

# Notes to the Financial Statements

For the year ended 31 December 2006

## 1 PRINCIPAL ACCOUNTING POLICIES

### *Basis of accounting*

Both the consolidated Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards, adopted by the European Union and effective at 31 December 2006 (IFRSs) and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies are set out below.

### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries up to 31 December each year. The results of subsidiaries acquired or disposed of during the year, are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### *Business combinations*

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

### *Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of the acquisition. Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset. Goodwill allocated to the strategic land holdings is recognised as an asset, being the intrinsic value within these holdings in the acquired entities, which is realised upon satisfactory planning permission being obtained and sale of the land.

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

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. The allocation of this goodwill for impairment testing is disclosed in note 13. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### *Brand intangibles*

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

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 represents the total sales value of legally completed properties, excluding part exchange property resales and land sales (which are included within cost of sales and operating expenses respectively). Revenue and profit on sales are recognised upon legal completion.

### *Operating expenses*

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

### *Finance income*

Finance income is recognised on the accruals basis.

### *Finance costs*

Interest is written off to the income statement as incurred, based on the effective rate.

### *Dividends*

Dividends are recorded in the Group's financial statements in the period in which they are approved or paid.

### *Share-based payment*

Charges for employee services received in exchange for share-based payment have been made for all options/awards granted after 7 November 2002 in accordance with IFRS 2 (Share-based Payment), to spread the fair value of the grant over the vesting period.

The fair value of such options has been calculated using the Binomial Option Pricing Model, based upon publicly available market data at the point of grant.

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

### *Retirement benefit costs*

The Group operates two defined benefit pension schemes, which are closed to new members. It also has two defined contribution schemes for employees who are not members of a defined benefit scheme. The liability in respect of the defined benefit schemes is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the scheme assets, together with adjustments for actuarial gains and losses. Further details of the schemes and the valuation methods applied may be found in note 31.

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

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

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

### *Taxation*

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement 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 prevailing tax rates, and adjusted for any tax payable in respect of previous years.

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

## 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### *Leases*

Assets financed by means of a finance lease are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on such assets is charged to the income statement, in accordance with the stated accounting policy, over the shorter of the lease term or the asset life. The finance element of payments to leasing companies are calculated so as to achieve a constant rate of interest on the remaining balance over the lease term, and charged to the income statement accordingly.

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*

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 following number of years:

Plant, fixtures and fittings – 3 to 5 years.

Freehold buildings – 50 years.

No depreciation is provided on freehold land.

### *Investments*

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

### *Inventories*

Inventories are stated at the lower of cost and net realisable value, after deducting deposits received. Land includes undeveloped land and land under development. Work in progress comprises direct materials, labour costs, site overheads, associated professional charges and other attributable overheads.

### *Trade and other receivables*

Trade and other receivables are held at cost less any impairment in realisable value.

### *Financial instruments*

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

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

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 their nominal value. Trade payables on extended terms, particularly in respect of land purchases, are recorded at their fair value.

### *Cash and cash equivalents*

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short term cash deposits). The Group routinely utilises short term bank overdraft facilities, which are repayable on demand, as an integral part of its cash management policy. As such these are included as a component of net cash and cash equivalents within the cash flow statement. Offset arrangements across Group businesses have been applied to arrive at the cash and overdraft figures.

### *Interest bearing borrowings*

Interest bearing borrowings and their related hedging instruments are carried at fair value determined with reference to discounted risk-adjusted expected future cash flows and application of current foreign market exchange rates.

## 2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Management consider there are no critical accounting judgements made in the preparation of the financial statements.

The key sources of estimation uncertainty are:

### *Goodwill*

The impairment testing of goodwill is substantially dependent upon the ability of the Group to successfully progress its strategic land holdings. The assumption on which this estimate is based may be undermined by any significant changes in the current planning regime.

### *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.

### *Pensions*

The Directors have employed the services of an actuary in assessing pension liabilities, however they recognise that final liabilities and asset returns may differ from actuarial estimates.

## 3 REVENUE

The Group has only one class of business which is house building and it is wholly undertaken in the United Kingdom.

#### 4 KEY MANAGEMENT REMUNERATION

Key management personnel, as disclosed under IAS 24 (Related Party Disclosures), have been identified as the Board and other senior operational management. Detailed disclosures of Directors' individual remuneration, pension entitlements and share options, for those Directors who served during the year, are given in the Remuneration Report on pages 42 to 45. Summary key management remuneration is as follows:

	2006 £m	2005 £m
Short-term employee benefits	6.5	5.8
Post-employment benefits	0.4	0.7
Other long-term benefits	1.7	1.7
Share-based payments	3.5	1.0
	<b>12.1</b>	<b>9.2</b>

No termination benefits were paid to key management personnel.

#### 5 EMPLOYEES

##### Group

The average monthly number of persons (including executive Directors) employed by the Group during the year was 5,349 (2005: 4,613).

	2006 £m	2005 £m
Staff costs (for the above persons)		
Wages and salaries	161.9	134.8
Social security costs	16.3	13.2
Pensions charge	2.3	8.2
Share-based payments	5.3	2.0
	<b>185.8</b>	<b>158.2</b>

The 2006 pensions charge includes a non-recurring credit of £5.5m in relation to the impact of introducing an allowance for cash commutation of pensions which has reduced the past service liabilities of the Persimmon Plc Pension and Life Assurance Scheme (note 31).

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 200 (2005: 187).

	2006 £m	2005 £m
Staff costs (for the above persons)		
Wages and salaries	16.6	16.7
Social security costs	2.2	1.9
Pensions (credit)/charge	(3.3)	2.9
Share-based payments	5.3	2.0
	<b>20.8</b>	<b>23.5</b>

#### 6 REORGANISATION COSTS

In January 2006, the Group acquired Westbury plc. To the extent that workers could not be redeployed, termination terms were agreed. Further costs were incurred in closing offices and terminating associated contracts.

## 7 FINANCE COSTS

	2006	2005
	£m	£m
Interest on bank overdrafts and loans	64.1	25.0
Imputed interest on deferred term land payables	6.4	7.9
Interest on obligations under finance leases	0.2	0.2
Other interest expense	0.4	0.1
	<b>71.1</b>	<b>33.2</b>

## 8 PROFIT FROM OPERATIONS

	2006	2005
	£m	£m
Profit from operations is stated after charging/(crediting):		
Staff costs (note 5)	185.8	158.2
Profit on sale of land holdings	(19.6)	(7.7)
Rent receivable	(2.6)	(2.7)
Profit on sale of property, plant and equipment	(0.7)	(0.4)
Depreciation:		
– owned assets	8.6	6.5
– assets held under finance leases	1.0	0.8
Amortisation of intangible assets	0.3	–
Operating lease charges	12.7	9.4

Amounts receivable by auditors and their associates in respect of:

	2006	2005
	£'000	£'000
Audit of financial statements pursuant to legislation	219	246
Other services relating to taxation	189	30
Services relating to corporate finance transactions	391	175
Other services	24	26
	<b>823</b>	<b>477</b>

The audit fee for 2005 included non-recurring fees in relation to the conversion to IFRSs.

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

Fees to major firms of accountants other than KPMG Audit Plc and its affiliated entities for non-audit services amounted to £50,600 (2005: £20,000).

