

ANNUAL REVIEW 2006



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Introducing NHBC

This year marks NHBC's 70th anniversary. Established in 1936 as the National House-Builders' Registration Council we have worked consistently to raise the construction standards of new homes and provide protection for new home buyers. Our unique structure and non-profit distributing framework ensure that commercial efficiency is married to the public interest. This necessary balance of consumer and industry interests is reflected in NHBC's Board of Directors and its Council.

As the UK's leading warranty and insurance provider for new homes, NHBC's Buildmark warranty covers approximately 80% of new homes built in the UK and currently protects more than 1.7 million homes with nearly 6.6 million covered since 1936.

NHBC protects consumers both by providing the 10-year Buildmark warranty and by setting construction standards for new homes. Our commitment to working with the house-building industry to raise standards is demonstrated in every part of our business, from maintaining the register of more than 20,000 builders through to our key stage inspection regime, building control work and continually evolving risk management strategies. The provision of a range of educational and technical information and support to the house-building industry maintains consistency and updates site work to match the latest developments in material and methods.



Chairman's Review

Business Review

The last year has seen a further expansion in our business activities in a relatively buoyant market. Registrations for warranties on new homes were 185,000 - the highest level since the boom years of 1988/9. Building Control volumes exceeded 94,000, the highest ever level since we became an Approved Inspector 20 years ago, and the number of builders registered with NHBC increased to more than 20,000.

Our financial results have benefited from favourable investment markets, warranty claims arising within our assumptions and an increased portfolio of business. Surplus before tax for the year increased to £58m (£39m-2005). After tax, our retained surplus increased to £41m (£28m-2005) which is appropriate given the resources necessary to support our ongoing business activities with over 1.7m homes protected by our warranties, and the prospect that this will grow under the Government's policies to expand the current level of new home building.

Internationally NHBC has continued to contribute to the development of house-building standards and home warranty insurance. We played a leading role in the International Housing and Home Warranty Conference held in Tokyo in September 2005 and we have been invited to host the next event that will be held in Edinburgh in September 2008.

Board, management and staff

NHBC continues to benefit from the wide experience and professionalism of its Board members. I am most grateful to all my colleagues for their commitment and support, and for their contribution to the continuing success of NHBC.





The Board relies on the wide experience of our Council which includes leading figures from the industry, key stakeholders and other interested groups.

During the last year the Board has had to plan for the retirement of the Commercial Director, Rod MacEachrane, at the end of the financial year. Rod has made a tremendous contribution to NHBC and the industry during his 25 years with NHBC, we are pleased that he has agreed to continue in a consultancy role to help with a number of projects. In particular these include the post-launch phase of the NHBC Foundation and the introduction of Fusion, NHBC's bespoke software which will support the company's core business operations.

Richard Tamayo has moved to a new role as Commercial Director and we were pleased to welcome to NHBC Sandra Kelly as our new Finance Director from the start of May 2006.

We also welcomed Jonathan Hastings as our new Company Secretary from April 2006. Jonathan has succeeded Virginia Newbold who retired after 30 years service, during the last six of which Virginia has provided excellent support to the board and the Council as Company Secretary.

Our management and staff have had to face many challenges in the last year due to increased volumes of work, the move to the new Milton Keynes building and the additional work caused by planning for the Fusion programme. Staff are to be congratulated on their performance over the year and the Board were delighted that our staff survey placed NHBC in the top 10% of companies as measured by MORI.



Chief Executive's Review

The NHBC model is admired and copied in many countries across the world. The combination of home warranty and consumer protection, standards setting and inspection, complemented by a range of environmental and regulatory services has influenced and continues to influence, countries as diverse as Israel, South Africa, Japan and Turkey. That was one of the key messages I heard at the International Housing and Home Warranty Conference held in Tokyo in September 2005.

The past year has been a busy year and a good one for NHBC. Thanks to the professionalism and dedication of our staff we have registered 185,000 homes and inspected and 'finalled' 175,000 homes, the majority of which were built on brownfield sites. The trend towards more flats and apartments continues - 45 per cent of all of our registrations are flats or maisonettes compared to 23 per cent in 2000. Over the past few years NHBC has supported the national commitment to build more homes on brownfield land and invested resources in standard setting, engineering and inspection to support those activities. In addition last year we launched our new Land Quality Endorsement service aimed at facilitating the efficient development of brownfield development sites.

Last year also saw our continuing investment in information and knowledge products to assist the house-building industry to improve standards. In addition to our own 'Your New Home Customer Satisfaction Survey' - which provides customer satisfaction data and which is now an integral part of our Builder Reports - we were pleased to assist the Home Builders Federation (HBF) meet the challenge of producing their first public annual survey on customer satisfaction. NHBC undertook all of the survey and technical work on HBF's behalf.

Over the last year NHBC also reviewed and strengthened its Code of Conduct for House Builders.

As we reach our 70th year, it is timely to look at the new challenges facing the industry including the challenge of meeting ever higher environmental standards and delivering better customer satisfaction.

NHBC has been closely involved in discussions with Government on reviewing Building Regulations over the year. The house-building industry has accepted the challenge of meeting high environmental standards and the key issue now is the balance





between regulatory and non-regulatory means of doing so. NHBC both directly and through the NHBC Foundation and related activities is in a very strong position to take this agenda forward.

The NHBC Foundation - our joint research venture with BRE - has got off to an impressive start under the chairmanship of the Rt. Hon. Nick Raynsford MP. We promised that the NHBC Foundation would provide practical research assistance to the industry - its early projects, including the launch of a website pooling research and technical expertise relating to Modern Methods of Construction are doing just that.

Having earlier obtained a commitment from the Government that new homes with a warranty would be exempt from Home Condition Reports under the proposals for Home Information Packs, we devoted time and resources to ensure that the draft regulations, due to come into effect from June 2007, would not result in a weakening of consumer protection. We remain of the view that Home Condition Reports are not an adequate substitute for home warranties for new homes. It is good that the Government in July recognised the difficulties associated with providing Home Condition Reports - it was a brave move to acknowledge this. The focus of Home Information Packs now will be on the important area of energy certification and we look forward to working with the Government on this initiative.

Over the last 70 years NHBC has worked hard to help the industry meet the aspirations of its house-purchasing customers. I am confident that, with the great team we have at NHBC, we will continue to do the same over the next 70 years.



Meet the Board as at June 2006 (from left to right)

Dr David Smith OBE

Former Chief Executive of Dunfermline Building Society, Dr David Smith joined NHBC as chair of NHBC's Scottish Committee and Board member in 2004. Previously Dr Smith was Vice President of the European Mortgage Federation, Chairman of the Building Societies Association and Convenor of the Governing body of Edinburgh University.

Sir John Carter

NHBC's Chairman joined the Board in 1999 after a career in the insurance industry culminating in the Chairmanship of the Association of British Insurers and the role of Chief Executive for Commercial Union plc. He is also chair of London Metropolitan University.

Richard Lay CBE

A Fellow of the Royal Institution of Chartered Surveyors and its President from 1998 to 1999, Richard Lay joined the Board in 2001. He is Chairman of the North Northamptonshire Development Urban Regeneration Company, the Portman Estate and a former Chairman of DTZ Holdings plc.

