

Notes to the Financial Statements

For the year ended 31 December 2008

1 Adoption of new and revised standards

In the current year, there is only one relevant Interpretation issued by the International Financial Reporting Interpretations Committee, endorsed by the European Union and effective for the current period. This is IFRIC 11: IFRS 2 – Group and Treasury Share Transactions. The adoption of this Interpretation has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations which have not been applied in these financial statements were in issue and endorsed by the European Union but not yet effective:

IAS 1 (Revised) Presentation of financial statements.
IAS 23 (Revised) Borrowing costs.
Amendment to IAS 32 Financial Instruments: Presentation.
Amendment to IFRS 2 Share Based Payments.
IFRS 8 Operating Segments.
IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

The Directors do not expect the adoption of these Standards and Interpretations will have a material impact on the financial statements of the Group except for IAS 23 (Revised) should the Group undertake the acquisition, construction or production of a qualifying asset.

2 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 2008 (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 where stated below.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described 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 Group finances its operations through a combination of shareholders' funds, bank loans, overdrafts and private placement loan notes.

The current economic conditions create uncertainty particularly over the level of demand for the Group's products and the availability of adequate financing. The Group has a forward order book with numerous customers and long term contracts with a number of Housing Associations throughout the United Kingdom. Throughout 2008 the Group operated within all of its banking covenants. However, with the progressive deterioration in market conditions during 2008,

the Directors assessed that the Group's liquidity risk had increased in relation to compliance with the interest cover covenant (based on income statement) as set out in the terms of the Company's existing credit facilities. Accordingly, the Directors have taken pre-emptive action to: amend certain covenants including but not limited to, the interest cover covenant (now based on operating cash flows), conditions within the Group's funding arrangements and to reduce the level of committed facilities to reflect the Group's forecast requirements.

On 27 February 2009, the Company reached agreement with its syndicate of banks providing the current revolving credit facility on amendments to the amount, terms and conditions of its existing credit facilities. The Company has also agreed a new revolving credit facility. This Forward Start Facility of £322m will become available for drawing on 24 November 2010 on the maturity of the existing facility and matures on 31 March 2012. Full documentation has been signed relating to these facilities and the amended terms and conditions become final upon the private placement investor documentation being signed.

In addition, on 27 February 2009, the Company reached agreement in principle with its private placement investors on amendments to the terms and conditions of its existing credit facilities. The full amendment documentation is currently in the process of being finalised, and whilst not without risk the Directors believe that this process will be completed promptly. The Directors remain confident that should the need arise alternative funding arrangements can be made.

Taken together, the Company will have committed funding lines of £1,085m at the outset of these arrangements (26 February 2009: £1,235m), reducing to £560m during 2011. On the basis of the Company's working capital projections, the Directors believe that these new facilities provide ample headroom and support for the continuing effective management of the business.

As a consequence of the above agreements the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making due enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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, liabilities and contingent liabilities are recognised at their fair value at the acquisition date.

2 Principal 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 allocated to the strategic land holdings is recognised as an asset, being the intrinsic value within these holdings in the acquired entities, which is realised upon satisfactory planning permission being obtained and sale of the land. Goodwill is subsequently measured at cost less any accumulated impairment losses.

Goodwill is assessed for impairment at each reporting date by performing a value in use calculation, using a discount factor based on the pre-tax rate implicit in current market transactions of similar assets, covering the expected period of realisation and considering current market conditions. It is tested by reference to the proportion of legally completed plots in the period compared to the total plots which are expected to receive satisfactory planning permission in the remaining acquired strategic land holdings, taking account of historic experience and market conditions and comparing the carrying value of the assets with their recoverable amounts. Any impairment loss is recognised immediately in the 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 15. 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, 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. Part exchange property resales are included within cost of sales.

Government grants

Grants are included within work in progress in the balance sheet and are credited to the income statement over the life of the developments to which they relate. Grants related to income are deducted from the related expense in the income statement.

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 income statement as incurred.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred based on the effective rate.

Exceptional items

Exceptional items comprise items of income and expense that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to the disclosure of income and expense as exceptional items include, but are not limited to, reorganisation of operations and economic events which necessitate a review of asset valuations.

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 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 a defined contribution scheme for employees who are not members of a defined benefit scheme. The liability in respect of the defined benefit schemes is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the 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.

2 Principal accounting policies (continued)

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 enacted or substantially enacted tax rates, and adjusted for any tax payable in respect of previous years.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Assets financed by means of a finance lease are treated as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. 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 estimated useful lives on the following bases:

Plant, fixtures and fittings – 3 to 5 years.

Freehold buildings – 50 years.

No depreciation is provided on freehold land.

Investments

Interests in subsidiary undertakings are 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. Land with planning includes undeveloped land and land under development. 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.

Jointly controlled entities

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

Trade and other receivables

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

Receivables on extended terms granted as part of a sales transaction are secured by way of a legal charge on the respective property, and are stated at fair value as described in note 19. Gains and losses arising from changes in fair value are recognised directly in equity in retained earnings, with the exceptions of impairment losses and interest calculated using the “effective interest rate” method, which are recognised directly in the income statement. Where the asset is disposed of, or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Expenditure relating to forward land, including options and fees, is held within trade and other receivables until the option is exercised and the land acquired following the securing of planning permission, at which time the amount is transferred to inventories. 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.

Derivative financial instruments

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

The Group 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 such gains and losses are recognised in the income statement.

Fair value hedging instruments are held at fair value in the balance sheet with gains and losses recognised through the income statement. These are offset against gains and losses on the hedged item insofar as the hedges are effective.

2 Principal accounting policies (continued)

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. The discount to nominal value is amortised over the period to settlement and charged to finance costs.

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 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. 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 consolidated cash and overdraft figures.

Interest bearing borrowings

Interest bearing borrowings are carried at amortised cost unless hedged using fair value hedges. Those interest bearing borrowings hedged using fair value hedges are carried at fair value determined with reference to discounted risk-adjusted expected future cash flows and application of current foreign market exchange rates.

Dividends

Dividends receivable from subsidiaries are accounted for on a cash basis, once approved by the shareholders of the subsidiary companies.

Own shares held

The Group may acquire holdings in its own shares either directly or via employee benefit trusts. The acquisition cost of such shares (including associated purchase costs) is treated as a deduction from retained earnings. Such shares may be used in satisfaction of employee options or rights, in which case the cost of such shares is reversed from the profit reserves on a 'first in first out' basis.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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.

In the light of the deterioration in the UK housing market for the year ended 31 December 2008, the Group conducted a review of inventory and write downs have been made where the carrying value exceeded the lower of cost and net realisable value. The review was conducted on a site by site basis, using valuations that incorporated selling price reductions, based on local management and the Board's assessment of market conditions existing at the balance sheet date. If the decline in the UK market exceeds management's expectations then further impairments of land and work in progress may be necessary.

Goodwill

The impairment testing of goodwill is substantially dependent upon the ability of the Group to successfully progress its strategic land holdings. The assumptions on which this estimate is based may be undermined by any significant changes in the current planning regime, or adverse economic conditions in the United Kingdom. The carrying amount of goodwill at the Balance Sheet date was £203.6m with an impairment of £202.8m 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.

Pensions

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

Investment in subsidiaries

Investments in subsidiaries are stated at the lower of cost and net realisable value, which is dependent upon management assessment of future trading activity and is therefore subject to a degree of inherent uncertainty. The carrying amount of investments in the Company's balance sheet is £3,586.2m with an impairment of £281.7m recognised during the year.

Notes to the Financial Statements continued

4 Principal activities

The Group uses business as the basis for primary segmentation. Operations are carried out within one business segment which is housebuilding. No additional business segment information is required to be provided. The Group's secondary segment is geography. It operates in one geographical segment, the United Kingdom; therefore no additional geographical segment information is required to be provided.

5 Revenue

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

	2008 £m	2007 £m
Sale of goods:		
Nominal value of consideration	1,764.9	3,014.9
Discount to future receipts	(9.8)	–
	1,755.1	3,014.9
Other operating income	21.4	40.1
Finance income	10.4	1.9
	1,786.9	3,056.9

Sale of goods includes £231.5m (2007: £393.6m) of revenue generated where the sale has been achieved using part exchange incentives.

6 Exceptional items

Exceptional items are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of the financial performance and significantly distort the comparability of financial performance between accounting periods. Items of income or expense that are considered by management for designation as exceptional include such items as significant restructuring, write-downs of current assets and impairments of non-current assets.

	2008 £m	2007 £m
Cost of sales:		
Inventory impairments (i)	652.3	–
Asset impairment and write-offs (ii)	35.9	–
Operating expenses:		
Restructuring costs (iii)	21.9	–
Asset impairment (iv)	201.0	–
Exceptional costs	911.1	–
Finance income:		
Other interest receivable (v)	(6.3)	–
Exceptional items before tax	904.8	–

(i) At 30 June 2008, the Group conducted a review of the net realisable value of its inventory carrying values which resulted in a charge of £40.0m. In the light of the continuing deterioration in the UK housing market a further review was undertaken. This has resulted in a further impairment of £612.3m. Further details are given in note 18.

