus share scheme	–	20,989	–	–	1364p	20,989	–	20,989	–	50% Feb 15 50% Feb 16
	SAYE	2,465	–	2,465	–	365p	–	–	–	–	Dec 14
	SAYE	–	1,666	–	–	1080p	1,666	–	1,666	–	Dec 17
<b>Total</b>		4,726,979	22,655	126,069	–		33,165	4,590,400	<b>4,623,565</b>	Nil	
M H Killoran	2007 LTIP	142,297	–	142,297	–	451.8p	–	–	–	–	Apr 14
	2012 LTIP	3,382,400	–	–	–	620p	–	3,382,400	3,382,400	–	40% Jan 18 100% Jan 22
	Bonus share scheme	19,277	–	19,277	–	640p	–	–	–	–	Feb 14
	Bonus share scheme	25,779	–	12,889	–	1130p	12,890	–	12,890	–	50% Feb 14 50% Feb 15
	Bonus share scheme	–	17,198	–	–	1364p	17,198	–	17,198	–	50% Feb 15 50% Feb 16
	SAYE	2,465	–	2,465	–	365p	–	–	–	–	Dec 14
	SAYE	–	1,666	–	–	1080p	1,666	–	1,666	–	Dec 17
<b>Total</b>		3,572,218	18,864	176,928	–		31,754	3,382,400	<b>3,414,154</b>	Nil	
N P Greenaway	2007 LTIP	22,133	–	22,133	–	451.8p	–	–	–	–	Apr 14
	2012 LTIP	1,540,200	–	–	–	620p	–	1,540,200	1,540,200	–	40% Jan 18 100% Jan 22
	2012 LTIP	130,000	–	–	–	1109p	–	130,000	130,000	–	40% Jan 18 100% Jan 22
	Bonus share scheme	–	12,102	–	–	1364p	12,102	–	12,102	–	50% Feb 15 50% Feb 16
	SAYE	1,012	–	–	–	889p	1,012	–	1,012	–	Dec 16
	SAYE	–	833	–	–	1080p	833	–	833	–	Dec 17
<b>Total</b>		1,693,345	12,935	22,133	–		13,947	1,670,200	<b>1,684,147</b>	Nil	
D Jenkinson	2007 LTIP*	7,530	–	2,213	5,317	398.4p	–	–	–	–	Sep 13
	2007 LTIP*	7,530	–	7,530	–	398.4p	–	–	–	–	Sep 13
	2007 LTIP	1,255	–	1,255	–	398.4p	–	–	–	–	Sep 13
	2007 LTIP	11,066	–	11,066	–	451.8p	–	–	–	–	Apr 14
	2012 LTIP	1,209,677	–	–	–	620p	–	1,209,677	1,209,677	–	40% Jan 18 100% Jan 22
	2012 LTIP	460,523	–	–	–	1135.5p	–	460,523	460,523	–	40% Jan 18 100% Jan 22
	Bonus share scheme	–	439	–	–	1364p	439	–	439	–	50% Feb 15 50% Feb 16
	SAYE	986	–	–	–	365p	986	–	986	986	Dec 14
	SAYE	–	1,666	–	–	1080p	1,666	–	1,666	–	Dec 17
<b>Total</b>		1,698,567	2,105	22,064	5,317		3,091	1,670,200	<b>1,673,291</b>	986	
<b>Grand total</b>		11,691,109	56,559	347,194	5,317		81,957	11,313,200	<b>11,395,157</b>	986	

\* This was an HMRC approved LTIP with a corresponding linked award. The performance condition was met in full, which resulted in the approved option being exercised in full, the linked award could only be exercised to the extent it created a value of £30,000, with the balance lapsing.

All of the above represent share options and were granted for nil consideration.

## Annual report on remuneration continued

### Statement of Directors' shareholding requirements and share interests

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

Director	Shareholding requirement		Beneficial holdings (including interests of the Director's connected persons)	
	Value as a percentage of base salary	Percentage held at 31 December 2014 (including shares held by connected persons)±	31 December 2014	31 December 2013
J Fairburn	200	351	141,712	116,609
M H Killoran	200	2,090	639,165	550,125
N P Greenaway	200	295	63,557	41,424
D Jenkinson	200	148	31,934	16,597
Non-Executives				
N H T Wrigley	n/a	n/a	36,000	36,000
R J Pennycook	n/a	n/a	643	643
J Davie	n/a	n/a	20,000	20,000
M Preston	n/a	n/a	500	500
M Sears	n/a	n/a	10,000	10,000
<b>Total</b>			<b>943,511</b>	<b>791,898</b>

± Calculated on the closing price of £15.78 at 31 December 2014 and on base salary at 1 January 2015.

Jeff Fairburn and Mike Killoran each also has a non-beneficial interest in 48,360 and 64,022 shares respectively, in addition to the holdings above.

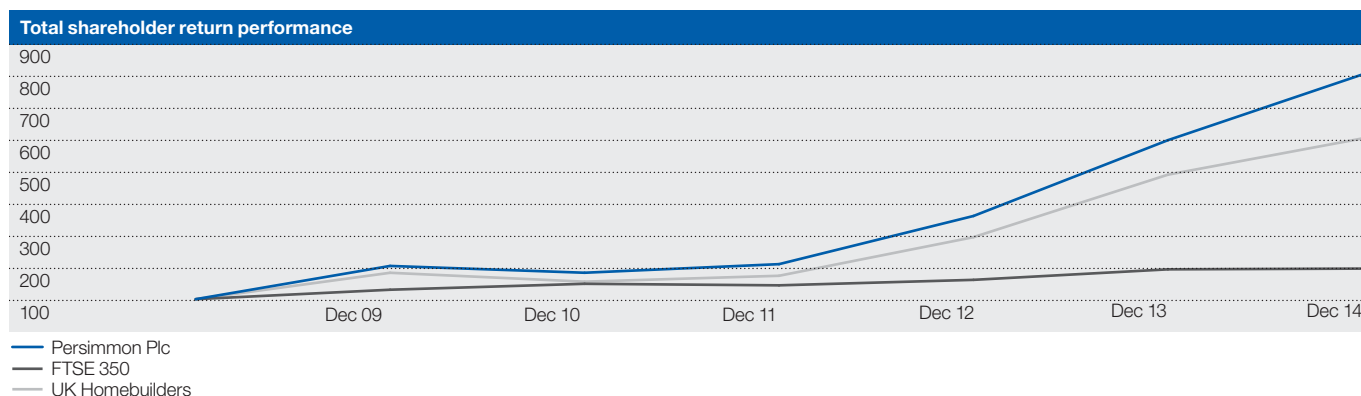
Executive Directors are expected to hold shares in the Company worth 200% of salary and must retain any vested share awards (net of tax) until the share ownership requirement is met. Jeff Fairburn, Mike Killoran and Nigel Greenaway all hold shares above the minimum share ownership requirement. David Jenkinson as a recently appointed Board member is yet to meet the shareholding requirement.

There are no share ownership requirements for the Chairman or the Non-Executive Directors.

The Directors' beneficial holdings were 943,511 shares at 31 December 2014 and represent 0.3% of the Company's issued share capital as at that date. There has been no change in the Directors' interests set out above between 31 December 2014 and 23 February 2015.

### Total shareholder return performance

We have chosen to compare the Company's total shareholder return performance over the last six years with that of the FTSE 350, being a broad index of the UK's largest companies and with the largest UK listed housebuilders, being the Company's peer group.



## Group Chief Executive remuneration 2009 to 2014

	Chief Executive	Single figure of total remuneration £	Annual bonus paid against maximum opportunity	LTIP awards vesting against maximum opportunity
2014	J Fairburn	1,890,918	91.6%	n/a
2013*	M P Farley/J Fairburn	5,957,479	100%	100%
2012	M P Farley	4,989,127	100%	100%
2011	M P Farley	3,206,309	98%	88%
2010	M P Farley	1,496,320	96%	0%
2009	M P Farley	1,378,781	64%	0%

\* This is the total remuneration for Mike Farley, who was Group Chief Executive until 18 April 2013, and remuneration for Jeff Fairburn from 18 April 2013, the date he became Group Chief Executive.

## Group Chief Executive change in remuneration

Set out below is a comparison of the change in remuneration of the Group Chief Executive from 2013 to 2014, compared to the change in remuneration of the Group's salaried employees. We have selected the salaried workforce as the comparator group as this includes 2,430 (2013: 2,155) junior to senior employees with the most relevant pay structure.

	Percentage change from 2013 to 2014		
	Annual salary	Bonus	Value of taxable benefits
Group Chief Executive	-1.73%	15.5%	5.1%
Average of salaried employees	0%	-2.8%	-8.8%

Jeff Fairburn became Group Chief Executive in April 2013, his base salary is lower than that of his predecessor.

Salaried employees generally received a 3% increase in 2014. However the average per capita salary did not change in 2014 as we recruited additional junior staff and trainees on salaries lower than our Group average as the business grew. This growth in more junior staff has also resulted in average bonuses and the value of taxable benefits falling during the year.

## Statement of voting at General Meeting

The Directors' remuneration policy, effective from 16 April 2014, and the Annual report on remuneration for 2013 were both put to shareholders for their approval at the AGM held on 16 April 2014. The resolutions were passed on a show of hands. Of the proxy votes lodged, 90.8% were in favour of the resolution to approve the Directors' remuneration policy report and 93.2% were in favour of the Annual report on remuneration, 9.1% and 6.7% were against respectively. There were 637,189 and 1,992,374 votes withheld from each resolution, representing 0.2% and 0.7% respectively of the then issued share capital.

## Relative importance of spend on pay

Set out below is the amount spent on remuneration for all employees of the Group (including for Executive Directors) and the total amounts paid in distributions to shareholders over the year.

	2014 £m	2013 £m	Difference in spend £m	Difference as a percentage
Remuneration for all employees	169.5	144.7	24.8	17.1%
Total Capital Return Plan payments made	213.9	228.0	(14.1)	-6.2%

## Service contracts

The Executive Directors have service contracts with a 12 month notice period. The Chairman and Non-Executive Directors are not employees, they have letters of appointment which set out their duties and responsibilities; they do not have service contracts. The Chairman's continued appointment is subject to his re-election by shareholders at each AGM and may be terminated on six months' notice. A Non-Executive's appointment is initially for a three-year term, subject to re-election at each AGM but their appointment may be terminated on one month's notice.

There are no change of control provisions in the Executive Directors' service contracts. The rules of the Company's share schemes provide for early exercise of awards on a takeover or change of control.

