PERSIMMON PLC

Annual Report 2013

Delivering *growth*

Persimmon is one of the leading UK housebuilders serving local markets with 24 offices across the country.
We sold 11,528 new homes in 2013.
The UK economic outlook is improving with increasing demand in the UK new homes market. We have a very strong balance sheet, improving margins, excellent cash generation and remain confident of our prospects.

A strong performance

Financial highlights

£2.09bn +21%
Revenue
(2012: £1.72bn)

£329.6m +49%
Profit before tax*
(2012: £221.5m)†

£235.5m +32%
Free cash generation△
(2012: £178.0m)

70p
Return of capital
(2012: 75p)

16.0% +24%
Operating margin*
(2012: 12.9%)†

671.4p +2%
Net assets per share
(2012: 658.2p)

Operational highlights

11,528 +16%
Homes sold
(2012: 9,903)

£181,861 +4%
Average selling price**
(2012: £175,640)

390 +4%
Average site numbers
(2012: 375)

£1,424.3m +41%
Forward sales***
(2013: £1,010.3m)

74,407 +9%
Landbank (plots)
(2012: 68,200)

90% +2%
Construction waste recycled
(2012: 88%)

* Stated before exceptional credits of £14.1m (2012: £2.8m credit) and goodwill impairment of £6.6m (2012: £6.1m).
** Stated before fair value charge of £6.6m (2012: £15.9m) on shared equity sales.
*** As at 24 February 2014 (2013 figure as at 22 February 2013).
△ Free cash generation is defined as net cash flow before financing activities.
† Restated for amendment to IAS 19 'Employee Benefits'.

Delivering on our long term strategy

Chairman's statement

Results

I am pleased to report a strong set of results for the year ended 31 December 2013. Persimmon responded well to the significant increase in customer demand stimulated by the combination of increased lending by the major mortgage lenders, the introduction of Help to Buy by the Government in April 2013 and an improvement in the UK economic outlook, and delivered a significant increase in build volumes in the year.

The Group's strong response in increasing rates of new house construction enabled 11,528 sales to be legally completed, an increase of 16% over the prior year. This was made possible by a 30% increase in legal completions delivered in the second half of the year over the first half of 2013. All our staff across the UK have worked tremendously hard to meet these very demanding build programmes and to accelerate the continued growth of the business.

The Group's average selling price* increased by 4% to £181,861 (2012: £175,640) due to the continued gradual change in sales mix, with a greater proportion of larger traditional family houses being sold. House prices across our regional markets have responded to the usual range of regional economic influences and when these regional movements are aggregated for the Group as a whole our underlying average selling price was stable through the year.

Full year revenues increased by 21% over last year to reach £2.1bn and the Group also increased the value of its forward sales at 31 December 2013 by 41% to £908m (2012: £645m).

In parallel with the swift response to market growth, Persimmon continues to be focused on optimising the returns it generates for its shareholders. Improving the gross margin generated on sales is a critical driver of these returns. Underlying gross margins** for the full year of 20.2% were 270 basis points stronger than the prior year (2012: 17.5%). The quality of these returns improved further due to tight control over development costs, the drive for increased build productivity and our success in opening 175 new sites as we progressed through the year.

The improvement in overhead efficiency, as we continue to grow the business whilst controlling net operating expenses, has delivered an underlying operating margin** of 16.0%, 310 basis points ahead of the prior year (2012: 12.9% as restated***). Indeed, the operating margin in the second half of the year of 16.6% was 150 basis points stronger than the margin of 15.1% for the first half.

The increase in revenues coupled with the improvement in margins resulted in underlying operating profits** increasing 50% to £333m (2012: £223m as restated***), and underlying profit before tax** of £330m being 49% stronger than last year (2012: £222m as restated***). Underlying basic earnings per share** for the year of 83.3 pence is 47% higher than last year's 56.7 pence (as restated***).

We continued to invest in the future growth of the business by acquiring 17,735 plots of new land across 130 high quality locations during 2013. With the faster turn of our work in progress resulting from the strong increase in construction rates we have generated £231m of free cash before capital returns despite our land replacement running at 154% of current consumption. We are pleased to report 5,765 plots of the 17,735 new plots acquired were successfully converted from our strategic land portfolio. The Group now owns and controls 74,407 plots in its forward landbank.

Nicholas Wrigley
Chairman

70p

Return of capital to shareholders

* Stated before fair value charge on shared equity sales.

** Stated before exceptional items and goodwill impairment.

*** Restated for amendment to IAS 19 'Employee Benefits'.

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

Cash holdings at the year end totalled £204m (2012: £201m) reflecting our focus on delivering superior cash returns through maximising the cash efficiency of our land replacement operations, our trading and our build activities. Return on capital employed**** for 2013 was 17.6%, an improvement of 44% on the previous year's 12.2%.

Long term strategy and Capital Return Plan

The results for the year ended 31 December 2013 represent the delivery of the second year of our original nine-and-a-half year strategic plan launched in February 2012 and reflect significant progress against the original plan.

We remain determined to build Persimmon into a stronger, larger business over the long term, investing the appropriate level of capital in the asset platform to sustain the Group at its future larger scale. We remain committed to achieving this whilst maintaining the quality of our land replacement and minimising financial risk. This strategy is designed to deliver strong free cash generation through the housing cycle for the benefit of all our shareholders.

The strategic plan announced in February 2012 included a commitment to return £1.9 billion (£6.20 per share) of surplus capital to shareholders over nine-and-a-half years. On 28 June 2013 we paid £228m to shareholders representing the first instalment under the Capital Return Plan of 75p per share. As a result of the strong progress the Group has made, and against the backdrop of an improving housing market, the Board is recommending that the original Capital Return Plan schedule be accelerated.

At the AGM in April 2013, the Board indicated a payment of 10p per share would be accelerated into 2014 from the planned payment in 2015 (originally 95p per share). The Directors now plan to return 70p per share in 2014 and, rather than this payment being accelerated from the scheduled payment for 2015, it is to be a part acceleration of the 115p final planned payment due in 2021. In addition the original planned payment of 95p per share in 2015 is to be reinstated in full.

Following consultation with shareholders, the Board has also determined to make capital return payments of at least 10p per share in both 2016 and 2018, years in which a payment was not originally planned. These two new payments will be a further part acceleration of the 115p final planned payment due in 2021. The Board will determine the final value of these further instalments of the Capital Return Plan at the appropriate date, in light of the future progress of the business.

The capital return for 2014 of 70p per share will be made on Friday 4 July 2014. The Directors propose to offer shareholders the opportunity (wherever possible) to choose whether to receive the cash either as a return of capital or as dividend income by way of a B share/C share scheme in line with the process for the payment made in 2013. Full details of the B/C share proposal will be sent to shareholders, along with the AGM notice, on Monday 17 March 2014.

Outlook

The Group entered 2014 with a very strong forward order book of £908m of sales reserved and contracted, creating a strong platform for further sales growth in the new year.

The early weeks of the spring selling season have been encouraging, with our weekly private sales rate per site being 22% ahead of last year for the first eight weeks. Visitor numbers to our sites across the UK are 16% stronger than the prior year and cancellation rates remain at historically low levels of c.15% (2013: c.16%). Total forward sales are currently £1,424m for 2014, including legal completions taken so far this year, an increase of 41% on the previous year (2013: £1,010m). Selling prices have remained firm. The Group anticipates a further year of encouraging sales growth in 2014.

Board

As announced on 13 December 2013, David Jenkinson, North Division Chief Executive, has been appointed to the Board as an Executive Director. David brings a wealth of housebuilding experience to the executive and I welcome him to the Board.

The strong result for 2013 is an outperformance of our original long term plan and demonstrates the Group's ability to grow the business swiftly in response to increases in demand whilst improving the quality of shareholder returns. Management and staff have worked tirelessly to deliver this excellent progress. On behalf of the Board I would like to congratulate the whole Persimmon team, including our suppliers and contractors on delivering such a strong performance. Our management is focused on the successful growth of the business and I remain confident of further progress.

Nicholas Wrigley
Chairman
24 February 2014

Our key brands

Group overview

PERSIMMON
Together, we make a home

Persimmon Homes is our biggest brand. We have 24 regional Persimmon offices from Exeter to Edinburgh, building quality homes which provide the very best in design and construction. Our wide range of homes includes three, four and five bed detached properties; two and three bed town houses; semi-detached houses and apartments.

60% Contribution to Group revenue	£182,899 Average selling price*
6,830 Units sold	49,232 Plots

* Stated before fair value charges of £5.4m on shared equity sales.


Meadow Brook, Stotfold, Bedfordshire

CHARLES CHURCH
The name on the finest homes

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

30% Contribution to Group revenue	£247,375 Average selling price*
2,577 Units sold	10,715 Plots

* Stated before fair value charges of £1.2m on shared equity sales.


Summerwood Place, Sunningdale, Berkshire

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

Space4 supports all three of our housebuilding brands. It operates the largest automated timber frame manufacturing plant in the UK. Timber frames were used in over a third of the homes we built in 2013, achieving excellent energy compliance under the Code for Sustainable Homes.

27% Production output increase in 2013	4,204 Homes built with Space4 timber frames

Westbury partnerships

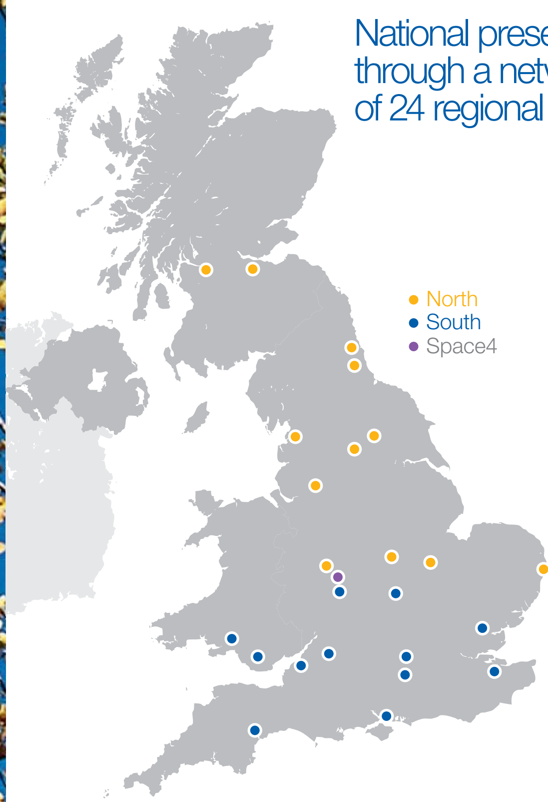
Westbury Partnerships builds new homes for Housing Associations from our regional office network and accounted for 18% of our new homes sales in 2013.

10% Contribution to Group revenue	£98,916 Average selling price
2,121 Units sold	14,460 Plots

Mustang Close, Leigh, Wiltshire

Space4 factory in Castle Bromwich, Birmingham

National presence through a network of 24 regional offices



North

Units sold:
5,650

Landbank:
35,881 plots

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

South

Units sold:
5,878

Landbank:
38,526 plots

Offices:
Studley
Northampton
Witham
Maidstone
Camberley
Fareham
Maidenhead
Malmesbury
Bristol
Exeter
Llantrisant
Swansea

Birmingham (Space4)

Our business model

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

Strategic land

16,300 acres

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

Consented land

74,407 plots

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

Construction

175 new sites

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

Sales

11,528 sales

We build quality homes to order across the UK, from Exeter to Edinburgh and from Llantrisant to Lowestoft. By maintaining a national site network we can maximise our sales potential across the UK.

Our strategic priorities

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

Improve margins

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

Selective new site acquisitions

- More traditional site layouts
- Appropriate product mix
- Excellent locations

Strong cash generation

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

Build sustainable homes

- Improve the energy efficiency of our homes and reduce running costs
- Use modern methods of construction to support site production rates and overcome any potential labour shortages
- Invest in Space4
- Improve resource and waste efficiency

Excellent customer focus

- Improve customer satisfaction and service levels
- Build good quality homes in attractive locations

Robust health and safety

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

Homes people want to buy

Trinity Manor, Stotfold, Bedfordshire
Persimmon Homes

Continued progress against our strategy

Chief Executive's review

"The Group's performance for the year demonstrates that the successful achievement of our short term operational priorities is securing the delivery of our longer term strategic objectives."

Jeff Fairburn
Group Chief Executive

Our strategy

In February 2012 we launched a new long term strategy which identified four key features of the Persimmon business model as being of primary importance:

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

The review concluded that Persimmon would return excess capital generated by the Group to its shareholders over the following nine-and-a-half years. This Capital Return Plan proposed the payment of £1.9bn (£6.20 per share) to shareholders over the life of the plan, providing strategic clarity and regular defined returns over the long term, whilst minimising financial risk through the housing cycle.

I am pleased to be able to report another significant year of progress against this strategy in 2013. The Group's performance for the year demonstrates that the successful achievement of our short term operational priorities is securing the delivery of our longer term strategic objectives, evidenced by the Board recommending an accelerated payment to shareholders of 70p in July 2014. There are many aspects of our performance for the year that contributed to our overall success but I believe the following are the most significant:

1. Legal completions for the year of 11,528 new homes were up 16% and since the launch of the new strategy sales volumes have increased by 23%. Within our 24 regional housebuilding businesses the Group has the capacity to deliver 14,000 to 15,000 new homes each year, providing an opportunity to grow sales volumes by up to 30% from current levels. Management remain keen to capture the increased efficiencies and cash generation that would be delivered from this larger scale of operation.
2. Total forward sales at 24 February 2014, including legal completions so far this year, reached £1.42bn, and were 41% stronger than at the same point last year (2013: £1.01bn).
3. We successfully opened 175 new sites during 2013 against a backdrop of what remains a difficult planning system in which to secure implementable detailed consents. Since the launch of the new strategy we have opened a total of 300 new sites and currently have a very strong network of 390 sites across all regions of the UK mainland.
4. The Group acquired 17,735 plots of new land during 2013, with c.33% successfully converted from our strategic land portfolio. Since the launch of the new strategy we have successfully converted over 11,300 plots from our strategic land portfolio and invested in a further 2,800 acres of strategic land.

   At 31 December 2013 approximately 44% of the plots held as owned or under our control within our forward consented landbank

£890m

Invested in new land in 2012/13

were previously part of our strategic land portfolio.

Since the launch of the new strategy we have acquired c.32,500 plots of new land to support the sustainable growth of the business. Our cash spend on land over this period totalled c.£890m. We continue to identify compelling opportunities for land investment to secure the future growth of the Group.

Land values remain generally stable across our regional markets and offer excellent returns for the future. However, we remain vigilant and should conditions change such that we assess values to be unsustainable, we will stand back from the market.

5. Return on Average Capital Employed* ("ROACE*") for the Group for 2013 improved a further 44% to 17.6% from 12.2% in 2012. Since the launch of the new strategy ROACE* has improved by over 110%.

   Instrumental in delivering this improvement is the increase in underlying operating margin** for the Group to 16.0% for 2013 (from 10.0% in 2011). In addition, the drive to realise swifter build delivery has supported our industry leading asset turn, with work in progress representing just 22% of 2013 revenues.

   This improvement in capital efficiency has been key in maintaining the Group's strong liquidity. Free cash generated before capital return in 2013 was £231m. Since the launch of the new strategy, the Group has generated £410m of free cash before capital returns.

6. On 28 June 2013 we paid the first 75p per share instalment under the Capital Return Plan, amounting to £228m. We now propose a further acceleration of the original planned payments to include:

   - the payment of 70p per share on 4 July 2014, being a part acceleration of the 115p payment originally planned for 2021;
   - the reinstatement in full of the planned 95p per share in 2015;
   - payment of at least 10p in both 2016 and 2018, part-accelerated from the 115p payment originally planned for 2021, the value of which will be reviewed and proposed at the appropriate time.

   This revised schedule of payments under the Capital Return Plan will now be as set out below.

   We believe this revised payment schedule creates further certainty over the value and timing of the return of surplus capital to our shareholders.

Original Plan	New Plan	Original Plan Pence per share	New Plan Pence per share
28 June 2013	28 June 2013	75 paid	75 paid
	4 July 2014	–	70
30 June 2015	6 July 2015	95	95
	6 July 2016	–	10*
30 June 2017	6 July 2017	110	110
	6 July 2018	–	10*
30 June 2019	5 July 2019	110	110
30 June 2020	6 July 2020	115	115
30 June 2021	6 July 2021	115	25
Total		620	620

* at least 10p – value to be reviewed in due course.

Right: Plymstock Quarry, Plymouth Devon.

£908m

Forward sales at 31 December 2013
(2012: £645m)

The UK housing market and trading

We experienced strengthening trading conditions as we progressed through 2013. This improving trend resulted from a combination of an increase in lending activity from the major mortgage lenders, the introduction of Help to Buy stimulus measures by the Government and the improvement in customer confidence as the UK economy returned to more meaningful growth.

Buying a new home was made more affordable during 2013 as mortgage lenders continued to increase the supply of higher loan to value mortgages at increasingly competitive rates. Monthly mortgage approval volumes improved by over 30% during 2013 to reach c.72,000 in December and we anticipate mortgage lenders will continue to increase their lending support to customers through 2014. This improved availability of mortgage finance will be key to the expansion of industry output.

The introduction of the first element of the Help to Buy measures from 1 April 2013 injected additional momentum into the market during the traditionally stronger spring selling season. This 20% shared equity loan scheme has been fully supported by the major mortgage lenders with very competitive interest rates. We believe that these mortgages will remain the most attractive opportunity for customers to buy a new home during the three year life of the scheme. To date we have sold over 4,250 new homes to customers who have taken advantage of these arrangements, of which 2,203 legally completed in 2013.

Against this improving market backdrop our two private sale brands, Persimmon and Charles Church, have traded strongly. The Help to Buy 20% shared equity loan scheme is particularly attractive to first time buyers and supported Persimmon's revenue growth of 23% year on year, to £1.24bn (2012: £1.01bn). Our Persimmon brand offers a greater proportion of first time buyer house types to the market across the regions. Charles Church also delivered significant revenue growth of 15% year on year, to £635.4m (2012: £552.4m). During 2013, over 60% of the Group's revenues were generated in southern regional markets reflecting the distribution of our active site network and landbank and the greater weighting of Charles Church activity in these southern markets.

In addition, our partnership housing business, Westbury Partnerships, delivered 2,121 new homes to our housing association partners across the UK, an increase of 26% year on year (2012: 1,686 homes). Our continued hard work in bringing new sites through into development enabled us to offer our housing association partners the newly built houses they need for lower income families in their communities.

Chief Executive's review continued

£181,861

Average selling price*

(2012: £175,640)

*Stated before fair value charge of £6.6m (2012: £15.9m) on shared equity sales.

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

The traditional seasonality of the market was maintained in 2013, with the spring sales season being stronger than the autumn. Our private sale reservation rate in the first half of 2013 was c.4% stronger than the second half, even with the Help to Buy shared equity loan offer only being available from 1 April 2013. The additional interest that this created can be seen in the significant improvement in the second half private sale rate, which was up c.39% over the prior year, compared with a year on year improvement of 12% in the first half. We reacted swiftly to this sales reservation improvement, quickly increasing our rate of construction to ensure our customers received delivery of their new home within appropriate lead times.

The initial challenges we faced during the period with respect to labour and material resource management gradually receded through the second half of the year. Indeed, the action we have been taking over the last two years to increase the number of apprentices and graduate trainees recruited into the business has proved to be of great benefit in helping us manage the significant increase in activity successfully.

We continued to support our customers with our own shared equity loans and in partnership with the Government under the FirstBuy Scheme in England in the first quarter of the year. FirstBuy was subsequently replaced by the Help to Buy scheme in England. Scotland and Wales have now introduced a similar offering to Help to Buy, from late 2013 and early 2014 respectively, and we expect to see the full benefit of these schemes this year.

Legal completion volumes in the first half of the year were 7% stronger than last year at 5,022 new homes (2012: 4,712 new homes) despite our carried forward volumes at the start of the year being on a par with the previous year. We opened 90 new sites in the first half of the year to maintain our active outlet network at 385 sites. This factor, together with the improvement in our private sales rates, supported the 12% growth in our forward order volumes at 30 June 2013 over the previous year. Legal completions in the second half of the year reached 6,506 new homes, 30% stronger than those delivered in the first six months. Reflecting the 39% year on year growth in private sales rates in the second half, forward order volumes at 31 December increased by 28%, providing a robust platform for sales delivery into 2014.

The Group's average selling price for the first half was £179,199, 5% ahead of the prior year, due to the increased proportion of slightly larger family housing in the mix of sales. This mix effect continued through the second half where the average selling price of £182,286 was 3% ahead year on year.

Selling prices in each regional market have been influenced by normal regional economic factors. On opening up new sites we have

16.0%

Operating margin**
(2012: 12.9% restated)

**Stated before exceptional credits of £14.1m (2012: £2.8m credit) and goodwill impairment of £6.6m (2012: £6.1m).

experienced pent-up demand and have set pricing levels as appropriate. Taken as a whole, the Group's underlying average selling price has remained stable for the year. Customer sentiment has improved through the year and we have been able to reduce our marketing incentives marginally in support of the sales reservations we have secured.

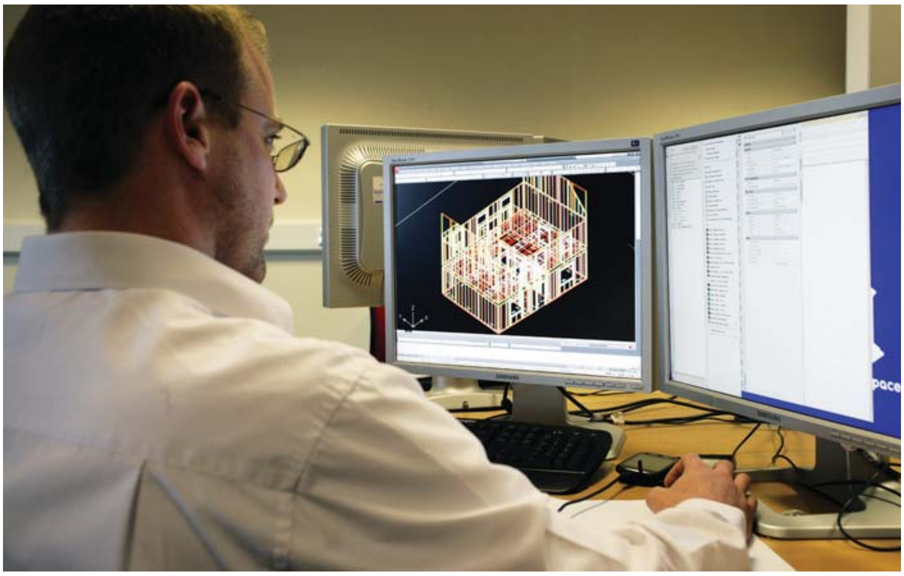
The availability of part exchange facilities has remained attractive to our customers, helping them to secure their home move in what has been a slower second hand market. For the year as whole 24% of our customers took advantage of the convenience of this part exchange offer (2012: 25%). Part exchange take up reduced slightly in the second half to 21% compared with 27% in the first half, as the Help to Buy measures gained greater popularity in the market.

On 8 October 2013 the Government accelerated the launch of the second phase of the Help to Buy measures, introducing Government mortgage indemnity guarantees for higher loan to value mortgages across the whole of the UK housing market. Whilst it remains too early to assess the full impact of this scheme, we anticipate that sales supported by these mortgages may increase if greater competition among lenders reduces interest rates over coming months. More recently some lenders have decided to offer their own higher loan to value mortgage products outside the Help to Buy scheme generating additional choice for customers and creating more competition. Should existing owner occupiers look to move home in greater numbers then the availability of these mortgage products should facilitate an improvement in overall housing transaction volumes, with the new homes market benefiting as these housing chains complete.

Profitability

Our underlying operating margin** improved by 310 basis points year on year to 16.0%. In the second half of 2013 we achieved a margin of 16.6%. We remain focused on maximising the returns from all our developments through optimising planning opportunities and exercising strong control over our development costs and overheads. The significant increase in our build activity has been supported by skilful management of our build programmes, the introduction of a greater proportion of standard house types and increasing use of the timber frame construction solution manufactured by our Space4 factory. Our swift response to the improvement in sales rates has increased productivity and efficiency across the business but has naturally placed greater demands on our land, construction and procurement teams. We are confident that we will be able to maintain our strong site network despite the faster consumption rate being achieved through sales. Indeed, we anticipate opening 90 new sites in the first half of 2014. Our partners in our supply chain are focused on supporting our continued growth, the benefits of which they will share.

Right: A Space4 CAD designer developing a project.



We anticipate securing underlying operating margins over the next 12 months which will grow beyond the 17% upper level of the medium term target range which we set two years ago.

Cash generation

Maximising the cash efficiency of our operations to secure strong liquidity through the housing cycle is at the core of our long term strategy. During 2013 we generated £231m of free cash before capital returns which delivered £204m of cash balances at 31 December 2013.

Despite the investment in additional work in progress to deliver the significant increase in sales year on year, the improvement in asset turn, combined with the cash efficiency of our land replacement activity and the expansion in our cash margins, has allowed us to invest in substantial new land holdings at a rate of 154% of 2013 consumption. This was assisted by a £66m expansion in land creditors to £306m (2012: £240m). This allows the continued growth of the business to be financed through the generation of cash inflows from operations before working capital requirements, which totalled £346m in 2013, without reducing cash resources available to shareholders.

Our business processes are designed to deliver the cash efficiencies upon which the delivery of the Capital Return Plan depends. The further enhancement of the Capital Return Plan demonstrates the confidence that we hold in the continued ability of our operational approach to underpin the delivery of our long term strategy.

We will remain disciplined with respect to our capital needs through the housing market cycle which will maximise the return on the capital invested in the business, the success of this approach being demonstrated by an improvement in the rate of return to 17.6% in 2013 (2012: 12.2%).

Land

The land market across our regional businesses offered excellent opportunities for high quality land replacement through 2013. We acquired over 17,700 new plots of land in the year at margins that meet or exceed our minimum investment requirements. At 2013 output volumes, our owned and controlled landbank at 31 December 2013 of 74,407 plots represents c.6.5 years of supply, which is reduced from 6.9 years at the same point last year. This is in line with our long term strategy of reducing our forward supply to nearer five years at optimal levels of output. The anticipated further growth of the business in conjunction with the ongoing exercise of investment discipline by management will continue to bring the required capital efficiency to our land holdings.

Strategic land investment and promotion remains a key feature of our operational model. We successfully obtained planning permission for 5,765 plots of land from our strategic land portfolio in 2013, representing c.33% of total new land replacement. We also acquired interests over a further c.1,800 acres of strategic land which we believe will secure a detailed planning consent after we demonstrate its sustainable qualities through the normal planning application processes. We have substantial numbers of applications for residential land use submitted with the planning authorities across our regional businesses and remain confident that the current strategic land portfolio of c.16,300 acres will yield in excess of 100,000 forward plots for future development by the business. We believe the new National Planning Policy Framework is improving the efficiency of the UK planning process. This policy is important in ensuring the housebuilding industry gains sufficient confidence in the sustainability of the required level of land supply to support the much needed growth in supply of newly built homes.

Corporate responsibility

Corporate responsibility remains fully integrated into the Group's business model.

