Persimmon
Together, we make a home.

FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Persimmon Plc today announces Final Results for the year ended 31 December 2020.

Dean Finch, Group Chief Executive, commented:

"Persimmon delivered a robust performance in 2020 despite the challenges presented by the pandemic. I would like to commend our workforce for the effective way Covid-secure operating protocols have been adopted, protecting our customers, local communities and colleagues alike whilst maintaining effective on-site operations.

"I am particularly pleased we have delivered all this whilst continuing to see an increase in our HBF eight-week customer satisfaction score, with our current rates above the five-star threshold. We must build on this important progress and further enhance our build quality and customer care so we are known for both outstanding service as well as outstanding value. To achieve this we will further strengthen our build quality and independent inspection regime within the Persimmon Way. This will both drive efficiencies that will pay for these improvements and enhance our capabilities, enabling us to build a greater volume of homes at five-star. We have also set new environmental targets in line with the Paris Agreement and will seek to further develop the Persimmon Way to embed the specific measures that will deliver on these targets in the future.

"In addition, having adopted the principles of the Living Wage Foundation within our direct pay policies we are seeking full accreditation in working with our broader supply chain and development partners.

"Persimmon is a company of many strengths with great opportunities ahead. Combining the business' entrepreneurial spirit and astute land buying with enhanced quality, efficiency and service standards will drive superior, sustainable value creation for our shareholders and broader stakeholders alike."

Financial Highlights

	2020	**2019**
New home completions	13,575	15,855
New home average selling price	£230,534	£215,709
Total Group revenues	£3.33bn	£3.65bn
New housing revenues	£3.13bn	£3.42bn
Underlying new housing gross margins[1]	31.0%	33.1%
Underlying profit before tax[2]	£863.1m	£1,048.1m
Profit before tax	£783.8m	£1,040.8m
Cash at 31 Dec	£1,234.1m	£843.9m
Land holdings at 31 Dec – plots owned and under control	84,174	93,246
Current number of developments across the UK	c. 300	c. 345
Current forward sales position	£2.27bn	£1.98bn
Net assets per share	1,102.7p	1,021.7p
Return on average capital employed[3]	29.4%	37.0%
Dividend	110p per share in the year	235p per share in the year

Trading performance

- Persimmon has achieved a resilient trading performance for 2020, the year including the period of maximum disruption with the outbreak of the Covid-19 global pandemic
- The Group's average private weekly sales rate per site for 2020 was 12% higher year on year reflecting good stock availability coming into the year and strong customer demand
- Average selling prices increased by 6.9% reflecting the 6.5% increased proportion of homes sold to owner occupiers during the year
- 2,212 new homes were delivered to our Housing Association partners in 2020, representing 16% of new homes sold (2019: 3,392 homes, 21% of new homes sold)
- £1,067m of net cash generation before capital returns of £351m and net land spend of £326m

Legacy buildings provision

- The Group is setting aside £75m towards any necessary remediation work to remove now-banned cladding on 26 multi-storey developments we have built in line with our announcement on 10 February 2021
- Where Persimmon owns the building, it will lead this work. Where the Group no longer owns the building, it will support the owners and other parties in their efforts to ensure the buildings are safe for residents. Should a building owner fail to meet their obligations, Persimmon stands ready to provide the support to make sure this happens

Continued focused management of housing cycle risk

- The Group has maintained its selective investment in land to preserve the quality of the Group's land holdings. 6,827 plots have been brought into the business in 33 locations across the UK during 2020 (c. 50% of consumption levels), with 4,562 plots, two thirds, in the second half of the year
- Recognising the cyclical nature of the housing market, the Group continues to execute its long established strategy which minimises financial risk and judges the deployment of capital through the cycle

2020 in focus

Covid-19 update

- The health, safety and wellbeing of our customers, our workforce and our communities remains paramount
- Continuing to operate effectively across our business in accordance with all relevant guidelines, including the Construction Leadership Council Safe Operating Procedures, HBF Coronavirus Sales and Marketing Operating Procedures and HM Government Working Safely During COVID-19 guidance

The homes we build – 'build right, first time, every time'

- Building on recent progress, an even greater focus on quality and customer service
- The 'Persimmon Way', our Group wide consolidated approach to new home construction is being strengthened further with enhanced quality standards and a doubling of our Independent Quality Inspection team
- The Group has been trending above five-star from January 2020 in its eight-week post-sale HBF customer satisfaction score[4], showing the progress made already

Customer service

- Continuing to put our customers before volume, we strengthened the enforcement of the Group's policy of build completion 21 days ahead of customer handover, ensuring build programmes allow for effective quality assurance procedures
- c. 50% of the Group's owner occupiers have utilised our industry leading Homebuyer Retention Scheme since 1 July 2020

- Increased our online services to support our customers through “lockdown” periods
- Further investing in our customer portal, which supports our customers from the point of reserving their new home
- FibreNest, the Group’s ultrafast, full fibre broadband service, currently supports over 12,500 of our customers across 198 developments

Supporting our communities

- Persimmon continues to build ‘homes for all’ providing a range of house types at affordable prices
- c. 50% of the Group’s private home completions were to first time buyers
- Our private average selling price of £250,897 for the year to 31 December 2020 is c. 17%[5] below the UK national average
- Investment of £376m in local communities, including the delivery of 2,212 new homes for lower income families to our Housing Association partners
- Approximately £2.0m donated to local charities and community groups
- A commitment to achieving Living Wage Foundation accreditation as soon as possible
- Set new diversity targets to improve the Group’s gender diversity with the aim to have females composing 40% of our employees, 35% of our senior management team and 45% of employees in management roles by the end of 2025

Setting new environmental targets

- Achieve net zero carbon in our homes in use by 2030 and across our operations by 2040
- Set interim science based carbon reduction targets to reduce carbon emissions from our own operations by 46.2% by 2030 and our indirect operations by 22% per m^2 completed floor area by 2030, in line with the Paris Agreement
- Appointed Regional Environmental Champions to further enhance environmental considerations across each of our developments

Strong platform for future growth

- Diverse network of c. 300 active outlets (2019: c. 345) across the UK anticipated to be maintained at a consistent level throughout the year
- Robust balance sheet with high quality land holdings, with 84,174 plots owned and under control at 31 December 2020 held across 31 operating businesses (2019: 93,246 plots)
- Strong liquidity with cash held of £1,234m and land creditors reduced by £106m to £329m at 31 December 2020 (2019: £435m) providing significant opportunity to grow the business
- Seeking to take advantage of excellent land opportunities leading to investment returning to historic levels of c. £0.5bn

Outlook

- Strong forward sales levels of £2.3bn, 15% higher year on year, supported by low interest rates, good mortgage availability and ongoing Government support measures
- The Group’s average private weekly sales rates for the first eight weeks was 7% ahead of last year
- Build rates have been maintained at pre-Covid levels since July 2020
- Further quality and service improvements to benefit our customers and secure greater efficiency, protecting industry leading margins and strengthening our platform for growth, thereby driving improved profit and cash generation
- Reflecting the consistent outlet levels anticipated through the year, in the first half of 2021 we expect to deliver new home completion volumes approaching the levels seen during the first half of 2019, with similar delivery in the second half. We anticipate the Group’s margin will reflect the return to delivering an increased proportion of homes to our Housing Association Partners from 2021.

- We are targeting a full return to 2019 levels of new home completions in 2022. From 2023, with a stable market, we expect our enhanced quality, service and efficiency capabilities to provide the opportunity to grow further. We are focused on bringing more outlets into production to support these targets
- Despite near term uncertainties as the economic and social disruption of the pandemic continue and the full impact of the UK's exit from the EU unfolds, the longer term fundamentals of the UK housing market remain strong

Shareholder returns

- Dividends of 40p (£127.5m) and 70p (£223.2m) per share paid on 14 September and 14 December 2020 respectively
- Commitment to a total return of £2.35 per share in 2021 subject to continual Board review
- Payment of regular annual instalment of £1.25 per share to be accelerated to 26 March 2021 from July 2021
- Intended payment of £1.10 per share surplus capital to be split into 55p per share to be paid in August 2021 and 55p per share to be paid in December 2021

1 Stated before legacy buildings provision (2020: £75.0m, 2019: £nil) and based on new housing revenue (2020: £3,129.5m, 2019: £3,420.1m).
2 Stated before legacy buildings provision (2020: £75.0m, 2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m). Profit before tax after legacy buildings provision and goodwill impairment is £783.8m (2019: £1,040.8m).
3 12 month rolling average calculated on underlying operating profit and total capital employed (including land creditors). Underlying operating profit is stated before legacy buildings provision (2020: £75.0m, 2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m).
4 The Group participates in a National New Homes Survey, run by the Home Builders Federation. The rating system is based on the number of customers who would recommend their builder to a friend.
5 National average selling price for newly built homes sourced from the UK House Price Index as calculated by the Office for National Statistics from data provided by HM Land registry. Group average private selling price is £250,897.

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A presentation to analysts and investors will be available from 07.00 am on 03 March 2021. To view the presentation, please use the webcast link below:

Webcast link: https://edge.media-server.com/mmc/p/823znxwq

There will also be a Q&A session with management, hosted by Group Chief Executive, Dean Finch and Group Finance Director, Mike Killoran via conference call at 9.00am. Analysts may join the call by using the details below:

Telephone number: +44 (0) 33 0551 0200

Passcode: Persimmon

An audiocast of the call will be available on www.persimmonhomes.com/corporate from this afternoon.

CHAIRMAN'S STATEMENT

Persimmon is a company with many great strengths. We not only provide many of the new houses the country needs but also the opportunity of homeownership to thousands of families a year. In so doing we generate jobs across the country and value for local communities and shareholders alike.

I set out last year how Persimmon recognised that there were areas for improvement and that we were embarking on a period of cultural and operational change to enhance our customer care and build quality in particular. While the intervening year has seen the business and country confront the significant challenge of the pandemic, I am pleased we have still managed to make important progress. As well as delivering a strong operational and financial performance despite the pandemic, we have also seen the implementation of the important parts of the change programme. The enhanced build quality standards in the Persimmon Way have already helped improve our HBF eight-week post-sale customer satisfaction scores so that they are trending above five-star, for example. We have also made important new appointments to steer us through the next stages of this change.

In this vein, I am delighted that Dean Finch has joined as Group Chief Executive. Dean brings a strong track record of financial success achieved through good customer service and operational excellence. I welcome Dean's determination to build on our recent progress by accelerating and further enhancing Persimmon's approach to customer care and build quality. Dean's statement sets this out in more detail.

Covid-19 update

As the Group responded to the pandemic, our overarching principle was to ensure the wellbeing of our customers, workforce and local communities. A controlled and orderly shutdown of the Group's sites, sales offices, and off-site manufacturing facilities was therefore announced on 25 March 2020.

Having regard to the long-term interests of all of our stakeholders, all colleagues were retained on full pay throughout the shutdown period. This ensured that we could continue to serve our customers and maintain some operational momentum within the business, enabling the Group to mobilise its workforce effectively when sites were made Covid-secure and re-opened.

By the end of April 2020, the Group had introduced effective Covid-secure operating procedures, aligned with Government guidelines, covering all of its sites, offices and manufacturing facilities. Subject to local devolved Government regulations, the Group began re-opening its operations from the end of April with our sites in Scotland being the last to re-open at the end of June. The Group's build programmes, which have observed the stringent two metre social distancing rules throughout, returned to normal levels in July 2020 and have been maintained since.

We remain confident in our ability to continue to operate safely and effectively. As the second and third lockdowns were introduced we reviewed and revised our Covid-secure protocols in line with the changing requirements. I commend the management teams and colleagues across the whole country who have ensured they are fully embedded within the business and the Group's operations have continued to run effectively. The Group's own absentee levels have been relatively low and our regional businesses have managed resource efficiently where unplanned absences have occurred. We recognise, however, the highly uncertain nature of the pandemic and continue to monitor the situation and any potential impact of increased transmission rates or social distancing measures on our ongoing operations.

Whilst uncertainty persists around the Covid-19 pandemic and its potential to further disrupt our operations, there has been no significant disruption to the business caused by the UK's exit from the EU and the completion of the free trade agreement. We maintain close contact with our supply chain and remain mindful of any potentially adverse impacts.

Results

Whilst facing the challenges presented by Covid-19 customer demand remained resilient, supported by low interest rates, good levels of mortgage availability and the Government's support measures introduced in response to the pandemic. The Group's diverse active outlet network and strong forward build levels coming into 2020 ensured it was well placed to meet the rise in sales rates seen coming out of the first national lockdown. The strength of underlying housing demand across the UK is reflected in the Group's sales rates continuing to surpass historical normal seasonal trends throughout the remainder of the year.

Whilst recognising the disruption caused during the first national lockdown, Persimmon delivered a robust trading performance for the year, legally completing the sale of 13,575 new homes (2019: 15,855). The Group's total revenues were £3,328m (2019: £3,649m) with new housing revenues of £3,130m (2019: £3,420m).