## Annual report on remuneration continued



### Remuneration policy implementation for 2015

#### Executive Directors

##### Base salaries

After taking into consideration Group employees' salary increases in 2014 (monthly paid employees generally received a 3% base salary review increase in 2014) and general market conditions, the Committee has awarded salary increases of 3% to Executive Directors from 1 January 2015.

	Base salary from 1 January 2015	2014
Jeff Fairburn	<b>£636,500</b>	£618,000
Mike Killoran	<b>£482,400</b>	£468,390
Nigel Greenaway	<b>£339,500</b>	£329,600
David Jenkinson	<b>£339,500</b>	£329,600

##### Annual bonus

In line with the Company's strategy to improve margins and return cash to shareholders under the capital return plan, the Committee has decided that the most appropriate performance condition for 2015 annual bonus will again primarily be based on profit before tax and cash generation measures, plus a condition relating to customer satisfaction, which will account for 10% of the maximum bonus opportunity. Health and safety outcomes may act as a downward modifier of up to 10% of the bonus outcome.

The targets are based on figures which are commercially sensitive, but they will be disclosed in next year's Annual Report on Remuneration. The Committee considers that the targets it has set are stretching. Annual bonus awards continue to be subject to robust clawback and malus provisions.

The Committee has determined that the maximum annual bonus potential for Jeff Fairburn should remain at 200% of base salary. This annual bonus potential reflects that Jeff Fairburn's base salary is lower than the salaries of the Chief Executives of other major housebuilders. This structure enhances the emphasis on pay for performance, with any annual bonus payable in excess of 100% of base salary paid entirely in deferred shares. The Committee notes that Jeff Fairburn's combined base salary plus maximum annual bonus remains below the FTSE 100 market median.

The Committee has retained the maximum annual bonus achievable for the other Executive Directors at 150% of base salary.

Any bonus earned in excess of 100% of base salary will again be paid in bonus share scheme awards for all Executive Directors, half vesting one year and half vesting two years after the announcement of the relevant year's financial results.

##### Long term incentive plan awards

When Jeff Fairburn was appointed Group Chief Executive, the Committee deliberately granted him a lower award of shares than that of his predecessor pending their assessment of his performance. The Committee now considers that Jeff's excellent performance and strong leadership since his promotion merit an additional award of an option under the LTIP 2012. Jeff will therefore be granted an option over 241,600 shares in 2015, to bring his total award to the maximum approved by shareholders for the Group Chief Executive.

##### Pension schemes

There is no change to pension benefits for 2015; current arrangements are as set out on page 58.

#### Chairman and Non-Executive Directors' fees

The Committee has agreed that the Chairman's fee for 2015 should be increased by 3%, making his fee for 2015 £201,600. The Board as a whole determines the fees of the Non-Executive Directors. The Board has agreed that the fee for 2015 should increase by 3% to £56,200, plus an additional fee of £10,000 for extra responsibilities in chairing a Committee.

## The Remuneration Committee

The Remuneration Committee is responsible for setting the Chairman's and each Executive Director's remuneration. The Committee is comprised of four Non-Executive Directors, who all served throughout the year.

Current members	Date of appointment to the Committee
Jonathan Davie (Chairman)	1 January 2010
Nicholas Wrigley	18 December 2007
Mark Preston	27 February 2012
Marion Sears	20 February 2013

The Committee sought advice on Executive Directors' remuneration matters from its independent remuneration consultants New Bridge Street ('NBS'), a trading name of Aon Hewitt (part of Aon plc), who were selected by the Committee due to their expertise in this field. The Committee considers that the advice provided by NBS as professional remuneration consultants is objective and independent. 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 Company'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 as NBS is a separate division of Aon Hewitt based in London (the actuarial and pension consultancy offices are in Leeds and Birmingham). The amount of fees the Company paid to NBS for the services they provided in 2014 was £17,032, charged on a time spent basis.

In addition, the Committee consulted with Jeff Fairburn, Group Chief Executive, but no Director was involved in any discussion about 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.

By order of the Board

**Jonathan Davie**  
Chairman Remuneration Committee  
23 February 2015

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

The Directors who are listed on pages 42 and 43 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 Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

### Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic 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.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Jeff Fairburn  
23 February 2015

Mike Killoran

## Independent Auditor's Report to the Members of Persimmon Plc only

### Opinions and conclusions arising from our audit

#### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Persimmon plc for the year ended 31 December 2014 set out on pages 68 to 105. 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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

#### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

##### **Carrying value of available for sale financial assets – shared equity receivables (£201.3 million)**

Refer to page 46 (Audit Committee Report), page 76 (accounting policy) and page 88 (financial disclosure)

The risk:

The Group carries long term available for sale financial assets which are shared equity loans over an extended term, provided to customers on the purchase of a new home from the Group. The carrying value of the available for sale financial assets incorporates certain assumptions in respect of house price inflation, borrower default and discount rate over the period of recovery. There are inherent uncertainties within these assumptions which require judgements to be made.

Our response:

In this area, our audit procedures included:

- Testing the integrity of the Group's discounted cash flow model used to value the assets by reperforming the calculations within the model.
- Evaluating the key assumptions of forecast house price inflation and market participant discount rate, through comparison to externally derived data.
- Evaluating the assumptions relating to borrower default against actual default levels incurred by the Group to date and externally available data on mortgage default rates.
- Performing sensitivity analysis on the valuation and challenging the range of assumptions used by the Group in comparison to externally derived data in respect of the discount rate.
- Comparing actual house price inflation to historical price inflation assumptions used in the model in order to assess the Group's ability to forecast accurately.
- Comparing the level of redemptions in the year to the assumed redemption period incorporated into the valuation model to evaluate the assumption made over the timing of the settlement of the receivables.

We have also considered the adequacy of the Group's disclosures over the key assumptions and degree of estimation.

##### **Carrying value of land and work in progress (including the accuracy of cost recoveries) (£2,307.1 million included within inventories)**

Refer to page 46 (Audit Committee Report), page 76 (accounting policy) and pages 88 and 89 (financial disclosure)

The risk:

The carrying value of land and work in progress depends on assumptions of forecast selling prices, site planning (including planning consent), build costs and cost recoveries, all of which contain an element of judgement and uncertainty. Cost recovery for legally complete house sales is based on the latest whole site gross margin which is an output of the site valuations. These valuations use actual and forecast selling prices and actual and forecast build costs. Forecast selling prices have inherent uncertainty due to changes in market conditions. Forecast build costs can vary with market conditions and may also be incorrectly estimated due to changes in site planning, style of build or unforeseen circumstances arising during construction.

## Independent Auditor's Report to the Members of Persimmon Plc only continued

Our response:

In this area our audit procedures included:

- Testing the Group's controls over the valuation process by attending a selection of regional valuation meetings and inspecting the minutes for all regions in respect of the pre half year and year end valuation meetings. At these meetings management review actual costs and revenues against detailed site budgets. Estimates of future costs and selling prices in the cost to complete forecasts are reviewed in detail including reference to tendered works packages, actual costs incurred and forward sales reservation prices. Our inspection of the minutes, and attendance at a selection of meetings, included ensuring the appropriate individuals attended the meetings and that the valuations and costs to complete forecasts for all developments were discussed, challenged and the valuations updated as appropriate. We also inspected the pre year end minutes for any indications that the land and work in progress balance was not recoverable.
- Testing the system calculation of cost recovery by plot, through re-calculation.
- For a sample of developments we performed a comparison of estimated and actual revenue, costs and margin across the lifetime of the development, from the initial land viability study performed by the Group to the latest valuation. We established the key reasons for changes to the development's profitability in order to assess the Group's ability to forecast accurately and to ensure recognition of gross margin was adjusted appropriately and promptly reflecting the key reasons for the change identified.
- For a sample of developments where the last plot was sold in the year, we tested that the amount recovered and accrued for development completion costs (e.g. road and sewers adoption works) was appropriate and supported by the latest valuation.
- We tested the Group's net realisable value assessment for completeness of under performing developments by cross checking to the development performance information obtained from our inspection of the Group's valuation meeting minutes.

We have also considered the adequacy of the Group's disclosures regarding the carrying value of the land and work in progress.

### 3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £32.5 million, determined with reference to a benchmark of gross assets, of which it represents 1.0%.

We report to the Audit Committee any corrected or uncorrected audit differences exceeding £1.6 million in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation, and total Group assets.

### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 49, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 44-48 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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](http://www.frc.org.uk/auditscopeukprivate).

This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### Iain Moffatt (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 The Embankment, Neville Street, Leeds, LS1 4DW  
23 February 2015

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

		2014	2013		
	Note	Total £m	Before exceptional items £m	Exceptional items (note 6) £m	Total £m
Revenue	5	2,573.9	2,085.9	–	2,085.9
Cost of sales		(2,002.1)	(1,664.6)	14.1	(1,650.5)
<b>Gross profit</b>		<b>571.8</b>	421.3	14.1	435.4
Other operating income		8.6	10.0	–	10.0
Operating expenses		(115.1)	(104.8)	–	(104.8)
<b>Profit from operations before impairment of intangible assets</b>		<b>473.3</b>	333.1	14.1	347.2
Impairment of intangible assets		(8.0)	(6.6)	–	(6.6)
<b>Profit from operations</b>	10	<b>465.3</b>	326.5	14.1	340.6
Finance income	9	15.9	11.3	–	11.3
Finance costs	9	(14.2)	(14.8)	–	(14.8)
<b>Profit before tax</b>		<b>467.0</b>	323.0	14.1	337.1
Tax	11.1	(95.0)	(76.6)	(3.3)	(79.9)
<b>Profit after tax</b> (all attributable to equity holders of the parent)	13	<b>372.0</b>	246.4	10.8	257.2
<b>Other comprehensive (expense)/income</b>					
Items that will not be reclassified to profit:					
Remeasurement (losses)/gains on defined benefit pension schemes	29	(41.6)	6.6	–	6.6
Tax	11.2	8.3	(0.8)	–	(0.8)
<b>Other comprehensive (expense)/income for the year, net of tax</b>		<b>(33.3)</b>	5.8	–	5.8
<b>Total recognised income for the year</b>		<b>338.7</b>	252.2	10.8	263.0
<b>Earnings per share<sup>i</sup></b>					
Basic	13	121.8p			84.7p
Diluted	13	121.7p			84.2p
<b>Non-GAAP measures – Underlying earnings per share<sup>ii</sup></b>					
Basic	13	124.5p			83.3p
Diluted	13	124.3p			82.8p

