

Financial Review

The financial year ended 31 December 2006 was an important year for Persimmon for three major reasons. Firstly, the year provided another test for the business in a competitive market which emerged from the recovery of confidence through 2005. Secondly, we successfully completed the acquisition and integration of Westbury plc from 17 January 2006. Lastly, we cemented our position in the FTSE 100 Index of leading shares on the London Stock Exchange with another record set of results. This has been achieved through maintaining our focus on the basics of managing a successful house building business, building house types which our customers prefer, in attractive locations for affordable prices within our Persimmon core housing brand, our Charles Church premium brand and our Westbury Partnerships lower cost social housing brand.

Group revenues of £3,141.9 million increased by 37% over the prior year driven by the 32% increase in volumes and 4% increase in average selling price.

Recognising the UK housing market would offer limited opportunity for significant price growth for a period, the Westbury acquisition allowed us to continue to grow our earnings substantially through a combination of enhanced volume growth and improved overhead efficiency, whilst also allowing us to acquire extensive land assets at an attractive price. The Westbury business was fully integrated into the enlarged Persimmon business rapidly from 17 January 2006.

The original Persimmon business delivered organic growth of 5%, together with a good contribution from ex Westbury sites as follows –

Legal completions (units)			2006	2005
	Original Persimmon	Acquired Westbury	Total	Total
Core Housing	11,504	2,299	13,803	11,350
Charles Church	1,735	1,163	2,898	1,286
Group	13,239	3,462	16,701	12,636

Approximately one third of the sites acquired with Westbury were introduced into the Charles Church business. Together with the underlying organic volume growth of 35%, Charles Church volumes increased by 125% during 2006.

2006 also saw a large increase in the volume of new homes sold to our Housing Association partners demonstrating our commitment to increasing the availability of lower cost social housing, which is a high priority in many regions of the UK, as follows –

Legal completions (units)	2006	2005
Private Development		
Persimmon Core	12,498 +21%	10,329
Charles Church	2,801 +129%	1,221
Social Housing		
including Westbury Partnerships	1,402 +29%	1,086
	16,701 +32%	12,636

We expect to increase our share of this important lower cost home market over future years.

The increase of 4% in the headline average selling price of £188,129 was supported by the increase in Charles Church premium sales content in the overall sales mix to 18% of sales (2005: 10%). The average selling price in the Persimmon Core housing business of £174,459 increased by 3% over the prior year, whilst at £253,236 the average price in Charles Church was lower by 11%. This lower average price in Charles Church reflects our strategy of ensuring Charles Church homes remain affordable yet aspirational with the sale of an increasing proportion of high quality smaller homes.

The strong sales performance against a competitive market backdrop underlines the strength of our business, as we offer a wide choice of new house types across all regions of the UK market at affordable prices. In 2006, 36% of our sales were at prices lower than £150,000 against a market average of c. 29% (per National Housing Building Council statistics).

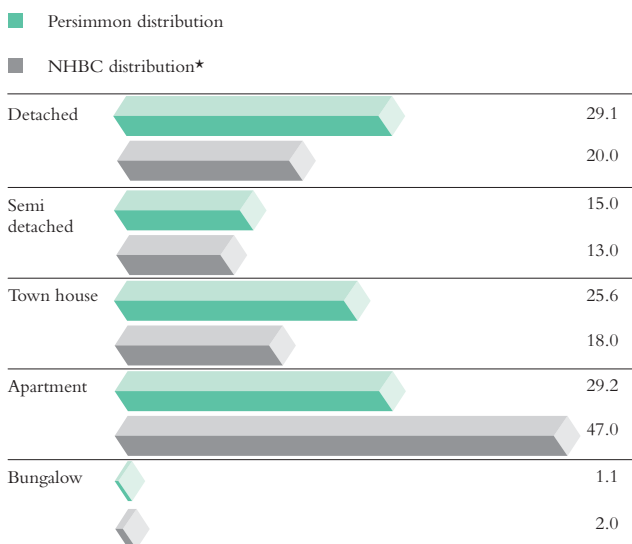
Sales volumes and selling prices have been managed to maximise gross margins. As expected gross profit margins of 23.5% for the year were diluted by the sales from the sites acquired with Westbury. However, we have been successful in progressively repairing these margins through the year as a result of the action taken during the integration of the acquired business.

