FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Persimmon Plc today announces Final Results for the year ended 31 December 2019.

Highlights

"Improving build quality and the service delivered to our customers were our top priorities throughout 2019. Putting customers before volume is at the heart of our customer care improvement plan and, as a result, new home legal completion volumes were 4% lower year on year. Having commissioned the Independent Review in April, we were clear that we would not delay action until its completion in December and were engaged on a broad range of customer service and quality improvement initiatives throughout the year. We are confident these initiatives will add to our momentum this year.

"Persimmon's results for 2019 reflect our focus on offering attractively priced new homes for all, where housing need is greatest across the UK. I am proud of the enthusiasm and dedication with which the whole Persimmon team is making the many changes necessary to achieve higher levels of quality and service to our customers. We continue to invest in our teams, systems, and our off-site manufacturing capabilities to support the Group's further sustainable development.

"I am pleased with the headway we have made in 2019 and determined that we will make further progress with these initiatives in 2020. Persimmon is in a strong position for the future supported by the Group's talented teams, healthy forward sales, strong forward build and robust balance sheet."

Dave Jenkinson, Group Chief Executive

Strategic focus

- **Improving customer service levels – continuing to put customers before volume**
    - Delaying sales release in higher demand locations to later stages of construction is delivering the anticipated benefits to customers
    - Significant investment in improving build quality and customer care, with an additional £213m invested in work in progress and a c. £15m increase in annual quality assurance and customer care spend
    - Persimmon's HBF survey rating[1] continues to trend strongly ahead of the Four Star threshold
    - Customer portal being rolled out across the Group's regional businesses during the first half of 2020 further strengthening engagement and service levels

- **Improving build quality and safety**

    - Industry leading retention scheme introduced in July 2019 reinforcing behavioural change in site construction management and customer care

    - Construction programmes advancing – work in progress of £1,095m now at 32% of new housing sales (2018: £882m, 25%) supporting increased new home inventory volumes, improving new home quality, availability and delivery

    - New team of Independent Quality Inspectors engaged, strengthening our current assurance processes across each of our regional businesses

    - Additional Group wide training initiatives being delivered to support improved site management of construction programmes

- **Independent Review update**

    - The Independent Review, published on 17 December 2019, provided some additional recommendations which the Persimmon team have embraced and are in the process of implementing

    - Persimmon's Construction Working Group is currently consolidating the Group's construction standards to define "the Persimmon Way" of new home construction, and establish consistent construction and quality processes Group wide

    - Central control of construction processes and standards is being established under the Group's newly appointed Construction Champion

    - The Group continues to progress its cavity barrier inspection programme, with over 20,000 properties now inspected

    - Board review of clarity of Persimmon's purpose and culture continuing with an update to be given at the AGM in April 2020, as previously announced

- **Housebuilder for all**

    - Increasing the supply of good quality homes for everyone with more first time buyers helped onto the housing ladder than any other UK housebuilder – 6,262 new homes sold to first time buyers in 2019, representing 50% of Group private sales

    - Group average private selling price c. 18% lower than the national average for newly built homes sold to owner occupiers[2]

    - Creating opportunities for all - directly employing more local tradespeople (c. 2,050) than any other housebuilder, with c. 750 trainees employed in structured training courses

    - Investment of over £520m in local communities during the year, including the delivery of 3,392 new homes for lower income families to our housing association partners

    - Signatory to the Social Mobility Pledge[3] - leading engagement in the house building industry to promote opportunities for all

    - Launched our Building Futures campaign, joining forces with Team GB, run by the British Olympic Association, to support children across the UK

    - Persimmon's Charitable Foundation contributed c. £2.3m to support c. 900 charities, local community groups and good causes across the UK

- **Supporting environmental wellbeing**
    - Reduced our Scope 1 and 2 greenhouse gas emissions per new home sold by 8%
    - Working with Government and industry to manage the transition to low carbon homes
    - Provided c. 750[4] acres of public open spaces and gardens
    - Planted c. 146,000 trees during 2019
- **Group Chief Executive Succession**
    - Dave Jenkinson has informed the Board of his wish to step down in due course and a search process for his successor will now commence
    - Dave will remain as Group Chief Executive and is fully committed to leading the ongoing programme of change for as long as the business requires

Financial highlights

- **Financial trading performance remains strong**
    - 15,855 new homes sold (2018: 16,449) – 4% down on last year
    - Total new homes average selling price of £215,709 (2018: £215,563)
    - Total Group revenue 2.4% lower at £3.65bn (2018: £3.74bn)
    - Underlying new housing operating margin[5] of 30.3% (2018: 30.8%)
    - Profit before tax of £1,041m (2018: £1,091m)
    - Net free cash generation[6] of £544m (2018: £478m)
    - Basic earnings per share of 266.8p (2018: 283.3p)
    - Return on average capital employed[7] of 37.0% (2018: 41.3%)
    - Return on equity[8] of 26.3% (2018: 27.7%)
- **Excellent platform for future growth**
    - 10,013 plots of new land secured in the period, including 4,218 plots converted from the Group's strategic land bank; 71,942 plots owned (December 2018: 75,793 plots)
    - Increase in work in progress investment to £1,095m (2018: £882m)
    - Land creditors reduced by £113m to £435m at year end (2018: £548m) providing increased flexibility to invest in attractive future land opportunities
    - £844m cash held (2018: £1,048m)
    - Strong current forward sales of £1.982bn (2018: £2.017bn)

- **Shareholder returns**
    - Return of surplus capital of £1.25 per share (£397.7m) paid 29 March 2019 in addition to the scheduled payment of £1.10 per share (£350.1m) paid on 2 July 2019
    - Interim and Final dividends of £1.25 and £1.10 per share respectively declared for 2019 to be paid in 2020
    - Commitment to a total return of £2.35 per share in 2021 (2020: £2.35)

1 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.

2 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 £241,985.

3 Social Mobility Pledge is a cross party campaign to improve social mobility in the UK

4 Estimated using an economic toolkit

5 Stated before goodwill impairment (2019: £7.3m, 2018: £9.2m) and based on new housing revenue (2019: £3,420.1m, 2018: £3,545.8m)

6 Net free cash generation stated before Capital Return Plan payments

7 12 month rolling average stated before goodwill impairment and includes land creditors

8 12 month rolling profit after tax generated from the average of the opening and closing total equity for the 12 month period

For further information please contact:

Dave Jenkinson, Group Chief Executive
Mike Killoran, Group Finance Director
Persimmon Plc
Tel: +44 (0) 20 7638 9571 (on 27 February 2020)
Tel: +44 (0) 1904 642199 (thereafter)

Simon Rigby
Kevin Smith
Jos Bieneman
Ellen Wilton
Citigate Dewe Rogerson
Tel: +44 (0) 20 7638 9571

Analysts unable to attend in person may listen to the presentation live at 10:00am by using the details below:

Telephone number: +44 (0) 203 0095709

Conference ID: 2429008

Webcast link: https://edge.media-server.com/mmc/p/mkyge9i3

An archived webcast of today's analyst presentation will be available on www.persimmonhomes.com/corporate this afternoon

CHAIRMAN'S STATEMENT

Persimmon's purpose is to build good quality homes at a range of price points across the UK. We aim to create and protect superior and sustainable levels of value for the benefit of our customers, workforce, suppliers and shareholders through the housing cycle. Developing a business based on strong, sustainable foundations, and where our employees have the opportunity to achieve their full potential, provides the platform for our continued success. We recognise that this success is dependent upon strong engagement with, and delivery for, all our stakeholders, including our customers, our people, our supply chain partners, local communities and Government.

From the start of 2019, Persimmon commenced a programme of change, making significant additional investment in a customer care improvement plan, which placed the customer at the centre of our business. At the heart of this plan is a commitment by Persimmon to a programme of cultural and operational change that prioritises customer care over volume growth. Affirming the Group's commitment to implement this change and to ensure it would achieve its objectives, the Board commissioned an Independent Review ("the Review"). The Review, published in December 2019, provided some additional recommendations which the Persimmon team have embraced and are in the process of implementing. As previously announced, the Board will provide an update on its consideration of the purpose and culture element of the Review's recommendations at the AGM in April 2020.

The focus on delivering consistently higher build quality and improving the standard and responsiveness of the service customers receive has started to deliver the anticipated benefits. Whilst Persimmon's plans to deliver consistently higher levels of quality and service go far beyond a focus on the criteria of the HBF customer satisfaction survey, the ongoing improvement in our HBF rating, which is trending strongly ahead of the Four Star threshold, is tangible evidence of the progress made so far.

Persimmon's results for 2019 reflect the strength of the Group's positioning in offering a broad choice of homes for all, and across the regions of the UK. The Group's new home legal completion volumes were 4% lower than the prior year, reflecting the later sales release of homes under construction in higher demand areas as part of the plans to improve build quality and customer service. The Group continued to increase its investment in work in progress to £1,095m (2018: £882m) to support these initiatives. Profit before tax was £1,041m (2018: £1,091m) with an underlying new housing operating margin[1] of 30.3% (2018: 30.8%). Cash balances of £844m were held at the end of the year (2018: £1,048m) and the Group's owned and controlled land holdings totalled 93,246 plots (2018: 99,088 plots).

We are confident that the implementation of our customer care improvement plan, our continued commercial success and wider investment in society provide a strong platform for the long term, sustainable development of the Group.

CUSTOMERS AND COMMUNITIES

Persimmon aims to provide homes for all by constructing a wide range of good quality affordable homes in places where people want to live and work right across the UK. The Group's average private selling price of £241,985 is 18% lower than the national average for newly built homes sold to owner occupiers[2]. In line with Government housing policy, the Group focuses on creating attractive neighbourhoods which enhance and contribute to the local area and meet the housing needs of the communities they serve. Persimmon supports more first time buyers onto the housing ladder than any other UK major housebuilder, with 50% of our private new homes being sold to first time buyers in 2019.