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

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

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

## Balance Sheets

As at 31 December 2014

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	14	229.9	237.9	2.3	2.5
Property, plant and equipment	15	33.4	31.8	2.0	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	201.3	215.4	–	–
Trade and other receivables	19	8.2	8.2	–	–
Deferred tax assets	23	30.3	19.1	26.0	15.4
Retirement benefit assets	29	–	23.5	–	23.5
		506.1	538.9	3,236.0	3,249.0
<b>Current assets</b>					
Inventories	18	2,408.2	2,194.9	–	–
Trade and other receivables	19	62.7	83.9	869.5	850.8
Cash and cash equivalents	26	378.4	204.3	301.0	129.8
Current tax assets		–	–	1.5	3.1
Assets held for sale	15	0.9	0.9	–	–
		2,850.2	2,484.0	1,172.0	983.7
<b>Total assets</b>		<b>3,356.3</b>	<b>3,022.9</b>	<b>4,408.0</b>	<b>4,232.7</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Trade and other payables	21	(265.3)	(163.7)	(19.5)	(9.0)
Deferred tax liabilities	23	(17.8)	(22.4)	–	(4.7)
Partnership liability	30	(47.4)	(50.1)	–	–
Retirement benefit obligations	29	(0.5)	–	(0.5)	–
		(331.0)	(236.2)	(20.0)	(13.7)
<b>Current liabilities</b>					
Trade and other payables	21	(731.5)	(637.9)	(3,210.4)	(3,312.8)
Partnership liability	30	(5.3)	(5.3)	–	–
Current tax liabilities		(95.9)	(98.0)	–	–
		(832.7)	(741.2)	(3,210.4)	(3,312.8)
<b>Total liabilities</b>		<b>(1,163.7)</b>	<b>(977.4)</b>	<b>(3,230.4)</b>	<b>(3,326.5)</b>
<b>Net assets</b>		<b>2,192.6</b>	<b>2,045.5</b>	<b>1,177.6</b>	<b>906.2</b>
<b>Equity</b>					
Ordinary share capital issued	24	30.6	30.5	30.6	30.5
Share premium		103.4	160.0	103.4	160.0
Capital redemption reserve		136.7	76.7	136.7	76.7
Other non-distributable reserve		281.4	281.4	4.6	4.6
Retained earnings		1,640.5	1,496.9	902.3	634.4
<b>Total equity</b>		<b>2,192.6</b>	<b>2,045.5</b>	<b>1,177.6</b>	<b>906.2</b>

The financial statements of Persimmon Plc (Company number: 1818486) on pages 68 to 105 were approved by the Board of Directors on 23 February 2015 and were signed on its behalf by:

## Statements of Changes in Shareholders' Equity

For the year ended 31 December 2014

Group	Share capital £m	Share premium £m	Capital redemption reserve £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
<b>Balance at 1 January 2013</b>	30.3	234.2	–	281.4	1,447.8	1,993.7
Profit for the year	–	–	–	–	257.2	257.2
Other comprehensive income	–	–	–	–	5.8	5.8
<b>Transactions with owners:</b>						
Allotment of B/C shares	–	(76.7)	–	–	–	(76.7)
Redemption and cancellation of B/C shares	–	–	76.7	–	(76.7)	–
Dividends on equity shares	–	–	–	–	(151.2)	(151.2)
Issue of new shares	0.2	2.5	–	–	–	2.7
Own shares purchased	–	–	–	–	(3.0)	(3.0)
Exercise of share options/share awards	–	–	–	–	(1.2)	(1.2)
Share-based payments	–	–	–	–	17.0	17.0
Satisfaction of share options from own shares held	–	–	–	–	1.2	1.2
<b>Balance at 31 December 2013</b>	<b>30.5</b>	<b>160.0</b>	<b>76.7</b>	<b>281.4</b>	<b>1,496.9</b>	<b>2,045.5</b>
Profit for the year	–	–	–	–	372.0	372.0
Other comprehensive expense	–	–	–	–	(33.3)	(33.3)
<b>Transactions with owners:</b>						
Allotment of B/C shares	–	(60.0)	–	–	–	(60.0)
Redemption and cancellation of B/C shares	–	–	60.0	–	(60.0)	–
Dividends on equity shares	–	–	–	–	(153.9)	(153.9)
Issue of new shares	0.1	3.4	–	–	–	3.5
Exercise of share options/share awards	–	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	–	–	18.8	18.8
Satisfaction of share options from own shares held	–	–	–	–	0.7	0.7
<b>Balance at 31 December 2014</b>	<b>30.6</b>	<b>103.4</b>	<b>136.7</b>	<b>281.4</b>	<b>1,640.5</b>	<b>2,192.6</b>

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

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
<b>Company</b>						
<b>Balance at 1 January 2013</b>	30.3	234.2	–	4.6	553.1	822.2
Profit for the year	–	–	–	–	287.5	287.5
Other comprehensive income	–	–	–	–	5.8	5.8
<b>Transactions with owners:</b>						
Allotment of B/C shares	–	(76.7)	–	–	–	(76.7)
Redemption and cancellation of B/C shares	–	–	76.7	–	(76.7)	–
Dividends on equity shares	–	–	–	–	(151.2)	(151.2)
Issue of new shares	0.2	2.5	–	–	–	2.7
Exercise of share options/share awards	–	–	–	–	(2.3)	(2.3)
Share-based payments	–	–	–	–	17.0	17.0
Satisfaction of share options from own shares held	–	–	–	–	1.2	1.2
<b>Balance at 31 December 2013</b>	<b>30.5</b>	<b>160.0</b>	<b>76.7</b>	<b>4.6</b>	<b>634.4</b>	<b>906.2</b>
Profit for the year	–	–	–	–	497.0	497.0
Other comprehensive expense	–	–	–	–	(33.3)	(33.3)
<b>Transactions with owners:</b>						
Allotment of B/C shares	–	(60.0)	–	–	–	(60.0)
Redemption and cancellation of B/C shares	–	–	60.0	–	(60.0)	–
Dividends on equity shares	–	–	–	–	(153.9)	(153.9)
Issue of new shares	0.1	3.4	–	–	–	3.5
Exercise of share options/share awards	–	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	–	–	18.8	18.8
<b>Balance at 31 December 2014</b>	<b>30.6</b>	<b>103.4</b>	<b>136.7</b>	<b>4.6</b>	<b>902.3</b>	<b>1,177.6</b>

During the year the Company received dividends from wholly owned subsidiary undertakings of £500.0m (2013: £300.0m).

Retained earnings include £30.6m of non-distributable items (2013: £29.0m).

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

## Cash Flow Statements

For the year ended 31 December 2014

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Cash flows from operating activities:</b>					
Profit for the year		<b>372.0</b>	257.2	<b>497.0</b>	287.5
Tax charge/(credit)	11.1	<b>95.0</b>	79.9	<b>(1.3)</b>	(0.8)
Finance income	9	<b>(15.9)</b>	(11.3)	<b>(1.8)</b>	(0.2)
Finance costs	9	<b>14.2</b>	14.8	<b>5.5</b>	6.0
Depreciation charge	15	<b>6.2</b>	4.5	<b>0.3</b>	0.2
Amortisation of intangible assets	14	<b>–</b>	–	<b>0.2</b>	0.3
Impairment of intangible assets	14	<b>8.0</b>	6.6	<b>–</b>	–
Profit on disposal of property, plant and equipment	10	<b>–</b>	(0.1)	<b>–</b>	–
Profit on disposal of assets held for sale	10	<b>–</b>	(0.1)	<b>–</b>	–
Share-based payment charge		<b>10.2</b>	10.3	<b>10.2</b>	10.3
Exceptional items	6	<b>–</b>	(14.1)	<b>–</b>	–
Other non-cash items		<b>(1.8)</b>	(2.2)	<b>2.4</b>	1.8
<b>Cash inflow from operating activities</b>		<b>487.9</b>	345.5	<b>512.5</b>	305.1
Movements in working capital:					
Increase in inventories		<b>(213.3)</b>	(129.8)	<b>–</b>	–
Decrease/(increase) in trade and other receivables		<b>34.5</b>	(26.6)	<b>(20.6)</b>	(23.6)
Increase/(decrease) in trade and other payables		<b>173.5</b>	105.3	<b>(111.4)</b>	(74.0)
Decrease/(increase) in available for sale financial assets		<b>14.1</b>	(12.5)	<b>–</b>	–
Cash generated from operations		<b>496.7</b>	281.9	<b>380.5</b>	207.5
Interest paid		<b>(4.6)</b>	(2.9)	<b>(1.7)</b>	(2.4)
Interest received		<b>0.5</b>	0.9	<b>0.3</b>	0.3
Tax (paid)/received		<b>(96.1)</b>	(38.3)	<b>4.6</b>	3.1
<b>Net cash inflow from operating activities</b>		<b>396.5</b>	241.6	<b>383.7</b>	208.5
<b>Cash flows from investing activities:</b>					
Purchase of property, plant and equipment	15	<b>(7.8)</b>	(6.6)	<b>(0.4)</b>	(0.3)
Proceeds from sale of property, plant and equipment		<b>–</b>	0.3	<b>–</b>	–
Proceeds from sale of assets held for sale		<b>–</b>	0.2	<b>–</b>	–
<b>Net cash outflow from investing activities</b>		<b>(7.8)</b>	(6.1)	<b>(0.4)</b>	(0.3)
<b>Cash flows from financing activities:</b>					
Financing transaction costs		<b>(1.8)</b>	–	<b>(1.8)</b>	–
Payment of Partnership Liability		<b>(2.5)</b>	(4.5)	<b>–</b>	–
Own shares purchased		<b>–</b>	(3.0)	<b>–</b>	–
Share options consideration		<b>3.6</b>	2.7	<b>3.6</b>	2.7
B Share Redemption	12	<b>(60.0)</b>	(76.7)	<b>(60.0)</b>	(76.7)
Dividends paid	12	<b>(153.9)</b>	(151.2)	<b>(153.9)</b>	(151.2)
<b>Net cash outflow from financing activities</b>		<b>(214.6)</b>	(232.7)	<b>(212.1)</b>	(225.2)
<b>Increase/(decrease) in net cash and cash equivalents</b>	25	<b>174.1</b>	2.8	<b>171.2</b>	(17.0)
Cash and cash equivalents at the beginning of the year		<b>204.3</b>	201.5	<b>129.8</b>	146.8
<b>Cash and cash equivalents at the end of the year</b>	26	<b>378.4</b>	204.3	<b>301.0</b>	129.8

# Notes to the Financial Statements

For the year ended 31 December 2014

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2014:

- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosures of Interests in Other Entities
- IAS 27: Separate Financial Statements
- IAS 28: Investments in Associates and Joint Ventures
- Amendments to IAS 32: Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities
- Amendments to IAS 36: Recoverable Amount Disclosures for non-Financial Assets
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC Interpretation 21: Levies

The effects of the implementation of these standards have been limited to disclosure amendments.

