Persimmon plc today announces Final Results for the year ended 31 December 2018.

Chairman's Overview

"Since the launch of the Group's strategy in 2012 we have focused on increasing the strength, resilience, and performance of Persimmon for the long term. Building a strong vibrant business where our employees are proud to work, constructing well designed traditional homes and creating sustainable communities throughout the UK remains our central focus."

Highlights

- Legal completion volumes increased by 406 new homes to 16,449 (2017: 16,043) with an average selling price of £215,563, up 1% year on year (2017: £213,321)
- Total Group revenue for the year increased by 4% to £3.74bn (2017: £3.60bn)
- 2018 new housing operating margin* of 30.8% increased from 28.2% last year, with a second half new housing operating margin* of 31.8%
- 13% increase in total Group operating profits to £1.083bn (2017: £0.955bn)
- 13% increase in Group profit before tax to £1.091bn (2017: £0.966bn)
- 11% increase in basic earnings per share to 283.3p (2017: 255.0p)
- 52.8% return on average capital employed** (2017: 51.5%)
- 17,092 plots of land acquired in the year, with 3,772 plots successfully converted from the Group's strategic land portfolio
- Net cash of £1.048bn at 31 December 2018 (2017: £1.303bn)
- Strong forward sales position at £2.02bn (2018: £2.03bn)
- Interim and Final dividends of 125p and 110p per share respectively declared for 2018
- Appointment of Dave Jenkinson as Group Chief Executive announced separately today
- Range of new customer service initiatives implemented in late 2018 showing encouraging initial results. The Group is confident these measures will improve its customer satisfaction score once they have had time to take effect
- Significant investment in training to address the skills shortage in the house building industry

- Adoption of the Living Wage Foundation payment criteria for our employees from January 2019

- Persimmon is proud to be a sponsor of Team GB who will compete at the 2020 Tokyo Olympics

Long term strategy

- Track record of strong operational performance continues:

  - Successfully delivering growth – seven new house building businesses opened over the last four years, supporting a more than 75% increase in new home legal completions since the launch of the Group's new strategy in 2012

  - Successfully investing in future growth - £3.81bn invested in land since the launch of the new strategy

  - Successfully returning surplus capital - £2.22bn, or £7.20 per share, of excess capital returned since 2012

Dave Jenkinson, Group Chief Executive said:

"Our results for 2018 reflect our successful focus on offering attractively priced new homes primarily to the first time buyer and first time mover markets, where housing need is greatest. This strategy has enabled Persimmon to grow its construction volumes by more than 75% since 2012, making a significant contribution to UK housing supply. My focus is to build on this strong platform, maintaining our operational momentum, but also implementing a number of necessary new initiatives in customer care. A wide range of projects to improve customer satisfaction commenced in late 2018 and the initial results have been encouraging, giving us confidence in our ability to make progress in this important area. We continue to invest in our teams, systems, and our off-site manufacturing capabilities to support the Group's further growth."

"We are also taking action to address the shortage of skills in the industry, with almost 15% of our workforce in structured training programmes across the business. We continue to nurture and develop our best talent and I am delighted that over 570 colleagues were promoted during the last two years recognising their success in developing their careers with Persimmon. The Group is proud to support over 20,000*** construction jobs and over 30,000*** jobs in our supply chain."

"Whilst the sales outlook remains subject to a degree of uncertainty at the start of any financial year, at this point the Group's sales are in line with management's expectations. Given our strong prior year comparatives, the current increased uncertainties with respect to the future performance of the UK economy and the planned later sales releases in the early part of the year, we are encouraged by the levels of customer interest across the UK. Including legal completions taken so far in 2019, the Group has a strong forward sales position at £2.02bn and we currently anticipate delivering a similar level of legal completions during 2019 as in the prior year."

Roger Devlin, Group Chairman, said:

"Persimmon is changing. In his short time as interim CEO Dave Jenkinson has introduced new approaches to customer satisfaction and colleague engagement, whilst also ensuring that the Group delivered another year of growth. These changes are illustrative of wider efforts across the Group to evolve our processes and practices to pursue excellence across all aspects of our business. Achieving further progress with these initiatives will be a key priority for Dave in his new post as CEO."