The Group's underlying profit before tax[1] for 2020 was £863m, (2019: £1,048m) with an underlying new housing operating margin[2] of 27.6% (2019: 30.3%), supported by the quality of the Group's asset base. The Group's balance sheet is strong with cash balances of £1,234m (2019: £844m) and reduced land creditors of £329m (2019: £435m) at the end of the year.

Legacy buildings provision

Our results also reflect our decision to act decisively on legacy concerns around now-banned cladding. As a responsible business, we believe that although we have no legal obligation on properties we do not currently own, we have a duty to act.

As announced on 10 February 2021, we have therefore decided that for any multi-storey developments we have built, we will ensure that the necessary work to protect residents is undertaken. Where we own the building, we will act to do what is necessary to keep the residents safe. Where we do not own the building we will work with the owner and offer our support. Ultimately, if the owners do not step up and meet their obligations, we will ensure the work is done to make the buildings safe. To meet this commitment we have recognised a £75m provision. We will work with the Government on its proposals to balance the need to generate income to help address the broader cladding challenge while ensuring their housing targets can be delivered.

Our customers

As I set out above, the Group has made progress in its important programme of implementing operational improvements to support higher levels of customer service and build quality assurance processes. Persimmon's HBF eight-week customer satisfaction score[3] is now above the threshold needed to achieve a five-star rating. This is clear evidence that our customers are seeing these benefits in their new homes and in the service they receive.

We have maintained our strategy of putting customers before volume, ensuring that our build programmes allow for the effective completion of all our quality assurance processes before we hand over homes to our customers. The Persimmon Way, the Group wide consolidated approach to new home construction, which encompasses improved technology for our site managers and enhanced training for all relevant members of our workforce, is now embedded within the business and making a real difference. An external audit of this process, to ensure consistency across the Group, will be undertaken in 2021.

Our Homebuyer Retention Scheme, the first in the industry, has been utilised by c. 50% of our private customers since 1 July 2020 and continues to drive operational improvements across our developments whilst providing greater reassurance to our customers that their new home will fulfil their expectations.

We are continuously seeking innovative and effective ways to further this excellent progress. Dean sets out an ambition that we should aim to 'build right, first time, every time'. The enhancements he sets out in build quality standards, the expansion of our team of Independent Quality Inspectors and the investment in training are all aimed at driving improvements in both the consistency of higher build quality and our efficiency as a result. We also intend to invest further in technology to aid our site and sales staff and our Inspectors, as well as engage our customers more closely. We welcome the introduction of a New Homes Ombudsman to drive improvements in quality standards throughout the industry.

Supporting our communities

We remain committed to supporting our communities during these unprecedented times. The social and economic disruption caused by the pandemic is significant and we are determined to play our part in the UK's recovery. We have recently pledged a £250,000 donation to the Daily Mail's Mailforce campaign to provide laptops to all children in the UK, so they can fully participate in online home schooling.

We support our communities in a number of ways, designing our developments in places where people wish to live and work within attractive open spaces and environments, with a balance of different house types and prices and providing homes to our local Housing Association partners. Our average selling price to owner occupiers is c. 17% lower than the UK national average[4] and we help a significant number of younger people onto the housing ladder with c. 50% of our private homes sold to first time buyers. In addition, the Group contributes to local services and amenities including education provision and new infrastructure benefitting its communities. In 2020, the Group contributed £376m to its local communities, bringing the total community investment to c. £2.4bn over the last 6 years.

Persimmon remains keen to employ significant numbers of employees from the communities we serve. At 31 December 2020, we directly employed 5,221 people (2019: 5,285) and supported c. 86,000[5] jobs across our communities and within our wider supply chain. Our financial resilience enabled us to support our colleagues and our supply chain through the significant disruption experienced this year and retain all of our colleagues on full pay, including those that were stood down during periods of site closure. We provided our suppliers and subcontractors with secure forward orders, prepaying for material deliveries to support our supply chain's cash flows, whilst, as a member of the Prompt Payment Code, continuing with our prompt payment processes.

Persimmon is industry lead to the Social Mobility pledge, providing opportunities to young people with c. 680 trainees and apprentices in the business. In addition, the Group is a signatory to the Covid-19 Business Pledge supporting colleagues, customers and communities through the pandemic. The Group is determined to attract a more diverse workforce, recognising the benefits that this brings. We have therefore set new diversity targets to improve the Group's gender diversity with the aim to have females composing 40% of our employees, 35% of our senior management team and 45% of employees in management roles by the end of 2025.

The Persimmon Charitable Foundation continued to support local charities and good causes, through its Building Futures and Community Champions campaigns donating c. £2m to c. 900 organisations during 2020. For more information on our Charitable Foundation's campaigns, please visit https://www.persimmonhomes.com/corporate

Long-term strategy and capital return programme

Persimmon's strategy, which has been executed over a sustained period, recognises the cyclical nature of the housing market by minimising financial risk and judging the deployment of capital at the appropriate points in the cycle. Over the last 20 years, the Group's average return on capital[6] has been 22.1% reflecting the sustainable performance of the business. Total shareholder returns have been 2,631% over the same extended period (FTSE 100: 114%). The Group has a strong track record in the land market and it has undoubtedly been a key asset in the business' success. While maintaining our robust and disciplined approach to returns we anticipate increasing our land buying to more typical annual levels as we seek to grow the business. We are of course mindful of the uncertainty surrounding the housing market and future economic conditions, so are ready to adapt quickly should circumstances demand. Reflecting the Group's strong positioning in its markets, our current forward sales are £2.3bn, 15% higher year on year.

The Board considers that, under normal circumstances, cash holdings of c. £700m are appropriate for the business, providing the right balance between ensuring appropriate liquidity levels are maintained to cover the Group's annual working capital requirements and providing sufficient funds to take advantage of attractive land investment opportunities.

A key element of the Group's strategy remains the return of any capital that is deemed surplus to the needs of the business, having regard to existing economic and market conditions, the Group's existing land holdings and other investment opportunities. The availability of surplus capital is continually assessed by the Board. Given the significant social and economic disruption and uncertainties resulting from the onset of the Covid-19 pandemic and the mitigating Government response measures, the Board cancelled the prospective payment of the previously assessed surplus capital of £1.25 per share due to be paid to shareholders on 2 April 2020. In addition the Board postponed the payment of the final dividend for the 2019 financial year of £1.10 per share that was scheduled to be paid on 6 July 2020.

During the second half of 2020, as part of the Board's ongoing commitment to its strategy, and recognising the importance of dividend income to all investors – including support to retired workers and their families - the Board continued to assess the ability of the Company to make distributions to its shareholders. Reflecting the continued good progress made by the business, on 18 August 2020 the Board announced a dividend of 40p per share, which was paid on 14 September 2020, and on 10 November 2020 announced a further dividend of 70p per share, which was paid on 14 December 2020. These two distributions fulfilled the payment of the final dividend of £1.10 per share for the year ended 31 December 2019 which had previously been postponed. No further distributions are to be made regarding the financial year ended 31 December 2019.

Having concluded its 2020 assessment of the availability of surplus capital, as part of the regular annual assessment of the Capital Return Programme, the Board is pleased to reiterate its commitment to total capital returns of £2.35 per share in regard of the financial year ended 31 December 2020. However, the Board has concluded that it intends to make these distributions according to an amended profile. Firstly, the payment of £1.25 per share, representing the regular annual distribution for the year ended 31 December 2020 will be accelerated from early July to be made on 26 March 2021 to shareholders on the register on 12 March 2021 as an interim dividend. It is envisaged that this acceleration will be for one year only, the payment of the regular annual distribution returning to being made in early July in successive years which is designed to mitigate the traditional peak working capital requirements of the Group. In addition, but subject to continual review, the Board intends to split the payment of surplus capital of 110p per share previously anticipated to be paid in late March/early April into two payments. A first payment of surplus capital of 55p per share will be made in August 2021, with a second payment of surplus capital of 55p per share to follow in December 2021. Further details of the Board's ongoing assessment of its Capital Return Programme will be provided as part of Persimmon's normal market updates.

Looking forward to 2022, the Board currently intends to return to the pre-Covid profile of capital return, with the payment of the regular annual distribution of 125p per share being made in early July 2022 aligned to the traditional working capital profile of the business. In line with the Group's strategy, the Board will continue to assess the investment needs of the business and capital deemed surplus to these needs will be returned to shareholders.

Sustainability

For Persimmon, sustainability is about looking after our customers, our workforce and our suppliers and adopting innovative build and design techniques to reduce our environmental impact. We believe that this will generate superior long-term returns for the benefit of all our stakeholders.

The Group's newly formed Sustainability Committee has set the Group's sustainability approach which was approved by the Board in October 2020. As Dean sets out, an early outcome of the strategy has been to adopt science based targets to reduce our greenhouse gases in line with the Paris Agreement and to set new targets to have net zero homes in use by 2030 and achieve net zero carbon emissions across our operations by 2040.

Board Changes

Dean Finch joined as the new Group Chief Executive on 28 September and has made a strong start in the business with his focus on build quality, customer service and sustainability. We would like to thank Dave Jenkinson for his valuable contribution to the business over his 23 years with Persimmon.

In addition, the Board welcomes Joanna Place, Annmarie Durbin and Andrew Wyllie, who joined as Non-Executive Directors during the year.

Finally, during an exceptionally difficult year, our colleagues, sub-contractors and suppliers have risen to the challenge, showing flexibility, commitment and hard work. The Board would like to take this opportunity to thank them for their efforts.

Roger Devlin

Chairman

2 March 2021

1 Stated before legacy buildings provision of £75.0m (2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m). The Group's profit before tax is £783.8m (2019: £1,040.8m).
2 Stated before legacy buildings provision (2020: £75.0m, 2019: £nil), goodwill impairment (2020: £4.3m, 2019: £7.3m) and based on new housing revenue (2020: £3,129.5m, 2019: £3,420.1m).
3 The Group participates in a National New Homes Survey, run by the Home Builders Federation. The Survey year covers the period from 1 October to 30 September. The rating system is based on the number of customers who would recommend their builder to a friend.
4 National average selling price for newly built homes sourced from the UK House Price Index as calculated by the Office for National Statistics from data provided by HM Land registry.
5 Estimated using an economic toolkit, updated in 2020 to reflect latest best practice and Government guidance.
6 Calculated based on operating profit and the Group's capital employed which includes land creditors.

CHIEF EXECUTIVE'S STATEMENT

In my five months at Persimmon I have seen for myself – as I have toured as many of our sites as restrictions will permit – our many great strengths. I want to immediately pay tribute to our employees who have continued to build safely despite the challenge of Covid-19. From right back at the start of the pandemic, Persimmon's response has been very nimble, dealing with a difficult situation well.

Right across the country we have committed teams who combine industry-leading expertise in land purchase with site development efficiency, delivering good value homes at prices substantially below the sector average. We are known for offering outstanding value, and the importance of that is not to be underestimated: Persimmon is opening up the opportunity of home ownership to thousands of families each year who otherwise might not have been able to afford it.

I am proud to have been given the opportunity to lead a company that performs such an important role and has such strengths. Persimmon is incredibly well-positioned in the markets – first time buyer and first time mover, especially – it has served so strongly. We have maintained industry-leading margins, achieved strong financial performance and secured a robust balance sheet by investing smartly through the economic cycle and retaining a competitive edge over our rivals. These are great prizes that must – and will – remain the hallmark of Persimmon's approach and continue to drive strong shareholder returns.

To maintain these leadership positions I believe Persimmon needs to change in some specific areas. There is a need for careful evolution, rather than revolution. While there has undoubtedly been important recent progress, I believe, Persimmon's challenge now is to be recognised for outstanding service as well as value. In my career I have learnt the crucial importance of safety and service and putting the customer at the heart of all that we do. When that is delivered – or even better, you become trusted to deliver it – it sustains financial success.

In some important, targeted areas we have been reviewing our approach. Our product range is strong, but I believe there are opportunities for a small number of additional house types to meet evolving demand within Persimmon's market segments. Persimmon's site development efficiency is outstanding, but there are opportunities to drive even greater benefit from our manufacturing facilities and a 'build right, first time, every time' programme. I see success here as generating both savings to be reinvested to help maintain our competitive advantage and securing an enhanced capability to supply more homes that consistently achieve a five-star customer satisfaction score.

There is a real opportunity to build on Persimmon's many great strengths and secure the next chapter of its success. At its best Persimmon is a powerful combination of a very disciplined approach to investment and costs coupled with an entrepreneurial spirit that captures new market opportunities. I want us to build on this and enhance our capabilities further, by setting new ambitions for build quality, customer service and growth whilst remaining nimble and being able to respond quickly to any changing economic conditions. As I set out in more detail below, we will invest to help achieve this – for example, in a prudent approach to land – while retaining the discipline that has underpinned our strong shareholder returns.

