Business Review 2008:

Financial Review

Performance

The performance in 2008 reflects one of the most challenging environments our Group and our industry has faced. The key features reflected in the results are:

- Unprecedented market conditions
- Significant deterioration in trading
- Major restructuring of the business
- Large asset impairments
- Cessation of dividends

Performance features are:

- Unit completions decreased by 36% to 10,202 (2007: 15,905)
- Revenue was down 42% to £1,755.1m (2007: £3,014.9m)
- Average selling price reduced 8.7% to £172,994* (2007: £189,558)
- Profit from operations before exceptional items and goodwill impairment decreased 70% to £198.3m (2007: £657.3m) to deliver an operating margin of 11.3% (2007: 21.8%)
- Exceptional items of £904.8m
- Loss before tax was £780.0m (2007: profit £582.7m)
- Adjusted earnings per share before exceptional items and goodwill impairment was 35.3p (2007: 138.3p)
- Basic earnings per share was -208.3p (2007: 137.5p)

* Stated before IAS 18 adjustment of £9.8m to fair value shared equity sales (2007: £nil).

Mike Killoran, Group Finance Director

Exceptional items

The Group recognised a number of items separately on the basis that they are material to an understanding of its financial performance, either by their nature or their size, and significantly distort the comparability of financial performance between periods.

Exceptional items comprised an impairment of inventories of £652.3m, an impairment of goodwill of £201.0m, an impairment of trade receivables of £35.9m and restructuring costs of £21.9m offset by interest receivable of £6.3m.

Impairment of inventories

During the year, management conducted a review of the carrying value of inventories in accordance with current accounting standards. This review incorporated all sites held with the benefit of planning, including those not yet started. It was carried out on a site by site basis using valuations incorporating forecast sales rates and selling prices as assessed at the balance sheet date. In addition, consideration was given to strategic sites without the benefit of a planning permission and held for longer term development, to reduce the carrying value to net realisable value.

As a result of the review, the Group recognised an impairment of the housing landbank of £552.0m and associated work in progress and professional fee balances of £100.3m.

Impairment of intangibles

At 31 December 2007, the Group recognised goodwill of £406.4m arising from the acquisition of Beazer in 2001 and Westbury in 2006, of which £50.0m had been allocated to the Charles Church brand and the remainder to strategic land holdings. In addition, there was an asset of £60.0m related to the acquired Westbury brand.

In accordance with current accounting standards management conducted its annual review of the carrying value of goodwill and intangible assets. This was achieved by comparing discounted future cash flows with the carrying value of assets at the balance sheet date. Further details are included in note 15 to the financial statements.

As a result of the review, Westbury goodwill was impaired by £188.5m (of which £0.5m was considered as underlying impairment) and the Charles Church brand suffered an exceptional impairment of £13.0m leaving carrying values of £38.1m and £37.0m respectively. The carrying value of Beazer goodwill allocated to strategic land holdings of £126.3m (after £1.3m of underlying impairment) and the Westbury acquired brand of £60.0m were not subject to any exceptional impairment charge.

Impairment of trade receivables

During the year ended 31 December 2008, we have written off £24.5m of option fees, deposits and pre-acquisition fees, where we have decided not to pursue a number of land purchases.

In addition, we have impaired the carrying value of other receivables by £11.4m to recognise the difference between the carrying amounts of these receivables and the present value of any expected recoveries.

Restructuring costs

During the year the Group incurred £21.9m of restructuring costs. These include redundancy costs and contract severance costs, arising from the reorganisation of the Divisions, and costs related to office closures.

Tax

The Group corporation tax credit for the year was £155.0m, an effective rate of (19.9%). When the impairment of goodwill of £202.8m, which is not allowable for tax purposes, is excluded the effective rate reduces to (27.3%). The tax credit of £155.0m includes £134.3m of exceptional prior year adjustments arising from the carry back of corporation tax losses to 2007. The carry back of losses resulted in a net corporation tax cash receipt in the year of £106.2m.

The effective corporation tax rate (before the impairment of goodwill) of (27.3%) is higher than the standard rate of (28.5%) because the Group has not recognised deferred tax on corporation tax losses carried forward, pension obligations and share based payments together with disallowable expenditure, partially offset by a prior year tax credit.

Dividends

The Board has decided that no final dividend will be paid for the year ended 31 December 2008. Therefore, the total dividend for the year is the interim dividend of 5.0 pence per share, which was paid in October 2008. The Board will determine any future dividend policy in the light of market conditions, the Group's trading performance and available cash resources.