High levels of customer care and satisfaction are key objectives of our operational approach. We are continuing to improve our policies and procedures to ensure they remain fit for purpose during this period of rapid growth in sales and build rates. We engage in detailed benchmarking exercises which allow all our management teams across the Group to adopt best practice processes in sales, development and new home design, construction and after-sales customer care and support. We invested over £38m in new community facilities during 2013 (2012: £33m) including the provision of sports facilities, schools and education contributions and public open spaces which facilitates the integration of our new developments as part of larger sustainable communities. During 2013 we again received a 4 star rating in the external customer satisfaction surveys conducted for the industry by the National House Building Council and the House Building Federation (2012: 4 star).

With the significant increase in site activity associated with the drive to increase rates of construction we have been working very hard to ensure continuity of a safe and healthy working environment for all our employees. We experienced a reduction in the number of RIDDORs (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) reported in 2013 to 48 (2012: 53) despite the significant increase in build rates. The Group continues to work closely with the Health and Safety Executive to ensure the correct standards are achieved through the active management of operations by our senior management, our construction teams and our site based sub-contractors.

Sustainability of our operations is determined by both the design of our developments and house types, and our construction processes and efficiencies. Our "fabric first" approach to new home construction resulted in a standard energy efficiency rating for all our new homes sold in 2013 of 83 out of 100 which is substantially ahead of the UK housing stock average rating of 53 out of 100. We further improved our environmental care performance during the year, reducing the average waste generated per home sold to 5.7 tonnes, an 11% improvement year on year (2012: 6.4 tonnes). In addition we increased the proportion of waste which we recycled to 90% (2012: 88%). The preservation and improvement of the environment remains an integral part of our approach to residential development creating environments in which people wish to live.

The Group is committed to a process of continuous training for its staff to develop the essential skills that underpin the delivery of our operational objectives. The number of apprentices and trainees in the Group has increased to 277 during 2013 and we provided over 4,400 training days to our employees. We are particularly keen to ensure that the Group offers advancement opportunities to all our staff on merit, as we believe the UK housebuilding industry offers great opportunity for a fulfilling and rewarding career.

£1,424m

Forward sales at 24 February 2014
(2013: £1,010m)

Current trading outlook

Trading conditions improved in 2013. We experienced an increase in customer confidence borne out of improving economic performance, increased lending activity by the mortgage lenders and Government support. We expect this trend will continue in 2014 albeit at a more modest pace given the progress made in 2013.

The early weeks of the spring market have been encouraging. We have opened 40 of the 90 new sites planned for the first half of 2014 and are experiencing good demand at these excellent locations.

Our forward sales revenue including legal completions in the first eight weeks of 2014 is 41% ahead of last year at £1.42bn (2013: £1.01bn). Our private sale reservation rate over this period has been 22% stronger than the prior year, accepting that the Help to Buy measures were not introduced until 1 April 2013 and the prior year comparables therefore exclude any support from these measures. We continue to secure c.35% of our private sale reservations with mortgages linked to the Help to Buy shared equity loan scheme.

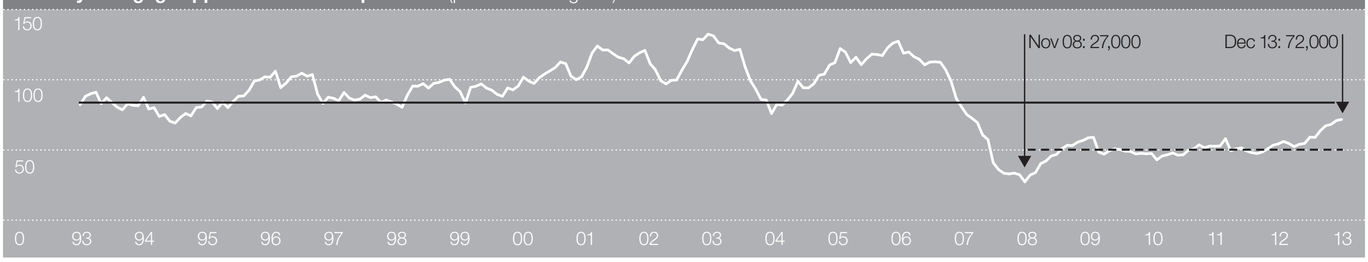
Our forward order book indicates a further improvement in profitability as we progress through 2014. This will be supported as we open up new sites and focus on achieving further efficiencies and operational improvements.

We believe our cash generation will remain strong and will support further investment to underpin the growth of the business. Continued strong liquidity and careful management of the land investment cycle will help create greater certainty over the delivery of the Capital Return Plan payments.

I am pleased with the progress the Group has made in 2013. Furthermore, I am greatly encouraged by the energy, imagination and dedication of the whole Persimmon team from which I draw a great deal of confidence for the future of the business. I would like to thank them for all their efforts and hard work. We will concentrate on taking advantage of the many opportunities to develop the business and we will continue to focus on delivering new homes in good quality locations which provide environments in which our customers wish to live. I am confident of the Group's future success.

Jeff Fairburn
Group Chief Executive
24 February 2014

Monthly mortgage approvals for house purchase (per Bank of England) '000



— Average monthly approvals: 84,000
--- Average monthly approvals since beginning of 2008: 50,000

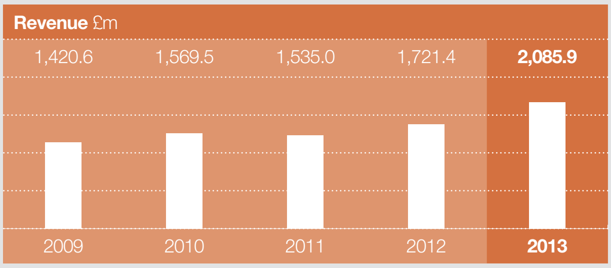
Measuring the success of our strategy

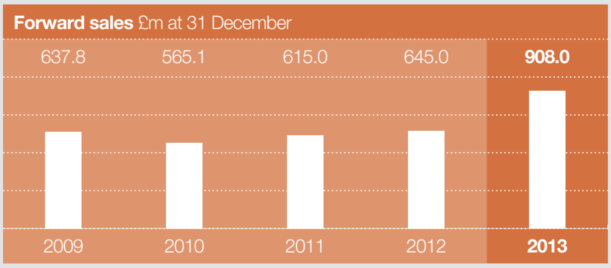
Key performance indicators

Financial KPIs

Revenue measures

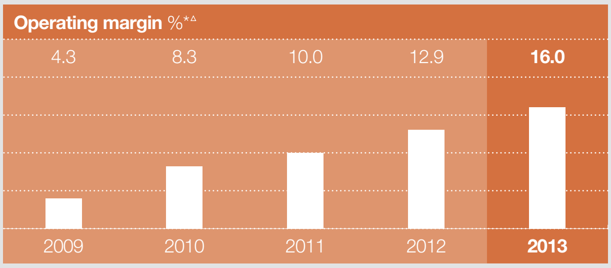
Strength of revenue is an important measure of the success of our business plan. Our emphasis on traditional housing puts us in a strong position to maximise sales.

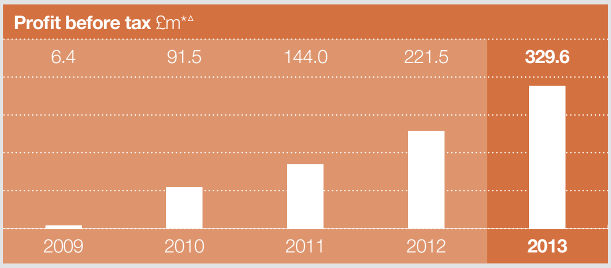




Profit measures

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





See **Our strategic priorities**
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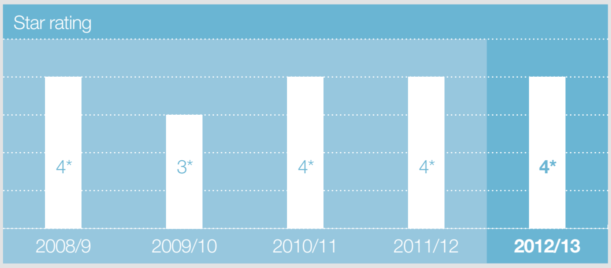
* Stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment the figures are as follows: Operating margin: 16.3% (2012: 12.7%; 2011: 10.6%; 2010: 13.2%; 2009: 9.3%) Profit before tax: £337.1m (2012: £218.2m; 2011: £143.1m; 2010: £149.9m; 2009: £77.2m).

△ 2009–2012 comparatives restated for IAS 19 Employee Benefits (revised).

Non-financial KPIs

Customer survey

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



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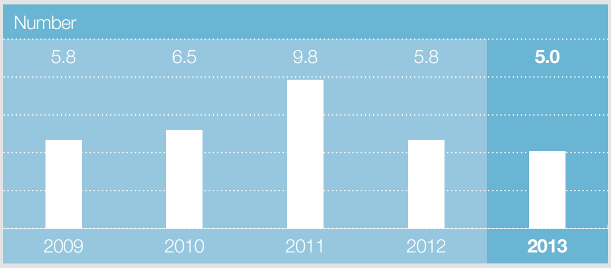
* Questionnaires returned for homes sold from October to September each year. Star rating out of 5.

The Reportable Injuries Disease and Dangerous Occurrences Regulations

Our priority is the health and safety of our workforce and visitors. We regularly monitor and review our performance based on our incident rate of RIDDORs reported per 1,000 workers.



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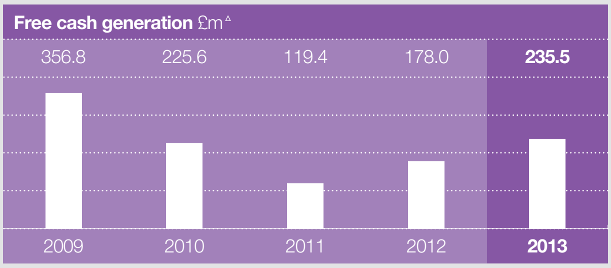
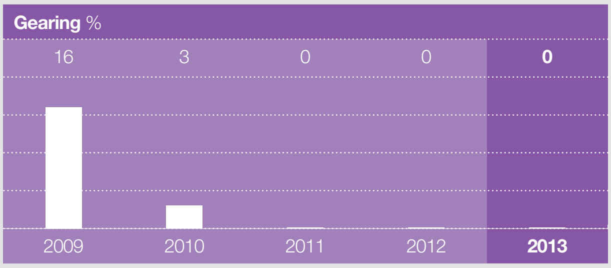
In 2013 regulations on RIDDORs changed from over 3 to over 7 day absences.

Cash and cash flow measures

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





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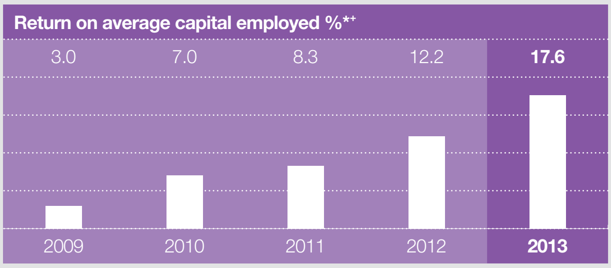
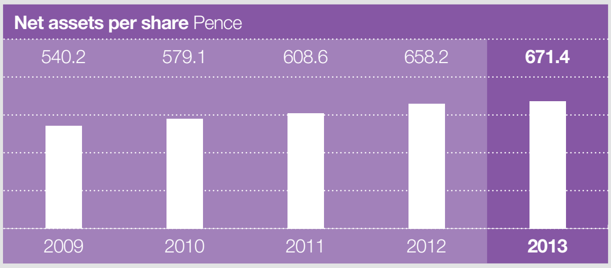
^Δ Free cash generation is defined as net cash flow before financing activities.

Return measures

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





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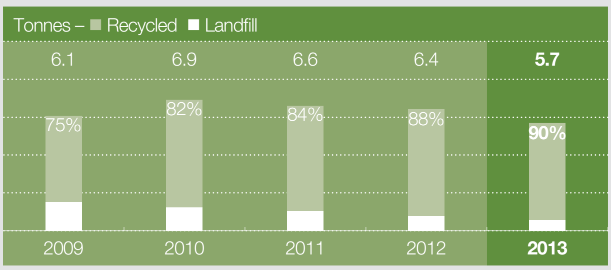
* Stated before exceptional items and goodwill impairment. After exceptional items and goodwill impairment the figures are as follows: Return on average capital employed: 18.0% (2012: 12.0%; 2011: 8.8%; 2010: 11.1%; 2009: 6.4%).

+ 2009–2012 comparatives restated for IAS 19 Employee Benefits (revised).

Waste recycled per home sold

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



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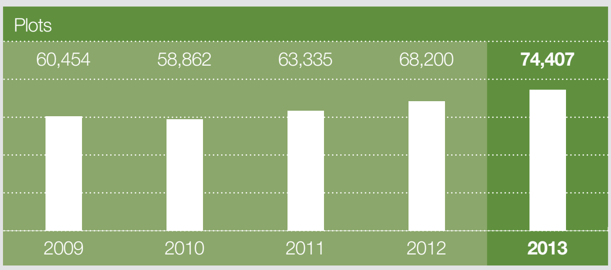
Landbank

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



See **Our strategic priorities**
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Working locally to create better environments

Riverside Quarter, Colchester, Essex
Persimmon Homes

Delivering solid results

Operational performance review

"Operational objectives target strong performance."

Mike Killoran
Group Finance Director

Persimmon delivered a strong performance in 2013 as the Group focused on capturing the benefits of improving rates of sale whilst opening new outlets in excellent locations of proven housing demand.

From 1 January 2013 the Group was reorganised to support the delivery of further operational improvements across the country, from strategic land identification and promotion, through to construction programming and house type design.
Our operational management teams have the opportunity to learn from their combined experience in markets to further improve performance. There is a good balance to the distribution of the operational footprint across the regions with our 24 separate housebuilding businesses. The financial performance of the Group benefits from this spread of operations which mitigates market risk.

During 2013 the Group continued to make substantial investments in high quality replacement land across the country, the total consented landbank increasing by 9% over the year to reach 74,407 plots owned and under control at 31 December 2013.

The financial results for 2013, together with the financial position of the business at the year-end, demonstrate the strong progress the Group has made. These results also point to the exciting opportunities available to the Group's four brands, Persimmon and Charles Church in the private sale market, Westbury Partnerships in the Housing Association market place, and our Space4 business, which is the largest automated timber frame manufacturer in the UK.

Persimmon

Our Persimmon business delivered 6,830 new homes in 2013, an increase of 16% on the prior year (2012: 5,883 new homes). Total revenues* of £1.25bn increased by 22% year on year. Persimmon is focused on the sale of traditional family housing, on developments which typically provide the widest choice of house types in a single location, to cater for the needs of first-time buyers and customers looking for larger homes to accommodate growing family needs.

The average selling price* of a Persimmon home in 2013 was £182,899, 4.9% ahead year on year due to the sales mix moving towards a slightly greater proportion of larger homes being sold.

Our regional markets within the North delivered 57% of Persimmon's total sales in 2013 (2012: 56%) at an average selling price* of £161,188 (2012: £161,896). Selling prices have been influenced by the usual regional market factors and we have been pleased with the levels of demand we have experienced on opening up new developments across the country. The average selling price* for our regional markets in the South was £211,523 (2012: £190,345). The highest average selling price* was achieved by our Shires region for the second year running, at £228,619 (2012: £204,545) with significant sales contributions coming from larger homes sold from sites at Oxford and Bushey, Hertfordshire. The lowest average selling price* was for our Yorkshire region at £153,973 (2012: £152,879) with good levels of sales from developments at Hull and Scunthorpe.

*Stated before fair value charges on shared equity sales.

390

Average site numbers
(2012: 375)

Persimmon sales volumes increased significantly in the second half of the year over the first half supported by the introduction of the Government's Help to Buy scheme and increased availability of mortgage credit. More notable increases were secured in our Scottish and Yorkshire regions, 63% and 44% up respectively and in our Shires and Wales regions which were 39% and 34% up respectively. These significant increases in legal completion volumes were only secured through the rapid response of all management teams in increasing production rates. Whilst programming and resourcing this increase in build activity has been challenging we are pleased with the progress the business achieved in 2013.

The Persimmon forward consented landbank at 31 December 2013 totalled 49,232 plots owned and under control, representing 7.2 years of forward supply at 2013 consumption rates. This forward supply has shortened through the year from 7.6 years at December 2012 due to the strong increase in the rate of sales and land usage and despite robust land replacement in the year. We have acquired 11,447 plots of new land in 2013. The anticipated future growth in Persimmon sales volumes will continue to deliver improvements in asset efficiency which will support strong liquidity and increased returns on capital.

Whilst we have continued to be active in the open land market we have enjoyed significant success in converting our high quality strategic land across the UK. In our Essex region we successfully gained planning consent for 333 plots at Harlow and in our North Midlands region we secured consent for a 110 unit scheme at Market Harborough, Leicestershire. In addition, we were successful with planning for a 150 unit development at Brundall, East Anglia and for 44 plots at a site at Easingwold in North Yorkshire. These further examples of successful strategic land delivery demonstrate the benefits of our planning capabilities and skills in contributing high value land in support of the delivery of superior shareholder returns over the long term. This also requires continued identification and investment in new strategic land for future conversion.

We have sustained our investment in our strategic land operations and over the last five years have successfully converted over 23,000 plots from our strategic land portfolio into our forward consented landbank. This represents c.43% of all land replacement acquired over this period and will support superior future cash generation from our operations.

Our joint operations with St. Modwen continued to grow in 2013. We delivered 150 new home legal completions from the existing seven active sites spread from Sunderland in the North East to Llandarcy in Wales and Uxbridge in the South East, up from 56 in 2012. We continue to work with St. Modwen to identify potential new locations which will secure appropriate investments for the Group.

Right: Persimmon Homes, Argyll View, Greenock, Inverclyde.

£2.05bn

Net assets
(2012: £1.99bn)

Right: Meadow Brook, Stotfold, Bedfordshire, Charles Church.

Charles Church

Total revenues* from sales of Charles Church new homes increased by 15% to £637.5m (2012: £555.7m). We experienced good levels of demand across the regions for our Charles Church house types, which typically offer larger accommodation in high quality locations. Legal completions increased by 10% year on year to 2,577 new homes (2012: 2,334 new homes). Legal completion volumes in the second half of 1,437 new homes grew strongly, being 26% higher than in the first half of the year.

There is a broad geographic spread to our Charles Church site network with two thirds of total legal completion volumes being delivered in southern markets. We tailor the delivery of the Charles Church product to local markets where our research and experience has identified strong customer demand for the product. In addition, by introducing both the Charles Church and Persimmon brands jointly onto appropriate developments we can maximise our sales rates and asset turn whilst providing a compelling offer to the broadest cross-section of customers helping to mitigate market risk. For example, we expect Charles Church to deliver strong sales from Harlow in Essex, one of the large strategic land successes in the year.

At the end of December 2013 Charles Church held 4.2 years of consented forward land at 2013 levels of sales, being 10,715 plots owned and under control. Whilst the number of plots held increased by 7% year on year, forward years cover shortened slightly from the 4.3 years held in December 2012 due to the strong increase in legal completions in 2013. The anticipated further growth of Charles Church volumes will continue to improve the asset efficiency of the business in line with overall Group strategy. The length of the Charles Church landbank is deliberately shorter than that for Persimmon to compensate for the generally slower rate of sale of Charles Church homes, which reflects its higher selling prices. This policy ensures that the return on capital employed in the business is maximised.

Strategic land support is a key feature of the Charles Church business. Of the 3,248 plots of new land introduced into the business in 2013 over 40% was sourced from the successful conversion of previously held strategic land, including consent for 180 plots at Rothley north of Leicester and for a 480 unit development at Burgess Hill north of Brighton. Charles Church now holds c.41% of its forward consented landbank from ex-strategic sources, which will provide further strong support to the business over coming years.

*Stated before fair value charges on shared equity sales.

2,121

Westbury Partnerships homes sold
(2012: 1,686)

Westbury Partnerships

Our Westbury Partnerships business has very strong relationships with the Homes & Community Agency ("HCA") in England and the Housing Agencies in Scotland and Wales, and is working hard to support greater access to the housing market for their local communities. We believe that by delivering healthy increases in the volume of newly built homes across the UK mainland we are providing a meaningful contribution to the rehabilitation of the broader UK economy. During 2013, 528 legal completions were delivered with support from the Government's FirstBuy scheme. This was replaced by the introduction of the Help to Buy shared equity scheme on 1 April 2013. Under the Help to Buy scheme 2,203 new homes were legally completed in 2013 with over 2,050 homes reserved and exchanged for future delivery.

A specific focus of our Partnerships management team is to work closely with housing associations to deliver well designed affordable housing to the benefit of lower income occupiers. Our Westbury Partnerships business delivered 2,121 new homes (2012: 1,686 new homes) to our housing association partners during 2013. This is an increase of 26% on the prior year and represents c.18% of the Group's total output in 2013 (2012: c.17%). By capturing these opportunities our Westbury business plays a key part in the delivery of sustainable residential development across the country in line with the objectives of the National Planning Policy Framework. A key strength of the Partnership business is the visibility of new outlet openings that our regional management teams continue to secure through the local planning processes across the regions. This allows the Partnership management team to promote the sale of the affordable housing element of each development to our housing association partners at an early stage. We believe that our well designed affordable housing will continue to attract strong interest across all tenures. Westbury Partnerships will lead the further development of the Group's participation in this very important market area.

Westbury Partnerships also leads the Group's engagement in the Government's Affordable Housing Programme ("AHP") which is focused on the construction of low cost homes across the regions. Through close consultation with the HCA, the Group has agreed a commitment to construct 378 homes supported by funding of £4.0m as part of the AHP. During 2013, 94 new homes were delivered from sites at East Trowbridge near Bath, Walton-le-Dale near Preston and Victoria Park in Stockton-on-Tees, 77 of which are to be made available at lower assisted rental levels with 17 homes for shared ownership. In 2014 we anticipate over 150 additional new homes will be delivered under this scheme across 8 separate sites.

The Group also participates in the Government's Delivery Partner Panels ("DPPs") which are the primary route through which the Government is seeking to dispose of public land. The Partnership's management team leads our participation under the DPPs and we anticipate that the Group will secure a number of opportunities as the Government pushes ahead with its disposal plans.

Space4

Space4 is the Group's closed-panel timber frame manufacturing business. Timber frames manufactured by Space4 are sold into the Group's housebuilding businesses for the construction of new homes in both the private sale and housing association markets. This modern method of construction achieves very high levels of thermal efficiency with its "fabric first" approach, making it ideal to meet the more demanding construction standards being required of residential developers as building regulations are improved to support the delivery of zero carbon objectives for all newly built homes over the medium term.

Space4 increased its output by c.27% year on year to over 4,200 new home kits (2012: 3,310 kits) in response to the sharp increase in demand experienced from Q2 2013. The Group's housebuilding businesses are continuing to use Space4 product in increasing volumes to capture the build efficiencies available on site through the utilisation

4,204

Homes built with Space4 timber frames
(2012: 3,310)

Right: Manufactured Space4 panels ready for distribution.

of this construction system. The system allows the swift delivery of the finished home through improvements in resource planning, supporting both shorter customer lead times and a more rapid asset turn in our housebuilding operations.

The Space4 management team, in conjunction with the Group's housebuilding experts, continue to trial and test alternative materials and processes to secure additional manufacturing efficiencies and performance, as well as working with our logistics partners to optimise the all-in cost to our development sites.

We are encouraged by the responsiveness of the Space4 factory to our higher build volumes and anticipate further increases in Space4 output to support the Group's growth over the coming years. The Space4 facility currently has capacity to produce c.8,000 timber frame kits annually, which offers significant future potential.

Net finance costs, cash flow and funding

Net finance cost for 2013 was £3.5m (2012: £1.0m as restated**). The increase of £2.5m year on year is primarily from the interest charge on the financial liability to the Group's pension scheme resulting from the asset backed funding transaction undertaken on 21 December 2012. This charge totalled £2.9m for the year.

The Group experienced strong liquidity through 2013 reflecting the active management of the timing of key cash flows. Utilisation of the Group's revolving credit facilities was limited to periods of peak working capital requirement, particularly during the second half of the year following the payment of the first Capital Return Plan payment of £227.9m on 28 June 2013.

The Group generated £231m of free cash flow before the Capital Return in the year. Average cash balances for the first half of the year were c.£100m with average borrowings in the second half of c.£10m. The payment of the first Capital Return of surplus capital during the year reflects the capital discipline which lies at the core of the Group's long term strategy. This discipline will continue to prioritise a secure financial position for the Group, the appropriate level of reinvestment in the business to support future return generation, and superior cash returns to shareholders. The Group ended the year with £204m of cash balances.

** Restated for amendment to IAS 19 'Employee Benefits'.

Creating homes for all lifestyles

Isis, Portishead, Somerset
Charles Church

671.4p

Net assets per share
(2012: 658.2p)

Balance sheet

The total net assets of the Group increased by £52m during 2013 to £2,046m (2012: £1,994m). This 3% increase largely reflects the capital discipline which lies at the heart of the Group's long term strategy, with the bulk of the Group's after tax earnings of £257.2m being returned to shareholders by way of the first payment of surplus capital under the Capital Return Plan.

This payment was made via a B/C share plan. This share plan allowed each shareholder to elect to receive the payment of 75 pence per share either as income (as a dividend) or as capital (as an allotment and redemption of B shares). Shareholders elected to take £151.2m as dividends and £76.7m in cash redeemed B shares as capital, a total Capital Return Plan payment of £227.9m. The retained earnings were added to by an after tax remeasurement gain of £5.8m associated with the pension scheme surplus of £23.5m and share-based payments of £17.0m.

This capital discipline, together with the strong improvement in operating profit, resulted in the underlying return on capital employed for 2013 improving by 44% to 17.6% (from 12.2% for 2012).

Net assets per share increased to 671.4 pence, an increase of 2% year on year (2012: 658.2 pence).

At 31 December 2013 the carrying value of the Group's land assets was £1,637m, an increase of £141m over the prior year (2012: £1,496m). This reflects further strong investment in acquiring over 17,700 consented plots during the year and the net write back of a stock impairment provision by £14.1m (2012: £2.8m).

The Board has reviewed the carrying value of land and work in progress for impairment at the year end adopting identical principles to prior years. With stability of selling prices experienced throughout 2013, the Board concluded that the element of provision which was being held to cover potential future price weakness of 6% should be released now that conditions have provided greater confidence in current pricing. The net exceptional credit on the face of the income statement of £14.1m reflects a gross reversal of provision no longer required of £22.0m and additional requirement of £7.9m. Of the £22.0m gross reversal, £13.3m is in relation to provision for future price weakness no longer required. At the year end we retained an impairment provision of £102.8m (2012: £151.3m) which we consider appropriate given our assessment of the land and work in progress carrying values in the context of current market uncertainties and their potential impact on both future revenues and direct costs. The Notes to the Accounts in our Accounting Policies at Note 2, our Critical Accounting Judgements at Note 3, Exceptional Items at Note 6 and Inventories at Note 18, include further details of our approach to inventory impairment.