(ii) At 30 June 2008, a review of trade and other receivables resulted in a write-off of £9.0m in relation to costs and fees incurred in relation to the withdrawal from land purchase contracts. In the period to 31 December 2008, a further review of trade and other receivables resulted in impairments and write-offs of £26.9m. Further details are given in note 19.

(iii) At 30 June 2008, the Group had incurred £15.0m in relation to reorganising and restructuring the business. At 31 December 2008, restructuring costs comprise staff redundancy and contract severance costs and costs related to office closures of £21.9m.

(iv) At 31 December 2008, the Group conducted an impairment review of its goodwill as explained in note 15. This resulted in an impairment charge of £202.8m of which £201.0m is considered exceptional.

(v) Interest receivable represents monies due following the receipt of tax repayments.

The cash cost of exceptional items in 2008 is £12.1m. There were no exceptional items in 2007.

Notes to the Financial Statements continued

7 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 individual remuneration, pension entitlements and share options, for those Directors who served during the year, are given in the Remuneration Report on pages 28 to 34. Summary key management remuneration is as follows:

	2008 £m	2007 £m
Short-term employee benefits	3.3	6.9
Post-employment benefits	0.2	0.6
Other long-term benefits	–	0.3
Share-based payments	3.3	4.1
	6.8	11.9

No termination benefits were paid to key management personnel.

8 Employees

Group

The average monthly number of persons (including executive Directors) employed by the Group during the year was 3,980 (2007: 5,501).

	2008 £m	2007 £m
Staff costs (for the above persons):		
Wages and salaries	114.5	170.3
Social security costs	11.7	17.2
Pensions charge	3.7	7.7
Share-based payments	4.4	6.0
	134.3	201.2

The above amounts exclude redundancy payments, which are disclosed separately within exceptional items (note 6).

The Group also uses the services of a substantial number of self employed labour only site operatives.

The pensions charge for the year is stated net of a curtailment credit of £2.1m.

Company

The average monthly number of persons (including executive Directors) employed by the Company during the year was 196 (2007: 223).

	2008 £m	2007 £m
Staff costs (for the above persons):		
Wages and salaries	8.5	18.5
Social security costs	1.3	2.4
Pensions credit	(3.4)	(0.8)
Share-based payments	4.4	6.0
	10.8	26.1

The pensions credit for the year includes a curtailment credit of £2.1m.

Notes to the Financial Statements continued

9 Net finance costs

	Before exceptional items £m	Exceptional items £m	2008 £m	2007 £m
Recognised in income statement				
Other interest receivable	4.1	6.3	10.4	1.9
Finance income	4.1	6.3	10.4	1.9
Interest expense on financial liabilities	62.2	–	62.2	63.2
Imputed interest on deferred land payables	5.6	–	5.6	6.4
Change in the fair value of cash flow hedges transferred from equity	2.2	–	2.2	2.4
Interest expense on financial liabilities	70.0	–	70.0	72.0
Other interest expense	5.8	–	5.8	2.1
Finance cost	75.8	–	75.8	74.1
Net finance cost	71.7	6.3	65.4	72.2
Recognised in equity				
Change in the fair value of cash flow hedges transferred to income statement	2.2	–	2.2	2.4
Effective changes in fair value of cash flow hedges	(3.0)	–	(3.0)	(0.9)
Redesignation of cash flow hedges as fair value hedges	–	–	–	10.4
	(0.8)	–	(0.8)	11.9

All amounts recognised in equity have been taken to the hedge reserve (note 25).

There was no hedging ineffectiveness in the period.

Notes to the Financial Statements continued

10 (Loss)/profit from operations

	2008	2007
	£m	£m
(Loss)/profit from operations is stated after charging/(crediting):		
Staff costs (note 8)	134.3	201.2
Exceptional items (note 6)	911.1	–
Profit on sale of land holdings	(12.3)	(31.0)
Government grants	(4.6)	–
Rent receivable	(2.3)	(1.6)
Profit on sale of property, plant and equipment	(0.7)	(1.0)
Depreciation:		
– owned assets	7.8	8.8
– assets held under finance leases	0.9	1.0
Amortisation of intangible assets	0.3	0.2
Impairment of intangible assets – utilisation of strategic land holdings	1.8	2.4
Operating lease charges	7.1	11.7
Amounts receivable by auditors and their associates in respect of:		
	2008	2007
	£'000	£'000
Audit of financial statements pursuant to legislation	220	240
Tax services	74	293
Corporate finance services	26	–
Other services	9	23
	329	556

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 £17,000 (2007: £84,834).

Notes to the Financial Statements continued

11 Tax

	Before exceptional items £m	Exceptional items £m	2008 £m	2007 £m
Current tax (credit)/expense:				
UK corporation tax	38.9	(38.6)	0.3	181.5
Adjustments in respect of prior years	(48.4)	(134.3)	(182.7)	(11.0)
	(9.5)	(172.9)	(182.4)	170.5
Deferred tax expense/(credit) (note 23):				
Origination and reversal of temporary differences	0.7	(2.8)	(2.1)	(1.8)
Adjustments in respect of prior years	29.5	–	29.5	0.5
	30.2	(2.8)	27.4	(1.3)
Total income tax (credit)/expense in income statement	20.7	(175.7)	(155.0)	169.2

The prior year credit relates primarily to the carry back of tax losses from 2008 to 2007.

Reconciliation of effective tax rate

	Before exceptional items		Exceptional items		2008	2008	2007	2007
	%	£m	%	£m	%	£m	%	£m
(Loss)/profit before tax		124.8		(904.8)		(780.0)		582.7
Tax calculated at UK corporation tax rate	28.5	35.6	(28.5)	(257.9)	(28.5)	(222.3)	30.0	174.8
Accounting base cost not deductible for tax purposes	0.2	0.2	0.1	0.9	0.1	1.1	0.2	1.3
Goodwill impairment	0.4	0.5	6.3	57.3	7.4	57.8	0.1	0.7
Losses carried back	–	–	14.1	127.5	16.3	127.5	–	–
Losses carried forward	0.2	0.3	3.4	30.8	4.0	31.1	–	–
Expenditure not allowable for tax purposes	2.4	3.0	–	–	0.4	3.0	0.5	2.9
Adjustments in respect of prior years	(15.1)	(18.9)	(14.8)	(134.3)	(19.6)	(153.2)	(1.8)	(10.5)
Effective tax rate and tax (credit)/expense for the year	16.6	20.7	(19.4)	(175.7)	(19.9)	(155.0)	29.0	169.2

Deferred tax recognised directly in equity

	2008 £m	2007 £m
Relating to equity-settled transactions	0.7	3.2
Relating to actuarial losses/gains on pension schemes	11.6	12.0
Relating to hedged senior loan notes	(0.3)	3.6
	12.0	18.8

12 (Loss)/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 loss for the financial year was £204.7m (2007: profit of £17.7m).

Notes to the Financial Statements continued

13 Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the period:		
2007 final dividend paid of 32.7p (2006: 32.7p)	98.1	97.7
2008 interim dividend paid of 5.0p (2007: 18.5p)	15.0	55.9
	113.1	153.6
2008 no final dividend proposed (2007: 32.7p)	–	98.1

The scrip dividend scheme ceased after payment of the 2006 final dividend and has been replaced by a Dividend Reinvestment Plan (DRIP). Under the scrip dividend scheme, £nil of the 2007 final dividend (2006 final: £39.5m) and £nil of the 2008 interim dividend (2007 interim: £nil) were settled by way of shares. These amounts have been credited to retained earnings (note 25).

14 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, the Employee Benefit Trust (see note 24) and treasury shares, all of 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 potentially dilutive ordinary shares from the start of the accounting period. The Company has only one category of potentially dilutive ordinary shares being 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. In accordance with IAS 33, potential ordinary shares are only dilutive when their conversion to ordinary shares would decrease earnings per share or increase the loss per share from continuing operations. Diluted earnings per share is calculated by dividing earnings by the diluted weighted average number of shares.