Balance sheet

The net assets of the Group decreased by £790.2m to £1,555.2m (2007: £2,345.4m) with net assets per share decreasing by 34% to 518.0p (2007: 781.4p). The decrease reflects the retained loss of £625.0m, after the charging of exceptional items including inventory and goodwill impairments, £113.1m of dividends paid in the year, a post tax movement in the pension deficit of £55.4m, and other reserve movements of (£3.3m).

Our landbank of plots owned and under control at 31 December 2008 at 69,279 plots (2007: 78,863 plots) represented c. 6.8 years supply. The Group's book value of land was £1,779.5m (2007: £2,346.1m), a decrease of £566.6m. This decrease includes land additions of £399.0m offset by land usage and the impairment of land as explained above. For the foreseeable future, it is our intention to only commit cash to land purchases where the land is already under contract.

Work in progress of the Group at 31 December 2008 was £634.0m (2007: £814.8m). We are actively reducing our investment in work in progress through tight control over build and our focus on selling through stock units. As a result the value of our work in progress investment has fallen by £180.8m since the end of 2007 including the impairment detailed above.

The value of part exchange properties held at the year end was £54.5m (2007: £146.9m). In the light of current market conditions, the Group is actively managing the use of part exchange as an incentive, with the intention of trading through these existing properties.

Goodwill and intangible assets decreased by £203.1m to £264.7m primarily reflecting the impairments explained above.

The deficit on our defined benefit pension schemes, Persimmon plc Pension and Life Assurance Scheme and the Prowting Pension Scheme, increased by £34.6m in the year to £95.3m. This reflects the reduction in the value of assets due to the current market turbulence mitigated in part by lower pension liability valuation due to elevated "AA" rated corporate bond yields.

Trade and other payables decreased by £157.5m to £683.9m reflecting a £132.1m decrease in trade payables arising from the significant reduction in build in the period as the Group liquidated existing stock units.

Group net debt (borrowings net of cash balances, including forward currency swaps and excluding finance leases) has decreased by £122.3m to £598.8m (2007: £721.1m).

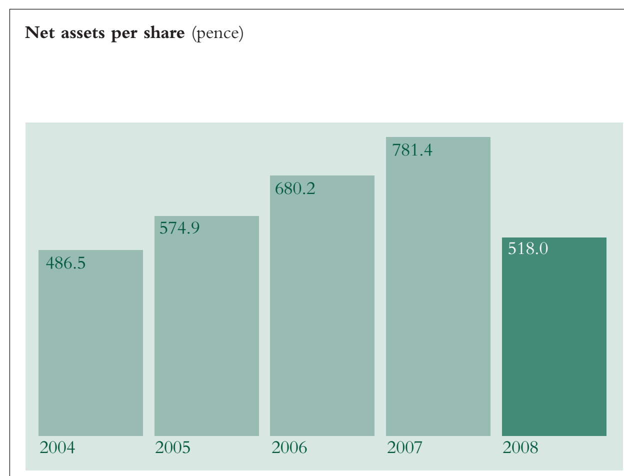
Other assets, net of other liabilities, have increased by £7.5m during the year.

