

Performance Review

The Market

The UK housing market has experienced one of the most severe downturns in activity due to a significant reduction in mortgage availability and the loss of buyer confidence. As a result, 2008 has been a year of change for Persimmon during which we have redefined and refocused our business.

We saw the first signs of the impact of the credit tightening in September 2007 which produced a lower forward order book for 2008 (down by 14% from the previous year). During the first quarter of 2008 market concerns regarding credit availability and consumer confidence resulted in a 17% reduction in visitor numbers to our sites compared to 2007. However, our reservations declined by c. 30% showing a noticeable disconnection between the number of visitors to site and the number of reservations, which are normally aligned with each other. This clearly indicated that the shortage of credit was having an adverse impact on the business.

In April mortgage provision tightened and our reservation levels reduced further. We had already limited our exposure to further land expenditure as a result of the increasing uncertainties in the housing market, and took the decision to reduce further our work in progress commitment on site. We also postponed the start of all new developments at that time. As a result, we have been able to reduce our stock properties by c. 36%, which now stand at c. 850 units. We offered more incentives to maintain our sales rates and reduced prices, which culminated in a 5% reduction in selling prices in the first half of the year.

As a consequence of the market outlook and downturn in our sales reservations, we have restructured the business to match staffing levels to the lower anticipated sales volumes.

During the quiet summer months we were able to maintain reservations at the lower levels experienced in April. However, this was achieved at the expense of further reductions to selling prices and increased incentives which, in turn, created pressure on our operating margins.

During September the deepening of the banking crisis, both in the US and UK, had a further impact on consumer sentiment and an increase in the rate of price decline. The impact was a further 10% reduction to the underlying selling price for the second half of the year.

As a result of the early management decisions we had taken, we reduced debt in the second half of the year to leave us with total borrowings of £599m, down from £906m at the half year. This debt reduction was assisted by a corporation tax repayment received in November from HMRC of c. £150m.

The continued deterioration of the housing market led us to review the value of our land and work in progress. We announced a provision of £40m at the time of our half year results. However, with the worsening of the banking crisis and its growing impact on the economy and employment, we experienced poorer market conditions against which we have assessed the net realisable value of our land holdings. This exercise has resulted in an overall provision requirement of £652m, which is in line with the guidance given in our Interim Management Statement in October 2008.

The continued weakening of the market has resulted in further restructuring and a reduction in our staffing levels to c. 2,300, a process which is now complete. Since early 2008 we have reduced our operational and administrative staff by c. 55%. However, we retain our strong geographical coverage with 25 regional offices.

Refinancing

In order to ensure the business has a secure long term platform from which to operate, we have agreed new terms and conditions for the amendment of our existing credit facilities. Our revised UK banking agreement provides a three year committed facility from the combination of our existing revolving credit facility and a new Forward Start Facility with our key banking partners. The Forward Start Facility matures on 31 March 2012. We have also taken the opportunity to adjust some of our covenants to reflect the current environment for both the UK revolving credit facility and the private loan notes we have in issue. Final documentation is well advanced.

Our geographic spread enhances the number of sales opportunities.



Above Persimmon Homes, Saltersgate, Lugton, East Scotland
Below Charles Church, St Paul's on the Green, Haywards Heath, East Sussex

Divisional Structure

In order to maintain our capability for the future we have retained three divisions and maintained the three core brands: Persimmon, Charles Church and Westbury Partnerships. We have reduced the number of our operating businesses from 36 to 25 with a number of operating businesses dual branding Persimmon and Charles Church.

North Division

The division completed 2,753 homes (2007: 5,197). This reduction was as a result of the slower economy and poorer consumer sentiment experienced in the Yorkshire and North West regions. In Scotland the market remained stronger in the first half although we experienced a reduction in activity during the second half of the year. Prices remained resilient in the North East as a result of our existing competitive pricing strategy.

We have reduced the number of operating businesses from fifteen to eight and this reduction has been evenly distributed throughout the division. In order to balance the Group's volumes, the North West region was transferred into the North division from the Central division. We retain two operating businesses in Scotland, with our Partnerships brand operating from the West Scotland office and Charles Church brand operating from the East Scotland office.

The average selling price for the North division fell to £157,157 a 10% reduction on prior year. We completed 420 affordable homes in the North which equates to 15% of the homes sold in the division.

Central Division

The number of homes sold in this division was 2,748 (2007: 4,224). The average selling price reduced from £176,672 in 2007 to £164,614.

The Central division housing market has been stronger in the outskirts of London and the Shires, but pricing has been more competitive in and around Birmingham, particularly in the apartment market. We have retained eight operating businesses in the Central division, a small reduction from our previous level of ten businesses.

We have been successful in completing 780 affordable homes equating to 28% of homes sold in the division. We achieved particularly strong performances from the East Midlands and Anglia companies, which have a longer established record in this market.

South Division

In this division there has been a 33% reduction of homes sold to 2,436 (2007: 3,609) and of these, 547 were affordable homes, which represents 22% of the division's legal completions. For Persimmon, this was the strongest performance of the three divisions in terms of maintaining sales volumes, whilst pricing has remained under pressure with an underlying reduction of 7%. This stronger volume performance has resulted in only two operating businesses being closed. This division retains nine businesses.