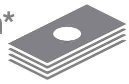
At 31 December 2013 the value of our investment in work in progress totalled £463.5m (2012: £443.1m). This level of work in progress represented just 22% of 2013 revenues (2012: 26%) reflecting the strong level of control exercised by management over site activity against a backdrop of a large step up in construction activity. This industry leading asset turn performance is a key ingredient in supporting superior cash generation and return on capital. Management will continue to use strong production control to minimise operational and financial risk.

The Group's "Available for sale financial assets" represent deferred receivables from shared equity loans provided to our customers. The carrying value of this receivables portfolio was £215.4m at 31 December 2013 (2012: £202.9m). With the introduction of the Government sponsored Help to Buy measures across the market in 2013 the Group anticipates a much reduced need from customers for this Persimmon sponsored support. Further details regarding these assets are disclosed in Notes 17 and 22 to the Accounts.

During 2012 and 2013 the Group executed a number of pension scheme liability management measures as well as undertaking an asset backed funding transaction on 21 December 2012. In addition to the contributions paid into the scheme, these measures have provided additional security to all members of the Group's defined benefit pension schemes. The Group has adopted the Amendments to IAS 19 Employee Benefits from 1 January 2013 as explained in Note 1 to the Accounts. At 31 December 2013 the Group had a net pension asset of £23.5m (2012: net pension liability £4.1m). The Group's liability associated with the asset backed funding transaction undertaken in late 2012 is £55.4m (2012: £57.8m) and is recognised as a "Partnership Liability" in the Group balance sheet. Further details are disclosed at Note 30 to the Accounts.

£235.5m

Free cash generation*



(2012: £178.0m)

*Net cash flow before financing activities.

Treasury policy and related risks

The long term strategy of the Group requires management to maintain flexibility between investment in the asset base of the business and the delivery of cash returns to shareholders. The requirement for flexibility recognises the cyclicality of the UK housing market. We believe this will support the successful development of the business through the market cycle over the long term, whilst ensuring the financial position of the Group remains strong and superior returns are delivered for our shareholders.

The disciplined approach to risk mitigation and strong cash flow management will ensure the Group is able to pay its liabilities as they fall due securing the Group's strength as a going concern, underpinning its ability to deliver the planned shareholder returns.

The long term strategy announced in early 2012 which undertakes to return £1.9bn of surplus capital to shareholders demonstrates the Board's commitment to capital discipline through the housing cycle. Indeed, the acceleration of these payments underlines the Board's commitment to remain flexible in striking the appropriate balance over time as the business and markets develop. The generation of increased annual earnings, adjustments to the Group's equity and debt and cash management facilities, and changes to the planned shareholder capital returns provides flexibility which will allow management the appropriate level of capital support through the housing cycle to execute its operational programmes.

The Group faces a number of financial risks including credit risk, liquidity risk, interest rate volatility and debt capital market pricing risk. The Board remains focused on maintaining strong liquidity with gearing being used only to support short term working capital needs as determined by the Group's annual trading pattern. A small group of banks with whom we have long term relationships provide the Group with a £300 million revolving credit facility for working capital purposes. This facility is available for a five year term maturing 31 March 2016.

The Group's disciplined approach to risk management is supported by strong internal reporting procedures which are structured for the early identification of potential risks as they arise. Monitoring and forecasting processes enable management to take prompt action to control and mitigate risks as identified. These shorter term measures operate within the context of our longer term business modelling which sets the longer term parameters by which our strategy will be delivered.

The Group employs dedicated risk management resources within a well developed risk management programme which targets the strengthening of key controls in the business to mitigate the impact of risk on the operational and financial performance of the Group. Operational management are at the forefront of the Group's processes which address the risks the business faces daily.

The Group does not use derivative financial instruments for speculative purposes. Details of the Group's financial instruments and financial risk management are included in Notes 20 and 22 to the financial statements.

Summary

The Group has performed strongly in 2013. Management increased build rates rapidly from the second quarter of the year to levels that satisfied the significant increase in customer demand and accelerated the Group's growth plans. We remain firmly of the opinion that so long as our customers receive the appropriate level of lending support then we will be able to deliver the new homes they wish to buy in high quality locations.

The growth in output and substantial new land investment committed in 2013 for the future demonstrates the ambition of the Group for the further successful development of Persimmon over future years. The Group enjoys a very strong financial position with excellent strategic land holdings with improving prospects of planning success, and generates significant free cash inflows with which to successfully develop this land in the future. This will deliver superior cash returns to our shareholders over the long term.

The rapid rate of growth achieved in 2013 has been secured whilst overcoming a number of important challenges. These challenges have only been addressed by each of our businesses remaining firmly focused on the customer in everything we do. We are particularly pleased with the strength of team spirit across our business, with colleagues working hard to support each other effectively and efficiently in delivering new homes to our customers promptly.

On behalf of the Board we thank all the Persimmon team for all their hard work and look forward to their continued success in the future.

Mike Killoran
Group Finance Director
24 February 2014

How we manage risk

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

Board
- Sets the Group strategy
- Establishes the policy to reduce risk
- Ensures appropriate financial controls are available
- Regularly monitors Group risks

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

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

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

Our risk management process

Identify – Areas of key focus

Mitigate – Implement control processes

Monitor – Ensure compliance

Review – Principal risks

Key areas of focus during 2013

Quality of new land investment

Monitoring health and safety policy and procedures

Reviewing Group sales and marketing policy and procedures

Review of upgrade of information technology

Review of the carrying value of the Group's landbank

Review of shared equity fair value

Principal risks

Risk	Impact	Mitigation
Strategy	The Board has adopted its strategy as it believes it is the one most likely to add the greatest value for shareholders and stakeholders. It is possible that, with time, factors become known that indicate that the strategy currently being pursued is not the most effective or efficient and that alternative strategies may be more appropriate.	The Group's strategy is agreed by the Board at an annual strategy meeting and thereafter regularly reviewed at Board meetings and by the Executive Directors. The Board engages with management and employees to ensure the strategy is communicated and understood and that all employees have a clear understanding of the potential benefits and risks of the strategy.
National and regional economic conditions	The housebuilding industry is sensitive to changes in unemployment, interest rates and consumer confidence. Any deterioration in economic conditions may significantly decrease demand and pricing for new homes, which could have a material effect on our business revenues, margins and profits and result in the impairment of asset values.	We control the level of build undertaken by closely managing our work in progress levels. We carry out extensive due diligence prior to our land investment decisions to capture best returns. We monitor our geographical spread to mitigate the effects of local microeconomic fluctuations.
Mortgage availability	Any restrictions in the market availability of mortgages for our customers could reduce demand for our homes and affect revenues, margins and profits.	We ensure construction is matched to our level of sales. We can use shared equity schemes to enable buyers with small deposits to purchase our homes.
Regulatory compliance	Our business is subject to extensive and complex laws and regulations principally relating to planning, the environment and health and safety. Our obligations to comply with legislation can result in delays causing us to incur substantial costs and prohibit or restrict land development and construction. Non compliance could also result in damage to the Group's reputation.	We operate comprehensive management systems to ensure regulatory compliance and reduction in reputational risk, particularly relating to the health and safety of our workforce, customers and visitors. We hold a landbank sufficient to provide security of supply for short to medium term requirements.
Capital requirements	Our ability to continue to manage our business may depend on our ability to access capital on appropriate terms. We could be adversely affected by a change in our credit rating or disruption in the capital markets resulting in credit facilities not being available. We also require access to bonding facilities to secure planning, road and sewer agreements for our developments.	The Group actively maintains an appropriate mixture of medium and long term debt facilities and bonding lines to ensure sufficient funds and bonding are available to support operations. The Group regularly reviews its forecast capital requirements to ensure these facilities are sufficient to support anticipated demand.

New communities where people want to live

Meadow Brook, Stotfold, Bedfordshire
Persimmon Homes

Building a sustainable business

"Our focus on sustainability helps us to add value to our business"

Marion Sears
Chairman of the Corporate Responsibility Committee

Our focus on sustainability helps us to add value to our business and our vision of the future is simple – a commitment to the creation of sustainable communities in which people want to live, whilst working to address environmental challenges, such as site remediation and resource depletion.

During 2013 we have further developed the framework we use to manage sustainability within our business. The demands of society, the economy, resource constraints and legal regulations continuously change and we monitor these changes to ensure that our policies, procedures, and practice continue to manage sustainability effectively.

Our sustainability strategy, policies and procedures are cascaded through the Divisions to the management teams of each operating business. This ensures that sustainability is on the agenda of each operating business and that best practice across the Group can be shared effectively.

Customers

Customer care remains one of our top priorities. Our aim is to take care of our customers, not just when they are buying one of our homes, but also after they have moved into their new homes. All of our staff are trained to provide the highest level of customer service. During 2013 we have retained our overall 4* rating in the HBF/NHBC independent survey on our customer satisfaction.

Making our new homes affordable to our customers remains an important aspect of our business model. Our average selling price in 2013 was £181,861, slightly below the national average selling price, but 40% of our homes were sold for £150,000 or less. Mortgage availability during the last year has improved but the number of loans issued by the Council of Mortgage Lenders is still c. 15% below the long term average, and lenders are still requiring substantial deposits to enable customers to obtain the best mortgage rates.

The introduction on 1 April 2013 of the Government's Help to Buy shared equity mortgage scheme has assisted many of our customers who do not have a large deposit. The average price of Help to Buy homes sold by the Group is £195,356 with 90% of those homes sold to first time buyers.

Persimmon has also provided its own shared equity loans to customers under our Helping Hand Scheme during 2013. We also participate in NewBuy and Help to Buy Phase Two, the Government backed mortgage indemnity schemes launched in 2012 and 2014. Under NewBuy customers are able to obtain 95% mortgages on new build properties. We have been able to assist around 620 customers under these schemes.

Sustainable homes

We believe that homes should be sustainable by being inherently efficient in their design and construction without the necessity to use supplemental technologies. Our modern design standards mean that new homes built by the Group are inherently more energy efficient than older housing stock using this "fabric first" approach. All our construction materials are sourced from suppliers based in the UK.

In 2013 the Group built 2,797 homes assessed against the Code for Sustainable Homes or the preceding EcoHomes standard, both of which assess energy efficiency, water consumption and material use as well as other sustainability criteria. This equates to 24% of our total homes sold, up from 22% in 2012. Overall the energy efficiency of our homes reduces carbon

90%

of construction waste recycled
(2012: 88%)

emissions and results in lower energy bills for our customers. The standard assessment procedure for rating the energy efficiency of all our homes was 83 out of 100 in 2013, substantially above the UK housing average stock rating of 53.

Our fabric first approach utilises our Space4 closed panel timber frames, manufactured to produce high energy performance new homes. As well as generating over 60% less CO_2 emissions than older existing housing stock, our new homes built using Space4 timber frames exceed acoustic performance standards set by building regulations, use considerably less water during construction than conventional building methods, can be rapidly and easily assembled resulting in a better and safer working environment for our employees and generate minimal waste during construction.

Resource efficiency

Waste is the housing sector's most significant environmental impact and its management is an important part of our business. Minimising waste is achieved through efficient design, logistics and stock control, the use of prefabricated and pre-sized materials, minimising packaging and efficient construction techniques. During 2013 the average waste generated per home sold was 5.7 tonnes, a reduction of 11% on the previous year (2012: 6.4 tonnes).

We generated a total of 65,800 tonnes of waste in 2013 but increased the amount that we recycled to 90% (2012: 88%). The total waste generated was 4% more than the prior year (2012: 63,000 tonnes), despite a 16% increase in the number of homes we legally completed. As a result, less than one skip of waste per home built was sent to landfill in 2013. We will continue to maximise the recycling and recovery of construction, demolition and excavation waste on our sites and ensure that our waste contractors become more efficient in the segregation and recycling of waste.

We continue to monitor our energy use and CO_2 emissions and have used the DEFRA Environmental Reporting Guidelines and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2009-2013 as our methodology for calculating our emissions.

We consumed 28.7 million kWh of energy to power and heat the site offices, sales offices and show homes on our development sites. The amount of energy used in our offices decreased to 8 million kWh in 2013 (2012: 9.6 million kWh). Overall energy consumption was therefore 36.7 million kWh in 2013, (2012: 29.7 million kWh), equating to 9,600 tonnes of CO_2e (2012: 8,336 tonnes of CO_2e).

During 2013 with the expansion of our business our company car fleet increased to 858 vehicles from 815 in 2012. However the amount of fuel used has remained static at 2.4 million litres since 2010 as a result of our strategy to offer employees more fuel efficient lower emission cars. The total carbon footprint from our motor fleet operation equates to 6,300 tonnes of CO_2e, a reduction of 6% since 2009 when our fleet was less than 650 vehicles.

Our total operational carbon footprint for 2013 was 15,900 tonnes, equating to 1.38 tonnes of CO_2 per home legally completed (2012: 1.37 tonnes of CO_2 per home completed). This small increase reflects our substantial increase in production and work in progress on our sites.

Our people

Our workforce has again increased in 2013 to an average of 2,791 employees (2012: 2,515 employees). One third of our employees are female (930 staff). There are eight male directors and one female director of the Company. A key strength of our business is that we have a significant number of long serving employees providing a valuable contribution to our business. Our senior management team comprises 155 employees of which we have 20 female senior managers, comprising 13% of our senior management team.

We have continued to increase the number of apprentices and trainees in the business to support the Group's growth strategy. By the end of the year we increased the number of apprentices and trainees employed within the Group to 277 (2012: 90). We anticipate the further development of our training programmes will continue over future years.

We continue to offer all of our employees the opportunity to develop their skills and invest in job development programmes to build abilities in our construction, technical and management disciplines. In 2013 we provided over 4,400 days of training for our employees, equating to 1.6 days per employee (2012: 1.8 days). All the Group's employees are employed in the UK.

Right: New buyers Michael and Leigh Ann Badoni at Persimmon Homes, Earnock Glen, Hamilton, Lanarkshire.

Health and safety

One of the Group's top priorities is to ensure the health, safety and welfare of our employees, subcontractors, customers and visitors to our sites. We monitor our health and safety performance through regular performance checks and site visits by Group health and safety advisors and the senior management of our operating businesses. Regular inspections of work activities by our contract managers, site managers and sales managers are also undertaken. The planning and management of safety issues ensures that all our employees are engaged in the process and we encourage responsibility at an individual level for health and safety risk identification and mitigation. The number of work related reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) in 2013 was 48 (2012: 53) a reduction of 10%.

In 2013 the HSE changed the reporting criteria for RIDDOR statistics from over three day injury absences to over seven day injury absences and it is therefore difficult to make direct year on year comparisons. However, despite the 16% increase in sales volumes, the number of RIDDORs reported dropped as against the prior year comparison. We believe this drop in accidents reflects the considerable resources being utilised by the Group to improve health and safety across our development sites.

We provide regular competence training to our employees and our subcontracting workforce. The number of health and safety training days delivered by the Group in 2013 was 7,357 days, an increase of 11% on the prior year (2012: 6,624). A significant proportion of the training delivered during 2013 related to behavioural safety training aimed at fostering a culture where employees and subcontractors take individual responsibility for safe outcomes by putting safety first in every decision taken.

Community

Playing our part in local life through supporting community projects, sponsorship and fundraising remains an intrinsic part of the Persimmon philosophy. A combination of Group donations and employee fundraising donated a total of £154,000 to charitable causes in 2013.

In 2013 we invested over £38m in new community facilities, an increase of 14% over 2012 (£33m). The majority of this investment has been in areas of affordable housing, education and public open spaces, bringing substantial community benefits to our customers and the wider community.

During the year we have promoted re-development of brownfield sites in existing urban areas, often carrying out remediation of contaminated sites which have assisted in the environmental, social and economic regeneration of our towns and cities. Over half (54%) of the homes we sold in 2013 were built on brownfield land, reducing pressure to build on greenfield land.

Conclusion

We will continue to maintain innovative and robust build disciplines to deliver homes that our customers want to buy now and in the future. We have a talented workforce and a highly experienced management team and our focus on our trainee and apprentice schemes bodes well for the future development of our business.

Further information on our management structure, policies and procedures together with our 2013 Sustainability Report can be found on our website at www.corporate.persimmonhomes.com.

Marion Sears
Chairman of the Corporate Responsibility Committee
24 February 2014

Strategic Report

The Strategic Report contained in pages 2 to 33 has been approved by the Board of Directors and is signed on its behalf by

Jeff Fairburn

Group Chief Executive
24 February 2014

Quality details make our homes distinctive

Riverside Quarter, Colchester, Essex
Persimmon Homes

High standards in corporate governance

Chairman's corporate governance introduction

"Sound corporate governance standards within the Group remain essential for the Group's future performance and its reputation"

Nicholas Wrigley
Chairman

Sound corporate governance standards within the Group remain essential for the Group's future performance and its reputation. Through the internal divisional and operating business management structures the Board ensures that its standards and values are communicated to all management and employees and implemented throughout the Group.

The Board's continuing priority during 2013 has been succession planning and in particular ensuring the smooth transition of responsibilities from Mike Farley, our outgoing Chief Executive who retired in April 2013, to our new Chief Executive Jeff Fairburn.

I am very pleased to report that the transition has been seamless and the consequential changes to our senior management structure have been implemented successfully.

I am very pleased to welcome Dave Jenkinson, North Division Chief Executive to the Board. His appointment was announced on 13 December 2013. I am particularly pleased that Persimmon has again been able to promote from within, confirming its long term strategy of recruiting and promoting talent from within the Group. Dave Jenkinson has been with the Group since 1997. We continue to have an exceptional depth of housebuilding experience from the Executive Directors on the Board, which is complemented by the wide ranging experience of the Non-Executive Directors.

During the course of the year the Board again held its annual strategy meeting, undertaking a full review of the Company's long term strategy, Capital Return Plan, Group health and safety management policy and procedures, sales and marketing and principal risks. Further information on these matters is available within the Strategic Report.

Following the Board's external evaluation in 2012 the Board has undertaken its own internal Board evaluation self assessment. The self assessment concluded that the Board and its Committees continued to be effective, which is particularly pleasing given the retirement of Mike Farley and Neil Davidson and the appointment of Marion Sears, Nigel Greenaway and David Jenkinson to the Board during the year.

In the continuing evolution of Board membership the Nomination Committee remain aware of its obligations to encourage diversity. Whilst we have not set targets it is the Board's intention in the medium term that the Board's composition reflects the recommendations of the Davies Report.

I am pleased to report that the Company has complied with the UK Corporate Governance Code throughout 2013.

Nicholas Wrigley
Chairman
24 February 2014

Robust leadership

Board of Directors

Nicholas Wrigley
Chairman (age 58)

Date of appointment
Appointed to the Board on 1 February 2006 and as Chairman of the Board on 21 April 2011

Committee membership
Chairman of the Nomination Committee and member of the Remuneration Committee.

Experience
Nicholas Wrigley is an Executive Vice Chairman of Rothschild London. He has over 30 years' mergers and acquisitions experience at Rothschild and is a qualified accountant.

Jeff Fairburn
Group Chief Executive (age 47)

Date of appointment
1 June 2009

Committee membership
Member of the Risk Committee.

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

Richard Pennycook
Senior Independent Director (age 49)

Date of appointment
14 March 2008

Committee membership
Chairman of the Audit Committee and a member of the Nomination Committee.

Experience
A Chartered Accountant and graduate of Bristol University, Richard is Chief Financial Officer of The Co-Operative Group and Non-Executive Chairman of The Hut Group. Previous roles include Group Finance Director of Wm Morrison Supermarkets Plc and RAC Plc, Finance Director of J D Wetherspoon Plc, CEO of Welcome Break Holdings Plc and non-Executive Director of Richer Sounds Plc.

Jonathan Davie
Non-Executive Director (age 67)

Date of appointment
1 January 2010

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

Experience
Jonathan Davie is a non-executive Chairman of IG Group Holdings Plc and First Avenue LLP and he is a non-Executive Director of Hansa Trust Plc. Mr Davie's previous roles include Vice Chairman of Credit Suisse, CEO of BZW Global Equities and non-Executive Director of Credit Suisse UK Private Bank.

Mike Killoran ACA
Group Finance Director (age 52)

Date of appointment
4 January 1999

Committee membership
Member of the Risk Committee.

Experience
Mike Killoran joined the Company in 1996. A chartered accountant by profession, Mike worked in manufacturing, distribution and retail sectors before joining the Group. He took over his present role in April 1999.

Nigel Greenaway
South Division Chief Executive (age 53)

Date of appointment
8 January 2013

Committee membership
Member of the Risk Committee.

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

David Jenkinson
North Division Chief Executive (age 46)

Date of appointment
13 December 2013

Committee membership
Member of the Risk Committee.

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

Mark Preston
Non-Executive Director (46)

Date of appointment
9 January 2012

Committee membership
Member of the Audit and Remuneration Committees.

Experience
Mark Preston, a chartered surveyor, is the Group Chief Executive of Grosvenor Group Limited, an appointment he took up in 2008. He is a non-Executive Director of Sonae Sierra SGPS. He is also a board member of The Association of Foreign Investors in Real Estate, a Member of the (University of) Cambridge Land Economy Advisory Board, a Member of the Greenprint Advisory Board and a Trustee of the Westminster Foundation.

Marion Sears
Non-Executive Director (age 51)

Date of appointment
8 January 2013

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

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

Directors' Report and Corporate Governance Statement

The Board of Directors presents its Directors' Report incorporating the Corporate Governance Statement for the year ended 31 December 2013.

Leadership and effectiveness

Board composition

The Board comprises a Non-Executive Chairman, four Executive Directors and four Non-Executive Directors. Nicholas Wrigley became Chairman on 21 April 2011, and he remains an Executive Vice Chairman of Rothschild London. The Executive Directors have extensive experience in the housebuilding industry. Jeff Fairburn became Chief Executive in April 2013. He joined the Group in 1989 and was appointed to the Board in June 2009, having held a number of positions within the business. Mike Killoran joined the Group in 1996 and has been Finance Director for the last 14 years. Nigel Greenaway has been with the Group since 1986 and was appointed to the Board in January 2013; David Jenkinson joined the Group in 1997 and was appointed to the Board on 13 December 2013 and both held senior operational positions within the Group prior to their appointments.

The Senior Independent Director is Richard Pennycook, who has held the position since April 2012. Neil Davidson served as Non-Executive Director until his retirement in April 2013.

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

Together the balance of skills, experience and personal characteristics of the Non-Executive Directors result in a diversity of view and opinions to support the Executive Directors and provide excellent advice and judgement on the formation and implementation of the Group's strategy. The Chairman encourages open and honest debate in the spirit of constructive challenge, which results in high quality decision making in all areas of strategy, performance, responsibility and accountability.

In accordance with the principles of the UK Corporate Governance Code 2012 (the Code) there is a clear written division of responsibilities between the Chairman and the Chief Executive which is approved by the Board.

Key actions of the Board

The Board reviewed and approved the Company's current strategy and Capital Return Plan at its annual strategy meeting in October 2013. Full details of the current strategy are set out in the Strategic Report on page 7.

The Board met on seven occasions in 2013, including the annual strategy meeting. There was full attendance by all Directors at Board and Committee meetings during the year.

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

Board diversity and independence

The Board recognises that a diverse workforce can bring benefits to the Group and, by the same measure, the Directors recognise the value diversity including gender can bring to the Board. When considering the nomination and appointment of new Directors, the Nomination Committee evaluates candidates' skills, knowledge and experience in order that they nominate new directors on the basis of merit and overall suitability. When considering a new appointment the Board takes into account the balance of skills, knowledge, experience and diversity of the Board. Subject to the above principle, the Directors continue to work towards appointing a meaningful percentage of women to the Board in line with the recommendation of Lord Davies' Report, whilst taking into account the total size of the Board.

During the course of 2013 the Nomination Committee recommended to the Board, and the Board approved, the appointment of David Jenkinson as an Executive Director. Mr Jenkinson was appointed to the Board on 13 December 2013 and brings extensive experience in housebuilding.

The Board considers the Non-Executive Directors Richard Pennycook, Jonathan Davie, Mark Preston and Marion Sears to be independent. The Company has procedures in place to ensure that Directors disclose any situation in which they may have an interest, direct or indirect, which conflicts or may possibly conflict with the interests of the Company. No authority to authorise a conflict of interest has been required during 2013.

Re-election of Directors

In accordance with Code Provision B.7.1 all Directors will stand for re-election at the forthcoming AGM. The Board's reasons for supporting the re-election of the Chairman Nicholas Wrigley and Non-Executive Directors Richard Pennycook, Jonathan Davie, Mark Preston and Marion Sears are that they have individually produced excellent performance in their duties and have shown a high level of commitment to their roles. Details of the Directors' service contracts and letters of appointment are set out on page 50.

Performance evaluation and professional development

In 2012 the Board appointed Coefficient, part of the Equiniti Group of companies to undertake an externally facilitated board evaluation. All recommendations from that report were implemented during 2013, mainly in respect of administration and procedures relating to the Board and its Committee meetings.

During 2013 the Board undertook a self-assessment evaluation based on the principles outlined in the Code. There were no matters arising, the Directors confirming that the Board and its Committees were operating effectively in accordance with high corporate governance standards.

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

The Chairman has discussed with all Directors their requirements for professional development and training and where appropriate this has been provided to Directors. All Directors have access to the advice and services of the Group Company Secretary and may also seek independent professional advice and training at the Company's expense, if so required to carry out their duties.

Nomination Committee

The members of the Nomination Committee are Nicholas Wrigley (Chairman), Richard Pennycook and Jonathan Davie who was appointed on 20 February 2013. Neil Davidson was a member of the Committee until his retirement on 18 April 2013.

The Committee met twice during 2013 to review and consider the composition of the Board, to consider Board succession planning and to make recommendations for the appointment of a new Executive Director. There was full attendance by Directors at the Committee meetings.

In accordance with the Board's long term succession plans, the Committee recommended David Jenkinson's appointment to the Board following his successful first year as North Division Chief Executive. The recommendation was approved by the Board.

During 2013, the Committee oversaw Marion Sears' induction as Non-Executive Director following her appointment to the Board on 8 January 2013. Marion's induction included private meetings with Directors, meetings with the Group Company Secretary, Group Directors responsible for IT, Health and Safety, Finance and HR, site visits and attendance at management meetings at a regional operating business.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Chairman and Executive Directors. The members of the Remuneration Committee are Jonathan Davie (Chairman), Nicholas Wrigley, Mark Preston and Marion Sears. Neil Davidson was a member of the Committee until his retirement on 18 April 2013.

The Committee met four times during 2013 to discuss, consider and approve the policy and remuneration for Executive Directors and the Chairman. The Committee's key action during the course of the year was the review and implementation of the Company's remuneration policy. In addition the Committee considered in detail Executive Directors' remuneration during 2013 and the annual bonus plan for 2014.

Further details of the remuneration policy and package for each Director serving during 2013 are set out in the Remuneration Report on pages 46 to 60.

Terms of Reference

Terms of reference for the Board Committees are available on the Company's website www.corporate.persimmonhomes.com or from the Group Company Secretary at the Company's registered office.

Shareholder relations

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

Jeff Fairburn and Mike Killoran have responsibility for maintaining appropriate communications with institutional investors and analysts, advised by the Group's joint brokers Merrill Lynch and Citigroup together with the financial PR consultants, Citigate Dewe Rogerson. Jonathan Davie has responsibility for consulting with shareholders and institutions on matters relating to remuneration policy.