The Group has not applied the following amendments to standards which are EU endorsed but not yet effective:

- Amendments to IAS19: Deferred Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

The Group is currently considering the implication of these standards, however it is anticipated the impact of these standards on the financial position and performance of the Group will be minimal and effects will principally relate to amendment and extension of current disclosures.

## 2 Accounting policies

### Statement of compliance

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

### Basis of preparation

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

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 33. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 16 to 33 of the Strategic Report. 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 2014 the Group had cash and deposits of £378.4m and £300.0m of undrawn committed bank facilities available to meet future funding requirements.

At 31 December 2014, the net cash position of the Group was £378.4m (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. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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.

## Notes to the Financial Statements continued

### 2 Accounting policies (continued)

#### 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 is subsequently measured at cost less any accumulated impairment losses.

#### 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 as the purchase and sale of part-exchange properties is regarded as a mechanism for selling.

#### 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 the net outstanding position, the offset arrangements are applied to record the net position in the balance sheet.

#### 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 major restructuring and significant impairment of assets.

#### Share-based payments

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.

## 2 Accounting policies (continued)

### Retirement benefit costs

The Group operates two defined benefit pension schemes. It also operates two defined contribution schemes for employees who are not members of a defined benefit scheme. The asset/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 remeasurement gains and losses. Where a net asset results it is limited to the present value of economic benefits available in the form of future refunds from the scheme or reductions in future contributions, subject to any minimum funding requirements. Further details of the schemes and the valuation methods applied may be found in note 29.

Interest cost on the scheme liabilities and finance returns on scheme assets are recognised at the applicable discount rate as net finance income/costs in the statement of comprehensive income and remeasurement 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 Company as the legal sponsor, as are all experience gains and losses. There is no contractual arrangement or stated policy for recharging the other Group entities involved in the Scheme.

Payments to the defined contribution schemes 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 tax rates applicable, or expected to be applicable at the date of settlement, based on enacted rates at the reporting date.

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

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

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

### Leases as lessee

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

### Property, plant and equipment

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

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

Plant – 3 to 5 years.

Fixtures and fittings – 3 to 5 years.

Freehold buildings – 50 years.

No depreciation is provided on freehold land.

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

### Investments

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

### Joint ventures

A joint venture 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, and where the arrangements entitle the Group to a share of the net assets of the entity.

Investments in joint ventures are accounted for under the equity method of accounting.

### Joint operations

A joint operation is an arrangement or entity in which the Group holds an interest with one or more other parties where a contractual arrangement has established joint control over the operation and where the arrangements entitle the Group to rights over specific assets or obligations of the operation. The Group recognises its share of revenue, costs, assets and liabilities for its joint operations.

## Notes to the Financial Statements continued

### 2 Accounting policies (continued)

#### Available for sale financial assets

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

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Land with planning includes undeveloped land and land under development and is initially recorded at discounted cost. Where, through deferred purchase credit terms, the carrying value differs from the amount that will ultimately be paid in settling the liability, this difference is charged as a finance cost in the statement of comprehensive income over the period of settlement. Work in progress comprises direct materials, labour costs, site overheads, associated professional charges and other attributable overheads. Net realisable value represents the estimated selling prices less all estimated costs of completion and overheads. Investments in land without the benefit of a planning consent are initially included at cost. Regular reviews are carried out to identify any impairment in the value of the land considering the existing use value of the land and the likelihood of achieving a planning consent and the value thereof. Provision is made to reflect any irrecoverable amounts.

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

#### Trade and other receivables

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

#### Inter-Group guarantees

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.

Transactions of the Company sponsored EBT are treated as being those of the Company and are therefore reflected in the Company financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

### 3 Critical accounting judgements and key sources of estimation uncertainty

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

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

#### Land and work in progress

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

During the year ended 31 December 2013, 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 £14.1m. During the year ended 31 December 2014, the Group conducted further reviews of the net realisable value of its inventory carrying values. This review did not result in any further net reversal of the previous write downs of inventories. 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.

#### Available for sale financial assets

Available for sale financial assets, also known as shared equity receivables, 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 2014 the asset recognised on the balance sheet was £201.3m (2013: £215.4m).

#### 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 £169.9m with an impairment of £8.0m 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 2014.

#### Pensions

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

## Notes to the Financial Statements continued

### 4 Principal activities

Following changes to the Group Executive Board towards the end of 2013 the Group now has only one reportable operating segment, being housebuilding within the UK, under the control of the Executive Board. The Executive Board has been identified as the Chief Operating Decision Maker as defined under IFRS 8: Operating Segments.

### 5 Revenue

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

	2014 £m	2013 £m
Revenue as noted in the statement of comprehensive income:		
Sale of goods	<b>2,573.9</b>	2,085.9
Other operating income	<b>8.6</b>	10.0
Finance income	<b>15.9</b>	11.3
Total revenue	<b>2,598.4</b>	2,107.2

Sale of goods includes £237.2m (2013: £286.1m) 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 £231.3m (2013: £297.8m).

### 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 major restructuring and significant impairments.

### 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 review did not give rise to an exceptional credit or debit to the consolidated statement of comprehensive income (2013: £14.1m credit). Further details are provided in note 18.

### 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 Annual Report on Remuneration on pages 56 to 63. A summary of key management remuneration is as follows:

	2014 £m	2013 £m
Short-term benefits	<b>4.2</b>	4.5
Post-employment benefits	<b>0.1</b>	0.1
Share-based payments	<b>4.5</b>	5.2
	<b>8.8</b>	9.8

No termination benefits were paid to key management personnel. Total gains on exercise of options by key management in the year amounted to £4.6m (2013: £3.7m).

## 8 Employees

### Group

The average monthly number of persons (including Executive Directors) employed by the Group during the year was 3,453 (2013: 2,791).

	2014 £m	2013 £m
Staff costs (for the above persons):		
Wages and salaries	138.7	117.1
Social security costs	15.3	12.9
Pensions charge	5.3	4.4
Share-based payments	10.2	10.3
	169.5	144.7

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 176 (2013: 158).

	2014 £m	2013 £m
Staff costs (for the above persons):		
Wages and salaries	24.8	20.1
Social security costs	3.3	2.6
Pensions charge	2.5	1.8
Share-based payments	10.2	10.3
	40.8	34.8

## 9 Net finance costs

	2014 £m	2013 £m
<b>Recognised in profit after tax</b>		
Interest receivable on bank deposits	0.5	0.3
Imputed interest on available for sale financial assets	13.7	10.7
Net interest on pension asset	1.6	0.1
Other interest receivable	0.1	0.2
<b>Finance income</b>	15.9	11.3
Interest expense on bank overdrafts and loans	4.5	3.1
Imputed interest on deferred land payables	5.7	5.7
Interest on Partnership liability	2.7	2.9
Other interest expense	1.3	3.1
<b>Finance costs</b>	14.2	14.8
<b>Net finance income/(costs)</b>	1.7	(3.5)

## Notes to the Financial Statements continued

### 10 Profit from operations

	2014 £m	2013 £m
Profit from operations is stated after charging/(crediting):		
Staff costs (note 8)	169.5	144.7
Exceptional items (note 6)	–	(14.1)
Profit on sale of land holdings	(2.4)	(4.0)
Government grants	(2.3)	(1.1)
Rent receivable	(1.6)	(1.6)
Profit on sale of property, plant and equipment	–	(0.1)
Profit on sale of assets held for sale	–	(0.1)
Depreciation of owned assets	6.2	4.5
Impairment of intangible assets	8.0	6.6
Operating lease charges	6.9	5.2

Government grants of £1.8m (2013: £nil) were received in the year relating to provision of affordable and first time buyer housing. In addition, the Group's customers have benefited from increased availability of finance through the Governments 'Help to Buy', 'NewBuy' and 'MI New Home' schemes which have provided indirect assistance to the Group.

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

	2014 £'000	2013 £'000
<b>Audit fees</b>		
Audit of the Parent Company and consolidated financial statements	115	113
Audit related assurance services	50	50
The audit of the Company's subsidiaries pursuant to legislation	42	40
Total fees for the audit of the Company and its subsidiaries	207	203
<b>Non-audit fees</b>		
Tax advisory services	3	–
Other services	23	2
Total non-audit fees	26	2
	233	205

The extent of non-audit fees and non-audit related service fees payable to KPMG LLP 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 LLP and its affiliated entities for non-audit services amounted to £17,000 (2013: £135,000).

## 11 Tax

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

	2014 £m	2013 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	100.7	78.9
Adjustments in respect of prior years	(6.7)	(0.9)
	94.0	78.0
Deferred tax relating to origination and reversal of temporary differences	1.9	2.0
Adjustments recognised in the current year in respect of prior years deferred tax	(0.9)	(0.1)
	1.0	1.9
	95.0	79.9

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

	2014 £m	2013 £m
Profit from continuing operations	467.0	337.1
Tax calculated at UK corporation tax rate of 21.5% (2013: 23.25%)	100.4	78.4
Accounting base cost not deductible for tax purposes	0.4	0.7
Goodwill impairment losses that are not deductible	1.7	1.5
Expenditure not allowable for tax purposes	0.2	0.1
Effect of change in rate of corporation tax	(0.1)	0.2
Adjustments in respect of prior years	(7.6)	(1.0)
Tax charge for the year recognised in profit or loss	95.0	79.9

The applicable corporation tax rate has reduced from the prior year in line with corporation tax rates effective from 1 April 2013 (23%) and 1 April 2014 (21%). A further corporation tax rate change enacted on 2 July 2013 effective from 1 April 2015 (20%) has been reflected in deferred tax calculations.

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

	2014 £m	2013 £m
Recognised on remeasurement (losses)/gains on pension schemes	(8.3)	0.8

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

	2014 £m	2013 £m
<b>Arising on transactions with equity participants</b>		
Relating to equity-settled transactions	(8.5)	(6.7)

## Notes to the Financial Statements continued

### 12 Dividends/Return of capital

	2014 £m	2013 £m
Amounts recognised as distributions to capital holders in the period:		
2013 return of capital to B shareholders of 75.0p per share	–	76.7
2013 dividend to C shareholders of 75.0p per share	–	151.2
2014 return of capital to B shareholders at 70.0p per share	60.0	–
2014 dividend to C shareholders of 70.0p per share	153.9	–
2015 proposed return of 95.0p per share	291.1	–

The Directors propose to return 95p of surplus capital (2014: 70p) in cash to shareholders for each ordinary share held at 6.00pm on 19 March 2015. The payment will be made on 2 April 2015, subject to shareholder approval.