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

	2008	2007
Basic earnings per share	(208.3p)	137.5p
Underlying basic earnings per share	35.3p	138.3p
Diluted earnings per share	(208.3p)	136.8p
Underlying diluted earnings per share	35.2p	137.6p

a) Earnings

	2008 £m	2007 £m
Underlying earnings attributable to shareholders	105.9	415.9
Exceptional items net of related taxation (including exceptional intangible asset impairment)	(729.1)	–
Goodwill impairment – utilisation of strategic land holdings	(1.8)	(2.4)
Earnings attributable to shareholders	(625.0)	413.5

b) Weighted average share capital

	Weighted average number of ordinary shares 2008	Weighted average number of ordinary shares 2007
For basic earnings per share	300,033,700	300,673,519
Options and awards	985,716	1,539,446
For diluted earnings per share	301,019,416	302,212,965

Notes to the Financial Statements continued

15 Intangible assets

Group	Goodwill £m	Brand £m	Know how £m	Total £m
Cost				
At 1 January 2007, 1 January 2008 and 31 December 2008	408.8	60.0	1.9	470.7
Accumulated impairment losses/amortisation				
At 1 January 2007	–	–	0.3	0.3
Impairment losses for the year – utilisation of strategic land holdings	2.4	–	–	2.4
Amortisation charge for the year	–	–	0.2	0.2
At 1 January 2008	2.4	–	0.5	2.9
Impairment losses for the year – utilisation of strategic land holdings	1.8	–	–	1.8
Impairment losses for the year – exceptional	201.0	–	–	201.0
Amortisation charge for the year	–	–	0.3	0.3
At 31 December 2008	205.2	–	0.8	206.0
Carrying amount				
At 31 December 2008	203.6	60.0	1.1	264.7
At 31 December 2007	406.4	60.0	1.4	467.8

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. £50.0m of this amount represented 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 remainder of goodwill is allocated to acquired strategic land holdings and is tested annually for impairment.

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolated for four years, to form the basis of the Group's five year business plan. When performing the impairment review of the brands, the relevant retraction/growth rates included therein vary between –9% to +18% (2007: nil to 2%), reflecting the current volatility of the UK housing market. The retraction/growth rates in relation to the impairment review of goodwill allocated to strategic land holdings vary between –6% to +8% (2007: nil to 2%).

After this period the retraction/growth rates applied to the cash flow forecasts vary between nil and 4% 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 7.0% and 10.0% (2007: 7.5% and 9.5%) over the forecast period.

At the beginning of the financial year the fair value of goodwill was in excess of its book value. Due to the deterioration in the UK housing market and the consequential impact of falling revenues on land values, at the year end the fair value is below book value.

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 £1.8m (2007: £2.4m). The effect of testing goodwill for impairment in the manner set out is that the goodwill will be completely impaired once the final plot that management expects to receive a satisfactory planning permission, is sold.

As a result of the 2008 impairment review, the Group has an exceptional impairment charge against the goodwill arising from the purchase of Westbury plc of £188.0m and the Charles Church brand value of £13.0m, which have been recognised in the income statement.

On concluding the annual impairment testing, there remains £126.3m and £38.1m of Beazer and Westbury goodwill allocated to strategic land holdings and £37.0m allocated to the Charles Church brand. In addition, there is £60.0m of carrying value in relation to the Westbury brand. The remaining £2.2m represents goodwill arising on acquisitions before the date of transition to IFRSs.

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

Due to the deterioration in the UK housing market the likelihood of impairment losses in the future has increased.

Notes to the Financial Statements continued

15 Intangible assets (continued)

Company	Trademarks £m
Cost	
At 1 January 2007, 1 January 2008 and 31 December 2008	5.0
Amortisation	
At 1 January 2007	0.8
Charge for the year	0.2
At 1 January 2008	1.0
Charge for the year	0.3
At 31 December 2008	1.3
Carrying amount	
At 31 December 2008	3.7
At 31 December 2007	4.0

16 Property, plant and equipment

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2007	26.8	43.8	10.9	81.5
Additions	2.1	9.1	1.1	12.3
Disposals	(3.4)	(3.3)	(0.3)	(7.0)
At 1 January 2008	25.5	49.6	11.7	86.8
Additions	4.5	2.5	0.5	7.5
Disposals	(0.3)	(4.8)	(0.2)	(5.3)
At 31 December 2008	29.7	47.3	12.0	89.0
Accumulated depreciation				
At 1 January 2007	1.1	23.1	8.4	32.6
Charge for the year	0.5	7.8	1.5	9.8
Disposals	(0.5)	(2.6)	(0.3)	(3.4)
At 1 January 2008	1.1	28.3	9.6	39.0
Charge for the year	0.5	7.0	1.2	8.7
Disposals	–	(3.6)	(0.2)	(3.8)
At 31 December 2008	1.6	31.7	10.6	43.9
Carrying amount				
At 31 December 2008	28.1	15.6	1.4	45.1
At 31 December 2007	24.4	21.3	2.1	47.8
Assets held under finance lease:				
Carrying amount at 31 December 2008	–	2.4	–	2.4
Carrying amount at 31 December 2007	–	3.2	–	3.2

Notes to the Financial Statements continued

16 Property, plant and equipment (continued)

Company	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2007	2.2	1.3	3.4	6.9
Additions	–	0.5	0.3	0.8
Disposals	–	(0.4)	–	(0.4)
At 1 January 2008	2.2	1.4	3.7	7.3
Additions	–	0.3	–	0.3
Disposals	–	(0.6)	–	(0.6)
At 31 December 2008	2.2	1.1	3.7	7.0
Accumulated depreciation				
At 1 January 2007	0.3	0.2	2.7	3.2
Charge for the year	–	0.4	0.4	0.8
Disposals	–	(0.2)	–	(0.2)
At 1 January 2008	0.3	0.4	3.1	3.8
Charge for the year	–	0.3	0.2	0.5
Disposals	–	(0.2)	–	(0.2)
At 31 December 2008	0.3	0.5	3.3	4.1
Carrying amount				
At 31 December 2008	1.9	0.6	0.4	2.9
At 31 December 2007	1.9	1.0	0.6	3.5
Assets held under finance lease:				
Carrying amount at 31 December 2008	–	0.6	–	0.6
Carrying amount at 31 December 2007	–	1.0	–	1.0

Notes to the Financial Statements continued

17 Investments

Group	Investments in jointly controlled entities £m	Total £m
Cost		
At 1 January 2007	2.8	2.8
Share of results of jointly controlled entities	1.0	1.0
Received from jointly controlled entities	(0.6)	(0.6)
At 31 December 2007	3.2	3.2
Share of results of jointly controlled entities	0.8	0.8
Received from jointly controlled entities	(0.1)	(0.1)
At 31 December 2008	3.9	3.9

The Group's investments in jointly controlled entities comprise:

	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.

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

	2008 £m	2007 £m
Non-current assets	0.7	0.5
Current assets	6.3	5.1
Current liabilities	(3.1)	(2.4)
Net assets of jointly controlled entities	3.9	3.2

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

	2008 £m	2007 £m
Income	5.3	5.1
Expenses	(4.5)	(4.0)
	0.8	1.1
Tax	–	(0.1)
Share of results of jointly controlled entities	0.8	1.0

Notes to the Financial Statements continued

17 Investments (continued)

Company	Interest in subsidiary undertakings £m	Total £m
Cost		
At 1 January 2007	3,266.8	3,266.8
Addition to investments in existing subsidiaries	475.0	475.0
At 31 December 2007	3,741.8	3,741.8
Impairment of investments	(281.7)	(281.7)
Addition to investments in existing subsidiaries	126.1	126.1
At 31 December 2008	3,586.2	3,586.2

Additional investments in existing subsidiaries during the year included £79.0m arising on the transfer of an indirect subsidiary investment to direct holding following internal restructuring and an increase in the capitalisation of an existing direct subsidiary of £46.8m.

Following the exceptional impairment of asset values held by subsidiaries, a review was carried out to confirm the recoverability of the investment value in existing subsidiaries of Persimmon Plc. As a result of this the carrying value was found to be impaired by £281.7m.

Details of Group undertakings are set out in note 32.

18 Inventories

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Land	1,779.5	2,346.1	–	–
Work in progress	634.0	814.8	–	–
Part exchange properties	54.5	146.9	–	–
Showhouses	78.5	78.8	–	–
	2,546.5	3,386.6	–	–

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.

During 2008 the Group conducted a review of the net realisable value of its inventories in light of the deterioration in the UK housing market. Where the estimated net realisable value was less than its carrying value within the balance sheet the Group has impaired the inventory values. Following the impairment £1,088.9m (2007: £96.8m) of inventories are valued at fair value less costs to sell rather than at historical cost.

The value of inventories expensed in 2008 and included in cost of sales was £1,434.9m (2007: £2,163.6m) excluding the £652.3m exceptional impairment.

Land with a carrying value of £389.5m (2007: £442.1m) was used as security for land payables (note 21).

Notes to the Financial Statements continued

19 Trade and other receivables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Non-current receivables				
Available for sale financial assets	33.5	11.6	–	–
Impairments	(7.3)	(2.4)	–	–
	26.2	9.2	–	–
Other receivables	5.2	8.0	–	–
	31.4	17.2	–	–
Current receivables				
Trade receivables	46.8	63.7	–	–
Land options	68.0	77.5	–	–
Other receivables	7.8	14.4	2.2	2.9
Amounts owed by Group undertakings	–	–	251.3	244.0
Other prepayments and accrued income	15.6	24.6	8.6	12.7
	138.2	180.2	262.1	259.6

Available for sale financial assets due after more than one year are recorded at fair value, being the amount receivable by the Group discounted to present day values. The difference between the nominal and the initial fair value is credited over the deferred term to finance income, with the financial asset increasing to its full cash settlement value on the anticipated receipt date. Credit risk is accounted for in determining fair values and appropriate discount factors are applied. The Group holds a second charge over property sold under shared equity schemes. The impairment of the available for sale financial assets arises due to the impact on the fair value of these assets due to the decline in UK house prices and amounts to £4.9m in the period which has been charged as an exceptional item in the income statement. Further disclosures relating to financial assets are set out in note 22.