Sandra Kelly

Finance Director Sandra Kelly joined the Board in 2006, replacing Richard Tamayo. A member of the Institute of

Chartered Accountants of England and Wales she was previously Finance Director at Share plc, Raft International plc and BMW (GB) Limited.

Sir Graham Hart

Sir Graham chairs NHBC's Consumer Committee and joined the Board in 2003. Sir Graham retired as Permanent Secretary to the Department of Health in 1997. He was Chairman of the King's Fund from 1998 to 2004 and of Citizen's Advice from 1999 to 2004.

Richard Werth

Chief Executive of Banner Homes, Richard Werth joined the Board in 2004. He joined Banner as Finance Director in 1987 where he oversaw a period of sustained expansion and led one of the first public-to-private management buyouts of a housebuilder in 1998.

Graeme McCallum

In 2000 Graeme McCallum, a Director of Taylor Woodrow plc, joined the Board and became Chairman of NHBC's Standards Committee. He is a Fellow of the Institute of Chartered Accountants with over 25 years of experience in the industry.



The Lord Glentoran CBE

Lord Glentoran oversaw the transformation of Redland Tile and Brick Ltd into a multi-million pound subsidiary company in Northern Ireland. He is currently Opposition front bench spokesman for Northern Ireland and chairs NHBC's Northern Ireland Committee. He took Gold in the 1960 Winter Olympics bobsleigh event.

Dame Yvonne Moores DBE

A Board member since 2004 Dame Yvonne Moores is Pro-Chancellor and Chair of the University of Southampton, Patron of the university's AIDS Research Centre and International Advisor to Thailand's Princess Srinagarindra Foundation. She was formerly Chief Nursing Officer and Director of Nursing for England.

Stewart Baseley

Chairman and Chief Executive of Centex UK and Chairman of the Home Builders Federation, Stewart Baseley joined the Board in May 2004. Formerly he oversaw the sale of Charles Church, where he was Chief Executive at the time, to Beazer in 1996.

Malcolm Harris

Joining the Board in 2001 Malcolm Harris is Group Chief

Executive of Bovis Homes and current Chairman of NHBC's Finance Committee. A Fellow of the Royal Institute of Chartered Management Accountants he is also a Director of the Home Builders Federation.

Richard Tamayo

Richard Tamayo joined NHBC in 1996 as Finance Director and this year replaces Rod MacEachrane as Commercial Director. A Fellow of the Institute of Chartered Accountants of England and Wales he previously worked for Berkeley Group plc.

Peter Foster

Chairman of the Audit Committee and a Board member since 2003 Peter Foster has more than 35 years of experience in the insurance industry. He was previously Group Finance Director at AVIVA (formerly CGNU) and is a Fellow of the Association of Chartered Certified Accountants.

Imtiaz Farookhi

Chief Executive since 1997 Imtiaz Farookhi was previously Chief Executive at Leicester City Council. A founder board member of the Environment Agency he is also a member of the London Thames Gateway Development Corporation.

NHBC - Composition

The Council

NHBC's governing Council has 79 members, representing bodies with an interest in raising standards in UK house building.

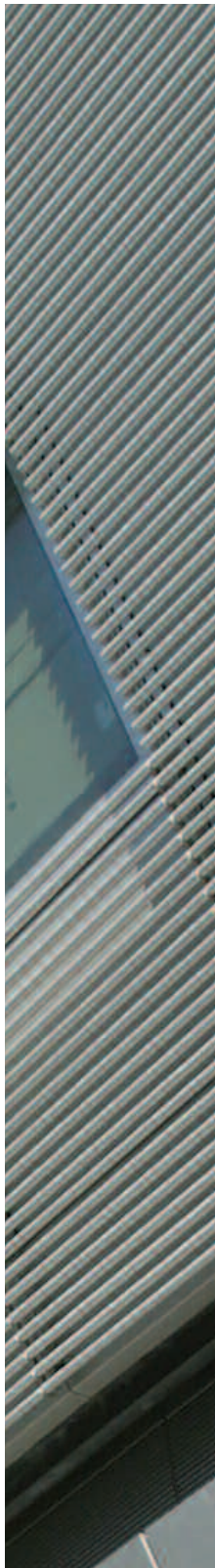
The members of NHBC's Council include mortgage lenders, the Local Government Association, the Law Society, consumer organisations, architects, surveyors and house builders.

The Board of Directors

The current Board has 14 members. The chairman of the Board is also chairman of the Council. Other members include the chairmen of the Northern Ireland and the Scottish Committees and the chairmen of the Consumer, Standards, Finance and Audit Committees. There are three executive directors, NHBC's chief executive, the commercial director and the finance director.

The Audit Committee

The Audit Committee membership consists of four independent non-executive directors.





The Consumer Committee

The eight members of the Consumer Committee provide expertise and advice on a wide range of consumer issues.

The Finance Committee

There are five members of the Finance Committee, including the chief executive and commercial director and three non-executive directors.

The Remuneration Committee

The Remuneration Committee membership consists of five non-executive directors.

The Standards Committee

Members of the Standards Committee include professionals, civil servants, builders and consumer representatives to ensure a wide range of knowledge and experience.

National Committees

The 21 members of the Scottish Committee and the 10 members of the Northern Ireland Committee are representatives from professional bodies and other key stakeholders. The committees review and influence NHBC policy as it affects their countries.

NHBC wholly-owned subsidiary companies

- **NHBC Building Control Services Ltd.**
The Board comprises three non-executive directors and three executive directors, including the general manager of the Building Control and Inspection Business Unit.
- **NHBC Services Ltd.**
The Board consists of one non-executive director and four executive directors, including the general manager of NHBC Services Business Unit.
- **PRC Homes Ltd.**
This was set up in 1985 to license repair systems, inspect repairs and to provide 10-year cover for pre-cast reinforced concrete homes, designated defective under the housing defects legislation. This work was successfully concluded in 1996, although some of the homes remain under cover.

NHBC Pension Trustee Ltd.

There are three non-executive directors and two executive directors, including NHBC's commercial director.

NHBC is authorised and regulated by the Financial Services Authority.





APRIL The Standards

In May NHBC's Technical Standards - the Bible for UK house-builders - were just one year away from their re-launch with work well underway on the root and branch review of the format, diagrams and presentation. In 2006 new Chapters and a completely re-designed format reinforced their position as the key reference document for house builders and designers.

The old ring binder has been replaced by a new hard-backed A4 volume which will now be issued annually - with amendments clearly marked - making it easier for NHBC's registered builders to ensure that they are working to the latest version of the Standards. The Standards CD-ROM version this year includes a new HTML version which offers improved functionality.

NHBC's Standards
ensure quality and
consistency for its
registered builders.

The Standards are at the heart of NHBC's business and the key tool for ensuring consistency and quality across the UK, backed up by NHBC's Key Stage Inspection regime. The Standards' continual evolution is necessary as the industry throws up fresh challenges and comes to grips with new methods of construction. The latest Standards have important new Chapters focused on the expectations of today's homeowners. With customer care at the forefront of house builders' minds - evidenced by the recent HBF Customer Satisfaction Survey - the new Chapter on tolerances and finishes is especially timely.

