

# Business Review

## Chief Executive's Review of 2006 Performance

In my first year as Group Chief Executive, I am delighted to report that the Persimmon Group has made significant progress: we achieved another set of record results – our 11th successive year of profit increase, and we have successfully completed a further step change in the scale and scope of Persimmon with the acquisition of Westbury.

It has been a demanding year during which the market has remained healthy and competitive. Persimmon's position as a truly national housebuilder with strong branding has once again proved very successful. A buoyant start to 2006 was followed by a slight slow down in April. An atypical resurgence during the traditionally quieter summer months still needed the selective use of incentives, especially for first time buyers, and the market remained competitive towards the end of the year. With our successful targeted marketing strategies and utilisation of part exchange we retained good reservation levels, and turned our part exchange stock quickly, indicating that the second hand market was still robust for sensibly priced houses.

Over the year we saw the average selling price for the Group increase to £188,129 (2005: £180,892) a rise of 4%. In line with our prediction at the beginning of the year, there was an actual 3% price increase to the value of our homes in real terms. The remaining 1% was as a result of a change to our house type mix across the three brands: Persimmon, Charles Church and Westbury Partnerships.

We have seen a dramatic rise in our home completions to 16,701 (2005: 12,636) for the year, a combination of organic growth and from the acquired Westbury business. Following the integration of Westbury, completions in the second half of the year increased to 8,475 (2005: 6,682) building on our first half completions and further underlining our solid performance in 2006.

This year the Government has brought forward a number of initiatives for consultation that affect the industry. The most significant of these is the ambitious announcement that all new homes will be built to zero carbon performance standards by 2016. This environmental issue is important to us all. We will play our part by working with the Government to achieve this demanding target. We welcome the phasing of this requirement which will allow time to move to a carbon zero home. With Space4 we are already well placed to meet the first of the new standards that are set to be achieved by 2010.

There have also been a number of new consultations regarding the planning system and the general direction is to be welcomed. The Government recognises that changes to the system are required if we are to build the 200,000 plus homes that need to be built per annum. The Barker II Review and PPS3 will help in this delivery. As a leading housebuilder with a large strategic land holding we are in a strong position to deliver much needed homes for the country and this is a great opportunity for our business.

### DIVISIONAL STRUCTURE

In order to establish a strong platform for future sustainable growth we have restructured the business into three new divisions. This ensures that Persimmon, Charles Church, and now Westbury Partnerships are fully integrated into each division. As is Persimmon's hallmark, these divisions will retain their regional flexibility to maximise the market opportunities within their areas. This new focus will provide further scope for long term growth to the business. The highly experienced management teams in each division have already shown from their excellent performance this year the benefits of this restructuring.

### NORTH DIVISION

This division has completed 4,069 (2005: 3,608) units, an increase on last year of 13%, due mainly to organic growth. Selling prices have decreased slightly to £166,584 (2005: £167,049) due to the impact of the increase in volumes delivered by our successful Partnerships business in Scotland. Excluding Partnerships this increase is more muted than we have seen in previous years, encouraging a more sustainable market.

The strongest region was Scotland with good growth particularly in the Partnerships business which completed 403 homes (2005: 227). We were delighted to achieve recognition by the Prince's Trust for our regeneration scheme Anchor Mills, Paisley, demonstrating the Group's skill in developing complex refurbishment projects. The North East has achieved excellent results this year after a more challenging market in 2005. It has completed 970 homes at an affordable average selling price of only £161,444.