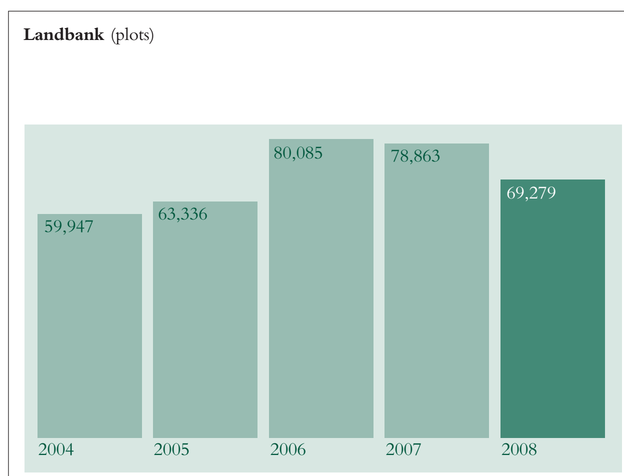
Borrowings and cash flow

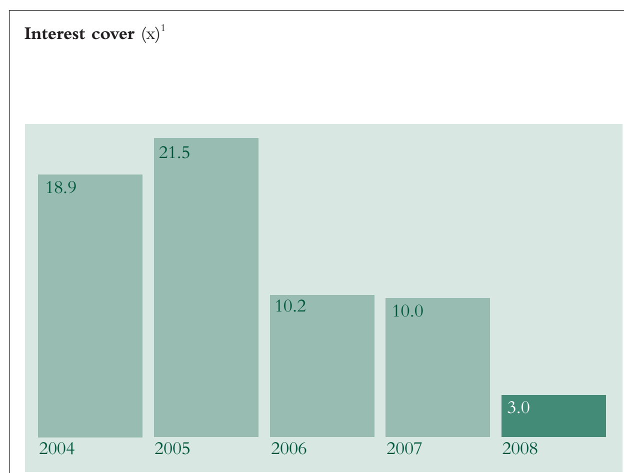
Gearing was 39% as at 31 December 2008 (2007: 31%) on net debt of £598.8m (2007: £721.1m). Gearing has increased despite lower borrowings due to the exceptional item related reduction to net worth.

The decrease in net debt of £122.3m during the year is made up of an outflow of £184.4m in the first half as committed land purchases were completed and an inflow of £306.7m in the second half. The inflow during the second half reflects our strategy of decreasing land expenditure and work in progress whilst liquidating stocks of new build and part exchange properties. Other cash movements include net interest payments of £63.5m, tax receipts of £106.2m and dividend payments of £113.1m.

Free cash flow, stated after interest and tax amounted to £239.2m (2007: £67.0m). The Directors continue to be focused on reducing the level of borrowings and maximising free cash generation.







[1] Before goodwill impairment and exceptional items. Interest charge excludes imputed interest on deferred land creditors.

Treasury policy and related risks

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and meet its liabilities as they fall due whilst maintaining an appropriate capital structure to reduce the cost of capital. The Group can manage its short term and long term capital structure by adjusting the level of ordinary dividends paid to shareholders, issuing new share capital and arranging debt to meet liability payments.

The Group finances its operations through a combination of shareholders' funds, bank loans, overdrafts, cash in hand and private placement loan notes. The Directors ensure that there are appropriate controls over the purchase of land and levels of work in progress. Head office manages the drawn credit lines of each operating business, which are allocated on commercial terms, within overall facility limits which may be subject to offset arrangements. Head office arranges all borrowing facilities and invests short term cash deposits at competitive rates when available.

The Group's operations and debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity risks, foreign currency risks and interest rates.

We address liquidity risk by ensuring we maintain secure, flexible facilities with an extended maturity profile from a variety of sources. There is a regular, detailed system for the reporting and forecasting of cash flows from the operations to Group management so as to ensure that risks are promptly identified and appropriate action taken.

In addition, the Group has in place a risk management programme that seeks to limit the adverse effects of the other risks on its financial performance in particular the use of financial instruments, including debt and derivatives, to fix interest rates and currency rates. We do not set a pre-defined balance between fixed, and floating, interest rate debt. The Group has not entered into any new swap arrangements during the period. The Group does not use derivative financial instruments for speculative purposes.

Details of the Group's borrowings and financial instruments are disclosed in notes 20 and 22 to the financial statements.

Borrowing facilities and refinancing

At the year end, the Group's committed facilities had an average life of 2.6 years, headroom of £735m and we continued to operate within all of our banking covenants. However, with the progressive deterioration in market conditions during 2008, the Directors assessed that the Group's liquidity risk had increased in relation to compliance with the interest cover covenant (based on income statement) as set out in the terms of the Company's existing credit facilities. Accordingly, the Directors have taken pre-emptive action to amend certain covenants including but not limited to the interest cover covenant, (now based on operating cash flows), conditions within the Group's funding arrangements and to reduce the level of committed facilities to reflect the Group's forecast requirements.

On 27 February 2009, the Company reached agreement with its syndicate of banks providing the current revolving credit facility on amendments to the amount, terms and conditions of its existing credit facilities. The Company has also agreed a new revolving credit facility. This Forward Start Facility of £322m will become available for drawing on 24 November 2010 on the maturity of the existing facility and matures on 31 March 2012. Full documentation has been signed relating to these facilities and the amended terms and conditions become final upon the private placement investor documentation being signed.

In addition, on 27 February 2009 the Company reached agreement in principle with its private placement investors on amendments to the terms and conditions of its existing credit facilities. The full amendment documentation is currently in the process of being finalised.

Taken together, the Company will have committed funding lines of £1,085m at the outset of these arrangements (26 February 2009: £1,235m), reducing to £560m during 2011. On the basis of the Company's working capital projections, the Directors believe that these new facilities provide ample headroom and support for the continuing effective management of the business.

Mike Killoran Group Finance Director
2 March 2009