"The Board remains confident in the Group's long term prospects."

* Stated before goodwill impairment of £9.2m (2017: £11.0m)
** 12 month rolling average and stated before goodwill impairment
*** Estimated using an economic toolkit

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Analysts unable to attend in person may listen to the presentation live at 09:45am by using the details below:

Telephone number: +44 (0)20 7192 8338

Password: Persimmon

Webcast link: https://edge.media-server.com/m6/p/es4z7za5

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

CHAIRMAN'S STATEMENT

Delivering on our long term strategy

I was appointed Chairman on 1 June 2018. Persimmon is a great company with an excellent track record of growth. And as one of the largest house builders in the UK, Persimmon places great importance on the contribution the company makes to the communities it serves. The company continues to deliver strong commercial performance and we appreciate that success remains dependent on delivery for all our stakeholders – notably our customers, our people, our suppliers and Government. We are stepping up our efforts to continue to improve customer satisfaction levels with a number of new initiatives being introduced which we believe will bring significant improvements for our customers. Alongside that we are changing our pay and incentives to include greater emphasis on both quality and customer care with plans that are more rigorous than we have had in the past. We remain focused on making a good contribution to increasing the industry's output of new homes across the UK so that more people gain access to good value, well-designed homes in line with Government policy and targets. We will continue to invest in our own manufacturing capabilities - timber frame construction, brick and tile works - to ensure we are able to support our development programmes over future years.

Results

Persimmon delivered a very strong performance in 2018, with revenues increasing by 4% to £3,737.6m (2017: £3,597.8m) and profit before tax increasing by 13% to £1,090.8m (2017: £966.1m). The Group delivered 16,449 new homes to customers across the UK (2017: 16,043), an increase of 406 new homes compared with last year. The Group's average selling price of £215,563 was 1% higher (2017: £213,321).

The Group's long term strategy prioritises the creation and preservation of superior shareholder value through the economic cycle by building good quality homes for our customers; providing rewarding careers for our employees and giving continuity of business to our suppliers. We are focused on delivering high quality growth to meet market demand across the UK, investing in land and infrastructure to support further increases in new home construction which local communities need. To support this growth we opened our seventh new operating business in four years on 2 January 2019, the new team being based near Doncaster in Yorkshire, which takes the total number of Group housebuilding businesses to 31. Since the launch of the Group's new strategy in 2012 Persimmon has made a significant contribution to increasing housing supply across the UK by investing £3.81bn in land, opening 1,370 new sales outlets, and delivering 97,175 new homes to the market by increasing annual production by over 75%.

Persimmon has been successful in growing each of its regional housebuilding businesses towards optimal scale and through achieving the associated operational efficiencies the Group delivered a housing operating margin of 30.5% in 2018 which was 260 basis points higher than the prior year (2017: 27.9%). Operating profit of £1,082.7m was 13% ahead of last year (2017: £955.1m). We opened c. 180 new sales outlets in 2018 providing support to the Group's lower level of land cost recoveries from the new home sales legally completed from these sites.

Profit before tax increased by 13% to £1,090.8m (2017: £966.1m) and basic earnings per share of 283.3 pence were 11% higher than last year's 255.0 pence.

In line with our strategic priorities which seek to maximise cash efficiency and capital discipline through the cycle, the Group's liquidity remains strong. The Group held £1,048.1m of cash at the end of the year (2017: £1,302.7m).

The Group has continued to reinvest for the future acquiring 17,092 plots of new land across 84 high quality locations through the year, with our strategic land holdings contributing 3,772 plots. In the second half of 2018 we acquired 6,020 plots of new land across 39 locations. The Group's net land spend of £605.1m for the year includes £279.3m in the second half which included £145.8m of existing land creditor payments. The Group's land creditor commitments at 31 December 2018 were £548.0m, £19.3m lower than the prior year.

Return on average capital employed* was 52.8% for 2018, slightly ahead of the previous year (2017: 51.5%).