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

The Company issues regular trading and interim management statements to the London Stock Exchange, as well as the publication of annual and half year financial results. The Company provides shareholders with access to detailed presentations of results at its analyst presentations, a recording of which can be viewed on the Company's website for a period of one year.

The UK Corporate Governance Code 2012

The Company complied with the Code throughout 2013 and continues to review its governance procedures to maintain proper control and accountability. The Code is available from the Financial Reporting Council, telephone 0207 492 2300 or online at www.frc.org.uk.

As the Financial Conduct Authority has yet to change the Listing Rules we confirm that we have complied with both editions of the Code published in May 2010 and September 2012.

Audit Committee

Composition

The Audit Committee members are Richard Pennycook (Chairman), Jonathan Davie and Mark Preston. Richard Pennycook, as Chairman of the Committee, has recent relevant financial experience as Chief Financial Officer of the Co-operative Group and formerly as Group Finance Director of Wm Morrison Supermarkets Plc. Jonathan Davie and Mark Preston also have recent relevant financial experience in their current roles respectively as Chairman of IG Group and Chief Executive of Grosvenor Group Limited. The Committee met on six occasions during 2013 and all members were in attendance at each meeting. The Committee regularly meets the auditors without the presence of the Company's management. The Committee's Chairman also meets the Group Risk Manager without the Company's management being present at least twice each year.

Priorities

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

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

- the carrying value of the Group's land and work in progress including an assessment of related impairment provisions;
- the carrying value of the Group's available for sale financial assets comprising shared equity receivables.

The Committee monitors the effectiveness of the internal controls exercised over the key processes employed by the Group in the acquisition of new land and the investment in site development activities. The Committee receives regular reporting as to management's adherence to the Group's policies and procedures in both of these critically important areas of the business, the carrying value of the Group's land totalling £1,636.6m at 31 December 2013, and the carrying value of work in progress on site totalling £463.5m. Similarly the Committee ensures the approach adopted by management in recovering the cost of both land and work in progress remains in line with established Group policies and procedures through regular risk monitoring reports. The Committee has again reviewed management's assessment of the net realisable value of the Group's land and work in progress held at 31 December 2013. The Committee concluded that the approach adopted by management supported the asset carrying values and that the consequential release of surplus provision in the year of £14.1m as an exceptional item is appropriate.

The Committee receives risk based reports on the accuracy and completeness of the Group's sales transaction processes, including transactions where the Group has retained an equity interest in the new home sold. The monies remaining due to the Group under the shared equity loan contract are held as receivables and reported as 'Available for sale financial assets' on the Group's balance sheet. At 31 December 2013 the carrying value of these receivables was £215.4m. The Committee has reviewed the assumptions adopted by management in support of the carrying value of these receivables and concluded they are appropriate. The Committee monitors the ongoing performance of these receivables with respect to redemptions and delinquency and are satisfied that management have adopted appropriate assumptions in this regard in support of the carrying value of these assets.

The Committee considers that the Group management's view of its accounting policies has resulted in a prudent stance being taken with appropriate levels of provisioning and fair value adjustment to recognise the inherent risks of recoverability of the Group's inventory balances and shared equity receivables.

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

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

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

External audit

KPMG Audit Plc is the Group's external auditor and they produce a detailed audit plan identifying their assessment of key risks each year. For the 2013 financial year the primary risks identified were in relation to release of net realisable value provisions and shared equity receivable impairment, due to the inherent management judgement required in these areas.

The Committee formulates and oversees the Company's policy on monitoring external auditor objectivity and independence in relation to non-audit services. The auditor is excluded from undertaking a range of work on behalf of the Group to ensure that the nature of non-audit services performed or fee income earned relative to the audit fees does not compromise and is not seen to compromise the auditor's independence, objectivity or integrity. The auditor is therefore not allowed to carry out appraisal or valuation services, management functions and litigation support, actuarial services, legal, accounting or remuneration services on behalf of the Group. From time to time non-audit services are put out to tender to a number of suitable firms. The ratio of audit fees to non audit fees paid to the auditor in 2013 was 101 to 1.

The Committee has reviewed and is satisfied with the performance of KPMG Audit Plc. Details of the audit fee and fees paid to KPMG Audit Plc for non-audit services are on page 78.

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

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

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

The audit was last tendered in 1994 and since then lead audit partners have been appointed in accordance with KPMG Audit Plc's own guidance on independence, most recently for the year ended 31 December 2012. Having previously conducted a full tender exercise and considered auditor performance in each subsequent year, the Committee will continue to give consideration to the timing of the next formal tender in light of the Code requirement and any further changes in the regulatory framework. In any event, the Committee anticipates that this will be not later than the date of rotation of the current lead audit partner.

At the request of the Board, the Audit Committee considered whether the 2013 Annual Report taken as a whole was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance, business model and strategy. The Audit Committee was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

Internal control and risk management

Effective risk management is critical to the achievement of our objectives and the long term sustainable growth of our business. The Board has overall responsibility for the Company's system of internal control and for the review of its effectiveness. It is the role of management to implement the Board's policies on risk control through the design and operation of appropriate internal control systems. All employees have some responsibility for internal control as part of their responsibility for achieving objectives.

The Risk Committee has the delegated task of overseeing the Board's responsibilities with regard to risk and internal control. Specifically this includes determining appropriate control procedures and the review of the effectiveness of internal control.

The members of the Risk Committee are Jeff Fairburn (Chairman), Mike Killoran, Nigel Greenaway and Dave Jenkinson. Mike Farley was a member of the Risk Committee until his retirement in April 2013. David Thornton was a member of the Committee until February 2013 when his revised role as Group Development Director no longer required his attendance at Committee meetings. The Risk Committee is supported by the Group Risk Manager. The Risk Committee reports to the Audit Committee which oversees the Risk Committee's activities.

The Audit Committee reviews the internal control and risk management systems in relation to the financial reporting process and in relation to the process of preparing consolidated accounts. The Company has complied with the Code provisions on internal control, having continued to operate procedures necessary to implement the guidance issued by The Turnbull Committee Report (revised October 2005) throughout the year.

Senior management from the Finance Department monitor the Group's financial management and reporting systems and continually assess the integrity and effectiveness of the Group's accounting procedures. Senior management from the Finance and Company Secretarial Departments review financial reports, interim management statements and trading updates with appropriate consultation with the Group's auditor, ensuring that such reports and statements are accurate, complete and comply with all relevant legislation and regulations. Each operating business and Group function is required to report to the Group to ensure that all financial reporting is accurate and that all matters which may be material to the Group as a whole have been reported to the Board. Senior management reports its findings to the Audit Committee and through that Committee to the Board.

The Group Risk Department has facilitated an update to the Group Risk Register during the year to reflect the changing risk profile facing the Group. The results of this process have been reported to the Risk Committee and have been used to drive a risk focused programme of work designed to improve business processes and increase internal control effectiveness. The updated Group Risk Register has been approved by both Risk and Audit Committees. The principal risks faced by the Group set out on page 29 have not changed, although their relevant scale of importance has changed.

The Risk Committee met six times during 2013 ensuring there has been an ongoing process for the identification, evaluation and management of the significant risks that are faced by the Group. The key features of reviewing the effectiveness of the system of internal control include the following:

- review of reports produced by the Group Risk Department on internal control and management of risk;
- reviewing the reports from the Corporate Responsibility Committee (a sub-committee of the Risk Committee) with particular reference to reputational, environmental, sustainability and social risks facing the Group;
- review of representations on risk and control from all managing directors of operating businesses following individual reviews of internal control within their operating businesses;
- review of representations on risk and control from both Group and Divisional management;
- assessment of the security around IT infrastructure and customer information; and
- monitoring of whistleblowing reports or other significant control issues or incidents.

Members of the Risk Committee completed the following tasks which are essential parts of the Group's risk control framework:

- maintaining continuous detailed involvement in monitoring and controlling work in progress and controls over land acquisition assessment;
- regular site visits and discussions with site based personnel;
- ongoing review of Group performance in comparison to operational forecasts and financial budgets; and
- involvement in each operating business's board discussions, particularly operational board meetings where all aspects of operation and performance were analysed.

On completion of these processes the Audit Committee formally considers the annual review of the effectiveness of the Group's system of internal control. This review covers all material controls including financial, operational and compliance controls, as well as the Group's risk management system. The review for 2013 has been completed and approved by both the Risk and Audit Committees. A detailed Group Risk Department programme of work for 2014 has also been approved by the Risk and Audit Committees.

The Company's system of internal control is designed to manage rather than eliminate risk, in order to achieve business objectives. However, the system can only provide reasonable assurances and does not provide absolute assurance against material misstatement or loss.

Directors' Report

Other disclosures

Persimmon Plc (the Company) is the holding company of the Persimmon Group of companies (the Group) and is a public company listed in the UK and traded on the London Stock Exchange.

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

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

Strategic Report

The Strategic Report on pages 2 to 33 is the management report for the purposes of DTR 4.1.8.R. A description of the Group's future prospects, research and development, the principal risks and uncertainties facing the business and details of the Group's use of financial instruments are contained within the Strategic Report. Details of the financial risk management objectives and policies of the Group and associated risk exposure are given in note 22 of the Financial Statements.

Results and return of cash

The Group's revenue for 2013 was £2,085.9m and its consolidated profit before taxation was £337.1m.

The Company may by ordinary resolution declare dividends not exceeding the amount recommended by Directors subject to statute. The Directors may pay interim dividends and any fixed rate dividend whenever the financial position of the Company, in the opinion of the Directors, justifies its payment.

All dividend and interest shall be paid (subject to any lien of the Company) to those members whose names are on the register of members on the record date, notwithstanding any subsequent transfer or transmission of shares.

In accordance with the previously announced Capital Return Plan it is proposed to pay a cash return of 70p per ordinary share on 4 July 2014 to shareholders on the register at 6 pm on 4 June 2014. The total return for the year will be 70p per share (2013: return of cash of 75p per share).

Going concern

After completing a full review, the Directors have a reasonable expectation that the Group has adequate resources to fund its operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Further details are provided in note 2 to the Financial Statements.

Significant shareholdings

As at 31 December 2013 and as at the date of this report, the Company had been notified under the Financial Service Authority's Disclosure and Transparency Rule 5 of the following interests in the voting rights of the Company.

	As at 31 December 2013		As at 24 February 2014		
Name	Number of voting rights	% of total voting rights	Number of voting rights	% of total voting rights	Nature of holding
Allianz SE	18,098,600	6.03	18,098,600	6.03	Direct & Indirect
JP Morgan Asset Management Holdings	14,848,792	4.88	16,015,380	5.26	Direct & Indirect
AXA S.A.	14,923,488	4.97	14,923,488	4.97	Direct & Indirect
Templeton Foreign Fund	14,827,805	4.94	14,827,805	4.94	Indirect
Ameriprise Financial Inc & Subsidiaries	14,425,115	4.74	14,425,115	4.74	Direct & Indirect
Aberdeen Asset Management subsidiaries	14,166,097	4.70	14,166,097	4.70	Indirect

Directors and Directors' interests

The current Directors of the Company and their biographical details are shown on pages 36 and 37. Mike Farley and Neil Davidson served as Group Chief Executive and Non-Executive Director respectively until they retired on 18 April 2013. None of the Directors have any contracts of significance with the Company, with the exception of Nigel Greenaway, who has agreed to purchase two homes from the Group conditional on shareholder approval under sections 191/192 Companies Act 2006 at the Annual General Meeting (AGM) on 16 April 2014. Further information is contained in the AGM Circular. Details of the Executive Directors' service contracts are given in the Remuneration Report on page 50.

The beneficial and non-beneficial interests of the Directors and their connected persons in the shares of the Company at 31 December 2013 and as at the date of this report are disclosed in the Remuneration Report on page 57. Details of the interests of the Executive Directors in share options and awards of shares can be found on pages 56 to 57 within the same report.

Appointment and replacement of Directors

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

In accordance with Code provision B.7.1 the Board has determined that all Directors will be subject to annual re-election by shareholders. The Company's Articles of Association (Articles) provide that at each AGM at least one-third of the Directors shall retire from office and shall be eligible for reappointment. In any event, each Director shall retire from office and shall be eligible for reappointment at the AGM held in the third year following his last reappointment. In accordance with the Articles and the Code, a Non-Executive Director who has been in office for more than nine years consecutively shall retire at each AGM and shall be eligible for reappointment.

Powers of the Directors

The business of the Company shall be managed by the Directors who may exercise all powers of the Company, subject to the Articles, the Companies Act 2006 and any directions given by the Company in general meetings. In particular the Directors may exercise all the powers of the Company to borrow money, issue and buy back shares with the authority of shareholders, appoint and remove Directors and recommend and declare dividends.

Capital structure

The following description summarises certain provisions of the Articles (adopted by special resolution passed on 18 April 2013) and the Companies Act 2006. This is only a summary and the relevant provisions of the Companies Act 2006 and Articles should be consulted if further information is required. A copy of the Articles may be obtained by writing to the Group Company Secretary at the registered office.

Amendments to the Articles of the Company may be made by way of special resolution in accordance with the provisions of the Companies Act 2006.

Share capital

The Company has one class of share in issue, being ordinary shares with a nominal value of 10p each, which carry no right to fixed income. During 2013, 1,775,112 ordinary shares were issued with a nominal value of £177,511 to employees exercising share options for cash consideration of £2,563,901. At 24 February 2014 the issued share capital of the Company was 304,710,772 ordinary shares with a nominal value of £30.5m. Further details are provided in note 24 to the Financial Statements.

In accordance with the resolution to return 75p of capital to shareholders passed at the AGM on 18 April 2013 the Company issued 102,245,506 B shares and 201,590,249 C shares on 6 May 2013. The B shares were redeemed in their entirety on 28 June 2013 and immediately cancelled. The C share dividend was paid and the C shares reclassified as Deferred shares and purchased by the Company for a nominal sum of one penny. The C shares were subsequently cancelled on 18 July 2013. As a result the Company no longer has any B/C shares in issue.

Shares may be issued with such preferred, deferred or other rights or restrictions, whether in regard to dividend, return of capital, or voting or otherwise, as the Company may from time to time by ordinary resolution determine (or failing such determination as the Directors may decide), subject to the provisions of the Companies Act 2006 and other shareholders' rights. There are no securities carrying special rights with regard to control of the Company.

The Directors may allot, grant options over, or otherwise dispose of shares in the Company to such persons (including the Directors themselves) at such times and on such terms as the Directors may think proper, subject to the Articles, the Companies Act 2006 and shareholders' rights. At the AGM on 18 April 2013 shareholders gave Directors authority to issue up to one-third of the issued share capital of the Company being an aggregate nominal amount of £10,097,433 and to disapply pre-emption rights on the issues of shares up to 5% of the issued share capital, being an aggregate nominal amount of £1,514,615. These authorities will expire at the conclusion of the AGM on 16 April 2014. Resolutions to renew these authorities will be put to shareholders at the forthcoming AGM.

Votes of members

All issued shares in the Company are fully paid and there are currently no restrictions on voting rights. Votes may be exercised in person, by proxy, or in relation to corporate members by a corporate representative. The deadline for delivering either written or electronic proxy forms is not less than 48 hours before the time for holding the meeting. To attend and vote at a meeting a shareholder must be entered on the register of members at a time that is not more than 48 hours before the time of the meeting calculated using business days only.

On a vote on a show of hands, each member being an individual present in person or a duly authorised representative of a corporation has one vote. Each proxy present in person who has been appointed by one member entitled to vote on a resolution has one vote. If a proxy has been appointed by more than one member and has been given the same voting instructions by those members, the proxy has one vote. If the proxy has been appointed by more than one member and has been given conflicting instructions, or instructions to vote for or against one member and discretion by another, the proxy has one vote for and one vote against a resolution. On a vote on a poll, each member present in person or by proxy or by duly authorised representative has one vote for each share held by the member.

Details of employee share schemes are set out in note 31 of the Financial Statements. The Trustee of the Persimmon Employment Benefit Trust may vote or abstain on shareholder resolutions as it sees fit.

Transfer of shares

There are no restrictions on transfer of securities in the Company. Any member may transfer their shares in writing in any usual or common form or in any other form acceptable to the Directors and permitted by the Companies Act 2006 and the UK Listing Authority. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or that may result in restrictions on voting rights.

Qualifying third party indemnity provisions and qualifying pension scheme indemnity provisions

The Company has not issued any qualifying third party indemnity provision or any qualifying pension scheme indemnity provision.

Change of control provisions

One significant agreement contains provisions entitling counterparties to exercise termination or other rights in the event of a change of control of the Company.

Under the £300m credit facility dated 1 April 2011 disclosed in note 22 of the Financial Statements, all amounts become due and payable under the terms of the facility if any person or group of persons acting in concert gains control of the Company.

'Control' has the same meaning as section 450 of the Corporation Tax Act 2010 and 'acting in concert' has the meaning given to it in the City Code on Takeovers and Mergers. Change of control is deemed to occur if at any time any person, or group of persons acting in concert, acquires control of the Company.

The Company does not have agreements with any employee including Directors that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover. Details of compensation payable to Directors if their employment is terminated in breach of contract are provided in the Remuneration Report on page 50.

Emissions

The Group's greenhouse gas emissions are set out in the Strategic Report on page 32.

Employee involvement

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on various financial and economic factors affecting the performance of the Group. The Group regularly updates its employment policies and employees have been issued with a staff handbook to keep them up to date with information relating to their employment. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate. Internal Group magazines are published quarterly and distributed to all employees to ensure they are kept well informed of the Group's operations. In addition, information concerning the financial performance of the Group is sent to each operating business for circulation. Further information can be found in our Sustainability Report at www.corporate.persimmonhomes.com.

The Company makes various benefit schemes available to employees, including a savings related share option scheme which encourages the awareness and involvement of employees in the Group's performance. All permanent employees are encouraged to participate, subject to having six months' service at the date of grant of option.

Equal opportunities

The Group policy is to have equal opportunities for training, career development and promotion for all employees without discrimination and apply fair and equitable policies which seek to promote entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability and competency regardless of race, colour, nationality, ethnic origin, religion or belief, gender, sexual orientation, political beliefs, marital or civil partnership status, age, pregnancy or maternity or disability. Applications for employment by disabled persons are always fully considered, with appropriate regard to the aptitude and abilities of the person concerned. In the event of any employee becoming disabled, every effort is made to ensure that their employment with the Group continues, that appropriate training is arranged and any reasonable adjustments are made to their working environment. It is the Group's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Acquisition of own shares

At the AGM held on 18 April 2013 shareholders granted the Company authority to purchase up to an aggregate of 30,292,300 of its own shares. No shares have been purchased to date under this authority and therefore at 31 December 2013 the authority remained outstanding. This authority expires on 16 April 2014 and a resolution to renew the authority will be put to shareholders at the forthcoming AGM.

At 31 December 2013 the Company held no shares in Treasury.

Annual General Meeting

The AGM will commence at 12 noon on Wednesday 16 April 2014 at York Racecourse, Knavesmire Road, York YO23 1EX. The Notice of Meeting and an explanation of the ordinary and special business are given in the AGM Circular.

Auditor

KPMG Audit Plc has instigated an orderly wind down of its business. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be made at the Company's AGM on 16 April 2014.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this report confirmed that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all steps he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' responsibility

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. The Directors consider that the Annual Report and Accounts taken as a whole is fair balanced and understandable and provides the information necessary for shareholders to assess the Company's performance business model and strategy. Further details are provided on page 61.

By Order of the Board

Neil Francis
Group Company Secretary
24 February 2014

Persimmon Plc
Company Registration Number 1818486

Remuneration Committee Chairman's Statement

Introduction

I am pleased to introduce the Remuneration Report for 2013, which includes my Statement, the Directors' Remuneration Policy which is intended to take effect from 16 April 2014, subject to shareholder approval, and the Annual Report on Remuneration for the year ended 31 December 2013.

During the year, the Remuneration Committee (the 'Committee') reviewed the policy for the Executive Directors and the Chairman. The Board as a whole reviewed the policy for the other Non-Executive Directors. Although we believed the current policy for Directors' remuneration was suitable, we took the opportunity to ensure it remains fit for purpose for future years. As part of the review, the Committee took into consideration the excellent performance of the Company and the promotion of Jeff Fairburn to Group Chief Executive.

During 2013, the Committee also undertook its regular annual review of the Executive Directors' base salaries; agreed the performance conditions and targets for annual bonus for 2014; agreed additional long term incentive plan awards for the three Executive Directors promoted in the year and reviewed the Chairman's fees.

In addition the Committee also reviewed long term incentive plan awards for senior management below Board level. The Committee originally issued awards to 130 of the Group's senior management below Board level. The Committee has agreed that additional awards should be made in 2014, bringing the number of senior management incentivised under the Company's 2012 long term incentive plan to 150.

2013 remuneration outcomes

The Company continued to perform very well during 2013. The performance condition for Executive Directors' 2013 annual bonuses was achievement of Group profit before tax (before exceptional items and goodwill impairment) for the 2013 financial year of between £220m and £300m. The Group achieved profit of £330m for 2013, which exceeded that of the previous year by 49%. As a result, annual bonus payments for 2013 will be made at 150% of base salary. Bonus equal to 100% of base salary will be paid in cash and the remainder of annual bonus earned will be deferred and paid in Bonus Share Scheme awards.

Vesting of long term incentive plan awards which mature in April 2014 was based on three year performance conditions which ended in December 2013. Half of the award was linked to a performance condition based on total shareholder return ('TSR') performance measured against a FTSE 250 comparator group and half based on cumulative Group profits between £325m to £480m over the three years. The Company's TSR performance meant that Persimmon was in the 6th percentile compared to the comparator group and the Group's profit before tax (pre exceptional items) over this period was £678m. The performance conditions were therefore met in full and 100% of awards will vest in April 2014. This was the last three year long term incentive plan award and awards under the 2012 long term incentive plan have a ten year performance period.

2014 remuneration

The Company's Capital Return Plan is to return £1.9bn of surplus capital, equivalent to £6.20 per share to shareholders by December 2021, whilst at the same time investing to build a stronger, larger business. The strategy to achieve this objective is set out in the Strategic Report and includes improving operating profit and creating strong cash generation.

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

Performance conditions for 2014 annual bonus are primarily linked to profit and cash generation targets. However, the Committee has introduced two new performance criteria: 10% of the annual bonus will depend on customer care performance and the Committee will also have the discretion to reduce the total bonus by up to 10% if health and safety performance is not maintained at a high level.

The Committee was aware at the time of Jeff Fairburn's appointment as Group Chief Executive that his base salary remained substantially behind the salary of his predecessor in the role and also the salaries of other CEOs of the major housebuilders. The Committee wanted to see how Jeff Fairburn settled into his new role in 2013, with a view to reviewing his remuneration again for 2014.

The Committee has now reviewed Jeff Fairburn's remuneration, taking account of his strong performance and leadership since he became Group Chief Executive. Following this review and after consultation with major shareholders, we concluded that although Jeff Fairburn's 2013 base salary was only 80% of the market median for other large housebuilders, it was not appropriate to apply a large salary increase for 2014, but rather the annual bonus opportunity should be increased, so that the emphasis on pay for performance is further enhanced. The Group Chief Executive's maximum annual bonus has therefore increased from 150% of base salary to 200% for 2014. All of the additional annual bonus opportunity will be in the form of deferred Bonus Share Scheme awards. The combined base salary plus maximum annual bonus remains below the market median.

2014 base salary both for the Group Chief Executive and the other Executive Directors has been increased by 3%, in line with the average for Persimmon's salaried workforce.

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

Jonathan Davie
Chairman Remuneration Committee
24 February 2014

Directors' future remuneration policy

This policy will be put to shareholders for approval at the AGM to be held on 16 April 2014 and the Company intends (subject to shareholder approval) that this policy will take effect from that date. The policy has been finalised after consultations with major shareholders, after considering the principles of the UK Corporate Governance Code and after taking advice from New Bridge Street, the Committee's remuneration consultants.

A summary of the Company's policy on Directors' remuneration, broken down by Executive Directors, Chairman and Non-Executive Directors is set out in the tables below.

Executive Directors

The Committee's policy for the Executive Directors is to provide remuneration which is largely performance orientated, closely aligns the Directors' interests with those of shareholders and which will retain a talented executive team who can deliver excellent long term Company performance.

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

Summary of remuneration policy for Executive Directors

Base salary

Purpose	How it operates	Maximum payable	Performance framework
Market competitive salaries commensurate with a Director's experience are paid to attract and retain Executive Directors with the skills necessary to lead the business and successfully implement the Company's strategy.	Salaries are paid by 12 equal monthly instalments. They are reviewed annually with any increases normally taking effect from 1 January. When reviewing salaries, consideration is given to current market conditions; any increases awarded to staff in the business generally and any change in a Director's role and experience. Where an Executive Director is to be promoted or where their role is to be expanded or changed, the Committee will review the salary payable and decide whether an increase/decrease is appropriate, in order that base salaries remain appropriate.	The Committee does not consider it appropriate to set maximum salary levels. Any future increases will generally be in line with inflation and with increases applied to Group monthly paid employees, unless there is a change in responsibilities. The Committee will retain discretion to increase base salaries above the framework set out above for any promotions, where the Committee has purposefully set a lower starting salary for a newly appointed Director, or if a Director's salary is no longer market competitive. Current salary levels are set out in the Annual Report on Remuneration.	None

Annual bonus

Purpose	How it operates	Maximum payable	Performance framework
Annual bonuses are performance related. The aim is to set stretching targets which will incentivise the Executive Directors to achieve excellent performance in line with the Company's strategic objectives.	Any annual bonuses earned are paid in cash up to 100% of base salary. To further link the Executive Director's pay to the interests of shareholders, any bonus earned in excess of 100% of base salary is made through awards under the Company's Bonus Share Scheme. Any Bonus Share awards are made at the same time as cash bonuses are paid. Vesting of Bonus Share Scheme awards is not subject to further performance conditions, other than the Director must remain employed at the date of exercise subject to the standard good leaver provisions. Bonus Share Scheme awards vest and become exercisable in two equal tranches, on the announcement of the Company's final results one year and two years after the date of the award. A dividend equivalent is payable on Bonus Share Scheme awards that vest based on dividends and returns of cash to shareholders with record dates occurring between the date of grant and the date of vesting. A clawback arrangement allows for the Company to recover annual bonuses made as a result of an error or misstatement, or if a Director is guilty of gross misconduct which substantially affects the Company's financial performance or reputation.	The maximum annual bonus potential is 200% of base salary for the Group Chief Executive and 150% of base salary for other Executive Directors. Maximum bonus is only payable if stretching targets are met and excellent Company performance is achieved.	Annual bonus performance conditions are set annually by the Committee to ensure that they take into consideration the Company's strategy and the outlook for the Company over the medium term and are appropriate from a risk perspective. Financial metrics such as profit, and cash generation will have the majority weighting. Non-financial metrics such as customer care and health and safety, where applied, will have a minority weighting.

Directors' future remuneration policy continued

Long Term Incentive Plan awards

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

Pension/Salary supplement

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

Benefits

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

HMRC approved all-employee scheme

Purpose	How it operates	Maximum payable	Performance framework
HMRC approved all-employee share schemes are to encourage employees to take a stake in the business, which aligns their interest with that of shareholders.	Executive Directors are eligible to participate in all-employee schemes.	Maximum is subject to HMRC approved limits.	None

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

Choice of performance conditions

Annual bonus conditions	Rationale for selection and how performance targets are set
Profit before tax and cash generation	Aligned with the Company's strategy to improve margins and return cash to shareholders.
Customer satisfaction and health and safety	These are important factors in ensuring overall business performance, sustainability and reputation. Annual bonus performance conditions are reviewed annually by the Committee to ensure that they take into consideration the Company's strategy and the outlook for the Company over the medium term and are appropriate from a risk perspective.

