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Annual Report and Accounts 2010

# **OUR PROGRESS**

## **DELIVERING OUR PRIORITIES**



# **WELCOME TO BARRATT DEVELOPMENTS PLC**

## **OUR AIM IS TO BE RECOGNISED AS THE NATION'S LEADING HOUSEBUILDER, CREATING COMMUNITIES WHERE PEOPLE ASPIRE TO LIVE.**

### **Performance highlights**

- Total completions, including joint ventures, were 11,377 (2009: 13,277)
- Average selling price (excluding joint ventures) up 10.9% to £174,300 (2009: £157,200), mainly due to changes in mix.
- Profit from operations before operating exceptional items of £90 1m (2009: £34.2m). Profit from operations of £74.3m (2009: £485.3m loss).
- Loss before tax £162.9m (2009: £678.9m).
- Net debt reduced by £910.0m since 30 June 2009 to £366.9m (2009: £1,276.9m).
- Forward sales at 30 June 2010 were up by 27% at £591.7m (2009: £464.3m) representing 3,889 plots (2009: 3,328 plots). At 5 September 2010 forward sales had increased to £847.1m (2009: £696.3m).

**Notice regarding limitations on Director liability under English Law**  
Under the Companies Act 2006 a safe harbour limits the liability of Directors in respect of statements in and omissions from the Report of the Directors contained on pages 4 to 84. Under English Law the Directors would be liable to the Company (but not to any third party) if the Report of the Directors contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact but would not otherwise be liable.

**Report of the Directors**  
Pages 4 to 84 inclusive comprise the Report of the Directors which has been drawn up and presented in accordance with and in reliance upon English company law and liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

**Cautionary statement regarding forward looking statements**  
The Group's reports including this document and written information released or oral statements made to the public in future by or on behalf of the Group, may contain forward-looking statements. Although the Group believes that its expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

**REPORT OF THE DIRECTORS**

<b>GROUP OVERVIEW</b>	
Performance highlights	IFC
Our business model	02
Chairman's statement	04
Group Chief Executive's review	06
Our progress	10

<b>BUSINESS REVIEW</b>	
Our performance	13
The homes we build	15
Land and planning	18
Customer service and quality	20
Group Finance Director's review	22
Principal risks and uncertainties	26

<b>GOVERNANCE</b>	
Board of Directors	28
Directors' Report	30
Corporate governance	36
Remuneration report	43
Statement of Directors' responsibilities	54

<b>ACCOUNTS</b>	
<b>FINANCIAL STATEMENTS</b>	
Independent auditors' report	55
Consolidated income statement	56
Statements of comprehensive income	56
Statements of changes in shareholders' equity	57
Balance sheets	59
Cash flow statements	60
Accounting policies	61
Impact of standards and interpretations in issue but not yet effective	68
Critical accounting judgements and key sources of estimation uncertainty	69
Notes to the financial statements	71

<b>OTHER INFORMATION</b>	
Five-year record, financial calendar, Group advisers, Company information and Life President	128

# OUR BUSINESS MODEL IN SUMMARY

Barratt Developments PLC is one of the nation's largest housebuilders with over 4,000 employees and 25 divisions throughout Britain. In 2009/10 we sold over 11,300 homes. We operate across all sectors of the market: from flats to family homes and urban regeneration schemes. We also have a focused commercial developments business.

## Our land

Acquiring the right land is critical to our business and its future profitability. Our experienced land teams use their local knowledge to identify land suitable for development and secure planning permission to enable new homes to be built.

Agreed terms land purchases since mid-2009

**£527.2m**

Owned and controlled land bank plots

**62,340**

(2009 68,000)

Land bank years based upon 2010 completion volumes

**5.5**

(2009 6.0)

Detailed planning consents for 2010/11 expected completions

**95%**

(2009 96%)

## Our homes

We build a variety of homes under our different brand names ranging from those for first-time buyers, family homes, high-rise flats and social housing. We seek to match our home types with customer demand and local regulation.

Average number of active sites

**360**

(2009 436)

Total completions<sup>1</sup>

**11,377**

(2009 13,277)

House Flat completions

**60%:40%**

(2009 46% 54%)

Average selling price

**£174,300**

(2009 £157,200)

• Our site managers won 82 'Pride in the Job' Quality Awards (2009 76) – more than any other housebuilder for an unprecedented sixth consecutive year

## Where we sell

- 1 **Northern region**  
Number of completions  
2,029 (17.9%)
- 2 **Central region**  
Number of completions  
1,789 (15.8%)
- 3 **East region**  
Number of completions  
2,066 (18.2%)
- 4 **Southern region**  
Number of completions  
2,248 (19.9%)
- 5 **London**  
Number of completions  
1,007 (8.9%)
- 6 **West region**  
Number of completions  
2,186 (19.3%)

## Our customers

Customer service and satisfaction are of paramount importance to us and our local teams seek to ensure that our customers are satisfied with their new homes

Proportion of customers who would recommend us to a friend

**97%**

(2009 96%)

- First volume housebuilder to receive the maximum Five Star rating for customer satisfaction awarded by the Home Builders Federation
- Awarded *Daily Telegraph* Homebuilder of the Year at the British Home Awards 2010

## Our brands

Our housebuilding business trades under the Barratt Homes, David Wilson Homes and Ward Homes brands. Barratt Homes is the best known housebuilding brand in Britain focusing on traditional housing, flats and urban regeneration. David Wilson Homes has a reputation for producing larger family homes. We also have a strong regional brand, Ward Homes, operating in Kent and the South East. Commercial developments are mainly delivered by Wilson Bowden Developments.

<sup>1</sup> Total completions are defined as housebuilding completions (2010: 11,325; 2009: 13,202) plus completions from joint ventures in which the Group has a share (2010: 52; 2009: 75)

# CHAIRMAN'S STATEMENT LOOKING AFTER YOUR INTERESTS

This has been an important year for the Group: the recovery of the housing market continued, we recapitalised the business and started to see the benefits of a much improved operational performance. As a result we achieved a profit after tax in the second half of the year and significant improvements in quality and customer service.

## Market conditions

During the year conditions in the housing market in Britain steadily improved. Nevertheless, by historic standards the market remained difficult and activity levels continued to be extremely low in terms of the number of house buyers and sellers.

The key restriction on the industry remains the availability of mortgage finance. Whilst there was some improvement during the year, the lack of availability of suitable higher loan to value products continued to restrict the new build sector where customer deposits have traditionally been lower.

With demand continuing to be constrained, the industry responded by opening fewer sites and controlling stock better. Whilst the improved balance between supply and demand has stabilised prices, it has done little to address the nation's fundamental housing shortage which in the longer term will underpin the sector's growth.

## Our response

Our response to the restrictions that the current market conditions impose has been very clear. Our priorities have been driving efficiency and optimising selling price growth. As a result, we have reduced volumes but have driven significant margin improvement, especially in the second half of the year.

A vital component of our response to market conditions has been to overhaul many operational aspects of our business. This has lowered costs and has also driven far-reaching improvements in the quality of our business.

The quality of our homes has never been higher. For the first time in the Group's history we have achieved Home Builders Federation Five Star status, the highest achievable level, in terms of customer satisfaction and whether we would be recommended to a friend. Additionally, under the NHBC 'Pride in the Job' scheme our site managers have won more quality awards than ever before and more than any one of our competitors for the sixth year running.

**“The foundation of our future business and margin growth is the land we buy. We have worked hard to maintain our long-term relationships with land sellers throughout a very difficult period for the industry and have benefited from this during the year along with our stronger financial position.”**

The high level of quality has also helped to underpin our pricing policy. We are determined to get the best possible price for the outstanding homes that we build and we have the right sales and marketing capabilities to achieve this.

Average selling price increased by 10.9% during the year and by 17.8% between 1 January and 30 June 2010 compared with the same period in 2009. This partly reflected price inflation but was mainly driven by the changing profile of what we build. Customer demand and mortgage availability have both driven a change in our product mix away from flats towards houses. This change in mix will continue as we start to build on the many sites we have successfully replanned, working together with local authorities.

#### **A stronger financial position**

During the year we substantially improved our financial position and reduced our debt levels. We strengthened our balance sheet through the Placing and the Rights Issue which raised gross proceeds of £720.5m. We also amended our financing arrangements. This was an important strategic move for us enabling us to develop existing sites and to take advantage of attractive new land purchasing opportunities. Our improved operational performance and

strong cash management also contributed to a further reduction in debt levels by the year end.

As previously indicated and in accordance with the terms of our financing arrangements, no dividend will be paid in respect of the 2010 financial year. However, the Board is committed to reinstating the payment of dividends when it is appropriate to do so.

#### **Securing land for the future**

The foundation of our future business and margin growth is the land we buy. We have worked hard to maintain our long-term relationships with land sellers throughout a very difficult period for the industry and have benefited from this during the year along with our stronger financial position. This enabled us to expand successfully our presence in the land market, securing a strong flow of potentially high margin sites, with a view to growing margin further. We have maintained a disciplined approach. Wherever possible we are acquiring land on deferred terms and we have recently increased our hurdle rates to ensure that we secure only the best opportunities.

#### **Our employees**

As Chairman, I spend a considerable amount of time with our employees at all levels. We have in place an exceptionally able and experienced senior management team. They are supported by our employees who are I believe amongst the very best in the industry. These have been difficult times for our people and their families and they should take a great deal of pride from the strength of the business's recovery. We are now operating more efficiently but also at far higher quality levels and that would not have been possible without their commitment, skill and resilience.

#### **The future**

Whilst economic uncertainty may influence the Company's future, the capabilities of the Group are strong and continuing to develop. We have a skilled work-force, a strong land bank and an improving financial position. We are at the forefront of many of the changes that will dominate the industry in future years: evolving customer demand, design and environmental standards and changes in planning. We are therefore well equipped to compete now and in the future.

*Bob Lawson*  
Bob Lawson

Chairman

7 September 2010

## GROUP CHIEF EXECUTIVE'S REVIEW REBUILDING PROFITABILITY

We have delivered a much improved operating performance in a slowly recovering housing market. We have strengthened the balance sheet, significantly improved the efficiency of the business, enhanced the quality and value of our housing and secured a strong supply of high value land. Whilst the housing market is likely to remain challenging, we are now well placed to secure further margin growth.

**"During the year we have focused on securing the maximum price for every sale. As a Group we are prepared to accept lower sales volumes to preserve value."**

### Performance

We increased profit from operations before exceptional items by £55.9m to £90.1m with a significant improvement in operating margin before exceptional items to 4.4% (2009 1.5%). Operating margin before exceptional items increased to 5.9% (2009 1.8%) in the second half of the financial year and in the same period we achieved a profit after tax of £9.0m. Operating exceptional items of £15.8m (2009 £519.5m) reduced profit from operations to £74.3m (2009 £485.3m loss) for the financial year.

Our Placing and Rights Issue coupled with continuing tight control of working capital enabled us to reduce net debt by £910.0m to £366.9m.

### Our priorities

Our overriding objective is to rebuild profitability and we have set out three clear priorities to achieve this: optimising margin, improving operational efficiency and securing high value future land. We have made considerable progress in each of these areas and by doing so have started to rebuild the profitability of the Group.



## A CLEAR SET OF PRIORITIES TO REBUILD PROFITABILITY

Achievement of our priorities is summarised on page 10

### ► Optimising margin

We remain focused upon margin improvement through optimising selling prices not pursuing volumes.

### ► Operational efficiency

We continue to focus upon improving operational efficiency including controlling costs throughout the business.

### ► Targeted land buying

We are investing in land which we expect to deliver attractive returns in the future.

#### Maximising value

During the year we have focused on securing the maximum price for every sale. As a Group we are prepared to accept lower sales volumes to preserve value. Procedures are in place to ensure strict pricing discipline in every region and across every development.

Average selling price rose by 10.9% to £174,300, with average private selling prices increasing by 11.2% to £185,200. In the second half, we saw average selling price increasing by 17.8% to £180,700 on the prior year equivalent period. These increases were mainly as a result of changes in mix.

At the same time private reservation rates per active site per week during the year increased by 4.2% from an average of 0.48 to an average of 0.50. We have achieved this through a better mix of product, improvement in our sales and marketing and a focus on the quality of our homes.

We are building more houses to satisfy customer demand. Excluding the London market where the majority of completions are flats, 65.9% of completions were houses compared with 50.5%

during the prior year. The mix of buyers has also changed as the proportion of investor sales has fallen to 10.1% compared with 24.8% last year.

Improvements in our marketing capability have been an important factor. New leads generated from our websites have continued to increase and we have a new centralised inbound call centre. At the point of sale, further resources have been invested in improving conversion rates through the enhanced presentation of our sales centres and on-site sales technology via the roll-out of our I-Sales system.

In addition to the record amount of awards the Group has received for quality during the year, we are the only volume housebuilder to have introduced a five-year warranty. This covers fixtures and fittings and is additional to the ten-year National House-Building Council warranty on the fabric of the building. During the year this has been working effectively as a point of sale incentive for the customer.

The combination of product marketing and on-site sales capability has been particularly important in driving sales of the Government

backed HomeBuy Direct product during the year. We sold 1,735 homes (2009: 138 homes) under this scheme.

#### Cost reduction

Driving operational efficiency has remained a significant focus for the organisation. During the year we saw a reduction in build costs reflecting the actions we had already taken.

Our material supply contracts have continued to be renegotiated. However, it is likely that some pressure will be felt in future as raw material prices rise in line with the recovery of the economy.

Longer term efficiency savings have been identified and implemented in a number of areas. By reviewing our purchasing we have consolidated a number of our supply chains. Standard house-type construction costs have been reduced and we have increased our focus on delivering further reductions wherever possible. Standard house-type costs are benchmarked across the Group every six months to ensure the lowest cost is achieved.

whilst maintaining the quality of our homes. Overall, we have seen housebuilding total build costs (including infrastructure) reducing by 4.7% per square foot.

Further efficiency savings and reductions in operating costs have been achieved through the roll-out of our Quality and Cost programme which promotes and shares best practice in the build process across the Group and has been supported by the introduction of new hand held terminal technology to all of our sites.

### **Land and planning**

Our strategy has been to replan existing sites and to secure appropriate future land to seek to ensure margin growth.

In the last twelve months we have replanned a number of sites. In particular we have been successful at replacing flats with new purpose-designed house-types. This ensures that we are building the right mix of products for our customers in particular given the lending restrictions that still favour houses over flats.

Longer term margin growth will be influenced by the quality of the land we are able to secure and bring into production. We have been able to take advantage of highly attractive land opportunities in targeted areas. In the latter half of the year we have seen competition to buy land increasing, but given the early success of our land buying teams, we have maintained a disciplined approach and have continued to secure opportunities above our hurdle rates.

Since re-entering the land market in mid-2009, until 30 June 2010 we had agreed terms on £527.2m of land purchases, the majority of which were on deferred terms. This equates to 96 sites and 13,359 plots with an expected average selling price of c. £197,000. Of the 13,359 plots, 51% are located in the South of England.

### **Commercial Developments**

In November 2009, we disposed of Atlantic Quay 5 for £25.0m with an exceptional impairment of £4.8m. This sale completed the planned divestment of legacy assets from the Wilson Bowden Developments portfolio for a total of around £200m.

### **Government policy**

It is likely that there will be significant changes to Government housing policy as the new Government is committed to moving from a policy based on central targets to a more devolved framework and also implementing significant cuts in expenditure. Whilst there is some uncertainty surrounding planning and funding for social housing, the short-term impact on our business is likely to be limited. We have detailed planning consent in respect of 95% of forecast completions for the year ending June 2011, outline consent in respect of an additional 3%, and a high level of contracted Government funding.

**"Since re-entering the land market in mid-2009, until 30 June 2010 we had agreed terms on £527.2m of land purchases, the majority of which were on deferred terms."**

We are committed to working closely with local communities and local councils to ensure that we can provide the housing that is required to high environmental and design standards. This will require genuine partnerships and new ways of collaborating, many of which are already emerging. We are determined to be at the forefront of these changes.

### Partner of choice

During the year we have also made progress in securing land through innovative arrangements and partnerships, particularly with the public sector. Our specialist Urban Regeneration team, working with our divisions, secured 1,614 units on six sites through public sector partnerships with a gross development value of £200m. In Newcastle we have formed a public/private partnership with the council to regenerate the Scotswood area of the city over a 15 year period.

The Homes and Communities Agency ('HCA') has selected the Group for each of its three area based Delivery Partner Panels ('DPP'). We are now working with the HCA in bidding for projects on HCA and local authority land across the country. Our first contract under this arrangement has now been awarded in Plymouth where we have been selected for Phase 1 which includes 247 new homes and a new mixed-use community hub. We are pleased to see that the DPP framework is being used by a significantly greater number of local authorities than we originally envisaged.

### Health, safety and the environment

Finding the lowest cost solution to meet increasingly demanding building regulations is an important work stream for the Group. Our objective is to secure a position as the lowest cost provider complying with the Code for Sustainable Homes (the 'Code'). During the year we built 1,765 homes to Code Level 3 or above and we are already starting to build developments at higher Code levels where required.

We have started on site at Hanham Hall, the UK's first large-scale zero carbon housing development and are well advanced with research to identify ways of building a Code Level 4 house without the need for renewable sources of power. As well as seeking technological solutions, we will continue to discuss with Government the most cost-effective way of meeting the environmental challenges facing the industry.

We continue to place the highest priority on the safety of our employees, contractors, customers and the wider community within which we operate. During the financial year our Injury Incidence Rate ('IIR') was 582 (2009 571 (restated)) per 100,000 persons employed which is a 2% increase on last year's figure. This increase can be largely attributed to additional slip and trip incidents due to the bad weather in the first quarter of the 2010 calendar year. We are committed to improving health and safety and have established an Executive Health and Safety Committee, which reports to the Board, to drive improvement.

### Outlook

The outlook for new housing remains challenging as a result of continuing constraints on the availability of mortgage finance and overall economic concerns.

Against this background we will remain focused on improving profitability by achieving full value for the homes we build and maintaining tight control of costs.

In-line with normal seasonal trends we have seen a slow-down in trading following the end of the spring selling season. Over the 10 weeks since the financial year end, net private reservations have averaged 0.48 (2009 0.51) per active site per week. This is slightly down on the prior year, when sales rates for the traditionally quieter period were stronger than normal, but is in-line with the rate required to achieve our projected volumes for the current financial year. Cancellation rates have remained low at an average of 11.0% (2009 12.3%) for the year to date.

We are targeting total completions for this financial year at 5-10% higher than 2010, driven by increasing our numbers of outlets rather than higher sales rates. Our focus continues to be on optimising selling prices rather than pursuing volumes. We expect to see a further shift in product mix, with houses likely to represent at least 65% of total volumes, resulting in a modest increase in average selling price.

### Mark Clare

Group Chief Executive  
7 September 2010



# OUR PROGRESS

## CLEAR SET OF PRIORITIES

The overriding objective that we have set for the business is to rebuild our profitability. We will do this through focusing upon three key priorities: optimising margin, operational efficiency and targeted land buying. At the same time we will continue to focus upon our continuing objectives of customer service and quality, investing in our people, the homes that we build, environmental and social responsibility and managing our cash flow. Our progress upon these areas is set out below.

### Key priorities to rebuild our profitability:

	Comments	Progress
<b>Optimising margin</b> We are focused upon margin improvement through optimising average selling prices not pursuing volumes	The average selling price of our homes in the year was £174,300 (2009 £157,200) an increase of 10.9% primarily due to a significant change in product mix with houses representing 60% (2009 46%) of our housebuilding completions	
<b>Operational efficiency</b> We continue to focus upon ensuring operational efficiency including controlling costs throughout the business	Profit from operations before exceptional items was £90.1m (2009 £34.2m), an increase of 163.5% on the prior year  Operating margin before exceptional items was 4.4% (2009 1.5%)	
<b>Targeted land buying</b> We are investing in land which we expect to deliver attractive returns in the future	Since mid-2009, we have agreed terms on £527.2m of land purchases, the majority of which are on deferred terms. This equates to 96 sites and 13,359 plots of which 77% are for houses. Land additions during the year were £339m (2009 £219m) Our owned and controlled land bank consists of 62,340 plots (2009 68,000) which equates to 5.5 (2009 6.0) years supply at 2010 completion volumes	

<sup>1</sup> Profit from operations was £74.3m (2009 £485.3m loss)  
 Operating margin was 3.7% (2009 21.2% loss)

## Our continuing objectives:

	Comments	Progress
<b>Customer service and quality</b> We are committed to building quality homes and our teams seek to ensure that our customers are satisfied with their new home	<p>We continue to make progress in improving customer service and 97% (2009 96%) of our customers independently surveyed said they would recommend us to a friend</p> <p>In April we became the first major housebuilder to receive the maximum Five Star rating for customer satisfaction awarded by the Home Builders Federation</p> <p>Our site managers won 82 (2009 76) 'Pride in the Job' Quality Awards, more than any other housebuilder for an unprecedented sixth consecutive year</p>	
<b>Investing in our people</b> We recognise that one of our key strengths is our people and have therefore continued to invest in them and their expertise	<p>During the year many of our employees have benefited from our sales and marketing, construction and leadership development programmes</p> <p>The Group continues to target a fully Construction Skills Certification Scheme ('CSCS') carded and qualified workforce</p>	
<b>The homes that we build</b> We serve all sectors of the market, creating homes for sale and shared ownership and work with many partners on a range of urban regeneration schemes	<p>Our wide product range varies from homes for first time buyers, family homes and flats to social housing. We also have a focused commercial developments business</p> <p>Total completions for the year were 11,377 (2009 13,277) including 52 (2009 75) joint venture completions in which the Group had a share. Social housing accounted for 16.5% (2009 15.7%) of completions excluding joint ventures</p>	
<b>Environmental and social responsibility</b> We seek to manage environmental, social and governance risks throughout our business	<p>We continue to make progress developing lower cost solutions to meet increasing environmental standards. During the year we built 1,765 homes that meet Code Level 3 or above</p> <p>70% of our completions in the year were built on brownfield land (2009 70%)</p> <p>Health and safety is of paramount importance for our employees, customers and the public. During the year our Injury Incidence Rate ('IIR') was 582 (2009 571<sup>2</sup>) per 100,000 employees largely due to increased slip and trip incidents owing to the bad weather in the first quarter of the 2010 calendar year</p>	
<b>Managing cash flow</b> Following the completion of our Placing and Rights Issue in November 2009, we have continued to focus upon managing our cash flow	<p>Net debt at 30 June 2010 was £366.9m, £910.0m lower than the prior year</p> <p>The Placing and Rights Issue contributed net proceeds of £693.0m, there was an outflow of £111.1m related to exceptional finance costs arising from the Group's amended financing arrangements and £2.2m related to the purchase of shares for the Group's EBT and the remaining inflow of £330.3m was due to cash flows from operations, interest and taxation</p>	

<sup>2</sup> Originally reported as 522 but restated due to late notifications

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# **BUSINESS REVIEW**

## **HOW WE HAVE DONE**

Our beach front development at Honeycombe Beach in Boscombe has played an important role in the regeneration of this part of Bournemouth

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# OUR PERFORMANCE REBUILDING OUR PROFITABILITY

Whilst there has been some recovery in the housing market during the year, the environment in which we operate has remained challenging, with mortgage finance still constrained for many of our potential customers.

**“During the year we have continued to focus upon driving operational efficiency. We have reduced our standard house-type construction costs and have increased the use of these wherever possible.”**

We delivered a profit from operations before operating exceptional items of £90.1m (2009 £34.2m) at a margin of 4.4% (2009 1.5%). After exceptional items of £15.8m (2009 £519.5m), our profit from operations was £74.3m (2009 £485.3m loss).

The increase in operating margin before exceptional items can be explained by a number of factors. We achieved a 3.6% improvement upon revenue per square foot on housebuilding completions and a 4.7% reduction per square foot on housebuilding build costs (including infrastructure). These coupled with other items resulted in a gross margin before exceptional items of 9.1%, a 3.4% increase on the prior year. Although administrative costs reduced year-on-year from £95.2m to £94.7m, this reduced operating margin by 0.5%. Overall there was a 2.9% improvement in operating margin before exceptional items in the year.

## Housebuilding

During the year, we operated from an average of 360 (2009 436) active sites. Visitor numbers were lower than in the prior year at 1.82 (2009 1.95) per active site per week but our sales conversion rate was higher with an average of 0.50 (2009 0.48) net private reservations per active site per week.

Total completions were 11,377 (2009 13,277) including 52 (2009 75) from joint ventures in which we have a share. Housebuilding completions totalled 11,325 (2009 13,202), a decrease of 14.2% reflecting fewer active sites during the year. Housebuilding revenue

totalled £2,000.1m (2009 £2,095.8m). Of the housebuilding completions, private were 9,455 (2009 11,133), and social were 1,870 (2009 2,069). Social housing completions represented 16.5% of completions in the year, versus 15.7% in the prior year.

Our average selling price increased by 10.9% to £174,300 (2009 £157,200) mainly as a result of changes in mix but also reflecting some underlying sales price inflation.

Private average selling prices increased by 11.2% to £185,200 (2009 £166,500) primarily due to a number of mix changes including an increased proportion of houses compared to flats, a 1.8% increase due to our development at Rochester Row in London with a private average selling price of £1,022,900 and geographical mix changes. Achieving the optimum sales price upon every plot that we sell has remained a key focus for the business during the year. The average revenue that we achieved upon private completions per square foot increased by 3.6% to £191.7 (2009 £185.0).

Our social average selling price increased by 11.6% to £119,500 (2009 £107,100) due to changes in mix including an increase in the average square footage of our social completions of 6.1% to 799 square feet.

The availability of mortgage finance at higher loan to value ratios remains constrained and accordingly 27.0% (2009 11.4%) of our completions this year have used shared equity products. Of these completions, 1,735 (15.3%) (2009 138 (1.0%)) have used HomeBuy Direct.

and the remainder have used our own Headstart or Dreamstart schemes. The option of part-exchange also remains an effective selling tool, with 9.6% (2009: 11.8%) of our completions in the year supported by this. We continue to manage carefully our commitment and exposure to part-exchange properties.

During the year we have continued to focus upon driving operational efficiency. We have reduced our standard house-type construction costs and have increased the use of these wherever possible. We benchmark our standard house-type costs across the Group every six months. Overall, we have seen a reduction in total build costs (including infrastructure) with the cost per square foot reducing by 4.7%. We will continue to drive other cost savings and operational efficiency during the current financial year. However in future, it is likely that some pressure will be felt as raw material prices rise in-line with the recovery of the economy.

The benefit of our strategies of optimising the sales price of every plot and controlling our costs can be seen in the year with a significant improvement in our housebuilding operating margin before exceptional items to 4.6% (2009: 1.9%) and 5.9% (2009: 2.7%) for the second half of the financial year. Our housebuilding profit from operations before exceptional items for the year was £91.4m (2009: £38.8m). After operating exceptional items of £11.0m (2009: £446.4m), the housebuilding profit from operations was £80.4m (2009: £407.6m loss).

### Commercial Developments

Conditions in the commercial property market remain challenging. Whilst investor demand for well located prime stock came back strongly in the final quarter of 2009, this demand had stabilised by the second quarter of 2010. Revenue from the commercial developments business totalled £35.1m (2009: £189.4m) with a loss from operations before exceptional items of £1.3m (2009: £4.6m). After exceptional items of £4.8m (2009: £73.1m), the loss from operations was £6.1m (2009: £77.7m).

During the year, we disposed of Atlantic Quay 5, a commercial property in Glasgow for £25.0m with an exceptional impairment of £4.8m, completed a 70,000 square foot warehouse and office facility at the Kingsway site in Rochdale and also completed a number of land disposals at positive margins. We have also recently exchanged contracts with JD Sports to complete an 866,000 square foot warehouse and distribution centre in Rochdale, which is scheduled for completion in spring 2011.

The disposal of Atlantic Quay 5 during the financial year completed the planned sale of legacy assets from the Wilson Bowden Developments portfolio for a total of around £200m.

**“The benefit of our strategies of optimising the sales price of every plot and controlling our costs can be seen in the year with a significant improvement in our housebuilding operating margin before exceptional items to 4.6% (2009: 1.9%) and 5.9% (2009: 2.7%) for the second half of the financial year.”**



# THE HOMES WE BUILD OUR STRENGTH

Our aim is to be recognised as the nation's leading housebuilder creating communities where people aspire to live.

**"We continue to serve all sectors of the market, creating homes for sale, shared ownership and affordable rental and work with Government agencies and housing associations on a broad range of urban regeneration schemes."**

## **Geographic and product diversity**

We operate throughout Britain under the Barratt Homes and David Wilson Homes brands and in Kent and the South East under the local Ward Homes brand. At 30 June 2010, we were selling from 339 (2009: 376) active sites across 25 divisions.

We continue to serve all sectors of the market, creating homes for sale, shared ownership and affordable rental and work with Government agencies and housing associations on a broad range of urban regeneration schemes. Our wide product range varies from homes for first time buyers, family homes and high rise flats to social housing and commercial development. Private selling prices during the financial year ranged from £46,500 to £2.1m, with a private average selling price for the year of £185,200 (2009: £166,500).

During the year, we completed 1,735 (2009: 1,381) homes under the HomeBuy Direct scheme including 1,679 from the initial allocation of HomeBuy Direct, which has to be completed by the end of September 2010. Our HomeBuy Direct funding from Kickstart 1 and Kickstart 2 for c. 510 units has been secured together with c. £31.1m of other Government funding. In addition to the Government supported HomeBuy Direct scheme, we also supported 1,325 (2009: 1,369) purchasers with our own shared equity schemes.

The provision of social housing remains a key component of our activities with 1,870 (2009: 2,069) homes completed during the financial year ended 30 June 2010 at an average selling price of £119,500 (2009: £107,100).

The Homes and Communities Agency ('HCA') has established a Delivery Partner Panel ('DPP') framework to develop its sites, which can also be used by local authority partners for developing their land. The DPP framework will exist for three years and is split into three regional clusters – Northern, Central and Southern panels. As one of only two national housebuilders appointed to all three panels, we are able to work closely with the HCA in bidding for projects on HCA and local authority owned land across the country. We are pleased to see the DPP framework being used by a significantly greater number of local authorities than we originally envisaged.

## **People and expertise**

We believe that one of our key strengths is our people and that despite the current economic environment it is important to continue to develop and invest in them and their expertise. Accordingly, we have continued to invest in our vocational and leadership training programmes as well as employee development, engagement and recognition.

During the year we have launched the Barratt Academy, which combines professional training (on-site and in the classroom) with industry-recognised qualifications. The Academy will deliver trade specialists, site managers and commercial and technical specialists. Since its launch, 48 Site Managers and 48 Assistant Site Managers have joined the programme and 100 apprentices are being recruited for the first intake of the Apprenticeship Programme in September 2010. In addition, we have four leadership development programmes in place to assist with the development of managers identified within our succession plan.

We also have a Graduate Recruitment and Development Programme consisting of a two-year multi-disciplinary programme. Due to the downturn in the sector, we decided not to increase the number of graduates in the programme in the year to 30 June 2010. However, we have recruited 30 graduates under the programme who joined the business in August 2010.

During the year, we have remained focused on employee engagement with our third annual engagement survey seeing an increase in participation to 71% and a 3% improvement in our employee engagement score compared with 2009. We have continued to reward our employees giving over 1,400 individual experience prizes or additional holiday. Our structured recognition programme is ongoing with quarterly and annual divisional awards and annual national awards for Site Managers, Sales Advisers, Apprentices, Individual Excellence and Team Excellence.

The expertise of our construction teams has again been recognised externally, with 82 (2009: 76) of our Site Managers winning 'Pride in the Job' quality awards from the National House-Building Council. This is more than any other housebuilder for an unprecedented sixth consecutive year.

Our target was to have a fully carded Construction Skills Certification Scheme ('CSCS') workforce, including subcontractors, by 2010. At 30 June 2010, 97% (2009: 95%) of the Group's workforce, including subcontractors, was fully CSCS carded and we continue to target a 100% CSCS carded workforce.

### Corporate responsibility

We are committed to the principles of Corporate Responsibility ('CR') as stated in our CR policy which is available at [www.barrattdvelopments.co.uk](http://www.barrattdvelopments.co.uk). We have identified and assessed the key CR risks facing the business, which include Environmental, Social and Governance ('ESG') risks, and have grouped these into four key philosophies so that we can manage them effectively. The four philosophies: People, Partners, Planet and Customers are underpinned by our commitment to financial performance and Health and Safety. These are each led by a member of the Executive Committee who is responsible for developing and implementing CR related objectives and targets to achieve the overall CR strategy set by the Board. This ensures that CR issues are embedded in the normal course of business and decisions affecting CR issues can be implemented

swiftly at an operational level. This process ensures that adequate information in relation to ESG matters is available to the Board. Significant ESG risks that could impact on the future of the business are included in the Principal risks and uncertainties section on pages 26 and 27.

We publish a CR report each year that explains our approach and our management of CR governance and risk, and includes the actions we have taken during the year to improve CR performance. CR disclosures in the Annual Report and CR Report, including disclosures on ESG matters, are based on information collected annually and from regular management information. This information is subject to external independent review and internal audit.

### Environment

Our development activities have the potential to impact significantly on the environment and we are subject to extensive and complex regulations and an increasingly stringent regulatory environment including planning and technical requirements, such as a requirement for all new homes to achieve zero carbon emissions by 2016. In response to these challenges we follow a strong environmental agenda which focuses on managing our environmental impact, helping our customers to improve the environment, improving the environmental standards of what we build and making our supply chain more sustainable.

We are committed to undertaking research and development that will enable us to respond to the increasingly demanding design criteria for new housing. In 2008 we were the first major housebuilder to build a prototype home to Level 6 of the Code for Sustainable Homes (the 'Code'), the highest level attainable. We are currently building one of the first large scale zero carbon communities in Britain, in partnership with the HCA, at Hanham Hall near Bristol. The development includes 185 new homes built to Code Level 6 and the total refurbishment of the hall itself.

The key performance indicator that we use to monitor environmental performance is the average amount of carbon dioxide emitted during the construction process per legal completion. This metric reduced slightly this year to 1,787 KgCO<sub>2</sub>/unit (2009: 1,804 KgCO<sub>2</sub>/unit (restated)). We are targeting a reduction in energy use of 20% over three years and are looking at ways to improve this reduction. During the year we carried out energy audits on sample developments to understand energy usage in more detail and the opportunities for increasing energy efficiency.

We monitor the proportion of construction waste segregated for recycling on site, which this year improved to 91% (2009: 73%). In addition, we continually monitor our performance against our environmental management system via regular compliance audits on all sites.

### Health and safety

We consider health and safety to be of paramount importance for our employees, customers and the public. All our divisions are certified to the health and safety standard OHSAS 18001 which is verified by a programme of internal and external audits. This ensures that we have consistent and appropriate standards in place and is complemented by our own comprehensive Safety, Health and Environmental ('SHE') Management System. We continually monitor our performance against our SHE Management System by carrying out regular compliance audits on all sites. During the year we carried out over 4,000 monitoring visits and achieved an average of 96% compliance (2009: 96%). In addition, a majority of the Group's Safety, Health and Environment managers are certified to the Institute of Environmental Management and Assessment standard and are able to undertake regular environmental audits on our sites.

We use our reportable Injury Incidence Rate ('IIR') as a key performance indicator to measure health and safety performance on a monthly and yearly basis. During the financial year ended 30 June 2010 our IIR was 582 (2009: 571 (restated)) per 100,000 persons employed. This increase can largely be attributed to additional slip and trip incidents due to bad weather in the first quarter of the 2010 calendar year. We are committed to reducing the IIR year-on-year and we are working with our supply chain to ensure their supervisory staff are able to manage effectively health and safety risk on-site.

## CASE STUDY OUR PEOPLE

The quality of our management of health and safety has also been recognised through the receipt of six awards at the inaugural NHBC Health and Safety Awards 2010

The investigation by the Police and the Health and Safety Executive into the incident at Bedford, London in February 2008, where carbon monoxide poisoning from a gas heating installation caused the death of one person and left another seriously ill, continues. We continue to work closely with the authorities

### Partners

We recognise that there are a large number of stakeholders in our business and we aim to work with local, regional and national partners and stakeholders to ensure the effective delivery of housing needs

We create homes for sale and shared ownership and work with Government agencies, housing associations and other bodies on a broad range of ownership initiatives including HomeBuy Direct, our own shared equity products and social housing. We have also been appointed to every HCA DPP and work with a wide range of public sector regeneration agencies, local authorities and Registered Social Landlords (RSL)

We are committed to the continuous improvement in the standard of our design for individual homes and entire developments. We have introduced design guidelines to spread best practice throughout the business and our internal annual design competition promotes high standards of design which focuses on the layout of developments, the creation of places where our customers want to live and compliance with our own and national design standards

We have a specialist public sector developments team, which works on schemes delivering homes on regenerated former public sector land, and seeks to promote the highest industry standards for community engagement, environmental practice and local employment. We also have a national team which provides expertise to our divisions in the area of affordable housing, grants and working with RSLs

We continue to build the majority of our developments on brownfield sites, with 70% (2009 70%) of our legal completions in the year being on brownfield land, which significantly exceeds the previous Government's target of 60%

## OUR PEOPLE AWARD WINNERS

During the year, 82 of our Site Managers won NHBC 'Pride in the Job' quality awards (2009 76). Additionally we have internal awards for Site Managers, Sales Advisers, Apprentices, Individual Excellence and Team Excellence

**Apprentice of the Year** – Theo Welsh (main picture), DWH South West  
Theo received strong feedback at college and has successfully completed his NVQ level 2

**Sales Adviser of the Year** – Emma Welham (inset), Barratt North London  
Emma achieved a customer satisfaction survey score of 99%

### Other award winners

**Site Manager of the Year** – Darren Reaney, DWH North West  
**Individual Excellence** – Rebecca Wasse, Barratt Yorkshire West  
**Team Excellence** – Group Procurement/Lead buyers

# LAND AND PLANNING FUTURE INVESTMENT

Our strategy has been to replan existing sites and undertake targeted land buying to seek to deliver future margin growth. We have detailed planning consents in place on 95% of land required for 2011 forecast completions and outline consent in respect of an additional 3%.

## Our land bank

Our land bank consists of both owned and controlled plots. At 30 June 2010, we had 62,340 (2009: 68,000) owned and controlled plots consisting of 50,948 (2009: 53,541) owned/unconditional plots and 11,392 (2009: 14,459) plots under conditional contracts. This amounts to a 5.5 year land bank at 2010 financial year completions volumes (2009: 6.0 years). In addition, we have c. 11,000 (2009: 10,400) acres of strategic land which are regularly reassessed, until the necessary planning consents are obtained, and carried at the lower of cost and net realisable value minimising our exposure to risk from these strategic land holdings.

At 30 June 2010, our land bank had a carrying-value of £2,308.7m (2009: £2,453.2m) with an average cost per plot of £43,100 (2009: £44,000). The average selling price of the plots within our land bank is currently expected to be c. £180,000 giving an average plot cost to average selling price ratio of 24% (2009: 26%).

During the year, an impairment to our land bank carrying-value of £4.8m was recorded in respect of the disposal of Atlantic Quay 5, a commercial development. Whilst our land bank carrying-value has been reviewed for impairment at 30 June 2010 and no additional net impairment charge was required, should UK house prices or commercial property values decline or rise in future, further impairments or reversals in impairments of the carrying-value of our land bank may be required.

## Land approvals since mid-2009

	30 June 2010	
Total approved	£527.2m	
Total number of plots	13,359	
<b>Location</b>		
– South North (by value)	66%	34%
– South North (by plots)	51%	49%
<b>Vendor</b>		
– Government Private	34%	66%
<b>Type</b>		
– Brownfield Greenfield	60%	40%
– Houses Flats	77%	23%
<b>Status</b>		
– Owned		52%
– Contracted		30%
– Progressing		18%

## Land acquisition

Each division has a dedicated land buying team with local knowledge and experience. These teams identify land suitable for development and secure planning permission to enable new homes to be built. This capability, combined with our strategic land portfolio, is designed to ensure that we have sufficient land to meet customer demand.

Our future growth and profitability is influenced by the quality of the land that we purchase and develop. Accordingly, one of our key priorities has been targeted land buying and since re-entering the land market in mid-2009, to 30 June 2010 we had agreed terms on £527.2m of land purchases, the majority of which we will acquire on the basis of deferred

## CASE STUDY URBAN REGENERATION

payment. This equates to 96 sites and 13,359 plots of which 77% are for houses. With an expected average selling price of c. £197,000, based on current prices, the average plot cost to average selling price ratio on this land would be 20%.

During the financial year, land additions were £339m (2009: £219m) and £253m (2009: £264m) was spent on land resulting in land creditors at 30 June 2010 of £566.8m (2009: £470.6m) of which £266.6m (2009: £225.4m) fall due within one year.