Improving the quality of the homes we build and the service we provide to our customers was the Group's top priority throughout 2019. We are putting quality and service for our customers before volume, delaying sales releases on developments with high demand until build is at a more advanced stage, to support the implementation of our customer care improvement plan initiatives. New homes stock levels were 14% higher at the year end and the Group invested an additional £213m in work in progress year on year. The recruitment of our new Independent Quality Inspections team provides another level of scrutiny, strengthening our overall quality assurance processes.

Our Construction Working Group, led by our newly appointed Group Construction Champion, is establishing "the Persimmon Way", which will consolidate our approach to new home construction standards and embed best practice across the Group. This approach is consistent with the recommendations of the Independent Review.

We have also invested significantly in enhancing customer service, increasing on-site customer care resource by 70% and improving IT support to deliver a more responsive service. The introduction of our Homebuyers Retention Scheme in July 2019, is a first for the industry, and is already driving behavioural change within the business. Further detail on the Group's customer care improvement plan is provided in the Chief Executive's Review.

We place great importance on our wider contribution to the communities we serve. During the year we have invested over £520m in local communities through the delivery of new homes for lower income families and planning contributions, which have helped create over 2,500[3] school places. This brings the Group's total community investment to c. £2.0bn over the last five years. During 2019 the Group provided c. 750[3] acres of public open space and gardens helping to support biodiversity betterment whilst delivering good quality homes. Our operations have also supported almost 50,000[3] jobs on our sites and within our supply chain.

Since 2010, in the ten year period following the global financial crisis, the Group has invested over £4.8bn in land, opened over 1,750 new development outlets and delivered over 130,000 newly built homes whilst also providing substantial amenity value to the benefit of local communities and the environment right across the UK. For example, the Group has planted c. 510,000 trees over the last five years adding to the biodiversity of local environments whilst providing opportunity for enhanced carbon capture over future years. This commitment to building good quality housing for all at affordable prices, to create vibrant inclusive neighbourhoods that meet housing need is directly aligned with Government policy. We continue to work closely with local planning authorities and communities to bring land into construction as promptly as possible, with our investment in associated infrastructure, new home construction, and the local environment helping to create long term value for the local communities we serve.

LONG TERM STRATEGY AND CAPITAL RETURN PLAN

Persimmon's strategy is aligned to its purpose – building on its sustained success the Group will support continued investment in residential development opportunities for the benefit of local communities throughout the UK. Our long-term strategy recognises that the timing of this investment will be judged to mitigate the risks to sustaining value creation for all stakeholders through the housing market cycle, whilst making appropriate returns to shareholders whose capital we deploy in pursuit of fulfilling our purpose. Retaining flexibility to support the appropriate level of reinvestment in the business, whilst minimising financial risk through the cycle, is a key element of the Board's strategy.

Persimmon's strategy recognises the Group's ability to generate surplus capital beyond the reinvestment needs of the business as the market cycle develops. The Board has been mindful of the increased uncertainties regarding the outlook for the UK economy for some time and has adopted a selective approach to new land investment, building Persimmon's cash reserves progressively to strengthen its financial position. For the current scale of the business, the Board believes cash holdings of c. £700m are appropriate, minimising financial risk by providing sufficient liquidity to cover the annual working capital cycle of the business, while maintaining flexibility to deploy additional capital should further attractive reinvestment opportunities arise.

The Board assesses the availability of surplus capital on a regular basis, considering the appropriate balance between the financial position of the Group and its reinvestment needs, the Group's land holdings, the housing market cycle and land market conditions, and the broader economic risk profile. The Board has set out its risk and viability assessment processes in note 11 to this announcement.

Having concluded its 2020 assessment of the availability of surplus capital, as part of the regular annual assessment of the Capital Return Plan, the Board is pleased to reiterate its commitment to total capital returns of £2.35 per share in 2020 in line with the existing plan, with a payment of £1.25 per share to be made on 2 April 2020 to shareholders on the register on 6 March 2020 as an interim dividend for 2019, together with recommending to shareholders a regular annual capital return of £1.10 per share to be paid on 6 July 2020 to shareholders on the register on 12 June 2020 as a final dividend for 2019. In addition, the Board is pleased to announce its intention to return a further £2.35 per share in 2021. The Board is increasing the regular annual payment to be made in early July 2021 to £1.25 per share, with the additional return of surplus capital of £1.10 per share to be paid in late March 2021. The total value of the capital return plan to 2021 is now £14.25 per share compared to the £6.20 per share initial commitment made by the Board in 2012.

<u>RESULTS</u>

Persimmon delivered another strong trading performance in 2019. The Group's total revenues were £3,649m (2018: £3,738m), with new housing revenues of £3,420m (2018: £3,546m) being 4% lower than last year. The Group sold 15,855 new homes in the year (2018: 16,449) at an average selling price of £215,709 (2018: £215,563), the lowest of any major housebuilder in the UK.

Customer demand across the regions of the UK was supported by resilient consumer confidence right through the year, despite elevated levels of uncertainty relating to both the political outlook and economic prospects, ahead of the UK's prospective exit from the EU. Customers acquiring new homes at higher price points have increasingly been more considered in their reservation commitments. Sales to private owner occupiers totalled 12,463 new homes (2018: 13,341), a reduction of 878 homes year on year, whilst sales to our housing association partners were 3,392 new homes (2018: 3,108), an increase of 284 homes.

The average selling price of the Group's private market sales was £241,985 (2018: £238,373), an increase of 1.5% year on year. Of the Group's total private sales of 12,463 homes, 57% were sold across our northern businesses (2018: 55%). The Group continues to provide strong support to the creation of mixed tenure sustainable communities across the UK, delivering over £400m of new homes to housing associations in the year (2018: £366m) at an average selling price of £119,166 (2018: £117,653), which represented 21.4% of the Group's total sales (2018: 18.9%). The volume of sales achieved by the Persimmon brand was 11,327 homes (2018: 11,947). Charles Church achieved 1,136 home sales (2018: 1,394).

The Group's total gross margin for the year was 31.0% (2018: 31.6%), with our new housing gross margin at 33.1%[4] (2018: 33.3%). The level of new housing gross margin reflects the ongoing investment being made in the Group's build quality and customer care resources and processes. The Group's customer care spend in the year increased by c. 50% over last year. The Group's margins are supported by its high quality consented land holdings with land cost recoveries of 14.0% of housing revenues (2018: 14.6%). At 31 December 2019 the Group's cost to revenue ratio[5] for its owned land holdings of 71,942 plots was 13.2%. The Group's continued investment in its build quality and customer care improvement initiatives will place the business in a strong position moving forward. The Group's total gross profit for the year was £1,131m (2018: £1,180m).

Underlying operating profit[6] for the Group was 5.1% lower than last year at £1,037m (2018: £1,092m). The Group's underlying new housing operating margin[1] of 30.3% was 50 basis points lower than last year (2018: 30.8%). The Group's pre tax profits were £1,041m, 4.6% lower than 2018 (£1,091m). Underlying basic earnings per share[6] for the year of 269.1 pence reduced by 6.0% compared to the prior year (2018: 286.3 pence).

The Group generated 250.7 pence of total capital value (before capital returns)[7] in the year (2018: 204.4 pence) reflecting the Group's strong set of results. After capital returns of 235 pence per share recognised in the period, reported net assets per share of 1,021.7 pence per share at 31 December were 15.7 pence higher than the prior year (2018: 1,006.0 pence). Underlying return on average capital employed[8] as at 31 December was 37.0% (2018: 41.3%).

The Group's balance sheet is strong. Due to the strength of the Group's existing land holdings we have remained selective in our approach to land replacement in line with our strategic priorities. We have continued to judge each opportunity in the context of the needs of each of the Group's 31 operating businesses and remained mindful of prospective changes to market conditions. During the year, the Group added a total of 10,013 plots of land into the business across 60 high quality locations, including 4,218 plots converted from our strategic land portfolio. The Group's land spend was £474m (2018: £628m).

At the year end the Group held cash reserves of £844m (2018: £1,048m) reflecting an increase of £213m in work in progress investment at £1,095m (2018: £882m) and a £113m reduction in land creditors to £435m (2018: £548m).

Return on equity[9] was 26.3% for the twelve month period to December 2019 (2018: 27.7%).

BOARD CHANGES

We have announced that Dave Jenkinson has informed the Board of his wish to step down as Group Chief Executive in due course. He has signalled his intention early to give the Board good time to recruit a successor. Dave will remain fully committed to leading the ongoing programme of change for as long as the business requires.

I would like to take this opportunity on behalf of the Board to thank Dave for the very significant contribution he has made to the success of Persimmon over almost 23 years with the Group. He has played a critical role in the shaping and development of new Persimmon. I am also grateful that Dave has signalled his intention to step down at an early stage to give us the time to carry out a thorough search process and to continue the evolution of the business.

The Board was also pleased to announce recently the appointment of Joanna Place as a non-executive Director from 1 April 2020. We look forward to Joanna bringing her experience to support the successful development of the business over future years.

The Board announced the resignation of Claire Thomas, former Independent Non-Executive Director, on 15 January 2020. The Board would like to thank Claire for her contribution to the Group during her tenure.

We also announced that Marion Sears, Independent Non-Executive Director and Chairman of the Remuneration and Corporate Responsibility Committees will retire from the Board at the conclusion of the AGM to be held on 29 April 2020. Following Claire Thomas' departure on 1 February 2020, if necessary, Marion has agreed to remain on the Board for a short time while the Board seeks a new Remuneration Committee Chairman. The Board would like to thank Marion for the significant contribution she has made to the Group during her seven years with Persimmon.