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.

An allowance of £6.5m (2007: £nil) has been charged to profit and loss account exceptional items to recognise the impairment of individual trade and other receivables included in current receivables. The impairment recognised represents the difference between the carrying amounts of these receivables and the present value of any expected recoveries.

Notes to the Financial Statements continued

20 Borrowings

	Group 2008	Group 2007	Company 2008	Company 2007
	£m	£m	£m	£m
Non-current borrowings				
US, UK and EU senior loan notes	507.0	450.7	244.8	268.5
Syndicated loan (net of issue costs)	63.1	75.0	63.1	75.0
Finance lease obligations	1.1	1.8	0.2	0.6
	571.2	527.5	308.1	344.1
Current borrowings				
Bank overdrafts (note 27)	23.7	50.9	18.9	67.4
US and UK senior loan notes	119.4	73.3	119.4	13.4
Other loan notes	3.2	5.3	3.2	5.3
Finance lease obligations	1.3	1.4	0.4	0.4
	147.6	130.9	141.9	86.5

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

Excepting finance leases all borrowings are unsecured. The carrying value of borrowings equates to the face value of borrowings with the exception of finance leases. The contractual repayment terms of borrowings are as noted below. At the date of signing of the financial statements the Directors have taken pre-emptive action to amend certain covenants and conditions within the Group's funding arrangements to maintain these contractual repayment dates. Further details are given in note 34.

	Currency	Nominal interest rate	Year of maturity	2008	2007
				£m	£m
Bank overdrafts	GBP	Base +1%	2009	23.7	50.9
Syndicated loan	GBP	LIBOR +0.35%-0.55%	2010	63.1	75.0
UK senior loan notes	GBP	5.09%-7.58%	2009-2021	56.4	77.6
US senior loan notes	USD	5.10%-8.28%	2009-2016	565.0	442.7
EU senior loan notes	EUR	3.77%	2011	5.0	3.7
Other loan notes	GBP	LIBOR -0.5%	2011	3.2	5.3
Finance lease obligations	GBP	7.00%-9.00%	2009-2011	2.7	3.5
Face value of borrowings				719.1	658.7
Future finance charges on finance leases				(0.3)	(0.3)
Carrying value of borrowings				718.8	658.4

Hedges have been taken out against all foreign currency denominated borrowings to hedge all principal payments to Sterling and to hedge foreign currency forward interest payments into Sterling payments at either fixed rates or rates linked to UK LIBOR. These hedges therefore form both a hedge of foreign exchange rate and interest rate risk. Additional data on the maturity of financial liabilities and effective interest rates after consideration of these hedges is found in note 22.

Finance lease obligations – total minimum lease payments:

	Group 2008	Group 2007	Company 2008	Company 2007
	£m	£m	£m	£m
Within one year	1.5	1.5	0.4	0.5
In the second to fifth years inclusive	1.2	2.0	0.3	0.6
Less: future finance charges	(0.3)	(0.3)	(0.1)	(0.1)
Present value of finance lease obligations	2.4	3.2	0.6	1.0

There are no finance lease obligations in excess of five years (2007: none).

Notes to the Financial Statements continued

21 Other liabilities

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Non-current liabilities				
Land payables	131.0	89.5	–	–
Other payables	1.0	2.9	0.4	2.2
	132.0	92.4	0.4	2.2
Current liabilities				
Trade payables	174.1	306.2	1.8	2.2
Land payables	182.7	230.0	–	–
Amounts owed to Group undertakings	–	–	3,008.3	2,757.4
Social security and other taxes	4.1	7.6	2.0	2.1
Deposits and on account contract receipts	43.9	45.0	–	–
Other payables	23.1	35.6	4.7	9.5
Accrued expenses	124.0	124.6	17.6	16.2
	551.9	749.0	3,034.4	2,787.4

Trade payables subject to payment terms were 32 days (2007: 43 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 income statement over the credit period of the purchase contract.

22 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Liquidity risk
- Capital risk
- Credit risk

This note presents basic information regarding the Group's exposure to these risks and the Group's objectives, strategy and processes for measuring and managing exposure to them. Unless otherwise stated references to Group should be considered to apply to the Company as well.

The Board of Directors has overall responsibility for risk management of the Group. The Board has established the Risk Committee which has the delegated task of overseeing the Board's responsibility with respect to risk and internal control. The Risk Committee reports to the Audit Committee on a regular basis.

The Risk Committee is supported in this task by the Group Risk management function. The Group Risk function performs an annual assessment of the risks faced by the Group. This assessment is used to drive a risk focused programme of work aimed to improve business processes and increase internal control effectiveness.

22 Financial risk management (continued)

Market risk

Market risk represents the potential for changes in foreign exchange prices and interest rates to affect the Group's profit and the value of its financial instruments. It also incorporates the effect of the overall UK housing market on the Group. The Group's objective in market risk management is to minimise its exposures to fluctuations within such variables whilst optimising returns.

The Group has entered into a number of hedge derivative arrangements to limit its exposure to these risks, particularly exchange risk. The Group enters into such transactions only as part of periodic wider refinancing undertakings to take advantage of the mature private placement markets in other countries (notably the USA) and only with the approval of the Board of Directors. The Group applies hedge accounting to these arrangements in order to minimise profit and loss volatility.

Currency risk

The Group's currency risk principally resides in senior loan notes issued in US Dollars and Euros to institutional investors. The Group has entered into hedge arrangements for all such loan notes swapping them into Sterling on issue. These hedges match the contractual maturity of all principal payments and also match foreign currency contractual interest payment maturities, swapping these to either fixed Sterling payments (designated cash flow hedges) or Sterling payments linked to UK LIBOR (designated fair value hedges).

In this manner the Group's foreign currency senior loan notes cash flows are effectively hedged to mirror those of either a fixed or floating rate Sterling denominated loan.

The Group also has investments in a number of Portuguese jointly controlled entities. These interests are not hedged. These investments are considered to be long term in nature.

The Group has no other significant currency exposures.

The following exchange rates applied during the year:

	2008		2007	
	Average rate	Year end spot rate	Average rate	Year end spot rate
US Dollar	1.853	1.438	2.002	2.004
Euro	1.259	1.034	1.462	1.362

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

	2008		2007	
	USD \$m	Euro €m	USD \$m	Euro €m
Investments	–	3.5	–	3.7
Senior loan notes	(735.2)	(5.0)	(838.4)	(5.0)
Forward exchange contracts	735.2	5.0	838.4	5.0
Net exposure	–	3.5	–	3.7

Sensitivity analysis

The hedging arrangements in place over borrowings are such that the Group's profit will be unaffected by any reasonably expected variation in exchange rate at the reporting date (2007: nil). A rise/fall in the Euro/Sterling exchange rate of 10% would result in a £0.3m loss/gain in relation to investments.

Interest rate risk

The Group holds a mixture of both fixed and floating interest borrowings to control its exposure to interest rate risk. The Group has no formal target for a ratio of fixed to floating funding. The responsibility for setting the level of fixed rate debt lies with the Board of Directors and is continually reviewed in the light of economic data provided by a variety of sources.

Fixed rate borrowings are achieved by issuance of fixed rate GBP denominated senior loan notes and by interest rate swaps entered into as part of the hedging arrangements put in place for foreign currency denominated senior loan notes detailed under currency risk above.

Sensitivity analysis

The Group's hedging arrangements are such that the Group's profit would be unaffected by any reasonably expected variation of the interest rate at the balance sheet date (2007: nil).

22 Financial risk management (continued)

Housing market risk

The Group is fundamentally affected by the level of UK house prices. These in turn are affected by factors such as credit availability, employment levels, interest rates, consumer confidence and supply of land with planning. 2008 has proved an exceptional year, with unprecedented falls in house prices, largely driven by the lack of availability of consumer mortgage lending.

Whilst it is not possible for the Group to fully mitigate such risks on a national macroeconomic basis the Group does continually monitor its geographical spread within the UK, seeking to balance its investment in areas offering the best immediate returns with a long term spread of its operations throughout the UK to minimise the effect of local microeconomic fluctuations. Furthermore the Group has taken steps to minimise its speculative build, restrict its land acquisition and reduce work in progress expenditure so as to manage the exposure of the Group to any continued market disruption.