Long term strategy and Capital Return Plan

The Group's strategy is focused on mitigating the risks to sustainable shareholder value creation inherent in the UK housing market by maintaining capital discipline and delivering strong free cash generation through the housing cycle. Minimising financial risk while retaining flexibility to support an appropriate level of reinvestment in the business are key features of our strategy. Our disciplined approach to land replacement aims to support each of our 31 housebuilding businesses to reach optimal scale by bringing land into production as promptly as possible. Our investment in infrastructure and new home construction allows us to offer an attractive range and choice of homes to our customers to meet their housing needs.

Our strategy recognises the potential for the Group to generate surplus capital through strong operational delivery. The Board therefore made a long term commitment in early 2012 to deliver £1.9bn (£6.20 per share) of surplus capital to shareholders over ten years to 2021 ("the Capital Return Plan"), which was similar to the market capitalisation of the Group at the time.

The value of any surplus capital to be returned to shareholders is continually assessed after due consideration of the appropriate balance between the current financial position of the Group and its reinvestment needs, the Group's land bank, the housing market cycle and land market conditions, and wider-ranging risks and external factors. The Board has set out its risk and viability assessment processes in note 11 of this announcement.

Following Persimmon's strong performance over recent years the Group is in an excellent financial position holding total liquid cash resources of £1,048.1m, together with a high quality land bank in each of its regional businesses. Having been appointed Group Chief Executive today, Dave Jenkinson and the Board will continue to assess the availability of surplus capital whilst recognising the heightened risks regarding the future performance of the UK economy resulting from the UK's exit from the EU.

The Board remains confident in Persimmon's financial strength and ability to meet its schedule of committed capital return payments.

Board Changes

The Board announced the departure of Jeff Fairburn, former CEO, on 7 November 2018, effective from 31 December 2018. Dave Jenkinson, Group Managing Director, was appointed Interim Group Chief Executive from 1 January 2019. The Board would like to thank Jeff for his long service to the Company and acknowledge his contribution to the growth and financial success Persimmon achieved under his leadership.

The search for a new Chief Executive has now concluded, with the appointment of Dave Jenkinson as Group Chief Executive with immediate effect, being announced separately today.

Employees

We recognise the importance of having a diverse and engaged workforce. To enrich and strengthen this engagement, during 2018 we put in place procedures for a new Employee Engagement Panel to increase dialogue and provide valuable input and feedback to the Board from a diverse group of employees from across the business. The Panel will consider a wide spectrum of matters relating to the business and provide feedback on their discussions. We have also introduced a Gender Diversity Panel of some of our most senior female employees. This Panel has set an initial goal of actively promoting the benefits of working within the housebuilding industry across the local communities we serve through direct engagement with local schools and colleges during 2019.

In addition, from January 2019, following proactive engagement with the Living Wage Foundation, we adopted the Living Wage Foundation's payment criteria for our employees. Whilst the vast majority of our employees were already paid above the Living Wage we are pleased that, having taken this action, we are able to demonstrate our commitment to being a responsible employer and support our employees on this basis.

Customers and Community

We must place our customers at the heart of our business and improving customer satisfaction levels is a key priority. We listen to our customer's feedback and aim to act promptly to address any concerns. We are continuing to invest in both the systems and the processes that will enable us to improve our levels of service to customers, whilst also investing in our site management personnel and customer care teams so we can better meet our customers' needs. Our Home Builders Federation star rating score was 79% for 2018, which is in line with the prior year's three star rating, and just below a four star rating which is achieved at an 80% score. We recognise the Group has the opportunity to achieve an improved performance and we are confident that the action we are taking will sustain further improvements as these measures are rolled out across the Group.

The introduction of our new FibreNest broadband service demonstrates the Group's desire to serve its customers better by ensuring they are connected to the internet continuously from moving in day. We are pleased that it is rated highly by our customers.