Gross profit margins	2006			2005		
	Full year %	Second half %	First half %	Full year %	Second half %	First half %
Core Housing						
Original Persimmon	25.9	25.9	25.8	27.1	26.7	27.5
Acquired Westbury	18.8	19.2	18.4	–	–	–
	24.6	24.9	24.3	27.1	26.7	27.5
Charles Church						
Original Charles Church	21.0	20.5	21.6	22.8	22.7	23.0
Acquired Westbury	17.4	19.4	15.5	–	–	–
	19.7	20.1	19.3	22.8	22.7	23.0
Total Group	23.5	23.8	23.1	26.4	26.0	26.9

House sales by price band %



House sales by type %



*Source: NHBC – New House-Building Statistics (2006 calendar year)

There continues to be underlying margin pressure in the market given the continued inflation of material and labour prices. However, we are in a strong position to combat these pressures due to our scale and good long term relationships with suppliers and sub-contractors.

Profits from operations (before reorganisation costs) of £652.7 million were 24% up on last year with an operating margin of 20.8% (2005: 23.1%). We have delivered synergy savings of c. £32 million from the integration of Westbury, the bulk of which relates to operating expenses within the enlarged business. These savings together with good cost control have helped to mitigate gross margin pressures. The market remained competitive during 2006 but we were able to contain our selling costs to 2.9% of sales (2005: 3.0%) by remaining focused on targeting any additional customer incentivisation. Our customers have continued to take advantage of the convenience offered by our part exchange facilities.

Operating margin in the Persimmon Core business was 21.9% (2005: 24.0%) whilst in Charles Church 17.0% for 2006 compared with 18.2% for the prior year. Despite margins being diluted by sales from the acquired Westbury sites our overall operating margin remains at industry high levels. We remain focused on continuing to repair the Westbury acquired margins and anticipate delivering in excess of £45 million of synergy benefits for 2007 and ensuing years in support of this margin performance.

One-off reorganisation costs of £15.4 million were incurred in integrating the acquired Westbury business. The principal areas of expenditure were for redundancy, cessation of lease commitments and re-branding.

Net finance cost of £70.6 million includes £6.4 million of imputed interest on the deferral of our land payables (2005: £7.9 million). The average debt level for the Group was approximately £1,120 million (2005: £400 million). Interest on Group funding is written off as incurred and was covered 9.2 times by operating profit (before reorganisation costs) compared with 16.3 times in 2005.

Base interest rates were increased twice during 2006 each time by a quarter of one percent, firstly on 3 August to 4.75% and then again on 9 November to 5.00%. Customers remained keen to purchase our new homes despite these increases in rates.

Profit before tax (before reorganisation costs) increased 17.5% on the prior year to £582.1 million, another record for Persimmon. Pre-tax profit per unit (before reorganisation costs) was £34,854. The effective tax rate was 30.0%.