## 9 INCOME TAX EXPENSE

	2006 £m	2005 £m
Current tax expense:		
UK corporation tax	174.9	157.6
Adjustments in respect of prior years	(7.5)	(5.8)
	<b>167.4</b>	151.8
Deferred tax expense (note 21):		
Origination and reversal of temporary differences	3.2	(3.6)
Adjustments in respect of prior years	(0.3)	2.4
	<b>2.9</b>	(1.2)
Total income tax expense in income statement	<b>170.3</b>	150.6

*Reconciliation of effective tax rate*

	2006 %	2006 £m	2005 %	2005 £m
Profit before tax		566.7		495.4
Tax calculated at UK corporation tax rate	30.0	170.0	30.0	148.6
Accounting base cost not deductible for tax purposes	0.6	3.4	1.0	4.7
Expenditure not allowable for tax purposes	0.8	4.7	0.1	0.7
Adjustments in respect of prior years	(1.4)	(7.8)	(0.7)	(3.4)
Effective tax rate and tax expense for the year	<b>30.0</b>	<b>170.3</b>	30.4	150.6

*Deferred tax recognised directly in equity*

	2006 £m	2005 £m
Relating to equity-settled transactions	(0.4)	(2.9)
Relating to actuarial losses on pension schemes	(1.4)	(2.3)
Relating to hedged senior loan notes	(2.1)	(1.9)
	<b>(3.9)</b>	(7.1)

## 10 PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the Parent Company's income statement has not been included in these financial statements. The Parent Company's profit for the financial year was £39.6m (2005: £472.7m).

## 11 DIVIDENDS

	2006 £m	2005 £m
Amounts recognised as distributions to equity holders in the period:		
2005 final dividend paid of 19.0p (2004: 18.4p)	55.9	53.1
2006 interim dividend paid of 13.8p (2005: 12.0p)	40.8	35.1
	<b>96.7</b>	88.2
2006 final dividend proposed of 32.7p per share (2005: 19.0p)	97.6	55.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 19 April 2007 and therefore, in accordance with IAS 10, has not been included as a liability in these financial statements.

Under the scrip dividend scheme, £15.8m of the 2005 final dividend (2004 final: £15.1m) and £21.3m of the 2006 interim dividend (2005 interim: £14.6m) were settled by way of shares. These amounts have been credited to retained earnings (note 24).

## 12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Employee Share Ownership Trust and the Employee Benefit Trust (see note 22), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares from the start of the accounting period. The Company has only one category of dilutive potential ordinary shares: those share options and awards granted to directors and employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. Diluted earnings per share is calculated by dividing earnings by the diluted weighted average number of shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Earnings before reorganisation costs* 2006 £m	Earnings 2006 £m	Weighted average number of ordinary shares 2006	Earnings 2005 £m	Weighted average number of ordinary shares 2005
For basic earnings per share	407.3	396.4	296,155,856	344.8	291,120,186
Options and awards	–	–	1,762,783	–	1,116,307
For diluted earnings per share	407.3	396.4	297,918,639	344.8	292,236,493

\*Reorganisation costs net of related tax credit of £4.5m.

## 13 INTANGIBLE ASSETS

Group	Goodwill £m	Brand £m	Know how £m	Total £m
<b>Cost</b>				
At 1 January 2005 and 1 January 2006	182.0	–	–	182.0
On acquisition of subsidiary	226.8	60.0	1.9	288.7
<b>At 31 December 2006</b>	<b>408.8</b>	<b>60.0</b>	<b>1.9</b>	<b>470.7</b>
<b>Amortisation</b>				
At 1 January 2005 and 1 January 2006	–	–	–	–
Impairment losses for the year	–	–	–	–
Charge for the year	–	–	0.3	0.3
<b>At 31 December 2006</b>	<b>–</b>	<b>–</b>	<b>0.3</b>	<b>0.3</b>
<b>Carrying amount</b>				
<b>At 31 December 2006</b>	<b>408.8</b>	<b>60.0</b>	<b>1.6</b>	<b>470.4</b>
At 31 December 2005	182.0	–	–	182.0

Goodwill brought forward of £182.0m arose on acquisitions before the date of transition to IFRSs and is retained at the previous UK GAAP amounts, subject to being tested for impairment at that date.

£50m of this brought forward amount represents the brand value of Charles Church, acquired with Beazer Group plc in 2001.

Acquired brand values are calculated based on discounted cash flows and are tested annually for impairment. The recoverable amounts of the brand intangibles are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount and growth rates. Management used a discount factor of 7%. Growth rates are based on industry growth forecasts.

The remainder of goodwill is allocated to acquired strategic land holdings and is tested annually for impairment. The recoverable amounts are determined by performing a value in use calculation, using a discount factor of 7%, covering a period of 30 years (being the minimum period that management expects to benefit from the acquired strategic land holdings) and based on current market conditions. It is tested by reference to the proportion of legally completed plots in the period compared to the total plots which are expected to receive satisfactory planning permission in the remaining strategic land holdings, taking account of historic experience and market conditions.

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

## 13 INTANGIBLE ASSETS (CONTINUED)

Company	Trademarks £m
<b>Cost</b>	
<b>At 1 January 2005, 1 January 2006 and 31 December 2006</b>	<b>5.0</b>
<b>Amortisation</b>	
At 1 January 2005	0.3
Charge for the year	0.2
At 1 January 2006	0.5
Charge for the year	0.3
<b>At 31 December 2006</b>	<b>0.8</b>
<b>Carrying amount</b>	
<b>At 31 December 2006</b>	<b>4.2</b>
At 31 December 2005	4.5

## 14 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
At 1 January 2005	14.6	30.0	9.2	53.8
Additions	4.7	6.2	1.6	12.5
Disposals	(0.5)	(5.3)	(1.2)	(7.0)
At 1 January 2006	18.8	30.9	9.6	59.3
Additions	3.2	7.3	1.0	11.5
On acquisition of subsidiary	5.7	10.2	0.5	16.4
Disposals	(0.9)	(4.6)	(0.2)	(5.7)
<b>At 31 December 2006</b>	<b>26.8</b>	<b>43.8</b>	<b>10.9</b>	<b>81.5</b>
<b>Accumulated depreciation</b>				
At 1 January 2005	0.8	18.3	6.5	25.6
Charge for the year	0.3	5.5	1.5	7.3
Disposals	(0.4)	(4.5)	(1.2)	(6.1)
At 1 January 2006	0.7	19.3	6.8	26.8
Charge for the year	0.5	7.4	1.7	9.6
Disposals	(0.1)	(3.6)	(0.1)	(3.8)
<b>At 31 December 2006</b>	<b>1.1</b>	<b>23.1</b>	<b>8.4</b>	<b>32.6</b>
<b>Carrying amount</b>				
<b>At 31 December 2006</b>	<b>25.7</b>	<b>20.7</b>	<b>2.5</b>	<b>48.9</b>
At 31 December 2005	18.1	11.6	2.8	32.5
Assets held under finance lease:				
<b>Carrying amount at 31 December 2006</b>	<b>–</b>	<b>3.2</b>	<b>–</b>	<b>3.2</b>
Carrying amount at 31 December 2005	–	2.5	–	2.5

No property, plant and equipment was under the course of construction at 31 December 2006 (2005: £1.6m).