As a responsible, sustainable business we place great importance on our relationships with the communities in which we operate. The Group's approach to master-planning its developments is based on working with local communities to create neighbourhoods that enhance and support diverse sustainable living. The design of our developments and our Group core house types are centred on meeting the housing needs of the local communities we serve. In response to customer feedback we concentrate on delivering traditional homes, creating environments where local people wish to live. Investing in improvements to local infrastructure, and improving local amenities and public open space, allows us to support communities on a sustainable basis.

During 2018 we contributed £474m to local communities in affordable housing and planning contributions, which helped to create over 2,400** new school places. We also supported over 50,000*** construction and supply chain jobs. Of the year's 16,449 new home legal completions, 3,108 new homes were delivered to our Housing Association partners and 225 were sold as Discounted Open Market Value sales.

During 2018 the Persimmon Charitable Foundation donated £1.3m to c. 900 local charities, sporting and community groups through our Community Champions and Healthy Community Campaigns, helping to support community life. We recently launched a new campaign, Building Futures, which will donate over £1m to support children in health, sport, education and the arts. We are delighted to be joining forces with Team GB – the British Olympic Association - to help children throughout the UK. As an Official Partner of Team GB we are proud to be supporting them in the run up to, and beyond, the next Olympic Games in Tokyo.

Outlook

Recognising the current robust level of demand for our new homes, as part of our drive to improve our service to customers we have taken action in the new year to deliver greater accuracy of anticipated moving in dates. We have adopted a more targeted approach to the phasing of sales releases in 5 of our 31 businesses, where demand on certain sites is strong. In addition, as indicated in our January trading update, we still have a dozen new sales outlets where we are progressing build to a more advanced stage before releasing to the market over the next few weeks which will provide further sales opportunities. Whilst we do not expect this will impact on the Group's completions for the year overall, these measures have contributed to a slower pace of sales reservations in the early weeks of the current spring trading period. Overall sales remain in line with our expectations and we are confident that these sites will make a good contribution to sales once build has progressed.

Whilst sales expectations remain subject to a degree of uncertainty at the start of any financial year, the lack of clarity with respect to the UK's exit from the EU is currently creating additional unpredictability. In this context and against record sales in the same weeks last year, which reflected the stimulus effect of the Government's cut in stamp duty for first time buyers announced on 22 November 2017, and after recognising the above actions to improve customer service, the Group's average private sales rate per site in the first eight weeks of the year was 4% lower than the previous year. We expect sales reservation volumes will pick up on release of the plots and sites currently under construction, delivering a different shape of sales for the current year but with no impact on our overall completion expectations. Cancellation rates remain at historically low levels. The Group's current total forward sales, including legal completions taken so far in 2019, remain strong at £2.02bn (2018: £2.03bn). The average selling price of private sales within our total sales is £238,800, c. 2% higher than at the same point last year, and pricing conditions remain firm.

Given the Group's robust opening forward order position and healthy outlet network Persimmon remains in a strong position in its markets with attractively priced new homes in desirable locations. We currently anticipate delivering a similar level of legal completions during 2019 as in the prior year.

In line with our stated strategy of managing the business to mitigate market cycle risks, over the last two years we have adopted a very selective approach to land replacement. We have concentrated on acquiring new land where anticipated development returns and timeframes provide strong nearer term cash returns, together with higher levels of protection to asset values. This, in part, has been a key driver of the Group's superior margins over the period. We continue to identify good quality land opportunities in the open market and we will continue to reinvest in the business for the future where the anticipated returns meet our expectations, which will include our assessment of the current increased market risk profile.

Growth in housing output from the industry continues to be constrained by the tight availability of skilled trade resources and some key materials. Persimmon will continue to invest to help address these challenges. The Group's investment in its own brick manufacturing plant at our Harworth manufacturing hub, near Doncaster, provided increasing support to our build programmes through 2018. We anticipate Brickworks will deliver c. 65m bricks to Group companies through 2019. Additionally, the construction of our own roof tile manufacturing plant on the same site is progressing to plan and we expect first deliveries from Tileworks to commence in the second half of this year. Our Space4 manufacturing facility, based near Birmingham, continues to make an important contribution to our expanding in-house manufacturing capability.