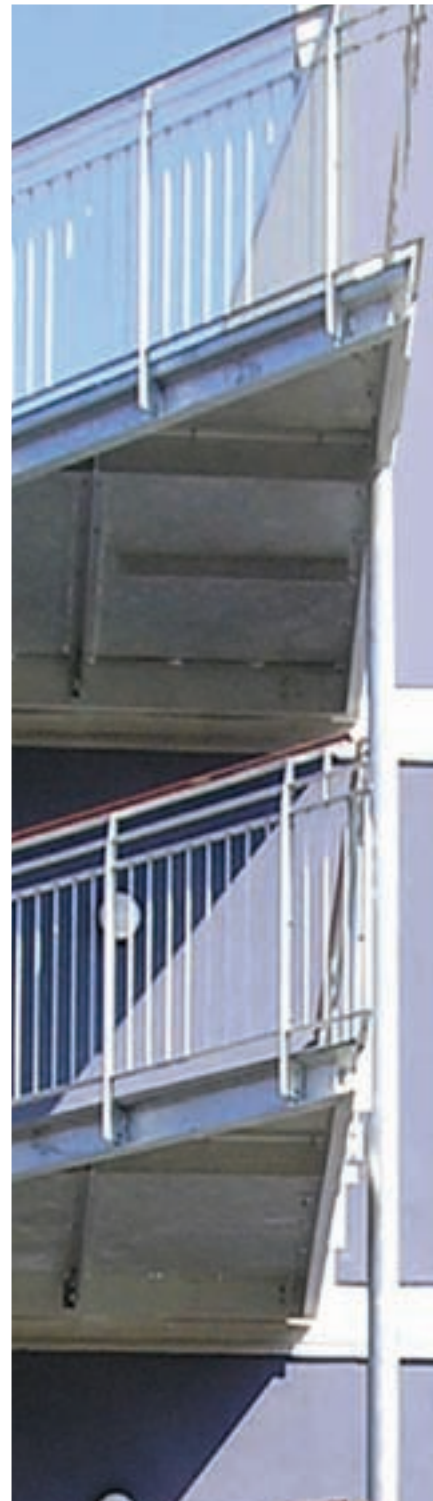
Chapter 1.2 - 'A Consistent Approach to Finishes' is already established NHBC guidance but has now been amended, updated and allocated its own Chapter. Also Chapter 8.1 - 'Internal Services', has been overhauled. Of particular note, new standards for the design of heating and hot water services and an increase in the number of socket outlets respond to modern consumer needs.

MAY Social Housing

NHBC's Social Housing department has gone from strength to strength under the leadership of Mehban Chowdery who was appointed to the newly created post of Head of Social Housing in 2005. Mehban's appointment reflects the growing importance NHBC places on this sector of the market, particularly in a year when the Housing Corporation's funding pot was thrown open to private builders and developers for the first time.

The Social Housing sector has shown steady growth in recent years, prompted in part by the demands for key worker housing and the growth in shared ownership schemes. NHBC has focused on growing this part of its business and a review of the sector-specific Buildmark Choice warranty is now complete and has enhanced Buildmark Choice to offer significant benefits to our customers.

NHBC's Social Housing Group has proved itself a successful and popular forum for the exchange of ideas between NHBC and key stakeholders in the sector. The Group brings together housing associations, contractors and consultants every six months, with more than 100 delegates and stakeholders attending the last forum in May 2006, to share their views and experiences and discuss best practice. NHBC staff shared their expertise with updates on technical and topical issues facing the industry.





JUNE Customer Satisfaction

NHBC this year made important changes to its 'Customer Service - A Code of Conduct for House Builders' guidance document - first introduced in 2000. NHBC's Code encourages and assists house builders in improving customer satisfaction - a key target of the Barker Review of Housing Supply which continues to resonate through the industry.

NHBC was integral to the HBF Customer Satisfaction Survey which was well underway in June. Whilst the survey showed some clear and encouraging signs of improvement it also identified areas which need attention. Some 16% of homeowners were unhappy with the finishing of their homes and NHBC has already made the first move to tackle this with the inclusion of finishing in the Standards. NHBC's new Code of Conduct also invests heavily in the area of customer care.

The new edition of the Code has been developed in the light of experience gained since 2000. Improving service levels and practices in the house-building industry and the continued rise in consumer expectations have also combined to create further demand for higher standards of customer service.

In updating the Code, NHBC worked closely with the HBF and industry representatives to set fifteen standards of good practice to help registered house builders make clear customer service commitments and live up to them.

JULY Building Control

In 1985 NHBC Building Control Services Ltd. became the first Approved Inspector in England and Wales, ending the monopoly of the local authorities and sowing the seeds of the first truly consistent, national, approach in the field. Twenty years later those seeds have borne fruit - NHBC is now the leading provider of private sector Building Control in the country, with record registrations in the year.

Recent expansion into the commercial sector, started in 2002, is also reaping rewards with projects currently covered coming close to £1bn in retail value. NHBC remains the leading Approved Inspector, combining extensive residential experience with commercial expertise - vital knowledge as mixed-use schemes increasingly proliferate.

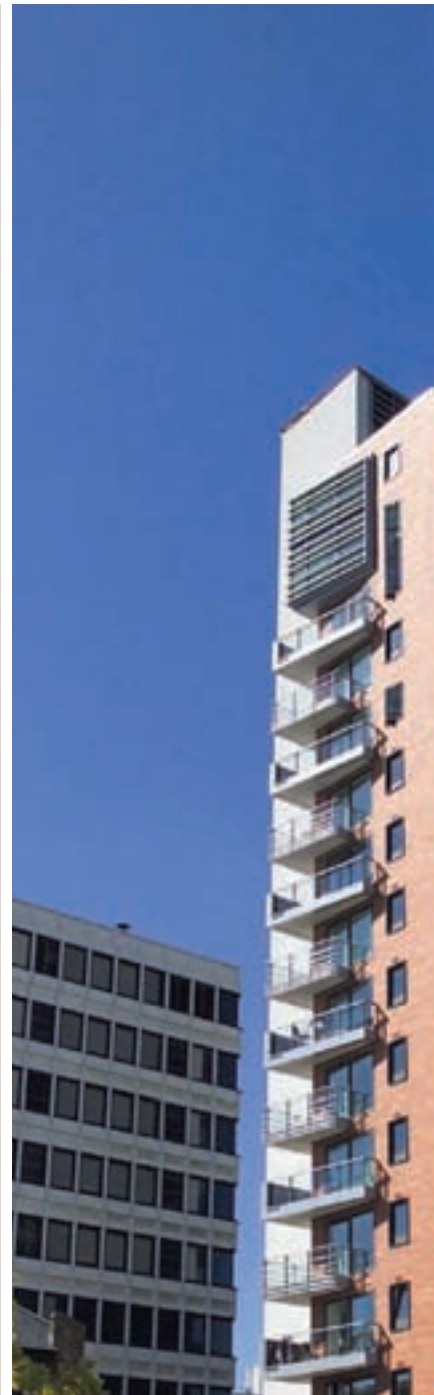
The 20th Anniversary was celebrated with a gala event in July aboard a traditional Dixie Jazz steamboat which made its way along the Thames through London, passing many of the showcase projects where NHBC had carried out Building Control.