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
At 1 January 2005	2.2	0.8	3.6	6.6
Additions	0.1	0.3	0.4	0.8
Disposals	(0.4)	(0.2)	(0.8)	(1.4)
At 1 January 2006	1.9	0.9	3.2	6.0
Additions	0.3	1.0	0.2	1.5
Disposals	–	(0.6)	–	(0.6)
<b>At 31 December 2006</b>	<b>2.2</b>	<b>1.3</b>	<b>3.4</b>	<b>6.9</b>
<b>Accumulated depreciation</b>				
At 1 January 2005	0.6	0.3	2.5	3.4
Charge for the year	0.1	0.2	0.5	0.8
Disposals	(0.4)	(0.1)	(0.8)	(1.3)
At 1 January 2006	0.3	0.4	2.2	2.9
Charge for the year	–	0.2	0.5	0.7
Disposals	–	(0.4)	–	(0.4)
<b>At 31 December 2006</b>	<b>0.3</b>	<b>0.2</b>	<b>2.7</b>	<b>3.2</b>
<b>Carrying amount</b>				
<b>At 31 December 2006</b>	<b>1.9</b>	<b>1.1</b>	<b>0.7</b>	<b>3.7</b>
At 31 December 2005	1.6	0.5	1.0	3.1
Assets held under finance lease:				
<b>Carrying amount at 31 December 2006</b>	<b>–</b>	<b>1.0</b>	<b>–</b>	<b>1.0</b>
Carrying amount at 31 December 2005	–	0.5	–	0.5

No property, plant and equipment was under the course of construction at 31 December 2006 (2005: £nil).

## 15 INVESTMENTS

Group	Investments £m	Investments in jointly controlled entities £m	Total £m
<b>Cost</b>			
At 1 January 2005	–	–	–
Addition	169.1	–	169.1
At 31 December 2005	169.1	–	169.1
On acquisition of subsidiary	(169.1)	2.8	(166.3)
<b>At 31 December 2006</b>	<b>–</b>	<b>2.8</b>	<b>2.8</b>

On 17 January 2006, the Group gained control of Westbury plc. By 9 March 2006 the Group had acquired the remaining share capital of Westbury plc for a total consideration of £664.0m, including the preliminary investment at 24 November 2005.

Further details on this acquisition are provided in note 25.

As part of the acquisition of Westbury plc, the Group acquired interests in several jointly controlled entities:

	Share of ordinary allotted capital held by the Group	Accounting date
North Oxfordshire Consortium Limited	33%	30 September
Balaia Golf Village Realizacoes Imobiliaria Turisticos Lda	50%	31 December
Sociedade Torre de Marinha Realizacoes Turisticos SA	50%	31 December
Empreendimentos Turisticos da Armacao Nova Lda	50%	31 December

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

Company	Investments £m	Interest in subsidiary undertakings £m	Total £m
<b>Cost</b>			
At 1 January 2005	–	1,758.0	1,758.0
Addition	169.1	–	169.1
At 31 December 2005	169.1	1,758.0	1,927.1
On acquisition of subsidiary	(169.1)	659.9	490.8
Addition to investments in subsidiaries	–	848.9	848.9
<b>At 31 December 2006</b>	<b>–</b>	<b>3,266.8</b>	<b>3,266.8</b>

Further disclosure relating to the acquisition is detailed in note 25.

Details of Group undertakings are set out in note 32.

## 16 INVENTORIES

	<b>Group 2006</b>	Group 2005	<b>Company 2006</b>	Company 2005
	£m	£m	£m	£m
Land	2,157.5	1,487.8	–	–
Work in progress	651.8	579.8	0.2	0.3
Part exchange properties	68.0	72.4	–	–
Deposits received	(49.1)	(25.6)	–	–
Showhouses	82.6	83.5	–	–
	<b>2,910.8</b>	2,197.9	<b>0.2</b>	0.3

## 17 TRADE AND OTHER RECEIVABLES

	<b>Group 2006</b>	Group 2005	<b>Company 2006</b>	Company 2005
	£m	£m	£m	£m
<b>Non-current receivables</b>				
Other receivables	11.5	–	–	–
<b>Current receivables</b>				
Trade receivables	58.2	22.7	–	–
Other receivables	95.3	75.2	14.4	11.2
Amounts owed by Group undertakings	–	–	548.2	644.7
Other prepayments and accrued income	25.2	9.3	13.6	1.6
	<b>178.7</b>	107.2	<b>576.2</b>	657.5

Licensed land prepayments and land options have been included within current other receivables. Comparatives have been restated accordingly.

## 18 BORROWINGS

In addition to the bank overdrafts, the Group's and Company's borrowings consist of:

*Syndicated loan*

The Group has a syndicated loan facility of £800m that matures in November 2010. Amounts drawn down are unsecured and bear a floating rate of interest linked to LIBOR.

*Private placements of senior loan notes*

On 24 November 1998, unsecured 6.12% fixed interest loan notes were issued of US\$80m. The notes are repayable in full on 24 November 2008 and on issue they were swapped into £47.2m at a fixed rate of interest of 6.98%. On the same day unsecured 6.91% fixed interest loan notes of £20m were issued which are also repayable in full on 24 November 2008.

On 20 July 1999 the Group raised a further US\$150m of unsecured 7.65 – 7.84% fixed interest loan notes. The notes are repayable in annual instalments from July 2005 to July 2011. On issue the notes were swapped into £95.5m of floating rate debt linked to LIBOR with the same maturity profile.

On 9 November 2000, unsecured 8.13%–8.28% fixed interest loan notes of a further US\$125m were issued and are repayable in full by instalments due 9 November 2007 and 9 November 2010. On issue these notes were swapped into £86.7m at a fixed rate of interest of 7.6%. On the same day unsecured 7.58%–7.61% fixed interest loan notes of £28m were issued and are also repayable in full in instalments due 9 November 2007 and 9 November 2010.

On 7 February 2006, the Group issued unsecured 5.35% – 5.57% fixed interest loan notes of US\$348m, repayable in annual instalments from February 2009 to February 2016. The notes were immediately swapped on issue into £196.8m of floating rate debt linked to LIBOR. The maturity profile was unchanged. A further issue of an unsecured 3.77% fixed interest loan note of €5m was made on the same date. The Euro loan note was also swapped on issue into £3.4m of floating rate debt linked to LIBOR, the balance being repayable in February 2011.

In addition, on 7 February 2006, further unsecured 5.09% fixed interest loan notes of £55.8m were issued by the Group, repayable between October 2006 and February 2021.

Through the Westbury transaction the Group acquired and retained pre-existing unsecured 5.10 – 5.67% fixed interest loan notes of US\$235m. The notes had been swapped on issue for floating rate debt linked to LIBOR. The balance is payable in two tranches in April 2010 and April 2013.

*Other loan notes*

As part of the acquisition of Westbury the Group offered a loan note alternative in lieu of cash consideration for the purchase of shares, bearing interest at LIBOR less 0.5%. The notes are repayable at the request of the note holder on six monthly scheduled dates or, in any event, by 31 December 2011.

Through the Westbury transaction the Group acquired and retained pre-existing loan notes bearing interest at LIBOR less 1.0%. The notes are repayable in full in May 2007.