The Group will continue to invest in the training and development of its employees with over 630 colleagues currently engaged in structured training programmes, including 381 traditional apprentices learning the trade skills required to support future housing delivery. We aim to deliver improvements in customer care and levels of service through further investment in our teams, processes and systems.

Persimmon's continued investment in our team's skills and capabilities, both in our regional offices and across our national site network, coupled with our off-site manufacturing initiatives, are investments in the future strength of the business. Whilst the benefits from these investments will take time to be realised we believe they will continue to position Persimmon at the forefront of the industry.

The UK economy displayed resilience through 2018 delivering increased levels of employment, some real wage growth, and continued support from a disciplined mortgage lending market, which supported consumer confidence. Looking to the future, the Group is in a strong financial position and is well positioned in its markets with a high quality land bank and a very experienced management team. The Board remains confident in the Group's future progress.

On behalf of the Board I would like to thank management, all our staff, our contractors and suppliers for all their dedication and hard work in delivering the Group's excellent performance in 2018.

Roger Devlin
Group Chairman
25 February 2019

* 12 month rolling average and stated before goodwill impairment
** estimated using data from the National Audit Office
*** estimated using an economic toolkit

OPERATIONAL REVIEW

Persimmon made excellent progress in 2018, delivering disciplined growth and strong performance across the business.

Growth

The Group delivered a 4% increase in new housing revenue in the year to £3,545.8m, with growth in volume of 406 homes, or 3%, to 16,449 legal completions.

We have seen strong performances across each of our geographical markets. Our optimal average weekly private sales rate for our outlets is 0.75 of a private market sale per week through the year. Whilst not quite achieving this optimal level of sales during 2018 we achieved c. 0.70 of a sale per week (2017: 0.72) reflecting the resilient trading conditions seen in 2018.

We opened our thirty-first regional business, South Yorkshire, on 2 January 2019 at Harworth near Doncaster. This business will support the development of the Group's market share in the Yorkshire region, where we currently operate from 40 outlets. Over the last four years the Group has invested in an additional seven new housebuilding businesses, reflecting Persimmon's commitment to increasing the delivery of newly built homes on a sustainable basis.

Across the UK, the Group opened c. 180 new sales outlets this year (2017: c. 200 outlets). Our strong geographical footprint, supported by our focused investment in attractive land in desirable locations together with the skill and experience of our land, design and planning teams, has helped us convert land into sales outlets as quickly as possible given the challenges of the planning system. At the end of the year, the Group had c. 360 outlets managed by our 31 operating businesses. We believe disciplined high quality growth is best delivered by maintaining a sustainable market share in each of our regional markets and that this will continue to deliver superior levels of free cash generation and returns over the long term.

Our forward sales of £1,397.2m at 31 December 2018 were 3% ahead of the prior year (2017: £1,356.1m) after second half legal completion volumes of 8,377, which were 305 stronger than for the first half of the year (H1: 8,072), an increase of 4%.

Investing in future growth

During 2018, the Group continued its strategy of investing in high quality land in places where people wish to live and work. Whilst there has been increased competition in some areas, the land market remained favourable, offering good opportunities to invest in the future of the business. The Group acquired 17,092 plots of land in 84 locations across the UK, with 3,772 plots being converted from our strategic land bank across 22 locations. This focused investment in attractive land has enabled the Group to expand its output by 75% over the last six years.

At 31 December 2018, the Group's land bank held c. 47,300 plots of land with implementable planning permission (2017: c. 52,600 plots) and all of these sites are under development. We have a further c. 28,500 plots of owned land (2017: c. 24,500) which are currently proceeding towards achieving full planning consent. 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 developable plots for our consented land bank over future years.

Increasing the resilience of our operations through vertical integration

Securing the supply of key materials contributes to the Group's greater resilience in supporting increasing levels of construction and new home delivery.

The Group has invested in its own brick manufacturing facility based at Harworth near Doncaster which has the capacity to manufacture c. 80m bricks per annum. This secures the availability and quality of supply for approximately two thirds of the Group's brick requirements.