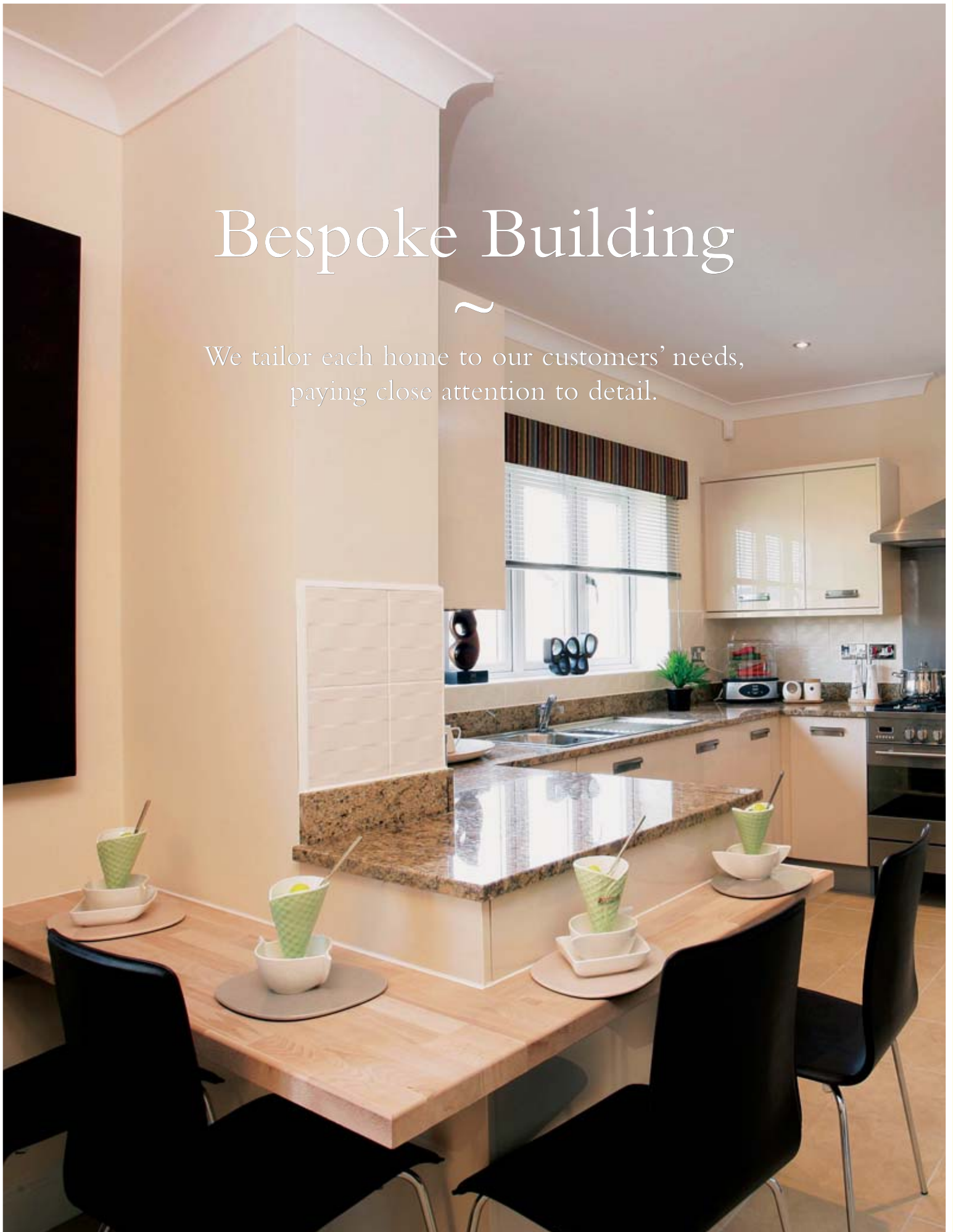


Mike Farley, Group Chief Executive

# Bespoke Building



We tailor each home to our customers' needs,  
paying close attention to detail.







## CENTRAL DIVISION

This is the largest of the 3 divisions. Completions here increased substantially to 6,156 (2005: 4,815) and whilst the business has continued to grow organically it has also benefited from the Westbury acquisition. Although price growth within the division as a whole was more modest at 5%, there has been a wide variation in the level of increase.

In the Birmingham region two of our significant brownfield regeneration sites at Cape Hill, Birmingham and Banner Brook, Coventry commenced with their first legal completions this year and have sold very well. These substantial schemes will benefit the business in these areas for a number of years. Whilst the market in Birmingham remains competitive, lower average selling prices of our homes in this area at £162,553 mean we can maintain affordability.