Charles Church

Despite challenging conditions the Charles Church brand has performed well completing 1,924 homes (2007: 2,579), with the volume of homes sold increasing in Southern and Wales, where we legally completed three large apartment schemes that had strong forward sales from 2007. The reduction in the number of homes sold year on year by Charles Church was less marked than for Persimmon, although the average sales price reduced by 13% to £222,535 as compared to £257,009 in 2007. We completed 301 affordable homes from the Charles Church business representing 16% of its total output.

Westbury Partnerships

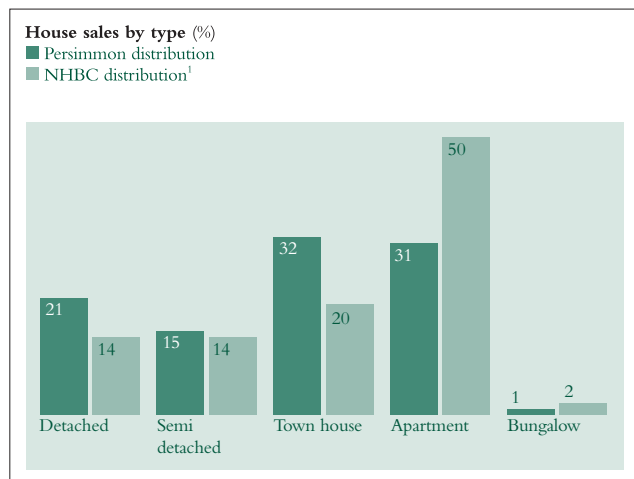
Our specialist Westbury Partnerships operation is continuing to grow having completed 341 units (2007: 296), a 15% increase on 2007 figures. The team continues to develop its close working relationships with a number of Housing Associations and has successfully completed schemes in Bristol and Portishead, which should lead to further business

in these locations in the future. Westbury Partnerships has recently been granted preferred bidder status with Sarsen Housing Association for a PFI scheme of 400 homes in West Wiltshire.

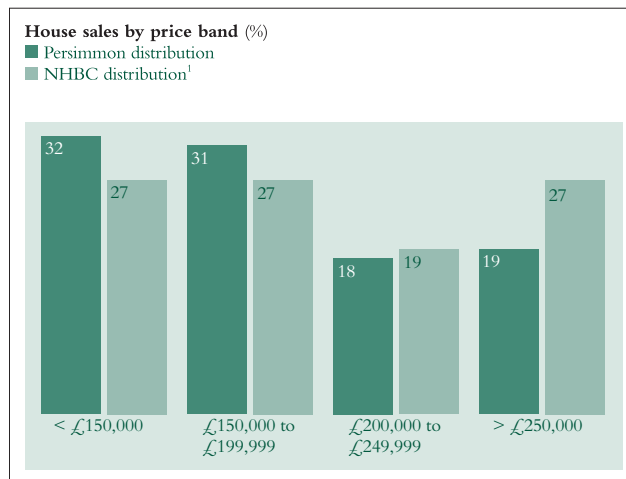
In 2008 the Persimmon Group completed 2,389 affordable home units, an increase of 22% over the prior year. As a Group we recognised the need for the expansion of affordable housing in this country and therefore our decision to invest in this activity has proved to be particularly beneficial when the general housing market is so difficult. Our close working relationship with Homes & Communities Agency and strong contacts with a number of substantial Housing Associations throughout the UK will enable us to sustain affordable housing volumes for the Group in 2009.

Space4

This has been a very challenging year for the Space4 business which completed 1,238 units compared to 2,629 in 2007. This reduction is a combination of reduced demand from the Persimmon Group and a loss of sales to external purchasers due to a lower level of demand for new homes. In order to meet increasing sustainability requirements for our new homes and improve operational efficiency Space4 has developed a new Eco-housing range which has been well received by both our business and external partners and has resulted in an increase of our forward order book to c. 1,900 units compared to c. 1,550 units a year ago.



¹ Source NHBC – New House Building statistics (2008 calendar year).



Building affordable homes for all.



Westbury Partnerships affordable homes at:
Above Sandfields, Lichfield, Staffordshire
Below Malvern Vale, Malvern, Worcestershire

Landbank

Currently our landbank stands at 69,279 plots owned and under control. This compares to 78,863 plots in 2007. Based on current output this equates to 6.8 years' land supply and provides us with significant flexibility.

Since last April we have reviewed the Group's entire land holding and have been very selective when deciding which sites we propose to start developing. In light of the current market conditions we have taken the opportunity to re-plan a number of sites, reducing the number of apartments and replacing them with more marketable traditional two and three storey family homes. On our larger strategic housing schemes we are negotiating revisions to Section 106 planning obligations for infrastructure with local authorities to reduce the impact of cash flow requirements for these schemes.