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial obligations as they fall due. The Group's strategy to managing liquidity risk is to ensure that the Group has sufficient liquid funds to meet all its potential liabilities as they fall due.

This is true not only of normal market conditions but also of negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation, which would in turn reduce the Group's ability to borrow at optimal rates. Therefore the Group ensures its continued compliance with financial covenants under both syndicated loan and private placement arrangements even under adverse market conditions.

The Group has entered into a number of deferred payment guarantees and performance bonds in the normal course of operations. The liabilities to which these guarantees relate are recognised and accounted for in accordance with our standard accounting policies.

Liquidity forecasts are produced on (i) a daily basis to ensure that utilisation of current facilities is optimised; (ii) a monthly basis to ensure that covenant compliance targets and medium term liquidity is maintained and (iii) a long term projection basis for the purpose of identifying long term strategic funding requirements.

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

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

The Group has a syndicated revolving credit facility committed to November 2010, at a competitive rate linked to LIBOR. Undrawn facilities at the reporting date amount to £735.0m (2007: £725.0m).

Refinancing

As a direct result of the exceptional trading conditions under which the Group has operated during 2008 and its liquidity forecasts incorporating projections of these trading conditions into 2009, the Directors assessed that the Group's liquidity risk had increased in relation to compliance with the interest cover covenant (based on income statement) as set out in the terms of the Company's existing credit facilities. Accordingly, the Directors have taken pre-emptive action to: amend certain covenants including but not limited to, the interest cover covenant (now based on operating cash flows), conditions within the Group's funding arrangements and to reduce the level of committed facilities to reflect the Group's forecast requirements.

Further details are provided in note 34.

Capital risk

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 tiers of management.

Decisions regarding the balance of equity and borrowings, dividend policy and all major borrowing facilities are reserved for the Main Board.

Notes to the Financial Statements continued

22 Financial risk management (continued)

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

Group	2008	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
	Carrying amount £m					
Bank overdrafts	23.7	23.7	23.7	–	–	–
Syndicated loan (net of issue costs)	63.1	68.1	1.7	66.4	–	–
UK senior loan notes	56.4	88.3	4.1	7.0	7.8	69.4
US senior loan notes	565.0	593.5	142.2	153.9	235.3	62.1
EU senior loan notes	5.0	5.3	0.2	0.2	4.9	–
Other loan notes	3.2	3.2	3.2	–	–	–
Finance lease obligations	2.4	2.7	1.5	0.9	0.3	–
Forward currency swaps	(116.8)	(86.8)	(22.6)	(11.7)	(39.2)	(13.3)
Interest bearing financial liabilities	602.0	698.0	154.0	216.7	209.1	118.2
Trade and other payables	322.2	322.2	321.2	0.5	0.5	–
Land payables	313.7	321.4	187.9	66.4	67.1	–
Financial liabilities	1,237.9	1,341.6	663.1	283.6	276.7	118.2

Please note that the table above demonstrates the contracted cash flows in place at 31 December 2008. As detailed in note 34, the Group has subsequently renegotiated a number of these agreements. This has resulted in an increase in contractual cash flow projections at the current date.

Group	2007	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
	Carrying amount £m					
Bank overdrafts	50.9	50.9	50.9	–	–	–
Syndicated loan (net of issue costs)	75.0	88.3	4.7	4.7	78.9	–
UK senior loan notes	77.6	115.2	25.6	4.2	12.3	73.1
US senior loan notes	442.7	509.3	76.8	103.9	162.4	166.2
EU senior loan notes	3.7	4.1	0.1	0.1	3.9	–
Other loan notes	5.3	5.5	5.5	–	–	–
Finance lease obligations	3.2	3.5	1.5	1.4	0.6	–
Forward currency swaps	68.0	134.8	21.5	22.8	53.3	37.2
Interest bearing financial liabilities	726.4	911.6	186.6	137.1	311.4	276.5
Trade and other payables	469.3	469.3	466.4	1.5	1.2	0.2
Land payables	319.5	321.8	231.3	58.8	31.7	–
Financial liabilities	1,515.2	1,702.7	884.3	197.4	344.3	276.7

Notes to the Financial Statements continued

22 Financial risk management (continued)

Company	2008	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
	Carrying amount £m					
Bank overdrafts	18.9	18.9	18.9	–	–	–
Syndicated loan (net of issue costs)	63.1	68.1	1.7	66.4	–	–
UK senior loan notes	53.5	84.9	3.9	3.8	7.8	69.4
US senior loan notes	305.7	316.6	127.3	17.4	109.8	62.1
EU senior loan notes	5.0	5.3	0.2	0.2	4.9	–
Other loan notes	3.2	3.2	3.2	–	–	–
Finance lease obligations	0.6	0.7	0.4	0.2	0.1	–
Forward currency swaps	(79.8)	(65.7)	(21.6)	(4.8)	(26.0)	(13.3)
Interest bearing financial liabilities	370.2	432.0	134.0	83.2	96.6	118.2
Trade and other payables	3,032.8	3,032.8	3,032.4	0.3	0.1	–
Financial liabilities	3,403.0	3,464.8	3,166.4	83.5	96.7	118.2

Please note that the table above demonstrates the contracted cash flows in place at 31 December 2008. As detailed in note 34, the Company has subsequently renegotiated a number of these agreements. This has resulted in an increase in contractual cash flow projections at the current date.

Company	2007	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
	Carrying amount £m					
Bank overdrafts	67.4	67.4	67.4	–	–	–
Syndicated loan (net of issue costs)	75.0	88.3	4.7	4.7	78.9	–
UK senior loan notes	54.6	90.1	4.0	3.9	9.1	73.1
US senior loan notes	223.6	255.4	23.8	93.2	54.3	84.1
EU senior loan notes	3.7	4.1	0.1	0.1	3.9	–
Other loan notes	5.3	5.5	5.5	–	–	–
Finance lease obligations	1.0	1.1	0.5	0.5	0.1	–
Forward currency swaps	18.6	50.0	8.0	17.0	11.7	13.3
Interest bearing financial liabilities	449.2	561.9	114.0	119.4	158.0	170.5
Trade and other payables	2,787.5	2,787.5	2,785.3	1.4	0.8	–
Financial liabilities	3,236.7	3,349.4	2,899.3	120.8	158.8	170.5

Notes to the Financial Statements continued

22 Financial risk management (continued)

Credit risk

The nature of the UK housing industry and the legal framework surrounding it results in the Group having a low exposure to credit risk. In the majority of cases the full cash receipt for each sale occurs on legal completion, which is also the point of revenue recognition under the Group's accounting policies.

In certain specific circumstances the Group has entered into shared equity arrangements (not applicable to the Company). The pressures of recent market conditions necessitated an increase in this form of sales structure during 2008. In such cases the long term debt is secured upon the property concerned (the Group does not recognise collateral rights as a separate asset, nor does it have rights to trade such collateral). Recent reductions in property values have led to an increase in the credit risk of the Group in respect of such sales. The charge for provision for credit impairment in the year amounted to £4.9m.

The maximum total credit risk is as follows:

	2008	2007
Group	£m	£m
Loans and receivables	86.0	95.3
Cash and cash equivalents	0.8	2.1
	86.8	97.4
Company		
Loans and receivables (including intercompany balances)	253.5	246.9
	253.5	246.9

The maximum credit exposure of the Group to overseas parties is £0.2m (2007: £0.5m) (Company £nil (2007: £nil)). The Group's credit risk is widely distributed. The maximum credit risk should any single party fail to perform is £2.7m (2007: £4.6m) (Company £115.2m (2007: £114.7m) being a subsidiary debtor). This Group debtor is secured upon property. The Directors consider these financial assets to be of high quality and the credit risk is assessed as low.

