

Business Review: Review of Strategy



Mike Farley, Group Chief Executive

We believe that the implementation of our strategy has placed us in an excellent position to continue to grow our business and we have confidence in the future.

Our Strategy

Our business is the construction and sale of new homes in the UK market, which includes land acquisition and development. Our long term strategy is to continue to profitably grow our business. We follow a strategy of reducing exposure to local market volatility by maintaining operations across geographically and economically diverse markets to enhance our growth potential.

Our growth strategy is a controlled process of managing our balance sheet while we grow both organically, through land acquisition and development in existing business units and markets, and through the acquisition of other house building companies where there is an opportunity to strengthen our presence in our existing markets.

We believe that our business requires in-depth knowledge of local markets in order to acquire land, to engage subcontractors, to plan sites in accordance with local demand, to anticipate customer tastes in specific markets and to assess the regulatory environment. Our divisional structure is designed to utilise our local market expertise.

Land

Our strategy is to maintain a landbank sufficient to ensure a continued supply of land with residential planning consent, our basic raw material. We acquire land only after we have completed appropriate due diligence, including site investigations and evaluation of the planning status. Although we purchase land primarily to support our house building activities, we also trade land with other housebuilders, primarily to secure additional sales outlets. We control a substantial amount of land, both owned and through option agreements, which we promote through the planning process.

Development

Our management teams supervise and control the design, development and construction of our housing sites. We are not dependent on any single supplier or subcontractor. We have a number of fixed price contracts with subcontractors and material suppliers, which help limit the effect of commodity price increases. We also attempt to maintain efficient operations by utilising standardised materials available from a variety of sources. Our supply agreements also allow us to leverage our volume through quantity purchase discounts for a number of products.

Sales

We monitor our sales to ensure that the mix of our new homes is aligned to meet demand and to ensure that we are not over exposed in any one particular house type. We build show houses and view homes to enable our customers to see the finished product and then closely match our build programmes with our customer orders. We look after our customers and aim to ensure that they receive good service, both during and after the house buying process.

Risk Factors

We plan to continually mitigate and minimise the risks inherent within the residential development process. However there are many substantial risks outside of our control which could affect our business. The principal risks are:

- National and regional economic conditions: the house building industry is sensitive to changes such as job growth, housing demand, interest rates and consumer confidence. Any deterioration in economic conditions could decrease demand and pricing for new homes which could have a material affect on our business, revenues or profits.
- Competitive markets: we operate in a market with many other national, regional and local housebuilders. Increasing levels of competition could reduce the number of homes we build and affect revenues or profits.
- Land supply: there is a shortage of supply of land with residential planning consent and increasing competition may affect our ability to acquire suitable land at reasonable prices.
- Regulatory compliance: our business is subject to extensive and complex laws and regulations principally relating to planning, the environment and health and safety. Our obligations to comply with legislation can result in delays in land development and house building activity causing us to incur substantial costs and prohibit or restrict land development and construction.
- Capital requirements: our ability to continue to grow our business depends upon our ability to access capital on favourable terms. We could be adversely affected by a change in our credit rating or a disruption in the capital markets.



Farington Villas, Farington, Lancashire

Corporate Responsibility

We understand the need to take into account our impact on the environment, our effect on the communities in which we build, the morale and welfare of our employees and the satisfaction of our customers.

Our key responsibilities are to build sustainable homes, to operate efficiently and minimise our impact on the environment, to work with local communities, to promote skills within our workforce, to provide a healthy and safe working environment and to care for our customers. Our strategy is to integrate these complex social and environmental issues into our management processes in running our business.

Length



Keeper's Field, Kings Hill, Kent

Breadth

Persimmon's divisional management structure ensures the Group benefits from national coverage.



Lund Farm Collins, Cumbria