2012 LTIP conditions	Rationale for selection and how performance targets are set
Cash returns to shareholders	Directly aligned to the Company's Capital Return Plan to return £1.9bn, equivalent to £6.20 per share to shareholders over the period 2012 to 2021 (being the Company's market capitalisation at the date of announcement). Future awards will be granted with an initial option price equal to the market value of a share, or £6.20 if higher.

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

Performance-related pay makes up a significantly higher proportion of remuneration for the Executive Directors and senior employees than for employees generally, reflecting the role of these individuals in managing the business to achieve the Company's strategic objectives. The Committee considers that the emphasis on performance related pay for Executive Directors and senior employees closely aligns the Directors' interests with those of shareholders and helps to deliver excellent long term Company performance.

Legacy arrangements

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

Chairman

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

Non-Executive Directors

Fees

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

Recruitment and promotion policy

The Company's policy is to promote internally where possible. The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract candidates with the appropriate skills for the housebuilding industry. Any new Executive Director's remuneration would include the same elements of the existing Executive Directors and would be set in accordance with the terms of the Company's prevailing remuneration policy at the time of appointment. The salary for a new Executive Director may be set below the normal market rate, with phased increases over the first few years as the Director gains experience in their new role.

The Committee may offer additional cash and/or share based elements at recruitment when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration relinquished when leaving the former employer and would take account of the nature, time horizons and performance requirements attaching to that remuneration. For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms.

As described in the policy tables above, it may also be necessary to offer relocation benefits for external and internal appointments.

Service contracts

The Company's policy is for service contracts with Executive Directors to have no more than a 12-month notice period. The Committee reserves the discretion to offer a longer notice period initially to an Executive Director recruited externally. In such cases where a longer notice period is given, the Executive Director's notice period would be reduced to 12 months once the initial period has lapsed. The Executive Directors have a contract with a twelve month notice period.

The Chairman and the Non-Executive Directors are not employees, they have letters of appointment which set out their duties and responsibilities; they do not have service contracts.

The Chairman's letter of appointment is dated 7 March 2011 but is effective from his appointment as Chairman on 21 April 2011. The Chairman's continued appointment is subject to his re-election by shareholders at each AGM and may be terminated on six months' notice. The Non-Executive Directors' letters of appointment are effective from their date of appointment. A Non-Executive's appointment is initially for a three-year term but is subject to re-election at each AGM but their appointment may be terminated on one month's notice.

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

Policy on payment for loss of office

An Executive Director is only entitled to payments of base salary and benefits in respect of the unexpired notice period for termination of employment where dismissed by the Company in breach of contract. Such payments will be subject to mitigation by the Director and will not in any event exceed 12 months' base salary and benefits. In addition, if Mike Killoran's contract is terminated in breach of contract by the Company, his contract states that his termination payment may include any payment for bonus earned for the period served prior to the date of termination. Annual bonus payments would not otherwise be made unless the Executive Director is employed on the date of payment, except in good leaver circumstances (for example, retirement, redundancy or ill-health), where a bonus may be payable on the normal date in respect of the period served only.

Long term incentive plan awards, Bonus Share Scheme awards and SAYE options are not contractual entitlements and Directors' awards will lapse under the rules of those schemes on termination of employment (save in standard good leaver circumstances). In good leaver circumstances long term incentive plan awards would continue to be subject to the original performance conditions but the number of shares under award would be scaled back pro-rata to reflect the proportion of the performance period actually served. The Committee has the discretion to reduce any scaling back if it considers it inappropriate in a particular case. Bonus Share Scheme awards and SAYE options would be exercisable within six months of an Executive Director leaving the Company under the standard good leaver circumstances.

External appointments

None of the Executive Directors currently have an external appointment. The Directors recognise that external appointments can broaden an individual's skills and experience. If an Executive Director wishes to take up an external appointment, he must first seek approval from the Chairman and/or the Group Chief Executive.

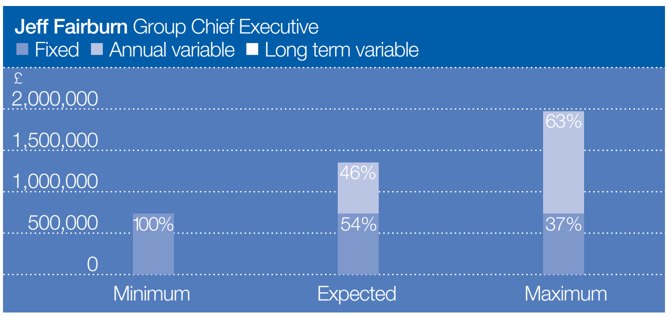
Illustrations of application of remuneration policy

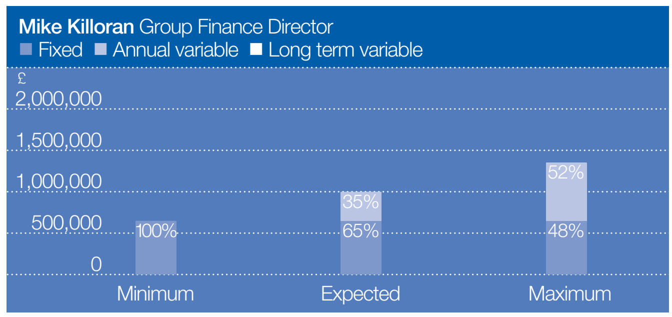
The charts below illustrate the value of remuneration each of the Executive Directors could receive for 2014 under three scenarios being the minimum remuneration they will receive; the remuneration in line with expected performance, and the maximum achievable.

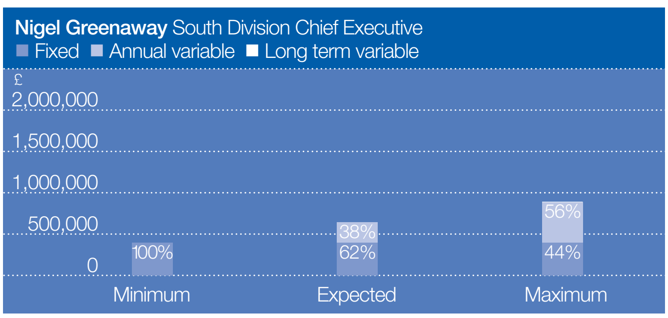
Fixed pay is base salary for 2014, plus benefits and pension/salary supplements.

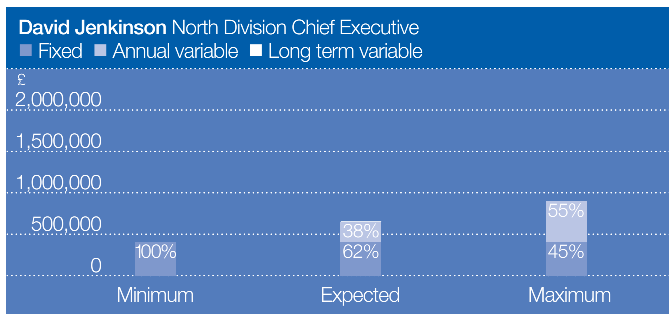
Annual variable pay is the annual bonus receivable. Expected performance would deliver 50% of the maximum annual bonus.

The Committee is not intending to make long term incentive plan awards in 2014 and so no allowance has been made for long term variable remuneration in the illustrations below. Awards have previously been made to Executive Directors under the 2012 LTIP but these have a 10-year performance condition linked to the return to shareholders of £6.20 per share over the period 2012 to 2021, with the first opportunity for exercise (up to a maximum of 40% of the vested shares) on 31 December 2017.









Statement of consideration of shareholder views

The Committee consults with major shareholders and their representative bodies on remuneration matters, particularly if any material changes are proposed to the remuneration policy.

Statement of consideration of employment conditions elsewhere in the Group

The Committee considers the pay and employment conditions of Group employees generally and takes these into account when determining the remuneration of the Executive Directors.

The Committee and Board as a whole did not consult with employees generally when drawing up the remuneration policy.

Annual report on remuneration

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

Single total figure of remuneration for the year ended 31 December 2013

	Salaries and fees 2013 £	Salaries and fees 2012 £	**Benefits 2013 £**	Benefits 2012 £	**Annual bonus 2013 £**	Annual bonus 2012 £	**Estimated value of LTIP awards vesting 2013 £**	Value of LTIP awards vesting 2012 £	**Value of pension benefits earned/salary supplement 2013 £**	Value of pension benefits earned/salary supplement 2012 £	**2013 Total £**	2012 Total £
Chairman												
N H T Wrigley	**190,000**	185,400	**–**	–	**–**	–	**–**	–	**–**	–	**190,000**	185,400
Executive												
J Fairburn	**542,472**	347,985	**29,143**	25,974	**832,500**	540,000	**1,270,971**	903,642	**83,257**	57,217	**2,758,343**	1,874,818
M H Killoran	**454,750**	434,117	**43,366**	39,355	**682,125**	662,250	**1,815,799**	1,489,200	**136,425**	120,936	**3,132,465**	2,745,858
N P Greenaway	**320,000**	–	**37,104**	–	**480,000**	–	**282,431**	–	**28,800**	–	**1,148,335**	–
D Jenkinson≠	**10,999**	–	**813**	–	**17,420**	–	**141,209**	–	**456**	–	**170,897**	–
Former Executive												
M P Farley†	**212,383**	678,800	**12,096**	35,618	**349,500**	1,018,200	**3,722,555**	3,052,869	**63,715**	203,640	**4,360,249**	4,989,127
Non-Executive												
R J Pennycook	**62,400**	60,600	**–**	–	**–**	–	**–**	–	**–**	–	**62,400**	60,600
J Davie	**62,400**	60,600	**–**	–	**–**	–	**–**	–	**–**	–	**62,400**	60,600
M Preston*	**53,000**	50,133	**–**	–	**–**	–	**–**	–	**–**	–	**53,000**	50,133
M Sears≠	**58,658**	–	**–**	–	**–**	–	**–**	–	**–**	–	**58,658**	–
Former Non-Executive												
R C N Davidson†	**18,959**	60,600	**–**	–			**–**	–	**–**	–	**18,959**	60,600
Totals	**1,986,021**	1,878,235	**122,522**	100,947	**2,361,545**	2,220,450	**7,232,965**	5,445,711	**312,653**	381,793	**12,015,706**	10,027,136

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

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

† Mike Farley and Neil Davidson retired from the Board on 18 April 2013.

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

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

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

Benefits

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

Annual bonus 2013 performance condition

The performance condition for Executive Directors' 2013 annual bonuses was based on Group profit before tax before exceptional items and goodwill impairment for the 2013 financial year (the 'Profit Measure'), with the following target figures and straight line vesting between the relevant target figures.

Target range	Profit measure for 2013	Bonus achievable as a percentage of salary
Threshold	£220m	5%
Target	£260m	100%
Maximum	£300m	150%

The Profit Measure for 2013 was £330m and exceeded that of the previous year by 49%. As a result, annual bonus payments for 2013 will be made at 150% of base salary. The annual bonus target for Dave Jenkinson was set prior to his appointment as a Board member and included targets related to profit, cash generation and customer care, all for the North Division. Bonus equal to 100% of base salary will be paid in cash and the remainder will be deferred and paid in Bonus Share Scheme awards.

Executive	Profit target range	Profit achieved	Maximum percentage of salary achievable	Actual percentage achieved	Value of total bonus payable £	Amount paid in cash: Value £	Amount paid in cash: Percentage of overall bonus	Amount deferred and paid in Bonus Share Scheme awards: Value £	Amount deferred and paid in Bonus Share Scheme awards: Percentage of overall bonus	Bonus Shares awarded
J Fairburn	£220m–£300m	£330m	150%	150%	832,500	555,000	66.7%	277,500	33.3%	20,989
M H Killoran	£220m–£300m	£330m	150%	150%	682,125	454,750	66.7%	227,375	33.3%	17,198
N P Greenaway	£220m–£300m	£330m	150%	150%	480,000	320,000	66.7%	160,000	33.3%	12,102
D Jenkinson	n/a	n/a	150%	150%	17,420	11,613	66.7%	5,807	33.3%	439
Former Executive										
M P Farley	£220m–£330m	£330m	150%	150%	349,500	349,500	100%	–	–	–

The Bonus Share awards earned under the annual bonus arrangements for 2013 were calculated at the average share price of 1322.125p over the period from 1 January 2014 to 14 February 2014, inclusive. These awards will ordinarily vest half on the announcement of the annual results in 2015 and half on the announcement of the annual results in 2016.

Long Term Incentive Plan Awards vesting in April 2014

These awards were granted in April 2011 under the Long Term Incentive Plan 2007 and will not vest until April 2014. They had a three year performance condition measured over a period which ended on 31 December 2013. Half of the award was subject to the Company's Total Shareholder Return (TSR) versus a comparator Group of the FTSE 250 (excluding investment trusts) and half was subject to the amount of the Group's Profit Before Tax (pre exceptional items).

Performance measure	Nil	Between 20% and 50%	Between 25% and 100%	Between 50% and 100% vesting	100% vesting	Actual	Percentage of maximum achieved
TSR Ranking	Below median		Between median and upper quartile		Upper quartile	6th percentile	100%
Group Profit Before Tax	Below £325m	£325m–£385m		£385m–£480m	£480m or more	£678m	100%

2011 LTIP awards	Number of shares awarded	Number of shares vesting	Value of TSR shares vesting*	Value of PBT shares vesting*	Total value of shares vesting*
J Fairburn	99,601	99,601	£635,485.50	£635,485.50	£1,270,971
M H Killoran	142,297	142,297	£907,899.50	£907,899.50	£1,815,799
N P Greenaway	22,133	22,133	£141,215.50	£141,215.50	£282,431
D Jenkinson	11,066	11,066	£70,604.50	£70,604.50	£141,209
Former Executive					
M P Farley	291,722	291,722	£1,861,277.50	£1,861,277.50	£3,722,555

* As the awards had not vested at the date of this report, the value of the 2011 LTIP Awards vesting has been estimated using a share price of £12.76 being the average of the closing price of a Persimmon share over the last quarter of 2013, plus 89.5p per share which is the value of the dividend equivalent payable on the awards that vest. The dividend equivalent is based on dividends and returns of cash to shareholders with record dates occurring between 4 April 2011, being the date of grant and 4 April 2014, being the vesting date.

Directors' pension entitlements

Jeff Fairburn and David Jenkinson each earn pension in the Company's defined benefit scheme on a career average revalued earnings (CARE) basis and on a scheme capped salary (currently £141,000). The cap increases on 1 July each year in line with increases in the Retail Price Index. Their scheme retirement age is 65 and their accrual rate is 60ths. As Jeff Fairburn and David Jenkinson's pensionable salary in the DB scheme is capped, they also receive matching 9% contributions into a stakeholder policy, up to the HMRC annual allowance for pension saving. In addition, because they do not earn pension on their total base salary, they are paid a salary supplement of 9% of the difference between their pensionable salary and their base salary.

Mike Killoran and Nigel Greenaway have both ceased membership of Company pension schemes. Mike Killoran is paid a salary supplement of 30% of his base salary, which the Committee (after taking advice) considers is cost neutral to the Company based on the pension benefits Mike Killoran previously earned. Nigel Greenaway receives a salary supplement of 9% of his base salary, being the supplement available to monthly paid employees who cease pension scheme membership due to reaching the HMRC Lifetime Allowance for pension saving.

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

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

	Accrued pension as at 31 December 2012	Accrued pension as at 31 December 2013	Increase in accrued pension	Increase in accrued pension during the year (net of inflation) £
J Fairburn	43,660	46,929	3,269	2,308
D Jenkinson	35,839*	36,049	210	(578)
Former Executive				
M P Farley	218,291	126,709**	(91,582)	(96,384)

* David Jenkinson became a Director on 13 December 2013 and his start year figures are as at this date.

** Mike Farley took his pension on 18 June 2013, his normal retirement date, and surrendered part of his pension for a lump sum.

LTIP Awards granted in 2013

During the year the Committee agreed that Jeff Fairburn, Nigel Greenaway and David Jenkinson should receive the following awards under the Long Term Incentive Plan 2012 (2012 LTIP), in light of their respective promotions to Group Chief Executive and to the Board. These awards have a maximum 10-year performance period specifically aligned to the Company's Capital Return Plan. The intention with the 2012 LTIP is to make awards with much longer performance and vesting periods, rather than making lower annual awards with shorter performance periods.

Name	Type of Interest awarded	Basis on which award was made	Number of ordinary shares	Initial option exercise price	Fair value* at date of the award	Fair value per year to date of full vesting	Regulatory value^ of the Award	Percentage receivable if minimum performance achieved	Ten year performance period end date
J Fairburn (April 2013)	Market price share option	Specified number of shares on promotion to Chief Executive	2,174,400	£11.09	£5,457,744	£682,218	£24,570,720	27%	31 December 2021
N P Greenaway (April 2013)	Market price share option	Specified number of shares on promotion to Board	130,000	£11.09	£326,300	£40,788	£1,469,000	27%	31 December 2021
D Jenkinson (December 2013)	Market price share option	Specified number of shares on promotion to Board	460,523	£11.355	£1,165,123	£166,446	£5,231,541	27%	31 December 2021

* The fair value of the awards is considered by the Committee to be £2.51 per share for the awards made in April 2013 and £2.53 per share for the award made in December 2013. This is the independent calculation of the fair value of the awards for such transactions in the Statement of Comprehensive Income and has been prepared using the Black Scholes option pricing model. The awards were granted with an option price at full market value and will not vest and have value unless the performance condition is met.

^ The regulatory value is required to be included using a strict calculation which is inappropriate for this award. It should be noted that the regulatory value has been calculated using the share price on the date of grant, it takes no account of the fact the awards were market value options and makes no allowance for the exercise price that will be payable by the Director. The date of grant for Jeff Fairburn and Nigel Greenaway was 19 April 2013 and the share price on that date was £11.30. The date of grant for David Jenkinson was 13 December 2013 and the share price on that date was £11.36. However, in accordance with the rules of the 2012 LTIP the market value for setting the initial option exercise price was the mid market price of a share on the day prior to the date of grant.

The number of shares that will vest is the same for all awards made under the 2012 LTIP and is dependent on the payment of cash returns to shareholders for the period 1 January 2012 to 31 December 2021, which must be achieved by the Measurement Dates set out below.

Cumulative Cash Return targets	Measurement Dates
£1.70 per share or more	by 31 December 2015
£2.80 per share or more	by 31 December 2017
£3.90 per share or more	by 31 December 2019
£5.05 per share or more	by 31 December 2020
£6.20 per share or more	by 31 December 2021

The initial exercise price will reduce by an amount equal to the value of cash returns to shareholders made by the Company during the period from date of grant to the earlier of 31 December 2021 or the date of exercise of an option.

The aggregate number of shares held under an option that will vest by each Measurement Date will normally be determined by reference to the fraction x/£6.20, where x is the value of the Cumulative Cash Return paid by the relevant Measurement Date. To the extent options vest on or before 31 December 2017, up to 40% of the total number of shares held under an option may be exercised from 31 December 2017 and the remainder of the vested options shall normally become exercisable on 31 December 2021. If £6.20 per share is returned early, an option will vest and become exercisable on the date this is achieved, but no options will become exercisable before 31 December 2015.

In considering the extent to which the performance condition has been satisfied, no options shall vest and become exercisable unless, in the opinion of the Committee, acting fairly and reasonably, the cash returns paid by the Company are financed out of retained earnings and the Company has an ungeared balance sheet at the relevant Measurement Date, except to take account of events and/or circumstances which the Committee fairly and reasonably determines are appropriate (the 'Underpin'). If the cash return of £1.70 is not met by 31 December 2015 the performance condition will not have been satisfied and the 2012 LTIP will expire on 31 December 2015 and all options will lapse in full on that date.

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

Payments for loss of office

Mike Farley retired during the year and the financial arrangements relating to his retirement were approved by shareholders at the AGM on 18 April 2013 and his remuneration is set out in the single total figure of remuneration table on page 52.

Payments to past Directors

Other than payments set out in the total remuneration table, there were no payments to past Directors for the year ended 31 December 2013 where the total payment to the former Director exceeded a threshold set by the Company of £60,000.

Annual report on remuneration continued

Directors' Share Option Scheme interests

	Scheme	31 December 2012	Granted in year	Exercised in year	Lapsed in year	Exercise price/ market price at date of award	Interests without Performance Conditions	Interests with Performance Conditions	Total interests outstanding at 31 December 2013	Options vested but unexercised	Exercisable from
J Fairburn	2007 LTIP	6,944	–	6,944	–	360.0p			–	–	Sep 11
	2007 LTIP	27,690	–	27,690	–	397.25p			–	–	Apr 12
	2007 LTIP	83,170	–	83,170	–	459.9p			–	–	Mar 13
	2007 LTIP	99,601	–	–	–	451.8p		99,601	99,601	–	Apr 14
	2012 LTIP	2,416,000	–	–	–	620p		2,416,000	2,416,000	–	40% Jan 18 100% Jan 22
	2012 LTIP	–	2,174,400	–	–	1109p		2,174,400	2,174,400	–	40% Jan 18 100% Jan 22
	Bonus Share Scheme	26,986	–	13,493	–	640p	13,493		13,493	–	Feb 14
	Bonus Share Scheme	–	21,020	–	–	1130p	21,020		21,020	–	50% Feb 14 50% Feb 15
	SAYE	2,465	–	–	–	365p	2,465		2,465	–	Dec 14
Total		2,662,856	2,195,420	131,297	–		36,978	4,690,001	**4,726,979**	Nil	
M H Killoran	2007 LTIP	91,267	–	91,267	–	397.25p			–	–	Apr 12
	2007 LTIP	137,064	–	137,064	–	459.9p			–	–	Mar 13
	2007 LTIP	142,297	–	–	–	451.8p		142,297	142,297	–	Apr 14
	2012 LTIP	3,382,400	–	–	–	620p		3,382,400	3,382,400	–	40% Jan 18 100% Jan 22
	Bonus Share Scheme	38,553	–	19,276	–	640p	19,277		19,277	–	Feb 14
	Bonus Share Scheme	–	25,779	–	–	1130p	25,779		25,779	–	50% Feb 14 50% Feb 15
	SAYE	2,465	–	–	–	365p	2,465		2,465	–	Dec 14
Total		3,794,046	25,779	247,607	–		47,521	3,524,697	**3,572,218**	Nil	
N P Greenaway	2007 LTIP	7,530	–	7,530	–	398.4p			–	–	Sep 13
	2007 LTIP	7,530	–	2,677	4,853	398.9p			–	–	Sep 13
	2007 LTIP	10,040	–	10,040	–	398.9p			–	–	Sep 13
	2007 LTIP	22,133	–	–	–	451.8p		22,133	22,133	–	Apr 14
	2012 LTIP	1,540,200	–	–	–	620p		1,540,200	1,540,200	–	40% Jan 18 100% Jan 22
	2012 LTIP	–	130,000	–	–	1109p		130,000	130,000	–	40% Jan 18 100% Jan 22
	SAYE	–	1,012	–	–	889p	1,012		1,012	–	Dec 16
Total		1,587,433	131,012	20,247	4,853		1,012	1,692,333	**1,693,345**	Nil	
D Jenkinson[Δ]	2007 LTIP	7,530	–	–	–	398.4p		7,530	7,530	7,530	Sep 13
	2007 LTIP	7,530	–	–	–	398.9p		7,530	7,530	7,530	Sep 13
	2007 LTIP	1,255	–	–	–	398.9p		1,255	1,255	1,255	Sep 13
	2007 LTIP	11,066	–	–	–	451.8p		11,066	11,066	–	Apr 14
	2012 LTIP	1,209,677	–	–	–	620p		1,209,677	1,209,677	–	40% Jan 18 100% Jan 22
	2012 LTIP	–	460,523	–	–	1135.5p		460,523	460,523	–	40% Jan 18 100% Jan 22
	SAYE	986	–	–	–	365p	986		986	–	Dec 14
Total		1,238,044	460,523	–	–		986	1,697,581	**1,698,567**	16,315	

	Scheme	31 December 2012	Granted in year	Exercised in year	Lapsed in year	Exercise price/ market price at date of award	Interests without Performance Conditions	Interests with Performance Conditions	Total interests outstanding at 31 December 2013	Options vested but unexercised	Exercisable from
M P Farley†	2007 LTIP	210,485	–	–	–	397.25p			210,485	–	Apr 12
	2007 LTIP	280,982	–	–	–	459.9p			280,982	–	Mar 13
	2007 LTIP	291,722	–	–	–	451.8p			291,722	–	Apr 14
	2012 LTIP	4,832,000	–	–	3,865,600	620p			966,400	–	100% Jan 16
	Bonus Share Scheme	59,278	–	–	–	640p			59,278	–	50% Feb 13 50% Apr 13
Total		5,674,467	–	–	3,865,600		–	–	**1,808,867**	Nil	
Grand Total		14,956,846	2,812,734	399,151	3,870,453		86,497	11,604,612	**13,499,976**	**16,315**	

Δ David Jenkinson's interests shown from 13 December 2013.

† Mike Farley's interests shown to 18 April 2013.

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

The closing price of a share in the Company at 31 December 2013 was 1239p, the lowest closing price in 2013 was 820½p and the highest closing price in 2013 was 1305p.

Statement of Directors' shareholding requirements and share interests

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

	Shareholding requirement		Beneficial holdings (including interests of the Director's connected persons)	
Director	Value as a percentage of base salary	Percentage held at 31 December 2013 (including shares held by connected persons)±	31 December 2013	31 December 2012
J Fairburn	200	230	116,609	41,214
M H Killoran	200	1,455	550,125	475,758
N P Greenaway	200	156	41,424	30,137Δ
D Jenkinson	200	62	16,597	16,597Δ
M P Farley	300	1,700†	1,073,287†	1,147,753
Non-Executives				
N H T Wrigley	n/a	n/a	36,000	26,000
R J Pennycook	n/a	n/a	643	643
J Davie	n/a	n/a	20,000	10,000
M Preston	n/a	n/a	500	–
M Sears	n/a	n/a	10,000	5,823Δ
R C N Davidson	n/a	n/a	35,500†	35,500
Total			**1,900,685**	**1,789,425**

± Calculated on the closing price at 31 December 2013, or date of leaving if earlier.

† As at 18 April 2013 for Mike Farley and Neil Davidson.

Δ As at 8 January 2013 for Marion Sears and Nigel Greenaway and as at 13 December 2013 for David Jenkinson.

Mike Killoran also has a non-beneficial interest in 64,022 shares and Mike Farley had a non-beneficial interest in 74,466 shares, in addition to the holdings above.