Perhaps the best received innovations from NHBC in this field are its Consulting Approach and Value Engineering - the latter helps avoid over-designing, the former has NHBC involved at the very earliest stages of a project as a key member of the design team. Both have saved clients time and money and generated praise for our professionalism and expertise.

Most recently NHBC's Commercial Building Control has been in the spotlight with the re-development of Feltham town centre in London. NHBC's involvement with Feltham is admired by architects and designers alike and is being closely watched as a potential model for urban re-development.

NHBC Building Control has risen to the challenges presented by the changes to Building Regulations outlined this year, not only embarking on a substantial training programme for staff but also giving builders and developers crucial background in the run up to implementation through NHBC's 'Building for Tomorrow' seminars.

NHBC's world-leading technology on and off-site, and the host of support staff and the expertise in its variety of departments from Engineering through to Technical, means that NHBC Building Control can be justifiably proud of its record so far. Recent investments in technology mean that surveyors and inspectors have the vast majority of the documents on screen as digital images. Feedback from builders and developers has proved the effectiveness of this with surveyors able to draw out data as they are speaking to clients.





AUGUST Housing Design Awards

NHBC's commitment to the broader context of the housing agenda is clearly underlined through its external work with, among others, the Housing Design Awards which it co-sponsors. Increasingly homebuyers are demanding design-led developments and with the likes of former fashion designer Wayne Hemmingway now in the house building market the impact of this is clear.

This year's awards, held in August, concentrated on keeping people in touch with their homes and the environment they live in. Efforts to bring people together and turn strangers into neighbours included ornamental gardens and ping pong tables. The awards celebrate the best design and the freshest, most innovative thinking and this year they were re-vamped to include more volume house builders with NHBC's Chief Executive, Imtiaz Farookhi presenting the awards.

Bennet's Courtyard in London by Countryside Properties was the overall winner with a mix of commercial and residential space including atrium houses and deck access to apartments.





SEPTEMBER International Work

On the international stage NHBC continues to enjoy an enviable position as the world's oldest warranty organisation.

In September NHBC sent a delegation to Japan to take part in the tenth International Housing and Home Warranty Conference (IHHWC). NHBC contributed strongly to the vigorous debate around the theme of the Conference - "thinking globally, housing locally" - together with some 320 delegates from 15 countries across the globe.

NHBC held its own gala event at the Conference, complete with a traditional highland piper, to introduce the next IHHWC event which will be hosted by NHBC in Edinburgh in 2008.

NHBC regularly shares its expertise with visiting delegations from as far afield as Australia and most recently hosted groups from Germany and South Korea.

The Association of European Home Warranty Organisations (AEHWO), which NHBC provides the secretariat for, cites NHBC's Buildmark warranty as the model for many newly formed warranty organisations across the world - a fact of which it is justifiably proud.

As NHBC continues to go from strength to strength in the UK it is clear that its 70 years of experience are becoming ever more valuable on a global scale as consumers demand better protection wherever they may be.

OCTOBER Technology

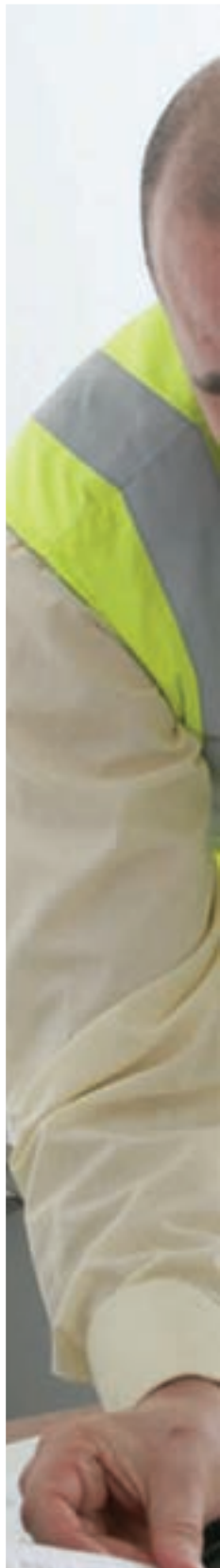
This year NHBC completed the re-launch of its website services with greatly enhanced features. The site has been split since October to allow for one dedicated to consumers and one for builders.

In a recent innovation, NHBC commenced its regular E-news service which keeps the industry updated on developments and changes relating to NHBC, its services and legislative and regulatory changes. The consumer website features the ground-breaking Claims Online service - the first of its kind for a warranty provider - which meets the demands of today's hectic consumers by allowing them to advise us of claims around the clock. The builder website is tailored for NHBC's registered builders and offers features specific to them.

NHBC has also moved into its new office building in Milton Keynes where state-of-the-art computer and telephone systems have been installed to better meet the demands of our customers. NHBC has also invested heavily in its 'paperless office' system which means that even more information can be viewed on screen when talking to customers. This innovation has already received positive feedback from NHBC's clients who have welcomed the increased speed and efficiency these systems offer.

At the heart of NHBC's technology is its work on site. Inspectors carry Personal Data Assistants (PDAs) which enable them to enter details about each site electronically. This information is downloaded into NHBC's central computer systems each day to enable NHBC to collate and analyse this data to identify trends and shape the quarterly Major Builder Reports.

NHBC's Technical team, working on the development of NHBC's Standards, also uses the feedback generated from this data to identify the need for potential future changes. As new systems such as light steel frame, curtain walling and alternative claddings come into greater use our system offers the ability to track how these systems are performing in use.





NOVEMBER The Annual Lunch

This year's Annual Lunch played host to a select group of key stakeholders, house builders and professional institutions with Housing Minister Yvette Cooper as the guest of honour. With the Government's agenda on house building firmly at the fore, NHBC was particularly pleased to welcome her.