I have five key priorities to achieve our new ambition and secure a reputation for providing both outstanding service and outstanding value:

- Build quality: our ambition will be to build right, first time, every time;
- Reinforce trust in the brand: consistently trusted to deliver a home to be proud of and a builder customers would readily recommend to others;
- Growth: through our improvements in build quality and increased focus on customer care we will be strengthening our capability to deliver more five–star homes to meet the strong demand;
- Maintaining an industry leading financial performance: sustaining our strong margins and returns and driving healthy profit and cash generation;
- Sustainable communities: we will play a full and active role in the imperative of achieving a net zero carbon economy, as well as setting new biodiversity and sustainable community targets.

Quality

To become truly customer-focused we must start with quality, my first priority. I am acutely aware that by purchasing one of our homes, our customers may well be making their largest lifetime financial commitment and one that has significant emotional importance. We must make sure we are providing them with the best quality home at the best possible price, delivered with outstanding service.

This is why further strengthening the Persimmon Way is so important, enhancing existing procedures and establishing new review points to improve standards across the Group. I have seen first-hand the difference this is making, with happier customers and efficiency benefits such as lower remediation costs, protecting our industry-leading margins.

These benefits are why I want to go further and faster in implementing it consistently across the Group. I want the Persimmon Way to be synonymous with a new standard in the industry, one that our customers can trust. Ultimately I want the Persimmon Way to become less our own quality assurance process and more a guarantee for customers.

Our ambition is to build right, first time, every time, by setting new industry standards for construction, independent inspections, and employee training:

- We will adopt more exacting building tolerances than existing industry standards;
- We will employ the industry's largest group of Independent Quality Controllers who will check every stage of construction, by doubling our team of inspectors to over 60 by the end of this year;
- This team, which will directly report to the Group Construction Director, will assess every single plot we build at a number of key stages and only allow work to continue if our higher standards have been met;
- Our new 'Persimmon Pathway' will ultimately ensure that every direct employee will receive a tailored training programme. We are starting with our site-based colleagues, so they can receive the recognised industry qualification in their area of expertise. Alongside our pioneering new NVQ Assessment Centre and a reinvigorated toolbox talk programme for tradespeople, we will ensure our Site Managers, Independent Quality Controllers and sales advisors are amongst the best trained in the industry.

These enhanced standards, the increased investment and enhanced training are targeted at ensuring we build right, first time, every time. With a significantly expanded team under our Group Construction Director and a new Group Technical Director, we are strengthening our central oversight to ensure the consistent application of these standards. This is clearly crucial, but to strengthen our customers' trust we need to go further.

Reinforcing trust

My second priority is to reinforce trust in the Group's brands. I want our customers to feel that we are a dependable partner. As well as setting new quality standards and improving our own processes, I want our customers to feel a valued part of the review process, able in good time to flag any issues and concerns. An immediate focus last year when I joined the company was ensuring consistent compliance with our Persimmon Way policy that properties should be finished 21 days ahead of customers completing their purchase, so that a high quality finish can be achieved before a customer moves in. Whilst this effectively reduced the number of homes we handed over in the second half of 2020 (although we still achieved record levels) crucially, we have already started to see a notable improvement in customer satisfaction scores. While there remains work to be done, this performance shows the further potential of this approach. We also expect, of course, to see a reduction in the corresponding remedial spend, offsetting the investment and maintaining industry-leading margins.

Fundamentally, this is about strengthening our care procedures so that customers feel they have received both outstanding value and outstanding service. We are strengthening customer service teams across the Group and reviewing how we interact with customers throughout their whole Persimmon experience. We have made positive progress already, with our current customer satisfaction scores trending ahead of the five-star HBF rating in their eight-week post-sale survey. I am determined to both further improve the eight-week score so we are consistently five-star and significantly improve the longer term satisfaction of our customers. We are piloting a new customer portal to enhance their service experience ahead of a wider Group roll-out. This portal will support our customers from the point of reserving their new home.

I am also determined that we reinforce our position as a trusted partner for planning authorities, public bodies and within the industry. The Government has ambitious targets for 300,000 houses a year with expanded homeownership also a key objective. As consistently one of the largest builders by volume at prices below the sector's average, we are ideally placed to help Government deliver.

Growth

My third priority is growth. Assuming a stable market, 2021 will be a year of rebuilding volumes as we emerge from the pandemic. We are targeting pre-pandemic levels of output in 2022 and thereafter Persimmon is particularly well placed to accelerate delivery. The Government housebuilding targets provide an indication of the medium to longer-term growth opportunity in the market.

Persimmon has strong land holdings to draw upon to help achieve this. At 31 December 2020, the Group had 84,174 plots that were owned and under control (2019: 93,246 plots). Specifically, 67,205 plots are owned of which 42,963 have detailed implementable planning consent. A further 16,969 plots are 'under control', being plots that the Group has exchanged contracts on but have yet to complete due to outstanding planning conditions.

Today we have about 300 active outlets which we will expand over the coming years to meet our targets. Our experienced land and planning teams will continue to progress our under control land holdings through the planning system enabling us to achieve our near term growth targets. To meet our medium to longer-term ambitions and capture the opportunities that exist we will need more land. We have a well justified, strong reputation for buying land that I have sought to reinvigorate. I anticipate that land spend in 2021 will start to return to historic levels of c. £0.5bn a year. Recognising that we live in highly uncertain times, and Persimmon's historic success in investing strategically through economic cycles, we will of course proceed carefully and should the economic circumstances change we will adapt quickly and nimbly to meet them.

With our strong capabilities in the land market and our focus on further quality and service improvements we are in an excellent position to capture more of the market with homes that ensure we consistently secure five-star customer satisfaction scores. With the associated efficiency benefits our growth will be designed to continue to deliver industry-leading margins and returns.

We will grow our local teams and have invested in digital technology to increase both our capacity and capabilities in identifying the most sustainable locations for future development. Central oversight has been expanded through a new Land Committee which rigorously scrutinises our purchasing against demanding hurdle rates that guarantee value creation for shareholders whilst ensuring we deliver the homes our customers and local communities need. We will also be looking to build new partnerships, as we seek new sources of land.

Our expertise in developing land is also well earned and something I have witnessed for myself on my site visits. This requires real skill and I believe we have industry leading capabilities and creativity, often identifying good opportunities that our competitors overlook. We also have strong assets in our timber frame, brick and tile manufacturing facilities that – as I set out below – I believe can drive even greater opportunities for both improved build quality and efficiency. Our FibreNest broadband network is another great business asset and one that we are looking to develop further. Providing high quality broadband access from the day customers move in is a great service credential and one we want to ensure we provide consistently.

Financial

As I have highlighted, there are real opportunities to drive improved performance from the Group, but we start from incredibly solid foundations. We have a great team, a countrywide footprint and a balance sheet that matches our ambitions. We will not take any of that for granted and instead are determined to continue to lead the industry in financial performance, my fourth key priority. Persimmon has had a very successful capital return programme over recent years and I am determined that we continue to deliver strong shareholder returns for years to come. Indeed, we will look to see how we can improve them further while meeting the investment needs of the business.

I believe there are significant efficiency opportunities for us to capture. I have already mentioned the opportunity our manufacturing facilities and the reduced remedial spend from build right, first time, every time present. Our manufacturing facilities have the opportunity to be an even greater contributor to our operational efficiency. We have recently decided, for example, to expand the range of products made by our tile factory. With this investment in an expanded tile range the factory itself will also work at an even more efficient rate. Improvements in our brick factory should lead to the business using substantially more of our own bricks this year. With the growing interest in Modern Methods of Construction, as well as a continual drive for greater efficiency, I have instigated a thorough review of the brick, tile and timber frame manufacturing facilities to ensure we maximise their contribution to Persimmon's future.

There is also a real opportunity from targeting waste and remediation. We have recently taken action to take advantage of the opportunity to eliminate more frequent build process issues to ensure a better finish. We believe this will generate an immediate pay back as well as improve customer satisfaction. Procurement is another area of focus, and we have recently appointed a new Group Commercial Director. Given our size and importance to multiple suppliers we are now taking a more strategic approach, reviewing existing contracts and expanding the use of multi-year deals. We anticipate this will deliver both meaningful cost savings and improved service levels.

We are building from significant financial strength. The resilience demonstrated against the backdrop of a global pandemic is notable. The record number of new homes completed in the second half of the year of 8,675, mitigated some of the impact caused by the on-site and operational disruption experienced in the second quarter of 2020. As such, the Group delivered 13,575 new homes to its customers (14% lower than 2019) generating new housing revenue of £3,130m (2019: £3,420m). We have also seen the strong demand for new homes continue in the early weeks of 2021.

Underlying profit before tax[1] was £863m (2019: £1,048m) with an underlying new housing operating margin[2] of 27.6% (2019: 30.3%). The resilient margin reflects the Group's high quality land holdings. The Group has a robust balance sheet, with net assets of £3,518m (December 2019: £3,258m) and land holdings of £1,722m (December 2019: £1,939m). Our liquidity is strong with cash holdings of £1,234m at 31 December 2020 (December 2019: £844m) and reduced land creditors of £329m (December 2019: £435m) providing an excellent platform for future growth.

Sustainable communities

As I have said, Persimmon plays a crucial role in society, which is why sustainable communities is my fifth key priority. We provide skilled jobs up-and-down the country, and meet a pressing need for new homes and the aspiration of home ownership for thousands every year by delivering 'homes for all'. Our private average selling price of £250,897 for the year to 31 December 2020 is c. 17% below the UK national average[3] and we help a significant number of younger people onto the housing ladder, with c. 50% of our private home completions to first time buyers.

Recognising the role we play in society, I am determined we do more to make a positive difference in the communities we are part of. We have well-established programmes such as Community Champions and Building Futures that have been very popular and well-received. I want us to also embrace the power of our practice and ensure our approach to business itself is making as positive a difference as possible. We are hoping to shortly become a Living Wage Foundation accredited employer, for example. As a signatory of the Social Mobility Pledge we are looking to see how we can provide new opportunities for jobs and skills development in the most disadvantaged areas of our country. The Group has also set new diversity targets, recognising the benefits that a more diverse workforce brings.

Our environment

The world is also facing an unprecedented environmental challenge so we must – and will – play a full and active role in the imperative of achieving a net zero carbon economy.

We have developed a net zero carbon plan with the targets of having net zero carbon homes in use from 2030 and achieving net zero emissions across our own operations by 2040. We will set out further details in due course, but as a first step we have adopted the Science-Based Target approach to carbon reduction in line with the Paris Agreement. We have also published the Task Force for Climate related Financial Disclosures and SASB in our Annual Report and Accounts and will monitor our performance against these measures. The Government has set very ambitious targets through its Future Homes Standard. We share the objective of net zero carbon homes and are already building our first 'zero carbon ready' house, in York. This house is one of our standard range, engineered to deliver the necessary carbon savings. We believe that in looking to adapt a 'standard' home, this is an industry first. We are running it as a research project in partnership with the University of Salford to investigate how effective the modifications are when a family lives in it and goes about their daily lives. We hope the project is both an exemplar and identifies where we can make improvements to meet the Government's ambitions most efficiently.

As well as a net zero carbon plan, we are also reviewing our broader environmental impact including biodiversity, water and waste targets. This agenda is, of course, broader than the environment alone. This whole sustainability and community agenda is one I hope to develop continually in my time at Persimmon.

We will shortly establish a new vision and values to firmly embed a culture that is determined to be the builder that customers trust, by delivering consistent quality and making a positive difference to the environment and communities we are part of. These will be the foundations of our future growth and sustained shareholder returns.

It was with this new approach in mind that Persimmon announced on 10 February 2021 our decision to act on cladding and provide reassurance to residents of any multi-storey building we built. In total we have identified 26 buildings built by us that may contain now-banned cladding. Where we still own these buildings we will lead the work to make sure residents are safe and any issues around now-banned cladding are addressed. Where we are no longer the owner, the current owner has the legal responsibility and duty to act. We will offer our support to these owners and seek to work with them to carry out their legal responsibilities. Ultimately, however, if the owners do not step up to their responsibilities we will make sure the residents are safe.

Our commitment is therefore to keep the residents safe and make sure the necessary work is carried out. We have set aside a £75m fund to pay for our contribution to this work. We have made this commitment because we think it is the right thing to do.

We are currently assisting the Consumer Markets Authority with their enquiries into new properties sold on leasehold terms.

Outlook

Persimmon is a company with fantastic assets and great people which has consistently delivered industry-leading financial performance. We play a crucially important role in society, creating jobs as well as expanding the opportunity of home ownership. I am optimistic about the future.

We demonstrated what is possible in the second half of 2020 by strictly enforcing the 21-day pre-handover quality processes, delivering record completions and improving customer satisfaction scores. I believe with this continued focus we will also successfully support our customers' longer term enjoyment of the places we help create. We are investing further in training, customer service and quality to ensure we enhance our brands, in land to enable us to continue to grow volumes and help eliminate the critical shortage of homes in the country, and in sustainability to help improve the environment and the communities where our customers live.