Fair value

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

	2008		2007	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Group				
Trade and other receivables	86.0	86.0	95.3	95.3
Cash and cash equivalents	0.8	0.8	2.1	2.1
Bank overdrafts	(23.7)	(23.7)	(50.9)	(50.9)
Syndicated loan (net of issue costs)	(63.1)	(63.1)	(75.0)	(75.0)
UK senior loan notes	(64.0)	(56.4)	(81.3)	(77.6)
US senior loan notes	(574.9)	(565.0)	(450.9)	(442.7)
EU senior loan notes	(5.0)	(5.0)	(3.7)	(3.7)
Other loan notes	(3.2)	(3.2)	(5.3)	(5.3)
Finance lease obligations	(2.4)	(2.4)	(3.2)	(3.2)
Trade and other payables	(322.2)	(322.2)	(469.3)	(469.3)
Land payables	(313.7)	(313.7)	(319.5)	(319.5)
Forward currency swaps	116.8	116.8	(68.0)	(68.0)
	(1,168.6)	(1,151.1)	(1,429.7)	(1,417.8)
Unrecognised loss		17.5		11.9

Notes to the Financial Statements continued

22 Financial risk management (continued)

Company	2008		2007	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Trade and other receivables	253.5	253.5	246.9	246.9
Bank overdrafts	(18.9)	(18.9)	(67.4)	(67.4)
Syndicated loan (net of issue costs)	(63.1)	(63.1)	(75.0)	(75.0)
UK senior loan notes	(60.9)	(53.5)	(57.7)	(54.6)
US senior loan notes	(305.7)	(305.7)	(223.6)	(223.6)
EU senior loan notes	(5.0)	(5.0)	(3.7)	(3.7)
Other loan notes	(3.2)	(3.2)	(5.3)	(5.3)
Finance lease obligations	(0.6)	(0.6)	(1.0)	(1.0)
Trade and other payables	(3,032.8)	(3,032.8)	(2,787.5)	(2,787.5)
Forward currency swaps	79.8	79.8	(18.6)	(18.6)
	(3,156.9)	(3,149.5)	(2,992.9)	(2,989.8)
Unrecognised loss		7.4		3.1

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

Financial assets and liabilities by category:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Financial assets held at fair value	143.0	–	79.8	–
Loans and receivables	59.8	95.3	253.5	246.9
Cash and cash equivalents	0.8	2.1	–	–
Financial liabilities at fair value	(811.3)	(741.9)	(310.7)	(245.9)
Financial liabilities at amortised cost	(543.4)	(773.3)	(3,172.1)	(2,990.8)
	(1,151.1)	(1,417.8)	(3,149.5)	(2,989.8)

Fair values of financial liabilities are determined by reference to the rates at which they could be exchanged between knowledgeable and willing parties. Where no such price is readily available then fair value is determined by discounting net forward cash flows for the residual period of the contract by a risk free rate.

Notes to the Financial Statements continued

22 Financial risk management (continued)

Hedge accounting

As outlined under currency risk above the Group operates two forms of hedging.

Certain US senior loan notes, along with all EU senior loan notes, are hedged using fair value hedges. These hedge instruments effectively swap fixed US Dollar/Euro interest payments for floating Sterling payments linked to UK LIBOR. They also provide a forward swap for all capital repayments and therefore these instruments effectively hedge foreign exchange risk.

Other US senior loan notes are hedged via cash flow hedges. These hedge instruments effectively swap fixed US Dollar/Euro interest payments for fixed Sterling payments. They also provide a forward swap for all capital repayments and therefore these instruments effectively hedge both foreign exchange and interest rate risk.

The periods when the forecast cash flows relating to cash flow hedges will occur, and when they will affect profit are as follows:

	2008 £m	Group 2007 £m
Less than 1 year	0.4	8.1
1-2 years	(0.1)	1.0
2-5 years	–	17.4
Over 5 years	–	–
Carrying value	0.3	26.5

There was no hedge ineffectiveness during the period. The Company did not operate cash flow hedges during the year (2007: nil).

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:

	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 2007	1.5	31.1	6.1	2.7	3.2	(7.7)	36.9
(Charge)/credit to income	(0.2)	(2.1)	(0.4)	–	–	4.0	1.3
Charge to equity	–	(12.0)	(3.2)	–	(3.6)	–	(18.8)
At 1 January 2008	1.3	17.0	2.5	2.7	(0.4)	(3.7)	19.4
Credit/(charge) to income	0.3	(3.3)	(1.8)	0.1	–	(22.7)	(27.4)
(Charge)/credit to equity	–	(11.6)	(0.7)	–	0.3	–	(12.0)
At 31 December 2008	1.6	2.1	–	2.8	(0.1)	(26.4)	(20.0)

The charge to income of £22.7m shown in other temporary differences represents the release of a deferred tax asset created in previous periods. The matching corporation tax provision has also been released as an adjustment in respect of prior years and consequently the net impact on the Income Statement is £nil.

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:

	2008 £m	2007 £m
Deferred tax assets	6.5	51.4
Deferred tax liabilities	(26.5)	(32.0)
	(20.0)	19.4

The Group has not recognised deferred tax assets on £109.0m of tax losses carried forward, and £87.6m of the total pension deficit of £95.3m. The amount of deferred tax asset recognised in respect of the net pension deficit is £2.1m (2007: £17.0m).

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	Derivatives £m	Other temporary differences £m	Total £m
At 1 January 2007	0.2	31.1	6.1	1.0	2.0	40.4
Charge to income	(0.3)	(1.2)	(0.4)	–	(0.1)	(2.0)
Charge to equity	–	(12.0)	(3.2)	(1.0)	–	(16.2)
Other adjustments	–	(0.9)	–	–	–	(0.9)
At 1 January 2008	(0.1)	17.0	2.5	–	1.9	21.3
Credit/(charge) to income	0.4	(0.9)	(1.8)	–	(1.9)	(4.2)
Charge to equity	–	(11.6)	(0.7)	–	–	(12.3)
Other adjustments	–	(2.4)	–	–	–	(2.4)
At 31 December 2008	0.3	2.1	–	–	–	2.4

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:

	2008 £m	2007 £m
Deferred tax assets	2.4	21.4
Deferred tax liabilities	–	(0.1)
	2.4	21.3

24 Share capital

	2008 £m	2007 £m
Authorised		
365,000,000 (2007: 365,000,000) ordinary shares of 10p each	36.5	36.5
Allotted, called up and fully paid		
302,591,431 (2007: 302,591,431) ordinary shares of 10p each	30.3	30.3

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid. There have been no movements in share capital during the year.

The Company has established Employee Benefit Trusts (EBT) to hold shares for participants of the Company's various share schemes. The Trustee is Persimmon (Share Scheme Trustees) Limited, a subsidiary company. During 2008, the Trustee made market purchases of 185,000 shares at an average price of £3.75 and transferred 303,973 shares to employees. At 31 December 2008 the trust held 105,638 shares on which dividends have been waived. The market value of these shares at 31 December 2008 was £0.2m.

During the year the Company made direct market purchases of its own shares. The Company has bought 250,000 shares at an average price of £6.82 which it holds in treasury. Including associated purchase costs the total cost of the shares bought was £1,715,160. Dividends on these shares will be waived. At 31 December 2008 the Company held 2,403,740 shares with a market value of £5.5m.

Notes to the Financial Statements continued

25 Reconciliation of movements in share capital and reserves

Group	Share capital £m	Share premium £m	Own shares £m	Hedge reserve £m	Other non- ^o distributable reserve £m	Retained earnings £m	Total shareholders' equity £m
Balance at 1 January 2007	29.9	233.4	(5.1)	(4.3)	281.4	1,496.0	2,031.3
Own share reserve transfer	–	–	5.1	–	–	(5.1)	–
Exercise of share options/share awards	0.1	0.5	–	–	–	6.5	7.1
Scrip dividends	0.3	(0.3)	–	–	–	39.5	39.5
Own shares purchased	–	–	–	–	–	(25.5)	(25.5)
Share option charge and taxation thereon	–	–	–	–	–	3.4	3.4
Valuation of currency swaps and taxation thereon	–	–	–	8.3	–	–	8.3
Movement in pension deficit and taxation thereon	–	–	–	–	–	24.1	24.1
Dividends approved and paid	–	–	–	–	–	(153.6)	(153.6)
Other reserve movement [†]	–	–	–	(3.3)	–	0.6	(2.7)
Retained profits for the year	–	–	–	–	–	413.5	413.5
Balance at 31 December 2007	30.3	233.6	–	0.7	281.4	1,799.4	2,345.4
Exercise of share options/share awards	–	–	–	–	–	3.2	3.2
Own shares purchased	–	–	–	–	–	(2.4)	(2.4)
Share option charge and taxation thereon	–	–	–	–	–	3.7	3.7
Valuation of currency swaps and taxation thereon	–	–	–	(0.6)	–	–	(0.6)
Movement in pension deficit and taxation thereon	–	–	–	–	–	(55.4)	(55.4)
Dividends approved and paid	–	–	–	–	–	(113.1)	(113.1)
Other reserve movement	–	–	–	–	–	(0.6)	(0.6)
Retained losses for the year	–	–	–	–	–	(625.0)	(625.0)
Balance at 31 December 2008	30.3	233.6	–	0.1	281.4	1,009.8	1,555.2

[†]Other reserve movement in 2007 comprises the transfer of £3.3m from the hedge reserve to retained earnings in respect of hedges inherited on the acquisition of Westbury plc, and a charge of £2.7m in respect of losses on options exercised and satisfied from own shares held.

^oThe other non-distributable reserve of £281.4m arose prior to transition to IFRSs, and relates to the issue of ordinary shares to acquire the shares of Beazer Group Plc in 2001.