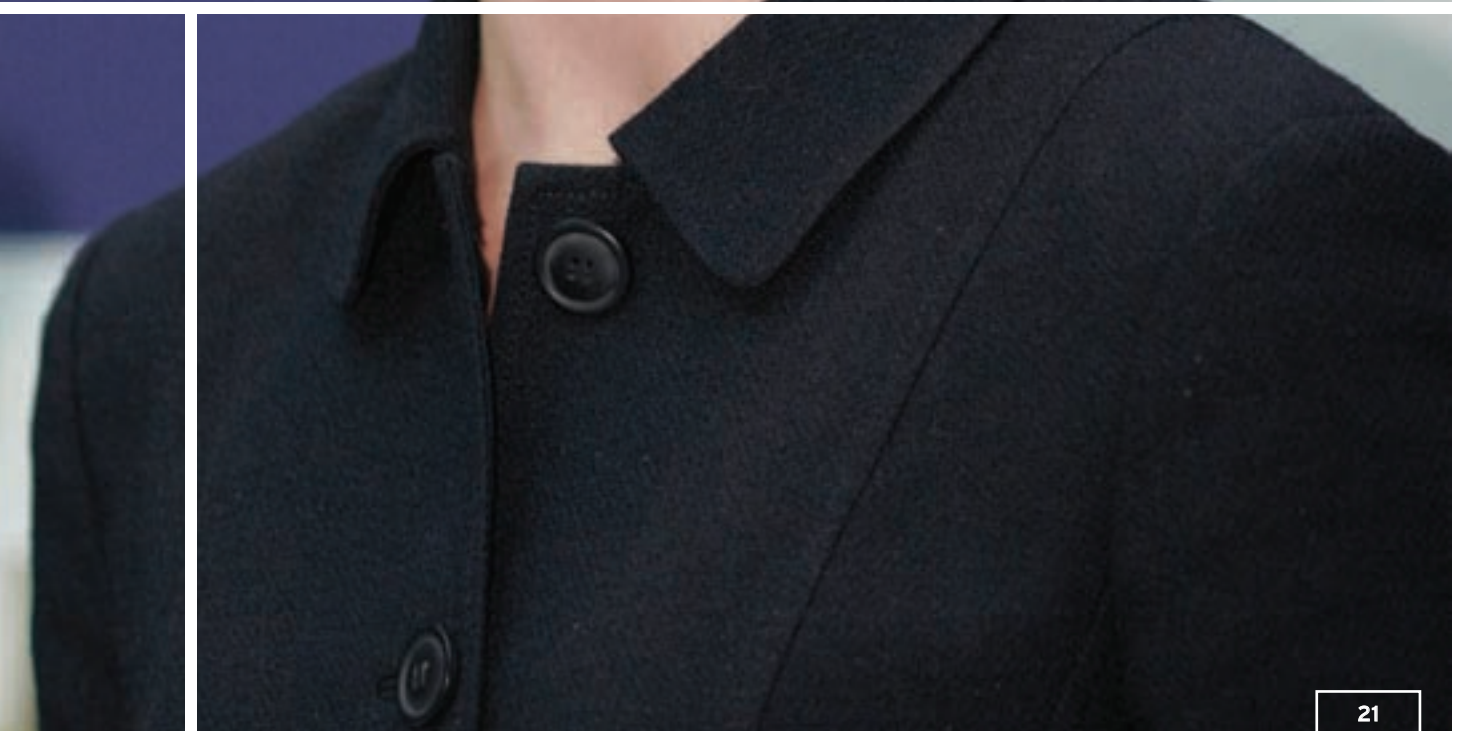
NHBC is actively engaged with the Government on many levels, lending technical expertise and sharing knowledge gained as the world's oldest and most established warranty company and the premier event in NHBC's calendar in November was a primary forum for discussions on this.

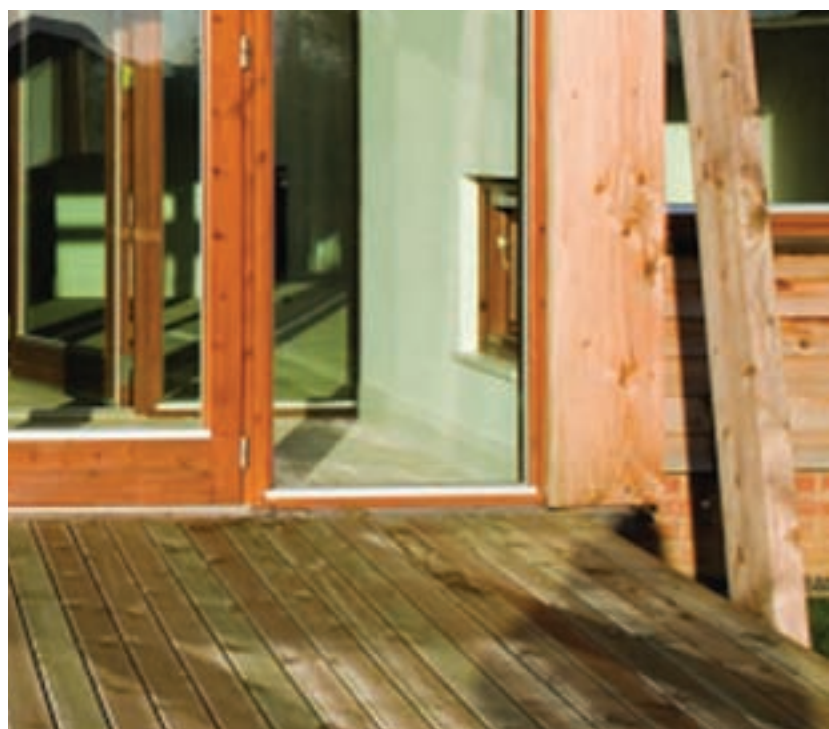
Sharing expertise
and experience
with Government

The Housing Minister addressed the audience on the ramifications of the Barker Review of Housing Supply and other issues facing the industry before outlining the Government's agenda on increasing the volumes of new homes.

Chairman Sir John Carter highlighted NHBC's work on Building Regulations and Customer Satisfaction as well as the research which the NHBC Foundation would be carrying out on Modern Methods of Construction. Chief Executive Imtiaz Farookhi concentrated on the company's position as a "social enterprise" through its core aim of raising standards for homebuyers.









DECEMBER Sustainability

Sustainability is fast becoming a watchword for the industry, spurred on by ever-increasing concerns over the environment and global warming, partnered with a genuine desire by many to see more low environmental impact homes to fit their lifestyles.

NHBC co-authored and funded the formulation of the BRE's (Building Research Establishment) environmental rating system - known as EcoHomes - which has now become the benchmark by which the sustainability of homes is measured. NHBC has carried out EcoHomes assessments since 2003, together with its energy rating service which has been running since 1995, and December saw a period of recruitment to meet increased demand. As a sign of the growing commitment by the Government in the sustainability arena, increasingly demanding EcoHomes rating targets have been set for homes built on English Partnerships' land or with funding from the Housing Corporation.

The proposed Code for Sustainable Homes presents a challenge to the industry and NHBC has been working with Government on its design and implementation, offering expert advice gathered over many years. The Code recognises that sustainability is not an exact science - house builders who want to build sustainable homes will have to consider the complex inter-relation of a variety of factors. They can be certain that NHBC's expertise is there to guide them through the process.

In a new move NHBC has taken its own involvement in sustainability a step further, launching its Corporate Social Responsibility strategy, focusing on; workplace, environment, marketplace, community and human rights, which will develop as the year progresses.

NHBC's partnership with Habitat for Humanity (HFH) has seen the company commit to funding the construction of 100 new dwellings for those in need across the globe in the coming year - the adoption of HFH as our Corporate Charity underlines our commitment in the field of Corporate Social Responsibility.

NHBC's Standards are also a driving force for sustainability. The durability requirement of the Standards - which state a minimum life of 60 years for the structure of new homes - is crucial in this field, ensuring that the homes built today continue to last well for the benefit of future generations.

The NHBC Conversions and Renovations scheme exists to give old buildings a new lease of life and is supported by specific NHBC Standards and the comprehensive warranty. It responds to both the sustainability agenda and the desire to retain our architectural heritage, often as part of urban regeneration and renewal projects.

NHBC continues to support research in the field of sustainability, our role being to help the house-building industry push back boundaries. We have supported a wide variety of projects, ranging from research into energy efficiency and renewable energy through to flood-resilient construction and water conservation, and sustainability will continue to be a priority in the year ahead.