The Board is in the process of identifying and appointing a further Non-Executive Director with construction experience and will provide an update to the market once that process is completed.

OUTLOOK

The level of customer activity through the initial weeks of 2020 is encouraging with enquiries and visitors to our sites in line with our expectations. Sales rates in the early weeks of 2020 are tracking above the prior year and the Group's strong work in progress position leaves it well placed to respond to further market momentum as the year progresses whilst retaining its overriding focus on build quality and customer care. The UK housing market remains resilient, consumer confidence being supported by low interest rates, a competitive mortgage market and high levels of employment. Customers continue to carefully consider their circumstances prior to making reservation commitments and cancellations have continued to run at historically lower levels.

With the 2019 general election now behind us, the previous elevated levels of political uncertainty have subsided. As anticipated, the UK's recent withdrawal from the EU and commencement of the transition period, alongside other global economic challenges, continue to present uncertainties for the UK's economic outlook. However, Persimmon remains in a strong position. The Group's developments are located in areas of some of the greatest housing need in the UK and provide an attractive choice of good quality newly built homes at affordable prices.

The Group continues to release homes for sale only when a more advanced stage of construction is achieved. Maintaining our continued disciplined sales release process, the Group's average private sales rate per site in the first eight weeks of the year of 0.88 was c. 7% ahead of the same weeks last year, as expected. Given that the Group began the year with a similar level of active sales outlets as 2019 but a slightly lower forward sales position at 1 January 2020, we currently expect sales this year to follow a similar pattern to last year, and anticipate delivering a similar number of legal completions to 2019. The Group's current total forward sales, including new home legal completions taken so far in 2020, remain strong at £1.98 billion (2019: £2.02 billion). We have 5,679 new homes sold forward into the private owner occupier market with an average selling price of c. £245,000. Pricing conditions remain firm.

The Group has experienced some easing of build cost pressure over recent months and currently anticipates that cost inflation will be around 2.5% to 3% for the current year assisted by continued self help measures. Whilst the detail of the UK's future trading relationships with the EU and others remains uncertain, undoubtedly, the UK remains an attractive market. In partnership with its supply chain the Group continues to assess the risks associated with these developments and has put in place measures that help to reduce these risks where required.

We currently have c. 365 developments in construction, a similar number to last year. During the first half of 2020 we anticipate starting construction on c. 80 new developments, which will help meet the pressing housing need in these locations. Our ongoing customer care improvement plan, supported by implementation of the recommendations of the Independent Review, will underpin the delivery of a further improvement in the quality and service provided to our customers this year. These initiatives and investments are currently anticipated to increase the Group's customer care costs on an annualised basis by c. £15m. These substantial commitments, together with the higher new home stock investment, will help ensure that Persimmon delivers higher build quality, service and choice moving forwards. Whilst the Group's returns from the capital employed in the business will reduce we expect the Group's cash generation will remain strong.

Over the longer term, the UK housing market has a cycle, reflecting the health of the UK economy as it develops over time which, in part, will be influenced by the continued evolution of Government policy. As the UK establishes new commercial relationships on departing the EU during a period of increased global volatility we remain optimistic of Persimmon's prospects. The Group is positioned to continue to provide an important contribution to both UK housing supply, and the wider health of communities across the UK, in direct alignment with the Government's strategic objectives.

Currently the housing market continues to be resilient and we are seeing good demand across our regional markets. To achieve the Government's policy objective of increasing the provision of good quality homes to meet local communities' housing needs, further expansion in the output of newly built homes will be required. This growth will deliver additional social benefits, for example, increasing employment across the regions of the UK both directly on housing developments and in the supply chain. Persimmon currently supports c. 50,000[3] local construction and supply chain jobs through our development activities across the UK. We will continue to invest in these local communities and businesses to promote social mobility and support these local communities. The additional benefits associated with development activity, of higher contributions to communities through improved local amenities and infrastructure, taxes paid, and from additional investment will also be realised.

Persimmon's employees are the foundation upon which the Group's strength and future success is built. The Group directly employs c. 5,300 people across the UK. The Board's thanks go to this talented, hardworking and committed team that continues to embrace change and deliver such positive results.

The Board's thanks also go to all of the Group's workers, sub-contractors and other stakeholders for their contribution to the continued strong performance of Persimmon, together with the implementation of the important measures to improve build quality and customer service.

Persimmon has high quality land holdings, healthy forward sales, strengthened forward build and a strong balance sheet. Our team is united in its commitment to improve build quality and customer satisfaction. We remain confident of the Group's future prospects.

Roger Devlin

Chairman

26 February 2020

1 Stated before goodwill impairment (2019: £7.3m, 2018: £9.2m) and based on new housing revenue (2019: £3,420.1m, 2018: £3,545.8m).

2 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.

3 Estimated using an economic toolkit

4 Stated on new housing revenues of £3,420.1m (2018: £3,545.8m) and gross profits of £1,130.7m (2018: £1,179.9m)

5 Land cost value for the plot divided by the anticipated future revenue of the new home sold

6 Stated before goodwill impairment (2019: £7.3m, 2018: £9.2m)

7 Movement in total equity before dividends on equity shares divided by the average number of shares in issue during the period

8 12 month rolling average stated before goodwill impairment and includes land creditors

9 12 month rolling profit after tax generated from the average of the opening and closing total equity for the 12 month period

CHIEF EXECUTIVE'S STATEMENT

Highlights

- Implementing our customer care improvement plan
- Putting our customers before volume
- Embracing the Independent Review recommendations
- Homebuyer Retention Scheme introduced, a first for the industry
- Providing "homes for all" - addressing the country's housing needs
- 15% of our colleagues taking part in formal training programmes
- Strong Employee Engagement Score [i]
- 8% reduction in our Scope 1 and 2 greenhouse gas emissions per new home sold
- Over £520m investment in local communities
- £2.3m donated to local charities and community groups
- Continuing to maintain sustainable, high quality land holdings
- Continuing to deliver industry leading financial performance

Overview

Throughout 2019 our focus was firmly on the quality of our homes and the service we offer to our customers. At the start of the year we implemented our customer care improvement plan ("the Plan"), with a clear priority of putting our customers before volume. The Plan is a comprehensive programme of measures to improve the Group's performance on all aspects of build quality and customer experience. It is challenging by design and we believe will place the Group in a strong position for the future.

Having commissioned the Independent Review in April, we were clear from the outset that we would not delay action until its completion in December. We have a culture of continuous review and rapid implementation within the business and as a result, the Plan strengthened and evolved throughout 2019 as the Group exercised increased discipline over the timing of sales releases, and invested in work in progress, quality and service resources, digital technology and enhancing Group wide processes.

The Board reviewed the effectiveness of the Group's build quality and customer care initiatives in light of the recommendations of the Independent Review (published in December 2019) and noted that many of them had already been, or were in the process of being implemented. The additional recommendations have been embraced by the business and are now in the process of being rolled out.

I have informed the Board of my wish to step down as Group Chief Executive in due course. I am fully committed to leading the ongoing programme of change for as long as the business requires. Persimmon is an outstanding business with a strong balance sheet and talented and dedicated people. I am pleased with the energy and enthusiasm with which the whole team is making the many necessary changes to implement the Group's improvement plans. We have made a positive start to our change programme and I am confident that the required progress will be made to deliver higher levels of quality and service to all of our customers.

I would like to thank the Persimmon team for their hard work and commitment.

Focusing on our customers – our customer care improvement plan

Our customer care improvement plan, introduced at the start of 2019, continued to evolve throughout the year. We have implemented a number of initiatives to focus on improving:

- The quality of the homes we build;
- Communication with our customers;
- The service we offer to our customers once they have moved into their new home; and,
- Consumer rights.

The Group has invested in its work in progress and delayed sales releases on sites with higher demand to allow build progress to reach a more advanced stage. This supports the improvement in construction quality that we are determined to deliver, ensuring that our quality assurance processes are more effective for each home. It also enables us to enhance our customer service provision as we are able to offer homes at a more advanced stage of build and provide a more accurate moving in date. Reflecting these planned outcomes, our work in progress investment had increased by £213m at 31 December 2019, representing c. 6,100 new homes under construction and an increase of 14% compared to last year.

We have invested significantly in digital technology covering our build and inspection processes and have recruited a team of Independent Quality Inspectors to critically assess each key stage of our construction process and to provide increased levels of quality and safety assurance. These inspectors operate independently of our site management teams to ensure the homes built for our customers are of the high quality standard that our customers expect. In addition, each of our homes undergoes a seven stage inspection process when it is nearing completion, to ensure it meets the necessary quality standard.

Regular communication is important to our customers. We have established a comprehensive customer support process which will be further enhanced by the implementation of a 'customer portal' in the first half of 2020. This customer portal is designed to inform each of our customers of the construction progress of their new home, to provide confirmation of their specification details and the contractual status of their purchase, and to provide accurate, timely information regarding their anticipated 'move in' date.

To facilitate improved levels of service to our customers after they have moved into their new home we made a significant investment in our customer care resource which has increased by 52% year on year, with a 70% increase in site based customer care staff. To deliver a more responsive service we have introduced digital tools that support greater mobility and productivity of our customer care teams out in the field and delivered c.1,100 customer care training days to our teams in 2019.

To support improved consumer rights and empower its customers Persimmon introduced its Homebuyer Retention Scheme from 1 July 2019. This is a first for the UK housebuilding industry and aims to drive behavioural change throughout the business and reinforce the Group's objective of delivering higher levels of build and finish quality. Our pre-completion quality assurance procedures are designed to "get it right first time". To reinforce this discipline our customers are invited to complete their own seven-day inspection review following their moving in day. They are requested to highlight any items of concern they have identified having lived in their new home. The customer's solicitor retains 1.5% of the new home purchase price which is only released once any matters are resolved.