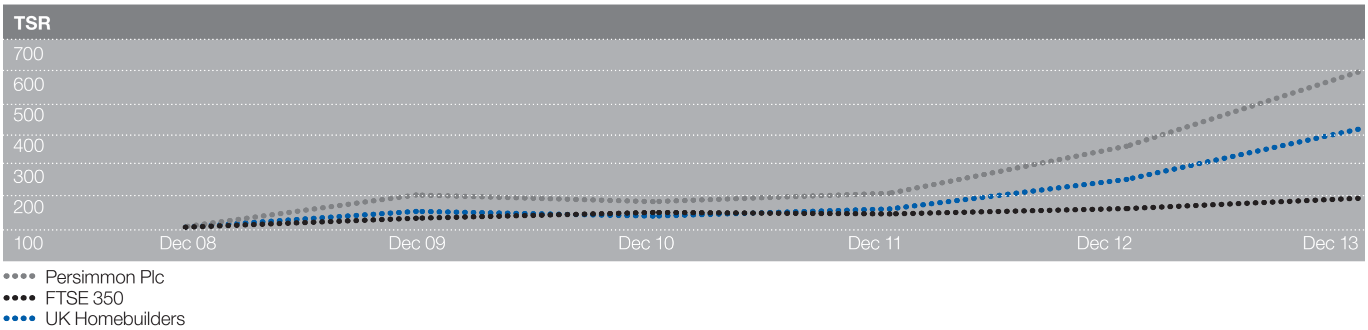
Executive Directors are required to hold shares in the Company worth 200% of salary and must retain any vested share awards (net of tax) until the share ownership guideline is met. Mike Killoran and Jeff Fairburn have both met the share ownership guidelines. Nigel Greenaway and David Jenkinson as recently appointed Board members are yet to meet the shareholding requirement.

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

The Directors' beneficial holdings were 791,898 shares at 31 December 2013 and represent 0.26% of the Company's issued share capital as at that date. There has been no change in the Directors' interests set out above between 31 December 2013 and 24 February 2014.

Total shareholder return performance

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



Group Chief Executive remuneration 2009 to 2013

	Chief Executive	Single figure of total remuneration £	Annual bonus paid against maximum opportunity	LTIP awards vesting against maximum opportunity
2013*	Mike Farley/Jeff Fairburn	5,492,365	100%	100%
2012	Mike Farley	4,989,127	100%	100%
2011	Mike Farley	3,206,309	98%	88%
2010	Mike Farley	1,496,320	96%	0%
2009	Mike Farley	1,378,781	64%	0%

* This is the total remuneration for Mike Farley who was Group Chief Executive until 18 April 2013 and remuneration for Jeff Fairburn from 18 April 2013, the date he became Group Chief Executive until 31 December 2013.

Group Chief Executive change in remuneration

Set out below is a comparison of the change in remuneration of the Group Chief Executive from 2012 to 2013, compared to the change in remuneration of the Group's salaried employees. We have selected the salaried workforce as this includes 2,155 junior to senior employees with the most relevant pay structure.

	Percentage change from 2012 to 2013		
	Annual salary	Bonus	Value of taxable benefits
Group Chief Executive	-6.8%	-3.8%	-8.4%
Average of salaried employees	-0.7%	-4.2%	5.6%

Salaried employees generally received a 3% increase in 2013. However the average per capita salary was lower in 2013 as we recruited additional junior staff and trainees as the business grew.

Jeff Fairburn became Group Chief Executive on 18 April 2013 and his base salary and taxable benefits are lower than his predecessor. The calculations have been based on the amounts paid to Mike Farley to 18 April 2013 and to Jeff Fairburn after that date.

Statement of voting at General Meeting

The Remuneration Report dated 22 February 2013 was put to shareholders for their approval at the AGM held on 18 April 2013. The resolution was passed on a show of hands. Of the proxy votes lodged 78% were in favour of the resolution to approve the report and 22% were against. 580,000 votes were withheld, representing 0.2% of the then issued share capital.

Relative importance of spend on pay

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

	2013 £m	2012 £m	Difference in spend £m	Difference as a percentage
Remuneration for all employees	**142.1**	116.6*	25.5	22%
Total distributions paid	**228.0**	18.2	209.8	1,153%

* Restated.

Remuneration Policy implementation for 2014

Executive Directors

Base salaries

After taking into consideration Group employees' salary increases in 2013 (monthly paid employees generally received a 3% base salary increase in 2013) plus general market conditions, the Committee has awarded salary increases of 3% to Executive Directors from 1 January 2014. David Jenkinson received a base salary increase above 3% due to his promotion to the Board; his salary has been aligned to that of Nigel Greenaway as they have identical responsibilities.

	Base salary from 1 January 2014	2013
Jeff Fairburn	£618,000	£600,000
Mike Killoran	£468,390	£454,750
Nigel Greenaway	£329,600	£320,000
David Jenkinson	£329,600	n/a

Annual bonus

The Committee was aware at the time of Jeff Fairburn's appointment as Group Chief Executive that his base salary remained substantially behind the salary of his predecessor in the role and also behind the salaries of the Chief Executives of other major housebuilders. The Committee wanted to see how Jeff Fairburn settled into his new role in 2013, with a view to reviewing his remuneration for 2014.

Taking account of Jeff Fairburn's strong performance and leadership since he became Group Chief Executive and having consulted with major shareholders, the Committee has agreed that Jeff Fairburn's remuneration should be changed for 2014. The Committee agreed that although Jeff Fairburn's 2013 base salary was only 80% of the market median for other large housebuilders, it was not appropriate to apply a large salary increase for 2014, but rather his annual bonus opportunity should be increased. The Group Chief Executive's maximum annual bonus has therefore increased from 150% of base salary to 200% for 2014. The increase in annual bonus potential will be paid entirely in deferred shares, together enhancing the emphasis on pay for performance. The Committee notes that Jeff Fairburn's combined base salary plus maximum annual bonus remains below the market median.

The Committee has not changed the maximum annual bonus achievable for the other Executive Directors and this will continue to be set at 150% of base salary.

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

In line with the Company's strategy to improve margins and return cash to shareholders under the Capital Return Plan, the Committee has decided that the most appropriate performance condition for 2014 annual bonus will primarily be based on profit before tax and cash generation measures. This year the Committee will also introduce conditions relating to independently measured customer satisfaction, which will account for 10% of the maximum bonus opportunity and health and safety outcomes, which will act as a downward modifier of up to 10% of the bonus outcome.

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

Long Term Incentive Plan Awards

The Committee does not intend to make any additional awards to Executive Directors in 2014, unless a new Executive Director is appointed.

Pension Schemes

There is no change to pension benefits for 2014, current arrangements are as set out on page 54.

Chairman and Non-Executive Directors' Fees

The Committee has agreed that the Chairman's fee for 2014 should be increased by 3% making his fee for 2014 £195,700. The Board as a whole determines the fees of the Non-Executive Directors. The Board has agreed that the fee for 2014 should increase by 3% to £54,590 plus an additional fee of £9,680 for extra responsibilities in chairing a committee.

The Remuneration Committee

The Remuneration Committee is responsible for setting the Chairman's and each Executive Director's remuneration. The Committee is comprised of four Non-Executive Directors, who all served throughout the year except for Marion Sears who was appointed to the Committee on 20 February 2013. Neil Davidson, previously a Non-Executive Director also served on the Committee until 18 April 2013, when he retired from the Board.

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

The Committee sought advice on Executive Directors' remuneration matters from its independent remuneration consultants New Bridge Street ('NBS'), a trading name of Aon Hewitt (part of the Aon Corporation) who were selected by the Committee due to their expertise in this field. The Committee considers that the advice provided by NBS as an independent, professional remuneration consultant is objective and independent. NBS is a signatory to the Remuneration Consultants Group Code of Conduct in relation to executive remuneration consulting in the UK.

Aon Hewitt also provides advice to the Company on the Company's pension schemes via its actuarial and pension consultancy division. The Committee does not consider that the independence of NBS is compromised by this appointment as NBS is a separate division of Aon Hewitt based in London (the actuarial and pension consultancy offices are in Leeds and Birmingham). The amount of fees the Company paid to NBS for the services they provided in 2013 was £19,525, charged on a time spent basis.

In addition the Committee consulted with Jeff Fairburn, Group Chief Executive and Mike Farley when he was Group Chief Executive, but no Director was involved in any discussion about his own remuneration.

The Committee has also reviewed the remuneration of the Group's Divisional boards (the level of management below Board level) and of the Group Company Secretary.

By order of the Board

Jonathan Davie
Chairman Remuneration Committee
24 February 2014

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

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report/Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's business model, performance and strategy.

By order of the Board

Jeff Fairburn
Group Chief Executive
24 February 2014

Mike Killoran
Group Finance Director

Independent Auditor's Report to the Members of Persimmon Plc

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Persimmon Plc for the year ended 31 December 2013 set out on pages 64 to 103. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

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

Carrying amount of available for sale financial assets – shared equity receivables (£215.4m)

Refer to page 40 (Audit Committee Report), page 73 (accounting policy) and pages 85 to 86 (financial disclosure)

- *The risk:* The risk relating to the carrying amount of the Group's available for sale financial assets, which are held at fair value, arises from the receivables created as part of sales transactions being on extended terms. This requires the use of a valuation model incorporating assumptions of house price inflation, borrower default and discount rate, over the period of recovery. There are inherent uncertainties within these assumptions which require judgements to be made which if materially incorrect would result in the misstatement of the carrying value of the available for sale financial assets.
- *Our response:* In this, area our audit procedures included, among others, testing the Group's controls over the recording of available for sale financial assets at operating sites and testing the principles and integrity of the Group's discounted cash flow model used to value the assets. We evaluated the key assumptions of forecast house price inflation and market participant discount rate, through comparison to externally derived data. The assumptions relating to borrower default were evaluated against actual default levels. We re-performed the Group's sensitivity analysis on the valuation and challenged the range of assumptions used by the Group for the sensitivity analysis in comparison to our research findings. We compared the carrying amount of available for sale assets relating to redemptions during the financial year with the actual amount recovered in respect of these assets. We have also considered the adequacy of the Group's disclosures over the key assumptions and degree of estimation.

Carrying amounts of impairment provision in respect of inventories (credit balance of £102.8m including within inventories)

Refer to page 40 (Audit Committee Report), page 73 (accounting policy) and page 86 (financial disclosure)

- *The risk:* The risk relating to the carrying amount of impairment provisions against inventory, arises from the recoverable value of the related asset (to which the cost of the asset is compared) being based on assumptions of forecast build modelling and costs and forecast selling prices. Forecast selling prices have inherent uncertainty due to changes in market conditions. Forecast build costs can vary with market conditions and may also be incorrectly estimated due to changes in build modelling. These inherent uncertainties require judgements which if materially incorrect would result in the misstatement of the inventory provision.
- *Our response:* In this area our audit procedures included, among others, testing the Group's controls over the process around valuation of land and work in progress including accuracy and completeness of data capture and recording and future selling prices and costs. We evaluated the process of comparison of anticipated margin to the break even target, the reasonableness of which we assessed by comparison with actual break even margins previously achieved. We tested the integrity of the impairment model, and re-performed the calculation of the impairment provision. For all sales in the year for which part of the provision was utilised, we calculated the profit or loss after utilisation, and considered the appropriateness of its disclosure in the income statement. We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision and the classification of the net provision reversed as an exceptional item.

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

The materiality for the Group financial statements as a whole was set at £27m. This has been determined based on a benchmark of total assets (of which it represents 0.9%), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected audit misstatements we identified during our audit with a value in excess of £1.4m in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group operates through 24 regional offices and a head office, all of which operate on one, integrated accounting system and under a common set of controls, supplemented by central control processes. The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation, and total Group assets.

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

In our opinion:

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

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

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

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

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 42, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 38 to 40 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Iain Moffatt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment, Neville Street, Leeds, LS1 4DW
24 February 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	**2013** Before exceptional items £m	**2013** Exceptional items (note 6) £m	**2013** Total £m	Restated (note 1) 2012 Before exceptional items £m	Restated (note 1) 2012 Exceptional items (note 6) £m	Restated (note 1) 2012 Total £m
Revenue	5	**2,085.9**	**–**	**2,085.9**	1,721.4	–	1,721.4
Cost of sales		**(1,664.6)**	**14.1**	**(1,650.5)**	(1,419.5)	2.8	(1,416.7)
Gross profit		**421.3**	**14.1**	**435.4**	301.9	2.8	304.7
Other operating income		**10.0**	**–**	**10.0**	10.1	–	10.1
Operating expenses		**(104.8)**	**–**	**(104.8)**	(95.6)	–	(95.6)
Profit from operations before impairment of intangible assets		**333.1**	**14.1**	**347.2**	222.5	2.8	225.3
Impairment of intangible assets		**(6.6)**	**–**	**(6.6)**	(6.1)	–	(6.1)
Profit from operations	10	**326.5**	**14.1**	**340.6**	216.4	2.8	219.2
Finance income	9	**11.3**	**–**	**11.3**	9.2	–	9.2
Finance costs	9	**(14.8)**	**–**	**(14.8)**	(10.2)	–	(10.2)
Profit before tax		**323.0**	**14.1**	**337.1**	215.4	2.8	218.2
Tax	11.1	**(76.6)**	**(3.3)**	**(79.9)**	(50.0)	(0.7)	(50.7)
Profit after tax (all attributable to equity holders of the parent)	13	**246.4**	**10.8**	**257.2**	165.4	2.1	167.5
Other comprehensive income/(expense)							
Items that will not be reclassified to profit:							
Remeasurement gains/(losses) on defined benefit pension schemes	29	**6.6**	**–**	**6.6**	(6.9)	–	(6.9)
Tax	11.2	**(0.8)**	**–**	**(0.8)**	1.6	–	1.6
Other comprehensive income/(expense) for the year, net of tax		**5.8**	**–**	**5.8**	(5.3)	–	(5.3)
Total recognised income for the year		**252.2**	**10.8**	**263.0**	160.1	2.1	162.2
Earnings per share [i]							
Basic	13			**84.7p**			55.4p
Diluted	13			**84.2p**			54.9p
Non-GAAP measures – Underlying earnings per share [ii]							
Basic	13			**83.3p**			56.7p
Diluted	13			**82.8p**			56.2p

[i] Earnings per share is calculated in accordance with IAS 33: Earnings Per Share.

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

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

Balance Sheets

As at 31 December 2013

	Note	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Assets					
Non-current assets					
Intangible assets	14	**237.9**	244.5	**2.5**	2.8
Property, plant and equipment	15	**31.8**	29.9	**1.9**	1.8
Investments accounted for using the equity method	16.1	**3.0**	3.0	**–**	–
Investments in subsidiaries	16.2	**–**	–	**3,205.7**	3,205.7
Available for sale financial assets	17	**215.4**	202.9	**–**	–
Trade and other receivables	19	**8.2**	4.5	**–**	–
Deferred tax assets	23	**19.1**	13.4	**15.4**	10.1
Retirement benefit assets	29	**23.5**	–	**23.5**	–
		538.9	498.2	**3,249.0**	3,220.4
Current assets					
Inventories	18	**2,194.9**	2,051.0	**–**	–
Trade and other receivables	19	**83.9**	47.3	**850.8**	829.2
Cash and cash equivalents	26	**204.3**	201.5	**129.8**	146.8
Current tax assets		**–**	–	**3.1**	–
Assets held for sale	15	**0.9**	1.1	**–**	–
		2,484.0	2,300.9	**983.7**	976.0
Total assets		**3,022.9**	2,799.1	**4,232.7**	4,196.4
Liabilities					
Non-current liabilities					
Trade and other payables	21	**(163.7)**	(128.6)	**(9.0)**	(1.7)
Deferred tax liabilities	23	**(22.4)**	(20.7)	**(4.7)**	–
Partnership liability	30	**(50.1)**	(52.5)	**–**	–
Retirement benefit obligations	29	**–**	(4.1)	**–**	(4.1)
		(236.2)	(205.9)	**(13.7)**	(5.8)
Current liabilities					
Trade and other payables	21	**(637.9)**	(535.9)	**(3,312.8)**	(3,368.4)
Partnership liability	30	**(5.3)**	(5.3)	**–**	–
Current tax liabilities		**(98.0)**	(58.3)	**–**	–
		(741.2)	(599.5)	**(3,312.8)**	(3,368.4)
Total liabilities		**(977.4)**	(805.4)	**(3,326.5)**	(3,374.2)
Net assets		**2,045.5**	1,993.7	**906.2**	822.2
Equity					
Ordinary share capital issued	24	**30.5**	30.3	**30.5**	30.3
Share premium		**160.0**	234.2	**160.0**	234.2
Capital redemption reserve		**76.7**	–	**76.7**	–
Other non-distributable reserve		**281.4**	281.4	**4.6**	4.6
Retained earnings		**1,496.9**	1,447.8	**634.4**	553.1
Total equity		**2,045.5**	1,993.7	**906.2**	822.2

The financial statements of Persimmon Plc (Company number: 1818486) on pages 64 to 103 were approved by the Board of Directors on 24 February 2014 and were signed on its behalf by:

J Fairburn
Group Chief Executive

M H Killoran
Group Finance Director

Statements of Changes in Shareholders' Equity

As at 31 December 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
Group						
Balance at 1 January 2012	30.3	233.6	–	281.4	1,294.0	1,839.3
Profit for the year (restated)	–	–	–	–	167.5	167.5
Other comprehensive expense (restated)	–	–	–	–	(5.3)	(5.3)
Transactions with owners:						
Dividends on equity shares	–	–	–	–	(18.2)	(18.2)
Issue of new shares	–	0.6	–	–	–	0.6
Own shares purchased	–	–	–	–	(0.5)	(0.5)
Exercise of share options/share awards	–	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	–	–	9.6	9.6
Satisfaction of share options from own shares held	–	–	–	–	1.4	1.4
Balance at 31 December 2012	**30.3**	**234.2**	**–**	**281.4**	**1,447.8**	**1,993.7**
Profit for the year	–	–	–	–	257.2	257.2
Other comprehensive income	–	–	–	–	5.8	5.8
Transactions with owners:						
Allotment of B/C shares	–	(76.7)	–	–	–	(76.7)
Redemption and cancellation of B/C shares	–	–	76.7	–	(76.7)	–
Dividends on equity shares	–	–	–	–	(151.2)	(151.2)
Issue of new shares	0.2	2.5	–	–	–	2.7
Own shares purchased	–	–	–	–	(3.0)	(3.0)
Exercise of share options/share awards	–	–	–	–	(1.2)	(1.2)
Share-based payments	–	–	–	–	17.0	17.0
Satisfaction of share options from own shares held	–	–	–	–	1.2	1.2
Balance at 31 December 2013	**30.5**	**160.0**	**76.7**	**281.4**	**1,496.9**	**2,045.5**

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

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
Company						
Balance at 1 January 2012	30.3	233.6	–	4.6	572.8	841.3
Loss for the year (restated)	–	–	–	–	(6.5)	(6.5)
Other comprehensive expense (restated)	–	–	–	–	(5.3)	(5.3)
Transactions with owners:						
Dividends on equity shares	–	–	–	–	(18.2)	(18.2)
Issue of new shares	–	0.6	–	–	–	0.6
Exercise of share options/share awards	–	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	–	–	9.6	9.6
Satisfaction of share options from own shares held	–	–	–	–	1.4	1.4
Balance at 31 December 2012	**30.3**	**234.2**	**–**	**4.6**	**553.1**	**822.2**
Profit for the year	–	–	–	–	287.5	287.5
Other comprehensive income	–	–	–	–	5.8	5.8
Transactions with owners:						
Allotment of B/C shares	–	(76.7)	–	–	–	(76.7)
Redemption and cancellation of B/C shares	–	–	76.7	–	(76.7)	–
Dividends on equity shares	–	–	–	–	(151.2)	(151.2)
Issue of new shares	0.2	2.5	–	–	–	2.7
Exercise of share options/share awards	–	–	–	–	(2.3)	(2.3)
Share-based payments	–	–	–	–	17.0	17.0
Satisfaction of share options from own shares held	–	–	–	–	1.2	1.2
Balance at 31 December 2013	**30.5**	**160.0**	**76.7**	**4.6**	**634.4**	**906.2**

During the year the Company received dividends from wholly owned subsidiary undertakings of £300.0m (2012: £nil).

Retained earnings include £29.0m of non-distributable items (2012: £29.1m).

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

Cash Flow Statements

For the year ended 31 December 2013

	Note	**Group 2013 £m**	Group 2012 Restated £m	**Company 2013 £m**	Company 2012 Restated £m
Cash flows from operating activities:					
Profit/(loss) for the year		**257.2**	167.5	**287.5**	(6.5)
Tax charge/(credit)	11.1	**79.9**	50.7	**(0.8)**	1.8
Finance income	9	**(11.3)**	(9.2)	**(0.2)**	(0.3)
Finance costs	9	**14.8**	10.2	**6.0**	3.2
Depreciation charge	15	**4.5**	3.9	**0.2**	0.3
Amortisation of intangible assets	14	**–**	0.2	**0.3**	0.2
Impairment of intangible assets	14	**6.6**	6.1	**–**	–
Profit on disposal of property, plant and equipment	10	**(0.1)**	(0.1)	**–**	–
Profit on disposal of assets held for sale	10	**(0.1)**	–	**–**	–
Share-based payment charge		**10.3**	5.7	**10.3**	5.7
Exceptional items	6	**(14.1)**	(2.8)	**–**	–
Other non-cash items		**(2.2)**	(0.8)	**1.8**	(0.7)
Cash inflow from operating activities		**345.5**	231.4	**305.1**	3.7
Movements in working capital:					
Increase in inventories		**(129.8)**	(40.9)	**–**	–
(Increase)/decrease in trade and other receivables		**(26.6)**	13.6	**(23.6)**	(83.2)
Increase/(decrease) in trade and other payables		**105.3**	75.2	**(74.0)**	169.4
Increase in available for sale financial assets		**(12.5)**	(38.9)	**–**	–
Cash generated from operations		**281.9**	240.4	**207.5**	89.9
Interest paid		**(2.9)**	(2.5)	**(2.4)**	(2.1)
Interest received		**0.9**	0.5	**0.3**	0.3
Tax (paid)/received		**(38.3)**	(56.6)	**3.1**	19.3
Net cash inflow from operating activities		**241.6**	181.8	**208.5**	107.4
Cash flows from investing activities:					
Purchase of property, plant and equipment		**(6.6)**	(4.4)	**(0.3)**	(0.2)
Proceeds from sale of property, plant and equipment		**0.3**	0.2	**–**	–
Proceeds from sale of assets held for sale		**0.2**	0.4	**–**	–
Net cash outflow from investing activities		**(6.1)**	(3.8)	**(0.3)**	(0.2)
Cash flows from financing activities:					
Finance lease principal payments		**–**	(0.1)	**–**	–
Payment of Partnership Liability		**(4.5)**	–	**–**	–
Own shares purchased		**(3.0)**	(0.5)	**–**	–
Share options consideration		**2.7**	1.3	**2.7**	1.3
B Share Redemption		**(76.7)**	–	**(76.7)**	–
Dividends paid		**(151.2)**	(18.2)	**(151.2)**	(18.2)
Net cash outflow from financing activities		**(232.7)**	(17.5)	**(225.2)**	(16.9)
Increase/(decrease) in net cash and cash equivalents	25	**2.8**	160.5	**(17.0)**	90.3
Cash and cash equivalents at the beginning of the year		**201.5**	41.0	**146.8**	56.5
Cash and cash equivalents at the end of the year	26	**204.3**	201.5	**129.8**	146.8

Notes to the Financial Statements

For the year ended 31 December 2013

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013:

- Amendments to IAS 19: Employee Benefits
- Amendments to IAS 1: Presentation of Items of Other Comprehensive Income
- Amendments to IFRS 13: Fair Value Measurement
- Amendments to IFRS 7: Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities
- Annual improvements to IFRSs 2009–2011 Cycle

With the exception of IAS 19: Employee Benefits the effects of the implementation of these standards have been limited to disclosure amendments.

The amendments to IAS 19 affect the allowable actuarial assumptions in calculation of the annual expense of defined benefit pension schemes. In particular the actuarial assumptions in relation to asset returns are limited to the discount rate applied to liabilities. As a result of the changes the accounting charge for the year ended 31 December 2012 for both the Group and the Company has been increased by £3.6m. Basic earnings per share for 2012 have been restated and reduced by 0.9p per share as a result. Were the previous IAS 19 requirements applied to the year ended 31 December 2013 we estimate profit before tax would have been £5.4m higher, with basic earnings per share increased to 86.0p.

In implementing these changes the Group has also reviewed its accounting policies in relation to the expensing of defined benefit pension scheme costs. Previously all expenses in relation to provision of long term employee benefits were charged as an operating expense. However, to more appropriately reflect the nature of the costs the Group will now charge/credit the net finance cost/income element of such benefits as a finance expense/income. Following this change (and reflecting the increased net finance cost/reduced net finance income associated with Amendment to IAS 19: Employee Benefits) £2.9m of expense has been reclassified for the year ending 31 December 2012 (2013: £0.1m income). As required equal adjustments have been made to the remeasurement gains and losses within other comprehensive income/expense. Shareholders' equity remains as previously reported as do the previously reported balance sheets.

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

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

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

2 Accounting policies

Statement of compliance

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

2 Accounting policies (continued)

Basis of preparation

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 33. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 19 to 27 of the Strategic Report. Further disclosures regarding borrowings are provided in note 20 to the financial statements. In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Directors have assessed the future funding requirements of the Group and the Company and compared it to the level of committed bank facilities and cash resources over the medium term. The assessment included a review of the financial forecasts and the preparation of sensitivity analysis on the key factors which could affect future cash flow and funding requirements.

The Group's policy on funding capacity is to ensure that it always has sufficient committed bank facilities in place to meet foreseeable peak working capital requirements. At 31 December 2013 the Group had cash and deposits of £204.3m and £300.0m of undrawn committed bank facilities available to meet future funding requirements.

At 31 December 2013, the net cash position of the Group was £204.3m (note 26).

Having undertaken this review, the Directors have a reasonable expectation that the Group has adequate resources to fund its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Basis of consolidation

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

Business combinations

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

Goodwill

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

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

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment. The allocation of this goodwill for impairment testing is disclosed in note 14. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

2 Accounting policies (continued)

Brand intangibles

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

Where a brand's life is not deemed to be indefinite it is written off over its expected useful life on a straight-line basis.

Revenue recognition

Revenue in respect of the sale of residential properties is recognised at the fair value of the consideration received or receivable on legal completion. The sales proceeds of part exchange properties are included as a reduction in cost of sales.

Government grants

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

Other operating income

Other operating income comprises profits from the sale of land holdings, freehold reversions, rent receivable, and other incidental sundry income.

Operating expenses

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

Borrowing costs

Interest bearing bank loans, overdrafts and Partnership liabilities are initially measured at fair value (being proceeds received, net of direct issue costs) and are subsequently measured at amortised cost, using the effective interest rate method. Finance charges, including direct issue costs are accounted for and taken to the statement of comprehensive income using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Where bank agreements include a legal right of offset for in hand and overdraft balances, and the Group intends to settle the net outstanding position, the offset arrangements are applied to record the net position in the balance sheet.

Exceptional items

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

2 Accounting policies (continued)

Share-based payment

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

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

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

Retirement benefit costs

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

Interest cost on the scheme liabilities and finance returns on scheme assets are recognised at the applicable discount rate as net finance income/costs in the statement of comprehensive income and remeasurement gains and losses via the statement of other comprehensive income.

Subsidiary entities bear a charge for current employees based upon their current pensionable salaries. Differences between this charge and the current service cost are borne by the Company as the legal sponsor, as are all experience gains and losses. There is no contractual arrangement or stated policy for recharging the other Group entities involved in the Scheme.