Similarly, the Group is currently constructing its own roof tile manufacturing facility, based on the same site in Doncaster. We aim to commence the supply of roof tiles to Group sites in the second half of 2019. In addition, we have continued to invest in the Group's Space4 timber frame construction technology which has increased its production capacity by c. 19% to c. 9,500 units per year, consisting of c. 7,750 timber frames and c. 1,750 'room in the roof' systems.

Each of these projects will help the Group to increase certainty of quality and supply of key materials and support improved operating efficiencies.

Improving our customers' experience

Delivering a good quality product for our customers and providing high levels of customer service throughout the home buying process is a top priority for the business. For the year to 30 September 2018, the percentage of our customers who would recommend Persimmon to a friend under the independent Home Builders Federation (HBF) survey was 79%, in line with the prior year and just short of the four star threshold of 80%. The Group has continued to invest in its customer care systems and resources during the year and this will continue to be the case in 2019 as we remain determined to improve customer satisfaction levels.

FibreNest

In response to feedback from substantial numbers of customers who were experiencing delays and poor performance from their broadband service providers, we established FibreNest, our own ultrafast, full fibre to the home, broadband service that aims to ensure all our customers are connected to the internet from moving in day onwards. The service has started very well and is highly rated by our customers. FibreNest is currently ranked in the top 30% of internet service providers in the UK*.

The Group now has over 630 customers connected to the service on over 35 sites. The Group intends to support new customers on future sites as this service is rolled out further.

Strong returns and capital discipline

The Group's return on equity for 2018 of 27.7% (2017: 26.5%) reflects continued disciplined working capital investment and strong levels of post tax profit which increased by £99.5m (13%) to £886.4m during 2018 (2017: £786.9m).

Persimmon's underlying return on average capital employed** for 2018 of 52.8% improved by 130 basis points from 51.5% in 2017. This further improvement in return on capital was supported by the 9% growth in underlying new housing operating margin*** to 30.8% (from 28.2% in 2017). The increase in underlying operating profit*** was delivered from average capital employed that was 10% higher than last year at £2.07bn.

With our focus on the cash intensity of the business, the Group has continued to deliver strong liquidity. The Group's free cash generation before capital returns of £732.3m was £477.7m or £1.53 per share. Since the launch of the new strategy, the Group has generated over £3.25bn, of free cash before capital returns.

Capital return

A key feature of the Group's strategy launched in early 2012 is to return capital that is considered to be surplus to the reinvestment needs of the business, to shareholders through the cycle. Our primary consideration in judging the level of surplus capital available is the assessment as to whether the business is operating at optimal scale in its regional markets, including executing disciplined, well-judged land investment at the right time through the cycle, whilst also minimising financial risk.

Total surplus capital of £7.20 per share, or £2.22 billion, has now been paid to shareholders.

As explained in the Chairman's statement the Directors are maintaining the existing schedule of capital returns. The Board is pleased to announce the payment of 125 pence per share as an interim dividend in respect of the financial year ended 31 December 2018 to be paid on 29 March to shareholders on the register on 8 March 2019. In addition, the Board is pleased to recommend to shareholders the annual payment of 110 pence per share will be made on 2 July 2019 as a final dividend with respect to the financial year ended 31 December 2018 to shareholders on the register on 14 June 2019. The total value of the Capital Return Plan to 2021 is now £13.00 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	125^ 110^
30 June 2020	2 April 2020 6 July 2020	- 115	125^ 110^
30 June 2021	6 July 2021	115	110^
Total		620	1300

^ 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 of this announcement.

FINANCIAL REVIEW

Profitability

The Group's new housing revenue increased by £123.5m to £3,545.8m from £3,422.3m in 2017 (see note 2 of this announcement).

During the year, new housing gross margins increased to 33.3% (2017: 31.3%). The combination of some modest improvement in selling prices (the Group's average selling price increasing by c. 1% year on year) and further improvement in land and build recovery rates as we have opened new developments through the year, have all contributed to the improvement in the Group's new housing margins.