Independent Review update

The Independent Review commissioned by the Board ("the Review") assessed the effectiveness of Persimmon's improvement initiatives to determine whether they would enable the business to deliver consistent high standards of quality, safety and customer service across all of our regions.

We agree with the Review's additional recommendation to establish a consolidated, consistent Group wide approach to construction (the Persimmon Way) and the process has already commenced with the establishment of our Construction Working Group in October 2019. This working group comprises experienced senior construction professionals from across the business. The Group has appointed a "Group Construction Champion" to manage and monitor the implementation of the Persimmon Way based upon strong central control of construction quality standards. Mandatory standardised training will be provided to all relevant employees by the Group Training Department. The Group's team of Independent Quality Inspectors will focus on supporting site management teams to apply these construction standards consistently across the business.

Once the Persimmon Way is rolled out across the Group through 2020, a third party will be appointed to independently verify the execution of the required construction processes on an annual basis, providing further assurance over the quality of our build.

All of these measures are designed to ensure that the Group builds well-designed, high quality, safe homes for all its customers. These enhanced quality assurance procedures are reinforcing the behavioural change required to mitigate the risk of substandard execution of the Group's required build processes, such as the historic failure to properly install cavity barriers in certain of its properties, from occurring in the future. We are continuing to progress our cavity barrier inspection programme, with over 20,000 properties now inspected.

In the year to 30 September 2019, the last annual measurement period, the percentage of our customers who would recommend Persimmon to a friend under the independent Home Builders Federation ("the HBF") survey is currently trending strongly ahead of the Four Star threshold. We believe we will achieve a Four Star rating when the annual results are published in March 2020. While our ongoing quality and customer care improvement programme goes far beyond a focus on the criteria of the HBF survey, we are pleased that this external measure provides tangible evidence of the improvements being delivered to our customers.

The Board is ensuring that senior management's objectives are aligned with the Group's strategic aims by including build quality and customer service metrics within the performance conditions for annual bonus awards.

Performance review

Profit before tax for the year was £1,041m (2018: £1,091m), from new housing revenues of £3,420m (2018: £3,546m). The reduction in new housing revenues of 3.5% year on year reflects our priority of putting customers before volume during the implementation of the Group's customer care improvement plan. The Group delivered 15,855 new homes in 2019 (2018: 16,449 new homes) at an average selling price of £215,709 (2018: £215,563).

Through 2019, as part of the plan to increase the quality and service provided to our customers, we released new homes for sale at later stages of construction on sites with higher demand resulting in a c. 7% reduction in the average number of sales outlets open in 2019 when compared with 2018, at c. 350 outlets (2018: c. 375). The Group had c. 350 sales outlets open at 31 December 2019 (31 December 2018: c. 370 outlets). Persimmon has a strong, well balanced network of sites and each of our 31 housebuilding businesses is underpinned by high quality land holdings ensuring that the Group maintains a sustainable market share in each of its regional markets.

During 2019 the Group's private sales rate per outlet per week was c. 0.68, c. 3% lower than the prior year (2018: c 0.70), reflecting the resilience of customer confidence in the market despite some significant uncertainties. This rate of private sale was a little lower than our optimal rate of c. 0.75 of a sale per outlet per week and, in part, reflects the impact of the successful execution of the Group's customer care improvement initiatives.

We remain committed to meeting "all housing needs" by providing homes at a range of price points across the UK. Persimmon has opened seven new housebuilding businesses in the last five years in support of the construction and delivery of c. 78,100 new homes across the UK, of which c. 14,000 were provided to our housing association partners. Our average private selling price of £241,985 was 18% lower than the UK national average of £295,160 [ii] reflecting our commitment to delivering affordable housing for all.

Forward sales at 31 December 2019 of £1.36bn were 3% lower than the prior year (2018: £1.40bn) after second half legal completion volumes of 8,271, which were 9% stronger than for the first half of the year (H1: 7,584).

The Group's land holdings

The Group's existing high quality land holdings enabled us to continue our strategy of disciplined selective investment in land through 2019. The land market remained broadly supportive, albeit through the second half there were some pockets of increased competition, particularly for smaller sites, in certain locations. We remain mindful of prospective changes to market conditions, including those associated with the UK's departure from the EU, when assessing land investment.

Persimmon has worked in long-term partnership with local authorities and communities to acquire land in sustainable locations that meet local housing needs. Since 2012 the Group has spent £4.3bn on land and opened almost 1,500 new development outlets delivering 113,000 new homes to communities across the UK in line with the Government's drive to increase new home supply.

At the year end the Group owned and controlled 93,246 plots in its consented land holdings (2018: 99,088 plots) with c. 50% previously held by the Group as strategic land. Within these land holdings, the Group owned 46,055 plots on sites with detailed planning consent, all of which are under construction. We have a further 25,887 plots of owned land which are currently proceeding towards achieving full planning consent.

The Group owned and controlled c. 15,900 acres of strategic land, including a number of allocated sites, at 31 December 2019. In line with our strategic objectives, our land, planning and design teams will remain focused on working with planning departments and local communities to achieve implementable detailed consents as quickly as possible, to maintain a strong pipeline of well designed, newly built, good quality homes over future years.

Outstanding land creditors reduced by £113m to £435m at 31 December 2019 (2018: £548m). The Group's healthy cash generation and careful working capital management place the business in a strong position to take advantage of attractive future land investment opportunities.

Off-site manufacturing

The Group continues to focus on self-help action to address build cost pressures, including the use of the Group's core range of house types, strong collaboration with our subcontractors and suppliers, and utilisation of in-house manufactured brick and roof tiles. The Group's investments in its in-house manufacturing capabilities also support improvements in overall supply chain capacity to assist the further expansion in industry output.

The Group's concrete brick manufacturing facility, based at Harworth near Doncaster, has the capacity to manufacture c. 80m concrete bricks per annum. During 2019, our operating businesses used c. 50m bricks from this facility, just over 40% of the Group's requirements for the year.

In December 2019, the Group completed the construction of its roof tile manufacturing facility, Tileworks, based at the same site in Doncaster. The facility is due to commence delivery to our sites in spring 2020.

Our Space4 manufacturing facility, which produces timber frames, closed insulated wall panels and roof cassettes, also helps in easing traditional skills pressures in certain locations where their availability remains tight. Space4 has increased its production capacity by c. 13% to c. 6,900 units per year, consisting of c. 5,500 timber frames and c. 1,400 'room in the roof' systems.

FibreNest

In line with its ambition to deliver better service to its customers, Persimmon established FibreNest in 2018 to deliver ultrafast, full fibre to the home, broadband services. FibreNest, which is aligned with the Government's digital strategy, has expanded rapidly this year and is highly rated by its customers. At 31 December 2019, FibreNest had c. 4,700 customers connected to the service on c. 110 sites.

The Group intends to continue to support new customers on future sites as this service is rolled out further.

Our employees

The Group's talented, skilled and motivated workforce is a key strength. We have a culture of hard work, enthusiasm, commitment and resilience, and a capacity to embrace change and improvement to support the successful development of the business. The results from our recently completed Employee Engagement Survey showed that 96%[i] of colleagues understood how their individual efforts contributed to Persimmon's ability to meet its objectives. This culture is a key enabler of the delivery of the build quality and customer service improvement plan. The Group is a meritocratic open workplace where we encourage all employees to fulfil their ambitions and pursue rewarding roles as part of the Persimmon team. We provide clear opportunities for career progression and I was pleased to see 374 colleagues promoted in the year. As well as nurturing home grown talent, we recognise the value of wider experience from colleagues that have been recruited externally. In 2019, we recruited 169 people into senior positions within the business (2018: 249).

We recognise that investment in the Persimmon team is a key priority to sustain the business over future years. The Group has invested significantly in its Group Training Department which is responsible for developing group wide training resources and delivering a consistent approach to all our operating regions. The department is also delivering a comprehensive mental health training and awareness programme to each of our 31 operating businesses. We have trained three members of the department to become accredited mental health first aid trainers. To date we have trained our first 22 mental health first aiders and intend to increase this number to c. 75 by the end of 2020.

We remain committed to addressing the skills shortage within the industry and have recruited c. 750 trainees across the Group (15% of our team), including over 450 traditional apprentices. The Group is a member of The 5% Club, an employer organisation creating momentum behind the recruitment of apprentices, sponsored students and graduates into the workforce, demonstrating that young people seeking to gain skills and qualifications can have an excellent career with us. We directly employ c. 2,050 local tradespeople, more than any other housebuilder. In addition, we delivered c. 14,300 training days to our workforce and continue to be closely involved in the Home Building Skills Partnership, a joint initiative of the Construction Industry Training Board and the Home Builders Federation (HBF) that aims to address the shortage of skilled workers in the industry.

Over many years a key part of Persimmon's strategy has been to establish a diverse and inclusive workforce. In 2019, the Group signed up to the Social Mobility Pledge which encourages businesses to boost social mobility in the UK by partnering with schools and colleges to provide mentoring, coaching and structured work experience, and by adopting open recruitment practices which promote a level playing field for people from all backgrounds. Persimmon has been chosen by the Pledge team to lead its work within the housebuilding sector, reflecting the valuable work the Group is doing in this area. In addition, we have signed up to the Business Disability Forum which promotes best practice in order to help its members manage disability issues with employees, customers and other stakeholders.

To help guide and direct our investment in our colleagues we engage with our employees in a number of ways. The Group's Employee Engagement Panel, which met three times in 2019, presented its discussions to the Corporate Responsibility Committee and the Board during the year. In addition, the Group is partnering with Harris Interactive to undertake formal Employee Engagement Surveys, the first of which was rolled out in January 2020. As noted above, the initial results from this survey indicate strong employee engagement with Persimmon with colleagues valuing their work place and career opportunities highly.