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

Taxation

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

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

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

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

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

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

Leases as lessee

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

2 Accounting policies (continued)

Property, plant and equipment

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

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

Plant – 3 to 5 years.

Fixtures and fittings – 3 to 5 years.

Freehold buildings – 50 years.

No depreciation is provided on freehold land.

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

Investments

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

Jointly controlled entities

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

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

Available for sale financial assets

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

Inventories

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

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

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

Trade and other receivables

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

2 Accounting policies (continued)

Inter-Group guarantees

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

Trade and other payables

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

Deposits

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

Cash and cash equivalents

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

Interest bearing borrowings

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

Dividends

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

Dividends payable are recorded in the period in which they are approved or paid, whichever is earliest.

Own shares held

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Land and work in progress

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

During the year ended 31 December 2012, the Group conducted a review of inventories in the light of the challenging UK housing market. This resulted in a net reversal of previous write downs of inventory carrying values of £2.8m. During the year ended 31 December 2013, the Group conducted further reviews of the net realisable value of its inventory carrying values which resulted in a further net reversal of the previous write downs of inventories of £14.1m. The reviews were conducted on a site by site basis, using valuations that incorporated selling price and development cost movements, based on local management and the Board's assessment of market conditions existing at the balance sheet date. If there are significant movements in UK house prices or development costs beyond management's expectations then further impairments/reversals of previous write downs of land and work in progress may be necessary.

Available for sale financial assets

Available for sale financial assets, also known as shared equity receivables, principally comprise loans granted as part of sales transactions that are secured by way of a second legal charge on the respective property. Asset valuation and impairment allowances are determined on a portfolio basis which takes into account factors such as the length of time that the loan has been outstanding, market conditions, including those in respect of house price inflation, forced sale discount and probability of borrower default. The variables used are kept under regular review to ensure that as far as possible they reflect current economic circumstances; however changes in house prices, redemption dates, interest rates, unemployment levels and bankruptcy trends in the UK could result in actual returns differing from reported valuations. At 31 December 2013 the asset recognised on the balance sheet was £215.4m (2012: £202.9m).

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 £177.9m with an impairment of £6.6m recognised during the year.

Brand intangibles

The intangible brand assets have been assessed against the discounted cash flows arising. These are based upon estimated returns from the related businesses, which may be impacted by various factors, most notably Government social housing policy and further deterioration in the economic conditions in the United Kingdom. The carrying amount of indefinite life brands at the balance sheet date was £60.0m, with no impairment recognised during the year ended 31 December 2013.

Pensions

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

4 Principal activities

The Group's operating segments, which were North and South Divisions have similar economic characteristics, products, construction processes and types of customers, and meet the aggregation criteria of IFRS 8 in full. Consequently, the Group has aggregated its geographic operations into one reportable segment which is housebuilding in the United Kingdom.

5 Revenue

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

	2013 £m	2012 £m
Revenue as noted in the statement of comprehensive income:		
Sale of goods	**2,085.9**	1,721.4
Other operating income	**10.0**	10.1
Finance income	**11.3**	9.2
Total revenue	**2,107.2**	1,740.7

Sale of goods includes £286.1m (2012: £266.8m) of revenue generated where the sale has been achieved using part exchange incentives. Proceeds received on the disposal of part exchange properties, which are not included in revenue, were £297.8m (2012: £243.6m).

6 Exceptional items

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

Impairment of inventories

During the year, the Group reviewed the net realisable value of its land and work in progress carrying values of its sites. This resulted in a net reversal of the previous write-down of inventories of £14.1m (2012: £2.8m). Further details are provided in note 18.

7 Key management remuneration

Key management personnel, as disclosed under IAS 24 (Related Party Disclosures), have been identified as the Board of Directors and other senior operational management. Detailed disclosures of individual remuneration, pension entitlements and share options, for those Directors who served during the year, are given in the Annual Report on Remuneration on pages 46 to 60. A summary of key management remuneration is as follows:

	2013 £m	2012 £m
Short-term benefits	**4.5**	4.6
Post-employment benefits	**0.1**	0.1
Share-based payments	**5.2**	3.2
	9.8	7.9

No termination benefits were paid to key management personnel. Total gains on exercise of options by Directors in the year amounted to £3.7m (2012: £nil).

8 Employees

Group

The average monthly number of persons (including Executive Directors) employed by the Group during the year was 2,791 (2012: 2,515).

	2013 £m	2012 Restated £m
Staff costs (for the above persons):		
Wages and salaries	**117.1**	97.1
Social security costs	**12.9**	10.7
Pensions charge	**1.8**	3.1
Share-based payments	**10.3**	5.7
	142.1	116.6

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

Company

The average monthly number of persons (including Executive Directors) employed by the Company during the year was 158 (2012: 142).

	2013 £m	2012 Restated £m
Staff costs (for the above persons):		
Wages and salaries	**20.1**	12.2
Social security costs	**2.6**	1.7
Pensions charge	**1.5**	0.1
Share-based payments	**10.3**	5.7
	34.5	19.7

9 Net finance costs

	2013 £m	2012 Restated £m
Recognised in profit after tax		
Interest receivable on bank deposits	**0.3**	0.3
Imputed interest on available for sale financial assets	**10.7**	8.7
Net interest on pension asset	**0.1**	–
Other interest receivable	**0.2**	0.2
Finance income	**11.3**	9.2
Interest expense on bank overdrafts and loans	**3.1**	2.9
Imputed interest on deferred land payables	**5.7**	2.9
Net interest on pension liability	**–**	2.9
Interest on Partnership liability	**2.9**	–
Other interest expense	**3.1**	1.5
Finance costs	**14.8**	10.2
Net finance costs	**3.5**	1.0

10 Profit from operations

	2013 £m	2012 £m
Profit from operations is stated after charging/(crediting):		
Staff costs (restated) (note 8)	**142.1**	116.6
Exceptional items (note 6)	**(14.1)**	(2.8)
Profit on sale of land holdings	**(4.0)**	(6.2)
Government grants	**(1.1)**	(1.8)
Rent receivable	**(1.6)**	(1.6)
Profit on sale of property, plant and equipment	**(0.1)**	(0.1)
Profit on sale of assets held for sale	**(0.1)**	–
Depreciation of owned assets	**4.5**	3.9
Amortisation of intangible assets	**–**	0.2
Impairment of intangible assets	**6.6**	6.1
Operating lease charges	**5.2**	5.3

Government grants of £nil (2012: £nil) were received in the year relating to provision of affordable and first time buyer housing. In addition, the Group's customers have benefited from increased availability of finance through the Governments 'Help to Buy', 'NewBuy' and 'Funding for Lending' schemes which have provided indirect assistance to the Group.

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

	2013 £'000	2012 £'000
Audit fees		
Audit of the Parent Company and consolidated financial statements	**113**	109
Audit related assurance services	**50**	50
The audit of the Company's subsidiaries pursuant to legislation	**40**	40
Total fees for the audit of the Company and its subsidiaries	**203**	199
Non-audit fees		
Tax advisory services	**–**	100
Other services	**2**	28
Total non-audit fees	**2**	128
	205	327

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 £135,000 (2012: £195,000).

11 Tax

11.1 Analysis of the tax charge for the year

	2013 £m	2012 Restated £m
Tax charge comprises:		
UK corporation tax in respect of the current year	**78.9**	41.4
Adjustments in respect of prior years	**(0.9)**	(6.0)
	78.0	35.4
Deferred tax relating to origination and reversal of temporary differences	**2.0**	14.7
Adjustments recognised in the current year in respect of prior years deferred tax	**(0.1)**	0.6
	1.9	15.3
	79.9	50.7

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

	2013 £m	2012 Restated £m
Profit from continuing operations	**337.1**	218.2
Tax calculated at UK corporation tax rate of 23.25% (2012: 24.5%)	**78.4**	53.4
Accounting base cost not deductible for tax purposes	**0.7**	1.3
Goodwill impairment losses that are not deductible	**1.5**	1.5
Expenditure not allowable for tax purposes	**0.1**	0.1
Effect of change in rate of corporation tax	**0.2**	(0.2)
Adjustments in respect of prior years	**(1.0)**	(5.4)
Tax charge for the year recognised in profit or loss	**79.9**	50.7

The applicable corporation tax rate has reduced from the prior year in line with corporation tax rates effective from 1 April 2012 (24%) and 1 April 2013 (23%). Further corporation tax rates enacted on 2 July 2013 effective from 1 April 2014 (21%) and 1 April 2015 (20%) have been reflected in deferred tax calculations.

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

	2013 £m	2012 Restated £m
Recognised on remeasurement gains/(losses) on pension schemes	**0.8**	(1.6)

11.3 Deferred tax recognised directly in equity (note 23)

	2013 £m	2012 £m
Arising on transactions with equity participants		
Relating to equity-settled transactions	**(6.7)**	(3.9)

12 Dividends/Return of capital

	2013 £m	2012 £m
Amounts recognised as distributions to capital holders in the period:		
2011 final dividend paid of 6.0p per share	–	18.2
2013 return of capital to B shareholders of 75.0p per share	76.7	–
2013 dividend to C shareholders of 75.0p per share	151.2	–
2014 proposed return of capital of 70.0p per share	213.3	–

The Company plans to return 70p of surplus capital (2013: 75p) in cash to shareholders for each ordinary share held at 6.00pm on 4 June 2014. The payment will be made on 4 July 2014, subject to shareholder approval.

The Directors propose to offer the opportunity for shareholders (wherever possible) to choose whether to receive the cash on 4 July 2014 as a return of capital or as dividend income. The cash payment will be returned by way of a B share/C share scheme. Full details of this B/C share proposal will be sent to shareholders, along with the AGM notice, on 17 March 2014.

The Parent Company received £300.0m dividends from wholly owned subsidiary undertakings during 2013 (2012: £nil).

13 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee benefit trusts (see note 24) and treasury shares, all of which are treated as cancelled, which were 303.7m (2012: 302.6m).

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares from the start of the year, giving a figure of 305.5m (2012: 305.4m).

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

	2013	2012 Restated
Basic earnings per share	84.7p	55.4p
Underlying basic earnings per share	83.3p	56.7p
Diluted earnings per share	84.2p	54.9p
Underlying diluted earnings per share	82.8p	56.2p

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

	2013 £m	2012 Restated £m
Underlying earnings attributable to shareholders	253.0	171.5
Exceptional items net of related taxation	10.8	2.1
Goodwill impairment	(6.6)	(6.1)
Earnings attributable to shareholders	257.2	167.5

14 Intangible assets

Group	Goodwill £m	Brand £m	Know-how £m	Total £m
Cost				
At 1 January 2012, 1 January 2013 and 31 December 2013	**408.8**	**60.0**	**1.9**	**470.7**
Accumulated impairment losses/amortisation				
At 1 January 2012	218.2	–	1.7	219.9
Impairment losses for the year – utilisation of strategic land holdings	5.4	–	–	5.4
Impairment losses for the year – other	0.7	–	–	0.7
Amortisation charge for the year	–	–	0.2	0.2
At 1 January 2013	**224.3**	**–**	**1.9**	**226.2**
Impairment losses for the year – utilisation of strategic land holdings	6.6	–	–	6.6
At 31 December 2013	**230.9**	**–**	**1.9**	**232.8**
Carrying amount				
At 31 December 2013	**177.9**	**60.0**	**–**	**237.9**
At 31 December 2012	184.5	60.0	–	244.5

Goodwill brought forward at the start of the year of £184.5m includes £150.2m (2012: £155.3m) which arose on acquisitions before the date of transition to IFRSs and is retained at the previous UK GAAP amounts, subject to being tested for impairment. £37.0m (2012: £37.0m) of this amount represented the brand value of Charles Church, acquired with Beazer Group plc in 2001.

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolated for four years, to form the basis of the Group's five year business plan. When performing the impairment review of the brands, the relevant retraction/growth rates included therein vary between –3% to +2% (2012: –4% to +3%), reflecting the current state of the UK housing market.

The retraction/growth rates in relation to the impairment review of goodwill allocated to strategic land holdings vary between –3% to +2% (2012: –2% to +3%).

After this period the growth rates applied to calculate the cash flow forecasts vary between nil and 2% (2012: nil and 3%) reflecting management's estimate of the forecast recovery in the UK housing market, which do not exceed the long term average growth rates for the industry.

Management used pre-tax discount factors between 5% and 10% (2012: 5% and 8%) over the forecast periods.

14 Intangible assets (continued)

The goodwill allocated to acquired strategic land holdings is further tested by reference to the proportion of legally completed plots in the period compared to the total plots which are expected to receive satisfactory planning permission in the remaining strategic land holdings, taking account of historic experience and market conditions. This review resulted in an underlying impairment of £6.6m (2012: £5.4m). This charge reflects ongoing consumption of the required strategic land holdings by the business once satisfactory planning permission has been received. The effect of testing goodwill for impairment in the manner set out is that the goodwill will be completely impaired once the final plot that management expects to receive a satisfactory planning permission, is sold.

On concluding the annual impairment testing, there remains £108.2m (2012: £113.1m) and £32.7m (2012: £34.4m) of Beazer and Westbury goodwill allocated to strategic land holdings and £37.0m (2012: £37.0m) allocated to the Charles Church brand. In addition, there is £60.0m (2012: £60.0m) of carrying value in relation to the Westbury brand.

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

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

Company	Trademarks £m
Cost	
At 1 January 2012, 1 January 2013 and 31 December 2013	**5.0**
Amortisation	
At 1 January 2012	2.0
Charge for the year	0.2
At 1 January 2013	2.2
Charge for the year	0.3
At 31 December 2013	**2.5**
Carrying amount	
At 31 December 2013	**2.5**
At 31 December 2012	2.8

15 Property, plant and equipment

Group	Land and buildings £m	Plant £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2012	21.5	41.4	11.5	74.4
Additions	1.1	2.7	0.6	4.4
Reclassifications	0.9	–	–	0.9
Disposals	–	(0.5)	(0.5)	(1.0)
At 1 January 2013	23.5	43.6	11.6	78.7
Additions	0.2	5.5	0.9	6.6
Disposals	(0.2)	(0.8)	(0.5)	(1.5)
At 31 December 2013	**23.5**	**48.3**	**12.0**	**83.8**
Accumulated depreciation				
At 1 January 2012	2.2	32.5	11.0	45.7
Charge for the year	0.4	3.0	0.5	3.9
Reclassifications	0.1	–	–	0.1
Disposals	–	(0.4)	(0.5)	(0.9)
At 1 January 2013	2.7	35.1	11.0	48.8
Charge for the year	0.4	3.6	0.5	4.5
Disposals	–	(0.8)	(0.5)	(1.3)
At 31 December 2013	**3.1**	**37.9**	**11.0**	**52.0**
Carrying amount				
At 31 December 2013	**20.4**	**10.4**	**1.0**	**31.8**
At 31 December 2012	20.8	8.5	0.6	29.9

At 31 December 2013, the Group had £0.1m contractual commitments for the acquisition of property, plant and equipment (2012: £nil).

At 31 December 2013, the Group had assets held for sale with a book value of £0.9m (2012: £1.1m). During the year one property with a value of £0.1m was disposed of. The unsold properties are supported by external valuations and are being actively marketed.

15 Property, plant and equipment (continued)

Company	Land and buildings £m	Computer equipment, fixtures and fittings £m	Total £m
Cost			
At 1 January 2012	1.9	3.5	5.4
Additions	–	0.2	0.2
Disposals	–	(0.2)	(0.2)
At 1 January 2013	1.9	3.5	5.4
Additions	–	0.3	0.3
Disposals	–	(0.5)	(0.5)
At 31 December 2013	**1.9**	**3.3**	**5.2**
Accumulated depreciation			
At 1 January 2012	0.4	3.1	3.5
Charge for the year	–	0.3	0.3
Disposals	–	(0.2)	(0.2)
At 1 January 2013	0.4	3.2	3.6
Charge for the year	–	0.2	0.2
Disposals	–	(0.5)	(0.5)
At 31 December 2013	**0.4**	**2.9**	**3.3**
Carrying amount			
At 31 December 2013	**1.5**	**0.4**	**1.9**
At 31 December 2012	1.5	0.3	1.8

16 Investments

16.1 Investments accounted for using the equity method

Group	Investments in jointly controlled entities £m
Cost	
At 1 January 2012, 1 January 2013 and 31 December 2013	**3.0**

The Group's investments in jointly controlled entities comprise:

	Share of ordinary allotted capital held by the Group	Accounting date
Balaia Golf Village Realizacoes Imobiliaria Turisticos Lda – Portugal	50%	31 December
Sociedade Torre de Marinha Realizacoes Turistocos SA – Portugal	50%	31 December
Empreendimentos Turisticos da Armacao Nova Lda – Portugal	50%	31 December

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

16 Investments (continued)

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

	2013 £m	2012 £m
Non-current assets	**0.5**	0.5
Current assets	**4.8**	5.0
Current liabilities	**(2.3)**	(2.5)
Net assets of jointly controlled entities	**3.0**	3.0

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

	2013 £m	2012 £m
Income	**2.4**	2.0
Expenses	**(2.4)**	(2.0)
Share of results of jointly controlled entities	**–**	–

16.2 Investments in subsidiaries

Company	2013 £m	2012 £m
Cost		
At 1 January 2012, 31 December 2012 and 31 December 2013	**3,540.7**	3,540.7
Impairment		
At 1 January 2012, 31 December 2012 and 31 December 2013	**335.0**	335.0
Net book value		
At 31 December	**3,205.7**	3,205.7

The annual review of the carrying value of the investment in subsidiaries identified £nil impairment issues (2012: £nil impairment).

Details of Group undertakings are set out in note 32.

17 Available for sale financial assets

Group	2013 £m	2012 £m
At 1 January	**202.9**	164.0
Additions	**14.7**	36.5
Settlements	**(12.9)**	(6.3)
Gains (Finance income)	**10.7**	8.7
At 31 December	**215.4**	202.9

There have been no gains/losses recognised in other comprehensive income other than those recognised through finance income in profit and loss. Of the gains recognised in finance income for the period £8.9m (2012: £8.3m) was unrealised.

Available for sale financial assets, also known as shared equity receivables, comprise loans, largely with a ten-year term and variable repayment amounts, provided as part of sales transactions that are secured by way of a second legal charge on the related property. Loans are repayable at the borrowers option on sale or transfer of the related property or other redemption of the first legal charge or at the end of the fixed term. The assets are recorded at fair value, being the estimated future amount receivable by the Group, discounted to present day values. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements, the expected timing of receipts and the likelihood that a purchaser defaults on a repayment. The Directors revisit the future anticipated cash receipts from the assets at the end of each financial reporting period. The difference between the anticipated future receipt and the initial fair value is credited over the estimated

17 Available for sale financial assets (continued)

deferred term to finance income, with the financial asset increasing to its full expected cash settlement value on the anticipated receipt date. Credit risk, which the Directors currently consider to be largely mitigated through holding a second legal charge over the assets, is accounted for in determining fair values and appropriate discount factors are applied. The Directors review the financial assets for impairment at each balance sheet date. There were no indicators of impairment at 31 December 2013 (2012: £nil). None of the financial assets are past their due dates (2012: £nil) and the Directors expect an average maturity profile of between 5 and 10 years from the balance sheet date.

Further disclosures relating to financial assets are set out in note 22.

18 Inventories

	2013 £m	2012 £m
Land	**1,636.6**	1,495.7
Work in progress	**463.5**	443.1
Part exchange properties	**45.5**	58.6
Showhouses	**49.3**	53.6
	2,194.9	2,051.0

The Directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of issues, including consumer demand and planning permission delays.

As set out in note 6, the Group conducted a further review of the net realisable value of its land and work in progress portfolio during 2013. The impact of these reviews on the net realisable value of inventories is a net exceptional credit to the consolidated statement of comprehensive income of £14.1m (2012: £2.8m). A reversal of £22.0m (2012: £23.8m) on inventories that were written down in a previous accounting period and an impairment of land and work in progress of £7.9m (2012: £21.0m) were recognised in the year. This reversal/charge arose due to forecast selling prices and development costs on individual sites being higher or lower than previously estimated by management as a result of changing conditions, and/or development plans. Our approach to our net realisable value review has been consistent with that conducted at 31 December 2012.

Net realisable provisions held against inventories at 31 December 2013 were £102.8m (2012: £151.3m).

The key judgements in estimating the future net present realisable value of a site was the estimation of likely sales prices, house types and costs to complete the developments. Sales prices and costs to complete were estimated on a site by site basis based upon existing market conditions. If the UK housing market were to improve or deteriorate in the future then further adjustments to the carrying value of land and work in progress may be required.

Following the 2013 review, £139.0m (2012: £234.5m) of inventories are valued at fair value less costs to sell rather than at historical cost.

Land with a carrying value of £528.6m (2012: £394.7m) was used as security for land payables (note 21).

The value of inventories expensed in 2013 and included in cost of sales was £1,583.3m excluding a net exceptional impairment reversal of £14.1m on inventories that were written down in a previous accounting period (2012: £1,351.9m, excluding the £2.8m exceptional impairment reversal).

19 Trade and other receivables

	Group 2013 £m	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
Non-current assets				
Other receivables	**8.2**	4.5	**–**	–
Current assets				
Trade receivables	**39.4**	25.7	**0.2**	0.1
Other receivables	**34.8**	10.6	**29.2**	7.2
Amounts owed by Group undertakings	**–**	–	**816.2**	818.8
Prepayments and accrued income	**9.7**	11.0	**5.2**	3.1
	83.9	47.3	**850.8**	829.2

19 Trade and other receivables (continued)

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.

	2013 £m	2012 £m
Ageing of overdue but not impaired receivables		
Less than 3 months	**5.4**	4.3
Over 3 months	**1.7**	1.2
	7.1	5.5

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

	2013 £m	2012 £m
Group		
At 1 January	**3.3**	3.3
Impairment losses charged	**0.6**	1.0
Amounts written off during the year as uncollectable	**(0.2)**	(0.1)
Impairment losses reversed	**(0.4)**	(0.9)
At 31 December	**3.3**	3.3

20 Borrowings

Detailed disclosure of the Group's usage of financial instruments is included in note 22. There are no borrowings at 31 December 2013 (2012: £nil).

The contractual repayment terms of facilities are as noted below.

	Currency	Nominal interest rate	Year of maturity	2013 £m	2012 £m
Bank overdrafts	GBP	Base +1%–3.25%	2014	**50.5**	50.5
Syndicated loan	GBP	LIBOR +1.625%	2016	**300.0**	300.0
Available facilities				**350.5**	350.5

21 Trade and other payables

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Non-current liabilities				
Land payables	**134.6**	105.3	**–**	–
Other payables	**29.1**	23.3	**9.0**	1.7
	163.7	128.6	**9.0**	1.7

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Current liabilities				
Trade payables	**176.8**	146.8	**0.6**	0.8
Land payables	**171.5**	134.6	**–**	–
Deposits and on account contract receipts	**44.1**	45.0	**–**	–
Other payables	**30.1**	28.6	**11.0**	12.1
Accrued expenses	**215.4**	180.9	**22.5**	18.8
Amounts owed to Group undertakings	**–**	–	**3,278.7**	3,336.7
	637.9	535.9	**3,312.8**	3,368.4

21 Trade and other payables (continued)

Trade payables subject to payment terms were 18 days (2012: 16 days), based on the ratio of year end trade payables (excluding retentions and unagreed claims) to amounts invoiced during the year by trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

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

22 Financial risk management

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

– Market risk

– Liquidity risk

– Capital risk

– Credit risk

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

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

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

Market risk

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

The Group also has investments in a number of Portuguese 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:

	2013		2012	
	Average rate	**Year end spot rate**	Average rate	Year end spot rate
Euro	**1.17**	**1.20**	1.23	1.23

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

	2013 €m	2012 €m
Investments	**3.6**	3.7

Sensitivity analysis

A rise/fall in the Euro/Sterling exchange rate of 10% would result in a £0.3m loss/gain in relation to investments (2012: £0.3m).

22 Financial risk management (continued)

Interest rate risk

The Group currently holds no fixed interest borrowings. This reflects both the low borrowing requirements of the Group and the current low interest rates applicable to floating borrowings. The Group has no formal target for a ratio of fixed to floating funding. The responsibility for setting the level of fixed rate debt lies with the Board and is continually reviewed in the light of economic data provided by a variety of sources.

Sensitivity analysis

If in the year ended 31 December 2013 UK interest rates had been 0.5% higher/lower then the Group's pre-tax profit would have increased/decreased by £0.3m (2012: increased/decreased by £0.3m). The Group's post-tax profit would have increased/decreased by £0.2m (2012: increased/decreased by £0.2m).

These sensitivities have been prepared in respect of the direct impact of such an interest rate change on the net financing expense of financial instruments only, and do not attempt to estimate the indirect effect such a change may have on wider economic environment such as house pricing, mortgage availability and exchange rates.

Housing market risk

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

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

Sensitivity analysis

At 31 December 2013, if UK house prices had been 5% higher/lower, and all other variables were held constant, the Group's house price linked financial instruments, which are solely available for sale financial assets, would increase/decrease in value, excluding any effects of current or deferred tax, by £10.7m (2012: £10.1m).

Liquidity risk

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

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

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

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

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

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

The Group maintains a £300m revolving credit facility committed to March 2016. These committed facilities are sufficient to meet projected liquidity requirements to this date. Undrawn committed facilities at the reporting date amount to £300m (2012: £300m).

22 Financial risk management (continued)

Cash deposits
The Group has a policy of ensuring cash deposits are made with the primary objective of security of principal. Accordingly deposits are made only with approved, respected, high credit rating financial institutions. Deposits are spread across such institutions to minimise exposure to any single entity and are made on a short term basis only to preserve liquidity.

Capital risk
The capital structure of the Group consists of net cash/debt (borrowings as detailed in note 20 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in the statement of changes in shareholders' equity). The Group's objective in managing capital is primarily to ensure the continued ability of the Group to meet its liabilities as they fall due whilst also maintaining an appropriate balance of equity and borrowings and minimising costs of capital. Close control of deployment of capital is maintained by detailed management review procedures for authorisation of significant capital commitments, such as land acquisition, capital targets for local management and a system of internal interest recharges, ensuring capital cost impact is understood and considered by all management tiers.

Decisions regarding the balance of equity and borrowings, dividend policy and all major borrowing facilities are reserved for the Board. The Group is currently pursuing a strategy of capital return to shareholders, whilst at the same time building a stronger, larger business. Full details are available in the Strategic Report on pages 2 to 33.

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

Group	**2013 Carrying amount £m**	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
Trade and other payables	**451.4**	452.7	423.0	4.3	10.0	15.4
Land payables	**306.1**	312.8	174.9	67.6	61.4	8.9
Partnership liability	**55.4**	76.9	5.3	5.3	16.2	50.1
Financial liabilities	**812.9**	842.4	603.2	77.2	87.6	74.4

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

Company	**2013 Carrying amount £m**	Contractual cash flows £m	Less than 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m
Trade and other payables	**3,321.8**	3,321.8	3,312.8	1.6	–	7.4
Financial liabilities	**3,321.8**	3,321.8	3,312.8	1.6	–	7.4

It is noted that £3,278.7m (2012: £3,336.7m) of other payables refer to amounts owed to subsidiary undertakings. Whilst generally repayable upon demand, in practice it is unlikely there will be any required repayment in the short term.