Launceston Gate, Epping

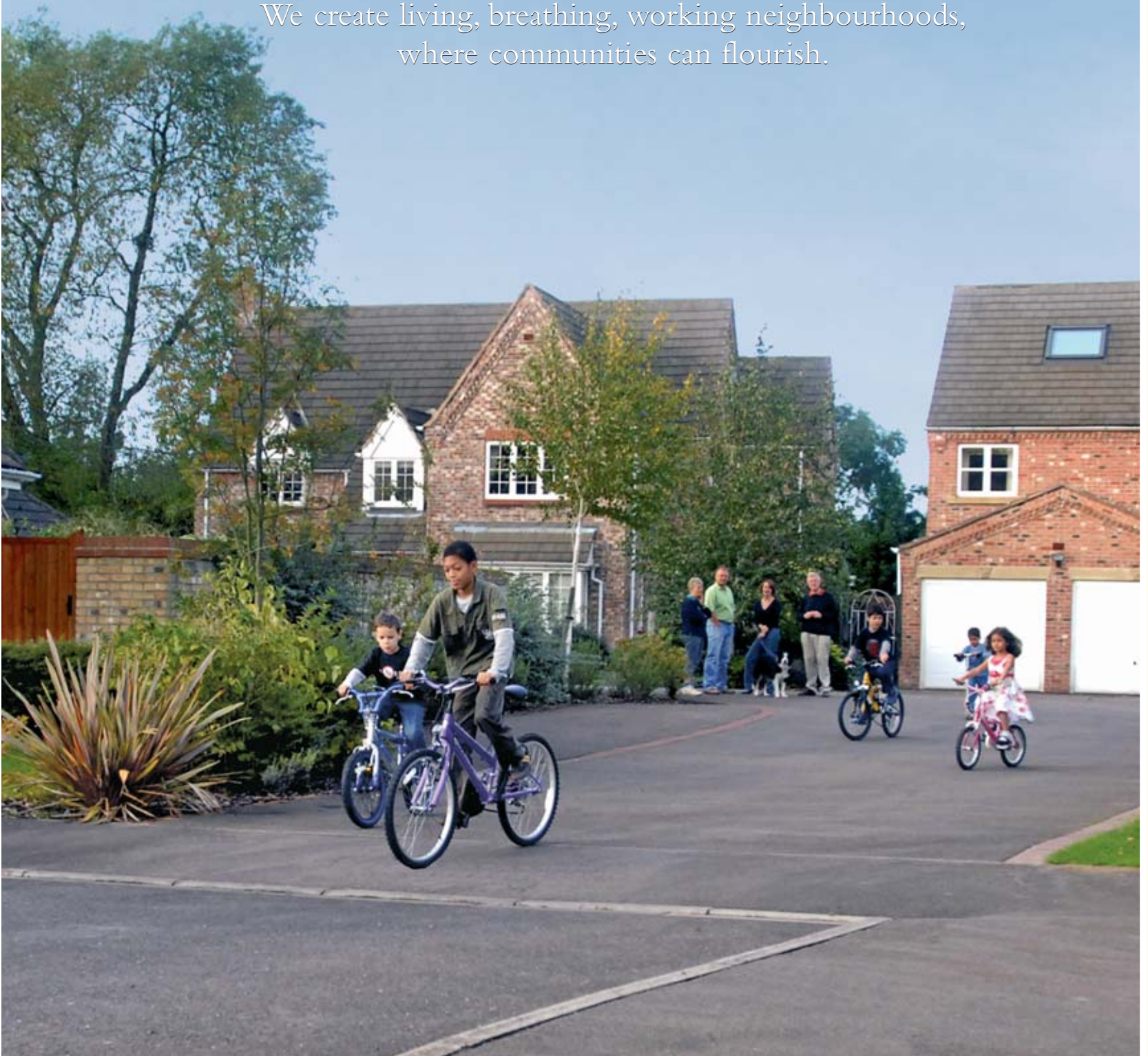


King's Court, Heworth, York

Community Works



We create living, breathing, working neighbourhoods,
where communities can flourish.



Basic earnings per share (before reorganisation costs) of 137.5p is up 16% on 2005, our 10 year compound growth rate in these earnings being 23%.

The proposed final dividend of 32.7p (2005: 19.0p) results in a full year dividend of 46.5p per share, a 50% increase over the prior year and is covered by earnings 2.9 times (2005: 3.8 times). Dividends per share have increased over the last 10 years at a compound rate of 17.2%.