Notes to the Financial Statements continued

25 Reconciliation of movements in share capital and reserves (continued)

Company	Share capital £m	Share premium £m	Own shares £m	Hedge reserve £m	Other non- ^o distributable reserve £m	Retained earnings £m	Total shareholders' equity £m
Balance at 1 January 2007	29.9	233.4	(5.1)	(2.3)	4.6	552.1	812.6
Own share reserve transfer	–	–	5.1	–	–	(5.1)	–
Exercise of share options/share awards	0.1	0.5	–	–	–	5.0	5.6
Scrip dividends	0.3	(0.3)	–	–	–	39.5	39.5
Own shares purchased	–	–	–	–	–	(22.3)	(22.3)
Share option charge and taxation thereon	–	–	–	–	–	3.4	3.4
Valuation of currency swaps and taxation thereon	–	–	–	2.3	–	–	2.3
Movement in pension deficit and taxation thereon	–	–	–	–	–	24.1	24.1
Dividends approved and paid	–	–	–	–	–	(153.6)	(153.6)
Other reserve movement ^a	–	–	–	–	–	(2.7)	(2.7)
Retained profits for the year	–	–	–	–	–	17.7	17.7
Balance at 31 December 2007	30.3	233.6	–	–	4.6	458.1	726.6*
Exercise of share options/share awards	–	–	–	–	–	1.0	1.0
Own shares purchased	–	–	–	–	–	(1.7)	(1.7)
Share option charge and taxation thereon	–	–	–	–	–	3.7	3.7
Movement in pension deficit and taxation thereon	–	–	–	–	–	(55.4)	(55.4)
Dividends approved and paid	–	–	–	–	–	(113.1)	(113.1)
Other reserve movement	–	–	–	–	–	(0.6)	(0.6)
Retained losses for the year	–	–	–	–	–	(204.7)	(204.7)
Balance at 31 December 2008	30.3	233.6	–	–	4.6	87.3	355.8*

Own shares

Own shares purchased are reconciled as follows:

	Group £m	Company £m
Balance at 31 December 2007	24.0	22.3
Acquired in the period	2.4	1.7
Disposed of on exercise/vesting to employees	(4.9)	(2.8)
Balance at 31 December 2008	21.5	21.2

*Includes £31.3m of non-distributable items (2007: £33.9m).

^oThe other non-distributable reserve arose prior to transition to IFRSs.^aOther reserve movement in 2007 represents £2.7m in respect of losses on options exercised and satisfied from own shares held.

Notes to the Financial Statements continued

26 Reconciliation of net cash flow to net debt

Group	2008	2007
	£m	£m
Increase/(decrease) in net cash and cash equivalents	25.9	(64.7)
Decrease/(increase) in debt and finance lease obligations	98.6	(5.6)
Decrease/(increase) in net debt from cash flows	124.5	(70.3)
New finance lease obligations	(0.6)	(1.7)
Non-cash movements	(0.8)	11.9
Decrease/(increase) in net debt	123.1	(60.1)
Net debt at 1 January	(724.3)	(664.2)
Net debt at 31 December	(601.2)	(724.3)

Company	2008	2007
	£m	£m
Decrease/(increase) in net cash and cash equivalents	48.5	8.7
Decrease/(increase) in debt and finance lease obligations	30.7	(57.4)
Decrease/(increase) in net debt from cash flows	79.2	(48.7)
New finance lease obligations	(0.2)	(0.4)
Non-cash movements	–	3.1
Decrease/(increase) in net debt	79.0	(46.0)
Net debt at 1 January	(449.2)	(403.2)
Net debt at 31 December	(370.2)	(449.2)

27 Analysis of net debt

Group	2008	Cash flow	Other non-cash movements	2007
	£m	£m	£m	£m
Cash and cash equivalents	0.8	(1.3)	–	2.1
Bank overdrafts (note 20)	(23.7)	27.2	–	(50.9)
Net cash and cash equivalents	(22.9)	25.9	–	(48.8)
Bank loans (net of issue costs)	(63.1)	11.9	–	(75.0)
US and UK senior loan notes due within one year	(119.4)	83.2	(129.3)	(73.3)
US, UK and EU senior loan notes due after more than one year	(507.0)	–	(56.3)	(450.7)
Other loan notes due within one year	(3.2)	2.1	–	(5.3)
Forward currency swaps	116.8	–	184.8	(68.0)
Finance lease obligations	(2.4)	1.4	(0.6)	(3.2)
Net debt at 31 December	(601.2)	124.5	(1.4)	(724.3)

Notes to the Financial Statements continued

27 Analysis of net debt (continued)

Company	2008 £m	Cash flow £m	Other non-cash movements £m	2007 £m
Bank overdrafts (note 20)	(18.9)	48.5	–	(67.4)
Net cash and cash equivalents	(18.9)	48.5	–	(67.4)
Bank loans (net of issue costs)	(63.1)	11.9	–	(75.0)
US and UK senior loan notes due within one year	(119.4)	16.1	(122.1)	(13.4)
US, UK and EU senior loan notes due after more than one year	(244.8)	–	23.7	(268.5)
Other loan notes due within one year	(3.2)	2.1	–	(5.3)
Forward currency swaps	79.8	–	98.4	(18.6)
Finance lease obligations	(0.6)	0.6	(0.2)	(1.0)
Net debt at 31 December	(370.2)	79.2	(0.2)	(449.2)

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 2008 there were no contracted capital commitments to purchase property, plant and equipment (2007: £1.3m) in the Group and no contracted capital commitments in the Company (2007: £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. Management estimate that the bonds and guarantees amount to £326m (2007: £375m), 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.

30 Operating leases

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

Group	2008 £m	2007 £m
Expiring within one year	0.8	0.8
Expiring in the second to fifth years inclusive	5.3	10.2
Expiring after five years	17.1	21.0
	23.2	32.0
Company		
Expiring within one year	0.1	0.1
Expiring in the second to fifth years inclusive	0.2	0.3
Expiring after five years	–	–
	0.3	0.4

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

Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicles. Motor vehicles have an average term of 1.3 years to expiry (2007: 1.6 years). Property leases have an average term of 9.1 years to expiry (2007: 10.9 years).

31 Employee benefits

Retirement benefit obligation

At 31 December 2008 the Group operated three employee pension schemes, a stakeholder scheme and two defined benefit 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 that are recognised in the income statement 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 a defined contribution scheme available to new salaried employees. The Group matches employees' own contributions to their individual Stakeholder plans up to 9% of basic salary depending on the length of service. Group contributions to this scheme of £1.2m (2007: £1.3m) 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 in 2001. The assets of the Persimmon Scheme are held separately from those of the Group. An actuarial valuation of the Persimmon Scheme was carried out as at 1 January 2008 by a professionally qualified actuary and adopted the projected unit method. Under the projected unit method the current service cost, as a percentage of Persimmon Scheme members' pensionable pay, will increase as the active members approach retirement. Standard 2000 mortality tables applying a medium cohort effect with an underpin of 1.25% p.a. for males and 0.75% p.a. for females were used as a basis to calculate the future liability.

Prowting Pension Scheme

On acquisition of Westbury plc in 2006 the Group assumed control of the Prowting Pension Scheme (the 'Prowting Scheme') a defined benefit scheme. The Prowting Scheme 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 2006 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 medium cohort effect, have been used as a basis to calculate the future liability.

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

	2008 % pa	2007 % pa
Discount rate	6.10	5.80
General pay increases	3.50	3.90
Inflation assumption	2.90	3.10
Pension increases – Limited Price Indexation	2.90	3.10
Expected return on Scheme assets:		
Equities	7.5	8.5
Bonds	4.9	5.3
Property	6.5	7.5
Cash	3.8	5.5

Persimmon Plc employs a building block approach in identifying the long term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return of each asset class over the actual asset allocation for the scheme at 31 December 2008 and rounded to the nearest 0.1% per annum.

Notes to the Financial Statements continued

31 Employee benefits (continued)

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

	2008 %	2007 %
Equities	60	64
Bonds	31	26
Property	–	2
Other	9	8

The amounts recognised in income are as follows:

	2008 £m	2007 £m
Current service cost	4.8	6.7
Curtailed credit	(2.1)	–
Interest cost	19.4	18.3
Expected return on scheme assets	(19.6)	(18.6)
Total (included in staff costs)	2.5	6.4
Net actuarial loss/(gain)	43.8	(36.1)
Total loss/(gain) recognised in the Statement of Recognised Income and Expense in the period	43.8	(36.1)
Total defined benefit scheme loss/(gain) recognised in the period	46.3	(29.7)

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

The cumulative loss recognised in the Statement of Recognised Income and Expense since the adoption of IAS 19 (Revised) is £31.1m (2007: £12.7m gain).

	2008 £m	2007 £m
Expected return on scheme assets	19.6	18.6
Actuarial loss on scheme assets	(66.5)	(1.2)
Actual return on scheme assets	(46.9)	17.4

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

	2008 £m	2007 £m
Present value of funded obligations	324.0	340.0
Fair value of scheme assets	(228.7)	(279.3)
Deficit in the scheme and net liability in the balance sheet	95.3	60.7

A deferred tax asset totalling £2.1m (2007: £17.0m) has been recognised on the balance sheet in relation to the net pension obligation.