With a reputation for both outstanding service and value, I want us to be a trusted partner for our customers and for our other stakeholders, as we play a full part in helping to meet the Government's ambitions for new home delivery across the country. We will achieve this while maintaining our industry-leading margins as the investment in building right, first time, every time and our further improvements to customer service will be offset by the operational efficiencies these initiatives will bring. In the medium term these improvements will enable us to meet demand with homes that more consistently secure a five-star customer satisfaction score, which when coupled with reinvigorated yet disciplined land acquisition which will grow our outlet network, profits and cashflow. This will enable us to maintain our strong and flexible balance sheet and deliver enhanced returns to shareholders.

In 2021 we are still operating under the limitations of the Covid pandemic but we have had a strong start with current forward sales of £2.3bn, 15% higher year on year. We expect to deliver new home completion volumes approaching the levels seen during the first half of 2019, with similar delivery in the second half. Group margin is expected to reflect the increased proportion of homes sold to our Housing Association partners. Beyond this year we are targeting a return to 2019 volume levels in 2022 and with a stable market hope to continue to grow further in the medium term as the benefits of our quality and customer service improvement programmes take hold. To reflect this we intend to increase our land purchasing to expand our active outlet network further strengthening our development network right across the UK. We will of course remain nimble to changing market conditions and keep our land position and strategy under constant review.

It is a privilege to have been asked to lead this company and there is much to do. Working with my many outstanding colleagues I look forward to meeting the challenges and capitalising on the many opportunities ahead.

Footnotes

1 Stated before legacy buildings provision of £75.0m (2019: £nil) and goodwill impairment of £4.3m (2019: £7.3m).

2 Stated before legacy buildings provision (2020: £75.0m, 2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m) and based on new housing revenue (2020: £3,129.5m, 2019: £3,420.1m).

3 National average selling price for newly built homes sourced from the UK House Price Index as calculated by the Office for National Statistics from data provided by HM Land registry.

FINANCIAL REVIEW

Trading

The Group entered 2020 in a strong position with record levels of forward sales at c. £1.4bn and work in progress including c. 6,100 new homes under construction. In the first 11 weeks of 2020 the Group achieved a c. 10% increase on the average private sales rate per site compared with the same period in 2019.

The onset of the pandemic disrupted site operations from the end of March for approximately five weeks to the end of April 2020. The resulting build delays led to a 35% reduction in the Group's first half new home legal completions of 4,900 compared with the prior year. This disruption was mitigated by resilient customer demand, ongoing Government support measures and the Group's ability to maintain a good degree of operational continuity. This, together with strong levels of forward build at the end of June 2020 (with c. 14% more equivalent units of new home construction carried forward than at 30 June 2019) and build rates back at pre-Covid levels, the Group performed strongly in the second half of the year, delivering 8,675 new homes to our customers. Indeed, for the year as a whole, the Group's average private sales rate per site ended 12% ahead of the prior year.

For 2020, the Group generated total revenues of £3,328.3m (2019: £3,649.4m), with new housing revenue of £3,129.5m (2019: £3,420.1m) from the completion of 13,575 new homes (2019: 15,855).

The Group's average selling price has increased by 6.9% to £230,534 (2019: £215,709), mainly resulting from the 6.5% increase in the proportion of new homes sold to private owner occupiers during 2020. 11,363 (84%) homes were sold to owner occupiers at an average selling price of £250,897 (2019: £241,985). This 3.7% year on year increase in selling price to private owner occupiers largely reflects changes in the active sales outlets and range of house types sold within the Group's Persimmon brand at an average selling price of £239,318 (2019: £230,036).

The Group's Charles Church brand contributed 1,080 or c. 10% of new homes sold to private owner occupiers for 2020, which was broadly in line with the prior year (1,136 or c. 9%) at an average selling price of £361,147 (2019: £361,132).

The Group's underlying new housing gross profit[1] was £969.4m (2019: £1,130.7m) generating a resilient underlying new housing gross margin of 31.0%[2] (2019: 33.1%), reflecting the quality of the Group's land holdings. The reduction in underlying new housing gross margin year on year includes the impact of reduced build and site overhead cost efficiencies incurred due to the delays to construction on site and legal completions caused by the pandemic and increased site overheads resulting from the stringent Covid secure operating protocols we have introduced and maintained.

Given recent evolving practices in relation to fire safety on multi storey, multi occupancy buildings, the Group has undertaken a review of all of its legacy buildings that used cladding materials. The Group has identified 26 buildings that used now-banned materials. The Group retains ownership of 5 of these buildings, all of which are less than 6 storeys high, where work will be completed to ensure fire safety. In addition, there are 21 buildings which are owned by third parties that have a legal responsibility to act, and the Group will support these owners, to do so.

The Group has therefore recognised a provision of £75.0m in respect of the estimated cost of remedial works based on management's estimates of these costs.

Adjusting for this charge, the Group's gross profit is £894.4m (2019: £1,130.7m).

The total cost impact of Covid-19 during 2020 was £17.1m, £9.5m of which is included in the Group's work in progress balance representing the direct costs and site overheads incurred in completing site development and providing Covid-19 secure environments for on-site activities. As noted in our Half Year announcement, this treatment is consistent with prior periods where the Group has suffered build inefficiencies under various circumstances, for example, in periods of particularly poor weather. This consistent treatment is estimated to reduce the Group's future gross margins over the remaining current active outlet construction cycle by c. 30 basis points. We will continue to seek to recover the impact of these additional costs over the course of the Group's normal operations over future periods.

Underlying operating profit[3] for the Group was £862.8m (2019: £1,036.7m). The Group's underlying new housing operating margin[4] of 27.6% (2019: 30.3%) reflects Persimmon's continuing investment in all of its colleagues and operations during this time. As previously reported Persimmon has not utilised any of the Government support measures introduced to mitigate the impact of the pandemic. The Group's underlying pre-tax profits[3] were £863.1m (2019: £1,048.1m), 18% lower than the prior year. Adjusting for the legacy buildings provision and goodwill impairment the Group's reported pre-tax profits were £783.8m (2019: £1,040.8m).

Taxation

The Group has an overall tax charge of £145.4m for the year (2019: £192.0m) and an effective tax rate of 18.6% (2019: 18.5%). Factors that may affect the Group's taxation charge include changes in tax legislation and the closure of certain open matters in the ordinary course of business in relation to prior year's tax computations. The Group operates an overarching principle of full compliance with current UK tax legislation. During 2020, the Group paid all of its tax liabilities on time and has not taken any advantage of delayed payment terms or other Government support measures.

Balance sheet resilience

The Group's net assets have increased to £3,518.4m at 31 December 2020 (2019: £3,258.3m) including retained earnings of £2,950.9m (2019: £2,693.9m). After returning £350.7m to shareholders during 2020, the Group's net assets per share was 1,102.7p, an increase of 8% compared with the prior year (1,021.7p). Underlying return on average capital employed[5] as at 31 December was 29.4% (2019: 37.0%).

The Group's land holdings

At 31 December 2020, the carrying value of land was £1,722.1m (2019: £1,938.6m), reflecting the strong sales rates experienced during 2020 and the Group's continued selective investment in land opportunities.

The Group had 84,174 plots owned and under control at 31 December 2020 (2019: 93,246 plots). 67,205 plots are owned of which 42,963 have detailed implementable planning consent. A further 16,969 plots are 'under control', being plots that the Group has exchanged contracts on but have yet to complete due to outstanding planning conditions.

The Group's land cost recoveries of 14.2% of new housing revenues (2019: 14.0%), reflect the high quality of the Group's land holdings. During 2020, the Group brought 6,827 plots into its owned and under control land holdings across 33 locations. The Group's experienced land and planning teams successfully progressed c. 10,500 under control plots through the planning system, transferring them into the Group's owned land holdings and delivering a continued pipeline of sites for development in the near to medium term.

During 2020, we acquired interests in a further 315 acres of strategic land, securing a total of c. 15,500 acres at 31 December 2020. This provides a long-term supply of forward plots for future development by the Group. During the year, 2,708 plots were converted from our strategic land holdings into the Group's owned and under control land holdings, representing c. 40% of plots brought into the business in the year.

Work in progress

Our work in progress carrying value of £1,091.6m at 31 December 2020 was in line with the prior year (December 2019: £1,094.6m). With continued investment to open up new sites and strong construction rates on existing sites, the Group has performed well in mitigating the combined effects of; the Covid-19 site disruption during the second quarter of 2020, the strong sales rates experienced, particularly in the second half of 2020, and the resulting reduced number of active sales outlets (2020: c. 300, 2019: c. 345 outlets).

The Group's pre-Covid build rates have been maintained since the end of July 2020 and we continue to invest in our of work in progress levels to ensure that our customers have a good range of stock availability and our build quality assurance processes are completed effectively.

Cash generation and liquidity

The Group's liquidity remains strong, having ended the year with cash of £1,234.1m (December 2019: £843.9m). This reflects strong net cash generation of £1,066.8m before capital returns of £350.7m and net land spend of £325.9m (2019: net cash generation of £996.2m). The Group's deferred land commitments have reduced by £105.9m to £329.3m from £435.2m at 31 December 2019. This progressive reduction in land creditors and robust cash position provides further opportunity to invest in the future growth of the business. The Group has generated £993.3m cash from its operations (2019: £778.2m).

In addition, the Group has an undrawn £300m Revolving Credit Facility which has a five year term out to 31 March 2025.

The Group's shared equity loans have generated £16.4m of cash in the year (2019: £31.4m). The carrying value of these outstanding shared equity loans, reported as "Shared equity loan receivables", is £56.2m at 31 December 2020 (December 2019: £68.6m). The Board has reviewed the carrying value of these receivables and has concluded that the value is appropriate.

Net finance income for the year was £0.3m (2019: £11.4m). Incorporated within this is £4.0m of gains generated on the Group's shared equity loan receivables (2019: £13.1m) and £5.4m of imputed interest payable on land creditors (2019: £5.4m).

Shareholders' equity, treasury policy and related risks

A key element of the Group's strategy remains the return of any capital that is deemed surplus to the needs of the business through the Group's Capital Return Programme. This Programme is continually reviewed and assessed by the Directors having regard to the progress and trading position of the business, existing economic and market conditions, the Group's current land holdings and other investment opportunities. The total value of the Capital Return Programme to 2021 is now £13.00 per share, compared to the £6.20 per share initial commitment made by the Board in 2012.

The Group's strategy of minimising financial risk and retaining flexibility reflects the cyclical nature of the housing market. The business maintains a robust balance sheet with an efficient capital structure and stringent controls around its working capital management.

The Group's £300m Revolving Credit Facility provides further flexibility. These facilities will only be used to support short term working capital needs of the business.

The Group will continue to effectively manage its liquidity and working capital investment needs, whilst ensuring they are in line with the Group's continued focus on investment in work in progress to support an increase in the equivalent units of new home construction that will support good levels of stock availability and the improved levels of build quality and customer service. The Group will continue to ensure it maintains flexibility when considering the generation of after tax earnings, and the management of the Group's equity, debt and cash management facilities. This approach will maintain the Group's robust balance sheet and strong liquidity levels, securing a resilient position for the future.

1 Stated before legacy buildings provision of £75.0m (2019: £nil)

2 Based on new housing revenues of £3,129.5m (2019: £3,420.1m) and underlying gross profits of £969.4m (2019: £1,130.7m) (stated before legacy buildings provision of £75.0m (2019: £nil)).

3 Stated before legacy buildings provision of £75.0m (2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m).

4 Based on new housing revenue (2020: £3,129.5m, 2019: £3,420.1m) and underlying operating profit (2020: £862.8m, 2019: £1,036.7m) (stated before legacy buildings provision of £75.0m (2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m)).

5 12 month rolling average calculated on underlying operating profit and total capital employed (including land creditors). Underlying operating profit is stated before legacy buildings provision (2020: £75.0m, 2019: £nil) and goodwill impairment (2020: £4.3m, 2019: £7.3m).