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

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.

22 Financial risk management (continued)

In certain specific circumstances the Group has entered into shared equity arrangements (not applicable to the Company). The pressures of recent market conditions necessitated an increase in this form of sales structure from 2008 onwards. In such cases the long term debt is secured upon the property concerned. The Group does not recognise collateral rights as a separate asset, nor does it have rights to trade such collateral. Reductions in property values leads to an increase in the credit risk of the Group in respect of such sales. There was £0.6m requirement for a charge in relation to credit impairment in the year (2012: £0.5m).

The maximum total credit risk is as follows:

Group	2013 £m	2012 £m
Trade and other receivables	**82.4**	40.8
Available for sale financial assets	**215.4**	202.9
Cash and cash equivalents	**204.3**	201.5
	502.1	445.2
Company		
Loans and receivables (including intercompany balances)	**845.6**	826.1
Cash and cash equivalents	**129.8**	146.8
	975.4	972.9

The maximum credit exposure of the Group to overseas parties is under £0.1m (2012: under £0.1m) (Company: £nil (2012: £nil)). The Group's credit risk is widely distributed. The maximum credit risk should any single party (excepting financial institutions) fail to perform is £0.8m (2012: £1.2m) and is not yet due (Company: £323.6m (2012: £333.1m) being a subsidiary debtor). The Directors consider these financial assets to be of high quality and the credit risk is assessed as low. The maximum credit risk associated with a financial institution in respect of short term cash deposits is £50.0m (2012: £85.6m).

Fair value

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

	2013		2012	
Group	**Fair value £m**	**Carrying value £m**	Fair value £m	Carrying value £m
Trade and other receivables	**82.4**	**82.4**	40.8	40.8
Available for sale financial assets	**215.4**	**215.4**	202.9	202.9
Cash and cash equivalents	**204.3**	**204.3**	201.5	201.5
Trade and other payables	**(451.4)**	**(451.4)**	(379.6)	(379.6)
Land payables	**(306.1)**	**(306.1)**	(239.9)	(239.9)
Partnership liability	**(52.1)**	**(55.4)**	(57.8)	(57.8)
	(307.5)	**(310.8)**	(232.1)	(232.1)

22 Financial risk management (continued)

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

Company	2013 Fair value £m	2013 Carrying value £m	2012 Fair value £m	2012 Carrying value £m
Trade and other receivables	**845.6**	**845.6**	826.1	826.1
Cash and cash equivalents	**129.8**	**129.8**	146.8	146.8
Trade and other payables	**(3,321.8)**	**(3,321.8)**	(3,370.1)	(3,370.1)
	(2,346.4)	**(2,346.4)**	(2,397.2)	(2,397.2)
Unrecognised loss		**–**		–

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

Financial assets and liabilities by category:

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Available for sale financial assets	**215.4**	202.9	**–**	–
Trade and other receivables	**82.4**	40.8	**845.6**	826.1
Cash and cash equivalents	**204.3**	201.5	**129.8**	146.8
Financial liabilities at amortised cost	**(812.9)**	(677.3)	**(3,321.8)**	(3,370.1)
	(310.8)	(232.1)	**(2,346.4)**	(2,397.2)

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

Group	2013 Level 3 £m	2012 Level 3 £m
Available for sale financial assets	**215.4**	202.9

Available for sale financial assets

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

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

Significant unobservable inputs into the fair value measurement calculation include regional house price movements based on the Group's actual experience of regional house pricing and management forecasts of future movements, weighted average duration from inception to settlement of 10 years (2012: 10 years) and discount rate 8% (2012: 8%) based on current observed market interest rates offered to private individuals on secured second loans.

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

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

23 Deferred tax

The following are the deferred tax assets and liabilities recognised by the Group and the movements thereon during the current and prior year:

	Note	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payment £m	Intangible assets £m	Imputed interest £m	Other temporary differences £m	Total £m
At 1 January 2012		2.2	14.9	2.0	(15.0)	1.7	(0.2)	5.6
(Charge)/credit to profit and loss (restated)	11.1	(0.9)	(15.6)	–	1.2	0.3	(0.3)	(15.3)
Credit to other comprehensive income (restated)	11.2	–	1.6	–	–	–	–	1.6
Amounts credited directly to equity	11.3	–	–	3.9	–	–	–	3.9
Other adjustments		–	–	–	–	–	(3.1)	(3.1)
At 1 January 2013		1.3	0.9	5.9	(13.8)	2.0	(3.6)	(7.3)
Credit/(charge) to profit and loss	11.1	0.1	(4.8)	(0.8)	1.8	0.4	1.4	(1.9)
Charge to other comprehensive income	11.2	–	(0.8)	–	–	–	–	(0.8)
Amounts credited directly to equity	11.3	–	–	6.7	–	–	–	6.7
At 31 December 2013		**1.4**	**(4.7)**	**11.8**	**(12.0)**	**2.4**	**(2.2)**	**(3.3)**

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:

	2013 £m	2012 £m
Share-based payments	**11.8**	5.9
Other items, including accelerated capital allowances	**7.3**	7.5
Deferred tax assets	**19.1**	13.4
Brands	**(12.0)**	(13.8)
Other items, including accelerated capital allowances	**(10.4)**	(6.9)
Deferred tax liabilities	**(22.4)**	(20.7)
Net deferred tax liability	**(3.3)**	(7.3)

The Group has recognised deferred tax liabilities of £4.7m (2012: assets of £0.9m) on the total pension surplus of £23.5m (2012: deficit of £4.1m).

The following are the deferred tax assets and liabilities recognised by the Company and the movements thereon during the current and prior year:

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payment £m	Other temporary differences £m	Total £m
At 1 January 2012	0.4	14.9	2.0	4.4	21.7
Charge to profit and loss (restated)	(0.3)	(15.6)	–	(1.2)	(17.1)
Credit to other comprehensive income (restated)	–	1.6	–	–	1.6
Amounts taken directly to equity	–	–	3.9	–	3.9
At 1 January 2013	0.1	0.9	5.9	3.2	10.1
Credit/(charge) to profit and loss	0.1	(4.8)	(0.8)	0.2	(5.3)
Charge to other comprehensive income	–	(0.8)	–	–	(0.8)
Amounts taken directly to equity	–	–	6.7	–	6.7
At 31 December 2013	**0.2**	**(4.7)**	**11.8**	**3.4**	**10.7**

No deferred tax assets and liabilities have been offset (2012: £nil).

24 Share capital

	2013 £m	2012 £m
Allotted, called up and fully paid		
304,658,260 (2012: 302,883,148) ordinary shares of 10p each	**30.5**	30.3

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid. During the year 1,775,112 ordinary shares (2012: 291,717) were issued to employees in satisfaction of share option exercises.

The Company has established Employee Benefit Trusts to hold shares for participants of the Company's various share schemes. The Trustee is Persimmon (Share Scheme Trustees) Limited, a subsidiary company. During 2013, the Trustee made market purchases of 266,000 shares at an average price of £11.23 and transferred 131,682 shares to employees. At 31 December 2013 the trust held 200,055 shares (2012: 65,737) on which dividends have been waived. The market value of these shares at 31 December 2013 was £2,478,681 (2012: £525,896).

During the year the Company issued 102,245,506 B shares and 201,590,249 C shares. On 28 June 2013 the B shares were redeemed for consideration of 75p per share and the C shares were reclassified as Deferred shares following payment of a 75p dividend per share. All deferred shares were purchased for 1p and subsequently cancelled on 18 July 2013.

Own shares

Own shares held at cost are reconciled as follows:

	Group £m
Balance at 31 December 2012	0.5
Own shares purchased	3.0
Disposed of on exercise/vesting to employees	(1.2)
Balance at 31 December 2013	**2.3**

25 Reconciliation of net cash flow to net cash

Group	2013 £m	2012 £m
Increase in net cash and cash equivalents	**2.8**	160.5
Decrease in debt and finance lease obligations	**–**	0.1
Increase in net cash from cash flows	**2.8**	160.6
Non-cash movements	**–**	–
Increase in net cash	**2.8**	160.6
Net cash at 1 January	**201.5**	40.9
Net cash at 31 December	**204.3**	201.5

26 Analysis of net cash

Group	2013 £m	Cash flow £m	2012 £m
Cash and cash equivalents	**204.3**	2.8	201.5
Net cash at 31 December	**204.3**	2.8	201.5

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

27 Contingent liabilities

In the normal course of business the Group has given counter indemnities in respect of performance bonds and financial guarantees. Management estimate that the bonds and guarantees amount to £228m (2012: £260m), and confirm that the possibility of cash outflow is considered minimal and no provision is required.

Provision is made for the Directors' best estimate of all known legal claims and all legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or a sufficiently reliable estimate of the potential obligation cannot be made.

The Company has entered into guarantees of certain financial liabilities of related undertakings as detailed in note 33.

28 Operating leases

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

Group as lessee	2013 £m	2012 £m
Expiring within one year	**0.6**	0.8
Expiring in the second to fifth years inclusive	**8.9**	5.5
Expiring after five years	**9.3**	9.2
	18.8	15.5
Company as lessee		
Expiring within one year	**0.1**	0.2
Expiring in the second to fifth years inclusive	**0.3**	0.1
	0.4	0.3

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

Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicles. Motor vehicles leases have an average term of 1.9 years to expiry (2012: 1.0 years). Property leases have an average term of 5.9 years to expiry (2012: 6.1 years).

29 Retirement benefit assets/obligations

As at 31 December 2013 the Group operated three employee pension schemes, being a defined contribution stakeholder scheme and two defined benefit pension schemes. Remeasurement gains and losses in the defined benefit schemes are recognised in full as other comprehensive income/expense within the consolidated statement of comprehensive income. All other pension scheme costs are reported in profit or loss.

Stakeholder schemes

The Group will make contributions to the defined contribution stakeholder scheme which is open to employees who are not members of the defined benefit schemes. Dependant upon an employee's role and length of service the Group may make contributions to the scheme up to a maximum of 9% of basic salary. The Group has no liability beyond these contributions. Group contributions to these schemes of £1.1m (2012: £1.0m) are expensed through the statement of comprehensive income as incurred.

Persimmon Plc Pension & Life Assurance Scheme

The Persimmon Plc Pension & Life Assurance Scheme (the 'Persimmon Scheme') is a defined benefit scheme which was closed to new members in 2001. Active members of the Persimmon Scheme accrue benefits on a career average related earnings basis. The assets of the Persimmon Scheme are held separately from those of the Group.

On 12 December 2012 Persimmon Plc made a one-off cash contribution of £57.8m to the Persimmon Scheme. The Persimmon Scheme used these funds to invest in Persimmon Scottish Limited Partnership, which has undertaken to provide fixed cash payments to the Persimmon Scheme to meet its liabilities over a 15 year period. See note 30 for further details.

Prowting Pension Scheme

The Group also operates the Prowting Pension Scheme (the 'Prowting Scheme'), a defined benefit scheme. Active members of the Prowting Scheme accrue benefits on a career average related earnings basis. The assets of the Prowting Scheme are held separately from those of the Group.

Role of Trustees

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

29 Retirement benefit assets/obligations (continued)

Funding requirements

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

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

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

Regulation

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

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

The Pensions Regulator has sweeping powers including the powers:

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

Risks associated with the Pension Schemes

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

Risk	Description
Volatile asset returns	The defined benefit obligation (DBO) is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this discount rate, this will create an element of deficit. The Schemes hold a significant proportion (55%) of assets in growth assets (such as equities) which, although expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Pension Schemes' long term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the Pension Schemes' bond holdings.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation and higher inflation will lead to higher liabilities (although, in most cases, this is capped at an annual increase of 5%).
Life expectancy	The majority of the Pension Schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

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

29 Retirement benefit assets/obligations (continued)

Net Pension Asset/(Liability)

On 1 January 2013 the Group adopted Amendments to IAS 19 Employee Benefits. Where noted figures below have been restated in compliance with the amended standard. Further details are provide in note 1.

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

	2013 £m	2012 £m
Fair value of Pension Scheme assets	**456.8**	402.1
Present value of funded obligations	**(433.3)**	(406.2)
Net pension asset/(liability)	**23.5**	(4.1)

A deferred tax liability totalling £4.7m (2012: asset of £0.9m) has been recognised on the balance sheet in relation to the net pension asset/liability.

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

	2013 £m	2012 £m
As at 1 January	**(4.1)**	(59.5)
Total gain/(loss) recognised in the period	**3.2**	(11.9)
Company contributions paid in the period	**24.4**	67.3
Net pension asset/(liability)	**23.5**	(4.1)

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

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

	2013 £m	2012 Restated £m
Current service cost	**2.8**	2.9
Administrative expense	**0.7**	0.7
Past service credit	**–**	(2.7)
Settlement cost	**–**	1.2
Pension cost recognised as operating expense	**3.5**	2.1
Interest cost	**18.4**	18.6
Return on assets recorded as interest	**(18.5)**	(15.7)
Pension cost recognised as net finance (credit)/cost	**(0.1)**	2.9
Total defined benefit pension cost recognised in profit or loss	**3.4**	5.0
Remeasurement (gains)/losses recognised in other comprehensive income/expense	**(6.6)**	6.9
Total defined benefit scheme (gain)/loss recognised	**(3.2)**	11.9

29 Retirement benefit assets/obligations (continued)

Assets

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

	2013 £m	2012 £m
Equity		
– UK	**94.7**	76.3
– US	**59.8**	50.2
– Eurozone	**37.6**	28.2
– Other	**33.1**	34.0
Bonds		
– Government	**76.9**	76.5
– Investment Grade corporate bonds	**24.5**	48.0
– sub–investment grade	**35.8**	–
Property	**–**	1.1
Asset backed funding	**52.1**	57.8
Diversified Growth Fund	**28.9**	25.7
Cash	**13.4**	4.3
Total	**456.8**	402.1

All assets have a quoted market value in an active market, with the exception of Asset backed funding of £52.1m (2012: £57.8m), which related to self-invested secured cash flows.

The Persimmon Scheme holds 94% (2012: 93%) of the gross assets of the Pension Schemes and represents 94% (2012: 73%) of the net assets/liabilities. The remainder relates to the Prowting Scheme.

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

	2013 £m	2012 Restated £m
As at 1 January	**402.1**	333.1
Return on assets recorded as interest	**18.5**	15.7
Remeasurement gains on assets	**22.9**	14.2
Contributions	**24.4**	67.3
Asset distributed on settlement	**–**	(16.9)
Benefits and expenses paid	**(11.1)**	(11.3)
As at 31 December	**456.8**	402.1

Defined Benefit Obligation

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

	2013 % p.a.	2012 % p.a
Discount rate	**4.4**	4.6
General pay increases	**3.4**	3.1
RPI Inflation assumption	**3.4**	3.1
CPI Inflation assumption	**2.4**	2.4

29 Retirement benefit assets/obligations (continued)

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

	2013 Years	2012 Years
Male current pensioner	**22.6**	22.5
Male future pensioner	**23.7**	23.6

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

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

	2013 £m	2012 £m
Total value of current employees' benefits	**65.5**	60.7
Deferred members' benefits	**165.8**	154.0
Pensioner members' benefits	**202.0**	191.5
Total defined benefit obligation	**433.3**	406.2

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

Changes in the defined benefit obligation were as follows:

	2013 £m	2012 Restated £m
As at 1 January	**(406.2)**	(392.6)
Current service cost	**(2.8)**	(2.8)
Interest cost	**(18.4)**	(18.6)
Remeasurement losses on liabilities	**(16.3)**	(21.9)
Past service credit	**–**	2.7
Liabilities extinguished on settlement	**–**	15.7
Benefits paid	**10.4**	11.3
As at 31 December	**(433.3)**	(406.2)

Sensitivities

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

	2013 £m	2012 £m
Present value of defined benefit obligation (DBO)	**433.3**	406.2
– DBO following a 0.25% decrease in the discount rate	**452.6**	425.2
– DBO following a 0.25% increase in the discount rate	**415.0**	388.3
– DBO following a 0.25% decrease in the inflation assumption	**423.1**	396.2
– DBO following a 0.25% increase in the inflation assumption	**443.2**	416.1
– DBO following a 1 year decrease to life expectancy	**421.3**	394.5
– DBO following a 1 year increase to life expectancy	**446.3**	418.8

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

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

Persimmon Scottish Pension Trustees Limited, a wholly owned Group subsidiary, is general partner in Persimmon Scottish Limited Partnership ('the Partnership'). Persimmon Plc Pension & Life Assurance Scheme ('the Persimmon Scheme') is a limited partner. As such the Partnership is included in the consolidated results of the Group. The Partnership has taken advantage of the exemptions in the Partnerships (Accounts) regulations 2008 not to file separate accounts on this basis.

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

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

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

31 Share-based payments

The Group operates a number of share option schemes, the details of which are provided below. All schemes are equity settled.

The Savings-Related Share Option Scheme is an HMRC approved scheme open to all permanent employees with more than six months' service. Options can normally be exercised three years after the date of grant.

Options have been issued to senior management (including the Executive Directors) under the Group's various executive share option schemes, which include awards under the Group's long term incentive plans. Vesting of options is dependent upon:

1. TSR versus a comparator group of constituents of the FTSE 250 at the date of grant and profit before tax before exceptional items and amortisation for options granted in 2011.

2. Return of cash to shareholders in line with the Capital Return Plan announced on 28 February 2012 for options granted in 2012 and 2013.

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

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

	2013 Savings-Related Share Option Scheme		2012 Savings-Related Share Option Scheme	
Group and Company	**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	**1,402,386**	**405.2**	1,592,685	354.9
Granted during the year	**234,294**	**889.0**	291,726	598.0
Forfeited during the year	**(144,451)**	**(431.7)**	(130,861)	(361.0)
Exercised during the year	**(294,041)**	**(339.2)**	(351,164)	(353.8)
Outstanding at the end of the year	**1,198,188**	**512.8**	1,402,386	405.2
Exercisable at the end of the year	**52,292**	**324.0**	54,902	400.0

	2013 Executive Share Schemes		2012 Executive Share Schemes	
Group and Company	**Number of shares under option**	**Weighted average exercise price (p)**	Number of shares under option	Weighted average exercise price (p)
Outstanding at the beginning of the year	**–**	**–**	7,150	419.5
Exercised during the year	**–**	**–**	(7,150)	(419.5)
Outstanding at the end of the year	**–**	**–**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

31 Share-based payments (continued)

Group and Company	2013 Bonus Share Scheme Number of shares under option	2012 Bonus Share Scheme Number of shares under option
Outstanding at the beginning of the year	**124,817**	–
Granted during the year	**86,434**	124,817
Exercised during the year	**(131,682)**	–
Outstanding at the end of the year	**79,569**	124,817
Exercisable at the end of the year	**–**	–

Group and Company	2013 Long Term Incentive Plan 2007 Non HMRC Approved Number of shares under option	2012 Long Term Incentive Plan 2007 Non HMRC Approved Number of shares under option
Outstanding at the beginning of the year	**2,629,246**	3,119,794
Forfeited during the year	**(384,016)**	(155,119)
Exercised during the year	**(1,087,674)**	(335,429)
Outstanding at the end of the year	**1,157,556**	2,629,246
Exercisable at the end of the year	**95,883**	426,173

	2013 Long Term Incentive Plan 2007 HMRC Approved		2012 Long Term Incentive Plan 2007 HMRC Approved	
Group and Company	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	**834,875**	**418.0**	884,155	418.7
Forfeited during the year	**(101,121)**	**(419.0)**	(49,280)	(430.3)
Exercised during the year	**(393,231)**	**(398.4)**	–	–
Outstanding at the end of the year	**340,523**	**440.3**	834,875	418.0
Exercisable at the end of the year	**74,885**	**398.4**	–	–

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

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

The weighted average share price at the date of exercise for share options exercised during the period was 1,105.8p (2012: 641.8p). The options outstanding at 31 December 2013 had a range of exercise prices from zero to 1,135.5p and a weighted average remaining contractual life of 7.3 years (2012: 7.8 years).

31 Share-based payments (continued)

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

	LTIP 2012 Tranche 3	LTIP 2012 Tranche 4	SAYE 2013
Grant date	19 April 2013	13 December 2013	3 October 2013
Risk free interest rate*	0.59% – 1.48%	1.28% – 2.48%	1.04%
Exercise price*	£9.39 – £4.89	£10.40 – £5.90	£8.89
Share price at date of grant	£11.30	£11.36	£10.89
Expected dividend yield	6.3%	6.3%	6.3%
Expected life*	4–8 years	4–8 years	3 years
Date of vesting*	December 15 – December 21	December 15 – December 21	December 2016
Expected volatility	30%	30%	30%
Fair value of option*	£1.30 – £2.51	£1.23 – £2.53	£0.82

* Exercise price, expected life and date of vesting are all variable under the 2013 LTIP grants, dependant on performance of the key condition of dividend payment. The Group has calculated fair values applicable at each of the key assessment dates.

Expected volatility was determined by calculating the historic volatility of the Group's share price over various timescales.

The expected life used in the model has been adjusted, based on best estimates, to reflect exercise restrictions and behavioural considerations.

In 2013, the Group recognised total expenses before tax of £10.3m (2012: £5.7m) in relation to equity settled share-based payment transactions in the Consolidated Statement of Comprehensive Income. These option charges have been credited against the retained earnings reserve. As at 31 December 2013 the total credit recognised in relation to equity settled share-based payments was £14.4m (2012: £10.2m) of which £0.4m (2012: £0.1m) related to options currently vested awaiting exercise. All share-based payments are expensed by the Company. The Company makes management charges to its subsidiaries which include the cost of providing this benefit to their employees.

32 Details of Group undertakings

The Directors set out below information relating to the major subsidiary undertakings (those that principally affect the profits and assets of the Group) of Persimmon Plc at 31 December 2013. All of these companies are registered in England. All voting rights are held by companies within the Group. Having made use of the exemption in section 410 of the Companies Act 2006, a full list of subsidiary undertakings and jointly controlled entities will be annexed to the Company's next annual return.

Major subsidiary undertakings

Persimmon Homes Limited°	Charles Church Developments Limited$^{\Delta}$	
Persimmon Holdings Limited*	Persimmon Shared Equity Limited**	Persimmon Scottish Limited Partnership***

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

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

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

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

*** This entity is controlled by Persimmon Scottish Pension Trustees Limited (see note 29).

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 46 to 60. There is no difference between transactions with key management personnel of the Company and the Group.

Nigel Greenaway, an Executive Director, has contracted to purchase two properties from the Group at market value. This transaction is subject to shareholder approval at the 2014 AGM and is expected to complete during 2014 if approved.

The Company has entered into transactions with its subsidiary undertakings in respect of the following: internal funding loans and provision of Group services (including senior management, IT, accounting, marketing, purchasing, legal and conveyancing services). Recharges are made to subsidiary undertakings for Group loans, based on funding provided, at an interest rate linked to average Group borrowing costs. No recharges are made in respect of balances due to or from otherwise dormant subsidiaries. Recharges are made for Group services based on utilisation of those services.

During the year these recharges amounted to:

	2013 £m	2012 £m
Interest charges on intra-group funding	**3.9**	3.6
Group services recharges	**31.3**	25.9
	35.2	29.5

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 2013 totalled £816.2m (2012: £818.8m). Amounts owed to subsidiary undertakings by the Company at 31 December 2013 totalled £3,278.7m (2012: £3,336.7m).

The Company provides the Group's defined benefit pension schemes. Current employer contributions are charged to the operating businesses at cost. There is no contractual arrangement or stated policy relating to the net defined benefit cost. Experience and remeasurement gains and losses are recognised in the Company.

The Company guarantees a bond issued from Persimmon Shared Equity Limited to Persimmon Scottish Limited Partnership (both subsidiary undertakings). The fair value of the bond at 31 December 2013 is £52.1m (2012: £57.8m).

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 2013 was £nil (2012: £nil). The Company has entered into guarantees over bank loans and borrowings of the subsidiary undertakings. The total value of such borrowings at 31 December 2013 was £nil (2012: £nil).

The Company has suffered £nil expense in respect of bad or doubtful debts of subsidiary undertakings in the year (2012: £nil).

Shareholder Information

Analysis of shareholding at 31 December 2013

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1 – 5,000	9,956	89.94	7,126,719	2.3
5,001 – 50,000	702	6.34	11,234,836	3.7
50,001 – 250,000	244	2.20	28,764,539	9.4
250,001 and over	168	1.52	257,532,166	84.6
Total	**11,070**	**100.00**	**304,658,260**	**100.0**

Share price – year ended 31 December 2013

Price at 31 December 2013	£12.39
Lowest for year	£8.205
Highest for year	£13.05

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

Financial Calendar 2014

Annual General Meeting	16 April 2014
Interim Management Statement	16 April 2014
Record date for B and/or C share entitlement	4 June 2014
Final date for B/C share elections	20 June 2014
Allotment of B/C shares to shareholder accounts	23 June 2014
Trading Update	2 July 2014
Payment of cash return to shareholders	4 July 2014
Announcement of Half Year Results	19 August 2014
Interim Management Statement	4 November 2014

Five Year Record

	2013	2012	2011	2010	2009
Unit sales	**11,528**	9,903	9,360	9,384	8,976
Revenue	**£2,085.9m**	£1,721.4m	£1,535.0m	£1,569.5m	£1,420.6m
Average selling price∆	**£181,861**	£175,640	£166,142	£169,339	£160,513
Profit from operations*	**£333.1m**	£222.5m	£153.6m	£130.8m	£61.7m
Profit before tax*	**£329.6m**	£221.5m	£144.0m	£91.5m	£6.4m
Basic earnings per share*	**83.3p**	56.7p	35.7p	23.8p	1.9p
Diluted earnings per share*	**82.8p**	56.2p	35.5p	23.7p	1.9p
Cash return/dividend per share	**70.0p**	75.0p	10.0p	7.5p	nil
Net assets per share	**671.4p**	658.2p	608.6p	579.1p	540.2p
Total shareholders' equity	**£2,045.5m**	£1,993.7m	£1,839.3m	£1,744.0m	£1,623.2m
Return on capital employed*	**17.6%**	12.2%	8.3%	7.0%	3.0%

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

∆ Average selling price calculated from nominal value of revenue (before IAS 18 adjustment to fair value shared equity sales).

* 2009–2012 restated for the effect of IAS 19 Employee Benefits (revised).

Directors

Nicholas Wrigley
Chairman

Jeff Fairburn
Group Chief Executive

Mike Killoran
Group Finance Director

Nigel Greenaway
South Division Chief Executive

David Jenkinson
North Division Chief Executive

Richard Pennycook
Senior Independent Director

Jonathan Davie
Non-Executive Director

Mark Preston
Non-Executive Director

Marion Sears
Non-Executive Director

Life President

Duncan Davidson founded Persimmon in 1972. The Company floated on the London Stock Exchange in 1985 and became the first pure housebuilder to enter the FTSE 100 in December 2005. Mr Davidson retired as Chairman in April 2006 and assumed the role of Life President.

Company information

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Neil Francis

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Lloyds TSB Bank plc
Barclays Bank PLC
HSBC plc
Santander UK plc

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Information to be found on our websites:

Find a home
www.persimmonhomes.com
www.charleschurch.com
A buyers' guide to Persimmon and Charles Church new homes.

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

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

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

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