Sustainability

We believe that a sustainable business is a successful business. Environmental, Social and Governance matters are extremely important to Persimmon and we believe we need to deliver long term value to all stakeholders in the business including our customers, our employees, our supply chain partners, our communities, and our shareholders, as well as wider society.

Our Corporate Responsibility Committee is responsible for co-ordinating the Board's sustainability strategy across the Group and comprises colleagues from a wide cross section of disciplines. We have appointed a Group Sustainability Manager who will be responsible for further embedding this strategy into our core operations.

We aim to embed sustainability and environmental considerations into all of our core processes. We develop on brownfield sites wherever possible. For example, our Charles Church business was awarded 'Best Refurbishment Project' at the Housebuilder Awards 2019 for its work on the previously derelict Stone Cross Manor in Ulverston.

As a responsible business, we continue to recognise the importance of contributing to wider society. During the year, the Corporate Responsibility Committee carefully reviewed each of the United Nations Sustainable Development Goals and their related targets to identify areas where we believe we can make a positive contribution to these common aims and to ensure our ongoing strategic objectives are aligned.

In early 2019, we established a 'low carbon homes' working group to plan and manage the transition to constructing new build homes with low carbon heating and improved levels of energy efficiency. We are actively engaging with the housing industry and Government to find an effective and cohesive strategy to meet the challenge of achieving the 'Future Homes Standard' proposed for 2025.

We monitor the environmental impact of our operations carefully. We have seen a reduction in our Scope 1 and 2 greenhouse gas emissions per new home sold from 2018 of c. 8% and will continue to seek more efficient methods of operating to drive further improvements. In 2020, we will review our emissions target with the aim of aligning it with the latest climate science.

The Persimmon Charitable Foundation

We are proud of the contribution made by the Persimmon Charitable Foundation. During the year, the Foundation ran some extremely successful campaigns resulting in donations of £2.3m being made to c. 900 local charities and community groups.

The 'Community Champions' campaign which was originally established in 2015, continued throughout 2019 and donated c. £740,000 to c. 770 local organisations.

The Foundation launched its 'Building Futures' campaign in 2019, in association with Team GB, and donated £1,072,000 to 127 charities which support children and young people's participation in the arts, sport, and health and wellbeing.

Both campaigns will continue in 2020.

In addition, the Foundation donated £400,000 to Crisis, a national charity working to end homelessness, and has pledged a total of £200,000 to SASH, a York based charity aiming to prevent homelessness among young people aged 16 to 25 in North and East Yorkshire.

Strong returns, capital discipline, and cash generation

The Group's return on equity[iii] for 2019 of 26.3% (2018: 27.7%) reflects its strong post tax profit of £848.8m (2018: £886.4m) and disciplined approach to capital deployment. The Group's strategy and capital return plan ensures the reinvestment needs of the business are addressed whilst the capital employed in the business is managed at appropriate levels to generate attractive risk adjusted returns for our shareholders.

Persimmon's underlying return on average capital employed[iv] for 2019 of 37.0% (2018: 41.3%) reflects the investment in our business to promote its sustainable success.

A central feature of the Group's strategy is the delivery of strong liquidity with free cash generation in 2019 of £543.6m (before capital returns of £747.8m) (2018: £477.7m before capital returns of £732.3m).

Capital returns

The Group's strategy launched in 2012 recognises Persimmon's ability to return capital which is surplus to the reinvestment needs of the business to its investors at certain points through the market cycle. We invest in infrastructure and on-site new home construction to fulfil local communities' housing needs. Our continued strong financial performance allows Persimmon to invest to achieve optimal operating scale within each of our regional markets, including executing disciplined, well judged land investment at the right time through the cycle, whilst also minimising financial risk, for the long term benefit of all stakeholders in the business.

During the eight year period from 2012 to 2019 capital returns of £9.55 per share, or £2.97 billion, have now been paid to shareholders.

As explained in the Chairman's statement, the Directors are maintaining the existing schedule of capital returns for 2020 and are pleased to announce a further return of £2.35 per share for 2021.

The total value of the Capital Return Plan to 2021 is now £14.25 per share compared to the £6.20 per share initial commitment made by the Board in 2012.

The schedule of payments under the Capital Return Plan is as follows:

Original Plan	Existing Plan	Original Plan Pence Per Share	Existing Plan Pence Per Share
28 June 2013	28 June 2013	75 paid	75 paid
	4 July 2014	-	70 paid
30 June 2015	2 April 2015	95 paid	95 paid
	1 April 2016	-	110 paid
	31 March 2017	-	25 paid
30 June 2017	3 July 2017	110 paid	110 paid
	29 March 2018 2 July 2018	- -	125 paid 110 paid
30 June 2019	29 March 2019 2 July 2019	- 110 paid	125 paid 110 paid
30 June 2020	2 April 2020 6 July 2020	- 115	125^ 110^
30 June 2021	Early March 2021 Early July 2021	- 115	110^ 125^
Total		620	1425

^ Current anticipated profile of payments.

Over and above the Group's short term outperformance, the Board has also assessed the longer term prospects of the Group and the effectiveness of its strategy. The Board's conclusions are explained within the Viability Statement in note 11.

FINANCIAL REVIEW

Profitability

The Group delivered another solid trading performance in 2019. Total revenues were £3,649.4m (2018: £3,737.6m), with a 4% reduction in new housing revenues of £125.7m to £3,420.1m from £3,545.8m in 2018, reflecting the Group's priority of putting customers before volume through the implementation of its customer care improvement plan (described in further detail in the Chief Executive's Statement).

During the year, new housing gross margins remained relatively stable at 33.1%[v] (2018: 33.3%). The Group's average private selling price of £241,985 (2018: £238,373) increased by 1.5% from the prior year. Private market sales of 12,463 new homes in the year accounted for c. 88% of the Group's housing revenue (2018: 90%). Sales in our Northern businesses accounted for 57% of the total private new homes delivered (2018: 55%).

In 2019, a greater proportion of our new home legal completions were sold to our Housing Association partners by our Westbury Partnerships business, contributing 21% of homes sold in the year (2018: 19%).

The Group's total average selling price has remained broadly in line with last year at £215,709 (2018: £215,563). The increased proportion of homes sold by Westbury Partnerships in the year served to reduce the overall year on year improvement of 1.5% in the average selling prices of the Persimmon and Charles Church private sales brands.

The Group's total gross margin for the year was 31.0% (2018: 31.6%), with a new housing gross margin of 33.1%[v] (2018: 33.3%). The cost of the Group's investment in quality assurance and customer care resources has increased by c. 50% reflecting the Group's priority of focusing on improving levels of quality and customer service.

The high quality of the Group's land holdings is reflected in the lower land recovery rates year on year which have secured an additional 60 basis point contribution to the Group's new housing gross margin. For 2019, the value of the Group's land recoveries totalled 14.0% of new housing revenue (2018: 14.6% of housing revenue).

Underlying operating profits[vi] have decreased by 5.1% to £1,036.7m (2018: £1,091.9m), with an underlying new housing operating margin[vii] of 30.3% (2018: 30.8%). The Group's underlying pre-tax profits[vi] were £1,048.1m, 4.7% lower than 2018 (£1,100.0m).

Asset strength

The Group has a robust balance sheet with net assets of £3,258.3m at 31 December 2019 (2018: £3,194.5m) having retained earnings of £2,693.9m in 2019 (2018: £2,634.0m). After returning £747.8m of surplus capital to shareholders during the year, the Group's net assets per share at 31 December were 1,021.7 pence, an increase of 2% compared with the prior year (2018: 1,006.0 pence).

At 31 December 2019 the carrying value of the Group's land assets was £1,938.6m, £138.6m lower than the prior year (2018: £2,077.2m) reflecting the Group's disciplined approach to land investment. The Group owns 71,942 plots of which 46,055 have detailed implementable planning consents. A further 21,304 plots are under the Group's control, being plots where we have exchanged contracts to buy but where the contract remains to be completed due to outstanding conditions remaining unfulfilled. Our total owned and under control land holdings provide 5.9 years of forward supply at 2019 volumes. During the year, 10,013 plots were added to our land holdings. Continued conversion of land from our strategic land portfolio together with excellent value on-market acquisitions have maintained the Group's high quality consented land holdings.

Our work in progress carrying value at 31 December 2019 of £1,094.6m was £212.8m higher than the prior year (2018: £881.8m). This reflects the Group's strategy of undertaking substantial investment in its site work in progress and delaying sales release until more advanced stages of construction are achieved in higher demand locations to support increased levels of quality and customer service. This action has improved the availability of homes to buy which are at a more advanced stage of construction, enabling us to provide more accurate move in dates for our customers and also assists in increasing the effectiveness of our quality assurance processes.

By the end of the year the Group's work in progress investment represented 32% of 2019 housing sales revenue, providing a solid platform for improved build quality and customer service.

The Board reviewed the net realisable value of land and work in progress at 31 December 2019 using consistent principles to prior years and concluded that the carrying value was appropriate. At the year end the Group retained an impairment provision of £33.7m (2018: £37.8m).

The Group's total retained profit after tax for the year was £848.8m (2018: £886.4m). The after tax remeasurement loss on the Group's £77.6m defined pension asset reduced the Group's retained earnings by £22.4m. The net settlement of share options exercised in 2019 resulted in a £26.9m decrease in the Group's retained earnings.

Cash generation, net finance income and financial assets

The Group continues to deliver strong cash generation. In 2019, the Group generated £996.2m (2018: £1,082.1m) of cash before capital returns of £747.8m and net land spend of £452.6m. Cash balances at 31 December 2019 totalled £843.9m (2018: £1,048.1m) reflecting the Group's additional investment in work in progress of £212.8m and a reduction in land creditors of £112.8m to £435.2m (2018: £548.0m). With the progressive reduction in its outstanding land creditors the Group is in a strong position to invest in new attractive land opportunities using deferred land payments where appropriate. Cash inflow from operations totalled £778.2m in 2019 (2018: £818.2m).