PERSIMMON PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	**2020 Total £m**	2019 Total £m
Revenue	3	**3,328.3**	3,649.4
Cost of sales		**(2,433.9)**	(2,518.7)
Gross profit		**894.4**	1,130.7
Analysed as:			
Underlying gross profit		**969.4**	1,130.7
Legacy buildings provision	9	**(75.0)**	-
Other operating income		**5.4**	8.8
Operating expenses		**(116.3)**	(110.1)
Profit from operations		**783.5**	1,029.4
Analysed as:			
Underlying operating profit		**862.8**	1,036.7
Legacy buildings provision		**(75.0)**	-
Impairment of intangible assets		**(4.3)**	(7.3)
Finance income		**8.9**	20.5
Finance costs		**(8.6)**	(9.1)
Profit before tax		**783.8**	1,040.8
Analysed as:			
Underlying profit before tax		**863.1**	1,048.1
Legacy buildings provision		**(75.0)**	-
Impairment of intangible assets		**(4.3)**	(7.3)
Tax	4	**(145.4)**	(192.0)
Profit after tax (all attributable to equity holders of the parent)		**638.4**	848.8
Other comprehensive expense			
Items that will not be reclassified to profit:			
Remeasurement loss on defined benefit pension schemes	12	**(42.5)**	(27.0)
Tax	4	**6.5**	4.6
Other comprehensive expense for the year, net of tax		**(36.0)**	(22.4)
Total recognised income for the year		**602.4**	826.4
Earnings per share			
Basic	6	**200.3p**	266.8p
Diluted	6	**199.6p**	266.3p

PERSIMMON PLC

Consolidated Balance Sheet

As at 31 December 2020

	Note	**2020 £m**	2019 £m
Assets			
Non-current assets			
Intangible assets		**181.8**	186.1
Property, plant and equipment		**90.4**	82.0
Investments accounted for using the equity method		**2.1**	2.1
Shared equity loan receivables	8	**41.7**	59.2
Trade and other receivables		**4.0**	7.1
Deferred tax assets		**7.7**	6.6
Retirement benefit assets	12	**50.6**	77.6
		378.3	420.7
Current assets			
Inventories	7	**2,901.3**	3,156.8
Shared equity loan receivables	8	**14.5**	9.4
Trade and other receivables		**86.6**	58.5
Current tax assets		**8.3**	-
Cash and cash equivalents	11	**1,234.1**	843.9
		4,244.8	4,068.6
Total assets		**4,623.1**	4,489.3
Liabilities			
Non-current liabilities			
Trade and other payables		**(179.3)**	(178.0)
Deferred tax liabilities		**(22.9)**	(25.2)
Partnership liability		**(27.8)**	(31.6)
		(230.0)	(234.8)
Current liabilities			
Trade and other payables		**(794.2)**	(911.7)
Partnership liability		**(5.5)**	(5.5)
Legacy buildings provision	9	**(75.0)**	-
Current tax liabilities		**-**	(79.0)
		(874.7)	(996.2)
Total liabilities		**(1,104.7)**	(1,231.0)
Net assets		**3,518.4**	3,258.3
Equity			
Ordinary share capital issued		**31.9**	31.9
Share premium		**22.3**	19.2
Capital redemption reserve		**236.5**	236.5
Other non-distributable reserve		**276.8**	276.8
Retained earnings		**2,950.9**	2,693.9
Total equity		**3,518.4**	3,258.3

PERSIMMON PLC

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other non-distributable reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2019	**31.7**	**15.5**	**236.5**	**276.8**	**2,634.0**	**3,194.5**
Profit for the year	-	-	-	-	848.8	848.8
Other comprehensive expense	-	-	-	-	(22.4)	(22.4)
Transactions with owners:						
Dividends on equity shares	-	-	-	-	(747.8)	(747.8)
Issue of new shares	0.2	3.7	-	-	-	3.9
Exercise of share options/share awards	-	-	-	-	(0.5)	(0.5)
Share-based payments	-	-	-	-	8.2	8.2
Net settlement of share-based payments	-	-	-	-	(26.9)	(26.9)
Satisfaction of share options from own shares held	-	-	-	-	0.5	0.5
Balance at 31 December 2019	**31.9**	**19.2**	**236.5**	**276.8**	**2,693.9**	**3,258.3**
Profit for the year	-	-	-	-	638.4	638.4
Other comprehensive expense	-	-	-	-	(36.0)	(36.0)
Transactions with owners:						
Dividends on equity shares	-	-	-	-	(350.7)	(350.7)
Issue of new shares	-	3.1	-	-	-	3.1
Exercise of share options/share awards	-	-	-	-	(0.2)	(0.2)
Share-based payments	-	-	-	-	7.7	7.7
Net settlement of share-based payments	-	-	-	-	(2.4)	(2.4)
Satisfaction of share options from own shares held	-	-	-	-	0.2	0.2
Balance at 31 December 2020	**31.9**	**22.3**	**236.5**	**276.8**	**2,950.9**	**3,518.4**

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

PERSIMMON PLC

Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities:			
Profit for the year		**638.4**	848.8
Tax charge	4	**145.4**	192.0
Finance income		**(8.9)**	(20.5)
Finance costs		**8.6**	9.1
Depreciation charge		**14.1**	13.3
Impairment of intangible assets		**4.3**	7.3
Legacy buildings provision	9	**75.0**	-
Share-based payment charge		**6.4**	3.7
Net imputed interest income		**(1.4)**	7.7
Other non-cash items		**(7.3)**	(7.6)
Cash inflow from operating activities		**874.6**	1,053.8
Movements in working capital:			
Decrease/(increase) in inventories		**265.0**	(87.7)
(Increase)/decrease in trade and other receivables		**(45.8)**	6.3
Decrease in trade and other payables		**(116.9)**	(225.6)
Decrease in shared equity loan receivables		**16.4**	31.4
Cash generated from operations		**993.3**	778.2
Interest paid		**(4.1)**	(4.2)
Interest received		**4.7**	5.6
Tax paid		**(228.4)**	(159.6)
Net cash inflow from operating activities		**765.5**	620.0
Cash flows from investing activities:			
Joint venture net funding movement		**-**	0.9
Purchase of property, plant and equipment		**(18.9)**	(27.5)
Proceeds from sale of property, plant and equipment		**0.8**	0.7
Net cash outflow from investing activities		**(18.1)**	(25.9)
Cash flows from financing activities:			
Lease capital payments		**(3.6)**	(3.8)
Payment of Partnership liability		**(3.6)**	(3.4)
Net settlement of share-based payments		**(2.4)**	(47.2)
Share options consideration		**3.1**	3.9
Dividends paid	5	**(350.7)**	(747.8)
Net cash outflow from financing activities		**(357.2)**	(798.3)
Increase/(decrease) in net cash and cash equivalents	11	**390.2**	(204.2)
Cash and cash equivalents at the beginning of the year		**843.9**	1,048.1
Cash and cash equivalents at the end of the year	11	**1,234.1**	843.9

Notes

1. Basis of preparation

The results for the year have been prepared on a basis consistent with the accounting policies set out in the Persimmon Plc Annual Report for the year ended 31 December 2020.

The preparation of the financial statements in conformity with the Group's accounting policies requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reported period. Whilst these estimates and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from those estimates.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to send its Annual Report 2020 to shareholders on 26 March 2021.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report in the Annual Report and the financial statements and notes. The Directors believe that the Group is well placed to manage its business risks successfully. The principal risks that may impact the Group's performance and their mitigation are outlined in Note 13. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to fund its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements.

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

The following relevant new amendments to standards are mandatory for the first time for the financial year beginning 1 January 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 3 Business Combinations
- Amendment to IFRS 16 Leases Covid-19 Related Rent Concessions

The effects of the implementation of these amendments have been limited to disclosure amendments where applicable.

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

- Amendments to IFRS 4 Insurance Contracts
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform - phase 2

The Group is currently considering the implication of these amendments with the expected impact upon the Group being limited to disclosures if applicable.

Following the UK's exit from the EU, in future the Group will be required to follow UK endorsed IFRS.

Going concern

The Group entered this challenging time from a position of strength. Its long-term strategy, which focuses on the risks associated with the housing cycle and on minimising financial risk and maintaining financial flexibility, has equipped the business with strong liquidity and a robust balance sheet.

Despite the significant disruption caused by the response to the Covid-19 pandemic, the Group delivered a strong trading performance in the twelve months to 31 December 2020, completing the sale of 13,575 new homes (2019: 15,855) and generating a profit before tax of £783.8m (2019: £1,040.8m). At 31 December 2020, the Group's balance sheet was strong with £1,234.1m of cash held (December 2019: £843.9m), high quality land holdings and reduced land creditors of £329.3m (December 2019: £435.2m). In addition, the Group has an undrawn Revolving Credit Facility of £300m, with a maturity date of 31 March 2025.

The Group's forward order book, including new home legal completions taken so far in 2021, is 15% stronger year on year with new home forward sales of c. £2.3bn. We have c. 6,550 new homes sold forward into the private owner occupier market with an average selling price of c. £251,300.

The Directors have carried out a robust assessment of the principal risks facing the Group, as described in Note 13. The impact of the ongoing social distancing restrictions, introduced by the UK and devolved Governments to mitigate the spread of Covid-19 and the risk of a further pandemic, have been included as a principal risk for the Group. The Directors have considered this risk and its potential impact on the other principal risks facing the Group including how they may threaten the Group's strategy, business model, future operational and financial performance, solvency and liquidity. The Group has considered the impact of these risks on the going concern of the business by performing a range of sensitivity analyses, covering the period to 30 June 2022, including severe but plausible scenarios materialising together with the likely effectiveness of mitigating actions that would be executed by the Directors. For further detail regarding the approach and process the Directors follow in assessing the long-term viability of the business, please see the Viability Statement in Note 13.

The scenarios emphasise the potential impact of severe market disruption, for example including the effect of the Covid-19 pandemic, on short to medium term demand for new homes. The scenarios' emphasis on the impact on the cash inflows of the Group through reduced new home sales is designed to allow the examination of the extreme cash flow consequences of such circumstances occurring. The Group's cash flows are less sensitive to supply side disruption given the Group's sustainable business model, flexible operations, agile management team and off-site manufacturing facilities.

In the first scenario modelled, the combined impact is assumed to cause a c. 38% reduction in volumes and a c. 11% reduction in average selling prices through to 30 June 2022. As a result of these factors, the Group's housing revenues were assumed to fall by c. 45% during this period. The assumptions used in this scenario reflect the experience management gained during the Global Financial Crisis ('GFC') from 2007 to 2010, it being the worst recession seen in the housing market since World War Two.

A second, even more extreme, scenario assumes a significant and enduring depression of the UK economy and housing market causing a reduction of c. 38% in new home sales volumes and a c. 37% fall in average selling prices through to 30 June 2022. As a result of these factors, the Group's housing revenues were assumed to fall by c. 61% during this period.

In each of these scenarios cash flows were assumed to be managed consistently ensuring all relevant land, work in progress and operational investments were made in the business at the appropriate time to deliver the projected new home legal completions. The Directors assumed they would continue to make well judged decisions in respect of capital return payments, ensuring that they maintained financial flexibility throughout.

In addition, due to the level of uncertainty surrounding the impact of the Covid-19 pandemic, the Directors have also assessed the impact of a complete shutdown of the housing market for the period to 30 June 2022. This extended "lockdown" scenario assumes that the Group does not receive any further sales receipts for the period whilst maintaining its current level of fixed costs.

Throughout each of these scenarios, the Group maintains substantial liquidity with a positive cash balance and no requirement to access the Group's £300m Revolving Credit Facility.

Having considered the Group's forecasts, scenarios, sensitivity analyses and the Group's significant financial headroom, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

2. Segmental analysis

The Group has only one reportable operating segment, being housebuilding within the UK, under the control of the Executive Board. The Executive Board has been identified as the Chief Operating Decision Maker as defined under IFRS 8 Operating Segments.

3. Revenue

	2020 £m	2019 £m
Revenue from the sale of new housing	**3,129.5**	3,420.1
Revenue from the sale of part exchange properties	**196.2**	228.6
Revenue from the provision of internet services	**2.6**	0.7
Revenue from the sale of goods and services as reported in the statement of comprehensive income	**3,328.3**	3,649.4

4. Tax

Analysis of the tax charge for the year

	2020 £m	2019 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	**148.5**	196.7
Adjustments in respect of prior years	**(6.4)**	(8.2)
	142.1	188.5
Deferred tax relating to origination and reversal of temporary differences	**2.6**	3.2
Adjustments recognised in the current year in respect of prior years deferred tax	**0.7**	0.3
	3.3	3.5
	145.4	192.0

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

	2020 £m	2019 £m
Profit from continuing operations	**783.8**	1,040.8
Tax calculated at UK corporation tax rate of 19% (2019: 19%)	**148.9**	197.7
Accounting base cost not deductible for tax purposes	**0.3**	0.5
Goodwill impairment losses that are not deductible	**0.8**	1.4
Expenditure not allowable for tax purposes	**0.2**	0.2
Effect of change in rate of corporation tax	**0.9**	-
Deferred tax written off on lapsed share-based payments	**-**	0.1
Adjustments in respect of prior years	**(5.7)**	(7.9)
Tax charge for the year recognised in profit	**145.4**	192.0

The Group's overall effective tax rate of 18.6% has been reduced from the mainstream rate of 19% by a prior year tax credit arising from the removal of some uncertainties regarding the Group's prior year tax computations.

The applicable corporation tax rate remains at 19% in line with corporation tax rates effective from 1 April 2017. In relation to the Group's deferred tax calculations, the corporation tax rate substantively enacted on 17 March 2020 was 19% and all deferred tax balances have been recognised at this rate.