“The competition is intense, however busy you are, it pays to stay on top of things – from the standard of workmanship, to the welfare of your staff on site – you must work continually to raise the standard”

George Lattimer, of JJ Lattimer, the most successful site manager to date in the history of PIJ and winner of six Supreme Awards.



“It’s a wonderful personal achievement, company achievement and for all the lads on site. It’s a small round success!”

Three times Supreme winner, Bill Hughes of Miller Homes North West.



JANUARY Pride in the Job

NHBC's Pride in the Job Awards celebrated their silver jubilee anniversary in 2005 and key figures from across the industry attended the glittering Gala Awards ceremony in January.

Pride in the Job has earned a formidable reputation amongst UK house builders as the most hard-won competition in the industry. And it's clear why - the judging process is scrupulous, focusing on every aspect of the site manager's work and over 18,000 site managers compete every year to win an Award.

Pride in the Job has done more to help raise standards for new home buyers than any other competition during the past 25 years.

As the only national awards scheme to focus on the pivotal role of site managers in building quality new homes, homebuyers have come to associate Pride in the Job with high standards. As an industry under pressure to continually raise its standards, a site manager knows that winning a Pride in the Job Award is the ultimate personal and professional accolade and will pull out all the stops to win. The result is better standards on site and new homes to be proud of.

With the Government set on increasing the number of new homes across the UK, building high quality, well designed and long-lasting homes has never been more vital. A Pride in the Job winning site manager recognises that quality is not simply a luxury, nor an added extra - it is a core requirement of today's homebuyer.

This year's Pride in the Job Supreme winners were Bill Hughes of Miller Homes North West Ltd, who won the Supreme Award in the large builder category for the third year in a row. Christopher Strong of the Wickford Development Company, who took home the Supreme Award in the small to medium builder category and Stephen Vorres of Taylor Woodrow Construction, who won the Supreme Award in the multistorey category.



FEBRUARY Launching the NHBC Foundation

In February there was positive feedback on the launch of the NHBC Foundation - a cutting edge research partnership with the BRE (Building Research Establishment) - at a gala event held in January at the National Portrait Gallery in London. Headed by former Housing and Planning Minister, the Rt. Hon. Nick Raynsford MP, the Foundation announced its first major project at its launch - a website dedicated to Modern Methods of Construction (MMC) designed to serve as the key resource base for the industry.

Speaking in his role as inaugural Chairman Raynsford said: "This is not going to be a talking shop. We will be mapping current research, looking for the gaps to be filled and identifying workable, bright ideas that, if brought to the market, will make a real difference."

NHBC has shown strong support for the Foundation not only in time, manpower and skills already devoted to the launch and current projects but also in the £0.5 million it has pledged to the Foundation in its first year.

NHBC Chief Executive Imtiaz Farookhi said: "I am delighted that NHBC has been able to grasp the nettle in this pioneering role as an innovator in research in the house-building industry. Our focus on practical, pragmatic, delivery-based research, and our gap analysis - looking to identify where the Foundation can add value and make real contributions - will bring strong benefits to the industry in the broadest context."

The Foundation's latest projects cover water, energy and waste and also over heating in homes, two areas thrown into sharp relief by the Government's current focus on sustainability issues.

Nick Raynsford will be supported by an Advisory Board made up of leading figures from the housing sector. Amongst these are Richard Simmons, Chief Executive of CABE; Professor Steve Wilcox of the Centre for Housing Policy at York University; David Pretty, Chief Executive of Barratt Developments PLC and June Barnes, Chief Executive of East Thames Group.

MARCH Building for Tomorrow

March saw NHBC's flagship Building for Tomorrow (BfT) seminars held across the country. Attended by key figures in the industry, from the site through to the boardroom, the BfT seminars are a valuable tool in NHBC's continuing programme of raising standards by informing the industry of latest developments in legislative and regulatory issues together with other key challenges.

This year BfT's primary focus was on the changes to Parts L and F of the Building Regulations covering carbon emissions and ventilation. With a heavily truncated timetable for implementation of the complex revisions to Part L and with the necessary energy calculation software unavailable the industry was keen to learn of NHBC's involvement. Along with acting as a specialist technical advisor in Parliament, NHBC joined forces with all the private and public sector building control bodies in the country to press the Government for changes in the way the regulations were to be implemented as they were potentially both unworkable and unenforceable.

Given the difficulties which the Government's framework threw up, the industry had to work quickly to ensure it would be in a position to meet the challenges the regulatory changes presented. NHBC in particular worked swiftly to gear itself up for the changes with extensive training for its surveying staff in its Building Control department and was able to give builders advice on best practice and likely compliant solutions. Together with this NHBC was able to draw on the wealth of knowledge in its Technical department to offer clear guidance on what builders would need to consider in their designs.

NHBC's work has proved crucial in helping builders and developers through these murky waters - particularly in its pioneering Consulting Approach which has seen NHBC staff involved at the inception of many projects, providing valuable input as key members of the design team.



NHBC's benchmark statistics for 2005/2006

Buildmark

More than 185,000 new homes were registered for Buildmark, the most comprehensive new home warranty and insurance cover in the UK. This accounts for some 80% of the total market. Buildmark currently covers 1.7 million new homes in the UK.

The Register of Builders:

- More than 20,000 builders are currently on NHBC's Register with 3,031 applying to join in the past year.
- 38 builders were deleted from the Register for disciplinary reasons and 139 for insolvency reasons.

Inspection

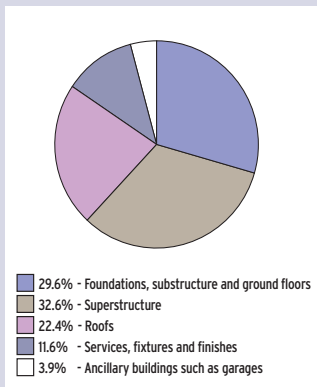
Close to 400 NHBC inspectors carried out nearly a million inspections in 2005/2006. In the 20th anniversary year as an Approved Inspector NHBC Building Control Services Ltd carried out Building Control on more than 94,000 homes, the highest yearly total to date.

Claims Service

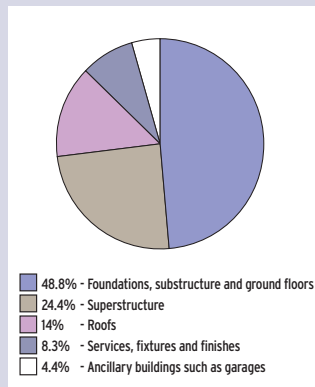
NHBC paid claims totalling £37.3 million last year, compared to £35.1 million in 2004/2005:

- Claims in the first two years of cover - £12.5m
- Claims in years three to ten - £24.2m
- Claims resulting from builder insolvency - £0.6m

Claims frequency



Claims costs



The Resolution Service

71.8% of the 7,136 cases investigated under NHBC's Resolution Service were found in favour of the homeowner.





Independent Arbitration

Last year the Financial Services Ombudsman (FOS) looked at 39 cases in its role as an independent arbitrator. 28 of those cases were found in favour of NHBC, three partially in favour and two against. Settlement was reached in the remaining six cases.