## 18 BORROWINGS (CONTINUED)

The maturity profile of borrowings at fair value is as follows:

	<b>Group 2006 £m</b>	Group 2005 £m	<b>Company 2006 £m</b>	Company 2005 £m
<b>Non-current borrowings</b>				
US, UK and EU senior loan notes	509.1	222.3	272.1	55.0
Syndicated loan	–	10.0	–	10.0
Finance lease obligations	1.9	1.3	0.7	0.3
	<b>511.0</b>	<b>233.6</b>	<b>272.8</b>	<b>65.3</b>
<b>Current borrowings</b>				
Bank overdrafts (note 27)	3.0	3.0	76.6	–
US and UK senior loan notes	48.8	20.2	13.1	20.2
Other loan notes	17.8	–	6.6	–
Finance lease obligations	1.0	1.2	0.3	0.2
	<b>70.6</b>	<b>24.4</b>	<b>96.6</b>	<b>20.4</b>

Maturity of non-current borrowings (excluding finance lease obligations):

	<b>Group 2006 £m</b>	Group 2005 £m	<b>Company 2006 £m</b>	Company 2005 £m
In the second year	73.9	50.7	13.0	13.5
In the third to fifth years inclusive	225.4	174.3	131.0	44.2
After five years	209.8	7.3	128.1	7.3
	<b>509.1</b>	<b>232.3</b>	<b>272.1</b>	<b>65.0</b>

Finance lease obligations – total minimum lease payments:

	<b>Group 2006 £m</b>	Group 2005 £m	<b>Company 2006 £m</b>	Company 2005 £m
Within one year	1.1	1.4	0.4	0.3
In the second to fifth years inclusive	2.1	1.4	0.7	0.3
Less: future finance charges	(0.3)	(0.3)	(0.1)	(0.1)
Present value of finance lease obligations	<b>2.9</b>	<b>2.5</b>	<b>1.0</b>	<b>0.5</b>

There are no finance lease obligations in excess of five years (2005: none).

The Group has the following undrawn committed borrowing facilities:

	<b>2006 £m</b>	2005 £m
Floating rate:		
– expiring beyond one year	<b>800.0</b>	490.0

## 19 OTHER LIABILITIES

	<b>Group 2006 £m</b>	Group 2005 £m	<b>Company 2006 £m</b>	Company 2005 £m
<b>Non-current liabilities</b>				
Land payables	93.0	59.6	–	–
Other payables	3.8	1.9	3.0	2.1
	<b>96.8</b>	61.5	<b>3.0</b>	2.1
<b>Current liabilities</b>				
Trade payables	263.1	216.1	1.9	1.6
Land payables	226.8	176.3	–	–
Amounts owed to Group undertakings	–	–	2,528.2	1,609.4
Social security and other taxes	7.7	5.8	1.9	1.5
Other payables	40.5	50.0	10.2	11.3
Accrued expenses	119.2	81.2	17.0	12.6
	<b>657.3</b>	529.4	<b>2,559.2</b>	1,636.4

Licensed land agreements have been included within current other payables. Comparatives have been restated accordingly.

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

## 20 FINANCIAL INSTRUMENTS

*Financial assets and liabilities*

Details of the Group's use of financial instruments is included in the Financial Review on page 27. The Group's financial assets and liabilities are as disclosed below.

The Group's financial assets comprise cash at bank, trade receivables and other receivables.

The Group's financial liabilities comprise bank and other borrowings, finance lease obligations, land payables, trade payables and other payables.

*Derivative financial instruments*

The funding activities of the Group expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group utilises both interest rate and currency derivative financial instruments to hedge exposure to variability in liabilities. These are entered into exclusively in relation to the US Dollar and Euro denominated senior loan notes, which are retranslated to their fair value at each period end. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

*Interest rate risk*Financial assets

Interest on bank balances is calculated on a daily basis, at a rate linked to base rate.

No interest is received on trade or other receivables.

## 20 FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities

The repayment profile of the Group's financial liabilities at 31 December is as follows:

	2006 £m	2005 £m
Within one year or on demand	601.0	466.9
In the second year	150.7	105.0
In the third to fifth years inclusive	247.2	182.7
After five years	209.9	7.3
	<b>1,208.8</b>	<b>761.9</b>

Financial liabilities on which no interest is payable amount to £627.2m (2005: £503.9m). Of this balance £307.4m (2005: £268.0m) is on short-term standard trade credit and £319.8m (2005: £235.9m) is on extended terms.

No interest is paid on trade payables or other payables.

For financial liabilities on standard trade terms on which no interest is payable, the average period until maturity is 25 days (2005: 23 days).

For financial liabilities on extended terms on which no interest is payable but imputed interest is charged, the average period until maturity is 19 months (2005: 16 months).

The interest rate profile of the Group's interest bearing financial liabilities as at 31 December 2006 is as follows:

	Weighted average interest rate paid	Total	Earlier of contractual repricing and maturity			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
Bank overdrafts	5.6%	3.0	3.0	–	–	–
Syndicated loan	5.2%	–	–	–	–	–
UK senior loan notes	6.2%	103.8	26.2	21.2	5.4	51.0
US senior loan notes	6.2%	450.7	22.6	52.7	216.6	158.8
EU senior loan notes	3.8%	3.4	–	–	3.4	–
Effect of interest rate swaps	–	–	337.5	(11.8)	(166.9)	(158.8)
Other loan notes	4.1%	17.8	17.8	–	–	–
Finance lease obligations	7.4%	2.9	1.0	1.0	0.9	–
<b>At 31 December 2006</b>		<b>581.6</b>	<b>408.1</b>	<b>63.1</b>	<b>59.4</b>	<b>51.0</b>
Floating		370.2	370.2	–	–	–
Fixed		211.4	37.9	63.1	59.4	51.0
<b>At 31 December 2006</b>		<b>581.6</b>	<b>408.1</b>	<b>63.1</b>	<b>59.4</b>	<b>51.0</b>

## 20 FINANCIAL INSTRUMENTS (CONTINUED)

The interest rate profile of the Group's interest bearing financial liabilities as at 31 December 2005 is as follows:

	Weighted average interest rate paid	Total	Earlier of contractual repricing and maturity			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
Bank overdrafts	5.7%	3.0	3.0	–	–	–
Syndicated loan	5.4%	10.0	10.0	–	–	–
UK senior loan notes	7.3%	48.0	–	25.0	23.0	–
US senior loan notes	7.5%	194.5	20.2	25.7	141.3	7.3
Effect of interest rate swaps	(0.8%)	–	55.0	(13.5)	(34.2)	(7.3)
Finance lease obligations	7.7%	2.5	1.2	0.8	0.5	–
At 31 December 2005		258.0	89.4	38.0	130.6	–
Floating		88.2	88.2	–	–	–
Fixed		169.8	1.2	38.0	130.6	–
At 31 December 2005		258.0	89.4	38.0	130.6	–

The above profiles exclude the effects of imputed interest on land payables as this represents an accounting transaction only, no actual interest is paid out of the Group.

Floating rate financial liabilities are linked to base rate in relation to bank overdrafts and to LIBOR for other loans.

*Credit risk*

The maximum exposure to credit risk at both 31 December 2006 and 31 December 2005 is represented by the carrying amount of each financial asset in the balance sheet. The Group has no substantial exposure to any individual third party. The maximum loss that would be suffered if another party failed to perform is £4.6m (2005: £1.0m). The assets are secured upon property, therefore management consider the debt to be low risk.

There is no significant concentration of credit risk at 31 December 2006 or 31 December 2005.

Certain land payables are secured upon land. No other collateral is held against financial assets of the Group.

*Currency risk*

All US and EU senior loan notes were swapped into Sterling on issue. The Group has no other significant foreign currency dealings.

After taking account of currency swaps the Group had no exposure to currency fluctuations as at 31 December 2006 (2005: £nil).

*Fair values*Financial assets

The carrying amount of financial assets equates to their fair value.

Financial liabilities

The fair value of the senior loan notes and their related hedging instruments is determined by discounting risk-adjusted expected future cash flows with application of current market foreign exchange rates.