BALANCE SHEET

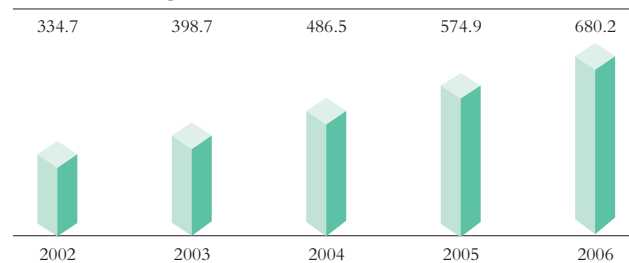
During 2006 net assets increased by £339 million (20%) to £2,031 million. We have continued to invest in land assets and to strengthen our work in progress position to support the growth of the business in 2007 and beyond. Net assets per share increased by 18% over last year to 680.2p.

With the acquisition of the Westbury land bank at the start of the year together with our new purchases the number of plots of land the Group owns and controls increased to 80,085 plots by the end of the year, an increase of 26% on the prior year end. In addition we had a further 14,570 plots proceeding to contract. This total land bank provides £17.9 billion of development value at current period average selling prices. However, due to continued delays within the planning system access to plots with detailed planning consent in support of future production remains constrained at c. 2.5 years. Our total investment in land held for future development at 31 December 2006 was £2,158 million an increase of £670 million over the prior year. We continue to replace our land at keen prices. The land which we own and control had an average plot cost of 21.2% of current period average sales revenue (2005: 19.3%). The increase from the prior year principally reflects the introduction of the ex-Westbury plots and the increasing content of Charles Church sites in the mix. We have continued to successfully defer an element of the payments for the land that we own, land creditors having increased by £84 million over the prior year to £320 million.

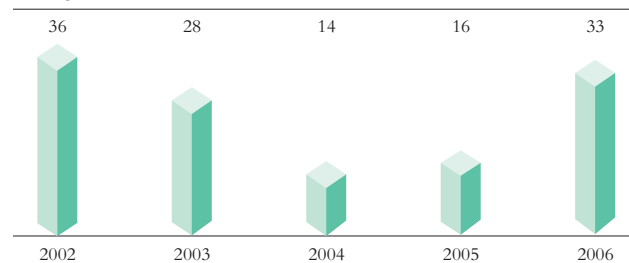
The Group's strategic land holdings increased to over 23,000 acres (2005: c. 19,000 acres) approximately two thirds of which is held under long term options, the remainder being owned.

Consolidated intangible assets of £470 million reflects a combination of goodwill value from the acquisitions of Westbury plc and Beazer Group plc together with £60 million Westbury Partnerships/Space4 brand value. The fair value exercise performed in relation to the acquired Westbury net assets is fully explained in note 25 to the Financial Statements. The goodwill arising on the acquisition was £227 million and in common with the residual

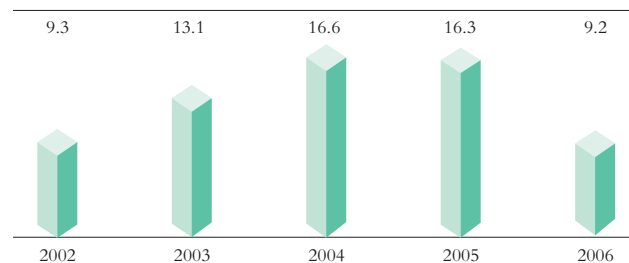
Net Assets Per Share pence**□



Gearing %□



Interest Cover x*□



*2006 figures stated before reorganisation costs. Comparatives for 2002-3 shown before goodwill amortisation.

**Comparatives for 2002-3 as restated for UITF 38 (Accounting for ESOP trusts).

□2004-6 stated under IFRSs. Comparatives for 2002-3 prepared under UK GAAP.

Beazer goodwill, is comfortably supported by the assessment of the strategic land assets acquired. Despite our inability to allocate a specific fair value to each of these assets due to their inherent uncertainty given the current planning environment, we are excited by the opportunity these real assets afford us in generating superior value in the future. We believe these investments will help underwrite the success of our business as we move forward.