Sustainability

As sustainability comes to the fore, driven by more stringent Government targets on EcoHomes ratings for homes built with Housing Corporation funding or on English Partnerships' land, NHBC's Sustainability Services department has never been more relevant. NHBC registered more than 14,000 homes for EcoHomes assessments with the Building Research Establishment in the year and carried out more than 8,000 energy ratings.

Health and Safety

NHBC's Health & Safety department has enjoyed continued success as it enters its tenth anniversary year. NHBC Health & Safety staff carried out 21,500 inspections in the year and inspected 41,250 homes registered with NHBC.

Profit and loss account

Consolidated profit and loss account for the year ended 31 March 2006

The financial information set out in this Annual Review does not constitute full financial statements as it does not include all the disclosures required by the Companies Act 1985 which have been made in the full financial statements. These statements, including an unqualified auditors' report by PricewaterhouseCoopers LLP, are filed with the Registrar of Companies and are available from NHBC's company secretary.

	2006		2005 (restated)	
	£000	£000	£000	£000
Gross premiums written	75,883		69,727	
Outward reinsurance premiums	(5,289)		(6,034)	
Net premiums written	70,594		63,693	
Investment income including realised and unrealised gains/(losses), less investment expenses	82,515		62,002	
Claims and settlement costs incurred, net of reinsurance	(53,950)		(41,370)	
Changes in technical provisions, net of reinsurance	(49,737)		(47,804)	
Net operating expenses	(1,362)		(1,460)	
Surplus on technical account for general business	48,060		35,061	
Inspection, registration and other operating income	63,177		60,299	
Operating expenditure	(65,729)		(55,844)	
Exceptional Pension Credit	12,526		-	
Surplus on ordinary activities before tax	58,034		39,516	
Tax on surplus on ordinary activities	(16,403)		(11,576)	
Retained surplus for the financial year	41,631		27,940	

Balance sheet

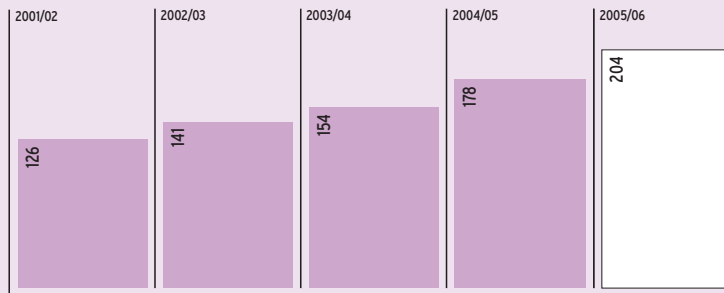
Consolidated balance sheet as at 31 March 2006

	2006		2005 (restated)	
	£000	£000	£000	£000
Investments				
Land and buildings		15,605		15,700
Listed investments and short term deposits		1,251,277		1,157,834
Fixed assets				
Tangible fixed assets		9,149		7,004
Current assets				
Debtors arising from insurance operations	2,955		3,078	
Other debtors	11,132		10,526	
Prepayments and accrued income	18,931		15,825	
Cash at bank and in hand	2,219		694	
		35,237		30,123
Technical provisions				
Gross provision for claims and settlement costs	(1,496,596)		(1,368,254)	
Less: reinsurer's share of above	406,500		341,306	
		(1,090,096)		(1,026,948)
Creditors				
Creditors arising from insurance operations	(21,759)		(15,112)	
Other creditors	(14,588)		(13,720)	
Accruals and deferred income	(38,449)		(35,243)	
Bank overdraft	-		(658)	
		(74,796)		(64,733)
Other provisions including deferred taxation				
Defined benefit pension plan deficit		(647)		(760)
		(3,404)		(21,253)
Net assets		142,325		96,967
Representing:				
Revaluation reserve		5,397		5,692
Accumulated balance on revenue account		136,928		91,275
		142,325		96,967

5 Year financial summary

Total income £ (million)

(excluding capital gains and losses on investments)



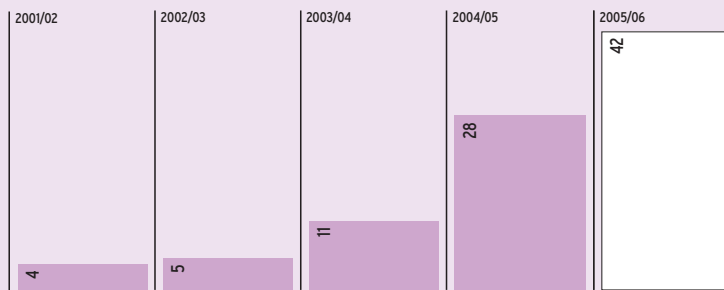
Claims payments

£ (million)



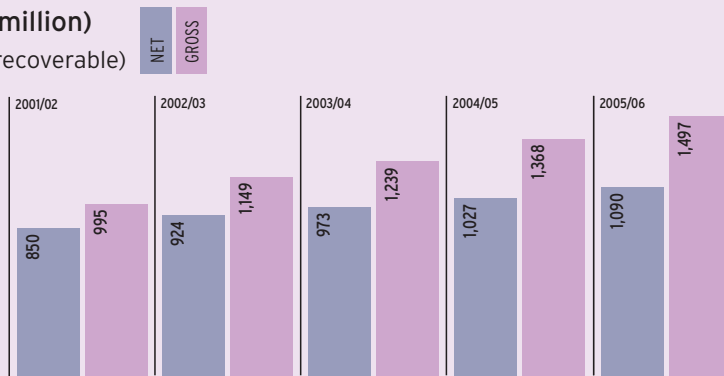
Surplus after taxation

£ (million)