In the North West there was little real price growth, however we saw substantial growth in volume. The integration of Senator Homes into our Lancashire operation has gone very well whilst providing a large number of sites in an area where it has been difficult to obtain planning consents.

## SOUTH DIVISION

The South division has increased completions substantially as a result of the Westbury acquisition to 3,578 (2005: 2,927). It has performed very well and there is a consistent demand across the whole division. We have seen sustained price growth of 4% noticeably in the West Country and on into Wales where the market remains strong.

In Wales we received a highly acclaimed regional winner award from the NHBC. Our site manager was voted one of the top 8 managers in the house building industry, demonstrating our continued commitment to quality. In addition the Group achieved 5 Seal of Excellence Awards from the NHBC for our developments across the whole of the UK.

## CHARLES CHURCH

Within Charles Church we have invested significantly and now have 10 operating companies. We have increased completions by 125% to 2,898 completions (2005: 1,286). The decision was made to extend the range of homes offered and bring it into the mid range market by reducing the average size of the Charles Church homes. This has reduced the average selling price to £253,236 (2005: £283,260), but without compromising our quality.

This year we have taken first completions from Charles Church Scotland and Charles Church Wales, both companies benefiting from our existing strong presence in these regions. Charles Church Wales has also benefited from the integration of Westbury premium sites.

The acquisition of Westbury has provided Charles Church a step change in volume which will lead to greater overhead efficiency and profitability in the future.

## WESTBURY PARTNERSHIPS

In 2007/08 the Government will be providing an additional 49,000 affordable homes with the prospect of further new homes in the years to follow, resulting in a significantly expanding sector. We have created a specialist business based in Gloucester which is committed to the delivery of affordable housing in England. This is a business which Westbury had been developing for a number of years which we have refocused. The team is working on a number of projects in the south that will provide affordable homes in the future. It should be noted that there is a longer lead in period before these schemes commence. This is due to the number of stakeholder interests that need to be accommodated for each scheme. Westbury Partnerships completed 197 homes at an average selling price of £91,036, making a positive contribution to Group profits in its first year of trading.

I was particularly pleased that the Persimmon Group was one of the first developers to receive a direct housing grant of £16.5 million from the Housing Corporation, the Government's body responsible for the delivery of affordable homes. This will accelerate the rate at which affordable homes are delivered by the Group for local communities. In the current climate Westbury Partnerships is set to grow significantly.

## SPACE4

This is our state of the art manufacturing plant based in Castle Bromwich, Birmingham producing Modern Method of Construction housing. We have carried out a full business review since the acquisition of Westbury, both in the factory and on site.

In the factory we have changed a number of suppliers to benefit from the enhanced Group buying power. We have developed a new range of affordable homes that are factory efficient, environmentally friendly and meet all Government requirements regarding affordable housing standards. This has resulted in positive feedback from housing associations regarding the future use of these houses.

On site we have carried out a number of technical changes which will simplify the process and lead to greater efficiency. In the future Westbury Partnerships will begin to build this new housing range on sites controlled by Persimmon.

This year has been a transitional year and these changes when combined with the environmental benefits of the system will lead to increased volumes and profitability in 2007.

#### LAND BANK

Our land bank has benefited significantly from the Westbury acquisition, standing at 80,085 plots (2005: 63,336 plots) owned and under control, an increase of 26%. There has been an expected increase to our plot cost ratio to selling price due to the acquisition. A number of these plots have been allocated to Charles Church which generally has a higher ratio. These plots will sustain Charles Church into the future. In the second half of the year we were particularly successful in the land market and our land bank now stands at 4.8 years. We continue to advocate holding a long land bank while the planning environment remains difficult.

Our strategic land bank now stands at c. 23,200 acres and we have benefited from a number of exciting and value enhancing opportunities deriving from the Westbury portfolio. We have been successful in delivering c. 25% of our new plots through strategic land, and in addition we believe there will be a major benefit to the business by the delivery of 30,000 strategic plots in the next three years. Investment in this land will exceed £1 billion and will deliver organic growth in terms of volumes and margins for the business in the medium and long term. Our track record, balance sheet, and reputation, enables us to invest in new long term opportunities that will sustain the business for many years.