The Directors propose to offer the opportunity for shareholders (wherever possible) to choose whether to receive the cash on 2 April 2015 as a return of capital or as dividend income. 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 on 24 February 2015.

The Parent Company received £500.0m dividends from wholly owned subsidiary undertakings during 2014 (2013: £300.0m).

### 13 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee benefit trusts (see note 24) and treasury shares, all of which are treated as cancelled, which were 305.3m (2013: 303.7m).

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 305.7m (2013: 305.5m).

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

	2014	2013
Basic earnings per share	121.8p	84.7p
Underlying basic earnings per share	124.5p	83.3p
Diluted earnings per share	121.7p	84.2p
Underlying diluted earnings per share	124.3p	82.8p

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

	2014 £m	2013 £m
Underlying earnings attributable to shareholders	380.0	253.0
Exceptional items net of related taxation	–	10.8
Goodwill impairment	(8.0)	(6.6)
Earnings attributable to shareholders	372.0	257.2

## 14 Intangible assets

Group	Goodwill £m	Brand £m	Know-how £m	Total £m
<b>Cost</b>				
<b>At 1 January 2013, 1 January 2014 and 31 December 2014</b>	<b>408.8</b>	<b>60.0</b>	<b>1.9</b>	<b>470.7</b>
<b>Accumulated impairment losses/amortisation</b>				
At 1 January 2013	224.3	–	1.9	226.2
Impairment losses for the year – utilisation of strategic land holdings	6.6	–	–	6.6
<b>At 1 January 2014</b>	<b>230.9</b>	<b>–</b>	<b>1.9</b>	<b>232.8</b>
Impairment losses for the year – utilisation of strategic land holdings	8.0	–	–	8.0
<b>At 31 December 2014</b>	<b>238.9</b>	<b>–</b>	<b>1.9</b>	<b>240.8</b>
<b>Carrying amount</b>				
<b>At 31 December 2014</b>	<b>169.9</b>	<b>60.0</b>	<b>–</b>	<b>229.9</b>
At 31 December 2013	177.9	60.0	–	237.9

Goodwill brought forward at the start of the year of £177.9m includes £145.2m (2013: £150.2m) 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 (2013: £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. Goodwill is allocated for impairment testing purposes down to a lower level than the Group's single operating segment, being to Charles Church and to the portfolios of strategic land holdings throughout the UK acquired with Beazer and Westbury. 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 –3% to +2% (2013: –3% to +2%), 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 –3% to +2% (2013: –3% to +2%).

After this period the growth rates applied to calculate the cash flow forecasts vary between nil and 2% (2013: nil and 2%) 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 11% (2013: 5% and 10%) 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 £8.0m (2013: £6.6m). This charge reflects ongoing consumption of the acquired strategic land holdings. The effect of testing goodwill for impairment in the manner set out is that the goodwill will be completely impaired once the final plot for which management expects to receive a satisfactory planning permission is sold.

On concluding the annual impairment testing, there remains £102.0m (2013: £108.2m) and £30.9m (2013: £32.7m) of Beazer and Westbury goodwill allocated to strategic land holdings and £37.0m (2013: £37.0m) allocated to the Charles Church brand. In addition, there is £60.0m (2013: £60.0m) of carrying value in relation to the Westbury brand.

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

Company	Trademarks £m
<b>Cost</b>	
<b>At 1 January 2013, 1 January 2014 and 31 December 2014</b>	<b>5.0</b>
<b>Amortisation</b>	
At 1 January 2013	2.2
Charge for the year	0.3
At 1 January 2014	2.5
Charge for the year	0.2
<b>At 31 December 2014</b>	<b>2.7</b>
<b>Carrying amount</b>	
<b>At 31 December 2014</b>	<b>2.3</b>
At 31 December 2013	2.5

## 15 Property, plant and equipment

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
At 1 January 2013	23.5	43.6	11.6	78.7
Additions	0.2	5.5	0.9	6.6
Disposals	(0.2)	(0.8)	(0.5)	(1.5)
At 1 January 2014	23.5	48.3	12.0	83.8
Additions	0.8	5.7	1.3	7.8
Disposals	–	(0.1)	(0.8)	(0.9)
<b>At 31 December 2014</b>	<b>24.3</b>	<b>53.9</b>	<b>12.5</b>	<b>90.7</b>
<b>Accumulated depreciation</b>				
At 1 January 2013	2.7	35.1	11.0	48.8
Charge for the year	0.4	3.6	0.5	4.5
Disposals	–	(0.8)	(0.5)	(1.3)
At 1 January 2014	3.1	37.9	11.0	52.0
Charge for the year	0.4	5.2	0.6	6.2
Disposals	–	(0.1)	(0.8)	(0.9)
<b>At 31 December 2014</b>	<b>3.5</b>	<b>43.0</b>	<b>10.8</b>	<b>57.3</b>
<b>Carrying amount</b>				
<b>At 31 December 2014</b>	<b>20.8</b>	<b>10.9</b>	<b>1.7</b>	<b>33.4</b>
At 31 December 2013	20.4	10.4	1.0	31.8

At 31 December 2014, the Group had £0.5m contractual commitments for the acquisition of property, plant and equipment (2013: £0.1m).

At 31 December 2014, the Group had assets held for sale with a book value of £0.9m (2013: £0.9m). 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	Computer equipment, fixtures and fittings £m	Total £m
<b>Cost</b>			
At 1 January 2013	1.9	3.5	5.4
Additions	–	0.3	0.3
Disposals	–	(0.5)	(0.5)
At 1 January 2014	1.9	3.3	5.2
Additions	–	0.4	0.4
Disposals	–	(0.8)	(0.8)
<b>At 31 December 2014</b>	<b>1.9</b>	<b>2.9</b>	<b>4.8</b>
<b>Accumulated depreciation</b>			
At 1 January 2013	0.4	3.2	3.6
Charge for the year	–	0.2	0.2
Disposals	–	(0.5)	(0.5)
At 1 January 2014	0.4	2.9	3.3
Charge for the year	–	0.3	0.3
Disposals	–	(0.8)	(0.8)
<b>At 31 December 2014</b>	<b>0.4</b>	<b>2.4</b>	<b>2.8</b>
<b>Carrying amount</b>			
<b>At 31 December 2014</b>	<b>1.5</b>	<b>0.5</b>	<b>2.0</b>
At 31 December 2013	1.5	0.4	1.9

### 16 Investments

#### 16.1 Investments accounted for using the equity method

Group	Investments in joint ventures £m
<b>Cost</b>	
<b>At 1 January 2013, 1 January 2014 and 31 December 2014</b>	<b>3.0</b>

The Group's principal investments in joint ventures comprise:

	Share of ordinary allotted capital held by the Group	Accounting date
Balaia Golf Village Realizacoes Imobiliaria Turísticos Lda – Portugal	50%	31 December
Balvil – Gestão de Empreendimentos Turísticos Lda – Portugal	50%	31 December
Empreendimentos Turísticos da Armacao Nova Lda – Portugal	50%	31 December

Investments in joint ventures are accounted for under the equity method of accounting. All principal joint ventures have a single external partner holding a 50% interest giving an equal interest in the trade and net assets of the joint ventures. There are no significant restrictions on these entities.

## 16 Investments (continued)

The Group's share of assets and liabilities of joint ventures is shown below:

	2014 £m	2013 £m
Non-current assets	0.4	0.5
Current assets	4.7	4.8
Current liabilities	(2.1)	(2.3)
<b>Net assets of joint ventures</b>	<b>3.0</b>	<b>3.0</b>

The Group's share of the income and expenses of joint ventures is as follows:

	2014 £m	2013 £m
Income	2.0	2.4
Expenses	(2.0)	(2.4)
<b>Share of results of joint ventures</b>	<b>–</b>	<b>–</b>

### 16.2 Investments in subsidiaries

Company	2014 £m	2013 £m
<b>Cost</b>		
At 1 January 2013, 31 December 2013 and 31 December 2014	3,540.7	3,540.7
<b>Impairment</b>		
At 1 January 2013, 31 December 2013 and 31 December 2014	335.0	335.0
<b>Net book value</b>		
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 (2013: £nil impairment). Details of Group undertakings are set out in note 32.

## Notes to the Financial Statements continued

### 17 Available for sale financial assets

Group	2014 £m	2013 £m
At 1 January	215.4	202.9
Additions	2.5	14.7
Settlements	(30.3)	(12.9)
Gains (Finance income)	13.7	10.7
At 31 December	201.3	215.4

There have been no gains/losses recognised in other comprehensive income other than those recognised through finance income in profit and loss. Of the gains recognised in finance income for the period £8.1m (2013: £8.9m) was unrealised.

Available for sale financial assets, also known as shared equity receivables, comprise loans, largely with a ten 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. Loans are repayable at the borrowers option on sale or transfer of the related property or other redemption of the first legal charge or at the end of the fixed term. 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 2014 (2013: £nil). None of the financial assets are past their due dates (2013: £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

	2014 £m	2013 £m
Land	1,842.4	1,636.6
Work in progress	464.7	463.5
Part exchange properties	52.4	45.5
Showhouses	48.7	49.3
	2,408.2	2,194.9

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 2014. This review did not give rise to an exceptional credit or debit to the consolidated statement of comprehensive income (2013: £14.1m credit). A reversal of £9.9m (2013: £22.0m) on inventories that were written down in a previous accounting period and an impairment of land and work in progress of £9.9m (2013: £7.9m) 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 2013.

Net realisable provisions held against inventories at 31 December 2014 were £80.4m (2013: £102.8m).

The key judgements in estimating the future net present realisable value of a site were 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 2014 review, £102.0m (2013: £139.0m) of inventories are valued at fair value less costs to sell rather than at historical cost.

Land with a carrying value of £791.9m (2013: £528.6m) was used as security for land payables (note 21).

The value of inventories expensed in 2014 and included in cost of sales was £1,900.9m (2013: £1,583.3m, excluding the £14.1m exceptional impairment reversal).

## 19 Trade and other receivables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Non-current assets</b>				
Other receivables	8.2	8.2	–	–
<b>Current assets</b>				
Trade receivables	43.5	39.4	0.1	0.2
Other receivables	15.6	34.8	11.2	29.2
Amounts owed by Group undertakings	–	–	854.9	816.2
Prepayments and accrued income	3.6	9.7	3.3	5.2
	62.7	83.9	869.5	850.8

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.