In addition, the acquisition of the Westbury Partnerships business and the Space4 offsite manufacturing facility opens up additional opportunities for growth in the lower cost social housing market. We are confident Westbury Partnerships will establish an increasing share of this market as we continue to acquire new land opportunities, secured in part, through the availability of the Modern Method of Construction that Space4 provides.

The goodwill value has been tested for impairment and no impairment is deemed to have occurred.

Work in progress of £652 million supported our strong forward sales position of £701.3 million at 31 December 2006. Good working capital control, in particular the improvements established over the acquired Westbury sites, allowed us to release c. £150 million of cash from working capital during the year.

As expected return on average capital employed (before reorganisation costs) remained strong at 23.7% despite dilution principally due to the additional debt used to finance the Westbury acquisition, together with the near term impact we have seen on operating margin.

The Group now has three main employee pension schemes, the Persimmon Group Stakeholder Scheme, based upon defined contributions, the Prowting defined benefit pension scheme acquired with the Westbury acquisition, and the Persimmon Plc Pension and Life Assurance Scheme. The acquired Westbury defined benefit scheme was merged with the Persimmon scheme on 1 November 2006 to capture cost savings in administration and management. The gross past service funding deficit of £103.7 million in respect of the defined benefit schemes is included in the balance sheet together with the associated deferred tax asset of £31.1 million. Full details of the key assumptions used in assessing the Group's outstanding liabilities are included at note 31 to the Financial Statements.

Shareholders' funds increased by £339 million during the year primarily from the retained profit of £396 million, the take up of the scrip dividend of £37 million (2005: £30 million), offset in part by dividends approved and paid of £97 million.

BORROWINGS, CASHFLOW AND TREASURY

At 31 December 2006 gearing was 33% reflecting borrowings of £661 million (net of cash balances, excluding finance leases but including forward currency swaps) (2005: £266 million).

We have successfully degeared our balance sheet from a peak of approximately 80% shortly after acquiring Westbury whilst continuing to build our land assets. Net cash inflow from operations of £793 million (2005: £347 million) reflects our strong operating profits and working capital control. Free cash inflow for the year after servicing the capital employed in the business and payment of tax was £523 million (2005: £109 million) before the payment of the remaining consideration for the Westbury acquisition.

As a result of this degearing we were able to allow the £400 million Tranche B of the Group's revolving credit facilities to lapse in November 2006. The Group's syndicated credit facility is now £800 million with a maturity of November 2010.

We continue to finance our operations through a combination of shareholders' funds, bank loans, overdrafts, cash in hand and long term loans. Head office manages the drawn credit lines of each operating business within overall facility limits which may be subject to offset arrangements. Borrowing facilities are allocated by head office across the operating businesses on commercial terms. Head office arranges all borrowing facilities and invests short term cash deposits at competitive rates when available.

The Board manages the strategy regarding liquidity, interest rate and foreign currency risks. We address liquidity risk by ensuring we maintain secure, flexible facilities with an extended maturity profile from a variety of sources. We continually assess our longer term requirements to ensure relevant facilities are arranged at the appropriate time. The Group currently has secured total credit facilities with an average life of 4.5 years at competitive rates of interest.

We monitor prevailing and forecast monetary conditions in assessing our approach to interest rate risk management. The Group uses interest rate swap instruments when appropriate as part of this approach. We do not set a pre-defined balance between fixed interest rate and floating interest rate debt.

Debt may be raised from capital markets outside the UK. We eliminate all foreign currency risk on entering into such transactions by way of foreign currency swaps.

Details of the Group's borrowings and financial instruments are disclosed in note 18 and note 20 to the Financial Statements.

Mike Killoran Group Finance Director
23 February 2007



Stress Removal



Before during and after moving in
our customers can rely on our continuing care.