#### WESTBURY INTEGRATION

As referred to in the Chairman's Statement we have now successfully completed the Westbury integration. The new staff have integrated well, enhancing our business, and we are pleased they have embraced our culture.

The Westbury sites have been transferred throughout the entire Group with particular benefit being derived by the Charles Church operation. Where necessary we have cleared stock and put in tighter management controls over work in progress, resulting in a substantial reduction in gearing. We have carried out a full review and reduced build costs by improving procurement and sub contractor costs. In a number of cases our technical teams identified cost effective solutions which have benefited our margins.

As a result of these efforts we are able to maximise the synergy benefits for the Group which are c. £32 million for 2006. We are confident of increasing these benefits in future years as the savings are rolled out on Westbury sites and we make further procurement savings due to the size of the enlarged business.

We are confident that Westbury Partnerships, when combined with Space4, will provide much needed affordable housing that can be delivered in an energy efficient and environmentally friendly manner.

#### CORPORATE RESPONSIBILITY

We seek to integrate our policies and procedures into our normal business activities in a constructive and responsible way to ensure that when building new homes we take into account our impact on the environment, how we look after our customers and how we treat our employees. Our positive and robust approach to Corporate Responsibility will improve our reputation and lead to increased customer satisfaction, employee loyalty and facilitate improvements in efficiency and our business performance.

During 2006 we have continued our good work of previous years. Building energy efficient housing has a significant role to play in tackling climate change and we have again last year increased the average energy efficiency of our new homes. We have also continued our Modern Methods of Construction project at Irlam, Manchester and we were rewarded by winning the "Best Innovation in the Use of Materials and Products" for our Techno House at the 2006 House Building Innovation Awards.

Last year we set ourselves a target to reduce the amount of waste generated for each new home we built. We have reduced this waste by 17% to nine tonnes per home built and over two thirds of this is recycled.

We have continued to invest heavily in our Health and Safety management and training. I am pleased to report that we have seen a reduction in major injuries of 15% during the year, despite a 25% increase in the number of sites from which we operate. We are again setting all our operating businesses performance targets for Health and Safety to increase our performance in this vital area of our business.

We continue to improve our quality control processes and invest heavily in training our staff to improve customer service. All our staff are dedicated to ensuring higher levels of customer satisfaction. During 2006 our surveys found that in excess of 86% of our customers would recommend a friend to purchase a new home from us.

#### CURRENT TRADING OUTLOOK

The beginning of the year has started well despite the unexpected rise in interest rates, and to date we have achieved a good level of reservations and have not experienced any loss of purchaser confidence as a result of this rate increase. This is further supported by the fact that our cancellation rate for the first seven weeks of 2007 is only 15% (2006: 19%) an improvement on the previous year.

At this time we have c. 7,000 forward sales with a total value of £1.3 billion, an increase over the same time last year. We have 120 new sites opening in the next few months. Some will replace existing sites that are closing but will lead to an overall increase of 50 in the number of outlets when compared to 2006. The market remains competitive but we have seen some opportunity for modest price growth on new outlets.