The carrying amount of the remaining financial liabilities equates to their fair value.

## 21 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:

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payment £m	Imputed interest £m	Derivatives £m	Other temporary differences £m	Total £m
At 1 January 2005	1.6	19.9	1.2	1.0	(2.2)	(1.3)	20.2
(Charge)/credit to income	(0.2)	(0.1)	0.6	1.2	–	(0.3)	1.2
Credit to equity	–	2.3	2.9	–	1.9	–	7.1
Arising on corporate land purchase	–	–	–	–	–	(3.5)	(3.5)
At 1 January 2006	1.4	22.1	4.7	2.2	(0.3)	(5.1)	25.0
Credit/(charge) to income	0.1	(3.9)	1.0	0.5	(0.9)	0.3	(2.9)
Credit to equity	–	1.4	0.4	–	2.1	–	3.9
On acquisition of subsidiary	–	11.5	–	–	2.3	(5.5)	8.3
Other adjustments	–	–	–	–	–	2.6	2.6
<b>At 31 December 2006</b>	<b>1.5</b>	<b>31.1</b>	<b>6.1</b>	<b>2.7</b>	<b>3.2</b>	<b>(7.7)</b>	<b>36.9</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:

	2006 £m	2005 £m
Deferred tax assets	62.8	33.3
Deferred tax liabilities	(25.9)	(8.3)
	<b>36.9</b>	25.0

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	Derivatives £m	Other temporary differences £m	Total £m
At 1 January 2005	0.2	19.9	1.2	(1.7)	2.8	22.4
(Charge)/credit to income	(0.1)	(0.1)	0.6	–	(0.9)	(0.5)
Credit to equity	–	2.3	2.9	0.7	–	5.9
At 1 January 2006	0.1	22.1	4.7	(1.0)	1.9	27.8
Credit/(charge) to income	0.1	(2.0)	1.0	–	0.1	(0.8)
Credit to equity	–	1.4	0.4	2.0	–	3.8
Transfers to/from other Group companies	–	9.6	–	–	–	9.6
<b>At 31 December 2006</b>	<b>0.2</b>	<b>31.1</b>	<b>6.1</b>	<b>1.0</b>	<b>2.0</b>	<b>40.4</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:

	2006 £m	2005 £m
Deferred tax assets	40.4	28.8
Deferred tax liabilities	–	(1.0)
	<b>40.4</b>	27.8

## 22 CALLED UP SHARE CAPITAL

	2006 £m	2005 £m
Authorised		
365,000,000 (2005: 365,000,000) ordinary shares of 10p each	36.5	36.5
Allotted, called up and fully paid		
299,236,297 (2005: 295,074,003) ordinary shares of 10p each	29.9	29.5

The Company has one class of ordinary shares which carries no right to fixed income. The movement in share capital in the year represents the issue of 4,162,294 ordinary shares. All issued shares are fully paid.

During the year 2,874,490 ordinary shares were issued in lieu of dividends and a total of 1,287,804 ordinary shares were allotted, for consideration of £5.5m, in respect of the exercise of share options.

On 1 June 1998 the Persimmon 1998 Employee Benefit Trust (EBT) was established to hold shares under the terms of the trust deed until required to satisfy awards under the Long Term Incentive Plan ("LTIP") (see page 40). No shares were acquired or distributed for the LTIP during 2006. At 31 December 2006 the trust held 100,000 shares. Dividends on these shares have been waived. The market value of these shares at 31 December 2006 was £1.5m.

Persimmon (Share Scheme Trustees) Limited, a subsidiary company, made market purchases of 270,000 shares during 2006 at an average price of £12.52. This company held 499,456 shares at 31 December 2006, on which dividends have been waived. These shares are held in order to satisfy Bonus Share awards and their market value at 31 December 2006 was £7.6m. During 2006 this company transferred 418,463 shares to satisfy Bonus Share awards.

## 23 OPTIONS IN SHARES OF PERSIMMON PLC

Under the various share schemes, options and/or awards to subscribe for a total of 3,518,830 ordinary shares have been granted to employees (including full time Directors of the Company) and were outstanding on 31 December 2006 as follows:

*(a) Persimmon Plc 1997 Executive Share Option Scheme*

Number of shares	Exercise price per share	Normal dates of exercise
5,500	205.0p	Sep 2003 to Sep 2007
15,000	340.5p	Apr 2004 to Apr 2008
65,200	306.0p	Sep 2004 to Sep 2008
114,250	419.5p	Mar 2005 to Mar 2009
199,950		

*(b) Persimmon Plc 1997 Executive Share Option Plan*

Number of shares	Exercise price per share	Normal dates of exercise
16,200	306.0p	Sep 2004 to Sep 2011
38,550	419.5p	Mar 2005 to Mar 2012
54,750		

*(c) Persimmon Plc Synergy Incentive Plan 2006*

Number of shares	Price at date of award	Normal dates of exercise
193,750	1,336.0p	Feb 2009 to Aug 2009
581,250	1,336.0p	Feb 2010 to Aug 2010
775,000		

## 23 OPTIONS IN SHARES OF PERSIMMON PLC (CONTINUED)

*(d) Persimmon Plc Long Term Incentive Plan*

Number of shares	Price at date of award	Normal dates of exercise
27,500	537.5p	Sep 2006 to Mar 2007
382,800	617.5p	Mar 2007 to Sep 2007
2,750	643.0p	Sep 2007 to Mar 2008
330,334	746.5p	Mar 2008 to Sep 2008
322,666	1,331.0p	Mar 2009 to Sep 2009
1,066,050		

*(e) Persimmon Plc 1998 Savings Related Share Option Scheme*

Number of shares	Exercise price per share	Normal dates of exercise
25,732	436.0p	Dec 2006 to May 2007
451,235	525.0p	Dec 2007 to May 2008
456,995	667.0p	Dec 2008 to May 2009
416,825	1,050.0p	Dec 2009 to May 2010
1,350,787		

*(f) Beazer Discretionary Share Option Scheme 1994*

Number of shares	Exercise price per share	Normal dates of exercise
9,464	287.67p	Sep 2000 to Sep 2007
22,083	237.74p	Sep 2001 to Sep 2008
31,547		

*(g) Beazer Savings Related Share Option Scheme*

Number of shares	Exercise price per share	Normal dates of exercise
18,594	147.4p	May 2007 to Dec 2007

*(h) Westbury 1995 Executive Share Option Scheme*

Number of shares	Exercise price per share	Normal dates of exercise
2,001	745.60p	Apr 2006 to Apr 2013
1,549	745.64p	Apr 2006 to Apr 2013
1,874	984.32p	May 2007 to May 2014
9,141	984.50p	May 2007 to May 2014
3,098	984.71p	May 2007 to May 2014
700	985.50p	May 2007 to May 2014
2,944	1,001.81p	May 2008 to May 2015
845	1,002.91p	May 2008 to May 2015
22,152		