Whilst we will continue to pursue land opportunities where the expected returns exceed our hurdle rates, the rate of acquisition is likely to slow given our success over the past year and the increased competition in the market. In addition, we expect our cash expenditure for land to increase reflecting the payment as they fall due of deferred amounts upon the land purchases acquired since re-entering the land market in mid-2009.

### Planning

In the year to 30 June 2009, we started the replanning of a number of our sites to replace flats with houses, a process which has continued this year. The proportion of our completions which were houses in the financial year was 60% (2009: 46%). Outside London, houses were 65.9% (2009: 50.5%) of completions.

There is currently some uncertainty surrounding the planning process with the new Government's move from a policy based on central targets to a more devolved framework. However, at 30 June 2010, detailed planning consents were in place on 95% (2009: 96%) of land required to meet our forecast activity for the 2011 financial year. In addition, we had outline planning consents on a further 3% of our forecast completion volumes.

## URBAN REGENERATION CAMP HILL

Bluebell forms the final phase of a major multi-agency partnership project transforming the Camp Hill area of Nuneaton – one of the most deprived areas in Britain – into a thriving sustainable community.

Our development will provide over 800 new homes, a new High Street, open spaces and views. Work is well under way on the first phase, with run-down and derelict properties cleared to make way for 158 new homes and the first residents already settled in.

# CUSTOMER SERVICE AND QUALITY OUR COMMITMENT

We are committed to offering the highest standards of quality and customer service. We seek to develop our quality and service standards by listening to customers, monitoring performance and adopting best practice throughout the Group.

## Communicating with our customers

Our sales and marketing team has continued to promote our brands throughout the year using focused marketing campaigns. This included use of the internet, radio and direct mail, targeted incentives and discounts for customers and tools such as shared equity products and part-exchange.

We have completed the introduction of I-Sales, our new sales technology in our sales centres across Britain during the financial year. I-Sales combines website capability with the Group's computerised customer database.

In December 2009 we launched our new customer call centre to help with any enquiries to the Group. The call centre enables us to provide a consistent standard of service and deal with high call volumes ensuring that customers can easily contact us. The call centre transfers the customer's details to the appropriate Sales Adviser so that we can quickly contact them and start to help them with their home purchase.

## Customer Care Charter

We have a Customer Care Charter which we use to explain our commitment to customers and to brief and train our sales teams. During the last twelve months we have sought to embed further the Charter within our systems and processes. In particular we have rolled out our Quality and Cost programme, introduced a new out of hours service and an online customer enquiry procedure.

We continue to make progress in improving customer service and during the year, 97% (2009: 96%) of our customers surveyed said they would recommend us to a friend. These scores form part of our overall customer survey which our customers are contacted to complete nine weeks after legal completion of the purchase of their new home. We monitor the results of the survey on a monthly basis throughout our business.

## Continuing to develop our customer service and sales teams

We have completed the roll-out of our Quality and Cost programme which implements best practice in our pre and post completion activities, including customer service. We also regularly share best practice amongst our Customer Service Managers and have introduced new hand held terminal technology to all of our sites as part of the Quality and Cost programme. We have focused in particular upon the early stages of the customer journey and have introduced the Sales Development Tracker ('SDT') to our sales team.

The SDT is a document personal to each Sales Adviser and records their learning and career progression to ensure that they continually develop and improve their skills. We believe that this will improve our Sales Advisers' efficiency and effectiveness, thus improving the quality of service we provide to our customers.

## CASE STUDY CUSTOMER SERVICE

**Consumer Code implementation**

The Consumer Code was introduced as the result of agreement between the housebuilding industry and the Government with the main purpose to ensure that consumers

- are treated fairly,
- know what service levels to expect,
- are given reliable information on which to make suitably informed decisions, and
- know how to access speedy, low cost dispute resolution if they are dissatisfied

The Consumer Code applies to all reservations made on or after 1 April 2010 and only to claims made within two years of the legal completion date

We have developed point of sale material for our sales offices to implement the Consumer Code and have made changes to all of our reservation forms to ensure that all stages of the purchase process comply with the Consumer Code and that customers are fully informed through the sales process. We have also undertaken a training programme across the business for our Sales Advisers, Sales Managers and divisional management teams to communicate the principles and requirements of the Consumer Code

**Working with mortgage providers**

We also recognise the importance of assisting customers to find suitable financial assistance to purchase their new homes. The Group's Lender Relations Manager works closely with mortgage lenders in order to assure them that the homes built by the Group are of a high quality which they can confidently lend on and to gain their support for affordable housing schemes such as HomeBuy Direct

**External awards**

Our high quality homes have been recognised independently by the achievement of Five Star builder status in the Home Builders Federation annual customer satisfaction survey and the award of *Daily Telegraph* Homebuilder of the Year at the British Homes Awards 2010

**Five-year warranty**

In addition to the record number of awards the Group has received for quality during the year, we are the only volume housebuilder to have introduced a five-year warranty. This covers fixtures and fittings and is additional to the ten-year NHBC warranty on the fabric of the building. During the year this has started to work effectively as a point of sale incentive for the customer

**CUSTOMER SERVICE  
HOMEBUY DIRECT**

During the year, we completed 1,735 homes (2009 138 homes) under the HomeBuy Direct scheme. One of our purchasers was Gareth Gay, a music teacher, who purchased a two bedroom apartment in our New South Quarter development in Croydon using HomeBuy Direct

Gareth was further attracted to our development as the five-year warranty and range of white goods meant that he would not have many other costs after he moved in

## GROUP FINANCE DIRECTOR'S REVIEW OPERATING EFFICIENTLY

The Group has significantly improved its operating margin and reduced its net debt against the backdrop of a market that remained challenging throughout the year with continued constraints on the availability of mortgage finance and overall economic concerns.

**“Profit from operations before operating exceptional items increased by 163% to £90.1m (2009: £34.2m)... Profit from operations was £74.3m (2009: £485.3m loss).”**

Performance metrics were as follows

- Revenue was £2,035.2m (2009: £2,285.2m)
- Total completions<sup>1</sup> decreased by 14.3% to 11,377 (2009: 13,277)
- Profit from operations before operating exceptional items<sup>2</sup> increased by 163% to £90.1m (2009: £34.2m)
- Operating exceptional items<sup>2</sup> comprised an impairment of inventories of £4.8m (2009: £499.5m), reorganisation costs of £11.0m (2009: £27.1m) and a pension curtailment gain of £nil (2009: £7.1m)
- Profit from operations was £74.3m (2009: £485.3m loss)
- Operating margin before operating exceptional items<sup>2</sup> was 4.4% (2009: 1.5%)
- Adjusted loss per share before exceptional items<sup>3</sup> was 2.9p (2009: 15.6p (restated<sup>4</sup>))
- Basic loss per share was 14.5p (2009: 89.1p (restated<sup>4</sup>))



## Segmental analysis

	Housebuilding £m	Commercial developments £m	Total £m
Revenue	2,000.1	35.1	2,035.2
Profit/(loss) from operations before operating exceptional items <sup>2</sup>	91.4	(1.3)	90.1
Profit/(loss) from operations	80.4	(6.1)	74.3

## Segmental analysis

The Group's operations comprise of two segments, housebuilding and commercial developments. These segments reflect the different product offerings and market risks facing the business.

An analysis of the operational performance of these segments is provided within the Business review on pages 13 and 14.

## Exceptional items

The Group incurred exceptional items before tax in the year of £129.9m (2009: £534.8m). This comprised operating exceptional items of £15.8m (2009: £519.5m) and exceptional finance costs of £114.1m (2009: £13.3m).

## Operating exceptional items

### 1) Impairment of land and work in progress

The Group recognised a total net impairment of land and work in progress of £4.8m (2009: £499.5m) during the year relating to the disposal of Atlantic Quay 5 in November 2009 for £25.0m. This sale completed the planned sale of legacy assets from the Wilson Bowden Developments portfolio for a total of around £200m.

The Group has completed a site-by-site impairment review using valuations incorporating forecast sales rates and average selling prices that reflected both current and anticipated trading conditions. Since overall average selling prices across the Group's developments were primarily in-line with those incorporated into prior period impairment reviews no further impairment was required at 30 June 2010, although there were gross impairment reversals and charges of £57.4m due to variations in market conditions across housebuilding sites. It should be noted that if

there were to be a future decline or rise in UK house prices then a further impairment or reversal of impairment of the Group's land bank may be required.

### 2) Restructuring costs

During the year, the Group continued to adjust its operations in light of current trading conditions resulting in £11.0m (2009: £27.1m) of reorganisation and restructuring costs.

## Financing exceptional item

On 23 September 2009 the Company announced a fully underwritten Placing and Rights Issue, raising gross proceeds of £720.5m, and the amendment of its financing facilities. The equity issue was completed on 4 November 2009 and the amended financing facilities came into effect on 16 November 2009. As a consequence of amending the financing arrangements the Group incurred £114.1m of exceptional items related to the amendments to and prepayments of indebtedness under the Group's financing arrangements.

## Tax benefit of exceptional items

The tax benefit of the operating and financing exceptional items was £35.4m (2009: £148.3m).

## Finance cost

The net finance charge before exceptional costs for the year was £121.6m (2009: £177.3m). This included a non-cash finance charge of £30.9m (2009: £26.7m). After financing exceptional costs of £114.1m (2009: £13.3m), the net finance charge for the year was £235.7m (2009: £190.6m).

For the financial year ending 30 June 2011 we currently expect the total finance charge to be approximately £105m, consisting of cash interest

of around £75m on net debt including term debt and around £30m of non-cash finance charge.

## Tax

The Group's tax credit for the year was £44.5m (2009: £210.3m), an effective rate of 27.3% (2009: 31.0%). This differed from the standard rate of 28% mainly due to adjustments related to prior periods.

During the year, the Group received tax refunds totalling £53.8m relating to the carry back of losses from the prior financial year.

For the financial year ending 30 June 2011 we expect the total taxation charge to be around the standard rate of corporation tax of 27% excluding the impact of the charge arising from the reduction in the value of the Group's deferred tax asset due to the change in the standard rate of corporation tax from 28% to 27%.

<sup>1</sup> Total completions of 11,377 (2009: 13,277) comprise private completions of 9,455 (2009: 11,133), social completions of 1,870 (2009: 2,069) and joint venture completions of 52 (2009: 75).

<sup>2</sup> Operating exceptional items comprising impairment of inventories and restructuring costs were £15.8m (2009: £519.5m) including pension curtailment gain of which £11.0m (2009: £446.4m) related to the housebuilding business and £4.8m (2009: £73.1m) related to the commercial developments business.

<sup>3</sup> Exceptional items comprise operating exceptional items of £15.8m (2009: £519.5m), exceptional finance costs arising from the amended financing arrangements of £114.1m (2009: £13.3m) arising from redemption of certain private placement notes, net impairment of inventories relating to investments accounted for using the equity method of £nil (2009: £2.0m) and the related tax credit on exceptional items of £35.4m (2009: £148.3m).

<sup>4</sup> The number of shares in issue has been revised to reflect the Rights Issue as required by IAS33 'Earnings per Share' which has adjusted the loss per share.

## Cash flow

	Year ended 30 June 2010 £m	Half year ended 31 December 2009 £m	Half year ended 30 June 2010 £m	Year ended 30 June 2009 £m	Half year ended 31 December 2008 £m	Half year ended 30 June 2009 £m
Net debt at start of period	(1,276.9)	(1,276.9)	(605.3)	(1,650.6)	(1,650.6)	(1,422.8)
Operating cash flow	369.8	101.4	268.4	511.8	307.8	204.0
Tax and net interest paid	(40.9)	(5.2)	(35.7)	(100.3)	(53.0)	(47.3)
Free cash flow	328.9	96.2	232.7	411.5	254.8	156.7
Acquisitions	-	-	-	(4.0)	(3.9)	(0.1)
Investments in joint ventures	1.8	(5.2)	7.0	(20.7)	(24.5)	3.8
Net fixed asset (purchases)/proceeds	(0.4)	(0.2)	(0.2)	0.2	1.4	(1.2)
Share issue	720.5	720.5	-	-	-	-
Share issue costs	(27.5)	(26.7)	(0.8)	-	-	-
Exceptional finance costs	(111.1)	(110.8)	(0.3)	(13.3)	-	(13.3)
Purchases of shares for EBT	(2.2)	(2.2)	-	-	-	-
Net debt at end of period	(366.9)	(605.3)	(366.9)	(1,276.9)	(1,422.8)	(1,276.9)

An analysis of the Group's free cash flow is as follows

	Year ended 30 June 2010 £m	Half year ended 31 December 2009 £m	Half year ended 30 June 2010 £m	Year ended 30 June 2009 £m	Half year ended 31 December 2008 £m	Half year ended 30 June 2009 £m
Profit from operations before operating exceptional items <sup>1</sup>	90.1	21.0	69.1	34.2	16.0	18.2
Operating exceptional items <sup>1</sup>	(15.8)	(15.8)	-	(519.5)	(513.9)	(5.6)
Total non-cash items (excluding exceptional write-off of unamortised facility fees)	(16.6)	(3.0)	(13.6)	503.0	495.0	8.0
Land, work in progress and other inventories	193.7	149.0	44.7	795.5	516.3	279.2
Other working capital	118.4	(49.8)	168.2	(301.4)	(205.6)	(95.8)
Operating cash flow	369.8	101.4	268.4	511.8	307.8	204.0
Net interest paid	(94.7)	(58.8)	(35.9)	(151.6)	(84.3)	(67.3)
Taxation	53.8	53.6	0.2	51.3	31.3	20.0
Tax and net interest paid	(40.9)	(5.2)	(35.7)	(100.3)	(53.0)	(47.3)
Free cash flow	328.9	96.2	232.7	411.5	254.8	156.7

<sup>1</sup> Operating exceptional items comprising impairment of inventories and restructuring costs were £15.8m (2009 £519.5m comprised impairment of inventories, pension curtailment gain and restructuring costs)

## Dividend

The Board suspended dividend payments in June 2008 as part of its cash conservation policy. The Board remains focused on strengthening the balance sheet and conserving cash. The existing terms of the Group's committed bank facilities and private placement notes do not allow the declaration and payment of dividends in respect of the financial year ended 30 June 2010.

The Board is committed to reinstating the payment of dividends and will when it becomes appropriate to do so.

## Losses recognised in equity

During the year £3.6m (2009 £70.4m) of losses have been recognised in equity predominantly relating to actuarial losses on the defined benefit pension scheme partially offset by movements on interest rate swaps (2009 losses on interest rate swaps).

## Balance sheet

The net assets of the Group increased by £568.6m to £2,900.2m primarily reflecting the receipt of net proceeds of £693.0m from the Group's Placing and Rights Issue and the loss after tax for the year of £118.4m.

Significant movements in the balance sheet included:

- The Group's book value of land was £2,308.7m (2009 £2,453.2m), a decrease of £144.5m. This decrease included land additions of £339m offset by land usage.
- Group work in progress at 30 June 2010 was £981.4m (2009 £1,044.2m). The fall of £62.8m reflects the reduction in number of sites and the Group's continued focus upon careful management of work in progress levels upon trading sites. At 30 June 2010, there were 746 (2009 822) unreserved completed units, an average of 2.2 (2009 2.2) unreserved units per active site.
- Group net debt decreased by £910.0m to £366.9m over the full year of which £693.0m represented the net proceeds from the Placing and the Rights Issue, an outflow of £111.1m related to exceptional finance costs arising from the Group's amended financing arrangements and £2.2m related to the purchase of shares for the Group's Employee Benefits Trust ("EBT") following the Rights Issue and the remaining inflow of £330.3m was due to cash flow from operations, interest and taxation.
- Goodwill and intangible assets remained at £892.2m as the annual impairment review of the entire housebuilding business and brand indicated that no impairment was required.

**“During the year, the Group has successfully increased operating profit through optimising sales prices and tight cost control. This improvement resulted in the Group making a profit after tax of £9.0m in the second half.”**

- The Group had a corporation tax creditor of £2.8m (2009: £50.6m asset) and a deferred tax asset of £173.3m (2009: £127.3m). During the year the Group received £53.8m of tax refunds. The Group's deferred tax asset increased by £46.0m (including £46.6m due to losses that will be carried forward to offset the tax liabilities arising from future profits). The changes to corporation tax rates announced in the June 2010 Budget will reduce the future value of the Group's carried forward losses. As the changes were not substantively enacted at 30 June 2010, they are not reflected in the Group's deferred tax asset. The reduction in corporation tax rate from 28% to 27%, which has been enacted since the balance sheet date, will reduce the Group's deferred tax asset by £6.2m to £167.1m.
- The pension fund deficit on the Barratt Developments defined benefit pension scheme increased by £14.6m in the year to £46.1m mainly due to lower than anticipated corporate bond yields and revised life expectancy assumptions.
- Trade and other payables were £1,313.5m (2009: £1,107.8m) including an increase of £96.2m in land payables from £470.6m to £566.8m reflecting increased land acquisitions on deferred payment terms during the year.

#### Cash flow

Group net debt at the year end was £366.9m (2009: £1,276.9m). The decrease in net debt is explained by the tables on page 24.

The decrease in net debt of £910.0m during the year was made up of inflows of £671.6m in the first half and £238.4m in the second half. The inflows included £693.0m relating to the net proceeds from the Group's Placing and Rights Issue. In addition there was £111.1m related to exceptional finance costs arising from the Group's amended financing arrangements and £2.2m relating to the purchase of shares for the Group's EBT following the Rights Issue.

The Group expects cash expenditure on land to increase during the 2011 financial year due to payment falling due on land acquired on deferred terms since re-entering the land market in mid-2009. As a result, it is expected that there will be a small increase in full year debt levels for the 2011 financial year with debt at the half year expected to be considerably higher than as at 30 June 2010 in line with normal operational trends.

#### Treasury

The Board approves treasury policies and certain day-to-day treasury activities have been delegated to a Treasury Operating Committee that in turn regularly reports to the Board. The Group operates a centralised treasury function which operates within guidelines established by the Board and the Treasury Operating Committee.

The Group has a conservative treasury risk management strategy which includes a target that 60-80% of the Group's median gross borrowings calculated on the latest three-year plan should be at fixed rates of interest. At 30 June 2010, 70.4% (2009: 68.4%) of the Group borrowings were fixed. Group interest rates are fixed using both swaps and fixed rate debt instruments.

#### Capital structure

On 23 September 2009 the Company announced a fully underwritten Placing and Rights Issue, raising gross proceeds of £720.5m, and certain amendments to the terms of its financing arrangements, which would come into effect following completion of the Placing and the Rights Issue. The equity issue was completed on 4 November 2009 and the amended financing arrangements came into effect on 16 November 2009. The Placing and the Rights Issue, together with the amended financing arrangements, have significantly strengthened the position of the Group and have enabled the Group to take advantage of land acquisition opportunities.

#### In conclusion

During the year the Group has successfully increased operating profit through optimising sales prices and tight cost control. This improvement resulted in the Group making a profit after tax of £9.0m in the second half.

The Group remains committed to maximising operating margins through optimising prices and continuing to control costs rather than pursuing volumes.



**David Thomas**

Group Finance Director  
7 September 2010

# PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial and operational performance is subject to a number of risks. The Board seeks to ensure that appropriate processes are put in place to manage, monitor and mitigate these risks which are identified in the table below. The Group recognises that the management of risk is fundamental to the achievement of Group targets. As such all tiers of management are involved in this process.

## Principal risks of the Group include, but are not limited to:

Risk	Mitigation
<b>Market</b> Response to changes in the macroeconomic environment including unemployment, buyer confidence, availability of mortgage finance for purchasers, interest rates and the impact of competitor pricing	A weekly review is undertaken of key trading indicators, including reservations, sales rates, visitor levels, levels of incentives, competitor activity and cash flow projections and where appropriate management action is taken  The Group seeks to give mortgage lenders complete transparency regarding house purchase prices alongside any discounts or other incentives in order that they have appropriate information upon which to base their lending decision  The Group works with key mortgage lenders to ensure that products are appropriate wherever possible for its customers
Design and construction defects may lead to cost overruns including remedial costs, and may reduce selling prices and adversely impact the Group's reputation	The Group has a comprehensive approach to quality, service and customer care encapsulated in the 'Forward through Quality' initiative and customer care code of practice
<b>Liquidity</b> Availability of sufficient borrowing facilities to enable the servicing of liabilities as they fall due	The Group actively maintains a mixture of long-term and medium term committed facilities that are designed to ensure that it has sufficient available funds for operations  The Group's borrowings are typically cyclical throughout the financial year and peak in April and May, and October and November, of each year, as, due to seasonal trends in income, these are the points in the year when the Group has the highest working capital requirements. Accordingly, the Group maintains sufficient facility headroom to cover these requirements. On a normal operating basis the Group has a policy of maintaining facility headroom of up to £250m  The Group has in place a comprehensive regular forecasting process encompassing profitability, working capital and cash flow that is fully embedded in the business. These forecasts are further stress tested at a Group level on a regular basis to ensure that adequate headroom within facilities and banking covenants is maintained
Inability to obtain surety bonds	The Group actively maintains a number of surety facilities that are designed to ensure that it has sufficient bonds available  The Group has a comprehensive regular forecasting process for surety bond requirements
Inability of the Group to refinance its facilities as they fall due	The Group has a policy that the maturity of its committed facilities and private placement notes in aggregate is at least two years on average with a target of three years
Inability of the Group to comply with its borrowing covenants	On 22 September 2009 the Company entered into agreements with its bank lenders and private placement noteholders to amend the terms of its existing financing arrangements including revised financial covenants. These amendments became effective on 16 November 2009 following the completion of the Group's Placing and Rights Issue  The Group is in compliance with its borrowing covenants and at the date of approval of these financial statements, the Group's internal forecasts indicate that it will remain in compliance with these covenants for the foreseeable future being at least twelve months from the date of signing these financial statements
<b>People</b> Ability of the Group to attract, retain and develop a sufficiently skilled and experienced workforce	The Group has a comprehensive Human Resources policy in place which includes apprentice schemes, a graduate programme, succession planning and training schemes tailored to each discipline. The Group continues to target a fully CSCS carded and qualified workforce
Underfunding of the Group's obligations in respect of the defined benefit pension scheme	An actuarial valuation is conducted every three years. The Group reviews this and as appropriate considers what additional contributions are necessary to make good this shortfall  To limit the risk further, with effect from 30 June 2009, the scheme ceased to offer future accrual of defined benefit pensions for current employees and the link between accrued benefits and future salary increases was removed

## Principal risks of the Group include, but are not limited to:

Risk	Mitigation
<b>Subcontractors and suppliers</b>	
Shortages or increased costs of materials and skilled labour could increase costs and delay construction	The Group adopts a professional approach to site management and seeks to partner with its supply chain
Failure of a key supplier or inability to secure supplies upon appropriate credit terms	The Group has a policy of having multiple suppliers for both labour contracts and material supplies, and contingency plans should key suppliers fail
<b>Land</b>	
Securing sufficient land of appropriate size and quality to provide profitable growth subject to the available borrowing facilities	Each division produces a detailed site-by-site monthly analysis of the amount of land currently owned, committed and identified. These are consolidated for regular review at Board level. In addition, each operating division holds weekly land meetings. Every land acquisition is subject to a formal appraisal procedure and is required to achieve an overall Group defined hurdle rate of return.
The timing of conditional land purchase contracts becoming unconditional is uncertain. Unexpected changes in contract status may result in additional cash outflow for the Group.	Each division has a site-by-site detailed short-term and medium-term forecasting process including sensitivity scenarios.
Falls in house prices or land values or a failure of the housing market to recover could lead to further impairments of the Group's inventories, goodwill and intangible assets.	The Group's internal systems clearly identify the impact of sales price changes on the margin achievable. As a minimum, the Group performs biannual asset impairment reviews.
The market for land can be illiquid and therefore it may be difficult to sell or trade land if required. Where land is sold, there is a risk that the proceeds may not be received from the counterparty.	The Group's internal forecasting process is able to identify the impact of these sensitivities explicitly.
<b>Government regulation</b>	
Changes in Government policy towards the housebuilding industry.	The Group consults with the UK Government both directly and through industry bodies to highlight potential issues.
The housebuilding industry is subject to extensive and complex regulations and an increasingly stringent regulatory environment including planning and technical requirements.	The Group has considerable in-house technical and planning expertise devoted to complying with regulations and achieving implementable planning consents.
Consequence of changes in tax legislation.	The Group has adopted a low risk strategy to tax planning. Potential and actual changes in tax legislation are monitored by both industry experienced in-house finance teams and external tax advisers.
<b>Construction</b>	
Failure to identify and achieve key construction milestones, including the impact of adverse weather conditions, could delay construction or increase costs.	The Group's weekly reporting identifies the number of properties at key stages of construction. Projected construction rates are evaluated as part of the monthly forecasting cycle.
Large development projects, including commercial developments are complex and capital intensive and changes may negatively impact upon cash flows or returns.	Development projects, including returns and cash flows, are monitored regularly by divisional management teams.
Failure to identify cost overruns promptly.	The total costs on every site in progress are evaluated at least quarterly and reviewed by the divisional management teams.
Cost reduction measures may adversely affect the Group's business or its ability to respond to future improvements in market conditions.	In parallel to reducing costs during the downturn a Main Board level committee has developed a 'Planning for Recovery' programme.
Exposure to environmental liabilities and consideration of the impact of construction schemes upon the environment and social surroundings.	The Group regularly monitors a number of environmental impact indicators. The results of this appear in the Group's Corporate Responsibility Report.
Litigation and uninsured losses.	The Group has an in-house legal department and consults with external lawyers as appropriate. The Group maintains insurance cover for all main risks of the Group.
<b>Health and safety</b>	
Health and safety.	The Group has a dedicated health and safety audit department which is independent of the management of the operating divisions.
<b>IT</b>	
Failure of the Group's IT systems, in particular those relating to surveying and valuation, could adversely impact the performance of the Group.	The Group has a fully tested disaster recovery programme in place.

Details of the Group's management of liquidity risk, market risk, credit risk and capital risk in relation to financial instruments are provided in note 25 on pages 101 to 107.

# BOARD OF DIRECTORS

## Robert Lawson

### Chairman

Bob Lawson was appointed a Non-Executive Director on 1 June 2008 and Chairman on 1 July 2008. He is a member of the Remuneration and Nominations Committees. Bob is also the Chairman of Hays plc and a Director of The Federation of Groundwork Trusts. He was formerly the Managing Director of the Vitec Group for three years and Chief Executive of Electrocomponents plc for ten years.

## Mark Clare

### Group Chief Executive

Mark Clare was appointed Group Chief Executive on 2 October 2006 and is a member of the Nominations Committee. He was appointed as a Director of the BRE Trust in August 2009. He was formerly an Executive Director of Centrica Plc and Managing Director of Centrica's British Gas Residential Energy operation. He joined British Gas in 1994, becoming Centrica's Finance Director in 1997 and Managing Director of British Gas Residential Energy in 2002.

## David Thomas

### Group Finance Director

(from 21 July 2009)

David Thomas was appointed an Executive Director and Group Finance Director on 21 July 2009. He was formerly the Group Finance Director and the Deputy Chief Executive of The GAME Group plc. Before that he was the Group Finance Director at Millennium and Copthorne Hotels plc and held senior financial roles with House of Fraser and Forte plc.

## Robert Davies

### Senior Independent Director

Bob Davies was appointed a Non-Executive Director on 5 May 2004 and is the Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He is also a Non-Executive Director of Northern Rock (Asset Management) plc and a member of the Investment Advisory Board for North East Finance. He was previously Chairman of Biffa, a Non-Executive Director of British Energy Group plc, the Chief Executive of Arriva plc and the chair of the Board of Governors of Sunderland University. He was also the Chairman of the CBI Regional Council in the North East and a Non-Executive Director of Sunderland ARC urban regeneration company.

## Tessa Bamford

### Non-Executive Director

(from 1 July 2009)

Tessa Bamford was appointed a Non-Executive Director on 1 July 2009 and is a member of the Remuneration and Nominations Committees. Tessa is a Director of Cantos Communications Limited, the online communications service provider, where she leads the corporate client relationships and is a Governor of the British Institute of Florence. She was formerly a Director of J Henry Schroder & Co with whom her career spanned over 12 years in various roles.

## Roderick MacEachrane

### Non-Executive Director

Rod MacEachrane was appointed a Non-Executive Director on 1 May 2006 and is a member of the Audit, Remuneration and Nominations Committees. He was formerly the Commercial Director and an Executive Director of the National House-Building Council ('NHBC') Main Board before retiring after 25 years' service in April 2006. He is a member of the Governing Board of the NHBC Foundation, an independent charitable research foundation which is a joint venture with the Building Research Establishment and a Director of the National Centre for Excellence in Housing.

**Steven Boyes****Group Board Executive Director**

Steven Boyes joined the Group in 1978. Formerly the Managing Director of Barratt York, he was appointed to the Group Board in July 2001 and is the Group Board Executive Director responsible for the Barratt North Region.

**Clive Fenton****Group Board Executive Director**

Clive Fenton joined the Group in 1983, becoming Managing Director of Barratt West London in 1996. He was appointed to the Group Board in July 2003 and is the Group Board Executive Director responsible for the Barratt South Region.

**Mark Rolfe****Non-Executive Director**

Mark Rolfe was appointed a Non-Executive Director on 1 May 2008. He is the Chairman of the Audit Committee and is a member of the Nominations Committee. Mark is also a Non-Executive Director of The Sage Group plc and Hornby Plc and Chairman of Lane Clark & Peacock LLP. He was formerly the Finance Director of Gallaher Group Plc for seven years until April 2007 when it was acquired by Japan Tobacco Inc. His career with Gallaher spanned 20 years during which time he served in various finance and executive roles.

**William Shannon****Non-Executive Director**

Bill Shannon was appointed a Non-Executive Director on 1 September 2005 and is a member of the Audit, Remuneration and Nominations Committees. He is currently Non-Executive Chairman of Aegon UK plc, a Non-Executive Director of Rank Plc and of Johnson Service Group PLC and a partner with Tri-Artisan Partners Europe LLP. He was previously an Executive Director of Whitbread PLC.

**Laurence Dent****Group General Counsel and Company Secretary**

Laurence Dent was appointed Group General Counsel and Company Secretary in January 2001. He is a solicitor and was previously Group Deputy Chief Executive of Home Group Limited, one of the largest housing associations in the UK.

# DIRECTORS' REPORT

The Directors' Report should be read in conjunction with the information contained in the Report of the Directors on pages 4 to 54 which include, inter alia the Chairman's statement, Group Chief Executive's review, Business review, Group Finance Director's review, Board of Directors, Corporate governance and Remuneration report and are incorporated by reference in (and deemed to form part of) this report

## Activities of the Group

Barratt Developments PLC (the 'Company') is the holding company of the Barratt Group of companies (the 'Group'). The Group's principal activities comprise acquiring and developing land, planning, designing and constructing residential property developments and selling the homes it builds. These core activities are supported by the Group's commercial development, urban regeneration, procurement, design and strategic land capabilities

## Results and dividends

The loss from continuing activities for the year ended 30 June 2010 was £118.4m (2009: £468.6m)

No interim dividend was paid during the financial year (2009: nil). The Directors do not recommend a final dividend for the year ended 30 June 2010 (2009: nil)

## Enhanced Business Review

The Chairman's statement, Group Chief Executive's review, Business review and Group Finance Director's review on pages 4 to 25 together comprise the Group's Enhanced Business Review

## Annual General Meeting

The Annual General Meeting (the '2010 AGM') will be held at the Royal College of Physicians, 11 St Andrews Place, Regent's Park, London NW1 4LE on 17 November 2010 at 2.30pm. The notice convening the 2010 AGM will be set out in a separate letter to shareholders

## Directors and their interests

Each of the Directors listed on pages 28 and 29 held office as at 30 June 2010. David Thomas was appointed as Group Finance Director on 21 July 2009, replacing Mark Pain who stepped down on the same date

The beneficial interests of the Directors and connected persons in the ordinary share capital of the Company together with the interests of the Executive Directors in share options and awards of shares as at 30 June 2010 and as at the date of this report are disclosed in the Remuneration report on pages 50 to 52

At no time during or at the end of the year did any Director have a material interest in a contract of significance in relation to the business of the Group

## Appointment and replacement of Directors

In accordance with the Company's Articles of Association (the 'Articles') there shall be no less than two and no more than fifteen Directors appointed to the Board at any one time. Directors may be appointed by the Company by ordinary resolution or by the Board. The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the Companies Act 2006 (the 'Act')) and on such terms as they may determine and may revoke or terminate any such appointment. Directors are no longer subject to a maximum age limit

The Company may by special resolution remove any Director before the expiration of his term of office. The office of Director shall be vacated if (i) he resigns or offers to resign and the Board resolves to accept such offer; (ii) his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number; (iii) he is or has been suffering from mental or physical ill health; (iv) he is absent



without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his office is vacated, (v) he becomes bankrupt or compounds with his creditors generally, (vi) he is prohibited by law from being a Director, (vii) he ceases to be a Director by virtue of the Act, or (viii) he is removed from office pursuant to the Articles

Details relating to the retirement and re-election of Directors at each annual general meeting ('AGM') can be found on page 37 of this report

### **Powers of the Directors**

Subject to the Articles, the Act and any directions given by special resolution, the business of the Company is managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertakings, property, assets and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company to any third party

### **Qualifying third party indemnity provisions**

As at the date of this report, there are qualifying third party indemnity provisions governed by the Act in place under which the Company has agreed to indemnify the Directors, former Directors and the Company Secretary of the Company, Directors and former Directors of any member of the Group or of an associated company or affiliate company and members of the Executive Committee, to the extent permitted by law and the Articles against all liability arising in respect of any act or omission in their duties. In addition the Company has in place Directors' and Officers' liability insurance for each Director of the Company and its associated companies

No Director of the Company or of any associated company shall be accountable to the Company or the members for any benefit provided pursuant to the Articles and receipt of any such benefit shall not disqualify any person from being or becoming a Director of the Company

### **Property, plant and equipment**

The Directors are of the opinion that the value of land and buildings included within the Group's property, plant and equipment is in excess of book value but that the difference is not material in relation to the affairs of the Group

### **Disclosure of information to auditors**

So far as each of the Directors is aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are not aware

Each of the Directors has taken all the relevant steps that they ought to have taken in accordance with their duty as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Act

### **Charitable and political contributions**

During the year the Group made charitable donations of £36,100 (2009 £28,300). Of the donations in the current year £5,000 was to the Habitat for Humanity, Haiti earthquake appeal and the remainder was to local and good causes

No political contributions were made during the year (2009 £nil)

### **Offices**

The Group had 25 offices (excluding those offices undertaking an administrative function only) located throughout Britain at the end of the financial year. A full list of the Group's offices and their locations can be obtained from the Group General Counsel and Company Secretary at the registered office of the Company or from the Company's website [www.barrattdevelopments.co.uk](http://www.barrattdevelopments.co.uk)

### **Risk management objectives**

The principal operational risks of the business are detailed on pages 26 and 27. The Group's financial assets, financial liabilities and derivative financial instruments are detailed in notes 22, 23 and 24

The Group's operations and financing arrangements expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity risks and interest rates. The most significant of these to the Group is liquidity risk and, accordingly, there is a regular, detailed system for the reporting and forecasting of cash flows from the operations to Group management with the goal of ensuring that risks are promptly identified and appropriate mitigating actions taken by the central treasury department

These forecasts are further stress tested at a Group level on a regular basis to ensure that adequate headroom within facilities and banking covenants is maintained. In addition, the Group has in place a risk management programme that seeks to limit the adverse effects of the other risks on its financial performance, in particular by using financial instruments, including debt and derivatives, to hedge interest rates and currency rates. The Group does not use derivative financial instruments for speculative purposes

The Board approves treasury policies and certain day-to-day treasury activities have been delegated to a centralised Treasury Operating Committee, which in turn regularly reports to the Board. The treasury department implements guidelines that are established by the Board and the Treasury Operating Committee

### **a) Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. The Group actively maintains a mixture of long-term and medium-term committed facilities that are designed to ensure that the Group has sufficient available funds for operations. The Group's borrowings are typically cyclical throughout the financial year and peak in April and May, and October and November, of each year, due to seasonal trends in income. Accordingly the Group maintains sufficient facility headroom to cover these requirements. On a normal operating basis the Group has a policy of maintaining headroom of up to £250.0m. The Group identifies and takes appropriate actions based upon its regular, detailed system for the reporting and forecasting of cash flows from its operations. At 30 June 2010, the Group had committed bank facilities of £1,615.3m (2009 £2,284.4m) and total facilities of £1,676.5m (2009 £2,360.6m). At 30 June 2010, the Group's debt drawn against these facilities was £930.1m (2009 £1,484.1m). This represented 57.6% of available committed facilities at 30 June 2010 (2009 65.0%). In addition the Group had £546.5m (2009 £178.8m) of cash

The Group was in compliance with its financial covenants at 30 June 2010. At the date of approval of the financial statements the Group's internal forecasts indicate that it will remain in compliance with these covenants for the foreseeable future being at least twelve months from the date of signing these financial statements. Compliance with covenants is also considered on page 61

The Group's objective is to minimise refinancing risk. The Group therefore has a policy that the average maturity of its committed bank facilities and private placement notes is at least two years on average with a target of three years. At 30 June 2010, the average maturity of the Group's committed facilities was 2.6 years (2009 3.1 years).

In addition, the Group had £61.2m of undrawn uncommitted facilities available at 30 June 2010 (2009 £68.8m).

## b) Market risk (price risk)

### i) UK housing market risk

This section specifically discusses UK housing market risk in the context of the financial instruments in the Group balance sheet.

The Group is subject to the prevailing conditions of the UK economy and the Group's earnings are dependent upon the level of UK house prices. UK house prices are determined by the UK economy and economic conditions including employment levels, interest rates, consumer confidence, mortgage availability and competitor pricing. However, the Group does seek to maintain an appropriate geographic spread of operating divisions and an appropriate product mix to mitigate any risks caused by local economic conditions. The Group has detailed procedures to manage its market related operational risks which include:

- a weekly review of key trading indicators, including reservations, sales rates, visitor levels, levels of incentives, competitor activity and cash flow projections,
- the provision to mortgage providers with complete transparency of house purchase prices alongside any discounts or other incentives in order that they have appropriate information upon which to base their lending decision, and
- collaboration with key mortgage lenders to ensure that products are appropriate wherever possible for its customers.

The UK housing market affects the valuation of the Group's non-financial assets and liabilities and the critical judgements applied by management in these financial statements, including the valuation of land and work in progress, goodwill and brands. The value of the Group's available for sale financial assets is directly linked to the UK housing market. At 30 June 2010 these assets were carried at a fair value of £136.3m (2009 £86.5m).

At 30 June 2010, if UK house prices had been 5% lower and all other variables were held constant, the Group's house price linked

financial assets and liabilities, which are solely available for sale financial assets, would decrease in value, excluding the effects of tax, by £5.2m (2009 £6.2m) with a corresponding reduction in both the result for the year and equity.

### ii) Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Floating rate borrowings expose the Group to cash flow interest rate risk and fixed rate borrowings expose the Group to fair value interest rate risk.

The Group has a policy of maintaining both long-term fixed rate funding and medium-term floating rate funding so as to ensure that there is appropriate flexibility for the Group's operational requirements. The Group has entered into swap arrangements to hedge cash flow risks relating to interest rate movements on a proportion of its debt and has entered into fixed rate debt in the form of Sterling and US Dollar denominated private placements.

The Group has a policy that 60%–80% of the Group's median gross borrowings calculated on the latest three-year plan (taking into account hedging) is at a fixed rate, with an average minimum duration of five years and an average maximum duration of fifteen years. At 30 June 2010, 70.4% (2009 68.4%) of the Group's borrowings was at a fixed rate.

The exposure of the Group's and Company's financial liabilities to interest rate risk is detailed in note 25.

Floating interest rates on Sterling borrowings are linked to UK bank rate, LIBOR and money market rates. The floating rates are fixed in advance for periods generally ranging from one to six months. Short-term flexibility is achieved through the use of overdraft, committed and uncommitted bank facilities. The weighted average interest rate for floating rate borrowings in 2010 was 3.2% (2009 6.6%).

Sterling private placement notes of £77.8m (2009 £114.2m) were arranged at fixed interest rates and exposed the Group to fair value interest rate risk. The weighted average interest rate for fixed rate Sterling private placement notes for 2010 was 11.8% (2009 11.5%) with, at 30 June 2010, a weighted average period of 7.7 years (2009 8.5 years) for which the rate is fixed.

US Dollar denominated private placement notes of £125.1m (2009 £164.9m) were arranged at fixed interest rates and exposed the Group to fair value interest rate risk. The weighted average interest rate for fixed rate US Dollar

denominated private placement notes, after the effect of foreign exchange rate swaps, for 2010 was 11.2% (2009 11.0%) with, at 30 June 2010, a weighted average period of 6.8 years (2009 7.8 years) for which the rate is fixed.