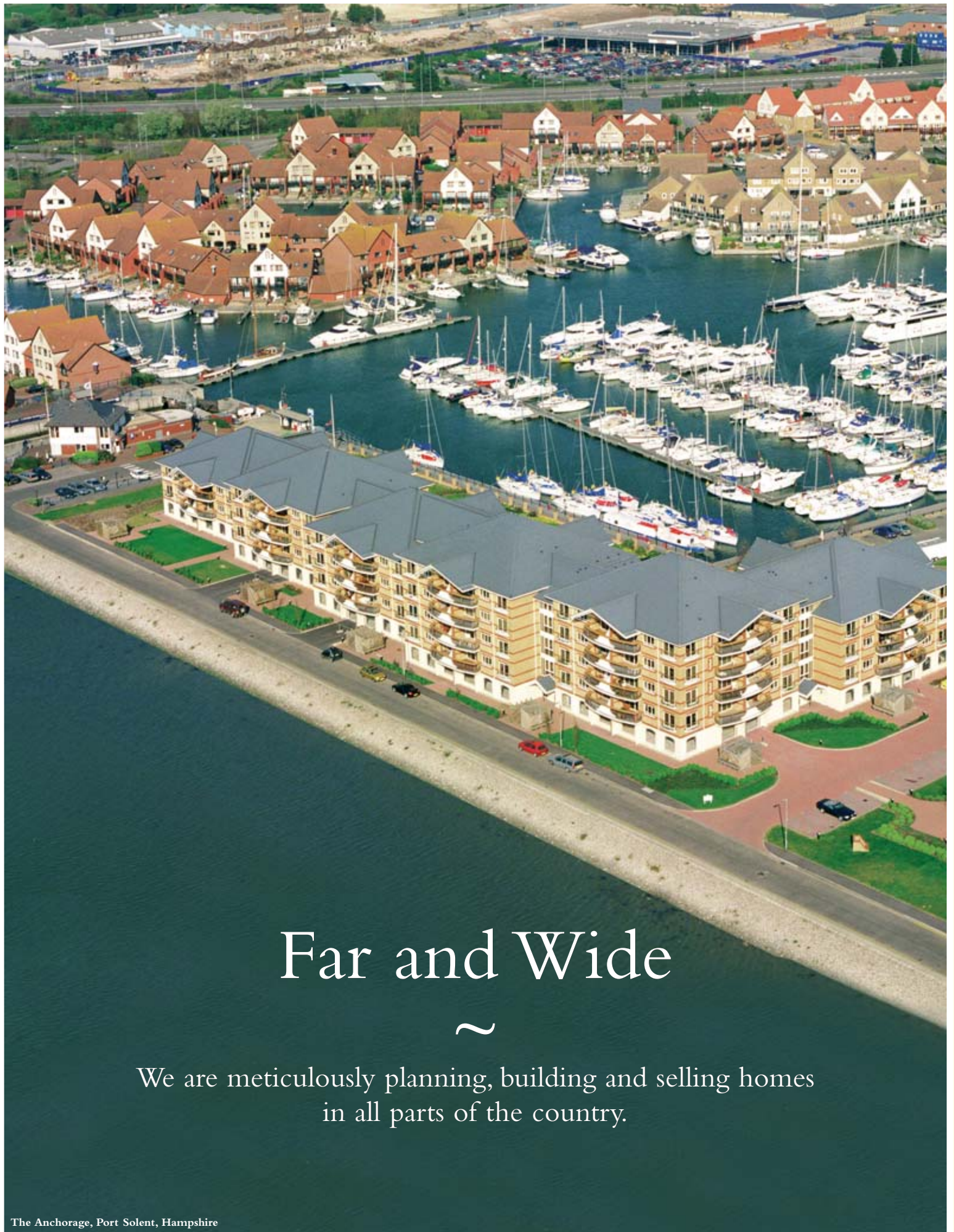
#### SUMMARY

This year has seen the successful integration of the Westbury business and we are very pleased to be able to report record profits.

Key corporate achievements this year have been the reduction of our net borrowings to £661.3 million taking gearing to 33% at the year end and the increase of our synergy savings to £32 million, both ahead of expectations. Our total land bank is at an all time high at 94,655 plots (including land proceeding to contract). In addition to this we continue to achieve success with additional consented plots from our strategic land portfolio. Combining this with growth opportunities from our Persimmon core housing, Charles Church brand, Westbury Partnerships and Space4, we have an excellent platform on which to grow the business in the future. We have a good forward sales position and a strong balance sheet that will enable us to take advantage of any opportunities that will enhance the business.

I would like to take this opportunity to thank all our staff for their commitment to the successful divisional restructuring and the integration of Westbury. With their support I am confident the business is in great shape and in an excellent position to continue its growth in the future.

**Mike Farley** Group Chief Executive  
23 February 2007



# Far and Wide



We are meticulously planning, building and selling homes  
in all parts of the country.



Pimlico Apartments, Pimlico, London



Wester Inch, Bathgate, Scotland



Wensleydale Gardens, Leyburn, North Yorkshire



Wellington Place, Elvetham Heath, Fleet, Hampshire