## 24 RECONCILIATION OF MOVEMENTS IN CAPITAL AND RESERVES

<b>Group</b>	Share capital £m	Share premium £m	Own shares £m	Hedge reserve £m	Consolidation <sup>□</sup> reserve £m	Retained earnings £m	Total shareholders' equity £m
Balance at 1 January 2005	28.9	221.2	(3.2)	5.2	281.4	872.1	1,405.6
Exercise of share options/share awards	0.2	8.4	(0.9)	–	–	(2.5)	5.2
Scrip dividends	0.4	(0.4)	–	–	–	29.7	29.7
Share option charge and taxation thereon	–	–	–	–	–	4.8	4.8
Valuation of currency swaps and taxation thereon	–	–	–	(4.6)	–	–	(4.6)
Movement in pension deficit and taxation thereon	–	–	–	–	–	(5.3)	(5.3)
Dividends approved and paid	–	–	–	–	–	(88.2)	(88.2)
Retained profits for the year	–	–	–	–	–	344.8	344.8
<b>Balance at 31 December 2005</b>	<b>29.5</b>	<b>229.2</b>	<b>(4.1)</b>	<b>0.6</b>	<b>281.4</b>	<b>1,155.4</b>	<b>1,692.0</b>
Exercise of share options/share awards	0.1	4.5	(1.0)	–	–	(1.4)	2.2
Scrip dividends	0.3	(0.3)	–	–	–	37.1	37.1
Share option charge and taxation thereon	–	–	–	–	–	8.5	8.5
Valuation of currency swaps and taxation thereon	–	–	–	(4.9)	–	–	(4.9)
Movement in pension deficit and taxation thereon	–	–	–	–	–	(3.3)	(3.3)
Dividends approved and paid	–	–	–	–	–	(96.7)	(96.7)
Retained profits for the year	–	–	–	–	–	396.4	396.4
<b>Balance at 31 December 2006</b>	<b>29.9</b>	<b>233.4</b>	<b>(5.1)</b>	<b>(4.3)</b>	<b>281.4</b>	<b>1,496.0</b>	<b>2,031.3</b>

<b>Company</b>	Share capital £m	Share premium £m	Own shares £m	Hedge reserve £m	Other <sup>□</sup> reserve £m	Retained earnings £m	Total shareholders' equity £m
Balance at 1 January 2005	28.9	221.2	(3.2)	4.0	4.6	157.1	412.6
Exercise of share options/share awards	0.2	8.4	(0.9)	–	–	(2.5)	5.2
Scrip dividends	0.4	(0.4)	–	–	–	29.7	29.7
Share option charge and taxation thereon	–	–	–	–	–	4.8	4.8
Valuation of currency swaps and taxation thereon	–	–	–	(1.7)	–	–	(1.7)
Movement in pension deficit and taxation thereon	–	–	–	–	–	(5.3)	(5.3)
Dividends approved and paid	–	–	–	–	–	(88.2)	(88.2)
Retained profits for the year	–	–	–	–	–	472.7	472.7
<b>Balance at 31 December 2005</b>	<b>29.5</b>	<b>229.2</b>	<b>(4.1)</b>	<b>2.3</b>	<b>4.6</b>	<b>568.3</b>	<b>829.8*</b>
Exercise of share options/share awards	0.1	4.5	(1.0)	–	–	(1.4)	2.2
Scrip dividends	0.3	(0.3)	–	–	–	37.1	37.1
Share option charge and taxation thereon	–	–	–	–	–	8.5	8.5
Valuation of currency swaps and taxation thereon	–	–	–	(4.6)	–	–	(4.6)
Movement in pension deficit and taxation thereon	–	–	–	–	–	(3.3)	(3.3)
Dividends approved and paid	–	–	–	–	–	(96.7)	(96.7)
Retained profits for the year	–	–	–	–	–	39.6	39.6
<b>Balance at 31 December 2006</b>	<b>29.9</b>	<b>233.4</b>	<b>(5.1)</b>	<b>(2.3)</b>	<b>4.6</b>	<b>552.1</b>	<b>812.6*</b>

\*Includes £60.0m of unrealised intra-group gains which are not distributable (2005: £63.6m).

□The Consolidation reserve and Other reserve arose prior to transition to IFRSs and are not distributable.

## 25 ACQUISITION OF SUBSIDIARY

On 17 January 2006, the Group gained control of Westbury plc. By 9 March 2006 the Group had acquired the remaining share capital of Westbury plc for a total cash consideration (including the preliminary investment – note 15) of £664.0m. Westbury plc is the parent company of a group of companies involved in house building. The transaction has been accounted for by the purchase method of accounting.

	Book value £m	Fair value £m
Acquiree's net assets at the acquisition date		
Intangible assets	43.1	61.9
Property, plant and equipment	17.3	16.4
Investment in jointly controlled entities	3.1	3.1
Deferred tax assets	13.5	30.0
Inventories	944.6	922.4
Cash	104.3	104.3
Bank overdrafts	(131.3)	(131.3)
Bank loans	(370.4)	(370.4)
Forward currency derivatives	(24.5)	(24.5)
Other receivables and payables	(94.9)	(114.6)
Retirement benefit obligation	(38.4)	(38.4)
Deferred tax liabilities	(2.2)	(21.7)
Net assets	464.2	437.2
Goodwill on acquisition		226.8
Consideration paid (including costs)		664.0
Loan notes issued as consideration		(13.4)
Net cash and cash equivalents acquired		27.0
Existing investment in Westbury plc shares (note 15)		(169.1)
Net cash outflow in year		508.5

During the year the Group acquired the remaining 50% interest in Wescott Holdings Limited.

Goodwill arising on the acquisition is attributable to the intrinsic value within acquired strategic land holdings which is realised upon satisfactory planning permission being obtained and sale of the land (note 13).

Westbury plc contributed £684.1m of revenue and £124.8m to gross profit for the period between the date of acquisition and the balance sheet date.

There would have been no material change in the figures reported above if the acquisition of Westbury plc had been completed on the first day of the financial year.

## 26 RECONCILIATION OF NET CASH FLOW TO NET DEBT

Group	2006 £m	2005 £m
Increase/(decrease) in net cash and cash equivalents	8.2	(71.7)
Decrease in debt and finance lease obligations	10.0	17.4
Decrease/(increase) in net debt from cash flows	18.2	(54.3)
Net debt acquired	(394.9)	–
New finance lease obligations	(1.9)	(1.4)
Non-cash movements	(17.4)	(16.3)
Increase in net debt	(396.0)	(72.0)
Net debt at 1 January	(268.2)	(196.2)
Net debt at 31 December	(664.2)	(268.2)

## 26 RECONCILIATION OF NET CASH FLOW TO NET DEBT (CONTINUED)

<b>Company</b>	<b>2006</b>	2005
	<b>£m</b>	£m
(Decrease)/increase in net cash and cash equivalents	<b>(99.5)</b>	43.0
(Increase)/decrease in debt and finance lease obligations	<b>(230.3)</b>	6.7
(Increase)/decrease in net debt from cash flows	<b>(329.8)</b>	49.7
New finance lease obligations	<b>(0.8)</b>	(0.3)
Non-cash movements	<b>(6.4)</b>	(2.4)
(Increase)/decrease in net debt	<b>(337.0)</b>	47.0
Net debt at 1 January	<b>(66.2)</b>	(113.2)
Net debt at 31 December	<b>(403.2)</b>	(66.2)