Deferred tax recognised in other comprehensive income

	2020 **£m**	2019 £m
Recognised on remeasurement loss on pension schemes	**(6.5)**	(4.6)

Tax recognised directly in equity

	2020 **£m**	2019 £m
Arising on transactions with equity participants		
Current tax related to equity settled transactions	**(1.1)**	(9.9)
Deferred tax related to equity settled transactions	**(0.2)**	5.4
	(1.3)	(4.5)

5. Dividends/Return of capital

	2020 **£m**	2019 £m
Amounts recognised as distributions to capital holders in the period:		
2018 dividend to all shareholders of 125p per share paid 2019	**-**	397.7
2018 dividend to all shareholders of 110p per share paid 2019	**-**	350.1
2019 dividend to all shareholders of 40p per share paid 2020	**127.5**	-
2019 dividend to all shareholders of 70p per share paid 2020	**223.2**	-
Total capital return	**350.7**	747.8

The Directors propose to return 125 pence of surplus capital to shareholders for each ordinary share held on the register on 12 March 2021 with payment made on 26 March 2021 as an interim dividend in respect of the financial year ended 31 December 2020. The Directors propose two further additional distributions relating to surplus capital returns of 55 pence per share each as interim dividends with respect to the financial year ended 31 December 2020. These distributions to shareholders are anticipated to be made in August 2021 and in December 2021. Both additional distributions of surplus capital will be subject to continuous Board assessment. The total anticipated distributions to shareholders is therefore 235 pence per share (2019: 110 pence per share) in respect of the financial year ended 31 December 2020.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year of 318.8m shares (2019: 318.1m) which excludes those held in the employee benefit trust and any treasury shares, all of which are treated as cancelled.

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares from the start of the year, giving a figure of 319.9m shares (2019: 318.8m).

Underlying earnings per share excludes the legacy buildings provision charge and goodwill impairment. The earnings per share from continuing operations were as follows:

	2020	2019
Basic earnings per share	**200.3p**	266.8p
Underlying basic earnings per share	**220.7p**	269.1p
Diluted earnings per share	**199.6p**	266.3p
Underlying diluted earnings per share	**219.9p**	268.6p

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

	2020 £m	2019 £m
Underlying earnings attributable to shareholders	**703.5**	856.1
Legacy buildings provision (net of tax)	**(60.8)**	-
Goodwill impairment	**(4.3)**	(7.3)
Earnings attributable to shareholders	**638.4**	848.8

At 31 December 2020 the issued share capital of the Company was 319,071,261 ordinary shares (2019: 318,902,385 ordinary shares).

7. Inventories

	2020 £m	2019 £m
Land	**1,722.1**	1,938.6
Work in progress	**1,091.6**	1,094.6
Part exchange properties	**40.9**	71.8
Showhouses	**46.7**	51.8
	2,901.3	3,156.8

The Group has conducted a further review of the net realisable value of its land and work in progress portfolio at 31 December 2020. Our approach to this review has been consistent with that conducted at 31 December 2019 and was fully disclosed in the financial statements for the year ended on that date. The key judgements and estimates in determining the future net realisable value of the Group's land and work in progress portfolio are future sales prices, house types and costs to complete the developments. Sales prices and costs to complete were estimated on a site by site basis. There is currently no evidence or experience in the market to inform management that expected selling prices used in the valuations are materially incorrect.

Net realisable value provisions held against inventories at 31 December 2020 were £25.4m (2019: £33.7m). Following the review, £5.9m of inventories are valued at fair value less costs to sell rather than historical cost (2019: £7.4m).

8. Shared equity loan receivables

	2020 £m	2019 £m
Shared equity loan receivables at 1 January	**68.6**	86.9
Settlements	**(16.4)**	(31.4)
Gains	**4.0**	13.1
Shared equity loan receivables at 31 December	**56.2**	68.6

All gains/losses have been recognised through finance income in the statement of comprehensive income. Of the gains recognised in finance income for the period, £1.5m (2019: £7.1m) was unrealised.

9. Legacy buildings provision

	2020 £m
At 1 January	-
Additions to provision in the year	75.0
At 31 December	75.0

Given evolving practices experienced during the second half of 2020, in relation to fire safety on multi storey, multi occupancy buildings, the Group commenced a review of all of its legacy buildings that used cladding materials. The review, undertaken over a number of months, provided interim findings to the Board in February 2021. It identified 26 buildings that may have used now-banned materials. The Group has recognised a provision of £75m (2019: £nil) based on management's best estimates of the costs of completing works to ensure fire safety on affected buildings under direct ownership, and to work with and support owners and other relevant stakeholders on buildings it has developed, in order to reach positive solutions where these buildings are affected. These estimates may change over time as further information is assessed, remedial works progress and the interpretation of fire safety regulations further evolves. This is a highly complex area with judgements and estimates in respect of the cost of remedial works and the scope of the properties requiring remedial works may change should regulation further evolve.

The charge of £75m has been separately disclosed on the face of the Income Statement.

10. Financial instruments

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

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

	2020	2019
	Level 3 £m	Level 3 £m
Shared equity loan receivables	56.2	68.6

Shared equity loan receivables

Shared equity loan receivables represent loans advanced to customers and secured by way of a second charge on their new home. They are carried at fair value. The fair value is determined by reference to the rates at which they could be exchanged by knowledgeable and willing parties. Fair value is determined by discounting forecast cash flows for the residual period of the contract by a risk adjusted rate.

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

Significant unobservable inputs into the fair value measurement calculation include regional house price movements based on the Group's actual experience of regional house pricing and management forecasts of future movements, weighted average duration of the loans from inception to settlement of ten years (2019: ten years) and discount rate 5% (2019: 9%). The reduction in discount rate reflects the continued fall in interest rates and is based on current observed market interest rates offered to private individuals on secured second loans.

The discounted forecast cash flow calculation is dependent upon the estimated future value of the properties on which the shared equity loans are secured. Adjustments to this input, which might result from a change in the wider property market, would have a proportional impact upon the fair value of the loan. Furthermore, whilst not easily accessible in advance, the resulting change in security value may affect the credit risk associated with the counterparty, influencing fair value further.

11. Reconciliation of net cash flow to net cash and analysis of net cash

	2020 £m	2019 £m
Cash and cash equivalents at 1 January	**843.9**	1,048.1
Increase/(decrease) in net cash and cash equivalents in cash flow	**390.2**	(204.2)
Cash and cash equivalents at 31 December	**1,234.1**	843.9
IFRS 16 lease liability	**(9.6)**	(8.9)
Net cash at 31 December	**1,224.5**	835.0

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

12. Retirement benefit assets

As at 31 December 2020 the Group operated four employee pension schemes, being two Group personal pension schemes and two defined benefit pension schemes. Remeasurement gains and losses in the defined benefit schemes are recognised in full as other comprehensive income within the consolidated statement of comprehensive income. All other pension scheme costs are reported in profit or loss.

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

	2020 £m	2019 £m
Current service cost	**1.9**	1.7
Past service cost	**0.5**	-
Administrative expense	**0.6**	0.9
Pension cost recognised as operating expense	**3.0**	2.6
Interest cost	**11.7**	14.9
Return on assets recorded as interest	**(13.4)**	(17.6)
Pension cost recognised as net finance credit	**(1.7)**	(2.7)
Total defined benefit pension cost/(credit) recognised in profit or loss	**1.3**	(0.1)
Remeasurement loss recognised in other comprehensive income	**42.5**	27.0
Total defined benefit scheme loss recognised	**43.8**	26.9

The past service cost recognised in the current period reflects the impact of the legal ruling regarding Guaranteed Minimum Pension equalisation (GMP).

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

	2020 £m	2019 £m
Fair value of Pension Scheme assets	**694.4**	672.8
Present value of funded obligations	**(643.8)**	(595.2)
Net pension asset	**50.6**	77.6

The reduction in the net pension asset to £50.6m (2019: £77.6m) is largely due to the continued fall in long-term corporate bond yields reducing the discount rate assumption applied to scheme obligations to 1.4% (2019: 2.0%).

13. Principal Risks and Viability Statement

The Group's principal risks are those considered to have a potentially material impact on Persimmon's strategy and business model. The Group's strategy, which recognises the cyclical nature of the housing market, focuses on minimising financial risk and deploying capital at the most appropriate time in the housing market cycle. This, together with an agile and responsive management team, has established a highly resilient business able to address a range of future economic scenarios.

<table>
<tr><th colspan="3">Pandemic risk</th></tr>
<tr>
<td>Residual Risk
High

Change from prior year
New</td>
<td>Impact
An increase in the Covid-19 transmission rate or a new pandemic occurring in the UK may lead to a requirement for our workforce and our customers to comply with varying degrees of social distancing or other measures introduced to curb the spread of the disease. This action may disrupt continuity of site construction and access to labour and materials, leading to significant delays to the Group's build programmes and the legal completion of new home sales. The magnitude of any impact on the business will depend on the extent of the measures introduced as applied to our workforce, our customers, and wider society.
The pandemic presents an increased health and safety risk to the public, our workforce and customers on our sites and our employees in our offices and in our off-site manufacturing facilities.
Social distancing requirements have resulted in an increased number of our workforce working remotely leading to additional IT and information security risks.
An increase in the Covid-19 transmission rate or a new pandemic may also adversely impact the wider economy resulting in reduced consumer confidence, lower demand and pricing for new homes, thereby impacting revenues, margins, profits and cash flows and may</td>
<td>Mitigation
During the current pandemic, the Group's business continuity plans were deployed swiftly, with Board oversight. A Covid-19 Steering Committee continues to monitor progress.
The Group has a highly experienced Group Health, Safety and Environment Department with well established Group policies and procedures together with the ability to swiftly enhance or adapt safe operating protocols to mitigate against specific risks. For example, the Group quickly amended, tested and executed the Group's Covid-19 Risk Assessments and associated procedures to mitigate the risk of transmission of the Covid-19 infection.
(Also see Health and Safety risk below).
During the Covid-19 pandemic, the Group was able to rapidly transition to increased levels of remote working through enhanced use of technology. The Group's sales teams provided a continuous service to our customers through our digital sales platform and other online tools, which enabled the business to continue to take sales reservations and legal completions throughout the lockdown period.
Our remote working processes have been strengthened further through a number of collaboration tools to enable effective home working.
These enhancements to the Group's remote working capabilities support appropriate numbers of our workforce to work from home when required, for example in response to amendments to Government guidance as changes to infection transmission rates occur.
The risks of increased use of remote working are mitigated through regular communication with all users reminding them of potential issues, particularly for example in relation to phishing emails and other Cyber security threats.
(Also see mitigation of Cyber and Data Risk).
The impact of build delays caused by the lockdown were mitigated by our planned increase in levels of construction work in progress coming into the pandemic. This was the result of a strategic decision to provide greater stock availability to our customers, to improve quality and service levels, and in anticipation of increased demand ahead of the end of the Government's current Help to Buy scheme. The Group continues to aim to hold strong levels of investment in construction work in progress to provide an effective buffer to potential build delays. The Group's build programmes returned to pre-Covid levels by July 2020 assisted by the Group's decision for all colleagues to</td>
</tr>
</table>

	give rise to impairment of asset values.	continue to prepare for a strong return to site and not to take advantage of the Government's Job Retention Scheme. The vertical integration afforded by our own Brickworks, Space4 and Tileworks production mitigates the risk of potential supply chain disruption. The Group's long-term strategy recognises the risks associated with the cyclical nature of the housing market by minimising financial risk, maintaining operational and financial flexibility and deploying capital at the most appropriate time in the cycle. This strategy and management's preparedness, responsiveness and agility provide us with the sound fundamentals required to enter periods of demand, volume or pricing downturns in a position of strength with strong levels of liquidity and a robust balance sheet.
Strategy		
Residual Risk Low **Change from prior year** No change	**Impact** The Group's strategy has been developed by the Board as the most appropriate approach to successfully deliver the Group's purpose and ambition and generate optimal sustainable value for all stakeholders. As political, economic and other conditions evolve, the strategy currently being pursued may cease to be the most appropriate approach. If the Group's strategy is not effectively communicated to our workforce and / or engagement and incentive measures are inappropriate, operational activities may not successfully deliver the Group's strategic objectives.	**Mitigation** The Group's strategy is agreed by the Board at an annual strategy meeting, and undergoes a continuous and iterative process of implementation, review and adaptation at Board meetings and in response to the evolution of conditions in which the Group operates. The Board engages with all stakeholders to ensure the strategy is communicated, understood and effective. For example, an Employee Engagement Panel, Gender Diversity Panel and employee engagement surveys have been established to monitor the cultural health of the organisation and ensure strategy is understood and implemented.
UK's exit from the EU		
Residual Risk High **Change from prior year** No change	**Impact** Whilst the completion of the free trade agreement between the UK and the EU has relieved some immediate concerns, including regarding increased customs duties on supplies imported from the EU, the broader impact of these new trade arrangements has yet to be seen. The new arrangements may lead to increased economic	**Mitigation** We continue to monitor the political situation, the UK economy and the housing market through the review of external information and changes in the behaviour of our customer base. We robustly manage and control our work in progress and land investment and our stringent investment appraisals will continue, aiming to ensure exposure to market disruption is reduced. We routinely engage with our key suppliers and are currently working closely with them to ensure that our supply chain is not materially impacted. We will continue to employ effective tendering processes to ensure cost impacts are mitigated as far as possible.