In the year ended 30 June 2010, if UK interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax loss would increase/decrease by £1.8m (2009 £3.9m), the Group's post-tax loss would increase/decrease by £1.3m (2009 £2.8m) and the Group's equity would decrease/increase by £1.3m (2009 £2.8m).

### iii) Foreign exchange rate risk

As at 30 June 2010, the Group has fixed rate US Dollar denominated private placement notes of \$187.2m (2009 \$271.6m). In order to mitigate risks associated with the movement in the foreign exchange rate, the Group has a policy of fully hedging the principal of its US Dollar denominated debt and a significant proportion of the interest payments. The Group therefore entered into foreign exchange swap arrangements on the issue of its US Dollar denominated debt, all of which are designated as cash flow hedges. Accordingly the Group has no net exposure to foreign currency risk on the principal of its US Dollar debt. The foreign exchange swaps match 76% of the interest payments and therefore the Group is subject to foreign exchange rate risk upon the remaining 24%.

Details of the Group's foreign exchange swaps are provided in note 24.

In the year ended 30 June 2010, if the US Dollar per Pound Sterling exchange rate had been \$0.20 higher/lower and all other variables were held constant, the Group's pre-tax loss would increase/decrease by £0.4m (2009 £0.7m), the Group's post-tax loss would increase/decrease by £0.3m (2009 £0.5m) and the Group's equity would decrease/increase by £0.3m (2009 £0.5m).

### c) Credit risk

In the majority of cases, the Group receives cash upon legal completion for private sales and receives advance stage payments from Registered Social Landlords for social housing. The Group has £136.3m (2009 £86.5m) of available for sale financial assets which expose it to credit risk, although this asset is spread over a large number of properties. As such, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group manages credit risk in the following ways

- The Group has a credit policy that is limited to financial institutions with high credit ratings as set by international credit rating agencies and has a policy determining the maximum permissible exposure to any single counterparty
- The Group only contracts derivative financial instruments with counterparties with which the Group has an International Swaps and Derivatives Association Master Agreement in place. These agreements permit net settlement, thereby reducing the Group's credit exposure to individual counterparties

The maximum exposure to any counterparty at 30 June 2010 was £100.0m of cash on deposit with a financial institution (2009: £31.0m). The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk.

As at 30 June 2010, the Company was exposed to £898.5m (2009: £1,511.1m) of credit risk in relation to intercompany loans, financial guarantees, performance bonds and the bank borrowings of subsidiary undertakings. Further details are provided in notes 32 and 33.

#### d) Capital risk management (cash flow risk)

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and meet its liabilities as they fall due whilst maintaining an appropriate capital structure.

The Group manages as capital its equity, as set out in the condensed consolidated statement of changes in shareholders' equity, its bank borrowings (being overdrafts, loan notes and bank loans) and its private placement notes, as set out in note 23.

The Group is subject to the prevailing conditions of the UK economy and the Group's earnings are dependent upon the level of UK house prices. UK house prices are determined by the UK economy and economic conditions including employment levels, interest rates, consumer confidence, mortgage availability and competitor pricing. The management of these operational risks is set out in the principal risks and uncertainties on pages 26 and 27.

In addition, the other methods by which the Group can manage its short-term and

long-term capital structure include adjusting the level of ordinary dividends paid to shareholders (assuming the Company is paying a dividend), issuing new share capital, arranging debt to meet liability payments and selling assets to reduce debt.

#### Likely future developments

An indication of likely future developments in the Group including in the field of research and development is given in the Business review on pages 13 to 25.

#### Creditor payments

The Group is responsible for agreeing the detail of terms and conditions relating to transactions with its suppliers. It is Group policy to ensure that suppliers are made aware of the terms of payment and to abide by the agreed terms of payment with suppliers where the goods and services have been supplied in accordance with the relevant terms and conditions of contract. Implementation of this policy resulted in a supplier payment period by the Company of 29 days (2009: 42 days) for its trade creditors at 30 June 2010.

#### Capital structure

The Company has a single class of share capital which is divided into ordinary shares of 10 pence each. All issued shares are in registered form and are fully paid. Details of the Company's issued share capital and of the movements in the share capital during the year can be found in note 27 on page 112.

Subject to the Articles, the Act and other shareholders' rights, shares are at the disposal of the Board. At each AGM the Board seeks authorisation from its shareholders to allot shares. At the general meeting held on 19 October 2009, to approve the Company's Placing and Rights Issue, the Directors were given authority to allot shares up to a nominal value of £61,844,176 for the purposes of the Placing and the Rights Issue. In addition, by virtue of section 549 of the Act, the Directors were given authority to allot further shares up to a nominal value of £32,168,775 (representing approximately 33.33% of the nominal value of the Company's issued share capital) immediately following the Placing and the Rights Issue, on the assumption that no further shares would be issued as a result of the exercise of options under any Company employee share scheme between publication of the notice of the general meeting and the completion of the Placing and the Rights Issue), such authority to remain valid until the end of the 2010 AGM. A resolution to renew this authority will be proposed at the 2010 AGM.

#### Rights and obligations attaching to shares

Subject to any rights attached to existing shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Subject to the Act, the Articles specify that rights attached to any existing class of shares may be varied either with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

#### Voting

Subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held, every member present in person or by proxy at a general meeting or class meeting has one vote upon a show of hands or, upon a poll vote, one vote for every share of which they are a holder. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of votes of the other joint holders and seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

In accordance with the Act, each member is entitled to appoint one or more proxies, and in the case of corporations, more than one corporate representative to exercise all or any of their rights to attend, speak and vote on their behalf at a general meeting or class meeting. The timescales for appointing proxies will be set out in the Notice of the 2010 AGM.

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by them if any call or other sum then payable by them in respect of that share remains unpaid or if they have been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Act.

**Transfer of shares**

Shares in the Company may be in uncertificated or certificated form. Title to uncertificated shares may be transferred by means of a relevant system and certificated shares may be transferred by an instrument of transfer as approved by the Board. The transferor of a share is deemed to remain the holder until the transferee's name is entered into the Company's register of members.

There are no restrictions on the transfer of shares except as follows. The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four. The Board may decline to register a transfer of a certificated share unless the instrument of transfer (i) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require, (ii) is in respect of only one class of share; and (iii) if joint transferees, is in favour of not more than four such transferees, or where the transfer is requested by a person with a 0.25% interest (as defined in the Articles) if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Act, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

**Shareholder authority for purchase of own shares**

At the Company's AGM held on 17 November 2009, shareholders gave authority to the Company to buy back up to an aggregate of 34,671,802 ordinary shares (representing 10% of the Company's issued share capital pre Placing and Rights Issue). This authority is valid until the end of the 2010 AGM or close of business on 16 February 2011, whichever is the earlier. Under the authority there is a minimum and maximum price to be paid for such shares. Any shares which are bought back may be held as treasury shares or, if not so held, will be cancelled immediately upon completion of the purchase, thereby reducing the Company's issued share capital.

No purchases had been made under this authority as at the date of this report. A resolution renewing the authority will be proposed at the 2010 AGM.

**Dividends and distributions**

Subject to the provisions of the Act, the Company may by ordinary resolution from time to time declare dividends for payment to the holders of the ordinary shares of 10 pence each, of an amount which does not exceed the amount recommended by the Board. The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies their payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or *par passu* rights for losses arising from the payment of interim or fixed dividends on other shares.

The Board may withhold payment of all or any part of any dividends or other monies payable

in respect of the Company's shares from a person with a 0.25% interest if such person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Act.

**Shareholder arrangements to waive dividends**

The Barratt Developments Employee Benefit Trust (the 'EBT') holds ordinary shares in the Company. The shares are held in the EBT for the purpose of satisfying options and awards that have been granted under the various employee share schemes operated by the Company. The EBT has agreed to waive all or any future right to dividend payments on shares held within the EBT and these shares do not count in the calculation of the weighted average number of shares used to calculate earnings per share until such time as they are vested to the relevant employee.

The Trustees of the EBT may vote or abstain from voting on shares held in the EBT in any way they think fit and in doing so may take into account both financial and non-financial interests of the beneficiaries of the EBT or their dependants.

Details of the shares so held are set out in note 27.

**Table 1 – Notifiable Interests**

Date of notification	Name	Number of voting rights	Total % of issued share capital	Nature of holding
26/07/2010 <sup>1</sup>	JP Morgan Chase & Co	17,286,656	4.98	Indirect
15/07/2010	Credit Suisse Group AG	57,226,322	5.93	Indirect
17/06/2010	Legal & General Group Plc	57,738,115	5.98	Direct
17/06/2010 <sup>2</sup>	Phoenix Asset Management Partners Limited	48,256,698	4.99	Direct
10/06/2010	Tremblant Capital LP	30,282,432	3.14	Indirect
08/06/2010	Standard Life Investments Ltd	68,119,574	7.05	Direct & Indirect
06/11/2009	Polars Capital Management LLC	34,606,679	3.59	Indirect
05/11/2009	FMR LLC	34,579,199	8.24	Indirect

<sup>1</sup> Actual receipt of notification by the Company was on this date even though the notification was sent by JP Morgan Chase & Co on 9 July 2007. On 7 July 2010 JP Morgan Chase & Co confirmed that their current holding remains below 5%.

<sup>2</sup> Actual receipt of notification by the Company was on this date even though the notification was sent by Phoenix Asset Management Partners Limited on 3 December 2009.

### Major shareholders

In accordance with the UKLA's Disclosure and Transparency Rules (the 'DTR') all notifications received by the Company are published on the Company's website [www.barrattddevelopments.co.uk](http://www.barrattddevelopments.co.uk) and via a Regulated Information Service

As at the date of this report, the Company had received notifications, in accordance with DTR 5, of the notifiable interests set out in Table 1, in the voting rights in the Company's issued share capital

### Employee share schemes

Details of employee share schemes are set out in note 28

### Articles of Association

The Articles contain regulations which deal with matters such as appointment and removal of Directors, Directors' interests and proceedings at general and board meetings. Any amendments to the Articles may be made in accordance with the provisions of the Act by way of special resolution at a general meeting

### Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company

- under the credit facility agreement dated 5 February 2007, the revolving credit facility agreement dated 9 July 2008 and the revolving credit facility agreement dated 2 February 2005 (each as amended from time to time and most recently with effect from 16 November 2009) in each case between, amongst others, the Company, Lloyds TSB Bank Plc (as the facility agent) and the banks and financial institutions named therein as lenders (together, the 'Credit Facilities'), the facility agent must, upon a change of control, cancel the total commitments of the lenders under such Credit Facilities and declare all outstanding loans and credits, together with accrued interest and any other amounts payable in respect of such Credit Facilities, to be immediately due and payable. For these purposes, a 'change of control' occurs if any person or group of persons acting in concert gains control of the Company,
- under the privately-placed notes originally amounting in aggregate to £20.0m (the '£20m Notes') issued pursuant to a note purchase agreement dated 29 August 2007 (as amended from time to time and most recently with effect from 16 November 2009) to various institutions

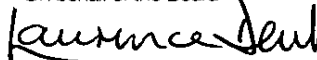
within a single corporate group, the holders of the £20m Notes have an option to require the Company to repay the entire unpaid principal amount of the £20m Notes held by each holder (at par), together with interest accrued thereon and a 'make-whole' amount, and

- under the privately-placed notes originally amounting in aggregate to £105.0m and \$300.0m (the 'Remaining Notes') issued pursuant to a note purchase agreement dated 23 August 2007 and a note purchase agreement dated 23 April 2008 (each as amended from time to time and most recently with effect from 16 November 2009) by the Company to various institutions, the holders of the Remaining Notes have an option to require the Company to repay the entire unpaid principal amount of the Remaining Notes held by each holder (at par), together with interest accrued thereon but without any 'make-whole' amount in respect of any repayment occurring during an interest period. The same repayment right on a change of control also applies in respect of the privately-placed notes originally amounting in aggregate to £20m issued in pursuant to a note purchase agreement dated 23 August 2008 (as amended from time to time and most recently with effect from 16 November 2009). However, the £11.2m of such notes that remain outstanding will expire on 15 October 2010

Under the terms of each of the above referenced note purchase agreements, a 'change of control' occurs if any person or group of persons acting in concert acquires beneficial ownership of more than 50% of the issued share capital of the Company carrying voting rights

The note purchase agreements also impose upon the holders customary restrictions on resale or transfer of the notes other than in compliance with applicable securities laws

On behalf of the Board



**Laurence Dent**

Group General Counsel  
and Company Secretary  
7 September 2010

# CORPORATE GOVERNANCE

## The Company's approach to Corporate Governance

The Board believes that, in terms of the overall direction and control of the Company, effective corporate governance will come principally from the values, standards and disciplines it seeks to apply in dealings with shareholders, customers, employees, suppliers, contractors and other stakeholders. Many of the Company's core values and standards are set out in a range of procedures and practice guidelines communicated throughout the Group. However, external governance codes set the framework for the Group's internal standards and it therefore seeks to comply with established best practice in all areas of corporate governance.

## Statement of compliance with Code provisions

The Company recognises the importance of maintaining the highest standards of corporate governance in all areas of its business. Throughout the year ended 30 June 2010 the Company complied with the provisions of Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council (the 'FRC') in June 2008 (the 'Code') as detailed below. A copy of the Code is available from the FRC's website ([www.frc.org.uk](http://www.frc.org.uk)).

## The Board Composition

The Company is led and controlled by the Group Board. The names, responsibilities and other details of the Group Board Directors are set out on pages 28 and 29 of this report. The Group Board met on 15 occasions during the financial year and attendance at each of these meetings is set out in Table 2 on page 39.

Bob Lawson was appointed Non-Executive Chairman of the Company with effect from 1 July 2008 and was considered to be independent on his appointment. He is also currently the Chairman of Hays Plc, the specialist recruitment company and a Director of The Federation of Groundwork Trusts and will become Non-Executive Chairman of Genus plc following its Annual General Meeting on 11 November 2010.

On 1 July 2009 Tessa Bamford joined the Board. Tessa is also currently a Director of Cantos Communications Limited and has a broad finance and business development background.

On 21 July 2009, Mark Pain stepped down as an Executive Director and as Group Finance Director and was replaced by David Thomas. David has a strong track record as a Finance Director having held this position at The GAME Group plc and at Millennium and Copthorne Hotels plc.

At the end of the financial year the Board comprised ten members, including the Chairman, five Non-Executive Directors and four Executive Directors. The Company therefore complied during the relevant period with the principles of the Code in relation to the balance of Executive and Non-Executive Directors. The number and calibre of Non-Executive Directors on the Board, together with their diverse backgrounds and experience, also ensures that this principle is met.

## Board responsibilities

The Board has overall authority for the conduct of the business of the Group. There are a number of matters that have been specifically reserved for the Board and these include:

- determination and approval of matters relating to the strategy and management of the Group, including approval of long-term objectives and commercial strategy and extension of the Group's activities into new businesses/geographic areas;
- determination of the structure and capital of the Company such as changes to the Group's management and control structure;
- share issues or buy back of shares;
- approval of financial reporting and controls such as interim and annual results announcements, the Group annual report and accounts, dividend payments, accounting and treasury policies;
- establishment of effective systems of delegation and internal control and the annual review of their effectiveness;

- authorising material acquisitions, disposals, investments, capital projects and other significant transactions,
- approval of changes to the composition of the Board, selection of Chairman and Senior Independent Director and succession planning,
- appointment and removal of the Company Secretary;
- determining remuneration of Executive Directors, Company Secretary and other senior executives,
- annual review of the performance of the Board, its committees and its Directors,
- approval of core policies including, but not limited to, the Code of Conduct, Health & Safety Policy, Corporate Responsibility Policy, Accounting Policy and Procedure,
- monitoring the Group's overall performance in relation to its strategies, plans, budgets and decisions, and
- authorisation of conflicts of interest following recommendations from the Audit Committee and/or Nominations Committee

### Retirement and re-election of Directors

The Company's Articles of Association (the 'Articles') currently require Directors to submit themselves for re-election by shareholders at the first annual general meeting (the 'AGM') following their initial appointment to the Board and thereafter at subsequent AGMs at intervals of no more than three years, in accordance with the Code. Non-Executive Directors are appointed by the Board for an initial three-year term and normally serve a second three-year term subject to performance review and re-election. Beyond this a third term of up to three years may be served subject to a rigorous review. In accordance with the Code, any Non-Executive Director who served nine years or more on the Board would be subject to annual re-election.

The Board has noted the provision on annual re-election of all Directors introduced by the UK Corporate Governance Code (the 'New Code') which applies to financial years beginning on or after 29 June 2010. In view of the very recent introduction of this requirement, the Board has concluded it will not submit all the Directors for re-election at the annual general meeting to be held on 17 November 2010 (the '2010 AGM'). It will thereafter monitor emerging practice and take account of shareholder views on compliance with this requirement in respect of subsequent years.

Bob Davies, the Senior Independent Director and Chairman of the Remuneration Committee, has completed six years' service on the Board this

year. Bob is also a member of the Audit and Nominations Committees. Following a formal performance evaluation process by the Board, in light of his period of service to date, the Board has re-appointed Bob for a further one-year term, subject to re-election, during which period he will remain the Senior Independent Director and Chairman of the Remuneration Committee. The Board believes that Bob's performance continues to be effective, that he continues to demonstrate commitment to his role and remains independent in character and judgement. Bob will retire and stand for re-election by shareholders at the 2010 AGM, in consequence of the period that has elapsed since his last re-election under the Articles.

In addition to Bob Davies, Bill Shannon will also retire at the 2010 AGM in consequence of the period that has elapsed since his last re-election and, being eligible, will offer himself for re-election. Bill is a member of the Audit, Remuneration and Nominations Committees. Following a formal performance evaluation process, the Board believes that Bill's performance continues to be effective and that he demonstrates commitment to his role.

The Board recommends that shareholders approve the resolutions to be put forward at the 2010 AGM relating to the re-election of Bob Davies and Bill Shannon.

### Information and professional development

On joining the Company, each new Director participates in an induction process which includes a meeting with all of the Directors, provision of an induction pack, site visits and meetings with senior and operational management teams.

The Directors update their skills, knowledge and familiarity with the Company by attending appropriate external seminars and training courses, meeting with senior management and visiting regional and divisional operating offices.

In January 2010, the Board met for a full day to review and develop the overall business strategy of the Group which included presentations from senior management within the Group as well as external professionals.

Each Director is issued with an agenda, briefing papers and comprehensive operating and financial management reports for the period under review at least a week before any Board Meeting. The Group General Counsel and Company Secretary attends all Board and Committee Meetings and all Directors have

access to his advice and, if necessary, to independent professional advice at the Company's expense to assist with the discharge of their responsibilities as Directors. During the year the Board took detailed advice in respect of the raising of additional equity through a Placing and Rights Issue from a number of external advisers including the Company's legal advisers, Slaughter and May (with regard to English law) and Davis Polk and Wardwell LLP (with regard to US law) and the Company's financial advisers Credit Suisse Securities (Europe) Limited and UBS Investment Bank as Joint Sponsors and Joint Bookrunners.

All Directors are provided with a schedule of proposed meeting dates for the following calendar year at least six months in advance. Any Director who is unable to attend a meeting presents their apologies and is invited to provide their views to the Chairman ahead of the meeting having reviewed the agenda, briefing papers and management information. Reasons for non-attendance are recorded by the Group General Counsel and Company Secretary. After the meeting the Group General Counsel and Company Secretary will meet with any absent Director to go through any action points which are of relevance to that Director.

Formal minutes of each Board meeting are prepared, circulated and submitted for approval at the next meeting.

### Independence and effectiveness Directors' independence

The Board believes that the Chairman and all Non-Executive Directors are independent in that they have no business or other relationship with the Group that might influence their independence or judgement.

### Roles of Chairman, Chief Executive and Senior Independent Director

The division of responsibility between the Chairman of the Board and the Group Chief Executive is clearly defined and has been approved by the Board.

The Chairman leads the Board in the determination of strategy and in the achievement of its objectives. He is responsible for organising the business of the Board, for setting its agenda and for ensuring its effectiveness. The Chairman facilitates the effective contribution of the Non-Executive Directors and also ensures that the Board receives timely and accurate information so as to properly conduct its business as well as ensuring effective communications with shareholders.

The Group Chief Executive is responsible for the day-to-day management of the operational activities of the Group in accordance with overall strategy and policy as determined by the Board. The Group Chief Executive, Mark Clare, carries out duties delegated to him by the Board through an Executive Committee comprising of himself, the Group Finance Director, David Thomas, the Group Executive Directors, Steven Boyes and Clive Fenton, the Group General Counsel and Company Secretary, Laurence Dent, the Managing Director of Wilson Bowden Developments Limited, Nick Richardson, Group Director of Corporate Affairs, Patrick Law and the Group People and Customer Experience Director, Jayne Mee. The Executive Committee meets on a weekly basis to discuss and review operational matters and the implementation of the Group's strategy with a more in-depth meeting held once a month, which all members are expected to attend in person.

The Senior Independent Director has specific responsibility for co-ordinating the evaluation by the Nominations Committee of the Chairman's effectiveness as well as being a point of contact for shareholders in the event of there being any material issues or concerns which the Chairman and/or Group Chief Executive have failed adequately to address.

### Directors' conflicts of interest

On 1 October 2008, the Companies Act 2006 codified the duty to avoid conflicts of interests, by which Directors have a duty to avoid a situation in which they have, or may have, a direct or indirect conflict of interest or possible conflict of interest with the Company. This duty applies to the exploitation of any property, information or opportunity regardless of whether the Company could have taken advantage of it. The Articles were amended at the AGM held on 18 November 2008 to include a general power for the Board to authorise such conflicts.

The Board has, in accordance with the Articles and best practice guidance, authorised the Audit and Nominations Committees to oversee the process for reviewing and making recommendations to the Board concerning any actual and/or potential conflicts of interest which arise or may arise in relation to each member of the Board including details of any terms and conditions which it deems necessary to impose on any authorisation given. This process was carried out satisfactorily during the year.

The Group General Counsel and Company Secretary maintains a Register of Directors' conflicts of interests which is reviewed every six

months by the Audit Committee who then make recommendations to the Board in respect of any changes to the authorisations, or terms and conditions applied, that may be required. Each Director is responsible, and is aware of their responsibility, to notify the Audit Committee and/or the Board of any new conflicts or possible conflicts and of any change in circumstances relating to authorisations already given. The Board, when authorising any conflict or possible conflict of interest, does not count in the quorum the Director whose conflict or possible conflict is being discussed and reserves the right to exclude a Director from a meeting whilst a conflict or possible conflict is being considered. The Board may revoke or vary any authorisation at any time.

### Board Committees

The Board has established three standing Committees, the Audit Committee, the Remuneration Committee and the Nominations Committee. Membership and attendance of each Committee is shown in the table on page 39.

### The Audit Committee

All members of the Audit Committee, as identified in Table 2 on page 39, are independent Non-Executive Directors in accordance with Code provision C3.1. The Board is satisfied that Mark Rolfe, who is a member of the Institute of Chartered Accountants in England and Wales and was formerly the Finance Director of Gallaher Group Plc, has recent and relevant financial experience.

The Audit Committee met on five occasions during the financial year. The attendance at each of these meetings is set out in Table 2 on page 39. In addition, senior representatives from the auditors, Deloitte LLP ('Deloitte') attended each of the Audit Committee meetings during the financial year.

The Audit Committee invites the Group Chief Executive, the Group Finance Director, other members of senior management and senior representatives of the external auditors to attend meetings as required.

### Principal responsibilities

Under its Terms of Reference the Audit Committee's principal responsibilities are:

- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's performance,
- reviewing and challenging where necessary the consistency of, and changes to, its accounting policies,
- monitoring the effectiveness, independence

and objectivity of the external auditors and the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors,

- monitoring the Group's financial management and reporting systems and assessing the integrity and effectiveness of its accounting procedures, system of internal control and the process for identifying and monitoring the risks facing the Group,
- reviewing and monitoring the effectiveness of the internal audit function, the annual internal audit plan and all reports produced by the internal auditor and management's responsiveness to the findings and recommendations of the internal auditor,
- reviewing whistleblowing procedures and ensuring arrangements are in place for proportionate and independent investigation and follow-up action; and
- reviewing and making recommendations to the Board on the authorisation of Directors' conflicts of interest.

The Terms of Reference for the Audit Committee are available from the Company's website [www.barrattdevelopments.co.uk](http://www.barrattdevelopments.co.uk).

As well as carrying out the work associated with the annual financial reporting cycle, the Audit Committee discharged a number of principal responsibilities during the year including, inter alia, reviews the effectiveness of internal control systems, the Audit Committee's Terms of Reference; auditor effectiveness, performance and independence; non-audit fees policy; the whistleblowing policy; the internal audit plan, key accounting policies, judgements and issues, the external audit plan and associated reports, re-appointment of the external auditors, and Directors' conflicts of interest.

### Re-appointment of Auditors

The Audit Committee considered the re-appointment of Deloitte as the auditors to the Company in August 2010. On the basis that Deloitte's performance continues to be satisfactory the Audit Committee made a recommendation to the Board to propose a resolution re-appointing Deloitte as the auditors to the Company at the 2010 AGM.

### Auditor objectivity and independence

Deloitte provided non-audit related services during the year primarily relating to the Company's Placing and Rights Issue which concluded on 4 November 2009.



The Company has developed and implemented a policy on Auditor Independence and Non-Audit Fees (the 'Policy'). The Policy sets out the duties of the Audit Committee relating to the maintenance of audit independence and non-audit fees and the services which the auditors can and cannot provide to the Group

Under the Policy the following services should not be provided by the auditors

- bookkeeping or other services related to the accounting records or financial statements,
- financial information systems design and implementation relating to the financial statements or accounting records,
- appraisal or valuation services or fairness opinions,
- actuarial services,
- internal audit outsourcing services, and
- management functions, legal services or executive recruiting

The Company is also required, under the Policy, to obtain written confirmation from the auditors that they remain independent on an annual basis. The Audit Committee is therefore satisfied that there are no independence issues in respect of the auditors

### Remuneration Committee

All members of the Remuneration Committee, as set out in Table 2, are considered by the Company to be independent in accordance with Code provision B 2.1

Tessa Bamford joined the Remuneration Committee on 1 July 2009

The Remuneration Committee met on six occasions during the financial year. Attendance at each of these meetings is set out in Table 2

### Principal responsibilities

The Remuneration Committee's principal responsibilities include

- determining and reviewing the overall remuneration policy of the Company with regard to attracting, retaining and motivating directors and senior managers of the experience and calibre required,
- determining and reviewing executive remuneration policy, including the terms and conditions of employment for Executive Directors and their individual remuneration packages,
- making recommendations to the Board in relation to the remuneration of the Chairman,
- agreeing targets and benefits in respect of performance related pay schemes for all employees which are challenging and commensurate with industry practice,
- approving the rules of and the basis of participation in Group share options, long-term performance plans and cash based bonus incentive schemes and the specific awards, grants and payments made under any such schemes,
- determining the policy for and scope of pension arrangements for Executive Directors and senior management,
- agreeing severance arrangements or other compensation for loss of office or early retirement for all employees,
- the evaluation of Executive Director performance with regard to the award of share incentives, annual bonus and other performance based remuneration, and

- obtaining independent professional advice in relation to Executive Director remuneration

The Terms of Reference for the Remuneration Committee are available from the Company's website [www.barrattddevelopments.co.uk](http://www.barrattddevelopments.co.uk)

### Nominations Committee

The members of the Nominations Committee, the number of meetings held and the attendance at each of these meetings are shown in Table 2

Tessa Bamford joined the Nominations Committee on 1 July 2009

The Nominations Committee's principal responsibilities include

- regularly reviewing the structure, size and composition required of the Board and succession planning for Directors and senior executives,
- identifying and nominating candidates to fill Board vacancies and evaluating the role and capabilities required for a particular appointment,
- reviewing the leadership needs of the Group to ensure continued ability of the Group to compete effectively in the market,
- annually reviewing, through performance evaluation, the time required from Non-Executive Directors to fulfil their duties, and
- obtaining details of and reviewing any interests of candidates which conflict or may conflict with the interests of the Company and recommending to the Board the terms and conditions on which such conflicts should be authorised

**Table 2 – Membership and attendance at Board and Committee Meetings**

	Group Board	Audit Committee	Remuneration Committee	Nominations Committee
Mark Clare	15/15	–	–	1/1
Steven Boyes	15/15	–	–	–
Clive Fenton	15/15	–	–	–
David Thomas	15/15	–	–	–
Bob Lawson	Chairman 15/15	–	6/6	Chairman 1/1
Bob Davies**	15/15	4/5	Chairman 6/6	1/1
Rod MacEachrane	15/15	5/5	6/6	1/1
Tessa Bamford	15/15	–	6/6	1/1
Mark Rolfe**	14/15	Chairman 5/5	–	1/1
Bill Shannon**	12/15	3/5	3/6	0/1

\* Includes three special meetings held in respect of the Company's Placing and Rights Issue which concluded on 4 November 2009

\*\* Bob Davies, Mark Rolfe and Bill Shannon presented their comments to the Chairman prior to the meetings they were unable to attend

/15 Indicates number of meetings held whilst a Director

15/ Indicates number of meetings attended whilst a Director

The Terms of Reference for the Nominations Committee are available from the Company's website [www.barrattdevelopments.co.uk](http://www.barrattdevelopments.co.uk)

The service contracts of the Executive Directors and the letters of appointment of the Non-Executive Directors are available for inspection by any person at the Company's registered office during normal office hours and will be so available at the AGM for 15 minutes prior to and throughout the meeting

### Performance evaluation

In accordance with the Code, the Chairman and the Non-Executive Directors met on one occasion during the year independently of the Executive Directors and the Senior Independent Director met once during the course of the year with the Non-Executive Directors independently of the Chairman, to assess the performance of the Chairman

Last year the annual evaluation of the performance of the Board, its Committees and individual Directors was carried out internally by the Chairman and the Group General Counsel and Company Secretary. Actions implemented during the year in respect of the key issues identified from the evaluation included the appointment of Egon Zehnder International ("Egon Zehnder"), an external consultant, to undertake an evaluation of the Board, its Committees and its Directors, the constitution of a Risk Committee to identify and manage risks throughout the Group and report directly to the Audit Committee, and the review and development of the Company's brand recognition and land acquisition strategies at the Board Strategy conference in January 2010.

The evaluation by Egon Zehnder focused on the key areas of Board Structure, Board Dynamics and Relationships, Board Processes, Board Committees, People and People Processes, Company Strategy and Performance, Capital and Risk and Progress and Benchmarking. A questionnaire dealing with each of these issues was circulated to each Director for completion and return. Regular attendees at Committee meetings were also asked to complete questions on the performance of the respective Committees. Representatives from Egon Zehnder attended a Board meeting in order to review how the meetings are conducted and undertook one-to-one interviews with each of the Directors.

Egon Zehnder presented their findings to the Board in August 2010 and intend to provide feedback, from the evaluation, to each individual Director relating to their respective

performance and contribution to the Board and its Committees. Recommendations from Egon Zehnder included, inter alia, to increase the frequency of meetings of the Nominations Committee, to revise the procedures and responsibility for reviewing the succession plans for each of the Directors including the Chairman, to encourage Non-Executive Directors to increase the number of site visits beyond those programmed into the Board meetings schedule and to revise the layout of Board papers so as to give more emphasis to the key issues that need to be addressed by the Board. The Chairman, together with the Group General Counsel and Company Secretary, will develop and submit an action plan to the Board to implement the recommendations arising from the evaluation.

### Employment policy and involvement

The Group is committed to developing the talents of its employees so that they can maximise their career potential and to providing rewarding careers in an atmosphere that ensures equal opportunities for all. Selection for employment and promotion is based on the objective assessment of ability and experience, giving full and fair consideration to all applications (including individuals with disabilities) for employment, and the Group is committed to ensuring that its workplaces are free from unlawful discrimination of any sort. The Company strives to ensure that its policies and practices provide equal opportunities in respect of issues such as training, career development and promotion for all existing or potential staff irrespective of gender, race, ethnic origin, colour, religion, physical disability, marital status, sexual orientation or age. Every effort is made to retain and support employees who become disabled whilst working within the Group.

The Board recognises that employee engagement is a key factor in the long-term success of the Company and has implemented a comprehensive employee engagement programme with the aim of creating a strong, shared culture. All employees are invited to take part in an engagement survey each January and the results of this survey are fed back to each operating division who use the results to formulate a plan for improving engagement during the year ahead.

A key part of effective employee engagement is communication. The Company ensures that all significant events, economic factors and financial updates and the impact of these on the performance of the Company are communicated to employees through email alerts and regular newsletters.

The Executive Committee regularly brief senior management via telephone conference calls which allow them to ask questions and enter into discussion. The Board and the Executive Committee also visit operating divisions and working sites in order to talk to employees face to face and get first-hand experience of employees' aspirations and concerns.

The Group runs a Graduate Recruitment and Development Programme consisting of a two-year multi-disciplinary programme of both on-job and off-job modules. Five graduates have recently completed their second year of the programme and will progress into full-time roles in the business. The Group has recruited 30 graduates onto the next two-year programme which started in August 2010.

The Group is committed to employee training and development at all levels of the organisation and has introduced a suite of leadership and management development programmes aimed at all levels within the organisation from graduates and middle management to senior management. The programme is designed and delivered internally and is tailored to the needs of the business. Succession planning is in place across the Group and the leadership development programmes assist with the development of individuals as part of the succession plan.

In February 2010 the Company invited all eligible employees to participate in the second grant under the Savings Related Share Option Scheme which was approved by shareholders at the Company's 2008 AGM (the 'SRSOS'). This gave those individuals who had previously participated in the 2009 grant, but not used up all of their entitlement, the opportunity to increase their savings and gave new employees the chance to participate in the SRSOS and become more involved in the Company's performance. Approximately 18% of eligible employees participated.

New initiatives, such as an online recruitment system and a flexible benefits package, were introduced by the Group during the year to improve recruitment, motivation and engagement of new and existing employees.

### Investor relations

The Board believes that the effective management of investor relations is critical to its relationship with its shareholders and to the market in which the Company's shares are held, analysed and traded. The Group's corporate governance framework sets the context for its continuing investor relations.

programme particularly in respect of key areas such as board membership, remuneration and public accountability statements

The Group continues to develop its investor communication programme in conjunction with its financial public relations ('PR') advisers, Martland, and the Group's joint brokers, Credit Suisse Securities (Europe) Limited and UBS Investment Bank. The Company's website ([www.barrattdevelopments.co.uk](http://www.barrattdevelopments.co.uk)) provides a full Company profile, regular corporate news updates, access to the Company's share price, regulatory announcements and investor relations information.

Further, shareholder services have been established whereby shareholders may deal in the Company's shares via its website and also access the Company's share register to view their shareholding, with the opportunity to make changes to their account details, including the downloading of appropriate forms and also access the history of their shareholding.

The Group's annual and interim reports, together with interim management statements and half yearly trading updates, continue to be the primary means by which information about the Group, its Board and its business is communicated to institutional and private shareholders, investors and analysts. In addition, other major Company publications are available to shareholders on the Company's website [www.barrattdevelopments.co.uk](http://www.barrattdevelopments.co.uk). The AGM is used to enable all shareholders to discuss the Group's operations and progress directly with the Board. The Directors are available to answer shareholder questions, informally, before and after the AGM and the Chairman also invites questions from shareholders during the meeting. Information of a price sensitive nature is communicated as required by the Group General Counsel and Company Secretary to the Company Announcements Office of the London Stock Exchange and the Group strives to ensure that all key information is effectively and clearly communicated.

In addition to the above formal communications, the Group Chief Executive and Group Finance Director meet regularly with institutional investors and analysts in order to convey an understanding of the Group's operations, the market and its management objectives, and in the year under review in excess of 100 such meetings were held. The aim is to meet with major institutional shareholders at least once a year. Press releases on the Group's activities are made to journalists and the media through the Group Press Office and its external PR advisers.

The Group's joint brokers, Credit Suisse Securities (Europe) Limited and UBS Investment Bank, also work actively on behalf of the Company in an effort to ensure that investors and potential investors in the business are given reliable information on the Group's operations, its values and ethos in order to make informed investment decisions. The Chairman of the Company and the Chairman of the Remuneration Committee also consult, annually, with major shareholders on the Company's remuneration policy.

The Group Finance Director presents regular reports to the Group Board on the Company's investor relations activities to ensure that it has a clear understanding of the views of major shareholders.

### Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The Group's business activities, together with factors which the Directors consider are likely to affect its future development, financial performance and financial position are set out in the Group Chief Executive's review on pages 6 to 9 and the Business review on pages 12 to 25. The material financial and operational risks and uncertainties that may impact the Group's performance and their mitigation are outlined on pages 26 and 27 and financial risks including liquidity risk, market risk, credit risk and capital risk are outlined in note 25.

The financial performance of the Group is dependent upon the wider economic environment in which the Group operates. As explained in the principal risks on pages 26 and 27, factors that particularly impact upon the performance of the Group include changes in the macroeconomic environment including buyer confidence, availability of mortgage finance for the Group's purchasers and interest rates.

On 23 September 2009 the Company announced a fully underwritten Placing and Rights Issue, to raise gross proceeds of £720.5m, and certain amendments agreed in relation to the Group's financing arrangements, which would come into effect following completion of the Placing and the Rights Issue and a reduction in the amount of term debt. The equity issue was completed on 4 November 2009 and the amended financing arrangements came into effect on 16 November 2009.

The Placing and the Rights Issue, together with the amended financing arrangements, have significantly strengthened the position of the Group and have enabled the Group to take advantage of land acquisition opportunities. There has been some recovery in the new housing market during the year, although the market remains subject to economic uncertainty and a lack of mortgage finance particularly in the higher loan to value segment. The amended financing arrangements provide an appropriate alternative framework for the Group should a further downturn arise.

Accordingly, after making enquiries, the Directors have formed a judgement, at the time of approving these financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future being at least twelve months from the date of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Internal control and risk management

The Board confirms in accordance with principle C.2 of the Code that it has maintained a sound system of internal control, to safeguard shareholders' investment and the Company's assets. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that has been in place throughout the year ended 30 June 2010 and up to the date of this report, which is regularly reviewed by the Board and accords with the Turnbull guidance.

The Group's system of internal control is designed to manage risks that may impede the achievement of the Group's business objectives rather than to eliminate those risks entirely. The system of internal control therefore provides only reasonable, not absolute, assurance against material misstatement or loss. The system of internal control does, however, provide reasonable assurance that potential problems can be identified promptly and appropriate remedial action taken.

The Group operates internal controls to ensure that the Group's financial statements are reconciled to the underlying financial ledgers. A review of the consolidated accounts and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the responsibility of the Executive Directors and senior management to implement and maintain the Group's internal control and risk management systems in accordance with policy approved by the Board.

During the year a Risk Committee has been established. Subject to the general supervision of the Audit Committee, the Risk Committee is to review the effectiveness of the Group companies' internal control policies and procedures for the identification, assessment and reporting of risks.

The Risk Committee consists of standing members comprising the Group Finance Director, Group General Counsel and Company Secretary, an Operational Executive Director and/or a Regional Managing Director and the Chief Internal Auditor. Other members of the Executive, Heads of function and senior managers may be invited to attend meetings of the Risk Committee having regard to the business areas to be discussed.

The key aspects of the Group's system of internal control and risk management framework are as follows:

- i) a clear organisational structure with defined levels of authority and responsibility for each operating division,
- ii) extensive financial and management reporting systems under which financial and operating performance is consistently reviewed against budget and forecasts at divisional, regional and Group level on a monthly basis,
- iii) principal risk areas are embedded in the Group's monthly management reporting system so that risk identification and the control of risk are a routine aspect of management responsibility.

These risks include:

- the market, including changes in the macroeconomic environment, sales and quality of product,
- liquidity, including the availability of sufficient borrowing facilities,
- people, including the development of a skilled and experienced workforce,
- subcontractors and suppliers,
- securing sufficient land,
- Government regulation, including obtaining planning permission,
- construction, including achieving key milestones and the impact on the environment and social surroundings,
- health and safety, and

- failure of the Group's IT systems, and
- iv) internal control and risk management systems are supported by the Group's internal audit team which is responsible for advising senior management, the Executive Directors and, through the Audit Committee, the Board on the operation and effectiveness of those systems. The internal audit team undertakes a planned programme of audit appraisals across Group operations approved by the Audit Committee, including full divisional audits and targeted audits of key risk areas such as the land viability process, land acquisition control and monitoring, work in progress and subcontractor payment controls. Where the internal audit team does not have the expertise or resources required to conduct complex audits they use external expertise.

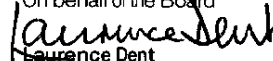
In accordance with principle C 2.1 of the Code the Board regularly reviews the effectiveness of the Group's system of internal controls, covering all material controls including financial, operational and compliance controls and risk management systems. A risk framework has been developed for all business processes by the internal audit function and approved by the Audit Committee. This framework forms the basis of the internal control audit plan for the year ahead, which tests if controls are being applied effectively in each operating division. Material issues identified during internal audits and follow-up action plans are reviewed by the Executive Directors and by the Board on a quarterly basis, and necessary actions are immediately taken to remedy any failings in the internal control system.