## 27 ANALYSIS OF NET DEBT

<b>Group</b>	<b>2006</b>	Cash flow	Acquisitions	Other non-cash movements	2005
	<b>£m</b>	£m	£m	£m	£m
Cash and cash equivalents	<b>18.9</b>	8.2	–	–	10.7
Bank overdrafts (note 18)	<b>(3.0)</b>	–	–	–	(3.0)
Net cash and cash equivalents	<b>15.9</b>	8.2	–	–	7.7
Bank loans	<b>–</b>	10.0	–	–	(10.0)
US and UK senior loan notes due within one year	<b>(48.8)</b>	20.9	–	(49.5)	(20.2)
US, UK and EU senior loan notes due after more than one year	<b>(509.1)</b>	(29.9)	(358.5)	101.6	(222.3)
Other loan notes due within one year	<b>(17.8)</b>	7.5	(11.9)	(13.4)	–
Forward currency swaps	<b>(101.5)</b>	–	(24.5)	(56.1)	(20.9)
Finance lease obligations	<b>(2.9)</b>	1.5	–	(1.9)	(2.5)
Net debt at 31 December	<b>(664.2)</b>	18.2	(394.9)	(19.3)	(268.2)

<b>Company</b>	<b>2006</b>	Cash flow	Other non-cash movements	2005
	<b>£m</b>	£m	£m	£m
Cash and cash equivalents	<b>0.5</b>	(22.9)	–	23.4
Bank overdrafts (note 18)	<b>(76.6)</b>	(76.6)	–	–
Net cash and cash equivalents	<b>(76.1)</b>	(99.5)	–	23.4
Bank loans	<b>–</b>	10.0	–	(10.0)
US senior loan notes due within one year	<b>(13.1)</b>	16.7	(9.6)	(20.2)
US, UK and EU senior loan notes due after more than one year	<b>(272.1)</b>	(250.7)	33.6	(55.0)
Other loan notes due within one year	<b>(6.6)</b>	(6.6)	–	–
Forward currency swaps	<b>(34.3)</b>	–	(30.4)	(3.9)
Finance lease obligations	<b>(1.0)</b>	0.3	(0.8)	(0.5)
Net debt at 31 December	<b>(403.2)</b>	(329.8)	(7.2)	(66.2)

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

## 28 CAPITAL COMMITMENTS

At 31 December 2006 there were contracted capital commitments to purchase property, plant and equipment amounting to £0.2m (2005: £0.1m) in the Group and contracted capital commitments in the Company of £0.1m (2005: £0.1m).

## 29 CONTINGENT LIABILITIES

In the normal course of business the Group has given counter indemnities in respect of performance bonds and financial guarantees.

The Group makes payments when entering into licence agreements for the right to build and sell houses on land owned by third parties. Upon legal completion, the house purchaser makes a land payment to the third party and the balance of the sales proceeds is paid to the Group. In some instances the Group has guaranteed certain land payments at appropriate dates, the payment of which is contingent upon the build programme not progressing according to plan.

## 30 OPERATING LEASES

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

	2006	2005
<b>Group</b>	<b>£m</b>	<b>£m</b>
Expiring within one year	0.9	1.0
Expiring in the second to fifth years inclusive	7.5	4.8
Expiring after five years	26.6	18.9
	<b>35.0</b>	<b>24.7</b>
<b>Company</b>		
Expiring within one year	0.1	0.1
Expiring in the second to fifth years inclusive	0.4	0.4
Expiring after five years	–	–
	<b>0.5</b>	<b>0.5</b>

## 31 EMPLOYEE BENEFITS

*Retirement benefit obligation*

At 31 December 2006 the Group had three main employee pension schemes. Actuarial gains and losses are recognised in full through the statement of recognised income and expense in accordance with IAS 19 (Revised). All pension scheme costs are recognised in the income statement and are reported as operating expenses. Expected costs in relation to current employees are charged to the relevant operating business. All other pension scheme costs are borne by the Company.

*Persimmon Group Stakeholder Scheme*

The Persimmon Group Stakeholder Scheme is available to new salaried employees. The Group matches employees' own contributions to their individual Stakeholder plans, up to 9% of basic salary depending on the length of service. Group contributions to this scheme of £0.9m (2005: £0.7m) are expensed through the income statement 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 on 30 September 2001. The assets of the Persimmon Scheme are held separately from those of the Group. The most recent actuarial valuation of the Persimmon Scheme was carried out as at 1 January 2005 by a professionally qualified actuary and adopted the projected unit method. Under the projected unit method the current service cost, as a percentage of Persimmon Scheme members' pensionable pay, will increase as the active members approach retirement. Standard 1992 mortality tables, appropriately adjusted and applying a short cohort effect, have been used as a basis to calculate the future liability.

*Westbury Schemes*

On acquisition of Westbury plc the Group assumed control of two defined benefit schemes, the Westbury Pension Scheme (the "Westbury Scheme") and the Prowting Pension Scheme (the "Prowting Scheme").

Subsequently the Westbury Scheme has been merged with the Persimmon Scheme. The Prowting Scheme continues to operate separately. It was closed to new members prior to the acquisition. The assets of the Prowting Scheme are held separately from those of the Group. The most recent completed actuarial valuation of the Prowting Scheme was carried out as at 31 March 2003 by a professionally qualified actuary and adopted the projected unit method. Under the projected unit method the current service cost, as a percentage of Prowting Scheme members' pensionable pay, will increase as the active members approach retirement. Standard 1992 mortality tables, appropriately adjusted and applying a short cohort effect, have been used as a basis to calculate the future liability.

In addition, the Group also acquired employees who were members of the Westbury Group Personal Pension Scheme (GPP), which is a defined contribution scheme. The Group makes contributions to the individual member plans at rates between 3% and 10% of basic salary, depending on the employees' contributions and age. Group contributions to this scheme of £0.1m were expensed through the income statement as incurred. From 1 April 2007 the Group will cease contributions to the GPP and members will be invited to join the Persimmon Group Stakeholder Scheme.

## 31 EMPLOYEE BENEFITS (CONTINUED)

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

	2006 % pa	2005 % pa
Discount rate	5.10	4.75
General pay increases	3.90	3.60
Inflation assumption	2.90	2.60
Pension increases – Limited Price Indexation	2.90	2.60
Expected return on Scheme assets:		
Equities	8.5	7.5
Bonds	4.8	4.5
Property	7.5	–
Cash	5.2	4.5

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

	2006 %	2005 %
Equities	71	78
Bonds	26	21
Property	2	–
Cash	1	1

The amounts recognised in income are as follows:

	2006 £m	2005 £m
Current service cost	7.1	5.2
Curtailed credit	(1.2)	–
Past service credit	(5.5)	–
Interest cost	16.4	10.7
Expected return on scheme assets	(15.5)	(8.4)
Total (included in staff costs)	1.3	7.5
Actuarial loss	4.7	7.6
Total charge recognised in the SORIE in the period	4.7	7.6
Total defined benefit scheme costs recognised in the period	6.0	15.1

The 2006 pensions charge includes a non-recurring credit of £5.5m in relation to the impact of introducing an allowance for cash commutation of pensions which has reduced the past service liabilities of the Persimmon Plc Pension and Life Assurance Scheme.

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

The cumulative charge to the SORIE since the adoption of IAS 19 (Revised) is £23.4m (2005: £18.7m).

	2006 £m	2005 £m
Expected return on scheme assets	15.5	8.4
Actuarial (loss)/gain on scheme assets	(0.8)	18.1
Actual return on scheme assets	14.7	26.5

## 31 EMPLOYEE BENEFITS (CONTINUED)

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

	2006 £m	2005 £m
Present value of funded obligations	360.8	238.1
Fair value of scheme assets	(257.1)	(164.6)
Deficit in the scheme and net liability in the balance sheet	103.7	73.5

A deferred tax asset totalling £31.1m (2005: £22.1m) has been recognised on the balance sheet in relation to the net pension obligation.