	uncertainty adversely impacting: consumer confidence, demand and pricing for new homes, revenues, margins, profits and cash flows and may result in the impairment of asset values. The new trade arrangements may result in delays impacting the availability and cost of imported materials and components within our supply chain.	The vertical integration afforded by use of our own Brickworks, Space4 and Tileworks production will mitigate the availability and cost risks further. (Also see mitigation and review of Government policy and Labour and Resources)
National and regional economic conditions		
Residual Risk High **Change from prior year** No change	**Impact** The housebuilding industry is sensitive to changes in the economic environment, including unemployment, interest rates and consumer confidence. Any deterioration in economic conditions may have an adverse impact on demand and pricing for new homes, which could have a material effect on our revenues, margins, profits and cash flows and result in the impairment of asset values. Economic conditions in the land market may adversely affect the availability of a sustainable supply of land at appropriate levels of return.	**Mitigation** The Group's long-term strategy recognises the cyclical nature of the housing market and focuses on minimising financial risk, maintaining operational and financial flexibility and judging the timing of capital deployment through the cycle. We continually monitor lead indicators on the future direction of the UK housing market so as to manage our exposure to any future market disruption. We regularly review our pricing structure to ensure it reflects local market conditions and continuously monitor the Group's geographical spread. Our diversity of geographical markets and our range of price points helps us mitigate the effects of regional economic fluctuations. In the current climate, our strategy of providing 'homes for all' at more affordable price points is proving successful. We control the level of build on site by closely monitoring our stock and work in progress levels. The Group's strong land holdings provide continuity of supply and disciplined and extensive due diligence processes are always undertaken prior to entering into any land investment decisions. These processes have regard to local market demands and conditions, and the Group's existing strategic and on market land holdings. All land additions are reviewed by the Executive Directors.
Government policy		
Residual Risk High **Change from prior year** No change	**Impact** Changes to Government policy have the potential to impact on several aspects of our strategy and operational performance. For example, changes to the planning system, changes in the tax regime, or further amendment of the Help to Buy scheme or other housing policies could have an adverse effect on	**Mitigation** We monitor Government policy in relation to the housing market closely. Consistency of policy formulation and application remains very supportive of the housebuilding industry, encouraging continued substantial investment in land, work in progress and skills to support output growth. Our strategic objectives, delivering 'homes for all', are aligned with Government priorities for increasing housing stock. The devolved Governments continue to support the industry with their respective Help to Buy and other equity loan schemes. In England, the current Help to Buy scheme

	revenues, margins and asset values. Changes to the planning system may also adversely impact the Group's ability to source suitable land to deliver appropriate levels of return.	closed for customer reservations on 15 December 2020 and all new homes have to be delivered to customers by 31 March 2020. A replacement Help to Buy scheme opened for customers to reserve new homes from 16 December 2020 and is available until 31 March 2023. In Scotland, the First Home Fund Scheme will re-open from 1 April 2021. We actively manage our land investment decisions and levels of work in progress to mitigate exposure to external influences.
Mortgage availability		
Residual Risk High **Change from prior year** No change	**Impact** Any restrictions in the availability or affordability of mortgages for customers could reduce demand for new homes and affect revenues, profits, cash flows, and asset values. There has been some tightening of lending criteria observed post-Covid-19.	**Mitigation** We monitor Bank of England commentary on credit conditions including the monthly approvals for house purchases and UK Finance's monthly reports and lenders' announcements for trends in lending. We ensure that our investment in land and work in progress is appropriate for our level of sales and our expectations for market conditions. The devolved Government's Help to Buy and other equity loan schemes, support customers to gain access to the housing market across the UK with competitive mortgage rates.
Health, safety and the environment		
Residual Risk High **Change from prior year** No change	**Impact** The health and safety of our employees, subcontractors, customers and visitors to our construction sites is of paramount importance to us. Accidents on our sites could also lead to reputational damage and financial penalties. Environmental breaches may result in financial penalties, undermine the creation of sustainable communities and damage the reputation of the Group.	**Mitigation** The Board has a very strong commitment to health, safety and the environment, and managing the risks in this area effectively. This is implemented by comprehensive management systems and controls, managed by our highly experienced Group Health, Safety and Environment Department, which includes detailed training and inspection programmes to minimise the likelihood and impact of accidents or environmental breaches on our sites. The Group's established policies and procedures can be quickly and effectively adapted to evolving health and safety guidance and regulation. This has been recently demonstrated with the swift Group wide adoption of Covid-19 secure operating procedures. While all reasonable steps are taken to reduce the likelihood of an incident, the potential impacts of any such incident are considered to be high. The Group's Health, Safety and Environment Department continues to enhance the Group's environmental processes and policies in partnership with the Group's Sustainability Committee and the wider operational teams. Regional Environmental Champions have been introduced to ensure compliance with these processes on site.
Labour and resources: skilled workforce, retention and succession		
Residual Risk Medium	**Impact** Access to an appropriately skilled workforce is a key requirement for the Group.	**Mitigation** We closely monitor our build programmes to enable us to manage our labour requirements effectively. We operate in-house apprentice and training programmes, to support an

Change from prior year No change	Rising UK house building activity in recent years has increased demand for skilled labour, which has increased pressure on costs. A skilled management team is essential in maintaining operational performance and the implementation of the Group's strategy.	adequate supply of skilled labour. Our in-house Group Training Department provides standardised training that is centrally controlled. We are also committed to playing a full and active role in external initiatives to address the skills shortage such as the Home Building Skills Partnership, a joint initiative of the Construction Industry Training Board and the Home Builders Federation. Where appropriate, we also use the Group's Space4 modern method of construction which helps diversify resource requirements on site. The Group focuses on retaining its key staff through a range of measures, including the establishment of a Gender Diversity Panel, an Employee Engagement Panel, employee engagement surveys, further development of performance management frameworks, career management, and incentives. At the most senior level, the Nomination Committee oversees these processes and promotes effective succession planning.
Labour and resources: materials and land purchasing		
Residual Risk Medium **Change from prior year** No change	**Impact** <u>Materials availability</u> Recent growth in UK housebuilding and supply chain disruption caused by the Covid-19 pandemic has led to an increased demand for materials which is placing greater pressure on some elements of the supply chain. This may continue to cause availability constraints and increase cost pressures. Build quality may be compromised if unsuitable materials are procured leading to damage to the Group's reputation and customer experience. <u>Land Purchasing</u> Land may be purchased at too high a price, in the wrong location and at the wrong time in the housing market cycle.	**Mitigation** <u>Materials availability</u> Our build programmes and our supply chain are closely monitored to allow us to manage and react to any issues and to help ensure consistent high quality standards. We build strong relationships with key suppliers over the long term to maintain consistency of supply and cost efficiency. We have invested in expanding our off-site manufacturing hub at Harworth, near Doncaster, to strengthen security of supply. Our brick plant and roof tile manufacturing facility provide a significant proportion of these materials to our sites. This complements our existing off-site manufacturing capability at Space4, which produces timber frames, highly insulated wall panels and roof cassettes as a modern method of constructing new homes. Our procurement team ensures that the Group's suppliers provide materials to the expected specification. Materials are inspected on receipt at site. Throughout construction, each of our new homes undergo 21 key stage checks by our Independent Quality Inspectors, as part of "the Persimmon Way" (the Group-wide consolidated approach to new home construction), and before handover to the customer, our management teams perform a seven stage internal quality check process. <u>Land Purchasing</u> The Group has strong land holdings. All land purchases undergo stringent viability assessments performed by our dedicated land and planning teams and must meet specific levels of projected returns.

		The Board review and determine the appropriate timing of land purchases having regard to existing market conditions and sales rates.
Climate change		
Residual Risk Medium **Change from prior year** No change	**Impact** Should the effects of climate change and the UK's transition to a lower carbon economy lead to increasing national regulation this could cause constrained land supply, additional planning delays, increase the cost and accessibility of materials required within our construction process and potentially limit their supply or require additional features which could significantly increase our costs. Changes in weather patterns and the frequency of extreme weather events, particularly storms and flooding, may increase the likelihood of disruption to the construction process. The availability of mortgages and property insurance may reduce in response to financial institutions considering the possible impacts relating to climate change. Changes in weather patterns may also lead to increased build costs and/or development timeframes.	**Mitigation** We monitor our operational efficiency and direct environmental impact in a number of ways including measuring our scope 1 and scope 2 CO_{2e} emissions and the amount of waste we generate for each home we sell. The Group maintains a climate change risk register which ensures that the management and mitigation of this risk is embedded within the Group's risk management processes. The risk register is updated at least once a year and reviewed by the Group Sustainability Manager, the Group Internal Audit Manager and the Risk Committee. The Group has appointed a Group Sustainability Manager bringing increased focus to both the risks and opportunities surrounding climate change. We systematically consider the potential impacts of climate change throughout the land acquisition, planning and build processes and work closely with planning authorities and other statutory bodies to manage and mitigate these risks. For example, we conduct full environmental assessments for each parcel of land we acquire for development to ensure our activities fulfil all obligations, respecting the natural environment and the communities for which we are delivering newly built homes. We are keen to adopt Sustainable Urban Drainage Systems on all our new sites, subject to local planning requirements, to address the risk of flooding. Assisted by an independent expert, the Group has set science based carbon reduction targets for its Scope 1, 2 and 3 emissions. Steering Groups have been established to plan and manage the Group's carbon reduction pathway to ensure these targets are met. The Group's low carbon home Steering Group has launched a Regional Demonstration Project to understand the environmental, social and financial impacts of implementing the Future Homes Standard, monitoring the home's occupants to understand real life "liveability" through time. Working with Energy House Laboratories at the University of Salford, we will monitor the true in-use carbon savings of the home, impacts to the homeowner as well as potential additional processes and costs to the build process. The aim of the project is to inform UK policy direction and debate on building low carbon homes cost effectively at scale. We will seek to identify the optimum opportunities when considering input costs versus carbon savings for

		each component used within the demonstration house. The demonstration house will be built in summer 2021 in Fulford, York, North Yorkshire. We continually seek to strengthen our supply chain, for example, our off-site manufacturing facilities provide us with greater assurance of quality and supply, and use modern methods of construction and technology to assist the mitigation of climate change related risks. The Group procurement team maintain strong links with our suppliers delivering value through our supply chain by regular engagement and robust tendering processes.
Reputation		
Residual Risk Medium **Change from prior year** No change	**Impact** Damage to the Group's reputation could adversely impact on its ability to deliver its strategic objectives. For example, should governance, build quality, customer experiences, operational performance, management of health, safety and the environment or local planning concerns fall short of our usual high standards, this may result in damage to customer, commercial and investor relationships and lead to higher staff turnover.	**Mitigation** <u>Management Supervision</u> The Group has a strong commitment to appropriate culture and maintaining the high quality of its operations. Oversight from the Board seeks to ensure key processes are robust and any shortcomings identified are promptly and effectively addressed. The Group's build quality and customer service processes are a key strategic priority, and significant investment has been made in this area with the Customer Care Improvement Plan now embedded within the business. Persimmon's Homebuyer Retention scheme, introduced on 1 July 2019 is unique in the market, and is proving to be both popular with customers and a key driver of behavioural change within the business. The Consumer Code for Housebuilders has highlighted this industry leading scheme as an area of good practice in relation to customer service. Where management oversight identifies inconsistencies in adherence to agreed processes, correcting actions are swiftly taken, for example in the case of incorrect cavity barrier installations where immediate action was taken through inspections and remediation. The Group has introduced the Persimmon Way in order to strengthen build quality and assurance processes and establish a consolidated, consistent Group-wide approach to construction. The Group Construction Director is responsible for the implementation of the Persimmon Way and reports to the Group Chief Executive. Independent Quality Inspectors undertake inspections at 21 key stages of the construction process as well as continually assessing the finished quality of our new homes. The Group is to implement a process of complimentary external verification of the key processes to further support Group best practice. <u>Stakeholder Relationships</u> We take actions to maintain positive relationships with all of our stakeholders to minimise the risks of reputational damage and aim to comply with best practice in corporate governance.