The Group's shared equity loans have generated £31.4m of cash in the year (2018: £41.6m). The carrying value of these outstanding shared equity loans, reported as "Shared equity loan receivables", is £68.6m at 31 December 2019 (2018: £86.9m). 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 £11.4m (2018: £8.1m). Incorporated within this is £13.1m of gains generated on the Group's shared equity loan receivables (2018: £11.2m) and £5.4m of imputed interest payable on land creditors (2018: £9.3m).

The Group's overall effective tax rate for 2019 was 18.5%, slightly lower than the mainstream rate of 19%. The Group paid corporation tax of £159.6m (2018: £165.8m) during the year. With changes in UK tax legislation, in keeping with all large UK companies, there will be an acceleration of the Group's corporation tax payments resulting in a c. £100m increase in tax cash outflows for 2020.

Shareholders' equity, treasury policy and related risks

A key element of the Board's strategy remains the return to shareholders of any capital which is surplus to the reinvestment needs of the business through the Group's Capital Return Plan. The Group maintains an efficient capital structure and a robust balance sheet which is designed to minimise financial risk through the economic cycle. The Group's Capital Return Plan schedule is continually assessed by the Directors.

In March 2019 we concluded the renewal of the Group's £300m Revolving Credit Facility with strong support from our five relationship banks. This facility has a five year term to 31 March 2024 and forms an important element in the Group's working capital resources and flexibility.

As already noted, during 2019, as part of the implementation of the customer care improvement plan the Group has invested more in its on site work in progress to support higher levels of quality and customer service, putting customers before volume. The Group has maintained its strong liquidity and a robust balance sheet including this additional substantial site investment. The Group's revolving credit facilities will only be used to support short term seasonal working capital needs. We will continue to carefully manage the working capital needs of the business, ensuring that appropriate work in progress levels are maintained on site to meet our strategic objectives, the generation of annual after tax earnings and the management of the Group's equity, debt and cash management facilities. This considered approach will mitigate the financial risks the Group faces which include credit risk, liquidity risk, interest rate volatility and debt capital market pricing risk.

Current trading outlook

The UK housing market remains supportive against a backdrop of high employment, historically low interest rates, a positive lending environment and resilient consumer confidence. The health of the UK housing market will be dependent on the impact of the new trade agreements between the UK and other world nations, including the EU, and this together with other global economic challenges, present some uncertainties over the future outlook. However, market fundamentals remain positive including long term unfulfilled level of demand. Our strategic objectives are aligned with Government housing priorities. Since 2012 we have invested c. £4.3bn in land to help bring as many new developments forward as possible. We support the Government's initiatives to assist the increase in output from the industry towards its goal of reaching 300,000 new homes built each year by the mid-2020's. The Group is well positioned in its local markets, offering homes at affordable prices on developments that concentrate on providing a good range and choice for all.

We have seen a solid start to 2020 with customer visitors to our sites running ahead of the prior year over the same eight week period. We are continuing to deliver on our strategic discipline of putting customers before volume and are delaying sales releases on certain sites with high demand until construction reaches a more advanced stage. The Group's average private sales rate in the first eight weeks of the new year is c. 7% higher than the prior year at 0.88 (2019: 0.82).

The Group has c. 4,800 new homes forward sold to its housing association partners for lower income families, in line with the same point last year. A key element of the Group's purpose is to deliver homes for all, creating inclusive and sustainable communities. We continue to offer our housing association partners the opportunity to acquire healthy new home volumes, given the Group's strong investment in new land and external infrastructure works, which is enabling substantial new developments to be brought forward. Our newly acquired Monktonhall site on the outskirts of Edinburgh, for example, will provide c. 1,000 new homes of which c. 260 will be to our housing association partners providing much needed affordable homes for the area.

Looking forward, our priority will remain on improving build quality and customer service by putting customers before volume, whilst also seeking to fulfil pressing housing needs in towns and cities across the country. We will remain alert to changing conditions in the sales and land markets and retain flexibility to react to evolving market events, particularly with regard to the transition period as the UK establishes new trading relationships, including with the EU. The Group will continue to work tirelessly in partnership with local planning authorities and local communities to bring forward the Group's strategic land for inclusion in local authority housing plans and meet their communities' housing needs over the next five years in line with the National Planning Policy Framework.

The Board recognises that the hard work, enthusiasm, resilience and commitment of the whole Persimmon team is supporting significant positive change throughout the business and delivering these strong financial results. We remain confident that the Persimmon team have the skills, imagination and drive to continue to successfully develop the business and we thank all our employees, supply chain partners, subcontractors and other stakeholders for their continued contribution to the success of the Group.

i Based on Harris Interactive Employee Engagement Survey.

ii 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.

iii 12 month rolling profit after tax generated from the average of the opening and closing total equity for the 12 month period

iv 12 month rolling average stated before goodwill impairment and includes land creditors.

v Stated on new housing revenue of £3,420.1m (2018: £3,545.8m) and gross profits of £1,130.7m (2018: (£1,179.9m).

vi Stated before goodwill impairment of £7.3m (2018: £9.2m)

vii Stated before goodwill impairment (2019: £7.3m, 2018: £9.2m) and based on new housing revenue (2019: £3,420.1m, 2018: £3,545.8m)

PERSIMMON PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	**2019 Total £m**	2018 Total £m
Revenue	2	**3,649.4**	3,737.6
Cost of sales		**(2,518.7)**	(2,557.7)
Gross profit		**1,130.7**	1,179.9
Other operating income		**8.8**	5.6
Operating expenses		**(110.1)**	(102.8)
Profit from operations before impairment of intangible assets		**1,036.7**	1,091.9
Impairment of intangible assets		**(7.3)**	(9.2)
Profit from operations		**1,029.4**	1,082.7
Finance income		**20.5**	20.4
Finance costs		**(9.1)**	(12.3)
Profit before tax		**1,040.8**	1,090.8
Tax	3	**(192.0)**	(204.4)
Profit after tax (all attributable to equity holders of the parent)		**848.8**	886.4
Other comprehensive (expense)/income			
Items that will not be reclassified to profit:			
Remeasurement (loss)/gain on defined benefit pension schemes	10	**(27.0)**	19.7
Tax	3	**4.6**	(3.3)
Other comprehensive (expense)/income for the year, net of tax		**(22.4)**	16.4
Total recognised income for the year		**826.4**	902.8
Earnings per share			
Basic	5	**266.8p**	283.3p
Diluted	5	**266.3p**	280.8p

PERSIMMON PLC

Consolidated Balance Sheet

As at 31 December 2019

	Note	**2019** **£m**	2018 £m
Assets			
Non-current assets			
Intangible assets		**186.1**	193.4
Property, plant and equipment		**82.0**	58.0
Investments accounted for using the equity method		**2.1**	3.0
Shared equity loan receivables	7	**59.2**	70.6
Trade and other receivables		**7.1**	7.0
Deferred tax assets		**6.6**	13.4
Retirement benefit assets	10	**77.6**	90.6
		420.7	436.0
Current assets			
Inventories	6	**3,156.8**	3,059.5
Shared equity loan receivables	7	**9.4**	16.3
Trade and other receivables		**58.5**	91.8
Cash and cash equivalents	9	**843.9**	1,048.1
		4,068.6	4,215.7
Total assets		**4,489.3**	4,651.7
Liabilities			
Non-current liabilities			
Trade and other payables		**(178.0)**	(270.4)
Deferred tax liabilities		**(25.2)**	(27.7)
Partnership liability		**(31.6)**	(35.2)
		(234.8)	(333.3)
Current liabilities			
Trade and other payables		**(911.7)**	(1,058.5)
Partnership liability		**(5.5)**	(5.4)
Current tax liabilities		**(79.0)**	(60.0)
		(996.2)	(1,123.9)
Total liabilities		**(1,231.0)**	(1,457.2)
Net assets		**3,258.3**	3,194.5
Equity			
Ordinary share capital issued		**31.9**	31.7
Share premium		**19.2**	15.5
Capital redemption reserve		**236.5**	236.5
Other non-distributable reserve		**276.8**	276.8
Retained earnings		**2,693.9**	2,634.0
Total equity		**3,258.3**	3,194.5

PERSIMMON PLC

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

	Share capital	Share premium	Capital redemption reserve	Other non-distributable reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 January 2018	**30.9**	**13.5**	**236.5**	**276.8**	**2,643.9**	**3,201.6**
Profit for the year	-	-	-	-	886.4	886.4
Other comprehensive income	-	-	-	-	16.4	16.4
Transactions with owners:						
Dividend on equity shares	-	-	-	-	(732.3)	(732.3)
Issue of new shares	0.8	2.0	-	-	-	2.8
Own shares purchased	-	-	-	-	(1.3)	(1.3)
Exercise of share options/share awards	-	-	-	-	(1.0)	(1.0)
Share-based payments	-	-	-	-	1.1	1.1
Net settlement of share-based payments	-	-	-	-	(180.2)	(180.2)
Satisfaction of share options from own shares held	-	-	-	-	1.0	1.0
Balance at 31 December 2018	**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:						
Dividend 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**

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 2019

	Note	**2019 £m**	2018 £m
Cash flows from operating activities:			
Profit for the year		**848.8**	886.4
Tax charge	3	**192.0**	204.4
Finance income		**(20.5)**	(20.4)
Finance costs		**9.1**	12.3
Depreciation charge		**13.3**	10.0
Impairment of intangible assets		**7.3**	9.2
Share-based payment charge		**3.7**	7.9
Net imputed interest income		**7.7**	1.9
Other non-cash items		**(7.6)**	(0.2)
Cash inflow from operating activities		**1,053.8**	1,111.5
Movement in working capital:			
Increase in inventories		**(87.7)**	(225.5)
Decrease/(increase) in trade and other receivables		**6.3**	(26.7)
Decrease in trade and other payables		**(225.6)**	(82.7)
Decrease in shared equity loan receivables		**31.4**	41.6
Cash generated from operations		**778.2**	818.2
Interest paid		**(4.2)**	(3.9)
Interest received		**5.6**	5.8
Tax paid		**(159.6)**	(165.8)
Net cash inflow from operating activities		**620.0**	654.3
Cash flows from investing activities:			
Joint venture net funding movement		**0.9**	-
Purchase of property, plant and equipment		**(27.5)**	(15.5)
Proceeds from sale of property, plant and equipment		**0.7**	0.5
Net cash outflow from investing activities		**(25.9)**	(15.0)
Cash flows from financing activities:			
Lease capital payments		**(3.8)**	-
Payment of Partnership liability		**(3.4)**	(3.2)
Net settlement of share-based payments		**(47.2)**	(159.9)
Own shares purchased		**-**	(1.3)
Share options consideration		**3.9**	2.8
Dividends paid	4	**(747.8)**	(732.3)
Net cash outflow from financing activities		**(798.3)**	(893.9)
Decrease in net cash and cash equivalents	9	**(204.2)**	(254.6)
Cash and cash equivalents at the beginning of the year		**1,048.1**	1,302.7
Cash and cash equivalents at the end of the year	9	**843.9**	1,048.1

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 2019.