During the course of its review of systems of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation of necessary actions has not been considered appropriate.

In addition, the management teams of all operating divisions identify key risks in their monthly management reports to the Executive Committee and complete a control self assessment twice a year in which they confirm that they have applied appropriate levels of control. The Audit Committee, as a standing agenda item every six months, reviews the risk framework to determine if the system of internal control remains effective and report on their findings to the Board. During the year under review, the Executive Committee prioritised the risk framework by identifying the risks considered most significant to the Group.

For each of the risks identified, an assessment has been made of the probability and potential impact on the business and these risks are reported on internally and reviewed during internal audits and control self assessments.

On behalf of the Board

  
Laurence Dent

Group General Counsel and  
Company Secretary  
7 September 2010

# REMUNERATION REPORT

## Introduction

This year's Remuneration report is prepared in accordance with schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (the 'Regulations') and will be subject to an advisory vote at the Annual General Meeting to be held on 17 November 2010 (the '2010 AGM')

The key issues to be aware of this year are

- 1 Executive Directors did not receive a salary increase in the 2008 or 2009 calendar years, however they will receive one in the 2010 calendar year
- 2 The Company's final salary pension scheme ceased to offer future accrual of defined benefits for current employees with effect from 30 June 2009
- 3 Under the annual bonus scheme, the payment for on-target performance remains unchanged at 75%. However in order to incentivise performance the maximum potential for the year to 30 June 2011 has been increased from 100% to 150% of salary. Up to one-third of this maximum bonus is payable in Company shares and will be deferred for three years. It should be noted that prior to 2009 the payment for on-target performance was 130% with a maximum bonus potential of 180%.
- 4 A clawback provision applies to any annual bonuses paid and to any share awards granted under the Executive Share Option Scheme ('ESOS') and the Long-Term Performance Plan (the 'LTPP'), subject, in the case of HMRC approved options, to the approval of HMRC. The Remuneration Committee (the 'Committee') has retained its general discretion to reduce levels of bonus and share vesting where the Company's overall financial performance relative to the housebuild sector does not justify the indicated level of bonus or vesting.
- 5 For the year ending 30 June 2011, the Committee confirms that it will revert to its policy of granting LTPP awards rather than awards under the ESOS which was used in 2008 and 2009. The Committee will maintain its preferred equal mix of Total

Shareholder Return ('TSR') and Earnings per Share ('EPS') performance conditions and will be reverting to setting three-year targets. Further, the Committee recognises that the Group's recovery is not complete and therefore will not revert to making awards of 200% of salary, instead they will grant awards of up to 150% of basic salary.

- 6 During the financial year ended 30 June 2010, Executive Directors were granted further share options under the ESOS. Half of these awards are subject to TSR performance conditions and the other half are subject to a series of annual EPS performance conditions. One-third of the awards subject to the EPS performance conditions were based on the EPS performance for the 2009/10 financial year. Actual performance against the target was 61% and as a result vesting of 10.17% of the total award has so far been achieved (see page 46 for further details).

## Remuneration Committee

The Committee operates within Terms of Reference and governance policies approved by the Board and is responsible on behalf of the Board for

- determining and reviewing the overall remuneration policy of the Company with regard to attracting, retaining and motivating Directors and senior managers of the experience and calibre required,
- determining and reviewing executive remuneration policy, including the terms and conditions of employment for Executive Directors and their individual remuneration packages,
- making recommendations to the Board in relation to the remuneration of the Chairman,
- agreeing targets and benefits in respect of performance related pay schemes for all employees which are challenging and commensurate with industry practice,
- approving the rules of and the basis of participation in Group share options, long-term performance plans and cash-based bonus incentive schemes and the specific awards, grants and payments made under any such schemes,
- determining the policy for and scope of

pension arrangements for Executive Directors and senior management,

- agreeing severance arrangements or other compensation for loss of office or early retirement for all employees,
- the evaluation of Executive Director performance with regard to the award of share incentives, annual bonus and other performance-based remuneration, and
- obtaining independent professional advice in relation to senior executive remuneration

The Terms of Reference for the Committee are available from the Company's website at [www.barrattdevelopments.co.uk](http://www.barrattdevelopments.co.uk)

## Membership and proceedings of the Remuneration Committee

The members of the Committee during the financial year were Bob Davies (Chairman), Bob Lawson, Bill Shannon, Rod MacEachrane and Tessa Bamford. The Committee met on six occasions during the financial year and attendance at each of these meetings is described in Table 2 on page 39 of the Corporate governance section. All Committee members are considered to be independent with no financial interest, other than as shareholders, in the Committee's decisions. The Group Chief Executive attends meetings of the Committee as required but he is not present when matters affecting his own remuneration are considered.

The Committee has complied with the Combined Code on Corporate Governance and recognises its accountability on executive remuneration to shareholders through this report and through regular dialogue with institutional investors. In determining future remuneration policy, it will consider both the shareholders' vote on the report and views expressed by shareholders on the detail of the report. The Committee is currently reviewing the requirements of the UK Corporate Governance Code introduced in May 2010 (the 'New Code'), and will report the Committee's compliance with the New Code in the report and accounts for the financial year ending 30 June 2011.

**Advice**

The Committee received input into their decision making from Mark Clare, the Group Chief Executive, Jayne Mee, the Group People and Customer Experience Director, and Laurence Dent, Group General Counsel and Company Secretary. Laurence Dent also acts as secretary to the Committee. These individuals are not present when their own remuneration is being discussed.

During the year the Committee has taken advice from independent advisers, Hewitt New Bridge Street ('HNBS'), a trading name of Hewitt Associates Limited ('Hewitt'). In addition to advising the Committee, HNBS also provided the Company with advice on implementing decisions made by the Committee and remuneration benchmarking. HNBS's fees for providing such advice amounted to approximately £61,000 for the year ended 30 June 2010. HNBS and Hewitt did not provide any other services to the Company.

Mercer Human Resource Consulting Limited has advised the Company in relation to various pension issues and has been appointed actuary to the Barratt Group Pension and Life Assurance Scheme since 2004.

**Remuneration policy**

Each year the Committee reviews the policy on executive remuneration in the context of the business environment, best practice and market trends for the current and subsequent financial years. The underlying principles remain the same, namely, the Committee believes that executive remuneration should

- be fully aligned with the performance of the Company and the returns received by shareholders,
- reward the sustained growth and profitability of the business, and
- conform with market-leading best practice.

The Committee has the discretion to consider corporate performance on environmental, social and governance issues when setting the remuneration of the Executive Directors. The Committee does take into account environmental, social and governance risks when setting incentive structures for senior management to ensure these risks do not inadvertently motivate irresponsible behaviour. The Committee has considered the structure of the Executive Directors' remuneration packages from a general risk perspective and it is satisfied that the packages, which include a market competitive base salary, an annual bonus (with deferral) and long-term incentives do not

encourage inappropriate risk taking. Risk is also taken into account when setting the targets and when determining entitlements under variable reward schemes, this is done by ensuring that targets, whilst stretching, are realistic, attainable and for the long-term benefit of the Company and that they are not achieved by taking inappropriate business risks. The Committee also considers the level of pay and employment conditions throughout the Group when setting Executive Directors' remuneration.

Central to the Group remuneration policy is recognition that the sustained growth and profitability of the business is determined in no short measure by the skill and commitment of the Executive Team. The reward policy for Executive Directors seeks to provide remuneration and other service conditions which will attract, retain, motivate and reward Executive Directors of a high calibre within the industry's highly competitive employment market. Within these broad objectives, the executive remuneration package for the following year is based on the following principles:

- performance-related remuneration should be linked to the achievement of demanding performance targets, currently approximately 70% of the total executive remuneration potential is performance based (see Chart 1),
- performance-related remuneration should align the interests of executives with those of shareholders by setting performance targets based on measures of shareholder return. With the exception of the share options granted in 2008, which were based on a return on capital employed performance metric, the Committee's policy is to use a combination of TSR and EPS performance conditions to achieve alignment, and
- total remuneration for outstanding performance should be competitive with that available elsewhere in the sector.

Chart 1 demonstrates the balance between fixed pay (base salary, benefits and pension) and short and long-term performance related pay for the 2010/11 financial year for the Chief Executive based on a maximum payout basis.

**The remuneration package for Executive Directors**

The remuneration package for Executive Directors comprises:

- basic salary,
- annual performance related bonus,
- long-term share incentives, and
- pension and other benefits.

The performance conditions which apply to the performance related element of executive

remuneration are the same for all Executive Directors and are set out in the following sections of this report.

**Basic salary**

Basic salaries for Executive Directors are a fixed annual sum payable in monthly instalments in cash. Salaries are set having regard to individual responsibilities, skills and experience and to competitive market practice for similar positions in large national housebuilding companies and also for companies comprising the FTSE 250.

Given that salaries for Executive Directors and Senior Managers have not increased since July 2007 and that the Company's final salary pension scheme ceased to offer future accrual of defined benefits for current employees with effect from 30 June 2009, the Board has approved a Company-wide 2% salary increase, in order to motivate and retain staff. This increase is comparative to salary increases made by other companies in the sector. In light of this, the Committee has approved a similar 2% salary increase for Mark Clare and David Thomas. The Committee recognised that in respect of Steven Boyes and Clive Fenton, the two Executive Directors responsible for housebuilding operations, it is critical for the Company to remain competitive with others in the sector and to mitigate its exposure to a significant retention risk, especially at such a crucial time in the sector's recovery. Therefore, the Committee has approved a salary increase of approximately 11% for each of them.

Salaries with effect from 1 July 2010 are shown in Table 3 on page 45.

### Annual bonus

The annual cash bonus is dependent upon the achievement of demanding financial objectives and key strategic measures for the business set annually by the Board. These include operating profit, cash generation, personal objectives, customer service, health and safety and employee engagement. For the financial year ending 30 June 2011 the Executive Directors' maximum cash bonus has been maintained at 100% of basic salary.

To ensure that the Company's bonus arrangements continue to incentivise management to rebuild profitability, the Committee has introduced a supplemental bonus of up to 50% of basic salary, which may be earned for significant over-performance. This element will be deferred into shares in the Company, which will be held under the Co-Investment Plan for a period of three years with a continued employment condition. No other performance conditions will apply to this award and the Committee has agreed that no matching shares will be awarded against these shares. Accordingly, the total annual bonus opportunity for Executive Directors will be 150% of basic salary for the financial year ending 30 June 2011. As with the 2009/10 financial year, payment for on-target performance will remain at 75% of basic salary. It is worth noting that despite the increase in maximum bonus potential for the forthcoming year, on-target and maximum bonus levels were higher prior to the economic downturn, at 130% and 180% of salary respectively.

The Committee has retained a general discretion in the making of bonus payments, and will consider, among other factors, the underlying financial performance of the business relative to the sector.

As disclosed in the 2009 annual report and accounts, a one-off payment of £100,000 was made to Mark Pain during the year in

consideration of the extension to his remaining in employment beyond his required notice period, until 31 October 2009. Mark Pain's other salary and benefits remained in place up until he left the Company on 31 October 2009.

For the financial year ended 30 June 2010, the Committee has approved a bonus payment of approximately 90% of basic salary to Executive Directors based on performance against financial, non-financial and individual objectives. The Committee believes that this level of bonus is justified on the basis that the Company has delivered operating profit before exceptional items (which determined 50% of the total bonus for the year) of £90.1m against the minimum threshold established for the bonus of £67m and the target level of £84m.

No part of the annual bonus is pensionable.

### Bonus clawback

The Committee decided that for any bonuses paid in respect of the financial year ended 30 June 2010 and later years it will retain a power of clawback. This can be invoked if:

- (a) it is necessary to restate the Company's accounts used to calculate a participant's bonus, in circumstances where the original over-statement has led to a bonus being paid which would not otherwise have been paid, or
- (b) the participant is found guilty of any criminal activity in connection with his employment and this related to an act which led to a bonus being paid to him or her.

In such circumstances, the Committee may determine that bonuses will be retrospectively recalculated and, if bonus monies have been paid, the participant will be required to reimburse the Company for an amount up to the total amount of the net bonus paid less any bonus that the Committee determines would have been paid regardless of the event in question.

### Share incentive schemes

During the year the Committee undertook a review of the share incentive schemes currently in operation and agreed that grant levels, performance criteria and vesting schedules remain appropriate to the Company's current circumstances and prospects. There have been no significant amendments to the terms and conditions of any entitlement under any scheme. Details of all Executive Director share option and long-term performance plans are set out on pages 45 to 49.

### New Awards to be granted during the financial year ending 30 June 2011

The Committee has decided to grant LTPP awards to Executive Directors during the financial year ending 30 June 2011, instead of granting options under the ESOS.

The LTPP was approved by shareholders at the AGM held in November 2003. Awards under the LTPP are at the discretion of the Committee, taking into account individual performance and the overall performance of the Group. An employee is not eligible to receive options under the ESOS and awards under the LTPP in the same financial year.

Any LTPP awards that are made in the 2010/11 financial year (the '2010/11 LTPP Award') will not exceed 150% of basic salary and will be subject to three-year TSR and EPS conditions. The vesting of 50% of the 2010/11 LTPP Award subject to TSR conditions will be dependent upon the Company's performance over three years against the constituents of the FTSE 250, excluding investment trusts. The full 50% will vest if the Company's TSR ranks at the upper quartile or above, 25% will vest if the TSR ranks at median and none of the 2010/11 LTPP Award will vest if the TSR ranks below median. The 2010/11 LTPP award will vest on a straight line basis between the upper and median targets.

**Table 3 – Executive Directors' Salaries**

	2010 £	Per annum 2009 £
Mark Clare	642,600	630,000
Mark Pain*	-	350,000
David Thomas**	408,000	400,000
Steven Boyes	390,000	350,000
Clive Fenton	390,000	350,000

\* Mark Pain stepped down from the Board on 21 July 2009 and is included in the table for prior year comparative purposes only.

\*\* David Thomas joined the Board on 21 July 2009.

The 50% EPS element will vest on the attainment of the EPS target for the year ending 30 June 2013. The Committee believes that a wide target range should be set for the EPS element in order to ensure full engagement from management by having an achievable minimum vesting level whilst requiring outstanding performance to achieve maximum level of vesting. Accordingly, the Committee has set the minimum vesting level at 10 pence per share and the maximum level of vesting at 25 pence per share. The award will vest on a straight-line basis between the minimum and maximum targets.

For the 2010/11 LTPP, vesting will be subject to an overriding Committee discretion, in that the Committee must be satisfied that the underlying financial performance of the Company over the performance period warrants the level of vesting as determined by applying the above targets. If the Committee is not of this clear view then it will be empowered to reduce the level of vesting.

#### Partial vesting of Awards under the ESOS granted December 2009

The 2009/10 ESOS is subject to TSR and EPS performance conditions. The Committee chose these targets as the most appropriate measure of financial performance for a housebuilder at the time of the grant, as they are a fundamental measure of the Group's underlying performance and are directly linked to the generation of returns to shareholders.

#### Performance conditions

50% of the 2009/10 ESOS will vest on attainment of a performance target based on relative TSR, and 50% on attainment of a target to be based on EPS growth.

The TSR element of the award will be calculated as the percentage change in share price plus dividends over a performance period against the comparator group comprising the FTSE 250 (excluding investment trusts), with the opening share price averaged across the dealing days in the three-month period ending immediately before the start of the performance period and the closing share price averaged over the dealing days in the last three months of the performance period.

Levels of vesting against the TSR will be as follows:

	Level of Vesting
Upper Quartile or above	50%
Median	12.5%
Below Median	0%
Between Upper Quartile and Median	Straight-line basis

The EPS element of the award has been divided into three one-year targets with the Committee setting targets annually for the forthcoming year in each year. The EPS for the Company will be 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 by the Employee Benefit Trust. Performance against the annual EPS target will be tested at the end of each of the financial years during the three-year performance period and each year's EPS target will determine the vesting level of one-sixth of the total award, however, actual vesting will not take place until after the year ending 30 June 2012.

The EPS targets, which are before exceptional items, and the level of vesting for the financial year ended 30 June 2010 were as follows:

Amount of EPS Element Available for Vesting (one-third of 50%)	16.67%
Minimum Target	-4.4 pence
On Target	-2.8 pence
Maximum Target	-1.8 pence
Achievement Against Target	61%
Actual Level of Vesting	10.17%

It should be noted that the approach of using three one-year targets was adopted due to the uncertain economic conditions prevailing in 2009. At that time, the Committee stated that it would revert to the policy of setting three-year targets at the earliest opportunity and this will be the case with the LTPP awards to be made during the financial year ending 30 June 2011.

Both performance conditions applying to the 2009/10 ESOS, are subject to an overriding Committee discretion to take into account, among other factors, performance relative to the sector and the underlying financial performance of the business including free cash flow.

Details in respect of the approval of the ESOS and the grants made under the ESOS in December 2008 (the '2008/09 ESOS') can be found on page 47.

#### Executive share schemes currently in operation

##### Long-Term Performance Plan

There is currently one unvested award under the LTPP which was granted by the Company in December 2007 (the '2007/08 LTPP').

Awards under the 2007/08 LTPP in 2007 were based on an annual allocation of notional ordinary shares equivalent in value to a

maximum of 200% of basic salary with vesting taking place at the expiry of the three-year performance period of the plan, subject to attainment of the agreed performance targets. There is no re-testing of performance conditions.

The Committee considered these targets to be the most appropriate measure of financial performance for a housebuilder at the time of the awards, as they are fundamental measures of the Group's underlying performance and are directly linked to the generation of returns to shareholders.

#### Performance conditions

50% of the 2007/08 LTPP will vest on attainment of a performance target based on TSR and 50% based on EPS growth.

The TSR portion of the 2007/08 LTPP uses a comparator group comprising those companies, excluding investment trusts, ranked 51-100 in the FTSE Index and is measured over a three-year period against the comparator group. The levels of vesting against the TSR targets are as follows:

	Level of Vesting
Upper Quartile	50%
Median	10%
Below Median	0%
Between Upper Quartile and Median	Straight-line basis

The EPS for the Company 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 by the Employee Benefit Trust. The levels of vesting against the EPS targets are as follows:

	Level of Vesting
Exceeds RPI + 18%	50%
Exceeds RPI + 9%	10%
Less than RPI + 9%	0%
Performance in between	Straight-line basis

The qualifying period for the 2007/08 LTPP will end on 21 December 2010. Performance of this award against the constituent TSR and EPS targets will be tested after this date.

#### Co-Investment Plan

The only unvested awards as at 30 June 2010 under The Co-Investment Plan (the 'Plan') relate to the annual bonus earned above target for the financial year ended 30 June 2007 (the '2007 Award').



The Plan was approved by shareholders at the AGM held in November 2005 and any annual bonus earned above target will normally be compulsorily deferred into shares held under this Plan (the 'Basic Award'). The Executive Directors also have the opportunity to voluntarily defer additional amounts of annual bonus up to a maximum of 25% of basic salary into the Plan

Matching awards will be made by the Company, if approved by the Committee, at the rate of one for one for compulsory deferral and at a maximum of four for one for voluntary deferral (the 'Matching Awards'). The Matching Awards will be subject to performance conditions measured over a period of three years

#### Performance conditions

The relevant TSR and EPS performance conditions for the 2007 Award are the same as those used for the 2007/08 LTTP, as detailed on page 46, with a qualifying period which ended 30 June 2010. The TSR and EPS performance conditions of the 2007 Award were tested after the year end and neither of the targets had been achieved. Accordingly, the Basic Award will be returned to participants and the Matching Award will lapse.

As the maximum annual bonus payable for the financial year ended 30 June 2010 was capped at 100% of basic salary there will be no compulsory deferral of annual bonus into the Plan for this year

Any supplemental bonus earned (up to a maximum of 50% of basic salary) for the year ending 30 June 2011 will be deferred into shares held under the Plan. The Committee has agreed that no matching shares will be awarded against these shares

#### Executive Share Option Scheme

The ESOS was approved by shareholders at the AGM held in November 2008. It was the view of the Committee that the focus on share price growth arising from the use of market value options combined with this performance condition would ensure strong alignment with shareholders. Having made grants under the ESOS in December 2008 and 2009, the Committee does not intend to grant further options under the ESOS during the financial year ending 30 June 2011 as an employee is not eligible to receive options under the ESOS and awards under the LTTP in the same financial year

Options awarded under the ESOS must normally be held for a minimum of three years from the date of grant before they can be

exercised and lapse if not exercised within ten years of grant. The maximum number of shares over which an employee may be granted options in any financial year under the ESOS will be limited so that the aggregate cost of exercise does not exceed 200% of his annual salary. The exercise of options granted under the ESOS is subject to the achievement of an objective performance condition set by the Committee

#### Performance conditions

For the 2008/09 ESOS, the Committee decided to use Return on Capital Employed ('ROCE') as the financial performance measure. ROCE will be calculated as operating profit (measured across the whole year to 30 June 2011) divided by shareholder funds plus net debt less any intangible assets (being the average of the 12 month-end figures during the same year). The Committee considered that ROCE was the most rounded measure of financial performance for a housebuilder at the time of this award and was satisfied that the ROCE target range represented a stretching target considering the outlook for the housebuilding market. There will be no opportunity to retest any performance criteria

The levels of vesting against ROCE will be as follows

	Level of Vesting
14.5%	100%
10.5%	25%
Less than 10.5%	0%
In between the upper and lower targets	Straight-line basis

#### Award to Group Finance Director

In recognition of his loss of benefit under his previous employer's long-term incentive and share option plans, David Thomas was granted, as previously disclosed, a one-off award which targets benefits equivalent to the options granted under the ESOS in 2008. The option was granted by the trustees of the Employee Benefit Trust and, if and when exercised, will be satisfied from ordinary shares acquired in the market. After adjustment for the Company's Placing and Rights Issue the option is over 1,016,656 ordinary shares, at an exercise price per share of 36.06 pence. The option is subject to the same performance targets as the options granted under the ESOS in 2008 and is on substantially the same terms and conditions as those options

#### ESOS clawback

The Committee has retained a power of clawback on any ESOS options granted during the financial year ended 30 June 2010 and

later years on a similar basis to that described on page 45 relating to the payment of annual bonuses, subject in the case of HMRC approved options, to the approval of HMRC

#### Executive Share Option Plan

The only vested award currently remaining to be exercised under the Executive Share Option Plan (the 'ESOP') was awarded in 2003

The ESOP was adopted by the Company in November 1997 and options must be held for a minimum of three years from the date of grant before they can be exercised and lapse if not exercised within ten years of the grant date. The exercise of options granted under the ESOP was subject to the achievement of objective performance conditions set by the Committee

Under the rules of the ESOP no further options can be granted under this plan. Options which have been granted in previous years remain unchanged and are set out on page 52. The award granted to Steven Boyes in 2003 vested in 2006 but has not been exercised

#### Savings Related Share Option Scheme

The Savings Related Share Option Scheme (the 'SRSOS') was approved by shareholders at the AGM held in November 2008

The SRSOS was implemented in order to promote share ownership amongst all employees of the Company, linking employee benefit to the performance of the Company, and to aid retention of staff

All employees and Executive Directors who work more than 25 hours per week and who have five or more years of continuous service, ending on the date of grant, or such shorter period as the Board may decide, with the Company, or any subsidiary in the Group nominated to join in the SRSOS, are eligible to participate in the scheme. The Board has discretion to reduce the period of qualifying service and to invite other employees of the Group to participate. Under the SRSOS, employees can save up to £250 per month for three or five years and receive options to purchase the Company's shares at a discount of up to 20% on the market value. In February 2010, 704 employees (18.6% of those eligible) applied to participate in the second grant of options under the SRSOS

#### Pension benefits

The Company's pension policy for Executive Directors is that they can choose to participate

in the Company's money purchase pension plan or receive a cash supplement that does not count for incentive purposes. The defined benefit section of the Barratt Group Pension and Life Assurance Scheme (the 'Scheme') was closed to new entrants in 2001 and it ceased to offer future accrual of defined benefits for current members with effect from 30 June 2009.

Mark Clare and David Thomas are paid a cash supplement equal to 30% and 25%, respectively, of basic salary per annum. Up until 30 June 2009, when the defined benefit section of the Scheme ceased to offer future accrual of defined benefits for current employees, Steven Boyes and Clive Fenton were members of the defined benefit section of the Scheme. This entitlement was based on a 1/60 accrual rate and a normal retirement age of 65. The entitlement of Clive Fenton was restricted by the earnings cap imposed under the Finance Act 1989, for service up to 5 April 2006 and thereafter was calculated by reference to his basic salary. Since 1 July 2009, Steven Boyes and Clive Fenton are entitled to receive a cash supplement equal to 30% of their respective basic salaries per annum. Steven Boyes receives the full 30% as a cash supplement and Clive Fenton receives 20% as a cash supplement and the remaining 10% is paid into the defined contribution section of the Scheme.

The most recent full actuarial valuation of the Scheme as at 30 November 2007 showed a deficit of £87.4m calculated on the basis of the Scheme's technical provisions. This was updated to 30 June 2010 by a qualified independent actuary and a deficit of £46.1m is included in the Group balance sheet as shown in note 26. The Company and the Trustees of the Scheme have agreed that, with effect from 1 December 2008, the Company will pay, in addition to the joint

contribution rate, £13.3m per annum for seven years to address the deficit.

On 30 June 2009, the Company exercised its consent under the rules of the Scheme and agreed to cease offering future accrual of defined benefits for its current employees. The Company will continue to pay the deficit reduction contributions at a level not lower than the £13.3m agreed in December 2008 and will discuss the funding requirements of the Scheme with the Trustees if any material change in the Group's financial circumstances is anticipated.

Members of the Scheme became eligible to join the defined contribution money purchase section of the Scheme with effect from 1 July 2009. Only the basic salary element of a Director's remuneration is pensionable.

Members of the Scheme are also eligible for dependents' pension and an insured lump sum of four times pensionable salary on death in service.

#### Service contracts

All Executive Directors, are engaged on the basis of one-year rolling contracts which can be terminated by twelve months' notice given by the Company or by twelve months' notice given by the Executive at any time. Mark Pain, who stepped down from the Board on 21 July 2009, could, and did, terminate his contract by giving six months' notice. There are no specific provisions for compensation on early termination or loss of office due to a takeover bid. The contracts entitle Executive Directors to the provision of a company car and membership of a private healthcare scheme. Details of Executive Directors' service contracts are included in Table 4.

#### Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is set by the Board on the recommendation of a Committee of Executive Directors having regard to the time commitment and responsibilities associated with the role. The remuneration of the Chairman is set by the Board on the recommendation of the Committee again having regard to the time commitment and responsibilities of the role.

The Chairman and each of the Non-Executive Directors are appointed under terms set out in a letter of appointment. They do not have service contracts and their appointments can be terminated (by the Board) without compensation for loss of office and by giving the appropriate length of notice as prescribed in their respective letters of appointment. The notice periods applicable to each of the Non-Executive Directors are, for Bob Lawson, three months' notice, for Tessa Bamford, Mark Rolfe, Bob Davies and Rod MacEachrane, one month's notice, and for Bill Shannon no notice is required. Under governance policies approved by the Board, Non-Executive Directors are appointed for a three-year term and usually serve a second three-year term subject to performance review and re-election. Beyond this a further term of up to three years may be served subject to rigorous review by the Nominations Committee. Details of Non-Executive Directors' letters of appointment can be found in Table 5 on page 49.

#### Total Shareholder Return performance graph

Figure 1 prepared in accordance with the Regulations, shows the TSR performance over the last five years against the FTSE 250 (excluding investment trusts) and against an index of listed housebuilders. The Board has chosen these comparator indices as

**Table 4 – Executive Directors' Service Contracts**

Executive Director	Service contract date	Effective date	Notice period
Mark Clare	27 June 2006	2 October 2006	12 months
Mark Pain*	23 January 2006	1 March 2006	6 months
David Thomas	5 May 2009	21 July 2009	12 months
Steven Boyes	25 June 2001	1 July 2001	12 months
Clive Fenton	1 July 2003	1 July 2003	12 months

\*Stepped down as a Director on 21 July 2009

the Group and its major competitors are constituents of one or both of these indices. The TSR has been calculated using a fair method in accordance with the Companies Act 2006.

### Executive Directors shareholding guidelines

The following shareholding guidelines apply to Executive Directors:

- within five years of first appointment  
Executive Directors are expected to hold throughout their remaining period of office ordinary shares in the Company equivalent to 100% of their basic annual salary,
- for the purposes of determining the requisite level of each Executive Director's shareholding relative to basic salary, the share price will be that prevailing on 30 June in each year, and
- provided Executive Directors hold the appropriate level of shares they are at

liberty to sell shares so as to realise their LTTP awards or upon the exercise of share options subject to the normal Listing Rules and Disclosure Rules and Transparency Rules requirements for Director shareholdings.

Both Steven Boyes and Clive Fenton met the shareholding guidelines until the recent economic downturn which resulted in an unprecedented reduction in the share price in early 2008. The Committee reviewed the value of the shareholdings of both Steven Boyes and Clive Fenton as at 30 June 2010 and found that Clive Fenton did not meet the requirements of the shareholding guidelines. Having regard to current economic conditions, the Committee is not requiring Clive Fenton to purchase additional shares to respond to this temporary position however it will review the position on or after 30 June 2011.

**Table 5 – Non-Executive Directors' Letters of Appointment**

Non-Executive Director	Date of last re-election at AGM	Date of initial appointment
Bob Lawson	18 November 2008	1 June 2008
Bob Davies	27 November 2007	5 May 2004
Tessa Bamford	17 November 2009	1 July 2009
Rod MacEachrane	18 November 2008	1 May 2006
Mark Rolfe	18 November 2008	1 May 2008
Bill Shannon	27 November 2007	1 September 2005

**Figure 1 – Total Shareholder Return**  
Source: Datastream

**The following tables and accompanying notes constitute the auditable part of the Remuneration report as defined in the Regulations****Directors' emoluments**

	Salary/fee £'000	Pension allowance £'000	Employer's pension contribution £'000	Performance related £'000	Benefits in kind £'000	2010 Total £'000	2009 Total £'000	2010 Gain on exercise of share options £'000	2009 Gain on exercise of share options £'000
Mark Clare	630	189	–	568	30	1,417	847	–	–
David Thomas**	384	96	–	362	13	855	–	–	–
Steven Boyes	350	105	–	316	23	794	370	1	–
Clive Fenton	350	70	35	310	25	790	379	1	–
Mark Pain*	217	29	–	–	5	251	462	–	–
Bob Lawson	270	–	–	–	–	270	270	–	–
Bob Davies^^	55	–	–	–	–	55	53	–	–
Tessa Bamford	40	–	–	–	–	40	–	–	–
Rod MacEachrane	40	–	–	–	–	40	40	–	–
Mark Rolfe^^	50	–	–	–	–	50	49	–	–
Bill Shannon	40	–	–	–	–	40	40	–	–
<b>Total</b>	<b>2,426</b>	<b>489</b>	<b>35</b>	<b>1,556</b>	<b>96</b>	<b>4,602</b>	<b>2,533^</b>	<b>2</b>	<b>–</b>

\* Mark Pain stepped down from his position as a Director of the Company on 21 July 2009 however he continued to be employed by the Company up until 31 October 2009. Accordingly the figures above include salary and benefits paid to Mark Pain for the period 1 July 2009 to 31 October 2009 together with the one off payment made to him in consideration of him remaining in employment with the Company beyond his notice period.

\* The figures for David Thomas cover the period commencing from the date of his appointment on 21 July 2009 to 30 June 2010.

^ This figure includes £23,000 in relation to Michael Pescod who resigned on 31 December 2008.

^^ These figures include fees in respect of Chairmanship of Board Committees.

The Executive Directors receive taxable benefits in kind covering the provision of a motor vehicle, private medical insurance, some telephone costs and payment towards the cost of obtaining independent tax advice.

There was no compensation for loss of office or any taxable expenses paid to the Directors during this financial year.

From 1 July 2009 to 21 July 2009 inclusive Mark Pain received fees totalling £8,970 in respect of his Non-Executive Directorships with Punch Taverns plc, Johnston Press PLC and LSL Property Services PLC. Mark Pain was entitled to and did retain these fees.

**Directors' interests in shares**

The interests of the Directors serving during the financial year and their connected persons in the ordinary share capital of the Company at the beginning and end of the year are shown below.

No notification has been received of any change in the interests below during the period 30 June 2010 to 7 September 2010 inclusive.

	30 June 2010		30 June 2009	
	Fully paid	Number of share options and awards **	Fully paid	Number of share options
Mark Clare	1,218,698	2,993,066	529,869	1,060,769
David Thomas	186,000	1,684,244	–	–
Steven Boyes	373,221	1,826,014	161,962	695,019
Clive Fenton	259,401	1,672,117	101,273	594,102
Mark Pain*	100,000*	–	100,000	10,769
Bob Lawson	490,242	–	213,149	–
Bob Davies	23,000	–	10,000	–
Rod MacEachrane	27,600	–	12,000	–
Tessa Bamford	26,500	–	–	–
Mark Rolfe	69,000	–	30,000	–
Bill Shannon	11,578	–	5,034	–

\* Shareholding as at 21 July 2009, being the date on which Mark Pain stepped down as a Director of the Company.

\*\* Following the Company's Placing and Rights Issue on 4 November 2009 all Share Scheme entitlements, including number of shares under option/award and option price per share, were adjusted to reflect the impact of the Rights Issue in accordance with the requirements of the schemes by a formula approved by HMRC.

## Long-Term Incentive Schemes

Details of movements in the Directors' interests in executive long-term incentive schemes are as follows

			During the year							
	Date of award	At 30/06/09 No	Adjustment for Placing and Rights Issue^	Vested No ***	Lapsed No	At 30/06/10 No	Date from which exercisable*	Market price on award pence^	Market price at vesting pence	Gain receivable £
<b>Mark Clare</b>										
LTPP	16 11 2006	111,861	–	–	(111,861)	–	16 11 2009	1,095 0	–	–
LTPP	21 12 2007	212,770	111,701	–	–	<b>324,471</b>	21 12 2010	431 0	–	–
Co-Investment Plan	18 10 2007	8,500	4,462	–	–	<b>12,962</b>	18 10 2010	659 0	–	–
<b>Mark Pain**</b>										
LTPP	16 11 2006	59,595	–	–	(59,595)	–	16 11 2009	1,095 0	–	–
LTPP	21 12 2007	118,206	–	–	(118,206)	–	21 12 2010	431 0	–	–
Co-Investment Plan	03 12 2006	314	82	(239)	(157)	–	03 12 2009	1,152 0	126 7	303
Co-Investment Plan	18 10 2007	6,038	1,584	–	(3,019)	<b>4,603</b>	18 10 2010	659 0	–	–
<b>Steven Boyes</b>										
LTPP	16 11 2006	59,595	–	–	(59,595)	–	16 11 2009	1,095 0	–	–
LTPP	21 12 2007	118,206	62,056	–	–	<b>180,262</b>	21 12 2010	431 0	–	–
Co-Investment Plan	03 12 2006	930	244	(709)	(465)	–	03 12 2009	1,152 0	126 7	898
Co-Investment Plan	18 10 2007	6,038	3,168	–	–	<b>9,206</b>	18 10 2010	659 0	–	–
<b>Clive Fenton</b>										
LTPP	16 11 2006	59,595	–	–	(59,595)	–	16 11 2009	1,095 0	–	–
LTPP	21 12 2007	118,206	62,056	–	–	<b>180,262</b>	21 12 2010	431 0	–	–
Co-Investment Plan	03 12 2006	930	244	(709)	(465)	–	03 12 2009	1,152 0	126 7	898
Co-Investment Plan	18 10 2007	6,038	3,168	–	–	<b>9,206</b>	18 10 2010	659 0	–	–

\* The earliest date on which an award may vest in normal circumstances, having fulfilled all qualifying conditions, after which ordinary shares are transferred automatically as soon as possible

\*\* Mark Pain stepped down as a Director on 21 July 2009

\*\* These figures relate to the number of shares returned to participants in respect of the Basic Award arising from deferred annual bonus. The Matching Award lapsed. There were no qualifying conditions attached to these awards

^ Following the Company's Placing and Rights Issue on 4 November 2009, all Share Scheme entitlements, including number of shares under option/award and option price per share were adjusted to reflect the impact of the Rights Issue in accordance with the requirements of the schemes by a formula approved by HMRC

No new awards were made under any long-term incentive scheme during the year ended 30 June 2010

The performance of the TSR and EPS elements of the LTPP awards granted in 2007 will be tested at the end of the TSR performance period in December 2010

The performance of the TSR and EPS elements of the Co-Investment Plan award granted in 2007 was tested after the year end and neither of the targets had been achieved. Accordingly, the Basic Award will be returned to participants and the Matching Award will lapse

The performance conditions for the LTPP and Co-Investment Plan awards are described on pages 46 and 47

**Directors' share options**

Details of movements in the Directors' interests in executive share options are as follows

		During the year									
	Date of grant	At 30/06/09 No	Adjustment for Placing and Rights Issue^	Granted No	Exercised No	Lapsed No	At 30/06/10 No	Exercise price pence^	Date from which exercisable	Latest expiry	
Mark Clare											
ESOS	18 12 2008	49,180	25,818	–	–	–	74,998	40	18 12 2011	17 12 2018	
ESOS	18 12 2008	1,000,820	525,417	–	–	–	1,526,237	36 40	18 12 2011	17 12 2018	
SRSOS	03 02 2009	10,769	5,653	–	–	–	16,422	57 08	01 04 2012	30 09 2012	
ESOS	10 12 2009	–	–	1,037,976	–	–	1,037,976	121 39	10 12 2012	09 12 2019	
David Thomas											
ESOS	25 09 2009	–	349,990	666,666	–	–	1,016,656	36 06	17 12 2011	16 12 2018	
ESOS	10 12 2009	–	–	25,458	–	–	25,458	117 84	10 12 2012	09 12 2019	
ESOS	10 12 2009	–	–	634,319	–	–	634,319	121 39	10 12 2012	09 12 2019	
SRSOS	29 03 2010	–	–	7,811	–	–	7,811	116 18	01 06 2013	30 11 2013	
Steven Boyes											
ESOS	18 12 2008	49,180	25,818	–	–	–	74,998	40	18 12 2011	17 12 2018	
ESOS	18 12 2008	534,153	280,423	–	–	–	814,576	36 40	18 12 2011	17 12 2018	
ESOP	10 10 2003	100,917	52,980	–	–	–	153,897	357 37	10 10 2006	09 10 2013	
SRSOS	03 02 2009	10,769	5,653	–	–	–	16,422	57 08	01 04 2012	30 09 2012	
ESOS	10 12 2009	–	–	576,653	–	–	576,653	121 39	10 12 2012	09 12 2019	
Clive Fenton											
ESOS	18 12 2008	49,180	25,818	–	–	–	74,998	40	18 12 2011	17 12 2018	
ESOS	18 12 2008	534,153	280,423	–	–	–	814,576	36 40	18 12 2011	17 12 2018	
SRSOS	03 02 2009	10,769	5,653	–	–	–	16,422	57 08	01 04 2012	30 09 2012	
ESOS	10 12 2009	–	–	576,653	–	–	576,653	121 39	10 12 2012	09 12 2019	

^ Following the Company's Placing and Rights Issue on 4 November 2009 all Share Scheme entitlements, including number of shares under option/award and option price per share, were adjusted to reflect the impact of the Rights Issue in accordance with the requirements of the schemes by a formula approved by HMRC

The ESOS is divided into two sub-schemes, one of which is approved under the Income Tax (Earnings and Pensions) Act 2003 and the other which is not. The exercise price is calculated differently for each sub-scheme in accordance with the rules of the ESOS. The performance conditions for the ESOS grants are described on page 47.

The performance condition set by the Committee for the ESOP award granted in 2003, that the growth in EPS of the Company over a period of three consecutive financial years should exceed the growth in the RPI by at least 9%, was met in 2006, but the option has not yet been exercised.

The mid-market share price of the Company on 30 June 2010 was 94.8 pence. The mid-market high and low share prices of the Company during the year were 294.8 pence and 93.7 pence respectively. During the year, 72,916,666 ordinary shares were issued at 240 pence per share pursuant to the Placing and 545,525,090 ordinary shares were issued at 100 pence per share pursuant to the Rights Issue.