	2014 £m	2013 £m
<b>Ageing of overdue but not impaired receivables</b>		
Less than 3 months	6.4	5.4
Over 3 months	2.0	1.7
	8.4	7.1

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

	2014 £m	2013 £m
<b>Group</b>		
At 1 January	3.3	3.3
Impairment losses charged	–	0.6
Amounts written off during the year as uncollectable	–	(0.2)
Impairment losses reversed	(0.4)	(0.4)
At 31 December	2.9	3.3

## 20 Borrowings

Detailed disclosure of the Group's usage of financial instruments is included in note 22. There are £nil borrowings at 31 December 2014 (2013: £nil).

The contractual repayment terms of facilities are as noted below.

	Currency	Nominal interest rate	Year of maturity	2014 £m	2013 £m
Bank overdrafts	GBP	Base +1%–3.25%	2015	50.5	50.5
Syndicated loan	GBP	LIBOR +1.25%	2019	300.0	300.0
Available facilities				350.5	350.5

## Notes to the Financial Statements continued

### 21 Trade and other payables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Non-current liabilities</b>				
Land payables	228.0	134.6	–	–
Other payables	37.3	29.1	19.5	9.0
	265.3	163.7	19.5	9.0
	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Current liabilities</b>				
Trade payables	186.6	176.8	0.6	0.6
Land payables	231.5	171.5	–	–
Deposits and on account contract receipts	30.6	44.1	–	–
Other payables	19.6	30.1	8.3	11.0
Accrued expenses	263.2	215.4	22.8	22.5
Amounts owed to Group undertakings	–	–	3,178.7	3,278.7
	731.5	637.9	3,210.4	3,312.8

Trade payables subject to payment terms were 16 days (2013: 18 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 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 also has investments in a number of Portuguese joint ventures. These interests are not hedged. These investments are considered to be long term in nature.

## 22 Financial risk management (continued)

The Group has no other significant currency exposures.

The following exchange rates applied during the year:

	2014		2013	
	Average rate	Year end spot rate	Average rate	Year end spot rate
Euro	1.24	1.28	1.17	1.20

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

	2014 €m	2013 €m
Investments	3.8	3.6

### 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 (2013: £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 and is continually reviewed in the light of economic data provided by a variety of sources.

### Sensitivity analysis

If in the year ended 31 December 2014 UK interest rates had been 0.5% higher/lower then the Group's pre-tax profit would have increased/decreased by £0.4m (2013: increased/decreased by £0.3m). The Group's post-tax profit would have increased/decreased by £0.3m (2013: increased/decreased 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 the wider economic environment such as house pricing, mortgage availability and exchange rates.

### Housing market risk

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

Whilst it is not possible for the Group to fully mitigate such risks on a national macroeconomic basis the Group does continually monitor its geographical spread within the UK, seeking to balance its investment in areas offering the best immediate returns with a long term spread of its operations throughout the UK to minimise the 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 2014, 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 (2013: £10.7m).

### 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 in relation 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 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.

## Notes to the Financial Statements continued

### 22 Financial risk management (continued)

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 four leading clearing banks to minimise exposure to any one lender.

The Group maintains a £300m revolving credit facility committed to March 2019. These committed facilities are sufficient to meet projected liquidity requirements to this date. Undrawn committed facilities at the reporting date amount to £300m (2013: £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.

#### 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. Full details are available in the Strategic Report on pages 1 to 33.

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	2014 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	506.7	507.4	469.9	6.2	9.7	21.6
Land payables	459.5	470.4	236.8	108.2	110.3	15.1
Partnership liability	52.7	71.6	5.3	5.4	16.2	44.7
Financial liabilities	1,018.9	1,049.4	712.0	119.8	136.2	81.4

Group	2013 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	451.4	452.7	423.0	4.3	10.0	15.4
Land payables	306.1	312.8	174.9	67.6	61.4	8.9
Partnership liability	55.4	76.9	5.3	5.3	16.2	50.1
Financial liabilities	812.9	842.4	603.2	77.2	87.6	74.4

## 22 Financial risk management (continued)

Company	2014 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	<b>3,229.9</b>	3,229.9	3,210.4	2.9	–	16.6
Financial liabilities	<b>3,229.9</b>	3,229.9	3,210.4	2.9	–	16.6

It is noted that £3,178.7m (2013: £3,278.7m) 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	2013 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	3,321.8	3,321.8	3,312.8	1.6	–	7.4
Financial liabilities	3,321.8	3,321.8	3,312.8	1.6	–	7.4

### 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 all but a small minority 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 £0.8m requirement for a charge in relation to credit impairment in the year (2013: £0.6m).

The maximum total credit risk is as follows:

Group	2014 £m	2013 £m
Trade and other receivables	<b>67.3</b>	82.4
Available for sale financial assets	<b>201.3</b>	215.4
Cash and cash equivalents	<b>378.4</b>	204.3
	<b>647.0</b>	502.1
Company		
Loans and receivables (including intercompany balances)	<b>866.2</b>	845.6
Cash and cash equivalents	<b>301.0</b>	129.8
	<b>1,167.2</b>	975.4

The maximum credit exposure of the Group to overseas parties is under £0.1m (2013: under £0.1m) (Company: £nil (2013: £nil)). The Group's credit risk is widely distributed. The maximum credit risk should any single party (excepting financial institutions) fail to perform is £2.7m (2013: £0.8m) and is not yet due (Company: £348.7m (2013: £323.6m) 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 £91.0m (2013: £50.0m).

## 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	2014		2013	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	67.3	67.3	82.4	82.4
Available for sale financial assets	201.3	201.3	215.4	215.4
Cash and cash equivalents	378.4	378.4	204.3	204.3
Trade and other payables	(506.7)	(506.7)	(451.4)	(451.4)
Land payables	(459.5)	(459.5)	(306.1)	(306.1)
Partnership liability	(53.1)	(52.7)	(52.1)	(55.4)
	(372.3)	(371.9)	(307.5)	(310.8)

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

Company	2014		2013	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	866.2	866.2	845.6	845.6
Cash and cash equivalents	301.0	301.0	129.8	129.8
Trade and other payables	(3,229.9)	(3,229.9)	(3,321.8)	(3,321.8)
	(2,062.7)	(2,062.7)	(2,346.4)	(2,346.4)

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

Financial assets and liabilities by category:

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Available for sale financial assets	201.3	215.4	–	–
Trade and other receivables	67.3	82.4	866.2	845.6
Cash and cash equivalents	378.4	204.3	301.0	129.8
Financial liabilities at amortised cost	(1,018.9)	(812.9)	(3,229.9)	(3,321.8)
	(371.9)	(310.8)	(2,062.7)	(2,346.4)

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	2014 Level 3 £m	2013 Level 3 £m
Available for sale financial assets	201.3	215.4

## 22 Financial risk management (continued)

### Available for sale financial assets

Available for sale financial assets are carried at fair value. The fair value is determined by reference to the rates at which they could be exchanged by knowledgeable and willing parties. Fair value is determined by discounting forecast cash flows for the residual period of the contract by a risk adjusted rate.

There exists an element of uncertainty over the precise final valuation and timing of cash flows arising from these assets. As a result the Group has applied inputs based on current market conditions and the Group's historic experience of actual cash flows resulting from such arrangements. These inputs are by nature estimates and as such the fair value has been classified as level 3 under the fair value hierarchy laid out in IFRS 13 Fair Value Measurement.

Significant unobservable inputs into the fair value measurement calculation include regional house price movements based on the Group's actual experience of regional house pricing and management forecasts of future movements, weighted average duration from inception to settlement of 10 years (2013: 10 years) and discount rate 8% (2013: 8%) based on current observed market interest rates offered to private individuals on secured second loans.

The discounted forecast cash flow calculation is dependent upon the estimated future value of the properties on which the available for sale financial assets are secured. Adjustments to this input, which might result from a change in the wider property market, would have a proportional impact upon the fair value of the asset. Furthermore, whilst not easily assessable in advance, the resulting change in security value may affect the credit risk associated with the counterparty, influencing fair value further.

Detail of the movements in available for sale financial assets in the period are disclosed in note 17.

## 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	Intangible assets £m	Imputed interest £m	Other temporary differences £m	Total £m
At 1 January 2013		1.3	0.9	5.9	(13.8)	2.0	(3.6)	(7.3)
Credit/(charge) to profit and loss	11.1	0.1	(4.8)	(0.8)	1.8	0.4	1.4	(1.9)
Charge to other comprehensive income	11.2	–	(0.8)	–	–	–	–	(0.8)
Amounts credited directly to equity	11.3	–	–	6.7	–	–	–	6.7
At 1 January 2014		1.4	(4.7)	11.8	(12.0)	2.4	(2.2)	(3.3)
Credit/(charge) to profit and loss	11.1	(0.1)	(3.5)	1.0	–	0.3	1.3	(1.0)
Credit to other comprehensive income	11.2	–	8.3	–	–	–	–	8.3
Amounts credited directly to equity	11.3	–	–	8.5	–	–	–	8.5
<b>At 31 December 2014</b>		<b>1.3</b>	<b>0.1</b>	<b>21.3</b>	<b>(12.0)</b>	<b>2.7</b>	<b>(0.9)</b>	<b>12.5</b>

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:

	2014 £m	2013 £m
Share-based payments	21.3	11.8
Other items, including accelerated capital allowances	9.0	7.3
Deferred tax assets	30.3	19.1
Brands	(13.8)	(12.0)
Other items, including accelerated capital allowances	(4.0)	(10.4)
Deferred tax liabilities	(17.8)	(22.4)
Net deferred tax liability	12.5	(3.3)

The Group has recognised deferred tax assets of £0.1m (2013: liabilities of £4.7m) on the total pension deficit of £0.5m (2013: surplus of £23.5m).

## Notes to the Financial Statements continued

### 23 Deferred tax (continued)

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 2013	0.1	0.9	5.9	3.2	10.1
Credit/(charge) to profit and loss	0.1	(4.8)	(0.8)	0.2	(5.3)
Charge to other comprehensive income	–	(0.8)	–	–	(0.8)
Amounts taken directly to equity	–	–	6.7	–	6.7
At 1 January 2014	0.2	(4.7)	11.8	3.4	10.7
Credit/(charge) to profit and loss	(0.1)	(3.5)	1.0	1.1	(1.5)
Charge to other comprehensive income	–	8.3	–	–	8.3
Amounts taken directly to equity	–	–	8.5	–	8.5
<b>At 31 December 2014</b>	<b>0.1</b>	<b>0.1</b>	<b>21.3</b>	<b>4.5</b>	<b>26.0</b>

No deferred tax assets and liabilities have been offset (2013: £nil).