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 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 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 in accordance with IFRS as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to send its Annual Report 2019 to shareholders on 17 March 2020.

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 11. 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 standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2019:

- IFRS 16 Leases
- Annual improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation

With the exception of IFRS 16 Leases, the effects of the implementation of these standards have been limited to presentational and disclosure amendments.

The Group have adopted the modified (asset = liability) retrospective approach on implementation of IFRS 16 Leases and have not amended the prior year comparatives. The Group operate a number of leases that are affected by this new standard, principally in relation to office properties and vehicles. At 31 December 2019 a "right of use" asset of £8.4m is reported within Property, plant and equipment. The associated lease liability, reported within Trade and other payables, is £8.9m at 31 December 2019.

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

- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 18 Definition of Material
- Amendments to Reference to Conceptual Framework in IFRS Standards

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

2. Revenue

	2019 £m	2018 £m
Revenue from the sale of new housing	**3,420.1**	3,545.8
Revenue from the sale of part exchange properties	**228.6**	191.8
Revenue from the provision of internet services	**0.7**	-
Revenue from the sale of goods and services as reported in the statement of comprehensive income	**3,649.4**	3,737.6

3. Tax

	2019 £m	2018 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	**196.7**	202.1
Adjustments in respect of prior years	**(8.2)**	(5.0)
	188.5	197.1
Deferred tax relating to origination and reversal of temporary differences	**3.2**	6.9
Adjustments recognised in the current year in respect of prior years deferred tax	**0.3**	0.4
	3.5	7.3
	192.0	204.4

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

	2019 £m	2018 £m
Profit from continuing operations	**1,040.8**	1,090.8
Tax calculated at UK corporation tax rate of 19% (2018: 19%)	**197.7**	207.3
Accounting base cost not deductible for tax purposes	**0.5**	0.5
Goodwill impairment losses that are not deductible	**1.4**	1.7
Expenditure not allowable for tax purposes	**0.2**	0.3
Effect of change in rate of corporation tax	**-**	(2.2)
Deferred tax written off on lapsed share-based payments	**0.1**	1.4
Adjustments in respect of prior years	**(7.9)**	(4.6)
Tax charge for the year recognised in profit	**192.0**	204.4

The Group's overall effective tax rate of 18.5% 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 change enacted on 15 September 2016 effective from 1 April 2020 (17%) has been used unless timing differences are expected to reverse in 2020 or 2021.

In addition to the amount recognised in profit, deferred tax of £4.6m was credited directly to other comprehensive income (2018: charge of £3.3m), and a £5.3m charge was recognised in equity (2018: charge of £71.7m). The Group has recognised deferred tax liabilities of £13.2m (2018: liabilities of £15.4m) on retirement benefit assets of £77.6m (2018: assets of £90.6m).

4. Dividends/Return of capital

	2019 £m	2018 £m
Amounts recognised as distributions to capital holders in the period:		
2017 dividend to all shareholders of 125p per share paid 2018	**-**	388.5
2017 dividend to all shareholders of 110p per share paid 2018	**-**	343.8
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**	-
Total capital return	**747.8**	732.3

The Directors propose to return 125 pence of surplus capital to shareholders for each ordinary share held on 6 March 2020 with payment made on 2 April 2020 as an interim dividend in respect of the financial year ended 31 December 2019. In addition, the Directors propose the payment of the regular annual capital return instalment of 110 pence per share, with payment scheduled for 6 July 2020 as a final dividend with respect to the financial year ended 31 December 2019, to shareholders for each ordinary share held on 12 June 2020. The total return to shareholders is therefore 235 pence per share (2019: 235 pence per share) in respect of the financial year ended 31 December 2019.

5. 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 318.1m shares (2018: 312.9m) 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 318.8m shares (2018: 315.7m).

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

	2019	2018
Basic earnings per share	**266.8p**	283.3p
Underlying basic earnings per share	**269.1p**	286.3p
Diluted earnings per share	**266.3p**	280.8p
Underlying diluted earnings per share	**268.6p**	283.7p

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

	2019 £m	2018 £m
Underlying earnings attributable to shareholders	**856.1**	895.6
Goodwill impairment	**(7.3)**	(9.2)
Earnings attributable to shareholders	**848.8**	886.4

6. Inventories

	2019 £m	2018 £m
Land	**1,938.6**	2,077.2
Work in progress	**1,094.6**	881.8
Part exchange properties	**71.8**	56.2
Showhouses	**51.8**	44.3
	3,156.8	3,059.5

7. Shared equity loan receivables

	2019	2018
	£m	£m
Shared equity loan receivables at 1 January	**86.9**	117.3
Settlements	**(31.4)**	(41.6)
Gains	**13.1**	11.2
Shared equity loan receivables at 31 December	**68.6**	86.9

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, £7.1m (2018: £3.0m) was unrealised.

8. 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:

	2019	2018
	Level 3	Level 3
	£m	£m
Shared equity loan receivables	**68.6**	86.9

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 (2018: ten years) and discount rate 9% (2018: 9%) 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.

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

	2019	2018
	£m	£m
Cash and cash equivalents at 1 January	**1,048.1**	1,302.7
Decrease in net cash and cash equivalents in cashflow	**(204.2)**	(254.6)
Cash and cash equivalents at 31 December	**843.9**	1,048.1
IFRS 16 lease liability	**(8.9)**	-
Net cash at 31 December	**835.0**	1,048.1

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

10. Retirement benefit assets

As at 31 December 2019 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:

	2019	2018
	£m	£m
Current service cost	**1.7**	2.0
Past service cost	**-**	5.5
Administrative expense	**0.9**	0.9
Pension cost recognised as operating expense	**2.6**	8.4
Interest cost	**14.9**	14.2
Return on assets recorded as interest	**(17.6)**	(15.9)
Pension cost recognised as net finance credit	**(2.7)**	(1.7)
Total defined benefit pension (credit)/cost recognised in profit or loss	**(0.1)**	6.7
Remeasurement loss/(gain) recognised in other comprehensive income	**27.0**	(19.7)
Total defined benefit scheme loss/(gain) recognised	**26.9**	(13.0)

The past service cost recognised in the prior period reflected the impact of the legal rulings 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:

	2019	2018
	£m	£m
Fair value of Pension Scheme assets	**672.8**	616.8
Present value of funded obligations	**(595.2)**	(526.2)
Net pension asset	**77.6**	90.6

11. Principal risks and Viability Statement

UK's exit from the EU		
Residual Risk High **Change from prior year** No change	**Impact** The UK's exit from the European Union may lead to increased economic 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. Should the UK's future trading arrangements with the EU not be finalised before the end of the transition period in December 2020, a 'no deal' scenario could still occur. If this is the case, some of the Group's EU imported materials may be subject to tariffs resulting in increased material costs. Potential legislative changes on customs arrangements could create bottlenecks at ports and impact on the availability and cost of imported materials and components within our supply chain.	**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 closely engage with our key suppliers and have obtained assurances over the continuity of our material supply where relevant. We will continue to employ effective tendering processes to ensure cost impacts are mitigated as far as possible. 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** 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. Our diversity of geographical markets and our continual monitoring of the Group's geographical spread helps us mitigate the effects of regional economic fluctuations. We control the level of build on site by closely monitoring our stock and work in progress levels. The Group's strong land bank provides continuity of supply and ensures that our extensive due diligence processes and targeted hurdle rates are always achieved 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. Significant land additions are reviewed by the Executive Directors.
Government policy		
Residual Risk High	**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	**Mitigation** We monitor Government policy in relation to the housing market very closely. Consistency of policy formulation and application is very supportive of the housebuilding industry, encouraging continued substantial investment in land, work in progress and skills to support output growth. Our strategic

Change from prior year No change	Help to Buy scheme or other housing policies could have an adverse effect on 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.	objectives, delivering homes for all, are aligned with government priorities for increasing housing stock. The UK Government continues to support the Help to Buy scheme, which is currently scheduled to remain in place until 2023. 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 and cash flows.	**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 Government's Help to Buy scheme, which is currently scheduled to remain in place until 2023, supports customers to gain access to the housing market across the UK with competitive mortgage rates.
Health and safety		
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.	**Mitigation** The Board has a very strong commitment to health and safety and managing the risks in this area effectively. This is implemented by comprehensive management systems and controls, managed by our Group Health and Safety Department, which includes detailed training and inspection programmes to minimise the likelihood and impact of accidents on our sites. 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.
Labour and resources: skilled workforce, retention and succession		
Residual Risk Medium **Change from prior year** No change	**Impact** Access to an appropriately skilled workforce is a key requirement for the Group. 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.	**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 adequate supply of skilled labour. Our in-house Group Training Department has been established to standardise and more effectively coordinate training activity. 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

<table>
<tr><td></td><td></td><td>Committee oversees these processes and promotes effective succession planning.</td></tr>
<tr><td colspan="3">Labour and resources: materials and land purchasing</td></tr>
<tr><td>Residual Risk
Medium

Change from prior year
No change</td><td>Impact
<u>Materials availability</u>
Recent growth in UK housebuilding has led to an increased demand for materials which is placing greater pressure on 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 place and at the wrong time in the housing market cycle.</td><td>Mitigation
<u>Materials availability</u>
Our build programmes and our supply chain are closely monitored to allow us to manage and react to any supply chain issues and to help ensure consistent high quality standards. We build strong relationships with key suppliers over the long term to ensure 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 is providing a significant proportion of the bricks we use and our roof tile manufacturing facility will be commissioned in spring 2020. 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. During build, each of our new homes undergoes a seven stage internal quality check process, supported with IT tools to enable monitoring. This process has been further strengthened during 2019 by the introduction of a new team of Independent Quality Inspectors across each of our regional businesses.