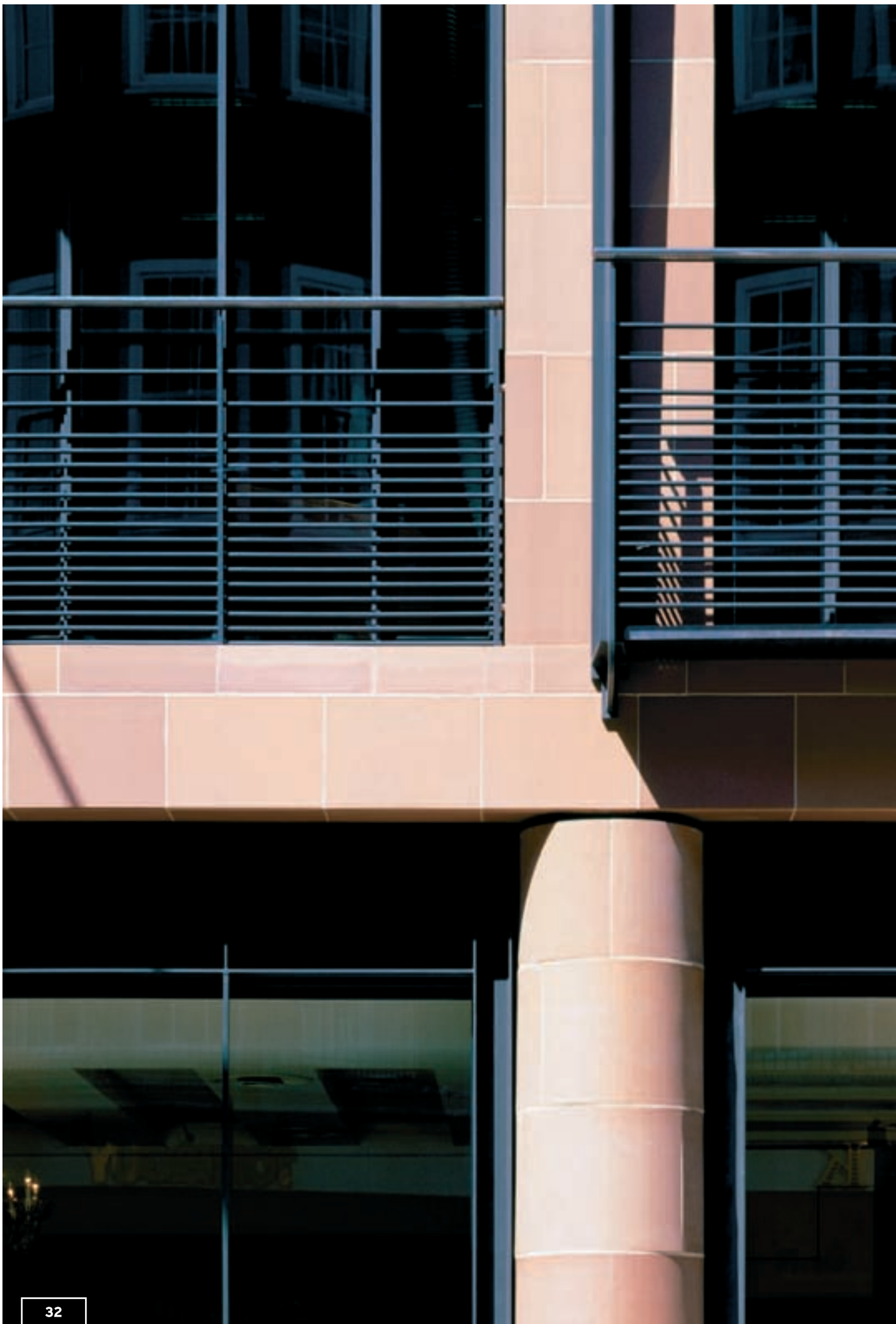


Insurance reserves £ (million)

(Net/Gross of reinsurance recoverable)



Figures for 2005/06 and 2004/05 are prepared on a consistent basis and show the effect of the adoption of Financial Reporting Standard 17 'Retirement Benefits' leading to the recognition on the balance sheet of the defined pension fund deficit. Figures for 2003/04 and earlier years have not been restated as the directors have decided that the benefits which would be derived from fully restating these figures would not justify the cost of such an exercise.



NHBC Council As at June 2006

Mr A Anderson
Homes for Scotland

Mr M Andrew
Consumer Policy Committee
of BSI

Mr J Armstrong
Construction Employers
Federation - NI

Mr S Baseley
Board of Directors

Mr B Bean
Honorary Vice-President

Ms J Bennett
Council of Mortgage Lenders

Mr R Billingham
Federation of Master Builders

Mr AR Bowes
Council of Mortgage Lenders

Mr SGJ Boyd
Council of Mortgage Lenders

Mr AT Brett-Jones CBE
Royal Institution of
Chartered Surveyors

Mr RJ Brown
Home Builders Federation

Mr P Carnan
Law Society of Scotland

Sir John Carter
NHBC Chairman

Mr AF Cavanna
Home Builders Federation

Mr C Clowes
Housing Corporation

Mr D Cochrane
CML Scotland

Mr IWL Cook
Council of Mortgage Lenders

Mr D Corr
Council of Mortgage Lenders - NI

Mr D Crothers
Department of
Social Development

Mr I Farookhi
NHBC Chief Executive

Mr G Fogden
Home Builders Federation

Mr P Foster
Board of Directors appointment

The Rt Hon Lord Fowler
Honorary Vice-President

Mr MJ Freshney
Home Builders Federation

Mr C Fudge
Construction Products
Association

Mr WC Gair
Home Builders Federation

Lord Glentoran
Board of Directors Chairman
NI Committee

Mrs J Hall
Society of Public Health

Mr CJ Harborne
Consumers Association

Mr MR Harris
Board of Directors appointment

Mr J Harrison
Home Builders Federation

Sir Graham Hart KCB
Board of Directors appointment

Mr N Henderson
Co-opted Member

Mr T Hillier
Home Builders Federation

Mr PD Holliday
Home Builders Federation

Mr DJ Holman
Co-opted Member

Mr B Hunt
Royal Institute of
British Architects

Mr RJ Illott
Royal Institution of
Chartered Surveyors

Mr I Innes
Homes for Scotland

Mrs S Kelly
Board of Directors appointment

Cllr P Kent
Local Government Association

Mr N Kidd
Homes for Scotland

Mr M King
Law Society

Mr D Knight
Homes for Scotland

Mr RNR Lay CBE
Board of Directors appointment

Mrs E Martin OBE
National Council of Women
of Great Britain

Mr G Martin
RIAS and RIBA Scotland -
Joint Nomination

Mr J Masters
Co-opted Member
NI Committee

Mr R Matheson
CML Scotland

Ms T McAuley
Scottish Consumer Council

Mr G McCallum
Board of Directors appointment

Mr T McClelland
RICS - NI

Mr S McDowell
Co-opted Member NI Committee

Dame Yvonne Moores DBE RN
Board of Directors appointment

Mr I More
Royal Institution of Chartered
Surveyors - Scotland

Mr CD Noble
Federation of Master Builders

Mr M Noble
Home Builders Federation

Ms C Oatway
Scottish Homes

Sir Michael Pickard
Honorary Vice-President

Mr GC Pye
Home Builders Federation

Mr HWG Rackham
Federation of Master Builders

Mr K Ross
Homes for Scotland

Mr A Rowan
Construction Employers
Federation - NI

Mr TR Roydon
Home Builders Federation

Mr C Rudolf
Royal Institute of
British Architects

Mr RH Scott
Association of Consulting
Engineers - Scotland

Mr RL Simpson
CIOB Scotland

Mr WB Sloan
Royal Society of
Ulster Architects

Dr DBB Smith OBE
Board of Directors Chairman
of the Scottish Committee

Mr AH Smith
Homes for Scotland

Mr J Sommerville
Chartered Institute
of Building

Mr RJ Tamayo
Board of Directors appointment

Mr PC Trott
Council of Mortgage Lenders

Mr B Vaughan
Construction Employers
Federation

Mr G Waddell
Council of Mortgage Lenders

Mr SC Walker
Chartered Institute of Building

Lord Walker of Worcester MBE
Honorary Vice-President

Mr R Werth
Board of Directors appointment

Mr J Whittle
Royal Institute of British
Architects

Observers

Ms A Hemming
Department for Communities
and Local Government

Mr P Philippou
Department for Communities
and Local Government



NHBC

Buildmark House, Chiltern Avenue, Amersham, Bucks HP6 5AP
Tel: 0870 241 4302 Fax: 01494 735201 www.nhbcbuilder.co.uk

NHBC is authorised and regulated by the Financial Services Authority

HB2155 07/06