### 24 Share capital

	2014 £m	2013 £m
Allotted, called up and fully paid		
306,460,411 (2013: 304,658,260) ordinary shares of 10p each	<b>30.6</b>	30.5

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid. During the year 1,802,151 ordinary shares (2013: 1,775,112) 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 2014, the Trustee transferred 56,169 shares to employees. At 31 December 2014 the trust held 143,886 shares (2013: 200,055) on which dividends have been waived. The market value of these shares at 31 December 2014 was £2,270,521 (2013: £2,478,681).

During the year the Company issued 85,725,061 B shares and 220,072,490 C shares. On 4 July 2014 the B shares were redeemed for consideration of 70p per share and the C shares were reclassified as Deferred shares following payment of a 70p dividend per share. All deferred shares were purchased for an aggregate of 1p and subsequently cancelled on 7 July 2014.

### Own shares

Own shares held at cost are reconciled as follows:

	Group £m
Balance at 31 December 2013	2.3
Own shares purchased	–
Disposed of on exercise/vesting to employees	(0.7)
<b>Balance at 31 December 2014</b>	<b>1.6</b>

## 25 Reconciliation of net cash flow to net cash

Group	2014 £m	2013 £m
Increase in net cash and cash equivalents	174.1	2.8
Decrease in debt and finance lease obligations	–	–
Increase in net cash from cash flows	174.1	2.8
Non-cash movements	–	–
Increase in net cash	174.1	2.8
Net cash at 1 January	204.3	201.5
Net cash at 31 December	378.4	204.3

## 26 Analysis of net cash

Group	2014 £m	Cash flow £m	2013 £m
Cash and cash equivalents	378.4	174.1	204.3
Net cash at 31 December	378.4	174.1	204.3

Net cash 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 £272m (2013: £228m), 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	2014 £m	2013 £m
Expiring within one year	0.7	0.6
Expiring in the second to fifth years inclusive	7.9	8.9
Expiring after five years	9.2	9.3
	17.8	18.8
Company as lessee		
Expiring within one year	0.1	0.1
Expiring in the second to fifth years inclusive	0.3	0.3
	0.4	0.4

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

Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicles. Motor vehicles leases have an average term of 1.8 years to expiry (2013: 1.9 years). Property leases have an average term of 6.6 years to expiry (2013: 5.9 years).

## Notes to the Financial Statements continued

### 29 Retirement benefit assets/obligations

As at 31 December 2014 the Group operated four employee pension schemes, being two Group personal pension schemes and two defined benefit pension schemes. Remeasurement gains and losses in the defined benefit schemes are recognised in full as other comprehensive (expense)/income within the consolidated statement of comprehensive income. All other pension scheme costs are reported in profit or loss.

#### Group personal pension schemes

The Group makes contributions to the Group personal pension schemes which are open to employees who are not members of the defined benefit schemes. Dependent upon an employee's role and length of service the Group may make contributions to the schemes of up to a maximum of 9% of basic salary. The Group has no liability beyond these contributions. Group contributions to these schemes of £1.3m (2013: £1.1m) 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 related earnings basis. The assets of the Persimmon Scheme are held separately from those of the Group.

On 12 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 Persimmon Scottish Limited Partnership, which has undertaken to provide fixed cash payments to the Persimmon Scheme to meet its liabilities over a 15 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. Active members of the Prowting Scheme accrue benefits on a career average related earnings basis. The assets of the Prowting Scheme are held separately from those of the Group.

#### Role of Trustees

Both the Persimmon Scheme and the Prowting Scheme (jointly 'the Pension Schemes') are managed by Trustees who are legally separate from the Company. The Trustees are composed of representatives appointed by both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible in particular for the asset investment policy plus the day to day administration of the benefits. They are also responsible for jointly agreeing with the employer the level of contributions due to the Pension Schemes (see below).

#### Funding requirements

UK legislation requires that pension schemes are funded prudently i.e. to a level in excess of the current expected cost of providing benefits. The last funding valuation of the Persimmon Scheme was carried out by a qualified actuary as at 1 January 2011 and as at 31 March 2012 for the Prowting Pension Scheme. The next funding valuations will be as at 1 January 2014 for the Persimmon Scheme which is in progress and will be as at 31 March 2015 for the Prowting Scheme. Subsequently valuations will be at intervals of no more than three years thereafter. Following each valuation, the Trustees and the Company must agree the contributions required (if any) to ensure the Schemes are fully funded over time on a suitable prudent measure. Contributions agreed in this manner constitute a minimum funding requirement.

Given the current strength of the Persimmon Scheme's funding (due to recent cash contributions made to the Persimmon Scheme) no deficit contributions are required for that scheme. However £2.2m p.a. is required for the Prowting Scheme payable to 30 April 2018. In both cases salary related contributions for active members are also payable.

Under the governing documentation of the Pension Schemes, any future surplus in either scheme would be returnable to the Group by refund, assuming gradual settlement of the liabilities over the lifetime of the schemes. As a result the Group does not consider there to be an asset ceiling in respect of the Pension Schemes.

## 29 Retirement benefit assets/obligations (continued)

### Regulation

The UK pensions market is regulated by The Pensions Regulator whose key statutory objectives in relation to UK defined benefit plans are:

- to protect the benefits of members
- to promote, and to improve understanding of good administration
- to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF)

The Pensions Regulator has sweeping powers including the powers:

- to wind up a scheme where winding up is necessary to protect members' interests
- to appoint or remove a trustee
- to impose a schedule of company contributions or the calculation of the technical provisions where a trustee and company fail to agree on appropriate contributions
- to impose a contribution where there has been a detrimental action against a scheme

### Risks associated with the Pension Schemes

The Pension Schemes expose the Group to a number of risks, the most significant of which are:

Risk	Description
Volatile asset returns	The defined benefit obligation (DBO) is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The Pension Schemes hold a significant proportion (54%) of assets in growth assets (such as equities) which, although expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Pension Schemes' long term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the Pension Schemes' bond holdings.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation and higher inflation will lead to higher liabilities (although, in most cases, this is capped at an annual increase of 5%).
Life expectancy	The majority of the Pension Schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

There are a number of other risks of running the Pension Schemes including operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension through new legislation) and other demographic risks, such as a higher proportion of members having a dependant eligible to receive a survivor's pension.

### Net Pension Asset/(Liability)

The amounts included in the balance sheet arising from the Group's obligations in respect of the Pension Schemes are as follows:

	2014 £m	2013 £m
Fair value of Pension Scheme assets	506.3	456.8
Present value of funded obligations	(506.8)	(433.3)
Net pension (liability)/asset	(0.5)	23.5

A deferred tax asset totalling £0.1m (2013: liability of £4.7m) has been recognised on the balance sheet in relation to the net pension asset/liability.

## Notes to the Financial Statements continued

### 29 Retirement benefit assets/obligations (continued)

Movements in the net pension (liability)/asset on the balance sheet were as follows:

	2014 £m	2013 £m
As at 1 January	23.5	(4.1)
Total (loss)/gain recognised in the period	(43.9)	3.2
Company contributions paid in the period	19.9	24.4
Net pension (liability)/asset	(0.5)	23.5

The Company does not present valuations of its own separate assets and liabilities under the Pension Schemes as the entire net (liabilities)/assets of the Pension Schemes are included in the Company balance sheet, as ultimate scheme sponsor.

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

	2014 £m	2013 £m
Current service cost	2.8	2.8
Administrative expense	1.1	0.7
Pension cost recognised as operating expense	3.9	3.5
Interest cost	18.6	18.4
Return on assets recorded as interest	(20.2)	(18.5)
Pension cost recognised as net finance credit	(1.6)	(0.1)
Total defined benefit pension cost recognised in profit or loss	2.3	3.4
Remeasurement losses/(gains) recognised in other comprehensive (expense)/income	41.6	(6.6)
<b>Total defined benefit scheme loss/(gain) recognised</b>	<b>43.9</b>	<b>(3.2)</b>

### Assets

The assets of the Pension Schemes have been calculated at fair value and are invested in the following asset classes:

	2014 £m	2013 £m
Equity		
– UK	100.0	94.7
– US	68.4	59.8
– Eurozone	40.2	37.6
– Other	33.0	33.1
Bonds		
– Government	93.6	76.9
– Investment Grade corporate bonds	27.6	24.5
– sub-investment grade	40.7	35.8
Property	–	–
Asset backed funding	53.1	52.1
Diversified Growth Fund	32.4	28.9
Cash	17.3	13.4
<b>Total</b>	<b>506.3</b>	<b>456.8</b>

All assets have a quoted market value in an active market, with the exception of Asset backed funding of £53.1m (2013: £52.1m), which related to secured cash flows.

The Persimmon Scheme holds 94% (2013: 94%) of the gross assets of the Pension Schemes and 94% (2013: 94%) of the gross liabilities. The remainder relates to the Prowting Scheme.

## 29 Retirement benefit assets/obligations (continued)

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

	2014 £m	2013 £m
As at 1 January	456.8	402.1
Return on assets recorded as interest	20.2	18.5
Remeasurement gains on assets	25.6	22.9
Contributions	19.9	24.4
Benefits and expenses paid	(16.2)	(11.1)
As at 31 December	506.3	456.8

### Defined Benefit Obligation

The liabilities of the Pension Schemes, at each balance sheet date, have been calculated on the following financial assumptions:

	2014 % p.a.	2013 % p.a.
Discount rate	3.6	4.4
General pay increases	3.1	3.4
RPI Inflation assumption	3.1	3.4
CPI Inflation assumption	2.0	2.4

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

	2014 Years	2013 Years
Male current pensioner	23.0	22.6
Male future pensioner	24.9	23.7

The defined benefit obligation includes benefits for current employees, former employees and current pensioners.

The following table provides an analysis of the defined benefit obligation by membership category.

	2014 £m	2013 £m
Total value of current employees' benefits	68.0	65.5
Deferred members' benefits	190.2	165.8
Pensioner members' benefits	248.6	202.0
Total defined benefit obligation	506.8	433.3

The Pension Schemes' duration is an indicator of the weighted average time until benefit payments are made. For the Pension Schemes as a whole, the duration is around 18 years.