		The Group continues to further developed engagement activities with all stakeholders. For example, improved engagement with our employees is facilitated through the Employee Engagement and Gender Diversity Panels, which meet regularly and report to the Board. The Group has also invested in a number of measures to improve customer experience by putting customers before volume. For example, investment in increased work in progress levels, the introduction of a Home Buyer Retention Scheme for customers, and investment in the development of a customer portal which is currently being piloted ahead of a wider Group roll-out. In addition, the Group continues to foster long term, mutually beneficial relationships with its suppliers. We actively support local communities in addressing housing needs, in creating attractive neighbourhoods and employing local people, both on our sites and in the supply chain. Significant contributions are made to local infrastructure and good causes within the communities in which the Group operates. The Group supports Team GB, the British Olympic team, and continues to pursue extensive community support programmes in partnership with Team GB, as part of the Group's Healthy Community charitable activities.
Regulatory compliance		
Residual Risk Medium **Change from prior year** Increase	**Impact** The housebuilding industry is subject to extensive and complex laws and regulations, particularly in areas such as land acquisition, planning and the environment and building and fire safety regulations. Ensuring compliance in these areas can result in delays in securing the land required for development and in construction and increased costs of development. Any retrospective changes in these regulations or failure to comply with them could result in remediation costs, damage to the Group's reputation and potential imposition of financial penalties. The risk has increased from the prior year due to the rapidly and continuously evolving regulations and practices regarding fire safety of multi	**Mitigation** We operate comprehensive management systems to ensure regulatory and legal compliance, including a suite of policies and procedures covering key areas of legislation and regulation. Where these systems identify inconsistencies in adherence to agreed processes, correcting actions are swiftly taken. For example, our response to the incorrect cavity barrier installations where immediate action was taken through inspections and remediation. We also carefully monitor evolving regulations and consider the impact on the Group and its responsibilities. For example, the Group has been closely assessing the impact of the changing fire safety regulations with respect to multi storey, multi occupancy buildings, particularly in respect of buildings less than 18 metres in height, that may have used now-banned materials. As practices have evolved, the Group has responded swiftly and committed to perform fire safety remedial works where necessary on buildings that it currently owns and work with owners and other stakeholders on buildings that the Group developed. We engage extensively with planning authorities and other stakeholders to reduce the likelihood and impact of any delays or disruption. In addition, the Group controls sufficient land holdings to provide security of supply for medium term trading requirements.

	storey, multi occupancy buildings.	
Cyber and Data Risk		
Residual Risk Medium **Change from prior year** No change	**Impact** Failure of any of the Group's IT systems, particularly those in relation to customer information and customer service could result in significant financial costs, business disruption and reputational damage due to the loss, theft or corruption of data either inadvertently or via a targeted cyber-attack.	**Mitigation** We operate centrally maintained IT systems with a fully tested disaster recovery programme. All infrastructure is highly resilient, with geographically diverse datacentres that have a series of backups. Regular awareness emails are delivered to all users and the Group performs substantial online training activity to increase awareness of cyber-risks. Specialists within the Group's IT Department provide oversight on the suite of controls in place to ensure they are continually updated to mitigate evolving threats. The Group has detailed and robust systems development and implementation processes in place and a Cyber Incident Response Plan. An Information Security Steering Group has been established to provide oversight of the Group's cyber security strategy and to continue to promote a positive culture for cyber security. Periodic penetration testing is carried out through security partners to test the security of our perimeter network. An externally led review of the Group's cyber security processes and controls has been completed in 2020 and provided assurance over the Group's existing measures. Established GDPR compliant business processes and data management are maintained and regularly reviewed.

VIABILITY STATEMENT

Persimmon's prospects and viability

The long term prospects and viability of the business are a consistent focus of the Board when determining and monitoring the Group's strategy. The identification and mitigation of the principal risks facing the business, which have been updated to reflect the impact of the Covid-19 pandemic, also form part of the Board's assessment of long term prospects and viability*.

Assessing Persimmon's long term prospects

Persimmon has built a strong position in the UK's house building market over many years recognising the potential for long term growth across regional housing markets. The Board recognises that the long term demographic fundamentals of continued positive population growth and new household formation, together with the requirement to replace and improve the quality of the country's housing stock, provide a long term supportive backdrop for the industry. However, the Board and the Group's strategy recognises the inherent cyclicality of the UK housing market. The Group therefore came into the Covid-19 pandemic from a position of strength with good liquidity, high quality land holdings and a strong balance sheet. The future impacts of the Covid-19 pandemic on the UK economy and the Group's sales and construction programmes remain uncertain. The Board has considered these potential impacts when assessing the long term prospects of the Group.

Whilst this uncertainty remains, Persimmon possesses the sound fundamentals required to realise the Group's purpose and ambitions and deliver sustainable success:

- talented teams focused on consistently delivering good quality homes for our customers;
- high quality land holdings that allow us to create attractive places in areas where people wish to live and work;
- strong customer and local community relationships,
- market knowledge, expertise and industry know-how; and,
- long term healthy supplier engagement.

By continuing to build on these solid foundations through, for example, the Group's customer care improvement plan, the Group aims to help create sustainable and inclusive communities through continued investment in its people, its land, its development sites and in its supply chain, creating enduring value for the communities we serve. The Group's materiality assessment, ensures that a thorough review of stakeholder interests are incorporated within the assessment of the Group's long term prospects.

The Group adopts a disciplined annual business planning regime which is consistently applied and involves the management teams of the Group's 31 house building businesses and senior management, with input and oversight by the Board. The Group combines detailed five year business plans generated by each house building business from the "bottom up" with ten year projections constructed from the "top down" to properly inform the Group's business planning over these longer term horizons. Zero-based annual budgets are established for each business twice a year.

This planning process provides a valuable platform which facilitates the Board's assessment of the Group's short and long term prospects. Consideration of the Group's purpose, current market position, its strategic objectives and business model, and the risks that may challenge them are all included in the Board's assessment of the prospects of the Group.

Key Factors in assessing the long term prospects of the Group:

1. The Group's current market positioning

- Strong sales network from active developments across the UK providing geographic diversification of revenue generation

- Three distinct brands providing diversified products and pricing deliver further diversification of sales

- Imaginative and comprehensive master planning of development schemes with high amenity value to support sustainable, inclusive neighbourhoods which generate long term value to the community

- Disciplined land replacement reflecting the extent and location of housing needs across the UK provides a high quality land bank in the most sustainable locations supporting future operations

- Long term supplier and subcontractor relationships providing healthy and sustainable supply chains

- Sustained investment to support higher levels of construction quality and customer service through the implementation of the Group's customer care improvement plan

- Strong financial position with considerable cash reserves and with additional substantial working capital credit facilities maturing March 2025

2. Strategy and business model

- Strategy focuses on the risks associated with the housing cycle and on minimising financial risk and maintaining financial flexibility

- Focusing on constructing new homes for our customers to the high quality standards that they expect and helping to create attractive neighbourhoods

- Strategy recognises the Group's ability to generate surplus capital beyond the reinvestment needs of the business

- Substantial investment in staff engagement, training and support to sustain operations over the long term

- Approach to land investment and development activity provides the opportunity to successfully deliver much needed new housing supply and create value over the long term

- Differentiation through vertical integration achieving security of supply of key materials and complementary modern methods of construction to support sustainable growth in output

- Simple capital structure maintained with no structural gearing

3. Principal risks associated with the Group's strategy and business model include

- Disruption to the UK economy resulting from the measures introduced to mitigate the impact of the Covid-19 pandemic adversely impacting demand for new homes and construction programmes

- The impact of disruption to the UK economy resulting from the departure of the UK from the EU

- Market impacts related to reduced consumer confidence due to regional economic uncertainties

- Reduction in mortgage funding availability and/or affordability due to reduced lender risk appetite and/or regulatory change

- Response required to mitigate the impact of climate change

- Team, skills and talent related risks regarding retention and change management

See above for the full list of principal risks together with detailed descriptions.

Disciplined strategic planning process

The prospects for the Group are principally assessed through the annual strategic planning review process conducted towards the end of each year. The management team from each of the Group's house building businesses produce a five year business plan with specific objectives and actions in line with the Group's strategy and business model. These detailed plans reflect the development skill base of the local teams, the region's housing market, having particular regard to the impacts of the Covid-19 pandemic on the local area, strategic and on market land holdings and investments required to support their objectives. Special attention is paid to construction programmes and capital management through the period to ensure the appropriate level of investment is made at the appropriate time to support delivery of the plan. Emerging risks and opportunities in their markets are also assessed at this local level.

Senior Group management review these plans and balance the competing requirements of each of the Group's businesses and allocates capital with the aim of achieving the long term strategic objectives of the Group. The five year plans provide the context for setting the annual budgets for each business for the start of the new financial year in January, which are consolidated to provide the Group's detailed budgets. These budgets are updated after six months, for the following twelve months, which are then replaced by the new strategic planning, and budget setting, cycle. The Board review and agree both the long term plans and the shorter term budgets for the Group.

The outputs from the business planning process are used to support development construction planning, impairment reviews, for funding projections, for reviews of the Group's liquidity and capital structure, and identification of surplus capital available for return to shareholders via the Group's Capital Return Plan, resulting in the payment of dividends to shareholders.

Assessing Persimmon's viability

The Directors have assessed the viability of the Group over a five year period, taking into account the Group's current position and the potential impact of the principal risks facing the Group.

The use of a five year time horizon for the purpose of assessing the viability of the Group reflects the business model of the Group, new land investments generally taking at least five years to build and sell through, and for the development infrastructure to be adopted by local authorities.

A key feature of the Group's strategy documented in the Strategic Report is the Group's commitment to maintain capital discipline over the long term through the housing cycle. This commitment was reinforced with the announcement of the Group's Capital Return Programme ("CRP"). The CRP initially committed to return £1.9bn of surplus capital over the following ten financial years to 2021, or £6.20 per share. After nine years the Group is ahead of plan and has paid £10.65 per share, or £3.3bn back to shareholders. On 3 March 2021 the Directors announced the scheduled CRP payments in respect of the financial year ended 31 December 2020 to be paid in 2021. Further details can be found in the Chairman's statement earlier in this announcement.

On an annual basis the Directors review financial forecasts used for this Viability Statement as explained in the disciplined strategic planning processes outlined earlier. These forecasts incorporate assumptions about the timing of legal completions of new homes sold, average selling prices achieved, profitability, working capital requirements and cash flows, and are designed to test the Group's ability to fulfil its strategic objectives. They also include the CRP. The Directors have made the assumption that the Group's revolving credit facility is renewed during the period having again extended the maturity of the facility during the year, out to 31 March 2025.

The Directors have also carried out a robust assessment of the principal risks facing the Group (as set out above), and how the Group manages those risks, including those risks that would threaten its strategy, business model, future operational and financial performance, solvency and liquidity. The Directors have considered the impact of these risks (particularly those in relation to the ongoing social distancing restrictions introduced by the UK and devolved Governments to contain the spread of Covid-19) on the viability of the business by performing a range of sensitivity analyses to a Base Case, including severe but plausible scenarios materialising together with the likely effectiveness of mitigating actions that would be executed by the Directors.

The scenarios emphasise the potential impact of severe market disruption, for example including the effect of the Covid-19 pandemic, on short to medium term demand for new homes. The scenarios' emphasis on the impact on the cash inflows of the Group through reduced new home sales is designed to allow the examination of the extreme cash flow consequences of such circumstances occurring. The Group’s cash flows are less sensitive to supply side disruption given the Group’s sustainable business model, flexible operations, agile management team and off-site manufacturing facilities.

In the first scenario modelled, the combined impact is assumed to cause a c. 42% reduction in volumes and a c. 14% reduction in average selling prices through to 2022. As a result of these factors, the Group’s housing revenues were assumed to fall by c. 50% during this period. The assumptions used in this scenario reflect the experience management gained during the Global Financial Crisis (‘GFC’) from 2007 to 2010, it being the worst recession seen in the housing market since World War Two. The scenario assumes a subsequent recovery occurs over a similar extended period as in the GFC.

A second, even more extreme, scenario assumes a significant and enduring depression of the UK economy and housing market over the next five years causing a reduction of c. 45% in new home sales volumes and a c. 48% fall in average selling prices through to 2022. As a result of these factors, the Group’s housing revenues were assumed to fall by c. 71% during this period. It assumes that neither volumes nor average selling prices recover from this point through to 2025.

In each of these scenarios cash flows were assumed to be managed consistently ensuring all relevant land, work in progress and operational investments were made in the business at the appropriate time to deliver the projected new home legal completions. The Directors assumed they would continue to make well judged decisions in respect of capital return payments, ensuring that they maintained financial flexibility throughout.

Based on this assessment, the Directors confirm that they have reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to the end of 31 December 2025.

* The Directors have assessed the longer term prospects of the Group in accordance with provision 31 of the UK Corporate Governance Code 2018.

Statement of Directors' Responsibilities

The Statement of Directors' Responsibilities is made in respect of the full Annual Report and the Financial Statements not the extracts from the financial statements required to be set out in the Announcement.

The 2020 Annual Report and Accounts comply with the United Kingdom's Financial Conduct Authority Disclosure Guidance and Transparency Rules in respect of the requirement to produce an annual financial report.

We confirm that to the best of our knowledge:

- the Group and Parent Company financial statements, contained in the 2020 Annual Report and Accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors of Persimmon Plc and their function are listed below:

Roger Devlin	Chairman
Dean Finch	Group Chief Executive
Mike Killoran	Group Finance Director
Nigel Mills	Senior Independent Director
Rachel Kentleton	Non-Executive Director
Simon Litherland	Non-Executive Director
Joanna Place	Non-Executive Director
Annemarie Durbin	Non-Executive Director
Andrew Wyllie	Non-Executive Director

By order of the Board

Dean Finch	**Mike Killoran**
Group Chief Executive 2 March 2021	Group Finance Director

The Group's Annual financial reports, half year reports and trading updates are available from the Group's website at www.persimmonhomes.com/corporate.