Corporate Responsibility

Sustainable Homes

Our commitment to build sustainable homes remains. Our approach to sustainability is a practical one and we incorporate proven technology into many of our homes to make them more energy efficient. In 2008 we built 1,653 homes to the Eco-homes standard, representing over 16% of all the new homes we completed, an increase of over 7% on the previous year.

Waste

We continue to monitor the efficiency of our building operations by monitoring the amount of waste generated. We minimise waste generation through careful ordering of materials and by using modern methods of construction. During 2008 we reduced the amount of waste generated per property completed to 8.9 tonnes, a reduction of over 6%. Most importantly we increased the amount of waste that we recycled to 70% resulting in only 2.7 tonnes of waste per home going to landfill.

Health and Safety

The health and safety of our employees continues to be a top priority for us. We take a proactive approach to managing risk, based on assessment and prevention, and we work hard to embed this philosophy across the Group. Our policy has been rewarded by a substantial reduction in the number of incidents reported to the Health and Safety Executive under the Reportable Injuries Disease and Dangerous Occurrences Regulations (RIDDORs), reducing by 25% the number of RIDDORs to 9.1 per 1,000 employees (2007: 12.2).

Employees

During the course of 2008 the restructuring of our business has unfortunately resulted in a significant proportion of our employees being made redundant. Our HR Department and management teams have worked diligently to ensure that redundancy consultations have been undertaken in a practical and sympathetic manner, in accordance with the obligations placed on us. Notwithstanding this redundancy programme, we have continued to invest in training and development for our employees, particularly in the area of health and safety where we delivered 274 days of health and safety training.

I am particularly pleased that David Bullock, Site Manager at Wynclyffe Gardens Cardiff won the NHBC Supreme Award in the large housebuilder category of the NHBC Pride in the Job Awards. This demonstrates the business' continuing commitment to deliver quality homes to our customers. Indeed our customers' satisfaction improved during the year with 89% of our customers confirming that they would recommend Persimmon or Charles Church to a friend.

Current Trading Outlook

The Market

Despite the current economic climate we have seen an increase in site visitors in January when compared with the last quarter of 2008, which is typical for this time of year. Due to the postponement of new site starts we have reduced the number of our developments to c. 420 which compares to c. 500 schemes in early 2008. Therefore, in the first few weeks of 2009 whilst total visitors are down on last year, the number of visitors per site remains resilient. Cancellation rates have also recently improved to a level of c. 17% (2008: c. 21%), an improvement on the c. 35% cancellation rate experienced during the last quarter of 2008. Sales rates in the first few weeks of 2009 have picked up and are ahead of those

High levels of customer service and trust remain essential.



experienced through the second half of last year. However, the market is still very competitive and prices, hence margins, are under pressure.

We are encouraged by the Government's new HomeBuy Direct Scheme. Persimmon has been successful in being allocated one of the largest shared equity grant allocations for c. 2,800 properties on c. 200 sites under the HomeBuy Direct Scheme. The scheme will enable more buyers to purchase a Persimmon or Charles Church home by allowing them to borrow a minimum of 70% of a property's price, with the remaining 30% of the price being provided equally by the Government and Persimmon as shared equity.

Our own shared equity scheme has also been popular with purchasers and we believe this will provide a good source of sales in the future. The value of the anticipated cash receipt of the shared equity debt is recognised on the balance sheet at fair value at inception, in line with International Accounting Standard 18 - Revenue. This has resulted in a reduction in turnover and profits of £9.8m in 2008, which will reverse over future years as a proportion of the deferred element of sale proceeds will be recognised annually as interest receivable.

Part exchange continues to be a popular and successful marketing tool for our customers. The value of part exchange stock properties owned has reduced significantly to c. £55m, from a peak of £150m in 2008.

At this stage we have not seen any increase in the provision of mortgage lending. The Government's recent announcement regarding the Asset Protection Scheme for the Banks, and confirmation that Northern Rock will recommence mortgage lending, should benefit the market in the longer term.

We currently have forward sales of c. £698m, which totals 4,907 units and of these sales c. 40% are contracted. We are scheduled to open c. 60 new developments in the first six months of 2009 which will increase availability of new homes in new locations.

Summary

This has been a year of transition for the Persimmon Group, in which the business has changed its focus and delivered good cash flow generation in difficult circumstances. This strategy is set to continue with further debt reductions expected in 2009.

The Group has now successfully been restructured to a size appropriate to the level of current demand, whilst retaining the ability to expand in the future. Our continued focus on affordable housing will generate positive cash flows for the business. The Government's HomeBuy Direct Scheme and a low interest rate environment should assist our sales this year. However, the current economic situation, in particular the latest information regarding job losses and the continued mortgage shortage, indicate that 2009 will be a challenging year for both the Group and the industry as a whole.

The Group retains a strong balance sheet with assets of over £1.55bn after the impairments previously mentioned and a year end gearing of 39%. In addition, our recently agreed refinancing gives the business a strong platform for the future.

Finally, I would like to thank all our staff for their loyalty and commitment during this transitional period for the business. With our experienced and dedicated management teams the Group is well placed to meet the challenges in the future.

Mike Farley Group Chief Executive
2 March 2009