Notes to the Financial Statements continued

31 Employee benefits (continued)

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

	2008 £m	2007 £m
At 1 January	60.7	103.7
Total loss/(gain) recognised in the period	46.3	(29.7)
Company contributions paid in the period	(11.7)	(13.3)
At 31 December	95.3	60.7

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

	2008 £m	2007 £m
At 1 January	340.0	360.8
Current service cost	4.8	6.7
Interest cost	19.4	18.3
Actuarial losses on liabilities	(22.7)	(37.3)
Gain on curtailment	(2.1)	–
Benefits paid	(15.4)	(8.5)
At 31 December	324.0	340.0

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

	2008 £m	2007 £m
At 1 January	279.3	257.1
Expected return	19.6	18.6
Actuarial losses on assets	(66.5)	(1.2)
Contributions	11.7	13.3
Benefits paid	(15.4)	(8.5)
At 31 December	228.7	279.3

A three year history of experience adjustments is as follows:

	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligation	(324.0)	(340.0)	(360.8)
Fair value of scheme assets	228.7	279.3	257.1
Deficit in the scheme	(95.3)	(60.7)	(103.7)
Experience adjustments on scheme liabilities	–	–	0.8
Percentage of scheme liabilities	–	–	0.2%
Experience adjustments on scheme assets	(66.5)	(1.2)	(0.8)
Percentage of scheme assets	29.1%	0.4%	0.3%

The expected employer contributions to the defined benefit schemes during 2009 is £18.3m.

Notes to the Financial Statements continued

31 Employee benefits (continued)

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

	2008 Years	2007 Years
Male current pensioner	22.4	21.5
Female current pensioner	24.3	23.8
Male future pensioner	23.9	22.2
Female future pensioner	25.3	24.4

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

Share-based payment

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, which includes two long term incentive plans (LTIPs). Vesting of options granted under the LTIPs is dependent on the Group's return on capital employed and its total shareholder return versus (i) a comparator group of house building companies for options granted before 2007; (ii) a comparator group of the constituents of the FTSE 100 at date of grant for options granted in 2007 and March 2008 and (iii) total shareholder return versus a comparator group of the constituents of the FTSE 250 at date of grant and cash generation for options granted in September 2008 to senior employees. These conditions have been factored into the option value applied.

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

Group and Company	2008		2007	
	Save As You Earn Schemes		Save As You Earn Schemes	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
Outstanding at the beginning of the year	1,478,294	803.1	1,369,381	725.4
Granted during the year	1,512,333	326.0	738,068	753.0
Forfeited during the year	(920,200)	(763.6)	(212,508)	(711.5)
Exercised during the year	(43,388)	(541.7)	(416,647)	(505.7)
Outstanding at the end of the year	2,027,039	448.7	1,478,294	803.1
Exercisable at the end of the year	282,385	697.9	51,431	525.0

Group and Company	2008		2007	
	Executive Share Schemes		Executive Share Schemes	
	Number of shares under option	Weighted average exercise price (p)	Number of shares under option	Weighted average exercise price (p)
Outstanding at the beginning of the year	249,754	368.6	308,399	362.3
Granted during the year	–	–	–	–
Forfeited during the year	–	–	(7,639)	(986.6)
Exercised during the year	(146,483)	(325.1)	(51,006)	(483.1)
Outstanding at the end of the year	103,271	430.3	249,754	368.6
Exercisable at the end of the year	103,271	430.3	248,282	364.9

Notes to the Financial Statements continued

31 Employee benefits (continued)

Group and Company	2008	2007
	Bonus Shares Scheme	Bonus Shares Scheme
	Number of	Number of
	shares under option	shares under option
Outstanding at the beginning of the year	198,392	338,975
Granted during the year	80,812	125,479
Forfeited during the year	(1,921)	(314)
Exercised during the year	(136,472)	(265,748)
Outstanding at the end of the year	140,811	198,392
Exercisable at the end of the year	–	–

Group and Company	2008	2007
	Long Term Incentive Plans	Long Term Incentive Plans
	Number of	Number of
	shares under option	shares under option
Outstanding at the beginning of the year	1,037,232	1,066,050
Granted during the year	1,440,181	448,597
Forfeited during the year	(126,474)	(63,744)
Exercised during the year	(258,346)	(413,671)
Outstanding at the end of the year	2,092,593	1,037,232
Exercisable at the end of the year	252,300	2,750

Group and Company	2008	2007
	Synergy Incentive Plan	Synergy Incentive Plan
	Number of	Number of
	shares under option	shares under option
Outstanding at the beginning and end of the year	775,000	775,000
Exercisable at the end of the year	–	–

Notes to the Financial Statements continued

31 Employee benefits (continued)

The weighted average share price at the date of exercise for share options exercised during the period was 580.4p (2007: 1,075.1p). The options outstanding at 31 December 2008 had a range of exercise prices from zero to 1,331.0p and a weighted average remaining contractual life of 1.9 years (2007: 2.2 years).

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

	SAYE 2008	LTIP March 2008	LTIP September 2008
Grant date	21 October	11 March	16 September
Risk free interest rate	3.76%	3.83%	4.21%
Exercise price	326.0p	nil	nil
Share price at date of grant	236.0p	679.0p	383.0p
Expected dividend yield	2.50%	nil	nil
Expected life	3 years	3 years	3 years
Date of vesting	1 December 2011	11 March 2011	16 September 2011
Expected volatility	50%	50%	45%
Fair value of option	32.0p	515.0p	294.0p

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 2008, the Group and Company recognised total expenses of £4.4m (2007: £6.0m) 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 (those that principally affect the profits and assets of the Group) of Persimmon Plc at 31 December 2008. All of these companies are registered in England. 100% of voting rights are held by companies within the Group. Having made use of the exemption in section 231 of the Companies Act 1985, a full list of subsidiary undertakings and jointly controlled entities will be annexed to the Company's next annual return.

Major subsidiary undertakings

Persimmon Homes Limited ^o	Charles Church Developments Limited [△]	Westbury Limited ^{**}
Persimmon Holdings Limited [*]	Beazer Group Limited ^{**}	

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

[△] 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 these companies are held by Persimmon Plc.

33 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 (Related Party Disclosures). Summary information of the transactions with key management personnel is provided in note 7. Detailed disclosure of the individual remuneration of Board members is included in the Remuneration Report on pages 28 to 34. There is no difference between transactions with key management personnel of the Company and the Group.

During 2008, the Group engaged N M Rothschild & Sons Limited to act as advisor to the Company on the amendment of its banking facilities, and entering into new banking facilities. The maximum fee due to N M Rothschild & Sons Limited under the terms of the engagement is £1.5m.

N M Rothschild & Sons Limited is a related party to the Persimmon Group because Nicholas Wrigley, a non-executive director of Persimmon Plc, is the Managing Director of Rothschild London and a member of its Global Investment Banking Committee and Global Management Committee. At 31 December 2008, there was an outstanding balance owed by the Group to N M Rothschild & Sons of £0.7m (2007: £nil).

There have been no other transactions between key management personnel and the Company, apart from those referred to above.

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 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.

During the year these recharges amounted to:

	2008 £m	2007 £m
Interest charges on intra-group funding	34.1	78.0
Group services recharges	17.4	27.0
	51.5	105.0

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 2008 totalled £251.3m (2007: £244.0m). Amounts owed to subsidiary undertakings by the Company at 31 December 2008 totalled £3,008.3m (2007: £2,757.4m).

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 net defined benefit cost. Experience and actuarial gains and losses are recognised in the Company.

Certain subsidiary undertakings have entered into guarantees of external bank loans and overdrafts of the Company. The total value of such borrowings at 31 December 2008 was £449.3m (2007: £424.3m). The Company has entered into guarantees over bank loans and borrowings of the subsidiary undertakings. The total value of such borrowings at 31 December 2008 was £279.4m (2007: £293.0m).

The Company has suffered no expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2007: £nil).

34 Post balance sheet event

On 27 February 2009, the Company reached agreement with its syndicate of banks providing the current revolving credit facility on amendments to the amount, terms and conditions of its existing credit facilities. The Company has also agreed a new revolving credit facility. This Forward Start Facility of £322m will become available for drawing on 24 November 2010 on the maturity of the existing facility and matures on 31 March 2012. Full documentation has been signed relating to these facilities and the amended terms and conditions become final upon the private placement investor documentation being signed.

In addition, on 27 February 2009, the Company reached agreement in principle with its private placement investors on amendments to the terms and conditions of its existing credit facilities. The full amendment documentation is currently in the process of being finalised, and whilst not without risk the Directors believe that this process will be completed promptly. The Directors remain confident that should the need arise alternative funding arrangements can be made.

Taken together, the Company will have committed funding lines of £1,085m at the outset of these arrangements (26 February 2009: £1,235m), reducing to £560m during 2011. On the basis of the Company's working capital projections, the Directors believe that these new facilities provide ample headroom and support for the continuing effective management of the business.