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

	2006 £m	2005 £m
At 1 January	73.5	66.3
Acquired deficit	38.4	–
Total expense recognised in the period	6.0	15.1
Company contributions paid in the period	(14.2)	(7.9)
At 31 December	103.7	73.5

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

	2006 £m	2005 £m
At 1 January	238.1	198.9
Obligation assumed on acquisition	109.7	–
Current service cost	7.1	5.2
Interest cost	16.4	10.7
Actuarial losses on liabilities	3.9	25.7
Past service credit	(5.5)	–
Gain on curtailment	(1.2)	–
Contributions by members	0.4	1.4
Benefits paid	(8.1)	(3.8)
At 31 December	360.8	238.1

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

	2006 £m	2005 £m
At 1 January	164.6	132.6
Assets assumed on acquisition	71.3	–
Expected return	15.5	8.4
Actuarial (losses)/gains on assets	(0.8)	18.1
Contributions	14.6	9.3
Benefits paid	(8.1)	(3.8)
At 31 December	257.1	164.6

## 31 EMPLOYEE BENEFITS (CONTINUED)

A three year history of experience adjustments is as follows:

	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	(360.8)	(238.1)	(198.9)
Fair value of scheme assets	257.1	164.6	132.6
Deficit in the scheme	(103.7)	(73.5)	(66.3)
Experience adjustments on scheme liabilities	0.8	2.4	3.9
Percentage of scheme liabilities	0.2%	1.0%	2.0%
Experience adjustments on scheme assets	(0.8)	18.1	0.4
Percentage of scheme assets	0.3%	11.0%	0.1%

The expected employer contributions to the defined benefit schemes during 2007 is £12.6m.

*Share-based payments*

The Group operates a number of share option schemes, the details of which are provided below. All schemes are equity-settled. In accordance with IFRS 2, only costs relating to options issued after 7 November 2002 have been charged to the income statement.

The Save As You Earn Scheme is an HMRC approved scheme open to all employees. 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.

The long term incentive plan (LTIP) is also an executive share scheme. Vesting of options granted under the LTIP is dependant on the Group's return on capital employed and its total shareholder return versus a comparator group of house building companies. These conditions have been factored into the option value applied.

During 2006 awards were granted to executive Directors under the Group's Synergy Incentive Plan. Vesting of awards is dependent on a performance condition, details of which are set out on page 45.

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

	2006		2005	
	Save As You Earn Scheme		Save As You Earn Scheme	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at the beginning of the year	1,471,511	543.3	1,798,797	413.2
Granted during the year	421,609	1,050.0	526,647	667.0
Forfeited during the year	(141,624)	(587.8)	(197,788)	(436.6)
Exercised during the year	(382,115)	(433.4)	(656,145)	(317.9)
Outstanding at the end of the year	1,369,381	725.4	1,471,511	543.3
Exercisable at the end of the year	25,732	436.0	27,965	352.0

	2006		2005	
	Executive Share Schemes		Executive Share Schemes	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at the beginning of the year	634,511	348.8	1,841,078	348.7
Granted during the year	65,173	915.7	–	–
Forfeited during the year	–	–	(30,000)	(419.5)
Exercised during the year	(391,285)	(400.6)	(1,176,567)	(346.8)
Outstanding at the end of the year	308,399	362.3	634,511	348.8
Exercisable at the end of the year	289,797	365.3	604,511	339.8

## 31 EMPLOYEE BENEFITS (CONTINUED)

	<b>2006</b>	2005
	<b>Long Term Incentive Plan</b>	Long Term Incentive Plan
	<b>Number of</b>	Number of
	<b>shares under option</b>	shares under option
Outstanding at the beginning of the year	1,289,227	1,535,407
Granted during the year	330,916	349,124
Forfeited during the year	(39,689)	(43,155)
Exercised during the year	(514,404)	(552,149)
Outstanding at the end of the year	1,066,050	1,289,227
Exercisable at the end of the year	27,500	–

	<b>2006</b>	2005
	<b>Synergy Incentive Plan</b>	Synergy Incentive Plan
	<b>Number of</b>	Number of
	<b>shares under option</b>	shares under option
Outstanding at the beginning of the year	–	N/A
Granted during the year	775,000	N/A
Outstanding at the end of the year	775,000	N/A
Exercisable at the end of the year	–	N/A

The weighted average share price at the date of exercise for share options exercised during the period was 1,357.6p. The options outstanding at 31 December 2006 had a range of exercise prices from zero to 1,050.0p and a weighted average remaining contractual life of 2.3 years.

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

	SAYE 2006	LTIP March 2006	Synergy Incentive Plan 2006 Tranche 1	Synergy Incentive Plan 2006 Tranche 2
Grant date	13 October 2006	10 March 2006	10 March 2006	10 March 2006
Risk free interest rate	4.97%	4.44%	4.21%	4.21%
Exercise price	1,050.0p	nil	nil	nil
Share price at date of grant	1,338.0p	1,336.0p	1,336.0p	1,336.0p
Expected dividend yield	3.00%	3.00%	3.00%	3.00%
Expected life	1.2 x exercise price	3 years	3 years	4 years
Date vested	1 December 2009	10 March 2009	27 February 2009	27 February 2010
Expected volatility	25%	27%	27%	27%
Fair value of option	391.0p	1,218.0p	1,160.0p	1,126.0p

Expected volatility was determined by calculating the historical 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 2006, the Group and Company recognised total expenses of £5.3m (2005: £2.0m) in relation to equity-settled share-based payment transactions in the income statement. These option charges have been credited against the retained earnings reserve. All share-based payments are expensed by the Company. The Company makes management charges to its subsidiaries which include the cost of providing this benefit to their employees.

## 32 DETAILS OF GROUP UNDERTAKINGS

The Directors set out below information relating to the major subsidiary undertakings at 31 December 2006. All of these companies operate and are incorporated in Great Britain. 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 $\Delta$	Charles Church Developments Limited $\dagger$	Westbury Limited $**$
Persimmon Holdings Limited $*$	Westbury Homes (Holdings) Limited $^{\circ}$	Beazer Group Limited $**$

$\Delta$ The shares of this company are held by Persimmon Holdings Limited.

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

$\dagger$ The shares of this company are held by The Charles Church Group Plc.

$**$ The shares of these companies are held by Persimmon Plc.

$^{\circ}$ The shares of this company are held by Prowting Limited & Westbury Limited.

## 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 4. Detailed disclosure of the individual remuneration of Board members is included in the Remuneration Report on pages 38 to 45. There is no difference between transactions with key management personnel of the Company and the Group.

There have been no other transactions between key management personnel and the Company.

The Company has entered into transactions with its subsidiary undertakings in respect of the following:

- Internal funding loans
- Provision of Group services (including Senior Management, IT, accounting, marketing, purchasing and conveyancing services)

Recharges are made to subsidiary undertakings for Group loans, based on funding provided, at an interest rate linked to the prevailing base rate. 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.

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

The amount outstanding from subsidiary undertakings to the Company at 31 December 2006 totalled £548.2m (2005: £644.7m). Amounts owed to subsidiary undertakings by the Company at 31 December 2006 totalled £2,528.2m (2005: £1,609.4m).

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

Certain subsidiary undertakings have entered into guarantees of external bank loans and overdrafts of the Company. The total value of such borrowings at 31 December 2006 was £285.2m (2005: £85.2m). The Company has entered into guarantees over bank loans and borrowings of the subsidiary undertakings. The total value of such borrowings at 31 December 2006 was £276.9m (2005: £193.7m).

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2005: £nil).