### Directors' pension benefits

Steven Boyes and Clive Fenton were members of the Scheme during the year ended 30 June 2010. Details of their accrued benefits are as follows:

	Increase in accrued pension over the year to 30 June 2010 (net of inflation) contributions £	Total pension accrued at the end of the year £	Transfer value of the increase in accrued pension over the year to 30 June 2010 (net of inflation) less Directors' contributions £	Increase in accrued pension over the year to 30 June 2010 £	Transfer value of accrued pension at 30 June 2010 £	Transfer value of accrued pension at 30 June 2009 £	Change in transfer value over the year £
<b>Steven Boyes</b>	3,885	271,417	58,464	86	4,057,346	3,678,847	378,499
<b>Clive Fenton</b>	598	41,464	8,382	18	579,702	513,376	66,326

### Notes

With effect from 30 June 2009, the Scheme ceased to offer future accrual of defined benefit pensions for current employees and the link between accrued benefits and future salary increases was removed.

The total pension accrued at the end of the year is the amount that the Director had accrued when the Scheme ceased to offer future accrual at 30 June 2009 plus revaluation in line with the Scheme rules.

Whilst the inflation measure has been negative the accrued pensions have increased marginally in line with the Scheme rules.

All transfer values have been calculated on the basis of actuarial advice in accordance with the Occupational Pension Schemes (Transfer Value) (Amendment) Regulations 2008. The transfer values of the accrued pension represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the Scheme's liability in respect of the Directors' pension benefits. They do not represent sums payable to individual Directors and, therefore, cannot be added meaningfully to annual remuneration.

The increase in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and its Directors, such as Stock Market movements.

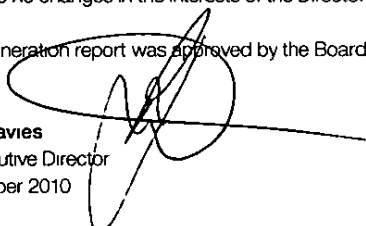
The figures do not take account of any retained benefits the members may have.

Except as disclosed in respect of Clive Fenton on pages 48 and 50, none of the Directors have any rights under the Company's money purchase pension scheme.

There were no changes in the interests of the Directors shown above between 30 June 2010 and 7 September 2010.

The Remuneration report was approved by the Board on 7 September 2010 and signed on its behalf by

**Robert Davies**  
Non-Executive Director  
7 September 2010



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

### Financial statements and accounting records

The Directors are responsible for preparing the Annual Report and Accounts including the Directors' Remuneration report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the International Accounting Standards Regulation (the 'IAS Regulation') to prepare the Group financial statements under International Financial Reporting Standards as adopted by the European Union ('IFRS') and have also elected to prepare the Parent Company financial statements in accordance with IFRS. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation. Under the Disclosure and Transparency Rules, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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


### Directors' responsibility statement

The Directors confirm that, to the best of each person's knowledge

- the Group and Parent Company financial statements contained in this report have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, International Financial Reporting Interpretations Committee interpretations and Standing Interpretations Committee interpretations as adopted and endorsed by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole, and
- the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties they face

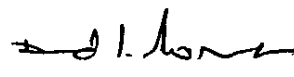
The Directors of the Company and their functions are listed on pages 28 and 29

By order of the Board

  
M S Clare

Group Chief Executive

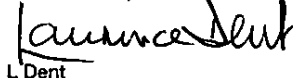
7 September 2010

  
D F Thomas

Group Finance Director

7 September 2010

The Directors' Report from pages 4 to 54 inclusive was approved by the Board on 7 September 2010 and is signed on its behalf by

  
L Dent

Group General Counsel and Company Secretary

7 September 2010



# INDEPENDENT AUDITORS' REPORT

## To the members of Barratt Developments PLC

We have audited the financial statements of Barratt Developments PLC for the year ended 30 June 2010 which comprise the Consolidated income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of comprehensive income, the Group and Parent Company statements of changes in shareholders' equity, the Accounting policies and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union ('IFRS') and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

## Opinion on financial statements

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 30 June 2010 and of the Group's loss for the year then ended,

- the Group financial statements have been properly prepared in accordance with IFRS,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs 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.

## Opinion on other matters prescribed by the Companies Act 2006

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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 contained within the Directors' Report in relation to going concern, and
- the part of the Corporate Governance statement relating to the Parent Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

*G. Richardson*

Graham Richardson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

7 September 2010

# CONSOLIDATED INCOME STATEMENT

## Year ended 30 June 2010

	Notes	2010 Before exceptional items £m	2010 Exceptional items (note 3) £m	2010 £m	2009 Before exceptional items £m	2009 Exceptional items (note 3) £m	2009 £m
<b>Continuing operations</b>							
Revenue	1,2	2,035 2	–	2,035 2	2,285 2	–	2,285 2
Cost of sales		(1,850 4)	(4 8)	(1,855 2)	(2,155 8)	(499 5)	(2,655 3)
<b>Gross profit/(loss)</b>		<b>184 8</b>	<b>(4 8)</b>	<b>180 0</b>	<b>129 4</b>	<b>(499 5)</b>	<b>(370 1)</b>
Administrative expenses		(94 7)	(11 0)	(105 7)	(95 2)	(20 0)	(115 2)
<b>Profit/(loss) from operations</b>	4	<b>90 1</b>	<b>(15 8)</b>	<b>74 3</b>	<b>34 2</b>	<b>(519 5)</b>	<b>(485 3)</b>
Finance income	5	13 4	–	13 4	18 0	–	18 0
Finance costs	5	(135 0)	(114 1)	(249 1)	(195 3)	(13 3)	(208 6)
Net finance costs	5	(121 6)	(114 1)	(235 7)	(177 3)	(13 3)	(190 6)
Share of post-tax loss from joint ventures	13	(1 5)	–	(1 5)	(1 0)	(2 0)	(3 0)
<b>Loss before tax</b>		<b>(33 0)</b>	<b>(129 9)</b>	<b>(162 9)</b>	<b>(144 1)</b>	<b>(534 8)</b>	<b>(678 9)</b>
Tax	7	9 1	35 4	44 5	62 0	148 3	210 3
<b>Loss for the year from continuing operations</b>		<b>(23 9)</b>	<b>(94 5)</b>	<b>(118 4)</b>	<b>(82 1)</b>	<b>(386 5)</b>	<b>(468 6)</b>
<b>Loss for the year attributable to equity shareholders</b>		<b>(23 9)</b>	<b>(94 5)</b>	<b>(118 4)</b>	<b>(82 1)</b>	<b>(386 5)</b>	<b>(468 6)</b>
<b>Loss per share from continuing operations</b>							
Basic and diluted (restated*)	9			<b>(14 5)p</b>			<b>(89 1)p</b>

\* Loss per share from continuing operations has been adjusted to reflect the Rights Issue as required by IAS 33 Earnings per Share

# STATEMENTS OF COMPREHENSIVE INCOME

## Year ended 30 June 2010

	Notes	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
<b>Loss for the year</b>		<b>(118 4)</b>	<b>(468 6)</b>	<b>(143 6)</b>	<b>(20 2)</b>
<b>Other comprehensive (expense)/income</b>					
Losses on cash flow hedges	5,29	(43 6)	(62 8)	(43 6)	(62 8)
Actuarial losses on defined benefit pension schemes	26	(26 3)	(14 1)	(26 3)	(14 1)
Tax credit on items taken directly to equity	7	19 9	21 8	19 5	21 6
<b>Net loss recognised directly in equity</b>		<b>(50 0)</b>	<b>(55 1)</b>	<b>(50 4)</b>	<b>(55 3)</b>
Amortisation of losses on cancelled interest rate swaps deferred in equity	5	0 2	0 4	0 2	0 4
Transfer from/(to) income statement on cash flow hedges – non exceptional	29	14 1	(21 7)	14 1	(21 7)
Transfer from income statement on cash flow hedges – exceptional	29	50 1	–	50 1	–
Tax (charge)/credit on items taken directly to equity	7	(18 0)	6 0	(18 0)	6 0
<b>Net profit/(loss) transferred</b>		<b>46 4</b>	<b>(15 3)</b>	<b>46 4</b>	<b>(15 3)</b>
<b>Total comprehensive expense recognised for the year attributable to equity shareholders</b>		<b>(122 0)</b>	<b>(539 0)</b>	<b>(147 6)</b>	<b>(90 8)</b>

The notes on pages 61 to 127 form an integral part of these financial statements

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## Group 30 June 2010

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Own shares £m	Share- based payments £m	Retained earnings £m	Total retained earnings £m	Total £m
<b>At 1 July 2008</b>	34 7	206 6	1,109 0	(3 4)	(2 8)	14 0	1,509 7	1,520 9	2,867 8
Loss for the year	-	-	-	-	-	-	(468 6)	(468 6)	(468 6)
Losses on cash flow hedges	-	-	-	(62 8)	-	-	-	-	(62 8)
Transfer to income statement on cash flow hedges	-	-	-	(21 7)	-	-	-	-	(21 7)
Amortisation of losses on cancelled interest rate swaps deferred in equity	-	-	-	0 4	-	-	-	-	0 4
Actuarial losses on pension scheme	-	-	-	-	-	-	(14 1)	(14 1)	(14 1)
Tax on items taken directly to equity	-	-	-	23 6	-	0 2	4 0	4 2	27 8
<b>Total comprehensive expense recognised for the year ended 30 June 2009</b>	-	-	-	(60 5)	-	0 2	(478 7)	(478 5)	(539 0)
Share-based payments	-	-	-	-	-	2 8	-	2 8	2 8
Transfer of share-based payments charge for non-vested options	-	-	-	-	-	(2 1)	2 1	-	-
<b>At 30 June 2009</b>	34 7	206 6	1,109 0	(63 9)	(2 8)	14 9	1,033 1	1,045 2	2,331 6
Loss for the year	-	-	-	-	-	-	(118 4)	(118 4)	(118 4)
Losses on cash flow hedges	-	-	-	(43 6)	-	-	-	-	(43 6)
Transfer from income statement on cash flow hedges – non exceptional	-	-	-	14 1	-	-	-	-	14 1
Transfer from income statement on cash flow hedges – exceptional	-	-	-	50 1	-	-	-	-	50 1
Amortisation of losses on cancelled interest rate swaps deferred in equity	-	-	-	0 2	-	-	-	-	0 2
Actuarial losses on pension scheme	-	-	-	-	-	-	(26 3)	(26 3)	(26 3)
Tax on items taken directly to equity	-	-	-	(5 8)	-	0 4	7 3	7 7	1 9
<b>Total comprehensive expense recognised for the year ended 30 June 2010</b>	-	-	-	15 0	-	0 4	(137 4)	(137 0)	(122 0)
Share-based payments	-	-	-	-	-	(0 2)	-	(0 2)	(0 2)
Issue of shares	61 8	-	-	-	-	-	658 7	658 7	720 5
Fees relating to issue of shares	-	-	-	-	-	-	(27 5)	(27 5)	(27 5)
Purchase of shares by Employee Benefit Trust	-	-	-	-	(2 2)	-	-	(2 2)	(2 2)
Transfer of share-based payments charge for non-vested options	-	-	-	-	-	(1 9)	1 9	-	-
<b>At 30 June 2010</b>	96 5	206 6	1,109 0	(48 9)	(5 0)	13 2	1,528 8	1,537 0	2,900 2

\* Ordinarily the excess of the proceeds over the nominal value of the share capital would be credited to non-distributable share premium account. However the Placing and the Rights Issue were effected through a structure which resulted in the excess of the proceeds over the nominal value of the share capital issued being recognised within retained earnings.

The notes on pages 61 to 127 form an integral part of these financial statements

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## Company 30 June 2010

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Own shares £m	Share- based payments £m	Retained earnings £m	Total retained earnings £m	Total £m
<b>At 1 July 2008</b>	34.7	206.6	1,109.0	(3.4)	(2.8)	10.8	1,151.6	1,159.6	2,506.5
Loss for the year	-	-	-	-	-	-	(20.2)	(20.2)	(20.2)
Losses on cash flow hedges	-	-	-	(62.8)	-	-	-	-	(62.8)
Transfer to income statement on cash flow hedges	-	-	-	(21.7)	-	-	-	-	(21.7)
Amortisation of losses on cancelled interest rate swaps deferred in equity	-	-	-	0.4	-	-	-	-	0.4
Actuarial losses on pension scheme	-	-	-	-	-	-	(14.1)	(14.1)	(14.1)
Tax on items taken directly to equity	-	-	-	23.6	-	-	4.0	4.0	27.6
<b>Total comprehensive expense recognised for the year ended 30 June 2009</b>	-	-	-	(60.5)	-	-	(30.3)	(30.3)	(90.8)
Share-based payments	-	-	-	-	-	2.8	-	2.8	2.8
Transfer of share-based payments charge for non-vested options	-	-	-	-	-	(2.1)	2.1	-	-
<b>At 30 June 2009</b>	34.7	206.6	1,109.0	(63.9)	(2.8)	11.5	1,123.4	1,132.1	2,418.5
Loss for the year	-	-	-	-	-	-	(143.6)	(143.6)	(143.6)
Losses on cash flow hedges	-	-	-	(43.6)	-	-	-	-	(43.6)
Transfer from income statement on cash flow hedges – non exceptional	-	-	-	14.1	-	-	-	-	14.1
Transfer from income statement on cash flow hedges – exceptional	-	-	-	50.1	-	-	-	-	50.1
Amortisation of losses on cancelled interest rate swaps deferred in equity	-	-	-	0.2	-	-	-	-	0.2
Actuarial losses on pension scheme	-	-	-	-	-	-	(26.3)	(26.3)	(26.3)
Tax on items taken directly to equity	-	-	-	(5.8)	-	-	7.3	7.3	1.5
<b>Total comprehensive expense recognised for the year ended 30 June 2010</b>	-	-	-	15.0	-	-	(162.6)	(162.6)	(147.6)
Share-based payments	-	-	-	-	-	(0.2)	-	(0.2)	(0.2)
Issue of shares	61.8	-	-	-	-	-	658.7	658.7	720.5
Fees relating to issue of shares	-	-	-	-	-	-	(27.5)	(27.5)	(27.5)
Purchase of shares by Employee Benefit Trust	-	-	-	-	(2.2)	-	-	(2.2)	(2.2)
Transfer of share-based payments charge for non-vested options	-	-	-	-	-	(1.9)	1.9	-	-
<b>At 30 June 2010</b>	96.5	206.6	1,109.0	(48.9)	(5.0)	9.4	1,593.9	1,598.3	2,961.5

\* Ordinarily, the excess of the proceeds over the nominal value of the share capital would be credited to non distributable share premium account. However, the Placing and the Rights Issue were effected through a structure which resulted in the excess of the proceeds over the nominal value of the share capital issued being recognised within retained earnings.

The notes on pages 61 to 127 form an integral part of these financial statements

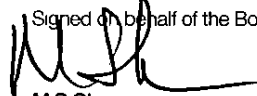
# BALANCE SHEETS

At 30 June 2010

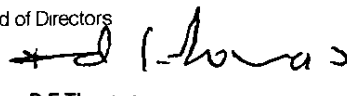
	Notes	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Other intangible assets	11	100 0	100 0	–	–
Goodwill	10	792 2	792 2	–	–
Property, plant and equipment	12	6 7	9 9	1 1	2 8
Investments	14	–	–	2,615 4	2,416 0
Investments accounted for using the equity method	13	79 9	83 2	–	–
Available for sale financial assets	15	136 3	86 5	–	–
Trade and other receivables	18	0 8	1 5	–	–
Deferred tax assets	16	173 3	127 3	80 8	34 6
Derivative financial instruments – swaps	24	32 7	31 9	32 7	31 9
		1,321 9	1,232 5	2,730 0	2,485 3
<b>Current assets</b>					
Inventories	17	3,342 3	3,540 8	–	–
Trade and other receivables	18	66 1	41 5	899 8	1,512 7
Cash and cash equivalents	21	546 5	178 8	522 1	163 0
Current tax assets		–	50 6	–	–
		3,954 9	3,811 7	1,421 9	1,675 7
<b>Total assets</b>		<b>5,276 8</b>	<b>5,044 2</b>	<b>4,151 9</b>	<b>4,161 0</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Loans and borrowings	23	(918 6)	(1,475 6)	(918 6)	(1,475 6)
Trade and other payables	19	(300 8)	(245 4)	–	–
Retirement benefit obligations	26	(46 1)	(31 5)	(46 1)	(31 5)
Derivative financial instruments – swaps	24	(72 4)	(89 2)	(72 4)	(89 2)
		(1,337 9)	(1,841 7)	(1,037 1)	(1,596 3)
<b>Current liabilities</b>					
Loans and borrowings	23	(23 2)	(8 5)	(116 3)	(111 8)
Trade and other payables	19	(1,012 7)	(862 4)	(36 1)	(34 4)
Current tax liabilities		(2 8)	–	(0 9)	–
		(1,038 7)	(870 9)	(153 3)	(146 2)
<b>Total liabilities</b>		<b>(2,376 6)</b>	<b>(2,712 6)</b>	<b>(1,190 4)</b>	<b>(1,742 5)</b>
<b>Net assets</b>		<b>2,900 2</b>	<b>2,331 6</b>	<b>2,961 5</b>	<b>2,418 5</b>
<b>Equity</b>					
Share capital	27	96 5	34 7	96 5	34 7
Share premium		206 6	206 6	206 6	206 6
Merger reserve		1,109 0	1,109 0	1,109 0	1,109 0
Hedging reserve		(48 9)	(63 9)	(48 9)	(63 9)
Retained earnings		1,537 0	1,045 2	1,598 3	1,132 1
<b>Total equity</b>		<b>2,900 2</b>	<b>2,331 6</b>	<b>2,961 5</b>	<b>2,418 5</b>

The financial statements of Barratt Developments PLC (registered number 604574) were approved by the Board of Directors and authorised for issue on 7 September 2010

Signed on behalf of the Board of Directors



MS Clare  
Group Chief Executive



DF Thomas  
Group Finance Director

The notes on pages 61 to 127 form an integral part of these financial statements

# CASH FLOW STATEMENTS

## Year ended 30 June 2010

	Notes	2010 £m	Group 2009 (restated*) £m	2010 £m	Company 2009 (restated*) £m
<b>Net cash inflow from operating activities</b>	30	<b>291 4</b>	<b>407 8</b>	<b>245 3</b>	<b>181 2</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	12	(0 4)	(2 1)	(0 3)	(2 0)
Proceeds from sale of property, plant and equipment		–	2 3	–	–
Acquisition of subsidiaries net of cash acquired		–	(4 0)	–	–
Decrease/(increase) in investments accounted for using the equity method	13	1 8	(20 7)	–	–
Interest received		6 5	3 7	55 9	172 6
<b>Net cash inflow/(outflow) from investing activities</b>		<b>7 9</b>	<b>(20 8)</b>	<b>55 6</b>	<b>170 6</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital	27	720 5	–	720 5	–
Share issue costs	27	(27 5)	–	(27 5)	–
Purchases of shares by Employee Benefit Trust	27	(2 2)	–	(2 2)	–
Make-whole fee on redemption of private placement notes	3	(4 9)	–	(4 9)	–
Hedging termination costs		(49 7)	–	(49 7)	–
Other fees related to amendment of financing arrangements	5	(6 5)	–	(6 5)	–
Loan repayments		(561 3)	(241 0)	(571 5)	(188 8)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>68 4</b>	<b>(241 0)</b>	<b>58 2</b>	<b>(188 8)</b>
<b>Net increase in cash and cash equivalents</b>		<b>367 7</b>	<b>146 0</b>	<b>359 1</b>	<b>163 0</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>178 8</b>	<b>32 8</b>	<b>163 0</b>	<b>–</b>
<b>Cash and cash equivalents at the end of year</b>	21	<b>546 5</b>	<b>178 8</b>	<b>522 1</b>	<b>163 0</b>

\* The categorisation of various items within the cash flow statements for the year ended 30 June 2009 has been reclassified for consistency of presentation with the year ended 30 June 2010

The notes on pages 61 to 127 form an integral part of these financial statements

# ACCOUNTING POLICIES

Year ended 30 June 2010

## Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and Standing Interpretations Committee ('SIC') interpretations as adopted and endorsed by the European Union ('EU') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and therefore the Group financial statements comply with Article 4 of the EU International Accounting Standards Regulation. The financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, derivative financial instruments and share based payments. A summary of the more significant Group accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amounts, actual results may ultimately differ from those estimates. The most significant estimates made by the Directors in these financial statements are set out in 'Critical accounting judgements and key sources of estimation uncertainty'.

## Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The Group's business activities, together with factors which the Directors consider are likely to affect its future development, financial performance and financial position are set out in the Group Chief Executive's review on pages 6 to 9 and the Business review on pages 12 to 21. The material financial and operational risks and uncertainties that may impact the Group's performance and their mitigation are outlined on pages 26 and 27 and financial risks including liquidity risk, market risk, credit risk and capital risk are outlined in note 25 to the financial statements.

The financial performance of the Group is dependent upon the wider economic environment in which the Group operates. As explained in the Principal risks on pages 26 and 27, factors that particularly impact upon the performance of the Group include changes in the macroeconomic environment including buyer confidence, availability of mortgage finance for the Group's purchasers and interest rates.

On 23 September 2009 the Company announced a fully underwritten Placing and Rights Issue, raising gross proceeds

of £720.5m, together with amended financing arrangements. The equity issue was completed on 4 November 2009 and the amended financing arrangements came into effect on 16 November 2009.

The Placing and the Rights Issue, together with the amended financing arrangements, have significantly strengthened the position of the Group and have enabled the Group to take advantage of land acquisition opportunities. There has been some recovery in the new housing market during the year, although the market remains subject to economic uncertainty and a lack of mortgage finance particularly in the higher loan to value segment. The amended financing arrangements provide an appropriate alternative framework for the Group should a further downturn arise.

Accordingly, after making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being at least twelve months from the date of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Adoption of new and revised standards

In the year ended 30 June 2010, the Group has adopted

IAS1 (revised) 'Presentation of Financial Statements', IFRS8 'Operating Segments', IAS23 (revised) 'Borrowing Costs', IFRS2 (revised) 'Share-based Payments', Amendment to IFRS7 'Improving Disclosures about Financial Instruments', IFRS3 (revised) 'Business Combinations', IFRIC15 'Agreements for the construction of real estate', Amendment to IFRS1 and IAS27 'Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate', certain Improvements to IFRSs, Amendment to IAS39 'Eligible hedged items', IFRIC16 'Hedges of a net investment in a foreign operation', Amendments to IAS32 'Financial Instruments: Presentation' and IAS1 'Presentation of financial statements for certain puttable financial instruments and obligations arising on liquidation', IAS27 (revised) 'Consolidated and separate financial statements', IFRS1 (revised) 'First Time Adoption of IFRS', IFRIC17 'Distributions of Non-Cash Assets to Owners', IFRIC18 'Transfers of Assets from Customers' and Amendments to IFRIC9/IAS39 'Embedded derivatives'.

## IAS1 (revised) 'Presentation of Financial Statements'

- IAS1 (revised) requires the production of a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is a choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The Group has elected to present comprehensive

income in two statements. In addition, IAS1 (revised) requires the statement of changes in shareholders' equity to be presented as a primary statement. The other revisions to IAS1 have not had a significant impact on the presentation of the Group's financial information. Following the adoption of IAS1 (revised), having assessed the materiality of restatements arising from the adoption of new standards and interpretations in the financial statements for the year ended 30 June 2010, and the impact of restating earnings per share in accordance with IAS33 following the Rights Issue, the Directors consider that these have not had a significant impact upon these financial statements and accordingly balance sheets at 30 June 2008 are not presented.

#### IFRS8 'Operating Segments'

- IFRS8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which in the case of the Group is the Board, to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (IAS14 'Segment Reporting') required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The Group has determined in accordance with IFRS8 that its reported operating segments will be based on business segments (which were the basis of its primary operating segments under IAS14), and the segmental information set out in note 2 is presented on this basis. The adoption of this standard has not resulted in a change in the Group's reportable segments and accordingly there has been no change in the allocation of goodwill between existing cash-generating units. IFRS8 also requires the disclosure of information about geographical segmentation. As the Group operates in a single geographic market, no secondary segmentation is provided.

#### IAS23 (revised) 'Borrowing Costs'

- IAS23 (revised) requires the capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use) as part of the cost of the asset. The amendment removes the option of immediately expensing borrowing costs, subject to an exemption for inventories manufactured in large numbers on a repetitive basis.

The Group has evaluated its business processes and where developments are considered to fall under the requirements of IAS23 (revised) costs are capitalised. Borrowing costs of £nil have been capitalised at 30 June 2010. IAS23 (revised) applies prospectively and therefore no restatement to prior years is required on implementation.

#### IFRS2 (revised) 'Share-based Payments'

- The amendment to IFRS2 requires non-vesting conditions to be taken into account in the estimate of the fair value of the equity instruments. The adoption of the amendment has resulted in a charge of £0.4m in the administrative expenses charged in the consolidated income statement for the year ended 30 June 2010 and no net change in equity at 30 June 2010. The change in accounting policy had no impact upon the prior year consolidated income statement or equity.

#### Amendment to IFRS7 'Improving Disclosures about Financial Instruments'

- The amendment to IFRS7 expands the disclosure requirements in respect of fair value measurements recognised in the statement of financial position. The amendment has required additional disclosures in the financial statements in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative financial information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

#### IFRS3 (revised) 'Business Combinations'

- The revision to IFRS3 requires transaction costs to be expensed rather than included as costs of acquisition, and contingent consideration will be required to be fair valued. In addition, there will be a choice of two goodwill measurement methods where less than 100% of the entity is acquired. Implementation of the revision to IFRS3 has not impacted upon the financial statements in the current year, however, it will have a significant impact on any future acquisitions.

#### IFRIC15 'Agreements for the construction of real estate'

- IFRIC15 provides guidance on whether the construction of real estate should be accounted for under IAS11 or IAS18. The Group already accounted for the construction of real estate in accordance with IFRIC15, and accordingly implementation of the interpretation has not impacted upon the Group.

The adoption of the following standards, interpretations and amendments has not had any impact upon the profit or net assets of the Group in either the current year or comparative year and has not required any additional disclosures.

- Amendment to IFRS1 and IAS27 'Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate',
- Certain Improvements to IFRSs,
- Amendment to IAS39 'Eligible hedged items',
- IFRIC16 'Hedges of a net investment in a foreign operation',
- Amendments to IAS32 'Financial Instruments: Presentation' and IAS1 'Presentation of financial statements for certain puttable financial instruments and obligations arising on liquidation',
- IAS27 (revised) 'Consolidated and separate financial statements',
- IFRS1 (revised) 'First Time Adoption of IFRS',
- IFRIC17 'Distributions of Non Cash Assets to Owners',



- IFRIC18 'Transfers of Assets from Customers', and
- Amendments to IFRIC9/IAS39 'Embedded derivatives'

#### Basis of consolidation

The Group financial statements include the results of Barratt Developments PLC (the 'Parent Company') and all its subsidiary undertakings made up to 30 June. The financial statements of subsidiary undertakings are consolidated from the date when control passes to the Group using the purchase method of accounting and up to the date control ceases. All transactions with subsidiaries and inter-company profits or losses are eliminated on consolidation.

#### Business combinations

All of the subsidiaries' identifiable assets and liabilities, including contingent liabilities, existing at the date of acquisition are recorded at their fair values. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are included in the post-acquisition income statement.

#### 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. Jointly controlled entities are accounted for using the equity method of accounting.

#### Jointly controlled operations

The Group enters into jointly controlled operations as part of its housebuilding and property development activities. The Group's share of profits and losses from its investments in such jointly controlled operations is accounted for on a direct basis and is included in the consolidated income statement. The Group's share of its investments, assets and liabilities is accounted for on a directly proportional basis in the Group balance sheet.

#### Revenue

Revenue is recognised at legal completion in respect of the total proceeds of building and development and an appropriate proportion of revenue from construction contracts is recognised by reference to the stage of completion of contract activity. Revenue is measured at the fair value of consideration received or receivable and represents the amounts receivable for the property, net of discounts and VAT. The sale proceeds of part-exchange properties are not included in revenue.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

#### Construction contracts

Revenue is only recognised on a construction contract where the outcome can be estimated reliably. Variations to, and claims arising in respect of, construction contracts, are included in revenue to the extent that they have been agreed with the

customer. Revenue and costs are recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally measured by surveys of work performed to date. Contracts are only treated as construction contracts when they have been specifically negotiated for the construction of a development or property. When it is probable that the total costs on a construction contract will exceed total contract revenue, the expected loss is recognised as an expense in the income statement immediately.

Amounts recoverable on construction contracts are included in trade receivables and stated at cost plus attributable profit less any foreseeable losses. Payments received on account for construction contracts are deducted from amounts recoverable on construction contracts.

Payments received in excess of amounts recoverable on construction contracts are included in trade payables.

#### Exceptional items

Items that are material in size or unusual or infrequent in nature are presented as exceptional items in the income statement. The Directors are of the opinion that the separate presentation of exceptional items provides helpful information about the Group's underlying business performance. Examples of events that, inter alia, may give rise to the classification of items as exceptional are the restructuring of existing and newly-acquired businesses, gains or losses on the disposal of businesses or individual assets, pension scheme curtailments and asset impairments, including land, work in progress, goodwill and investments.

#### Restructuring costs

Restructuring costs are recognised in the income statement when the Group has a detailed plan that has been communicated to the affected parties. A liability is accrued for unpaid restructuring costs.

#### Profit/(loss) from operations

Profit/(loss) from operations includes all of the revenue and costs derived from the Group's operating businesses. Profit/(loss) from operations excludes finance costs, finance income, the Group's share of profits or losses from joint ventures and tax.

#### Segmental reporting

The Group consists of two separate segments for internal reporting regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance, being housebuilding and commercial developments. These segments therefore comprise the primary reporting segments within the financial statements. As all of the Group's operations are within Britain, which is one geographic market in the context of the Group's activities, there are no geographic segments to be disclosed.

**Goodwill**

Goodwill arising on consolidation represents the excess of the fair value of the consideration over the fair value of the separately identifiable net assets and liabilities acquired

Goodwill arising on acquisition of subsidiary undertakings and businesses is capitalised as an asset and reviewed for impairment at least annually

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination at acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in the income statement and is not subsequently reversed.

**Intangible assets****Brands**

Internally generated brands are not capitalised. The Group has capitalised as intangible assets brands that have been acquired. Acquired brand values are calculated using discounted cash flows. Where a brand is considered to have a finite life, it is amortised over its useful life on a straight-line basis. Where a brand is capitalised with an indefinite life, it is not amortised. The factors that result in the durability of brands capitalised are that there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangible assets.

The Group carries out an annual impairment review of indefinite life brands by performing a value-in-use calculation using a discount factor based upon the Group's pre-tax weighted average cost of capital.

**Investments**

Interests in subsidiary undertakings are accounted for at cost less any provision for impairment.

Where share-based payments are granted to the employees of subsidiary undertakings by the Parent Company, they are treated as a capital contribution to the subsidiary and the Company's investment in the subsidiary is increased accordingly.

**Property, plant and equipment**

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of the assets on a straight-line basis to their residual value over their estimated useful lives. Residual values and asset lives are reviewed annually.

Freehold properties are depreciated on a straight-line basis over 25 years. Freehold land is not depreciated. Plant is depreciated on a straight-line basis over its expected useful life, which ranges from one to seven years.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads which have been incurred in bringing the inventories to their present location and condition.

Land held for development, including land in the course of development, is initially recorded at discounted cost. Where, through deferred purchase credit terms, the carrying value differs from the amount that will ultimately be paid in settling the liability, this difference is charged as a finance cost in the income statement over the period of settlement.

Due to the scale of the Group's developments, the Group has to allocate site-wide development costs between units built in the current year and in future years. It also has to estimate costs to complete on such developments. In making these assessments there is a degree of inherent uncertainty. The Group has developed internal controls to assess and review carrying-values and the appropriateness of estimates made.

**Lease as lessee**

Operating lease rentals are charged to the income statement in equal instalments over the life of the lease.

**Leases as lessor**

The Group enters into leasing arrangements with third parties following the completion of constructed developments until the date of the sale of the development to third parties. Rental income from these operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised in the income statement on a straight-line basis over the lease term.

**Share-based payments**

The Group issues both equity settled and cash-settled share-based payments to certain employees. In accordance with the transitional provisions, IFRS2 'Share-based Payments' has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured either using Black-Scholes, Present-Economic Value or Monte Carlo models dependent upon the characteristics of the scheme. The fair value is expensed in the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest where non-market vesting conditions apply.

Non-vesting conditions are taken into account in the estimate of the fair value of the equity instruments

Cash-settled share-based payments are measured at fair value at the date of grant and are re-measured both at the end of each reporting period and at the date of settlement with any changes in fair value being recognised in the income statement for the period. Fair value is measured initially and at the end of each reporting period using a Black-Scholes model and at the date of settlement as cash paid

### **Tax**

The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis

### **Pensions**

#### **Defined contribution**

The Group operates defined contribution pension schemes for certain employees. The Group's contributions to the schemes are charged in the income statement in the year in which the contributions fall due

### **Defined benefit**

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of comprehensive income

Past service cost, until the scheme ceased to offer future accrual of defined benefit pensions to employees from 30 June 2009, was recognised immediately to the extent that the benefits were already vested, and otherwise was amortised on a straight-line basis over the average period until the benefits become vested

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of the scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme

### **Borrowing costs**

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset where developments are considered to fall under the requirements of IAS23 (revised). Otherwise, the Group expenses borrowing costs in the period to which they relate through the income statement

### **Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity

The Group derecognises a financial liability only when the Group's obligations are discharged, cancelled or they expire

### **Financial assets**

Non-derivative financial assets are classified as either 'available for sale financial assets' or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

**Available for sale financial assets**

Non-interest bearing loans granted as part of sales transactions that are secured by way of a second legal charge on the respective property are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in note 15.

Revenue from transactions involving available for sale financial assets is recognised at the fair value of consideration receivable.

Gains and losses arising from changes in fair value are recognised directly in the income statement including impairment losses, changes in future cash flows and interest calculated using the 'effective interest rate' method.

**Trade and other receivables**

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non-current assets and are measured at amortised cost less an allowance for any uncollectable amounts. The net of these balances are classified as 'trade and other receivables' in the balance sheet.

Trade and other receivables are classified as 'loans and receivables'.

**Impairment of financial assets**

Trade and other receivables are assessed for indicators of impairment at each balance sheet date and are impaired where there is objective evidence that the recovery of the receivable is in doubt.

Objective evidence of impairment could include significant financial difficulty of the customer, default on payment terms or the customer going into liquidation.

The carrying amount of trade and other receivables is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

For financial assets classified as available for sale, a significant or prolonged decline in the value of the property underpinning the value of the loan or increased risk of default are considered to be objective evidence of impairment.

In respect of debt instruments classified as available for sale financial assets, increases in the fair value of assets previously subject to impairment, which can be objectively related to an event occurring after recognition of the impairment loss are recognised in the income statement to the extent that they reverse the impairment loss.

**Cash and cash equivalents**

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

Cash and cash equivalents are classified as 'loans and receivables'.

**Financial liabilities and equity**

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into.

**Equity instruments**

Equity instruments consist of the Company's ordinary share capital and are recorded at the proceeds received, net of direct issue costs.

**Financial liabilities**

All non-derivative financial liabilities are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the 'effective interest rate' method.

Other financial liabilities consist of bank borrowings and trade and other payables.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

**Trade and other payables**

Trade and other payables on normal terms are not interest bearing and are stated at amortised cost.

Trade and other payables on extended terms, particularly in respect of land, are recorded at their fair value at the date of acquisition of the asset to which they relate by discounting at prevailing market interest rates at the date of recognition. The discount to nominal value, which will be paid in settling the deferred purchase terms liability, is amortised over the period of the credit term and charged to finance costs using the 'effective interest rate' method.

**Bank borrowings**

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

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.

Finance income and charges are accounted for using the 'effective interest rate' method in the income statement.

Finance costs are recognised as an expense in the income statement in the period to which they relate

### Derivative financial instruments

The Group has entered into derivative financial instruments in the form of interest rate swaps, basis rate swaps and cross currency swaps to manage the interest rate and foreign exchange rate risk arising from the Group's operations and sources of finance. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors as detailed in notes 24 and 25 to the financial statements

The interest rate and cross currency swap arrangements are designated as hedging instruments, being either hedges of a change in future cash flows as a result of interest rate movements, or hedges of a change in future cash flows as a result of foreign currency exchange rate movements

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedging relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than twelve months

### Hedge accounting

All of the Group's interest rate and cross currency swaps are designated as cash flow hedges. At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedged transactions. In addition, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting the changes in cash flows of the hedged items

Details of the fair values of the interest rate and cross currency swaps are provided in notes 22, 23 and 24 to the financial statements. Movements on the hedging reserve in equity are detailed in the statements of changes in shareholders' equity

### Cash flow hedge

To the extent that the Group's cash flow hedges are effective, gains and losses on the fair value of the interest rate and cross currency swap arrangements are deferred in equity in the hedging reserve until realised. On realisation, such gains and losses are recognised within finance charges in the income statement. To the extent that any hedge is ineffective, gains and losses on the fair value of these swap arrangements are recognised immediately in finance charges in the income statement

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss

Hedge accounting is discontinued when the hedging instrument expires or is terminated or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss

### Government grants

Government grants are recognised in the income statement so as to match with the related costs that they are intended to compensate. Grants related to assets are deducted from the carrying amount of the asset. Grants related to income are included in the appropriate line within the income statement

### Kickstart

During the year, the Group has been granted assistance for the development of a number of sites under the Homes and Communities Agency ('HCA') 'Kickstart' scheme. Where receipts under the Kickstart scheme relate to grants they are accounted for in accordance with the policy for government grants stated above

In addition the Group has received cash upon specific sites under the 'Kickstart equity' scheme which is repayable in future periods, as the sites to which it relates are developed, along with the share of the profits or losses attributable to the HCA arising from the sites. This liability is included within borrowings and is initially recognised at fair value by discounting it at prevailing market interest rates at the date of recognition. The discount to nominal value, which will be paid in settling the liability, is amortised over the expected life of the site and charged to finance costs using the 'effective interest rate' method. Gains and losses arising from changes in fair value of the liability related to the HCA's share of the profits or losses of the site are recognised directly in the income statement

## IMPACT OF STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

At the date of approval of these financial statements there were a number of standards, amendments and interpretations that have been published and are therefore mandatory for the Group's accounting periods beginning on or after 1 July 2010 and later periods. All of these have been endorsed by the EU with the exception of IFRS9, IFRIC19, the revisions or amendments to IFRS1, IAS24 and the Improvements to IFRSs 2009/10. The Group has not early-adopted any standard, amendment or interpretation.

The standards, amendments and interpretations that are expected to impact upon the Group are:

- IFRS9 'Financial Instruments' will apply to the Group from 1 July 2013. The new standard was issued in November 2009 as the first step in the International Accounting Standard Board's (IASB) project to replace IAS39 'Financial Instruments Recognition and Measurement'. IFRS9 introduces new requirements for classifying and measuring financial assets. The IASB is expected to expand IFRS9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting. The Group is currently assessing the impact of the standard on the Group's results and financial position and will continue to assess the impact as the standard is revised by the IASB.
- IAS24 (Revised) 'Related Party Transactions' will apply to the Group from 1 July 2011. The revised standard is expected to impact upon the Group by requiring additional disclosures in the annual financial statements.
- Improvements to IFRSs, issued in April 2009, is the 2009 tranche of the Improvements to IFRS project and includes a number of minor amendments to existing IAS and IFRS, which require implementation from 1 July 2010. The impact of these amendments is currently being assessed by the Group.
- Improvements to IFRSs, issued in May 2010, is the 2010 tranche of the Improvements to IFRS project and includes a number of minor amendments to existing IAS and IFRS, which require implementation from 1 July 2011. The impact of these amendments is currently being assessed by the Group.

The adoption of the following standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group:

- An amendment to IFRS2 'Group cash-settled share-based payment transactions' clarifies how individual subsidiary companies in a group should account for some share-based payment arrangements in its own financial statements. The amendment will apply to the Group from 1 July 2010 and has no impact upon the Group.
- Amendments to IFRS1 'Additional Exemptions for First-time Adopters' and 'Limited Exemption from Comparative IFRS7 Disclosures for First-time Adopters'. The amendments, which will apply to the Group from 1 July 2010, relate solely to first time adopters of IFRS and therefore have no impact on the Group.

- Amendment to IAS32 'Classification of rights issues' clarifies various issues when accounting for a rights issue, including foreign currency issues, compound financial instruments, treasury shares and disclosure. The amendment will apply to the Group from 1 July 2010, and although it will have no impact on implementation, it may impact the accounting for any future rights issues.
- Amendment to IFRIC14 'Prepayments of a Minimum Funding Requirement' was issued to correct an unintended consequence of the interpretation which, in some circumstances, prevented the recognition as an asset some voluntary prepayments for minimum funding contributions. The amendment applies to the Group from 1 July 2011 and is not expected to have an impact on the Group.
- IFRIC19 'Extinguishing Financial Liabilities with Equity Instruments' applies to the Group from 1 July 2010. This interpretation clarifies the accounting requirements when equity instruments are issued to extinguish financial liabilities. The interpretation is not expected to have an impact on the Group on implementation, although it may impact the accounting for future issues of equity instruments.

# CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In accordance with the requirements of IFRS, the Group has detailed below the critical accounting judgements made and the key sources of estimation uncertainty within these financial statements

## Critical accounting judgements

In the process of applying the Group's accounting policies, which are described in the accounting policies note, the Directors have made no individual judgements that have a significant impact upon the financial statements, apart from those involving estimations, which are dealt with below

## Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates are discussed below

## Carrying-value of land and work in progress

The Group's principal activity is housebuilding and commercial development. Due to the nature of this activity, much of the development entered into by the Group is speculative in nature. Accordingly, the Group has in its balance sheet at 30 June 2010 current assets that are not covered by a forward sale. The Group's internal controls are designed to identify any developments where the carrying-value of land and work in progress is more than the lower of cost or net realisable value.

In respect of the years ended 30 June 2009 and 30 June 2010, the Group conducted six-monthly reviews of the net realisable value of its land and work in progress carrying-values of its sites in light of the deterioration in the UK housing market. Where the estimated net realisable value of the site was less than its current carrying-value within the balance sheet, the Group impaired the land and work in progress value. This resulted in an exceptional impairment of £499.5m in the year ended 30 June 2009 as shown in note 17 and £4.8m in the year ended 30 June 2010. These reviews were conducted on a site-by-site basis using valuations incorporating forecast sales rates, average selling prices and estimated costs to complete that reflected both current and anticipated trading conditions. These are key judgements in the impairment calculation. Should there be further significant movements in UK house prices then further impairments/reversals of previous gross impairments of land and work in progress may be necessary.

## Estimation of costs to complete

In order to determine the profit that the Group is able to recognise on its developments in a specific period, the Group has to allocate site-wide development costs between units built in the current year and in future years. It also has to estimate costs to complete on such developments. In making these assessments there is a degree of inherent uncertainty. The Group has developed internal controls to assess and review carrying-values and appropriateness of estimates made.

## Recognition of profit where developments are accounted for under IAS11 'Construction Contracts'

The Group applies its policy on contract accounting when recognising revenue and profit on partially completed contracts. The application of this policy requires judgements to be made in respect of the total expected costs to complete each site. The Group has in place established internal control processes to ensure that the evaluation of costs and revenues are based upon appropriate estimates.

## Impairment of goodwill

The determination of the impairment of goodwill of the housebuilding business requires an estimation of the value-in-use of the housebuilding cash-generating unit as defined in note 10. The value-in-use calculation requires an estimate of the future cash flows expected from the housebuilding business, including the anticipated growth rate of revenue and costs, and requires the determination of a suitable discount rate to calculate the present value of the cash flows. The discount rate used is one applicable to the existing capital structure of the Group at the balance sheet date. The carrying amount of goodwill at 30 June 2010 was £792.2m with no impairment recognised during the year ended 30 June 2010.

## Impairment of brands

The determination of the impairment calculation for the Group's indefinite life brand, David Wilson Homes, requires an estimation of the value-in-use of the brand as defined in note 11. The value-in-use calculation requires an estimate of the future cash flows expected from this brand, including the anticipated growth rate of revenue and costs, and requires the determination of a suitable discount rate to calculate the present value of the cash flows. The discount rate used is one applicable to the existing capital structure which may impact on the Group's discount rate in future periods. The carrying amount of indefinite life brands at 30 June 2010 was £100.0m with no impairment recognised during the year ended 30 June 2010.

## Deferred tax assets

At 30 June 2010 the Group recognised a net deferred tax asset of £173.3m. £176.7m related to losses that arose during the year and preceding year that are to be carried forward and relieved against profits arising in future periods. The judgement to recognise the deferred tax asset is dependent upon the Group's expectations regarding future profitability based upon site revenue and cost forecasts for future years which contain a degree of inherent uncertainty.

## Defined benefit pension

The Directors engage a qualified independent actuary to calculate the Group's liability in respect of its defined benefit pension scheme. In calculating this liability it is necessary for actuarial assumptions to be made, which include discount rates, salary and pension increases, price inflation, the

## Financial statements

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

long-term rate of return upon scheme assets and mortality. As actual rates of increase and mortality may differ from those assumed, the pension liability may differ from that included in these financial statements.

#### Hedge accounting

The majority of the Group's facilities are floating rate, which exposes the Group to increased interest rate risk. The Group has therefore taken out £480.0m (note 24) of floating-to-fixed interest rate swaps. The Group has adopted hedge accounting for these swaps on the basis that it is highly probable that there is sufficient forecast debt to match with the period of swaps. If the highly probable criterion was not met in future then any changes in fair value of the swaps would be recognised in the income statement, rather than in equity. During the year ended 30 June 2010, there was a loss of £31.2m (2009: £81.0m) included in equity related to these swaps. Swaps with a notional amount of £285.0m were cancelled during the half year ended 31 December 2009 following prepayment of part of the Group's sterling borrowings from the net proceeds of the Placing and the Rights Issue. Cumulative losses on interest rate swaps of £47.1m were recognised in the income statement following these cancellations.

In addition, the Group has entered into \$187.2m (2009: \$271.6m) of cross currency swaps to manage the cash flow risks related to foreign exchange, arising from the Group's sources of US Dollar denominated finance. These swaps are designated as a cash flow hedge against future foreign exchange rate movements. If the hedges ceased to be highly effective then any changes in fair value of the swaps would be recognised in the income statement, rather than equity. During the year ended 30 June 2010, there was a gain of £13.6m (2009: £30.3m) included in equity related to these swaps. A gain of £11.9m (2009: £7.2m) was realised upon cancellation of \$103.9m of foreign exchange swaps following repayment of \$103.9m US Dollar private placement notes on 16 November 2009.

#### Available for sale financial assets

The Group holds available for sale financial assets principally comprising interest free loans granted as part of sales transactions that are secured by way of a second legal charge on the respective property. The loans are held at the present value of expected future cash flows taking into account the estimated market value of the property at the estimated time of repayment. At 30 June 2010 the asset recognised on the balance sheet was £136.3m (2009: £86.5m).



# NOTES TO THE FINANCIAL STATEMENTS

## 1. Revenue

An analysis of the Group's revenue is as follows

	Notes	2010 £m	2009 £m
Sale of goods		1,897.9	2,092.8
Contract accounting revenue		137.3	192.4
<b>Revenue as stated in the income statement</b>		<b>2,035.2</b>	<b>2,285.2</b>
Lease income	31	3.3	3.4
Finance income	5	13.4	18.0
Forfeit deposits		1.4	7.0
Other income		14.4	12.9
<b>Total revenue</b>		<b>2,067.7</b>	<b>2,326.5</b>

Sale of goods includes £247.2m (2009: £339.4m) 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 £153.8m (2009: £288.0m).

## 2. Segmental analysis

The Group consists of two separate segments for management reporting and control purposes, being housebuilding and commercial developments. The segments are considered appropriate for reporting under IFRS8 'Operating Segments' since these segments are regularly reviewed internally by the Group Board without further significant categorisation. The Group presents its primary segment information on the basis of these operating segments. As the Group operates in a single geographic market, Britain, no secondary segmentation is provided.

	House- building Units	Commercial developments Units	2010 Total Units	House- building Units	Commercial developments Units	2009 (restated*) Total Units
<b>Residential completions</b>	<b>11,325</b>	<b>–</b>	<b>11,325</b>	<b>13,202</b>	<b>–</b>	<b>13,202</b>
<b>Income statement</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue	2,000.1	35.1	2,035.2	2,095.8	189.4	2,285.2
Cost of sales before impairment of inventories	(1,819.9)	(30.5)	(1,850.4)	(1,970.6)	(185.2)	(2,155.8)
Gross profit before impairment of inventories	180.2	4.6	184.8	125.2	4.2	129.4
Administrative expenses before restructuring costs and pension curtailment	(88.8)	(5.9)	(94.7)	(86.4)	(8.8)	(95.2)
Profit/(loss) from operations before impairment of inventories, restructuring costs and pension curtailment	91.4	(1.3)	90.1	38.8	(4.6)	34.2
Net impairment of inventories	–	(4.8)	(4.8)	(431.5)	(68.0)	(499.5)
Restructuring costs and pension curtailment	(11.0)	–	(11.0)	(14.9)	(5.1)	(20.0)
Profit/(loss) from operations	80.4	(6.1)	74.3	(407.6)	(77.7)	(485.3)
Share of post-tax loss from joint ventures	(0.9)	(0.6)	(1.5)	(3.0)	–	(3.0)
Profit/(loss) from operations including post-tax loss from joint ventures	79.5	(6.7)	72.8	(410.6)	(77.7)	(488.3)
Finance income			13.4			18.0
Finance costs – non exceptional			(135.0)			(195.3)
Finance costs – exceptional			(114.1)			(13.3)
Loss before tax			(162.9)			(678.9)
Tax			44.5			210.3
<b>Loss for the year from continuing operations</b>			<b>(118.4)</b>			<b>(468.6)</b>

\* Additional disclosures have been provided for the year ended 30 June 2009 for consistency of presentation with the year ended 30 June 2010

**2. Segmental analysis (continued)**

			2010		2009	
	House- building £m	Commercial developments £m	Total £m	House- building £m	Commercial developments £m	Total £m
<b>Balance sheet</b>						
Segment assets	4,531 5	126 6	4,658 1	4,625 3	173 9	4,799 2
Elimination of intercompany balances			(101 1)			(111 7)
			4,557 0			4,687 5
Deferred tax assets			173 3			127 3
Current tax assets			–			50 6
Cash and cash equivalents			546 5			178 8
<b>Consolidated total assets</b>			<b>5,276 8</b>			<b>5,044 2</b>
Segment liabilities	(1,473 4)	(59 7)	(1,533 1)	(1,272 9)	(67 3)	(1,340 2)
Elimination of intercompany balances			101 1			111 7
			(1,432 0)			(1,228 5)
Loans and borrowings			(941 8)			(1,484 1)
Current tax liabilities			(2 8)			–
<b>Consolidated total liabilities</b>			<b>(2,376 6)</b>			<b>(2,712 6)</b>
<b>Other information</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital additions	0 4	–	0 4	2 1	–	2 1
Depreciation	3 5	0 1	3 6	5 0	0 1	5 1

**3. Exceptional items****Amended financing arrangements**

On 23 September 2009 the Company announced a fully underwritten Placing and Rights Issue, raising gross proceeds of £720 5m, and certain amendments agreed in relation to the Group's financing arrangements which would come into effect following completion of the Placing and Rights Issue and a reduction in the amount of term debt. The equity issue was completed on 4 November 2009 and the amended financing facilities came into effect on 16 November 2009.

As a consequence of amending its financing arrangements, as described in note 23, the Company incurred various fees, costs and other expenses. The amendment and other fees and costs were £24 2m, with £6 7m being charged to the income statement during the year and £17 5m being amortised over the life of the amended facilities.

As a consequence of the part prepayment of the WB Acquisition Facilities as described in note 23, the Company made prepayment offers to each of the private placement noteholders, including make-whole amounts in respect of the private placement notes which were the subject of the prepayment offer. The noteholders had the option to receive a cash payment in satisfaction of the make-whole obligation instead of make-whole notes. Cash payments in respect of the make-whole amounts of £4 9m were made to certain noteholders and make-whole notes of £19 0m were issued to the remaining noteholders. The total charge recognised in the income statement in relation to the make-whole payments and notes was £23 9m.

Interest rate swaps and foreign exchange swaps with contracted amounts of £285 0m and £51 5m respectively were cancelled during the year ended 30 June 2010 following the Placing and the Rights Issue and prepayment of part of the Group's borrowings. Cumulative losses on interest rate swaps of £50 1m were recognised in the income statement following these cancellations. Interest incurred on the cancelled swaps from the date of the General Meeting to approve the Placing and the Rights Issue up to the date of settlement amounted to £1 7m. Cancellation costs on foreign exchange swaps amounted to £0 9m.

**3. Exceptional items (continued)****Amended financing arrangements (continued)**

The remaining balance of unamortised costs of £31.0m in respect of the amendments to the Group's financing arrangements in 2008 (the '2008 financing amendments') was charged to the income statement when the amended financing arrangements agreed in September 2009 in conjunction with the Placing and the Rights Issue became effective on 16 November 2009, as the terms of the 2009 amended financing arrangements which became effective on 16 November 2009 were substantially different from the 2008 financing amendments original terms, primarily due to the revised covenant arrangements and certain new maturity dates and margins. The remaining fair value uplift of £0.2m in respect of the private placement notes was also credited to the income statement on 16 November 2009.

The total income statement charge in the year relating to the amended financing arrangements was £114.1m.

During the year ended 30 June 2009, the Group incurred charges of £13.3m in respect of the make-whole fee which was triggered on the redemption of £36.7m of private placement notes.

**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 no further impairment of the housebuilding business (2009: £431.5m) and an impairment of £4.8m (2009: £68.0m) relating to the commercial developments business. The total net impairment for the year was £4.8m (2009: £499.5m). Further details are provided in note 17.

**Restructuring costs**

During the year ended 30 June 2010, the Group incurred £11.0m (2009: £27.1m) of costs in relation to reorganising and restructuring the business, including redundancy costs of £0.6m (2009: £17.6m).

**Pension curtailment**

No curtailment credit was recognised during the year (2009: £7.1m) in relation to the Group's defined benefit pension scheme. Further details are given in note 26.

**Impairment of inventories relating to investments accounted for using the equity method**

At 30 June 2010, the Group conducted an impairment review of its share of the inventories included within its investments accounted for using the equity method. This resulted in no impairment charge for the year (2009: £2.8m) with no related deferred tax credit (2009: £0.8m). Further details are given in note 13.

#### 4. Profit/(loss) from operations before exceptional items

Profit/(loss) from operations before exceptional items is stated after charging/(crediting)

	Notes	2010 £m	2009 £m
Staff costs	8	176.9	209.6
Government grants		(20.3)	(1.6)
Depreciation of property, plant and equipment	12	3.6	5.1
Profit on disposal of property, plant and equipment		–	(0.4)
Lease income	31	(3.3)	(3.4)
Operating lease charges – hire of plant, machinery and vehicles		11.0	9.2
– other		14.0	4.4

Government grants of £36.2m (2009: £3.1m) were received in the year relating to Government initiatives including first time buyer, National Affordable Housing Programme and Kickstart. Grant income of £20.3m (2009: £1.6m) was recognised in the income statement in relation to house sales completed under these initiatives.

Loss before tax is stated after charging the Directors' emoluments disclosed in the Remuneration report on page 50 and in note 8.

The remuneration paid to Deloitte LLP, the Group's principal auditors, is disclosed below.

Auditors' remuneration	2010 £'000	2009 £'000
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	70	70
The audit of the Company's subsidiaries pursuant to legislation	246	256
The audit of the Company's joint ventures pursuant to legislation	24	24
<b>Total fees for audit of the Company, its subsidiaries and joint ventures</b>	<b>340</b>	<b>350</b>
Amounts for statutory and regulatory filings	1,097	–
Other services pursuant to legislation	80	115
Corporate finance services	–	69
Other services	4	89
<b>Total fees</b>	<b>1,521</b>	<b>623</b>

Amounts for statutory and regulatory filings include fees in respect of work performed in relation to the Placing and the Rights Issue. Other services pursuant to legislation comprise the reviews of interim financial statements.

In the year ended 30 June 2009, corporate finance services were incurred in relation to certain projects. Other services mainly comprised advisory services related to the equity issue.

**5. Net finance costs****Recognised in income statement**

	Notes	2010 £m	2009 £m
Finance income on short-term bank deposits		(0.5)	(0.9)
Imputed interest on available for sale financial assets	15	(7.0)	(11.2)
Other interest receivable		(5.9)	(5.9)
<b>Finance income</b>		<b>(13.4)</b>	<b>(18.0)</b>
Interest on bank overdrafts and loans		63.7	141.8
Amortisation of losses on cancelled interest rate swaps		0.2	0.4
Imputed interest on deferred term loan payables		26.5	19.8
Finance costs related to employee benefits	26	1.6	0.3
Transfer to/(from) equity on cash flow hedges	29	14.1	(21.7)
Foreign exchange loss on US Dollar debt	6	11.9	33.8
Amortisation of facility fees		9.4	17.4
Imputed interest on Kickstart equity funding		0.2	–
Other interest payable		7.4	3.5
<b>Finance costs before exceptional items</b>		<b>135.0</b>	<b>195.3</b>
<b>Net finance costs before exceptional items</b>		<b>121.6</b>	<b>177.3</b>
<b>Exceptional finance costs</b>			
Make-whole fee on redemption of private placement notes		23.9	13.3
Hedging termination costs		52.7	–
Write-off of previous facility unamortised fees		31.0	–
Other fees related to amendment of financing arrangements		6.5	–
<b>Exceptional finance costs</b>	3	<b>114.1</b>	<b>13.3</b>
<b>Total finance costs</b>		<b>249.1</b>	<b>208.6</b>
<b>Net finance costs</b>		<b>235.7</b>	<b>190.6</b>

**Recognised in equity**

	Notes	2010 £m	2009 £m
Losses on cash flow hedges	29	43.6	62.8
<b>Total fair value losses on cash flow swaps included in equity</b>		<b>43.6</b>	<b>62.8</b>
Amortisation of losses on cancelled interest rate swaps		(0.2)	(0.4)
Transfer (from)/to income statement on cash flow hedges – non exceptional	29	(14.1)	21.7
Transfer from income statement on cash flow hedges – exceptional	29	(50.1)	–
<b>Total fair value losses on cash flow swaps transferred (to)/from equity</b>		<b>(64.4)</b>	<b>21.3</b>

## 6. Financial instruments gains and losses

The net (gains) and losses recorded in the consolidated income statement, in respect of financial instruments (excluding interest \* shown in note 5) were as follows

	Notes	2010 £m	2009 £m
<b>Loans and receivables</b>			
Impairment of trade receivables	18	0 3	3 3
<b>Available for sale financial assets</b>			
Net loss transferred on sale		0 5	0 1
Net impairment of available for sale financial assets	15	6 1	23 7
<b>Other financial liabilities</b>			
Foreign exchange losses on US Dollar debt		11 9	33 8
<b>Transfers from hedged items</b>			
Transfer from equity on currency cash flow hedges		(11 9)	(33 8)

## 7. Tax

### Analysis of the tax credit for the year

	Notes	2010 £m	2009 £m
<b>Current tax</b>			
UK corporation tax on losses for the year		–	(43 6)
Adjustment in respect of previous years		(0 4)	(37 7)
		(0 4)	(81 3)
<b>Deferred tax</b>			
Origination and reversal of temporary differences		(46 0)	(148 0)
Adjustment in respect of previous years		1 9	19 0
	16	(44 1)	(129 0)
<b>Tax credit for the year</b>		<b>(44 5)</b>	<b>(210 3)</b>

In addition to the amount credited to the income statement, deferred tax of £1 9m (2009 £27 8m) was credited directly to equity (note 16)

## 7. Tax (continued)

### Factors affecting the tax credit for the year

The tax rate assessed for the year is lower (2009: higher) than the standard rate of corporation tax in the UK of 28.0% (2009: 28.0%)

The differences are explained below

	2010 £m	2009 £m
<b>Loss before tax</b>	<b>(162.9)</b>	<b>(678.9)</b>
Loss before tax multiplied by the standard rate of corporation tax of 28.0% (2009: 28.0%)	(45.6)	(190.1)
Effects of		
Other expenses not deductible for tax purposes	1.3	2.1
Additional tax relief for land remediation costs	(1.6)	(2.7)
Adjustment in respect of previous years	1.5	(18.7)
Tax in respect of joint ventures	0.4	0.8
Tax rate difference on losses carried back	–	(2.2)
Tax on share-based payments	(0.5)	0.5
<b>Tax credit for the year</b>	<b>(44.5)</b>	<b>(210.3)</b>

### June 2010 Budget announcements

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014.

The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. If it had been enacted at the balance sheet date, the effect of the reduction in the corporation tax rate from 28% to 27% contained in the Finance (No 2) Act 2010, would be to reduce the deferred tax asset recognised at 30 June 2010 by approximately £6.2m.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. If the deferred tax assets and liabilities of the Group were all to reverse after 2014, the effect of the changes from 28% to 24% would be to reduce the net deferred tax asset by £24.8m. To the extent that the deferred tax reverses more quickly than this, the impact on the net deferred tax asset will be reduced.



### 8. Key management and employees

Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board of Directors as the controls operated by the Group ensure that all key decisions are reserved for the Board. Detailed disclosures of Directors' individual remuneration, pension entitlements and share options, for those Directors who served during the year, are given in the audited sections of the Remuneration report on pages 50 to 53 which form part of these financial statements. A summary of key management remuneration is as follows:

	2010 £m	2009 £m
Salaries and fees (including pension compensation)	2.9	2.4
Social security costs	0.6	0.3
Performance bonus	1.6	–
Benefits	0.1	0.1
Pension costs	–	–
Share-based payments	0.4	0.3
	<b>5.6</b>	<b>3.1</b>

	2010 Number	Group 2009 Number	2010 Number	Company 2009 Number
Average staff numbers (excluding subcontractors)	4,128	4,561	225	217

	Notes	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
Wages and salaries including bonuses		153.4	162.8	16.0	11.5
Redundancy costs	3	0.6	17.6	0.6	–
Social security costs		17.0	18.2	1.9	1.5
Other pension costs	26	6.5	6.7	0.5	1.3
Share-based payments	28	(0.6)	4.3	0.1	0.4
<b>Total staff costs</b>	<b>4</b>	<b>176.9</b>	<b>209.6</b>	<b>19.1</b>	<b>14.7</b>

**9. Loss per share**

Basic loss per share is calculated by dividing the loss for the year attributable to ordinary shareholders of £118.4m (2009: £468.6m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust which are treated as cancelled, which was 815.9m (2009: 526.1m (restated\*))

There is no difference between basic and diluted loss per share for the Group as the Group was loss making

The losses per share from continuing operations were as follows

	2010 pence	2009 (restated*) pence
Basic and diluted loss per share	(14.5)	(89.1)
Adjusted basic and diluted loss per share	(2.9)	(15.6)

The calculation of basic, diluted, adjusted basic and adjusted diluted loss per share is based upon the following data

	2010 £m	2010 pence	2009 £m	2009 (restated*) pence
Loss for basic and diluted loss per share	(118.4)	(14.5)	(468.6)	(89.1)
Add: exceptional finance costs	114.1	14.0	13.3	2.5
Add: impairment of inventories	4.8	0.6	499.5	95.0
Add: restructuring costs and pension curtailment gain	11.0	1.3	20.0	3.8
Less: tax effect of above items	(35.4)	(4.3)	(148.3)	(28.2)
Add: post-tax impairment of inventories relating to investments accounted for using the equity method	-	-	2.0	0.4
<b>Loss for adjusted basic and adjusted diluted loss per share</b>	<b>(23.9)</b>	<b>(2.9)</b>	<b>(82.1)</b>	<b>(15.6)</b>

\* The number of shares in issue has been revised to reflect the Rights Issue as required by IAS33 'Earnings per Share' which has adjusted the loss per share

Losses are adjusted, removing exceptional finance costs, impairment of inventories, restructuring costs and pension curtailment gain and the related tax to reflect the Group's underlying losses

## 10. Goodwill

	Group £m
<b>Cost</b>	
At 1 July 2008, 30 June 2009 and 30 June 2010	816.7
<b>Accumulated impairment losses</b>	
At 1 July 2008, 30 June 2009 and 30 June 2010	24.5
<b>Carrying amount</b>	
At 30 June 2009 and 30 June 2010	<b>792.2</b>

The Group's goodwill has a carrying-value of £792.2m related to the housebuilding segment. The goodwill relating to the commercial developments segment, with cost of £24.5m, was fully impaired in the year ended 30 June 2008.

The Group conducts an annual impairment review of goodwill and intangibles together for both the housebuilding and commercial developments segments. The impairment review was performed at 30 June 2010 and compared the value in use of the housebuilding segment with the carrying-value of its tangible and intangible assets and allocated goodwill. The Group allocates any identified impairment first to goodwill and then to assets on a pro-rata basis, which in the case of the Group is its intangible assets and property, plant and equipment.

The value-in-use was determined by discounting the expected future cash flows of the housebuilding segment. The first three years of cash flows were determined using the Group's approved detailed site-by-site business plan. The cash flows for the fourth and fifth years were determined using Group level internal forecasted cash flows based upon expected volumes, selling prices and margins, taking into account available land purchases and work in progress levels. The cash flows for year six onwards were extrapolated in perpetuity using an estimated growth rate of 2.5%, which was based upon the expected long-term growth rate of the UK economy.

The key assumptions for the value-in-use calculations were:

- **Discount rate** – this is a pre-tax rate reflecting current market assessments of the time value of money and risks appropriate to the Group's housebuilding business. Accordingly the rate of 11.3% (2009: 8.9%) is considered by the Directors to be the appropriate pre-tax risk adjusted discount rate being the Group's estimated long-term pre-tax weighted average cost of capital. This rate is calculated using the current capital structure of the Group at the balance sheet date.
- **Expected changes in selling prices for completed houses and the related impact upon operating margin** – these are determined on a site-by-site basis for the first three years dependent upon local market conditions and product type. For years four and five these have been estimated at a Group level based upon past experience and expectations of future changes in the market taking into account external market forecasts.
- **Sales volumes** – these are determined on a site-by-site basis for the first three years dependent upon local market conditions, land availability and planning permissions. For years four and five these have been estimated at a Group level based upon past experience and expectations of future changes in the market taking into account external market forecasts.
- **Expected changes in site costs to complete** – these are determined on a site-by-site basis for the first three years dependent upon the expected costs of completing all aspects of each individual development including any additional costs that are expected to occur due to the business being on an individual development site for longer due to current market conditions. For years four and five these have been estimated at a Group level based upon past experience and expectations of future changes in the market taking into account external market forecasts.

The conclusion of this impairment review was that the Group's goodwill related to the housebuilding segment was not impaired.

The impairment review of goodwill and intangible assets at 30 June 2010 was based upon current expectations regarding sales volumes, expected changes in selling prices and site costs to complete in the uncertain conditions within the UK housing market and used a discount rate considered appropriate to the position and risks of the Group. The result of the impairment review, which was based upon the capital structure of the Group at the balance sheet date, was that the recoverable value of goodwill and intangible assets exceeded its carrying-value by £707.5m (2009: £2,932.7m). If the UK housing market and expectations regarding its future were to deteriorate with either operating margins reducing by 2.3% per annum (2009: 7.8% per annum) or the appropriate discount rate were to increase by 1.5% (2009: 4.7%) and all other variables were held constant then the recoverable value of goodwill and intangible assets would equal its carrying-value.

**11. Intangible assets**

	Group Brands £m
<b>Cost</b>	
At 1 July 2008, 30 June 2009 and 30 June 2010	107.0
<b>Amortisation</b>	
At 1 July 2008, 30 June 2009 and 30 June 2010	7.0
<b>Carrying amount</b>	
At 30 June 2009 and 30 June 2010	100.0

**Brands**

The Group does not amortise the housebuilding brand acquired with Wilson Bowden, being David Wilson Homes, valued at £100.0m, as the Directors consider that this brand has an indefinite useful economic life due to the fact that the Group intends to hold and support the brand for an indefinite period and there are no factors that would prevent it from doing so.

The Group tests indefinite life brands annually for impairment, or more frequently if there are indications that they might be impaired. At 30 June 2010 an impairment review was conducted using the calculations and assumptions as explained in note 10. The conclusion of this impairment review was that the Group's David Wilson Homes brand was not impaired.

The brand of Wilson Bowden Developments (valued at £7.0m prior to amortisation) was being amortised over ten years as it is a business-to-business brand operating in niche markets. Following an impairment review at 30 June 2008, the Wilson Bowden Developments brand was fully impaired.

**12. Property, plant and equipment**

	Group			Company		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
<b>Cost</b>						
At 1 July 2008	11.4	12.8	24.2	0.8	2.5	3.3
Additions	–	2.1	2.1	–	2.0	2.0
Transfers to inventories	(1.1)	–	(1.1)	–	–	–
Disposals	(0.3)	(4.6)	(4.9)	–	–	–
At 30 June 2009	10.0	10.3	20.3	0.8	4.5	5.3
Additions	–	0.4	0.4	–	0.3	0.3
Disposals	–	(0.4)	(0.4)	–	–	–
At 30 June 2010	10.0	10.3	20.3	0.8	4.8	5.6
<b>Depreciation</b>						
At 1 July 2008	1.7	6.6	8.3	0.2	1.1	1.3
Charge for the year	1.7	3.4	5.1	0.3	0.9	1.2
Disposals	–	(3.0)	(3.0)	–	–	–
At 30 June 2009	3.4	7.0	10.4	0.5	2.0	2.5
Charge for the year	0.4	3.2	3.6	0.3	1.7	2.0
Disposals	–	(0.4)	(0.4)	–	–	–
At 30 June 2010	3.8	9.8	13.6	0.8	3.7	4.5
<b>Net book value</b>						
At 30 June 2009	6.6	3.3	9.9	0.3	2.5	2.8
At 30 June 2010	6.2	0.5	6.7	–	1.1	1.1

Authorised future capital expenditure that was contracted but not provided for in these financial statements amounted to £nil (2009: £nil).

### 13. Investments accounted for using the equity method

The Group equity accounts for jointly controlled entities. The Group has significant interests in the following jointly controlled entities

Joint venture	Percentage owned	Country of registration	Principal activity
Base Regeneration LLP	50.0%	England and Wales	Housebuilding
Base East Central Rochdale LLP	50.0%	England and Wales	Housebuilding
Base Hattersley LLP	50.0%	England and Wales	Housebuilding
Base Werneth Oldham LLP	50.0%	England and Wales	Housebuilding
Barratt Wates (Horley) Limited*	78.5%	England and Wales	Housebuilding
Wandsworth Parkside LLP	50.0%	England and Wales	Housebuilding
Ravenscraig Limited**	33.3%	Scotland	Commercial development
DWH/Wates (Thame) Limited	50.0%	England and Wales	Housebuilding

\* Barratt Wates (Horley) Limited is classified as a joint venture as the Group has equal control with one other joint venture partner.  
Ravenscraig Limited is classified as a joint venture as the Group has equal control and ownership percentages with two joint venture partners.

	2010 £m	Group 2009 £m
At 1 July	83.2	65.5
(Decrease)/increase in investments in joint ventures	(1.8)	20.7
Share of post-tax loss for the year before exceptional items	(1.5)	(1.0)
Exceptional item: post-tax impairment charge	–	(2.0)
<b>At 30 June</b>	<b>79.9</b>	<b>83.2</b>

The share of loss for the year includes an impairment of £nil (2009: £2.8m) following a fall in the net realisable value of the land and work in progress within a joint venture. The exceptional item disclosed in the consolidated income statement includes a deferred tax credit of £nil (2009: £0.8m) in respect of the impairment.

In relation to the Group's interests in joint ventures, the Group's share of assets and liabilities of the joint ventures is shown below:

	2010 £m	Group 2009 £m
Current assets	78.4	81.4
Current liabilities	(21.4)	(26.0)
Non-current liabilities	(65.1)	(62.0)
<b>Net liabilities of joint ventures</b>	<b>(8.1)</b>	<b>(6.6)</b>

The Group has made loans of £88.0m (2009: £89.8m) to its joint ventures which are included within Group investments. Included within the Group's share of net liabilities from joint ventures is a proportion of loans to the joint ventures calculated using the Group's ownership share of £81.0m (2009: £81.5m).

**13. Investments accounted for using the equity method (continued)**

The Group's share of the joint ventures' income and expenses during the year is shown below

	2010		2009	
	Before exceptional items £m	Exceptional items £m	Before exceptional items £m	Exceptional items £m
Income	12.2	–	12.2	22.3
Expenses	(13.0)	–	(13.0)	(23.9)
	(0.8)	–	(0.8)	(1.6)
Tax	(0.7)	–	(0.7)	0.6
Share of post-tax loss from joint ventures	(1.5)	–	(1.5)	(1.0)

During the year the Group entered into a number of transactions with its joint ventures in respect of funding, development management services (with charges made based on the utilisation of these services) and purchases of land and work in progress. Further details on these transactions are provided in note 33. The Group has a number of contingent liabilities relating to its joint ventures. Further details on these are provided in note 32.

**14 Investments**

	2010 £m	Company 2009 £m
<b>Cost</b>		
At 1 July	2,473.6	2,121.0
Investment in subsidiary	200.0	350.0
(Decrease)/increase in investment in subsidiaries related to share-based payments	(0.6)	2.6
<b>At 30 June</b>	<b>2,673.0</b>	<b>2,473.6</b>
<b>Impairment</b>		
At 1 July and 30 June	57.6	57.6
<b>Net book value</b>		
At 1 July	2,416.0	2,063.4
<b>At 30 June</b>	<b>2,615.4</b>	<b>2,416.0</b>

On 17 June 2009 in order to strengthen the balance sheet of the Company's principal trading subsidiary BDW Trading Limited following the deterioration of the UK housing market, the Company capitalised a loan of £350.0m in return for 350 £1 ordinary shares at a premium of £999,999 each.

On 3 June 2010 in order to strengthen further the balance sheet of the Company's principal trading subsidiary BDW Trading Limited following the deterioration of the UK housing market, the Company capitalised a loan of £200.0m in return for 200 £1 ordinary shares at a premium of £999,999 each.

#### 14. Investments (continued)

The subsidiary undertakings which principally affected profits and net assets of the Group were

Subsidiary	Percentage owned	Country of registration	Principal activity
BDW Trading Limited	100%	England and Wales	Housebuilding and development
BDW East Scotland Limited	100%	Scotland	Housebuilding and development
David Wilson Homes Limited	100%*	England and Wales	Housebuilding and development
Wilson Bowden Developments Limited	100%*	England and Wales	Commercial development

\* Owned through another Group company

A full list of subsidiary undertakings is available on request from the Company's registered office

#### 15. Available for sale financial assets

	Notes	2010 £m	Group 2009 £m
At 1 July		86.5	66.9
Additions		52.2	33.8
Disposals		(3.3)	(1.7)
Imputed interest	5	7.0	11.2
Net impairment taken through income statement	6	(6.1)	(23.7)
<b>At 30 June</b>		<b>136.3</b>	<b>86.5</b>

Available for sale financial assets principally comprise interest free loans granted as part of sales transactions that are secured by way of a second legal charge on the respective property. These loans are held at the present value of expected future cash flows taking into account the estimated market value of the property at the estimated time of repayment. The income statement includes a net impairment of £6.1m (2009: £23.7m) in cost of sales.

The impairment of available for sale financial assets arises due to the impact on the fair value of these assets of the decline in UK house prices.

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

**16. Deferred tax**

The Group recognised a deferred tax asset/(liability) comprising

	Notes	Accelerated capital allowance £m	Temporary differences £m	Tax losses £m	Group Total £m
At 1 July 2008		11	(33.2)	–	(32.1)
Credited/(charged) to income statement	7	0.2	(1.3)	130.1	129.0
Arising on acquisition of subsidiaries		–	2.6	–	2.6
Amounts taken directly to equity	7	–	27.8	–	27.8
At 30 June 2009		13	(4.1)	130.1	127.3
(Charged)/credited to income statement	7	(0.1)	(2.4)	46.6	44.1
Amounts taken directly to equity	7	–	1.9	–	1.9
At 30 June 2010		12	(4.6)	176.7	173.3

The Company recognised a deferred tax asset comprising

	Accelerated capital allowance £m	Temporary differences £m	Tax losses £m	Company Total £m
At 1 July 2008	0.3	12.2	–	12.5
Charged to income statement	(0.1)	(5.4)	–	(5.5)
Amounts taken directly to equity	–	27.6	–	27.6
At 30 June 2009	0.2	34.4	–	34.6
Credited/(charged) to income statement	0.4	(3.5)	47.8	44.7
Amounts taken directly to equity	–	1.5	–	1.5
At 30 June 2010	0.6	32.4	47.8	80.8

All deferred tax relates to the United Kingdom and is stated on a net basis as the Group has a legally enforceable right to set-off the recognised amounts and intends to settle on a net basis



**16. Deferred tax (continued)**

The Group recognised a deferred tax asset/(liability) comprising

	Notes	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
Pension scheme	26	12.9	8.8	12.9	8.8
Hedging		19.1	24.9	19.1	24.9
Losses		176.7	130.1	47.8	–
Share options		1.8	0.9	0.2	0.1
Other items, including capital allowances		2.7	3.8	0.8	0.8
<b>Deferred tax assets</b>		<b>213.2</b>	<b>168.5</b>	<b>80.8</b>	<b>34.6</b>
Brands		(28.0)	(28.0)	–	–
Other items		(11.9)	(13.2)	–	–
<b>Deferred tax liabilities</b>		<b>(39.9)</b>	<b>(41.2)</b>	<b>–</b>	<b>–</b>
<b>Net deferred tax asset</b>		<b>173.3</b>	<b>127.3</b>	<b>80.8</b>	<b>34.6</b>

The movements in each type of temporary difference for the Group are as follows

Group	Pension scheme £m	Share options £m	Tax losses £m	Hedging £m	Brands £m	Other £m	Total £m
At 30 June 2008	10.4	–	–	1.3	(28.0)	(15.8)	(32.1)
Income statement	(5.6)	0.7	130.1	–	–	3.8	129.0
Arising on acquisition of subsidiaries	–	–	–	–	–	2.6	2.6
Amounts taken directly to equity	4.0	0.2	–	23.6	–	–	27.8
At 30 June 2009	8.8	0.9	130.1	24.9	(28.0)	(9.4)	127.3
Income statement	(3.2)	0.5	46.6	–	–	0.2	44.1
Amounts taken directly to equity	7.3	0.4	–	(5.8)	–	–	1.9
At 30 June 2010	12.9	1.8	176.7	19.1	(28.0)	(9.2)	173.3

**16. Deferred tax (continued)**

It is not anticipated that any of the deferred tax liability in respect of brands will reverse in the twelve months following the balance sheet date. Whilst it is anticipated that an element of the remaining deferred tax assets and liabilities will reverse during the twelve months following the balance sheet date, at present it is not possible to quantify the value of these reversals.

In addition to the above, the Group has not recorded a deferred tax asset of £3.3m (2009: £2.9m) in respect of capital and other losses because these are not considered recoverable in the foreseeable future.

The movements in each type of temporary difference for the Company are as follows:

Company	Pension scheme £m	Share Options £m	Tax losses £m	Hedging £m	Other £m	Total £m
At 30 June 2008	10.4	–	–	1.3	0.8	12.5
Income statement	(5.6)	0.1	–	–	–	(5.5)
Amounts taken directly to equity	4.0	–	–	23.6	–	27.6
At 30 June 2009	8.8	0.1	–	24.9	0.8	34.6
Income statement	(3.2)	0.1	47.8	–	–	44.7
Amounts taken directly to equity	7.3	–	–	(5.8)	–	1.5
At 30 June 2010	12.9	0.2	47.8	19.1	0.8	80.8

**17. Inventories**

	2010 £m	Group 2009 £m
Land held for development	2,308.7	2,453.2
Construction work in progress	981.4	1,044.2
Part-exchange properties	47.6	36.7
Other inventories	4.6	6.7
	<b>3,342.3</b>	<b>3,540.8</b>

**a) Nature of inventories**

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 twelve months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of issues such as consumer demand and planning permission delays.

## 17. Inventories (continued)

### b) Impairment of inventories

At 30 June 2010 the Group reviewed the net realisable value of its land and work in progress carrying-values of its sites. The impairment review compared the estimated future net present realisable value of development sites with their balance sheet carrying-value. This review resulted in no impairment charge for the housebuilding business (2009 £431.5m), although there were gross impairment reversals and charges of £57.4m due to performance variances upon housebuilding sites (2009 £120.9m). There was an impairment of £4.8m for the commercial developments business (2009 £68.0m), leading to a total net impairment during the year of £4.8m (2009 £499.5m).

The key judgements in estimating the realisable value of a site were the estimation of likely sales prices and estimated costs to complete. Sales prices were estimated on a site-by-site basis based upon local market conditions and took into account the current prices being achieved upon each site for each product type. In addition, the estimation of future sales prices included an allowance on a site-by-site basis for low single digit sales price inflation in future periods. The estimation of costs to complete also included an allowance for low single digit build costs inflation in future periods.

Whilst the UK housing market has seen some recovery during the year, if it were to change beyond management expectations in the future, in particular with regards to the assumptions around likely sales prices and estimated costs to complete, then further adjustments to the carrying-value of land and work in progress may be required.

Following these impairments £1,208.1m (2009 £1,460.5m) of inventories are valued at fair value less costs to sell rather than at historical cost.