<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.</td></tr>
<tr><td colspan="3">Strategy</td></tr>
<tr><td>Residual Risk
Low

Change from prior year
No change</td><td>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, it is possible that 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</td><td>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. During the year, for example, the Group implemented a clear strategy to put customers before volume. The Board is incorporating the recommendations of the Independent Review in its future strategy. A search has commenced for a Non-Executive Director with construction sector expertise in order to further challenge and inform strategic decision making.

The Board engages with all stakeholders to ensure the strategy is communicated, understood and effective. For</td></tr>
</table>

	are inappropriate, operational activities may not successfully deliver the Group's strategic objectives.	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.
Climate change		
Residual Risk Medium **Change from prior year** Increased	**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 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 should financial institutions consider the possible impacts relating to climate change. Changes in weather patterns may increase build costs and/or development timeframes. The impact and likelihood of this risk has increased compared to the prior year as an ever heightening awareness and demand for action is likely to result in a more urgent transition to a lower carbon economy.	**Mitigation** We monitor our operational efficiency and direct environmental impact in a number of ways including measuring our own CO_{2e} emissions and the amount of waste we generate for each home we sell. The Group has developed a climate change risk register which ensures that the management and mitigation of the risk is embedded within the Group's risk management process. We have also 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. On 1 October 2019, the Government set out its plans for the 'Future Homes Standard' including proposed options to increase the energy efficiency requirements for new homes in 2020 as a 'stepping stone' to achieving the new standard. The Future Homes Standard (to be introduced by 2025) will require new build homes to be future-proofed with low carbon heating and world leading levels of energy efficiency. During the year, the Group established a low carbon homes working group (consisting of members from across the Group's various disciplines) to effectively plan and manage the transition to low carbon homes. The Group, which collaborates with key suppliers, is aiming to identify the most effective solutions to developing low carbon homes. It meets regularly and reports its findings to the Board. The Group is proactively engaging with the housing industry and the Government to develop industry wide solutions to meet the requirements of the Future Homes Standard. 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 and safety 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** Management Supervision 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 matters 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 during the year with further ongoing improvements being made. Where management oversight identifies inconsistencies in adherence to agreed processes, correcting actions are swiftly taken. The identification of instances of incorrect cavity barrier installations, for example, resulted in immediate action and a detailed programme of inspections and rectifications, including training and introduction of the initiatives described below to strengthen oversight during construction. A Construction Working Group comprising senior experienced construction professionals from across the Group was established in October 2019 in order to strengthen Group build processes and establish a consolidated, consistent Group wide approach to construction (the Persimmon Way). A new senior "Construction Champion" role has also been created to strengthen oversight of Group build processes across all regions. The Group has appointed a team of Independent Quality Inspectors to undertake regular inspections of all aspects of construction activity on our sites as well as continually assessing the finished quality of our new homes. Once implemented there will be an external audit of this process on an annual basis in line with the Persimmon Way. Other senior appointments have been made at Group level to promote and enforce compliance with policies and procedures as well as to provide the Board with assurance that they are being implemented properly. Stakeholder Relationships 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. Within 2019 we have further developed our engagement activities with all stakeholders. For example, we have improved engagement with our employees through the Employee Engagement and Gender Diversity Panels which meet regularly and report to the Board. We have invested in a number of measures to improve customer experience by putting customers before volume. These measures have included the introduction of a retention scheme for customers with cover to include any faults identified during the first week of occupation, and invested in a customer portal which will be

		rolled out across the Group in 2020. We continue to foster long term, mutually beneficial relationships with our 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.
Regulatory compliance		
Residual Risk Low **Change from prior year** Increased	**Impact** The housebuilding industry is subject to extensive and complex laws and regulations, particularly in areas such as land acquisition, planning and the environment. Ensuring compliance in these areas can result in delays in securing the land required for development and in construction. Any failure to comply with regulations could result in damage to the Group's reputation and potential imposition of financial penalties. The potential risk impact in this area has increased during the year, reflecting increasing regulatory requirements, and the scale of potential penalties under recent legislation (for example those under the General Data Protection Regulation "GDPR").	**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. The identification of instances of incorrect cavity barrier installations, for example, resulted in immediate action and a detailed programme of inspections and rectifications, including training and a range of other initiatives to strengthen oversight during construction. We engage extensively with planning authorities and other stakeholders to reduce the likelihood and impact of any delays or disruption. We also hold a land bank sufficient to provide security of supply for medium term land requirements.
Cyber and Data Risk		
Residual Risk Medium **Change from prior year** New	**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 and reputational damage and business disruption, 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. The Group has detailed and robust systems development and implementation processes in place and a Cyber Incident Response Plan. The Group has also appointed a Cyber Security Manager responsible for the management and oversight of security controls. Periodic penetration testing is carried out through security partners to test the security of our perimeter network. 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 also form part of the Board's assessment of long term prospects and viability*.

Assessing Persimmon's 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 recognises the inherent cyclicality of the UK housing market. This cyclicality reflects the effect that some of the principal risks that challenge the Group's strategy and business model can have over time.

Persimmon possesses the key ingredients that are required to realise the Group's purpose and will deliver sustainable success – talented teams focused on consistently delivering good quality homes for our customers, strong local community and customer relationships, market knowledge and long term supplier engagement, expertise and industry know how, and high quality land that allows us to create attractive places that deliver long term value for our customers and other stakeholders. Through the implementation of the Group's customer care improvement plan and the recommendations of the Independent Review the Group is further strengthening the platform that will support the future success of the business. By building on these solid foundations 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 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

- Flexible cost structure to allow the effective response to changes in market conditions

- Increased 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 2024

2. Strategy and business model

- Clear strategy to support continued investment in sustainable, inclusive residential development opportunities for the long term benefit of local communities and other stakeholders throughout the UK

- 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

- Positioning the business to retain appropriate flexibility to mitigate the impacts of the cyclicality of the UK housing market is a key element of the Group's strategy

- 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:

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

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

- The risk of a reduction in mortgage funding availability and/or affordability due to reduced lender risk appetite and/or regulatory 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 in October 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, 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 launched in early 2012 and documented in the Strategic Report is the Group's commitment to maintain capital discipline over the long term through the housing cycle. On launch, this commitment was reinforced with the announcement of the Group's Capital Return Plan ("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 eight years the Group is ahead of plan and has paid £9.55 per share, or £2.97bn back to shareholders. On 27 February 2020 the Directors announced the scheduled CRP payments in respect of the financial year ended 31 December 2019. Further details can be found in the Chief Executive'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 to 31 March 2024.

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 Group has considered the impact of these risks (particularly those in relation to the cyclicality of the UK housing market and the economic environment) on the viability of the business by performing a range of sensitivity analyses including severe but plausible scenarios materialising together with the likely effectiveness of mitigating actions that would be executed by the Directors.

These scenarios included the stress testing of the Group's business model assuming that a combination of events resulted in a substantial reduction in sales, similar to a severe recession, with a deterioration in employment levels and consumer confidence, coupled with a collapse in bank risk appetite, leading to a material reduction in credit availability. In undertaking the stress testing, the Directors assumed a rapid change in circumstances over a relatively short period of time so as to test the strength of the mitigating actions available to address the stress exerted on the Group's business model. In total it was assumed average selling prices fell by c. 15% over an initial three year period, during which time it was also assumed that sales volumes fell by over 45%, before the market was assumed to stabilise and then gradually move into a recovery phase. Due to the combined effect of these factors the Group's housing revenues were assumed to fall by c. 53% during this period. The stress tests and mitigation were guided by the experience gained from the management of the business through the Global Financial Crisis from 2007 to 2010. Cash flows were assumed to be managed consistently ensuring all appropriate investment was made in the business at the appropriate time as a priority. The Directors assumed they would make the most appropriate decisions regarding returning surplus capital to shareholders through this period to ensure the strategic objective of minimising financial risk through the cycle was achieved. The payment of the "regular" element of the CRP in early July each year was maintained. This stress testing of principal risks materialising also considered the potential for costs of exceptional charges and asset impairment to arise.

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 2024.

* 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 2019 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 2019 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
Dave Jenkinson	Group Chief Executive
Mike Killoran	Group Finance Director
Nigel Mills	Senior Independent Director
Marion Sears	Non-Executive Director
Rachel Kentleton	Non-Executive Director
Simon Litherland	Non-Executive Director

By order of the Board

Dave Jenkinson	**Mike Killoran**
Group Chief Executive 26 February 2020	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.