Changes in the defined benefit obligation were as follows:

	2014 £m	2013 £m
As at 1 January	(433.3)	(406.2)
Current service cost	(2.8)	(2.8)
Interest cost	(18.6)	(18.4)
Remeasurement losses on liabilities	(67.2)	(16.3)
Benefits paid	15.1	10.4
As at 31 December	(506.8)	(433.3)

## Notes to the Financial Statements continued

### 29 Retirement benefit assets/obligations (continued)

#### Sensitivities

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows.

	2014 £m	2013 £m
Present value of defined benefit obligation (DBO)	<b>506.8</b>	433.3
– DBO following a 0.25% decrease in the discount rate	<b>528.2</b>	452.6
– DBO following a 0.25% increase in the discount rate	<b>486.5</b>	415.0
– DBO following a 0.25% decrease in the inflation assumption	<b>496.0</b>	423.1
– DBO following a 0.25% increase in the inflation assumption	<b>518.0</b>	443.2
– DBO following a 1 year decrease to life expectancy	<b>492.6</b>	421.3
– DBO following a 1 year increase to life expectancy	<b>521.0</b>	446.3

The sensitivity information shown above has been prepared using the same methodology as the calculation for the current DBO.

### 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 Partnership has taken advantage of the exemptions in the Partnerships (Accounts) regulations 2008 not to file separate accounts on this basis.

The terms of the Persimmon Scheme's interest in the Partnership give the pension scheme obligatory rights to cash returns but 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 financial assets and guaranteed by Persimmon Plc, which will support the Partnership investment return to the Persimmon Scheme.

### 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. Future vesting of options is dependent upon return of cash to shareholders in line with the Capital Return Plan announced on 28 February 2012 for options granted in 2012, 2013 and 2014.

Options granted under the Persimmon Long Term Incentive Plan 2007 ('2007 LTIP') between September 2010 and September 2011 consisted of unapproved awards and HMRC approved awards 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.

### 31 Share-based payments (continued)

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

Group and Company	2014 Savings-Related Share Option Scheme		2013 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	1,198,188	512.8	1,402,386	405.2
Granted during the year	477,375	1,080.0	234,294	889.0
Forfeited during the year	(128,408)	(633.6)	(144,451)	(431.7)
Exercised during the year	(610,029)	(361.7)	(294,041)	(339.2)
Outstanding at the end of the year	937,126	883.5	1,198,188	512.8
Exercisable at the end of the year	63,589	365.0	52,292	324.0

Group and Company	2014 Bonus Share Scheme		2013 Bonus Share Scheme	
	Number of shares under option		Number of shares under option	
Outstanding at the beginning of the year	79,569		124,817	
Granted during the year	50,728		86,434	
Exercised during the year	(56,169)		(131,682)	
Outstanding at the end of the year	74,128		79,569	
Exercisable at the end of the year	–		–	

Group and Company	2014 Long Term Incentive Plan 2007 Non HMRC Approved		2013 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	1,157,556		2,629,246	
Forfeited during the year	(206,376)		(384,016)	
Exercised during the year	(902,871)		(1,087,674)	
Outstanding at the end of the year	48,309		1,157,556	
Exercisable at the end of the year	48,309		95,883	

Group and Company	2014 Long Term Incentive Plan 2007 HMRC Approved		2013 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	340,523	440.3	834,875	418.0
Forfeited during the year	(13,688)	(438.3)	(101,121)	(419.0)
Exercised during the year	(295,676)	(441.1)	(393,231)	(398.4)
Outstanding at the end of the year	31,159	433.2	340,523	440.3
Exercisable at the end of the year	31,159	433.2	74,885	398.4

## Notes to the Financial Statements continued

### 31 Share-based payments (continued)

Group and Company	2014 Long Term Incentive Plan 2012*	2013 Long Term Incentive Plan 2012*
	Number of shares under option	Number of shares under option
Outstanding at the beginning of the year	26,039,624	28,499,582
Granted during the year	1,281,446	2,764,923
Forfeited during the year	(2,154,096)	(5,224,881)
Outstanding at the end of the year	25,166,974	26,039,624
Exercisable at the end of the year	–	–

\* Under 2012 LTIP grants the option exercise price is variable dependent on share price at the date of award and 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 1,384.8p (2013: 1,105.8p). The options outstanding at 31 December 2014 had a range of exercise prices from nil to 1,311.0p and a weighted average remaining contractual life of 6.8 years (2013: 7.3 years).

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

	LTIP 2012 Tranche 5	LTIP 2012 Tranche 6	SAYE 2014
Grant date	15 April 2014	9 September 2014	2 October 2014
Risk free interest rate*	1.38% – 2.28%	1.31% – 2.10%	1.22%
Exercise price*	£11.70 – £7.20	£12.86 – £8.36	£10.80
Share price at date of grant	£12.65	£13.11	£12.95
Expected dividend yield	5.6%	4.8%	5.6%
Expected life*	3–8 years	3–7 years	3 years
Date of vesting*	December 2015 – December 2021	December 2015 – December 2021	December 2017
Expected volatility	30%	30%	30%
Fair value of option*	£1.42 – £2.82	£1.53 – £3.16	£1

\* Exercise price, expected life and date of vesting are all variable under the 2013 LTIP grants, dependent 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 2014, the Group recognised total expenses before tax of £10.2m (2013: £10.3m) 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 2014 the total credit recognised in relation to equity settled share-based payments was £19.4m (2013: £14.4m) of which £1.1m (2013: £0.4m) related to options currently vested awaiting exercise. All share-based payments are expensed by the Company.

## 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 2014. 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 <sup>o</sup>	Charles Church Developments Limited <sup>Δ</sup>	
Persimmon Holdings Limited*	Persimmon Shared Equity Limited**	Persimmon Scottish Limited Partnership***

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

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

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

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

\*\*\* This entity is controlled by Persimmon Scottish Pension Trustees Limited (see note 30).

## 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 52 to 63. There is no difference between transactions with key management personnel of the Company and the Group.

During the year Nigel Greenaway, an Executive Director of the Company, acquired a property from a subsidiary for a value of £315,000. In addition Mr Greenaway has exchanged contracts in relation to a second property which is expected to complete in 2015 for a value of £925,000. Both transactions are supported by independent valuations and were approved by the shareholders at the AGM held on 16 April 2014. In addition to these transactions Mr Greenaway's son has purchased a further property from a subsidiary for a value of £375,000, again representing the open market value.

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:

	2014 £m	2013 £m
Interest charges on intra-group funding	2.5	3.9
Group services recharges	38.5	31.3
	41.0	35.2

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 2014 totalled £854.9m (2013: £816.2m). Amounts owed to subsidiary undertakings by the Company at 31 December 2014 totalled £3,178.7m (2013: £3,278.7m).

The Company provides the Group's defined benefit pension schemes. Current employer contributions 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 remeasurement 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 2014 is £53.1m (2013: £52.1m).

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 2014 was £nil (2013: £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 2014 was £nil (2013: £nil).

The Company has suffered £nil expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2013: £nil).

## Shareholder Information

### Analysis of shareholding at 31 December 2014

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1 – 5,000	9,917	89.60	7,152,557	2.33
5,001 – 50,000	737	6.66	11,617,022	3.80
50,001 – 250,000	245	2.21	29,330,747	9.57
250,001 and over	169	1.53	258,360,085	84.30
<b>Total</b>	<b>11,068</b>	<b>100.00</b>	<b>306,460,411</b>	<b>100.00</b>

### Share price – year ended 31 December 2014

Price at 31 December 2014	£15.78
Lowest for year	£11.87
Highest for year	£16.13

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

### Financial Calendar 2015

General Meeting to approve 95p Capital Return Plan Payment and B/C Share Scheme	3pm on 19 March 2015
Record date for B and/or C share entitlement	6pm on 19 March 2015
Ordinary shares commence trading ex-share entitlement	8am on 20 March 2015
Final date for B/C share elections	11am on 27 March 2015
Allotment of B/C shares to shareholder accounts	30 March 2015
Payment of cash return to shareholders	2 April 2015
Annual General Meeting	16 April 2015
Interim Management Statement	16 April 2015
Trading Update	2 July 2015
Announcement of Half Year Results	18 August 2015
Interim Management Statement	5 November 2015

### Five Year Record

	2014	2013	2012	2011	2010
Unit sales	<b>13,509</b>	11,528	9,903	9,360	9,384
Revenue	<b>£2,573.9m</b>	£2,085.9m	£1,721.4m	£1,535.0m	£1,569.5m
Average selling price <sup>Δ</sup>	<b>£190,667</b>	£181,861	£175,640	£166,142	£169,339
Profit from operations*	<b>£473.3m</b>	£333.1m	£222.5m	£153.6m	£130.8m
Profit before tax*	<b>£475.0m</b>	£329.6m	£221.5m	£144.0m	£91.5m
Basic earnings per share*	<b>124.5p</b>	83.3p	56.7p	35.7p	23.8p
Diluted earnings per share*	<b>124.3p</b>	82.8p	56.2p	35.5p	23.7p
Cash return/dividend per share	<b>95.0p</b>	70.0p	75.0p	10.0p	7.5p
Net assets per share	<b>715.4p</b>	671.4p	658.2p	608.6p	579.1p
Total shareholders' equity	<b>£2,192.6m</b>	£2,045.5m	£1,993.7m	£1,839.3m	£1,744.0m
Return on capital employed*	<b>24.6%</b>	17.6%	12.2%	8.3%	7.0%

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

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

\* 2010-2012 restated for the effect of IAS 19 Employee Benefits (revised).

## Directors

**Nicholas Wrigley**  
Chairman

**Jeff Fairburn**  
Group Chief Executive

**Mike Killoran**  
Group Finance Director

**Nigel Greenaway**  
South Division Chief Executive

**David Jenkinson**  
North Division Chief Executive

**Richard Pennycook**  
Senior Independent 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 LLP

**Bankers**  
The Royal Bank of Scotland plc  
Lloyds TSB Bank plc  
Barclays Bank PLC  
HSBC plc  
Santander UK plc

**Financial advisors/stockbrokers**  
Merrill Lynch International  
Citigroup Global Markets Limited

**Financial PR Consultants**  
Citigate Dewe Rogerson  
3 London Wall Buildings  
London Wall  
EC2M 5SY  
Telephone (020) 7638 9571

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

## Information to be found on our websites:



### Find a home

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

[www.charleschurch.com](http://www.charleschurch.com)

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



### Persimmon Group

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

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



### Recruitment

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

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



### Corporate responsibility

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

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



**Persimmon Plc**

Persimmon House  
Fulford  
York YO19 4FE

Telephone 01904 642199  
Email [feedback@persimmonhomes.com](mailto:feedback@persimmonhomes.com)

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