### c) Expensed inventories

The value of inventories expensed in 2010 and included in cost of sales was £1,735.2m (2009 £2,009.8m) including £13.0m (2009 £20.8m) of inventory write-downs incurred in the course of normal trading and a reversal of £1.9m (2009 £nil) on inventories that were written down in a previous accounting period, but excluding the £4.8m (2009 £499.5m) exceptional impairment.

During the year, average selling prices across the Group's developments were in-line with those incorporated into the impairment review at 30 June 2009 and therefore overall no further impairment was required in the housebuilding business, although there were gross impairment reversals and charges of £57.4m due to performance variances upon housebuilding sites.

The value of inventories written down and recognised as an expense in 2010 totalled £17.8m (2009 £520.3m), being the £4.8m (2009 £499.5m) classified as an exceptional cost and the remaining £13.0m (2009 £20.8m) incurred in the normal course of trading.

### d) Company

The Company has no inventories.

**18. Trade and other receivables**

	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
<b>Non-current assets</b>				
Other receivables	0.8	1.5	–	–
	0.8	1.5	–	–
<b>Current assets</b>				
Trade receivables	45.1	30.1	–	–
Amounts due from subsidiary undertakings	–	–	898.5	1,511.1
Other receivables	11.4	6.4	0.2	0.4
Prepayments and accrued income	9.6	5.0	1.1	1.2
	66.1	41.5	899.8	1,512.7

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 debtors. Of the year end trade receivables the following were overdue but not impaired

	2010 £m	Group 2009 £m
<b>Ageing of overdue but not impaired receivables</b>		
Less than three months	7.1	3.1
Greater than three months	5.6	4.4

The carrying-values of trade and other receivables are stated after the following allowance for doubtful receivables

	Notes	2010 £m	Group 2009 £m
At 1 July		4.6	3.1
Charge for the year	6	0.3	3.3
Uncollectible amounts written off, net of recoveries		(1.9)	(1.8)
<b>At 30 June</b>		<b>3.0</b>	<b>4.6</b>

The allowance for doubtful receivables consists of individually impaired trade receivables which are in default. The impairment recognised in cost of sales represents the difference between the carrying amount of these trade receivables and the present value of any expected recoveries. The Group does not hold any collateral over these balances.

The Directors consider that the carrying amount of trade receivables approximates to their fair value.

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

## 19. Trade and other payables

	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
<b>Non-current liabilities</b>				
Land payables	300.2	245.2	–	–
Other payables	0.6	0.2	–	–
	<b>300.8</b>	<b>245.4</b>	<b>–</b>	<b>–</b>
<b>Current liabilities</b>				
Trade payables	309.0	318.2	2.8	5.4
Land payables	266.6	225.4	–	–
Accruals and deferred income	333.9	260.9	33.3	28.3
Other tax and social security	6.6	5.8	–	0.7
Other payables	96.6	52.1	–	–
	<b>1,012.7</b>	<b>862.4</b>	<b>36.1</b>	<b>34.4</b>

Accruals and deferred income includes a £1.8m (2009: £1.9m) social security accrual relating to share-based payments (note 28)

Total payables include £165.2m (2009: £105.8m) secured by legal charges on certain assets

Other non-current payables are unsecured and non-interest bearing

Further disclosures relating to financial liabilities are set out in note 23

## 20. Contract accounting

In relation to contracts in progress at the balance sheet date

	2010 £m	Group 2009 £m
Amounts due from contract customers included in trade and other receivables	13.5	17.0
Amounts due to contract customers included in trade and other payables	(22.1)	(22.6)
	<b>(8.6)</b>	<b>(5.6)</b>
Contract costs incurred plus recognised profits less recognised losses to date	279.4	381.4
Less progress billings	(288.0)	(387.0)
	<b>(8.6)</b>	<b>(5.6)</b>

At 30 June 2010, retentions held by customers for contract work amounted to £5.6m (2009: £6.9m) of which £1.7m (2009: £1.5m) are due for settlement after twelve months. Advances received from customers for contract work amounted to £49.1m (2009: £64.3m) of which £12.2m (2009: £6.7m) relates to work which is not expected to be performed in the next twelve months

## 21. Cash and cash equivalents

	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
Cash and cash equivalents	546.5	178.8	522.1	163.0

Cash and cash equivalents are held at floating interest rates linked to the UK bank rate, LIBOR and money market rates as applicable. Cash and cash equivalents comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less.

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

## 22. Financial assets

The carrying-values and fair values of the Group's financial assets are as follows:

	Notes	Fair value £m	2010 Carrying- value £m	Fair value £m	Group 2009 Carrying- value £m
<b>Designated as cash flow hedges</b>					
Derivative financial instruments	24	32.7	32.7	31.9	31.9
<b>Loans and receivables</b>					
Cash and cash equivalents	21	546.5	546.5	178.8	178.8
Trade and other receivables		35.9	35.9	16.5	16.5
<b>Available for sale</b>					
Available for sale financial assets	15	136.3	136.3	86.5	86.5
<b>Total financial assets</b>		<b>751.4</b>	<b>751.4</b>	<b>313.7</b>	<b>313.7</b>

The carrying-values and fair values of the Company's financial assets are as follows:

	Notes	Fair value £m	2010 Carrying- value £m	Fair value £m	Company 2009 Carrying- value £m
<b>Designated as cash flow hedges</b>					
Derivative financial instruments	24	32.7	32.7	31.9	31.9
<b>Loans and receivables</b>					
Cash and cash equivalents	21	522.1	522.1	163.0	163.0
Trade and other receivables	18	0.2	0.2	0.4	0.4
Intercompany loans	18	898.5	898.5	1,511.1	1,511.1
<b>Total financial assets</b>		<b>1,453.5</b>	<b>1,453.5</b>	<b>1,706.4</b>	<b>1,706.4</b>

Trade and other receivables excludes accrued income, amounts recoverable on contracts, prepayments and tax and social security. The fair values of financial assets and liabilities are determined as indicated in notes 22 and 23a.

## 22. Financial assets (continued)

The following table provides an analysis of financial assets that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs)

	Notes	Level 1 £m	Level 2 £m	Level 3 £m	Group 2010 Total £m
<b>Financial assets at fair value through profit and loss</b>					
Derivative financial assets	24	32.7	–	–	32.7
<b>Available for sale</b>					
Available for sale financial assets	15	–	136.3	–	136.3
<b>Total</b>		<b>32.7</b>	<b>136.3</b>	<b>–</b>	<b>169.0</b>

	Notes	Level 1 £m	Level 2 £m	Level 3 £m	Company 2010 Total £m
<b>Financial assets at fair value through profit and loss</b>					
Derivative financial assets	24	32.7	–	–	32.7
<b>Total</b>		<b>32.7</b>	<b>–</b>	<b>–</b>	<b>32.7</b>

**23. Financial liabilities****a) Fair value and carrying-value**

The carrying-values and fair values of the Group's financial liabilities are as follows

	Notes	Fair value £m	2010 Carrying- value £m	Fair value £m	Group 2009 Carrying- value £m
<b>Designated as cash flow hedges</b>					
Derivative financial instruments	24	72 4	72 4	89 2	89 2
<b>Other financial liabilities</b>					
Bank overdrafts	23b	–	–	7 4	7 4
Trade and other payables		1,103 6	1,094 8	866 4	885 7
Loans and borrowings	23b	946 8	941 8	1,478 1	1,476 7
<b>Total financial liabilities</b>		<b>2,122 8</b>	<b>2,109 0</b>	<b>2,441 1</b>	<b>2,459 0</b>

The carrying-values and fair values of the Company's financial liabilities are as follows

	Notes	Fair value £m	2010 Carrying- value £m	Fair value £m	Company 2009 Carrying- value £m
<b>Designated as cash flow hedges</b>					
Derivative financial instruments	24	72 4	72 4	89 2	89 2
<b>Other financial liabilities</b>					
Bank overdrafts	23b	104 8	104 8	110 7	110 7
Trade and other payables		29 7	29 7	33 2	33 2
Loans and borrowings	23b	935 1	930 1	1,478 1	1,476 7
<b>Total financial liabilities</b>		<b>1,142 0</b>	<b>1,137 0</b>	<b>1,711 2</b>	<b>1,709 8</b>

Trade and other payables excludes deferred income, payments received in excess of amounts recoverable on contracts, tax and social security and other non-financial liabilities

The fair values of financial assets and liabilities are determined as follows

- The fair values of available for sale financial assets represent the value of their discounted cash flows, which have been calculated using market assumptions of the likely period to redemption and movements in UK house prices
- Derivative financial instruments are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates
- The fair values of other non-derivative financial assets and liabilities are determined based on discounted cash flow analysis using current market rates for similar instruments

Trade and other payables include land payables, which may bear interest on a contract specific basis. Trade and other payables includes items secured by legal charge on certain assets as disclosed in note 19.



## 23. Financial liabilities (continued)

### a) Fair value and carrying-value (continued)

The following table provides an analysis of financial liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the liability that are not based on observable market data (unobservable inputs)

	Notes	Level 1 £m	Level 2 £m	Level 3 £m	Group 2010 Total £m
<b>Financial liabilities at fair value through profit and loss</b>					
Derivative financial liabilities	24	72.4	–	–	72.4
<b>Total</b>		<b>72.4</b>	<b>–</b>	<b>–</b>	<b>72.4</b>

	Notes	Level 1 £m	Level 2 £m	Level 3 £m	Company 2010 Total £m
<b>Financial liabilities at fair value through profit and loss</b>					
Derivative financial liabilities	24	72.4	–	–	72.4
<b>Total</b>		<b>72.4</b>	<b>–</b>	<b>–</b>	<b>72.4</b>

### b) Drawn debt facilities

The drawn debt at 30 June comprises

	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
<b>Non-current</b>				
Bank loans	726.9	1,200.9	726.9	1,200.9
Private placement notes	191.7	274.7	191.7	274.7
<b>Total non-current borrowings</b>	<b>918.6</b>	<b>1,475.6</b>	<b>918.6</b>	<b>1,475.6</b>
<b>Current</b>				
Bank overdrafts	–	7.4	104.8	110.7
Loan notes	0.3	1.1	0.3	1.1
Private placement notes	11.2	–	11.2	–
Kickstart equity funding	11.7	–	–	–
<b>Total current borrowings</b>	<b>23.2</b>	<b>8.5</b>	<b>116.3</b>	<b>111.8</b>
<b>Total borrowings</b>	<b>941.8</b>	<b>1,484.1</b>	<b>1,034.9</b>	<b>1,587.4</b>

On 22 September 2009, the Company entered into agreements with its bank lenders and private placement noteholders to amend the terms of its existing financing arrangements, including revised financial covenant arrangements. These amendments became effective on 16 November 2009 following completion of the Placing and the Rights Issue and the prepayment of 40% of the WB Acquisition Facilities, being £483.0m of the committed £484.1m five-year term facility and £9.5m of the £750.0m revolving credit facility (which operates as a term facility) and the prepayment of £94.8m of private placement notes. In addition, on 16 November 2009, undrawn commitments of £50.0m under each of the Company's two revolving credit facilities were cancelled, reducing the total revolving credit commitments under both facilities to £700.0m. As a result of the prepayment of private placement notes, make-whole notes totalling £19.0m were issued to the noteholders as detailed in note 3.

**23. Financial liabilities (continued)****b) Drawn debt facilities (continued)**

The weighted average interest rates, including fees, paid in the year were as follows

	2010 %	Group 2009 %	2010 %	Company 2009 %
Bank loans net of swap interest	8.1	8.9	8.1	8.9
Loan notes	2.0	7.8	2.0	7.8
Private placement notes	11.6	11.7	11.6	11.7

The principal features of the Group's drawn debt facilities at 30 June 2010 were as follows

**i) Committed facilities**

- A committed £740.5m five-year revolving credit facility of which £740.5m was drawn at 30 June 2010, made available under a credit agreement dated 5 February 2007 (as amended from time to time including in August 2008 and most recently with effect from 16 November 2009). As part of the August 2008 amendments, the revolving credit facility was fully drawn and now effectively operates as a term facility. The maturity date on this debt is 26 April 2012. On 16 November 2009, £9.5m of the facility was prepaid and the relevant proportion of the facility cancelled.
- A committed £350.0m three-year revolving credit facility of which £nil was drawn at 30 June 2010, made available under a facility agreement dated 2 February 2005 (as amended from time to time and most recently with effect from 16 November 2009). The maturity date on this debt is 16 November 2012.
- A committed £350.0m three-year revolving credit facility of which £nil was drawn at 30 June 2010, made available under a facility agreement dated 9 July 2008 (as amended from time to time and most recently with effect from 16 November 2009). The maturity date on this debt is 16 November 2012.

The Group suspended dividend payments in June 2008 as part of its cash conservation policy. The Board remains focused on strengthening the balance sheet and conserving cash. In addition, the terms of the Group's financing arrangements also impose restrictions on the declaration and payment of dividends in respect of the financial year ended 30 June 2010. The Board is committed to reinstating the payment of dividends and will do so when it becomes appropriate and permissible to do so.

**ii) Fixed rate Sterling private placement notes**

- The Group has £77.8m of fixed rate Sterling private placement notes, £11.2m expire on 15 October 2010. The remaining £66.6m of fixed rate Sterling private placement notes expire between 23 April 2018 and 23 April 2020. At 30 June 2009, there were £114.2m of fixed rate Sterling private placement notes but on 16 November 2009, the Company repaid £43.4m of fixed rate Sterling private placement notes and issued £7.3m of fixed rate Sterling private placement notes due to the make-whole clause within each of these agreements which was triggered on repayment. At 30 June 2009 the fixed rate Sterling private placement notes had a fair value uplift of £0.3m. During the year £0.1m of the fair value uplift was credited to the income statement and the remaining £0.2m was credited to the income statement within exceptional items.

**iii) Fixed rate US Dollar private placement notes**

- US Dollar ten-year private placement notes of \$42.6m issued pursuant to a note purchase agreement dated 23 April 2008 and as amended from time to time and most recently with effect from 16 November 2009. At 30 June 2009, there were \$59.8m US Dollar ten-year private placement notes but on 16 November 2009, the Company repaid \$22.5m of US Dollar ten-year private placement notes and issued \$5.3m of US Dollar ten-year private placement notes due to the make-whole clause within these agreements which was triggered on repayment.
- US Dollar five-year private placement notes of \$20.6m issued pursuant to a note purchase agreement dated 23 April 2008 and as amended from time to time and most recently with effect from 16 November 2009. At 30 June 2009, there were \$31.3m of US Dollar five-year private placement notes but on 16 November 2009, the Company repaid \$12.1m of US Dollar five-year private placement notes and issued \$1.4m of US Dollar five-year private placement notes due to the make-whole clause within these agreements which was triggered on repayment.
- US Dollar ten-year private placement notes of \$124.0m issued pursuant to a note purchase agreement dated 23 August 2007 and as amended from time to time and most recently with effect from 16 November 2009. At 30 June 2009, there were \$180.5m of US Dollar ten-year private placement notes but on 16 November 2009, the Company repaid \$69.3m of US Dollar ten-year private placement notes and issued \$12.8m of US Dollar ten-year private placement notes due to the make-whole clause within these agreements which was triggered on repayment.

## 23. Financial liabilities (continued)

### b) Drawn debt facilities (continued)

#### iv) Floating rate Sterling loan notes

The Group had £0.3m (2009: £1.1m) Sterling loan notes at 30 June 2010 having repaid £0.7m on that date and £0.1m on 31 December 2009. These loan notes are repayable at 30 June or 31 December each year at the option of the noteholder or, to the extent not previously repaid, are due in December 2012, and are subject to floating rates of interest linked to LIBOR. Following the Placing and the Rights Issue £0.3m of cash is held in a secured bank account which supports the Group's obligation to repay any amounts which the noteholder may claim under that guarantee.

#### v) Bank overdrafts and uncommitted money market facilities

The Group also uses various bank overdrafts and uncommitted borrowing facilities that are subject to floating interest rates linked to UK bank rate, LIBOR and money market rates as applicable. All debt is unsecured.

### c) Net debt

Net debt at the year end is shown below

	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
<b>Cash and cash equivalents</b>	<b>546.5</b>	<b>178.8</b>	<b>522.1</b>	<b>163.0</b>
<b>Non-current borrowings</b>				
Bank loans	(726.9)	(1,200.9)	(726.9)	(1,200.9)
Private placement notes	(191.7)	(274.7)	(191.7)	(274.7)
<b>Total non-current borrowings</b>	<b>(918.6)</b>	<b>(1,475.6)</b>	<b>(918.6)</b>	<b>(1,475.6)</b>
<b>Current borrowings</b>				
Bank overdrafts	–	(7.4)	(104.8)	(110.7)
Loan notes	(0.3)	(1.1)	(0.3)	(1.1)
Private placement notes	(11.2)	–	(11.2)	–
Kickstart equity funding	(11.7)	–	–	–
<b>Total current borrowings</b>	<b>(23.2)</b>	<b>(8.5)</b>	<b>(116.3)</b>	<b>(111.8)</b>
<b>Total borrowings</b>	<b>(941.8)</b>	<b>(1,484.1)</b>	<b>(1,034.9)</b>	<b>(1,587.4)</b>
<b>Derivative financial instruments</b>				
Foreign exchange swaps	28.4	28.4	28.4	28.4
<b>Net debt</b>	<b>(366.9)</b>	<b>(1,276.9)</b>	<b>(484.4)</b>	<b>(1,396.0)</b>

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. Net debt is defined as cash and cash equivalents, bank overdrafts, interest bearing borrowings and foreign exchange swaps. The Group includes foreign exchange swaps within net debt as these swaps were entered into to hedge the foreign exchange exposure upon the Group's US Dollar denominated private placement notes. The Group's foreign exchange swaps have both an interest rate and an exchange rate element and only the exchange rate element on the notional amount of the swap is included within the net debt note above.

**23. Financial liabilities (continued)****c) Net debt (continued)**

The Group's derivative financial instruments at the year end are shown below

	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
Foreign exchange swap – exchange rate element	28 4	28 4	28 4	28 4
Foreign exchange swap – interest rate element	3 8	2 1	3 8	2 1
	32 2	30 5	32 2	30 5
Interest rate swaps	(71 9)	(87 8)	(71 9)	(87 8)
<b>Net derivative financial instruments</b>	<b>(39 7)</b>	<b>(57 3)</b>	<b>(39 7)</b>	<b>(57 3)</b>

**24. Derivative financial instruments – swaps**

The Group and Company have entered into derivative financial instruments to manage interest rate and foreign exchange risks as explained in note 25. Neither the Group nor the Company enter into any derivatives for speculative purposes

	Asset £m	2010 Liability £m	Asset £m	Group and Company 2009 Liability £m
<b>Designated as cash flow hedges</b>				
<b>Non-current</b>				
Interest rate swaps	–	(71 9)	–	(87 8)
Foreign exchange swaps	32 7	(0 5)	31 9	(1 4)
<b>Total derivative financial instruments</b>	<b>32 7</b>	<b>(72 4)</b>	<b>31 9</b>	<b>(89 2)</b>

**a) Interest rate swaps**

The Group and Company enter into derivative transactions in the form of swap arrangements to manage the cash flow risks, related to interest rates, arising from the Group's and Company's sources of finance. All of the Group's and Company's interest rate swap arrangements contain a clause that allows the Group/Company or the issuer to cancel the swap in May 2012 at fair value.

As at 30 June 2010 the Group and Company had outstanding net floating rate Sterling debt and overdrafts of £727.2m (2009: £1,209.4m). In obtaining this funding the Group and Company sought to achieve certainty as to both the availability of, and income statement charge related to, a designated proportion of anticipated future debt requirements.

## 24. Derivative financial instruments – swaps (continued)

### a) Interest rate swaps (continued)

The Group and Company have entered into swap arrangements to swap £480.0m (2009: £765.0m) of this debt into fixed rate Sterling debt in accordance with the Group and Company treasury policy outlined in note 25. After taking into account swap arrangements the fixed interest rates applicable to the debt were as follows:

30 June 2010 £m	Fixed rate payable %	Maturity	30 June 2009 £m	Fixed rate payable %	Maturity
142.5	5.79	2012	142.5	5.79	2012
50.0	5.80	2012	50.0	5.80	2012
60.0	5.94	2017	60.0	5.94	2017
60.0	5.99	2017	60.0	5.99	2017
32.5	5.64	2017	40.0	5.93	2017
60.0	5.75	2022	40.0	5.96	2017
75.0	5.44	2022	32.5	5.64	2017
–	–	–	120.0	5.75	2022
–	–	–	75.0	5.44	2022
–	–	–	65.0	5.43	2022
–	–	–	40.0	5.72	2022
–	–	–	40.0	5.76	2022
<b>480.0</b>			<b>765.0</b>		

The swap arrangements are designated as a cash flow hedge against future interest rate movements. The fair value of the swap arrangements as at 30 June 2010, which is based on third party valuations, was a liability of £71.9m (2009: £87.8m) with a loss of £31.2m (2009: £81.0m) charged directly to equity in the year. There was no ineffectiveness to be taken through the income statement during the year or the prior year.

Swaps with a notional amount of £285.0m were cancelled during the year following the Placing and the Rights Issue and prepayment of part of the Group's Sterling borrowings. Cumulative losses on interest rate swaps of £47.1m were recognised in exceptional finance costs in the income statement following these cancellations. Swaps with a notional amount of £95.0m were cancelled during the year ended 30 June 2008. Cumulative losses on these swaps of £3.0m, previously deferred in equity, have been recognised in exceptional finance costs in the income statement, as the forecast transaction specified in the hedge relationship is no longer expected to occur.

Further disclosures relating to financial instruments are set out in note 25.

**24. Derivative financial instruments – swaps (continued)****b) Basis rate swaps**

During the previous year, the Group entered into £400.0m of six-month basis rate swaps to swap the interest payable upon some of the Group's borrowings from six-month LIBOR to one-month LIBOR plus a premium. These swaps reduced the cash interest payable by the Group by £1.4m over the six-month life. There were no basis rate swaps outstanding as at 30 June 2009 or 30 June 2010.

**c) Foreign exchange swaps**

The Group and Company enter into derivative transactions in the form of swap arrangements to manage the cash flow risks related to foreign exchange arising from the Group's sources of finance denominated in US Dollars.

As at 30 June 2010 the Group and Company had outstanding fixed rate US Dollar loan notes of \$187.2m (2009: \$271.6m).

The Group and Company have entered into swap arrangements to swap all of this debt into fixed rate Sterling debt in accordance with the Group treasury policy outlined in note 25. After taking into account swap arrangements the fixed interest rates applicable to the debt were as follows:

30 June 2010 \$m	Fixed rate payable %	Maturity	30 June 2009 \$m	Fixed rate payable %	Maturity
18.2	8.98	2013	1.0	10.95	2013
1.0	10.95	2013	30.3	8.98	2013
1.4	10.78	2013	7.5	10.55	2017
103.7	6.61	2017	173.0	6.61	2017
7.5	10.55	2017	3.6	12.23	2018
12.8	9.75	2017	56.2	9.24	2018
33.7	9.24	2018	–	–	–
3.6	12.23	2018	–	–	–
5.3	11.37	2018	–	–	–
<b>187.2</b>			<b>271.6</b>		

The swap arrangements are designated as cash flow hedges against future foreign exchange rate movements. The hedges match the contractual initial receipt, the final settlement, and as a result of refinancing on 9 July 2008 match 76% of the interest payments. The fair value of the swap arrangements as at 30 June 2010, which is based on third party valuations, was an asset of £32.2m (2009: £30.5m) with a gain of £13.6m (2009: £30.3m) credited directly to equity in the year.

A gain of £11.9m (2009: £7.2m) was realised upon cancellation of \$103.9m (2009: \$40.5m) of foreign exchange swaps following repayment of \$103.9m (2009: \$40.5m) US Dollar private placement notes on 16 November 2009 (2009: 12 January 2009). In addition the Group made a realised foreign exchange loss of £11.9m (2009: £7.2m) upon its US Dollar private placement notes.

There was no ineffectiveness to be taken through the income statement during the year or the prior year.

Further disclosures relating to financial instruments are set out in note 25.

## 25. Financial risk management

The principal operational risks of the business are detailed on pages 26 and 27. The Group's financial assets, financial liabilities and derivative financial instruments are detailed in notes 22, 23 and 24.

The Group's operations and financing arrangements expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity risks and interest rates. The most significant of these to the Group is liquidity risk and, accordingly, there is a regular, detailed system for the reporting and forecasting of cash flows from the operations to Group management with the goal of ensuring that risks are promptly identified and appropriate mitigating actions taken by the central treasury department. These forecasts are further stress tested at a Group level on a regular basis to ensure that adequate headroom within facilities and banking covenants is maintained. In addition, the Group has in place a risk management programme that seeks to limit the adverse effects of the other risks on its financial performance, in particular by using financial instruments, including debt and derivatives, to hedge interest rates and currency rates. The Group does not use derivative financial instruments for speculative purposes.

The Board approves treasury policies and certain day-to-day treasury activities have been delegated to a centralised Treasury Operating Committee, which in turn regularly reports to the Board. The treasury department implements guidelines that are established by the Board and the Treasury Operating Committee.

### a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. The Group actively maintains a mixture of long-term and medium-term committed facilities that are designed to ensure that the Group has sufficient available funds for operations. The Group's borrowings are typically cyclical throughout the financial year and peak in April and May, and October and November, of each year, due to seasonal trends in income. Accordingly the Group maintains sufficient facility headroom to cover these requirements. On a normal operating basis the Group has a policy of maintaining headroom of up to £250.0m. The Group identifies and takes appropriate actions based upon its regular, detailed system for the reporting and forecasting of cash flows from its operations. At 30 June 2010, the Group had committed bank facilities of £1,615.3m (2009 £2,284.4m) and total facilities of £1,676.5m (2009 £2,360.6m). At 30 June 2010, the Group's debt drawn against these facilities was £930.1m (2009 £1,484.1m). This represented 57.6% of available committed facilities at 30 June 2010 (2009 65.0%). In addition the Group had £546.5m (2009 £178.8m) of cash.

The Group was in compliance with its financial covenants at 30 June 2010. At the date of approval of the financial statements the Group's internal forecasts indicate that it will remain in compliance with these covenants for the foreseeable future being at least twelve months from the date of signing these financial statements. Compliance with covenants is also considered on page 61.

The Group's objective is to minimise refinancing risk. The Group therefore has a policy that the average maturity of its committed bank facilities and private placement notes is at least two years on average with a target of three years. At 30 June 2010, the average maturity of the Group's committed facilities was 2.6 years (2009 3.1 years).

The Group maintains certain committed floating rate facilities with banks to ensure sufficient liquidity for its operations. The undrawn committed facilities available to the Group, in respect of which all conditions precedent had been met, were as follows:

Expiry date	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
In less than one year	–	50.0	–	50.0
In more than one year but not more than two years	–	–	–	–
In more than two years but not more than five years	700.0	750.0	700.0	750.0
	700.0	800.0	700.0	800.0

**25. Financial risk management (continued)**
**a) Liquidity risk (continued)**

In addition, the Group had £61.2m of undrawn uncommitted facilities available at 30 June 2010 (2009: £68.8m)

The expected undiscounted cash flows of the Group's financial liabilities, excluding derivative financial liabilities, by remaining contractual maturity at the balance sheet date were as follows

Group	Notes	Carrying amount £m	Contractual cash flow £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
<b>30 June 2010</b>							
Loans and borrowings							
(including bank overdrafts)	23	941.8	1,099.9	58.9	775.7	60.4	204.9
Trade and other payables	23	1,094.8	1,151.5	801.5	153.8	181.7	14.5
		<b>2,036.6</b>	<b>2,251.4</b>	<b>860.4</b>	<b>929.5</b>	<b>242.1</b>	<b>219.4</b>
<b>30 June 2009</b>							
Loans and borrowings							
(including bank overdrafts)	23	1,484.1	1,864.6	83.8	93.3	1,370.0	317.5
Trade and other payables	23	885.7	936.0	650.3	157.5	115.9	12.3
		<b>2,369.8</b>	<b>2,800.6</b>	<b>734.1</b>	<b>250.8</b>	<b>1,485.9</b>	<b>329.8</b>

The expected undiscounted cash flows of the Company's financial liabilities, excluding derivative financial liabilities, by remaining contractual maturity at the balance sheet date were as follows

Company	Notes	Carrying amount £m	Contractual cash flow £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
<b>30 June 2010</b>							
Loans and borrowings							
(including bank overdrafts)	23	1,034.9	1,193.0	152.0	775.7	60.4	204.9
Trade and other payables	23	29.7	29.7	29.7	–	–	–
		<b>1,064.6</b>	<b>1,222.7</b>	<b>181.7</b>	<b>775.7</b>	<b>60.4</b>	<b>204.9</b>
<b>30 June 2009</b>							
Loans and borrowings							
(including bank overdrafts)	23	1,587.4	1,967.9	187.1	93.3	1,370.0	317.5
Trade and other payables	23	33.2	33.2	33.2	–	–	–
		<b>1,620.6</b>	<b>2,001.1</b>	<b>220.3</b>	<b>93.3</b>	<b>1,370.0</b>	<b>317.5</b>

Trade and other payables excludes deferred income, payments received in excess of amounts recoverable on contracts, tax and social security and other non-financial liabilities



## 25. Financial risk management (continued)

### a) Liquidity risk (continued)

The expected undiscounted cash flows of the Group's and the Company's derivative financial instruments, by remaining contractual maturity, at the balance sheet date were as follows

Group and Company	Notes	Carrying amount £m	Contractual cash flow £m	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
<b>30 June 2010</b>							
<b>Financial assets</b>							
Gross settled derivatives							
Receive leg	22	32 7	160 8	7 1	7 1	32 5	114 1
Pay leg		–	(123 3)	(5 8)	(5 8)	(25 6)	(86 1)
<b>Financial liabilities</b>							
Gross settled derivatives							
Receive leg	23	(0 5)	14 6	0 8	0 8	3 0	10 0
Pay leg		–	(15 2)	(0 9)	(0 9)	(3 2)	(10 2)
Net settled derivatives	23	(71 9)	(88 4)	(22 3)	(19 9)	(29 1)	(17 1)
		(39 7)	(51 5)	(21 1)	(18 7)	(22 4)	10 7
<b>30 June 2009</b>							
<b>Financial assets</b>							
Gross settled derivatives							
Receive leg	22	31 9	245 9	10 7	10 8	49 8	174 6
Pay leg		–	(205 4)	(9 6)	(9 6)	(42 6)	(143 6)
<b>Financial liabilities</b>							
Gross settled derivatives							
Receive leg	23	(1 4)	13 3	0 7	0 7	2 7	9 2
Pay leg		–	(15 2)	(0 9)	(0 9)	(3 2)	(10 2)
Net settled derivatives	23	(87 8)	(109 7)	(31 4)	(24 0)	(25 0)	(29 3)
		(57 3)	(71 1)	(30 5)	(23 0)	(18 3)	0 7

Under the Group's ISDA agreements the interest rate swaps are settled on a net basis

### b) Market risk (price risk)

#### 1) UK housing market risk

This section specifically discusses UK housing market risk in the context of the financial instruments in the Group balance sheet

The Group is subject to the prevailing conditions of the UK economy and the Group's earnings are dependent upon the level of UK house prices. UK house prices are determined by the UK economy and economic conditions including employment levels, interest rates, consumer confidence, mortgage availability and competitor pricing. However, the Group does seek to maintain an appropriate geographic spread of operating divisions and an appropriate product mix to mitigate any risks caused by local economic conditions. The Group has detailed procedures to manage its market related operational risks which include

- a weekly review of key trading indicators, including reservations, sales rates, visitor levels, levels of incentives, competitor activity and cash flow projections,
- the provision to mortgage providers with complete transparency of house purchase prices alongside any discounts or other incentives in order that they have appropriate information upon which to base their lending decision, and
- collaboration with key mortgage lenders to ensure that products are appropriate wherever possible for its customers

**25. Financial risk management (continued)****b) Market risk (price risk) (continued)****i) UK housing market risk (continued)**

The UK housing market affects the valuation of the Group's non-financial assets and liabilities and the critical judgements applied by management in these financial statements, including the valuation of land and work in progress, goodwill and brands

The Group's financial assets and liabilities that are directly linked to the UK housing market are as follows

Group	Linked to UK housing market £m	Not linked to UK housing market £m	Total £m
<b>30 June 2010</b>			
Non-derivative financial assets	136.3	582.4	718.7
Non-derivative financial liabilities	–	(2,036.6)	(2,036.6)
Derivatives	–	(39.7)	(39.7)
	<b>136.3</b>	<b>(1,493.9)</b>	<b>(1,357.6)</b>
<b>30 June 2009</b>			
Non-derivative financial assets	86.5	195.3	281.8
Non-derivative financial liabilities	–	(2,369.8)	(2,369.8)
Derivatives	–	(57.3)	(57.3)
	<b>86.5</b>	<b>(2,231.8)</b>	<b>(2,145.3)</b>

The value of the Group's available for sale financial assets is directly linked to the UK housing market. At 30 June 2010 these assets were carried at a fair value of £136.3m (2009: £86.5m)

The Company has no financial assets and liabilities that are directly linked to the UK housing market

**Sensitivity analysis**

At 30 June 2010, if UK house prices had been 5% lower and all other variables were held constant, the Group's house price linked financial assets and liabilities, which are solely available for sale financial assets, would decrease in value, excluding the effects of tax, by £5.2m (2009: £6.2m) with a corresponding reduction in both the result for the year and equity

**ii) Interest rate risk**

The Group has both interest bearing assets and interest bearing liabilities. Floating rate borrowings expose the Group to cash flow interest rate risk and fixed rate borrowings expose the Group to fair value interest rate risk

The Group has a policy of maintaining both long-term fixed rate funding and medium-term floating rate funding so as to ensure that there is appropriate flexibility for the Group's operational requirements. The Group has entered into swap arrangements to hedge cash flow risks relating to interest rate movements on a proportion of its debt and has entered into fixed rate debt in the form of Sterling and US Dollar denominated private placements

## 25. Financial risk management (continued)

### b) Market risk (price risk) (continued)

#### ii) Interest rate risk (continued)

The Group has a policy that 60%–80% of the Group's median gross borrowings calculated on the latest three-year plan (taking into account hedging) is at a fixed rate, with an average minimum duration of five years and an average maximum duration of fifteen years. At 30 June 2010, 70.4% of the Group's borrowings was at a fixed rate (2009: 68.4%).

The exposure of the Group's financial liabilities to interest rate risk is as follows

Group	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Non-interest bearing financial liabilities £m	Total £m
<b>30 June 2010</b>				
Financial liabilities (excluding derivatives)	727.2	202.9	1,106.5	2,036.6
Impact of interest rate swaps	(480.0)	480.0	–	–
<b>Financial liability exposure to interest rate risk</b>	<b>247.2</b>	<b>682.9</b>	<b>1,106.5</b>	<b>2,036.6</b>
<b>30 June 2009</b>				
Financial liabilities (excluding derivatives)	1,209.4	274.7	885.7	2,369.8
Impact of interest rate swaps	(765.0)	765.0	–	–
<b>Financial liability exposure to interest rate risk</b>	<b>444.4</b>	<b>1,039.7</b>	<b>885.7</b>	<b>2,369.8</b>

The exposure of the Company's financial liabilities to interest rate risk is as follows

Company	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Non-interest bearing financial liabilities £m	Total £m
<b>30 June 2010</b>				
Financial liabilities (excluding derivatives)	832.0	202.9	29.7	1,064.6
Impact of interest rate swaps	(480.0)	480.0	–	–
<b>Financial liability exposure to interest rate risk</b>	<b>352.0</b>	<b>682.9</b>	<b>29.7</b>	<b>1,064.6</b>
<b>30 June 2009</b>				
Financial liabilities (excluding derivatives)	1,312.7	274.7	33.2	1,620.6
Impact of interest rate swaps	(765.0)	765.0	–	–
<b>Financial liability exposure to interest rate risk</b>	<b>547.7</b>	<b>1,039.7</b>	<b>33.2</b>	<b>1,620.6</b>

Floating interest rates on Sterling borrowings are linked to UK bank rate, LIBOR and money market rates. The floating rates are fixed in advance for periods generally ranging from one to six months. Short-term flexibility is achieved through the use of overdraft, committed and uncommitted bank facilities. The weighted average interest rate for floating rate borrowings in 2010 was 3.2% (2009: 6.6%).

Sterling private placement notes of £77.8m (2009: £114.2m) were arranged at fixed interest rates and exposed the Group to fair value interest rate risk. The weighted average interest rate for fixed rate Sterling private placement notes for 2010 was 11.8% (2009: 11.5%) with, at 30 June 2010, a weighted average period of 7.7 years (2009: 8.5 years) for which the rate is fixed.

US Dollar denominated private placement notes of £125.1m (2009: £164.9m) were arranged at fixed interest rates and exposed the Group to fair value interest rate risk. The weighted average interest rate for fixed rate US Dollar denominated private placement notes, after the effect of foreign exchange rate swaps, for 2010 was 11.2% (2009: 11.0%) with, at 30 June 2010, a weighted average period of 6.8 years (2009: 7.8 years) for which the rate is fixed.

**25. Financial risk management (continued)****b) Market risk (price risk) (continued)****ii) Interest rate risk (continued)****Sensitivity analysis**

In the year ended 30 June 2010, if UK interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax loss would increase/decrease by £1.8m (2009: £3.9m), the Group's post-tax loss would increase/decrease by £1.3m (2009: £2.8m) and the Group's equity would decrease/increase by £1.3m (2009: £2.8m).

**iii) Foreign exchange rate risk**

As at 30 June 2010, the Group has fixed rate US Dollar denominated private placement notes of \$187.2m (2009: \$271.6m). In order to mitigate risks associated with the movement in the foreign exchange rate, the Group has a policy of fully hedging the principal of its US Dollar denominated debt and a significant proportion of the interest payments. The Group therefore entered into foreign exchange swap arrangements on the issue of its US Dollar denominated debt, all of which are designated as cash flow hedges. Accordingly the Group has no net exposure to foreign currency risk on the principal of its US Dollar debt. The foreign exchange swaps match 76% of the interest payments and therefore the Group is subject to foreign exchange rate risk upon the remaining 24%.

Details of the Group's foreign exchange swaps are provided in note 24.

**Sensitivity analysis**

In the year ended 30 June 2010, if the US Dollar per Pound Sterling exchange rate had been \$0.20 higher/lower and all other variables were held constant, the Group's pre-tax loss would increase/decrease by £0.4m (2009: £0.7m), the Group's post-tax loss would increase/decrease by £0.3m (2009: £0.5m) and the Group's equity would decrease/increase by £0.3m (2009: £0.5m).

**c) Credit risk**

In the majority of cases, the Group receives cash upon legal completion for private sales and receives advance stage payments from Registered Social Landlords for social housing. The Group has £136.3m (2009: £86.5m) of available for sale financial assets which expose it to credit risk, although this asset is spread over a large number of properties. As such, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group manages credit risk in the following ways:

- The Group has a credit policy that is limited to financial institutions with high credit ratings as set by international credit rating agencies and has a policy determining the maximum permissible exposure to any single counterparty.
- The Group only contracts derivative financial instruments with counterparties with which the Group has an International Swaps and Derivatives Association Master Agreement in place. These agreements permit net settlement, thereby reducing the Group's credit exposure to individual counterparties.

The maximum exposure to any counterparty at 30 June 2010 was £100.0m of cash on deposit with a financial institution (2009: £31.0m). The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk.

As at 30 June 2010, the Company was exposed to £898.5m (2009: £1,511.1m) of credit risk in relation to intercompany loans, as well as financial guarantees, performance bonds and the bank borrowings of subsidiary undertakings. Further details are provided in notes 32 and 33.

## 25. Financial risk management (continued)

### d) Capital risk management (cash flow risk)

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and meet its liabilities as they fall due whilst maintaining an appropriate capital structure

The Group manages as capital its equity, as set out in the condensed consolidated statement of changes in shareholders' equity, its bank borrowings (being overdrafts, loan notes and bank loans) and its private placement notes, as set out in note 23

The Group is subject to the prevailing conditions of the UK economy and the Group's earnings are dependent upon the level of UK house prices. UK house prices are determined by the UK economy and economic conditions including employment levels, interest rates, consumer confidence, mortgage availability and competitor pricing. The management of these operational risks is set out in the principal risks and uncertainties on pages 26 and 27

In addition, the other methods by which the Group can manage its short-term and long-term capital structure include adjusting the level of ordinary dividends paid to shareholders (assuming the Company is paying a dividend), issuing new share capital, arranging debt to meet liability payments, and selling assets to reduce debt

## 26. Retirement benefit obligations

The Group operates defined contribution and defined benefit pension schemes

Defined contribution schemes	2010 £m	2009 £m
<b>Contributions during the year</b>		
Group defined contribution schemes consolidated income statement charge	6.5	3.9

At the balance sheet date there were outstanding contributions of £0.2m (2009: £0.2m), which were paid on or before the due date

### Defined benefit scheme

The Group operates a funded defined benefit pension scheme in the United Kingdom, the Barratt Group Pension & Life Assurance Scheme (the 'Scheme') which is closed to new entrants. With effect from 30 June 2009, the Scheme ceased to offer future accrual of defined benefit pensions for current employees and the link between accrued benefits and future salary increases was removed. This decision was taken following a detailed consultation process with the Trustees and employee members of the Scheme. Alternative defined contribution pension arrangements are in place for current employees.

A full actuarial valuation was carried out at 30 November 2007 and updated to 30 June 2010 by a qualified independent actuary. The projected unit method has been used to calculate the current service cost. Due to the Scheme ceasing to offer future accrual of defined benefit pensions to employees from 30 June 2009, there is no current service cost in the year or in future years. Following the completion of the Scheme triennial actuarial valuation for funding purposes, the Group has agreed to make future contributions to the Scheme, in addition to the normal contribution payment, of £13.3m per annum until 30 November 2015 to address the Scheme's deficit and the Group will also meet the Scheme's administration expenses, death in service premiums and Pension Protection Fund levy. The next triennial actuarial valuation for funding purposes is due with effect from 30 November 2010. At the balance sheet date there were outstanding contributions of £1.1m (2009: £0.4m).

**26. Retirement benefit obligations (continued)**

The assets of the defined benefit scheme have been calculated at fair (bid) value. The liabilities of the Scheme have been calculated at each balance sheet date using the following assumptions

Principal actuarial assumptions	2010	2009
<b>Weighted average assumptions to determine benefit obligations</b>		
Discount rate	5.40%	6.30%
Rate of compensation increase	N/A	4.40%
Rate of price inflation	3.20%	3.40%
<b>Weighted average assumptions to determine net cost</b>		
Discount rate	6.30%	6.30%
Expected long-term rate of return on plan assets	6.31%	6.82%
Rate of compensation increase	N/A	4.70%
Rate of price inflation	3.40%	3.70%

Members are assumed to exchange 10% of their pension for cash on retirement. The assumptions have been chosen by the Group following advice from Mercer Human Resource Consulting Limited, the Group's actuarial advisers.

The following table illustrates the life expectancy for an average member on reaching age 65, according to the mortality assumptions used to calculate the scheme liabilities.

Assumptions	Male	Female
Retired member born in 1935 (life expectancy at age 65)	21.5 years	24.6 years
Non-retired member born in 1965 (life expectancy at age 65)	24.4 years	27.8 years

The base mortality assumptions are based upon the PA92 mortality tables. The Group has carried out a mortality investigation of the Scheme's membership to ensure that this is an appropriate assumption. Allowance for future increases in life expectancy is made in line with the medium cohort projection, with an underpin on the annual rate of improvement in mortality of 1%.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Assumptions	Change in assumption	Increase in scheme liabilities
Discount rate	Decrease by 0.1%	£5.1m (2.1%)
Rate of inflation	Increase by 0.1%	£2.6m (1.0%)
Life expectancy	Increase by 1 year	£6.5m (2.6%)

**26. Retirement benefit obligations (continued)**

The amounts recognised in the consolidated income statement were as follows

	2010 £m	2009 £m
Current service cost	–	2.8
Exceptional curtailment gain	–	(7.1)
<b>Total pension gain recognised in operating expenses in the consolidated income statement</b>	<b>–</b>	<b>(4.3)</b>
Interest cost	12.4	12.9
Expected return on scheme assets	(10.8)	(12.6)
<b>Total pension cost recognised in finance costs in the consolidated income statement</b>	<b>1.6</b>	<b>0.3</b>
<b>Total pension cost/(gain) recognised in the consolidated income statement</b>	<b>1.6</b>	<b>(4.0)</b>

The exceptional curtailment gain in the prior year of £7.1m arose in respect of the cessation of future accrual of defined benefit pensions for current employees and the associated removal of the link between accrued benefits and future salary increases and redundancies made in the year ended 30 June 2009

The amounts recognised in the Group statement of comprehensive income were as follows

	2010 £m	2009 £m
Expected return less actual return on pension scheme assets	(17.6)	20.5
Loss/(gain) arising from changes in the assumptions underlying the present value of benefit obligations	43.9	(6.4)
<b>Total pension cost recognised in the Group statement of comprehensive income</b>	<b>26.3</b>	<b>14.1</b>

**26. Retirement benefit obligations (continued)**

The amount included in the Group and Company balance sheets arising from obligations in respect of the defined benefit pension scheme is as follows

	2010 £m	2009 £m
Present value of funded obligations	248.3	201.9
Fair value of scheme assets	(202.2)	(170.4)
<b>Deficit for funded scheme/net liability recognised in the Group balance sheet at 30 June</b>	<b>46.1</b>	<b>31.5</b>

	2010 £m	2009 £m
Net liability for defined benefit obligations at 1 July	31.5	37.2
Contributions received	(13.3)	(15.8)
Expense/(gain) recognised in the consolidated income statement	1.6	(4.0)
Amounts recognised in the Group statement of comprehensive income	26.3	14.1
<b>Net liability for defined benefit obligations at 30 June</b>	<b>46.1</b>	<b>31.5</b>

A deferred tax asset of £12.9m (2009: £8.8m) has been recognised in the Group balance sheet in relation to the pension liability (note 16)

Movements in the present value of defined benefit obligations were as follows

	2010 £m	2009 £m
Present value of benefit obligations at 1 July	201.9	208.8
Current service cost	–	2.8
Exceptional curtailment gain	–	(7.1)
Interest cost	12.4	12.9
Scheme participants' contributions	–	1.6
Actuarial loss/(gain)	43.9	(6.4)
Benefits paid from scheme	(9.9)	(10.5)
Premiums paid	–	(0.2)
<b>Present value of benefit obligations at 30 June</b>	<b>248.3</b>	<b>201.9</b>



**26. Retirement benefit obligations (continued)**

Movements in the fair value of scheme assets were as follows

	2010 £m	2009 £m
Fair value of scheme assets at 1 July	170.4	171.6
Expected return on scheme assets	10.8	12.6
Actuarial gain/(loss) on scheme assets	17.6	(20.5)
Employer contributions	13.3	15.8
Scheme participants' contributions	–	1.6
Benefits paid from scheme	(9.9)	(10.5)
Premiums paid	–	(0.2)
<b>Fair value of scheme assets at 30 June</b>	<b>202.2</b>	<b>170.4</b>

The analysis of scheme assets and the expected rate of return at the balance sheet date were as follows

	Percentage of scheme assets	2010 Expected return on scheme assets	Percentage of scheme assets	2009 Expected return on scheme assets
Equity securities	51.5%	7.14%	50.3%	7.31%
Debt securities	47.6%	4.78%	49.4%	5.32%
Other	0.9%	0.50%	0.3%	0.50%
<b>Total</b>	<b>100.0%</b>	<b>5.96%</b>	<b>100.0%</b>	<b>6.31%</b>

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily Government bonds), the historical level of risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The actual return on scheme assets was as follows

	2010 £m	2009 £m
Actual return on scheme assets	28.4	(7.8)

**26. Retirement benefit obligations (continued)**

The five-year history of experience adjustments arising on scheme (liabilities)/assets was as follows

	2010	2009	2008	2007	2006
Present value of defined benefit obligations (£m)	(248.3)	(201.9)	(208.8)	(232.8)	(231.8)
Fair value of scheme assets (£m)	202.2	170.4	171.6	167.9	141.1
Deficit in the scheme (£m)	(46.1)	(31.5)	(37.2)	(64.9)	(90.7)
Experience adjustment in scheme liabilities (£m)	-	-	11.4	(13.2)	-
Percentage of scheme liabilities (%)	-	-	5.5	(5.7)	-
Experience adjustment in scheme assets (£m)	17.6	(20.5)	(17.3)	7.6	8.0
Percentage of scheme assets (%)	8.7	(12.0)	(10.1)	4.5	5.7
Amount recognised in the Group statement of comprehensive income (£m)	26.3	14.1	(20.1)	(13.4)	-
Percentage of scheme assets (%)	13.0	8.3	(11.7)	(8.0)	-

The cumulative amount of actuarial gains and losses since 30 June 2005 recognised in the Group statement of comprehensive income is a loss of £6.9m

The expected employer contribution to the defined benefit pension scheme in the year ending 30 June 2011 is £13.3m

**27. Share capital**

	2010 £m	2009 £m
<b>Allotted and issued ordinary shares</b>		
10p each fully paid 965,215,015 ordinary shares (2009 346,718,019)	96.5	34.7

During the year, 7,406,014 options over the Company's shares were granted under the Company's Executive Share Option Scheme and 4,160,038 options were granted under the Senior Management Share Option Plan 2009/2010 and 2,144,435 options were granted under the SAYE Scheme

During the year, 55,240 shares were issued to satisfy early exercises under the 2009 SAYE Scheme

On 19 October 2009 the Company issued 72,916,666 new ordinary shares by way of a Placing at 240 pence per share

On 19 October 2009 the Company provisionally allotted 545,525,090 new ordinary shares in respect of a 1.3 for 1 Rights Issue at a price of 100 pence per share. This allotment was subsequently confirmed on the closing of the Rights Issue

The Placing and the Rights Issue generated gross proceeds to the Company of £720.5m. After costs of £27.5m the Placing and the Rights Issue generated net proceeds to the Company of £693.0m

The Barratt Developments PLC Employee Benefit Trust (the 'EBT') holds 3,929,314 (2009 1,711,046) ordinary shares in the Company. During the year the EBT participated in the Rights Issue and consequently purchased 2,224,359 ordinary shares for £2,224,359. The cost of the shares held by the EBT, at an average of 128.8 pence per share (2009 165.9 pence per share) was £5,062,765 (2009 £2,838,386). The market value of the shares held by the EBT at 30 June 2010 at 94.8 pence per share (2009 147.5 pence per share) was £3,724,990 (2009 £2,523,793). The shares are held in the EBT for the purpose of satisfying options that have been granted under The Barratt Developments PLC Executive and Employee Share Option Plans. These ordinary shares do not rank for dividend and do not count in the calculation of the weighted average number of shares used to calculate earnings per share until such time as they are vested to the relevant employee

## 28. Share-based payments

### a) Details of the share-based payment schemes

#### i) Executive Share Option Plan

In November 1997, the Company adopted the Executive Share Option Plan (the 'ESOP'). The grant of share options under the ESOP is at the discretion of the Remuneration Committee, taking into account individual performance and the overall performance of the Group. Options must be held for a minimum of three years from the date of grant before they can be exercised and lapse if not exercised within ten years from the date of grant. The exercise of options granted under the ESOP is subject to the achievement of an objective performance condition set by the Remuneration Committee, namely that the growth in the basic earnings per share of the Company over a period of three consecutive financial years should exceed the growth in the Retail Price Index by at least 6% for options granted in 1997 and 1998, and by at least 9% for those options granted in and since 1999. No options may be granted under the ESOP after 18 December 2007.

#### ii) Employee Share Option Plan

In November 1999, the Company adopted an Employee Share Option Plan (the 'Employee Plan'). The Board approves the grant of share options to employees under this Employee Plan which are normally exercisable between three and ten years from the date of grant. The exercise of the options granted under the Employee Plan is subject to the achievement of an objective performance condition set by the Board, namely that the growth in the basic earnings per share of the Company over a period of three consecutive financial years should exceed the growth in the Retail Price Index by at least 9%. No options may be granted under the Employee Plan after 10 April 2010.

Those who have participated in the Executive Share Option Plan do not participate in the Employee Share Option Plan.

#### iii) Long-Term Performance Plan

The Long-Term Performance Plan (the 'LTPP') was approved by shareholders at the Annual General Meeting held in November 2003 to take effect from 1 July 2003.

No LTPP awards were granted in the financial year ended 30 June 2009 or 30 June 2010. The Committee is proposing to use the LTPP in the year ending 30 June 2011.

Awards under the LTPP are at the discretion of the Committee, taking into account individual performance and the overall performance of the Group. An employee is not eligible to receive options under the ESOPs and awards under the LTPP in the same financial year.

Awards under the LTPP are based on an annual allocation of notional ordinary shares equivalent in value to a maximum of 200% of basic salary with vesting taking place at the expiry of the three-year performance period of the plan, subject to attainment of the agreed performance targets. There is no re-testing of performance conditions. 50% of the award will vest on attainment of a performance target based on TSR and 50% based on EPS growth.

The Committee considers these targets to be the most appropriate measure of financial performance for a housebuilder at the time of the awards, as they are fundamental measures of the Group's underlying performance and are directly linked to the generation of returns to shareholders.

For awards made in 2007, the comparator group for the TSR portion of the award comprises those companies, excluding investment trusts, ranked 51-100 in the FTSE Index. For the TSR element of the award, 50% of the total award will vest if the Company's TSR measured over a three-year period ranks at the upper quartile or above against the TSR of the comparator group. 10% of the total award will vest if the TSR ranks at the median and no part of the award will vest if the TSR ranks below the median. The award will vest on a straight-line basis between the upper and lower targets.

**28. Share-based payments (continued)****a) Details of the share-based payment schemes (continued)****iii) Long-Term Performance Plan (continued)**

For awards made in 2007, the targets are as follows: for the EPS element of the target, the full 50% will vest if EPS growth exceeds the RPI plus 18% and 10% will vest if EPS growth exceeds the RPI plus 9%, for performance in between, the awards will vest on a straight-line basis. The EPS for the Company 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 by the Employee Benefit Trust.

**iv) Senior Management Share Option Plan**

In December 2009, the Company adopted the Senior Management Share Option Plan 2009-2012 (the 'Plan'). The Board approves the grant of share options to employees under the Plan which are normally exercisable between three and ten years from the date of grant, provided the employee remains employed by the Company. It is intended that the grant of options under the Plan will be a one-off event and those who participate in the Plan are not eligible to participate in the Long-Term Performance Plan or Executive Share Option Scheme, therefore Executive Directors are not eligible to participate in the Plan.

**v) Executive Share Option Scheme**

In November 2008, the Company adopted the Executive Share Option Scheme (the 'ESOS'). The grant of share options under the ESOS is at the discretion of the Remuneration Committee, taking into account individual performance and the overall performance of the Group. Options must be held for a minimum of three years from the date of grant before they can be exercised and lapse if not exercised within ten years from the date of grant. The exercise of options granted under the ESOS is subject to the achievement of an objective performance condition set by the Remuneration Committee, which for options granted in 2008 was based upon Return On Capital Employed ('ROCE'). There will be no opportunity to retest any performance criteria. The ROCE performance condition is underpinned by the requirement that the Committee is satisfied that vesting determined by the ROCE condition is such that it correctly reflects the underlying financial performance of the Company across the performance period.

For options granted in 2008, 100% of the option will vest if the ROCE for the financial year ending 30 June 2011 reaches 14.5%, 25% of the award will vest if the ROCE reaches 10.5% and no part of the award will vest if the ROCE is below 10.5%. The award will vest on a straight-line basis between the upper and lower targets. ROCE will be calculated as operating profit (measured across the whole year to 30 June 2011) divided by shareholder funds plus net debt less any intangible assets (being the average of the 12 month end figures during the same year). The Committee considered that ROCE was the most rounded measure of financial performance for a housebuilder at the time of this award and was satisfied that the ROCE target range represented a stretching target considering the outlook for the housebuilding market.

## **28. Share-based payments (continued)**

### **a) Details of the share-based payment schemes (continued)**

#### **vi) Savings-Related Share Option Scheme**

In November 2008, the Company adopted the Savings-Related Share Option Scheme (the 'SRSOS'). Under the SRSOS, participants are required to make monthly contributions to an HM Treasury approved savings contract with a bank or building society for a period of three years. On entering into the savings contract participants were granted an option to acquire ordinary shares in the Company at an exercise price determined under the rules of the SRSOS. The exercise of options under the SRSOS is not subject to the satisfaction of a performance condition as the SRSOS is HM Revenue and Customs approved and open to all eligible employees. The first grant under the SRSOS was made on 3 February 2009 at an exercise price of 87.05 pence per share (which was subsequently adjusted to reflect the Rights Issue to 57.05 pence). The second grant under the SRSOS was made on 31 March 2010 at an exercise price of 116.18 pence per share.

#### **vii) Management Incentive Plan**

In May 2009, the Company adopted the Management Incentive Plan 2008-2011 (the 'Plan'). The Plan entitles participants to a cash bonus linked to the Company's share price, subject to the achievement of an objective performance condition set by the Remuneration Committee, based upon ROCE for the financial year ending 30 June 2011. There will be no opportunity to retest any performance criteria. The ROCE performance condition is underpinned by the requirement that the Committee is satisfied that vesting determined by the ROCE condition is such that it correctly reflects the underlying financial performance of the Company across the performance period.

#### **viii) Co-Investment Plan**

The Co-Investment Plan (the 'Plan') was approved by shareholders at the AGM held in November 2005 and any annual bonus earned above target will normally be compulsorily deferred into shares held under this Plan. The Executive Directors also have the opportunity to voluntarily defer additional amounts of annual bonus up to a maximum of 25% of basic salary into the Plan.

Matching awards will then be made by the Company, at the rate of one for one for compulsory deferral and at a maximum of four for one for voluntary deferral, matching awards will be subject to performance conditions measured over a period of three years. The relevant performance conditions are the same as those used for the LTTP as detailed on page 113.

**28. Share-based payments (continued)****b) Outstanding equity-settled share-based payments**

At 30 June 2010, the following options issued in accordance with the rules of the Executive Share Option Plan, the Senior Management Share Option Plan, the Employee Share Option Plan, the Long-Term Performance Plan, the Executive Share Option Scheme, the Co-Investment Plan and the Savings-Related Share Option Scheme were outstanding

Date of grant	Option price pence	2010 Number	Not exercisable after
<b>Executive Share Option Plan</b>			
27 October 2000	179	35,073	26 October 2010
1 November 2001	216	51,845	31 October 2011
22 October 2002	285	329,176	21 October 2012
10 October 2003	357	874,099	9 October 2013
<b>Total Executive Share Option Plan options</b>		<b>1,290,193</b>	
<b>Executive Share Option Scheme</b>			
18 December 2008 (approved*)	40	899,982	17 December 2018
18 December 2008 (unapproved*)	36	8,656,586	17 December 2018
25 September 2009	36	1,016,656	16 December 2018
10 December 2009 (approved*)	118	25,458	9 December 2019
10 December 2009 (unapproved*)	121	6,318,471	9 December 2019
<b>Total Executive Share Option Scheme options</b>		<b>16,917,153</b>	
<b>Senior Management Share Option Plan</b>			
10 December 2009 (approved*)	118	3,005,330	9 December 2019
10 December 2009 (unapproved*)	121	1,060,353	9 December 2019
<b>Total Senior Management Share Option Plan options</b>		<b>4,065,683</b>	
<b>Employee Share Option Plan</b>			
29 March 2001	207	12,192	28 March 2011
25 April 2002	308	48,776	24 April 2012
14 May 2004	387	490,208	13 May 2014
<b>Total Employee Share Option Plan options</b>		<b>551,176</b>	
<b>Savings-Related Share Option Scheme</b>			
3 February 2009	57	13,229,254	30 September 2012
30 March 2010	116	2,121,002	31 December 2013
<b>Total Savings-Related Share Option Scheme options</b>		<b>15,350,256</b>	
<b>Total share options</b>		<b>38,174,461</b>	
<b>Long-Term Performance Plan</b>			
21 December 2007	–	3,613,185	–
<b>Total Long-Term Performance Plan awards</b>		<b>3,613,185</b>	
<b>Co-Investment Plan</b>			
18 October 2007	–	126,532	–
<b>Total Co-Investment Plan awards</b>		<b>126,532</b>	
<b>Total</b>		<b>41,914,178</b>	

\* The Executive Share Option Scheme and the Senior Management Share Option Plan are divided into two sub-schemes, one of which is approved under the Income Tax (Earnings and Pensions) Act 2003 and the other which is not, and the exercise price is calculated differently for each sub-scheme in accordance with the rules of the sub-scheme

The exercise prices and the number of shares under option have been adjusted following the Rights Issue in November 2009

**28. Share-based payments (continued)****c) Outstanding cash-settled share-based payments**

At 30 June 2010, the following award units issued in accordance with the rules of the Management Incentive Plan were outstanding

Date of grant	Award price pence	2010 Number	Not exercisable after
<b>Management Incentive Plan</b>			
6 May 2009	57	8,009,282	30 June 2011
<b>Total Management Incentive Plan</b>		<b>8,009,282</b>	

**d) Number and weighted average exercise price of outstanding share-based payments**

The number and weighted average exercise prices of options issued under the Executive Share Option Plan were as follows

	Weighted average exercise price in pence	2010 Number of options	Weighted average exercise price in pence	2009 Number of options
Outstanding at 1 July	493	1,062,210	476	1,399,712
Adjustment for Rights Issue	-	477,715	-	-
Forfeited during the year	399	(249,732)	423	(337,502)
<b>Outstanding at 30 June</b>	<b>328</b>	<b>1,290,193</b>	<b>493</b>	<b>1,062,210</b>
<b>Exercisable at 30 June</b>	<b>328</b>	<b>1,290,193</b>	<b>493</b>	<b>1,062,210</b>

The number and weighted average exercise prices of options issued under the Employee Share Option Plan were as follows

	Weighted average exercise price in pence	2010 Number of options	Weighted average exercise price in pence	2009 Number of options
Outstanding at 1 July	566	450,800	555	565,950
Adjustment for Rights Issue	-	236,598	-	-
Forfeited during the year	350	(136,222)	515	(115,150)
<b>Outstanding at 30 June</b>	<b>376</b>	<b>551,176</b>	<b>566</b>	<b>450,800</b>
<b>Exercisable at 30 June</b>	<b>376</b>	<b>551,176</b>	<b>566</b>	<b>450,800</b>

**28. Share-based payments (continued)****d) Number and weighted average exercise price of outstanding share-based payments (continued)**

The number and weighted average exercise prices of awards made under the Long-Term Performance Plan were as follows

	Weighted average exercise price in pence	2010 Number of options	Weighted average exercise price in pence	2009 Number of options
Outstanding at 1 July	–	3,342,996	–	4,730,696
Adjustment for Rights Issue	–	1,309,086	–	–
Forfeited during the year	–	(1,038,897)	–	(1,387,700)
<b>Outstanding at 30 June</b>	–	<b>3,613,185</b>	–	<b>3,342,996</b>
<b>Exercisable at 30 June</b>	–	–	–	–

The number and weighted average exercise prices of options granted under the Executive Share Option Scheme were as follows

	Weighted average exercise price in pence	2010 Number of options	Weighted average exercise price in pence	2009 Number of options
Outstanding at 1 July	56	6,666,667	–	–
Adjustment for Rights Issue	–	3,849,885	–	–
Forfeited during the year	70	(1,005,413)	–	–
Granted during the year	115	7,406,014	56	6,666,667
<b>Outstanding at 30 June</b>	<b>68</b>	<b>16,917,153</b>	<b>56</b>	<b>6,666,667</b>
<b>Exercisable at 30 June</b>	–	–	–	–

The number and weighted average exercise prices of options granted under the Senior Management Share Option Plan were as follows

	Weighted average exercise price in pence	2010 Number of options	Weighted average exercise price in pence	2009 Number of options
Outstanding at 1 July	–	–	–	–
Forfeited during the year	119	(94,355)	–	–
Granted during the year	119	4,160,038	–	–
<b>Outstanding at 30 June</b>	<b>119</b>	<b>4,065,683</b>	–	–
<b>Exercisable at 30 June</b>	–	–	–	–

The number and weighted average exercise prices of options granted under the Savings-Related Share Option Scheme were as follows

	Weighted average exercise price in pence	2010 Number of options	Weighted average exercise price in pence	2009 Number of options
Outstanding at 1 July	87	9,690,675	–	–
Adjustment for Rights Issue	–	4,912,820	–	–
Forfeited during the year	65	(1,319,495)	87	(78,600)
Granted during the year	116	2,144,435	87	9,769,275
Exercised during the year	61	(78,179)	–	–
<b>Outstanding at 30 June</b>	<b>65</b>	<b>15,350,256</b>	<b>87</b>	<b>9,690,675</b>
<b>Exercisable at 30 June</b>	–	–	–	–



**28. Share-based payments (continued)****d) Number and weighted average exercise price of outstanding share-based payments (continued)**

The number and weighted average award price of awards made under the Management Incentive Plan were as follows

	Weighted average exercise price in pence	2010 Number of award units	Weighted average exercise price in pence	2009 Number of award units
Outstanding at 1 July	87	5,633,725	–	–
Adjustment for Rights Issue	–	2,957,620	–	–
Forfeited during the year	57	(582,063)	–	–
Granted during the year	–	–	87	5,633,725
<b>Outstanding at 30 June</b>	<b>57</b>	<b>8,009,282</b>	<b>87</b>	<b>5,633,725</b>
<b>Exercisable at 30 June</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The number and weighted average award price of awards made under the Co-Investment Plan were as follows

	Weighted average exercise price in pence	2010 Number of award units	Weighted average exercise price in pence	2009 Number of award units
Outstanding at 1 July	–	101,623	–	103,443
Adjustment for Rights Issue	–	48,296	–	–
Lapsed during the year	–	(17,317)	–	(1,820)
Exercised during the year	–	(6,070)	–	–
<b>Outstanding at 30 June</b>	<b>–</b>	<b>126,532</b>	<b>–</b>	<b>101,623</b>
<b>Exercisable at 30 June</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The weighted average share price, at the date of exercise, of share options exercised during the year was 136.3p. No share options were exercised during the prior year. The weighted average life for all schemes outstanding at the end of the year was 5.6 years (2009: 4.9 years).

**28. Share-based payments (continued)****e) Income statement charge**

A charge to the income statement has been made for the awards issued on or after 7 November 2002 that had not vested at 1 January 2005 in accordance with IFRS2 'Share-based Payments'

**i) Executive Share Option Scheme**

The weighted average fair value of the options granted during 2010 was 35p (2009 48p) per award. The awards have been valued using a Black-Scholes model.

The weighted average inputs to the Black-Scholes model were as follows

	2010	Grants 2009
Average share price	117p	72p
Average exercise price	115p	56p
Expected volatility	36.6%	96.6%
Expected life	3.6 years	3.0 years
Risk free interest rate	1.76%	2.49%
Expected dividends	0.43%	–

Expected volatility was determined by reference to the historical volatility of the Group's share price over a period consistent with the expected life of the options. The expected life used in the models has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**ii) Savings-Related Share Option Scheme**

The weighted average fair value of the options granted during 2010 was 32p (2009 39p) per award. The awards have been valued using a Black-Scholes model.

The weighted average inputs to the Black-Scholes model were as follows

	2010	Grants 2009
Average share price	125p	70p
Average exercise price	116p	87p
Expected volatility	30.7%	96.6%
Expected life	3.0 years	3.0 years
Risk free interest rate	2.02%	2.24%
Expected dividends	0.47%	–

**28. Share-based payments (continued)****e) Income statement charge (continued)****ii) Savings-Related Share Option Scheme (continued)**

Expected volatility was determined by reference to the historical volatility of the Group's share price over a period consistent with the expected life of the options. The expected life used in the models has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

**iii) Senior Management Share Option Plan**

The weighted average fair value of the options granted during 2010 was 24p (2009: nil pence) per award. The awards have been valued using a Black-Scholes model.

The weighted average inputs to the Black-Scholes model were as follows:

	Grants 2010
Average share price	110p
Average exercise price	119p
Expected volatility	30.7%
Expected life	3.7 years
Risk free interest rate	1.69%
Expected dividends	0.47%

Expected volatility was determined by reference to the historical volatility of the Group's share price over a period consistent with the expected life of the options. The expected life used in the models has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

**28. Share-based payments (continued)****e) Income statement charge (continued)****iv) Management Incentive Plan**

No awards were granted during 2010

The weighted average fair value of the awards granted during 2009 was 106p per award. The awards have been valued using a Black-Scholes model.

The weighted average inputs to the Black-Scholes model were as follows

	2010	Awards 2009
Average share price	–	149p
Average exercise price	–	87p
Expected volatility	–	96.6%
Expected life	–	3.0 years
Risk free interest rate	–	2.22%
Expected dividends	–	–

Expected volatility was determined by reference to the historical volatility of the Group's share price over a period consistent with the expected life of the options. The expected life used in the models has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**v) Total expense**

The Group recognised a credit of £0.2m (2009: £2.8m expense) in respect of equity-settled share based payment transactions and a credit of £0.4m (2009: £1.5m expense) for cash-settled share-based payment transactions for the year ended 30 June 2010. As at 30 June 2010, an accrual of £1.8m (2009: £1.9m) was recognised in respect of social security liabilities on share-based payments.

## 29. Reserves

### Hedging reserve

The hedging reserve represents the effective portion of the gains or losses on derivative financial instruments that have been designated as hedges by the Company

Losses on cash flow hedges of £43.6m (2009 £62.8m) relate to losses on interest rate swaps of £31.2m (2009 £81.0m), payments on interest rate swaps of £26.0m (2009 £12.1m) and gains on foreign exchange swaps of £13.6m (2009 £30.3m). A gain of £11.9m (2009 £7.2m) was realised upon cancellation of \$103.9m of foreign exchange swaps following repayment of \$103.9m US Dollar private placement notes on 16 November 2009.

Transfers from income statement on cash flow hedges of £14.1m (2009 £21.7m to income statement) relate to payments on interest rate swaps of £26.0m (2009 £12.1m) and foreign exchange losses of £11.9m (2009 £33.8m). A loss of £11.9m (2009 £7.2m) was realised following repayment of \$103.9m US Dollar private placement notes on 16 November 2009. Cumulative losses on interest rate swaps of £50.1m were recognised in the income statement as an exceptional item following the cancellation of interest swaps.

### Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies.

### Own shares

The own shares reserve represents the cost of shares in Barratt Developments PLC purchased in the market and held by the EBT on behalf of the Company in order to satisfy options and awards under the Company's incentive schemes.

### Share-based payments reserve

The share-based payments reserve represents the obligation of the Group in relation to equity-settled share-based payment transactions.

### Parent Company income statement

In accordance with the provisions of section 408 of the Companies Act 2006, a separate income statement for the Parent Company has not been presented. The Company's loss for the year was £143.6m (2009 £20.2m).

**30. Cash flows from operating activities**

	Notes	2010 £m	Group 2009 £m	2010 £m	Company 2009 £m
Loss for the year from continuing operations		(118 4)	(468 6)	(143 6)	(20 2)
Tax		(44 5)	(210 3)	(46 3)	(5 5)
Finance income		(13 4)	(18 0)	(55 9)	(175 7)
Finance costs		249 1	208 6	214 7	187 3
Share of post-tax loss from joint ventures		1 5	3 0	-	-
<b>Profit/(loss) from operations</b>		<b>74 3</b>	<b>(485 3)</b>	<b>(31 1)</b>	<b>(14 1)</b>
Amortisation of deferred loss on swaps	5	0 2	0 4	0 2	0 4
Depreciation	12	3 6	5 1	2 0	1 2
Impairment of inventories	17	4 8	499 5	-	-
Impairment of available for sale financial assets	15	6 1	23 7	-	-
Share-based payments (credit)/charge	28	(0 6)	4 3	0 1	0 2
Imputed interest on deferred term land payables	5	(26 5)	(19 8)	-	-
Imputed interest on available for sale financial assets	5, 15	7 0	11 2	-	-
Amortisation of facility fees	5	(9 4)	(17 4)	(9 4)	(17 4)
Imputed interest on Kickstart equity funding	5	(0 2)	-	-	-
Write-off of previous facility unamortised fees	5	(31 0)	-	(31 0)	-
Finance costs related to employee benefits	5, 26	(1 6)	(0 3)	(1 6)	(0 3)
Profit on disposal of property, plant and equipment	4	-	(0 4)	-	-
Deferred tax on fair value adjustment		-	(3 3)	-	-
<b>Total non-cash items</b>		<b>(47 6)</b>	<b>503 0</b>	<b>(39 7)</b>	<b>(15 9)</b>
Decrease in inventories		193 7	795 5	-	-
(Increase)/decrease in trade and other receivables		(23 9)	63 8	415 7	359 3
Increase/(decrease) in trade and other payables		198 2	(321 9)	(6 2)	(21 2)
Increase in available for sale financial assets		(55 9)	(43 3)	-	-
<b>Total movements in working capital</b>		<b>312 1</b>	<b>494 1</b>	<b>409 5</b>	<b>338 1</b>
Interest paid		(101 2)	(155 3)	(93 4)	(153 8)
Tax received		53 8	51 3	-	26 9
<b>Net cash inflow from operating activities</b>		<b>291 4</b>	<b>407 8</b>	<b>245 3</b>	<b>181 2</b>

### 31. Operating lease obligations

#### a) The Group as lessee

At 30 June 2010, the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows

	Land and buildings £m	2010 Other £m	Land and buildings £m	Group 2009 Other £m
Within one year	13.0	3.3	7.4	3.4
More than one year and no later than five years	19.5	5.5	19.2	3.1
In five years or more	8.4	–	11.0	–
	40.9	8.8	37.6	6.5

Operating lease payments represent rentals payable by the Group for certain office properties and motor vehicles. Motor vehicle leases have an average term of 2.5 years (2009: 1.3 years) to expiry. Property leases have an average term of 2.0 years (2009: 3.3 years) to expiry.

At 30 June 2010, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	Land and buildings £m	2010 Other £m	Land and buildings £m	Company 2009 Other £m
Within one year	0.7	0.3	0.8	0.3
More than one year and no later than five years	2.1	0.5	2.2	0.4
In five years or more	0.8	–	1.1	–
	3.6	0.8	4.1	0.7

Operating lease payments represent rentals payable by the Company for certain office properties and motor vehicles. Motor vehicle leases have an average term of 2.5 years (2009: 1.8 years) to expiry. Property leases have an average term of 5.4 years (2009: 5.7 years) to expiry.

#### b) The Group as lessor

Property rental income earned during the year was £3.3m (2009: £3.4m)

The Group has lease agreements with third parties for certain commercial properties either in the process of development or which have been developed by the Group, and units on land to be subsequently developed for residential use. It is intended that the commercial properties, with their future rental income, will be sold to third parties in the normal course of business, and therefore they are classified as work in progress until the date of sale. At 30 June 2010, these properties had a carrying-value of £9.0m (2009: £7.0m), and land with rental units had a carrying-value of £47.3m (2009: £45.9m). At 30 June 2010, these rental agreements had an average term of 2.6 years (2009: 2.8 years) to expiry and total rental receivables over the remaining lease period are £9.0m (2009: £4.9m) with £3.1m (2009: £1.5m) within one year, £4.6m (2009: £2.7m) in more than one year and no later than five years and £1.3m (2009: £0.7m) in five years or more.

**32. Contingent liabilities****a) Contingent liabilities related to subsidiaries**

The Company has guaranteed certain bank borrowings of its subsidiary undertakings

Certain subsidiary undertakings have commitments for the purchase of trading stock entered into in the normal course of business

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 £399.0m (2009 £417.5m), and confirm that at the date of these financial statements the possibility of cash outflow is considered minimal and no provision is required

**b) Contingent liabilities related to joint ventures**

The Group has guaranteed certain bank borrowings of its joint ventures, amounting to £nil at the year end (2009 £3.9m)

At 30 June 2010, the Group has an obligation to repay £0.9m (2009 £0.9m) of grant monies received by a joint venture upon certain future disposals of land

The Group also has a number of performance guarantees in respect of its joint ventures, requiring the Group to complete development agreement contractual obligations in the event that the joint ventures do not perform what is expected under the terms of the related contracts

**c) Contingent liabilities related to subsidiaries and joint ventures**

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 obligations cannot be made

**i) Incident at Battersea Park Road, London**

One of the principal subsidiaries within the Group is BDW Trading Ltd ('BDW'). On Tuesday 26 September 2006 at Battersea Park Road, London, a tower crane supplied to BDW (with operator) by a third party contractor collapsed. The collapse of the crane was not contained within the boundaries of the site and the crane operator and a member of the public were killed. In addition, significant damage was caused to a neighbouring block of flats and shops which resulted in the evacuation of a number of local residents due to concerns about structural stability. There is an ongoing criminal investigation currently being carried out by the London Metropolitan Police and the Health and Safety Executive to ascertain whether any of the parties involved are criminally liable for manslaughter or under relevant health and safety legislation. Although no assurance can be given, the Board has been advised that on the information available as at 7 September 2010, being the last practicable date prior to the publication of this Annual Report and Accounts, the risk of a finding of criminal liability against BDW is low. A number of civil claims brought against BDW in connection with the same incident have now been settled. All such claims are covered by the Group's insurance, to the extent not recoverable from the third party contractor's insurers

**ii) Incident at Bedfont Azure Lakes**

On 28 February 2008, a resident was found dead and another seriously injured in housing association accommodation at the Bedfont Lakes, Azure site that was developed by BDW. It is believed that the cause of both the death and the serious injury was due to carbon monoxide poisoning. Following investigations by the Police and the Health and Safety Executive criminal proceedings have been commenced against both the plumbing and heating sub-contractor utilised by BDW for the development for a breach of health and safety legislation, and against an individual registered gas engineer for manslaughter caused by gross negligence and breach of gas safety legislation. The Police and Health and Safety Executive investigations are still ongoing. Claims have been made against BDW by both the housing association and by various residents on the estate where the incident occurred. A number of claims have been settled by the Group's insurers but the remainder are still outstanding and are being dealt with by the Group's insurers, although the extent to which these are covered by the Group's insurance or the insurance of other parties cannot, at present, be clearly ascertained.



### 33. Related party transactions

#### a) Remuneration of key personnel

Disclosures related to the remuneration of key personnel as defined in IAS24 'Related Party Disclosures' are given in note 8. There is no difference between transactions with key management personnel of the Company and the Group.

#### b) Transactions between the Company and its subsidiaries

The Company has entered into transactions with its subsidiary undertakings in respect of funding and Group services (which include management accounting and audit, sales and marketing, IT, company secretarial, architects and purchasing). Recharges are made to the subsidiaries based on utilisation of these services.

The amount outstanding to the Company from subsidiary undertakings at 30 June 2010 totalled £898.5m (2009: £1,511.1m). There was no amount owed by the Company to subsidiary undertakings at 30 June 2010 (2009: £nil).

During the year ended 30 June 2010, the Company made management charges to subsidiaries of £24.2m (2009: £22.0m) and received interest on Group loans from subsidiaries of £55.5m (2009: £171.1m).

The Company and Group have entered into counter-indemnities in the normal course of business in respect of performance bonds.

#### c) Transactions between the Group and its joint ventures

The Group has principally entered into transactions with its joint ventures in respect of funding, development management services (with charges made based on the utilisation of these services) and purchases of land and work in progress. These transactions totalled £1.9m (2009: £1.9m), £0.3m (2009: £0.6m) and £nil (2009: £18.5m).

The amount of outstanding loans and interest due to the Group from its joint ventures at 30 June 2010 is disclosed in note 13. The amount of other outstanding payables to the Group from its joint ventures at 30 June 2010 totalled £nil (2009: £nil). The Group has also during the year provided bank guarantees to the value of £26.0m (2009: £26.0m) to two of its joint venture partners. No provisions have been made for doubtful debts in respect of the amounts owed by the related parties.

# FIVE-YEAR RECORD, FINANCIAL CALENDAR, GROUP ADVISERS, COMPANY INFORMATION AND LIFE PRESIDENT

## Five-year record

	2010	2009	2008 (restated <sup>1</sup> )	2007 (restated <sup>1</sup> )	2006 (restated <sup>1</sup> )
Group revenue (£m)	2,035.2	2,285.2	3,554.7	3,046.1	2,431.4
(Loss)/profit before tax (£m)	(162.9)	(678.9)	137.3	424.8	385.3
Share capital and equity (£m)	2,900.2	2,331.6	2,867.8	2,907.6	1,529.0
<b>Per ordinary share</b>					
Basic (loss)/earnings per share (pence <sup>2</sup> )	(14.5)	(89.1)	16.4	75.6	74.4
Dividend paid (pence)	–	–	36.53	32.07	28.33

<sup>1</sup> The results for the years ended 30 June 2008, 30 June 2007 and 30 June 2006 have been restated as disclosed in previous Annual Reports

<sup>2</sup> Earnings per share has been adjusted to reflect the Rights Issue as required by IAS33 'Earnings per Share'

## Financial calendar

The following dates have been announced or are indicative of future dates

### Announcement

2010 Annual General Meeting and Interim Management Statement	17 November 2010
2010/11 Interim/half year results	February 2011
Interim Management Statement	May 2011
2010/11 Annual Results Announcement	September 2011

## Group advisers

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UBS Investment Bank

## Company information

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## Life President

Sir Lawrence Barratt founded the first Barratt Company in 1958 and was knighted for his services to the industry in 1982. He retired as Non-Executive Chairman in November 1997 assuming the role of Life President.

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