The Group's lower land recovery rates compared to 2017 have secured an additional 150 basis point contribution to the Group's new housing gross margin year on year. For 2018, the value of the Group's land recoveries totalled 14.6% of new housing revenue (2017: 16.1% of housing revenue).

During 2018 the mix of our legal completions contained fewer larger Charles Church homes and a greater proportion of smaller Persimmon homes and homes sold to our Housing Association partners by our Westbury Partnerships business (more detail on our brands' performance is found in "Our Strategic Objectives at Work" section later in this announcement). This has helped contribute to a reduction in our build and direct costs which were 52.1% of new housing revenue (2017: 52.6% of new housing revenue).

Underlying operating profits*** have increased to £1,091.9m (2017: £966.1m), a 13% increase, with an underlying new housing operating margin*** of 30.8% (2017: 28.2%). In line with our expectations, margin progress was maintained with a second half underlying housing operating margin*** of 31.8%, compared to a first half margin of 29.7%.

Asset strength

The Group has a strong balance sheet with net assets of £3,194.5m at 31 December 2018 (2017: £3,201.6m). Net assets per share decreased by 3% compared with the prior year to 1,006.0 pence (2017: 1,036.6 pence) following the return of £732.3m of surplus capital to shareholders during the year. In line with the Board's plans to optimise the level of cash held by the business over time and through the cycle, cash balances held at the year end totalled £1,048.1m (2017: £1,302.7m), a decrease of £254.6m.

At 31 December 2018 the carrying value of the Group's land assets was £2,077.2m, £66.6m higher than the prior year (2017: £2,010.6m). The Group owns 75,793 plots of which 47,305 have detailed implementable planning consents. A further 23,295 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 bank provides 6 years of forward supply at 2018 volumes. During the year, 17,092 plots were added to our land bank. 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 bank.

Our work in progress carrying value at 31 December 2018 of £881.8m was £157.9m higher than the prior year (2017: £723.9m). Whilst the Group's construction activity was delayed due to the poor weather in late February/early March 2018, we took advantage of the good summer weather to push forward with our build programmes. As a result, the Group is carrying a larger volume of plot foundations and infrastructure works on a number of sites such as Germany Beck, just south of York (a scheme for c. 630 homes) and Hampton Gardens in Peterborough (a development of c. 860 new homes) into 2019, providing a strong platform for build to progress in the first half of 2019.

By the end of the year the Group's work in progress investment represented 24.9% of 2018 housing sales, providing a stronger platform for future sales and product availability.

The Board reviewed the net realisable value of land and work in progress at 31 December 2018 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 £37.8m (2017: £41.9m).

The Group's total retained profits after tax for the year of £886.4m were 13% higher than last year (2017: £786.9m). The Group's retained earnings were added to by an after tax remeasurement gain of £16.4m associated with the Group's pension scheme asset of £90.6m. The net settlement of share options exercised in 2018 resulted in a £180.2m decrease in the Group's retained earnings.

Cash generation, net finance income and financial assets

Cash balances at 31 December 2018 totalled £1,048.1m (2017: £1,302.7m). The Group's cash generation remains healthy, £1,082.8m of cash was generated (2017: £1,382.6m) before the Capital Return Payment (£732.3m) and before net land spend (£605.1m). Indeed, recognising the payments of £206.6m made to HMRC in 2018 in respect of share options exercised during the year, gross cash generation for 2018 was £1,289.4m (2017: £1,382.6m). Judging the sale and timing of capital deployment through the cycle remains a strategic priority. At the year end, the Group's deferred land creditor obligations were £548.0m (2017: £567.3m). Cash inflow from operations, totalled £818.2m in 2018 (2017: £977.4m).

As a consequence of strong cash inflows from redemptions, the carrying value of the Group's outstanding shared equity loans, reported as "Shared equity loan receivables", has reduced during the year by £30.4m to £86.9m (2017: £117.3m). 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 £8.1m (2017: £11.0m). Incorporated within this is £11.2m of gains generated on the Group's shared equity loan receivables (2017: £15.2m) and £9.3m of imputed interest payable on land creditors (2017: £10.2m).

Impact of the UK leaving the EU

Although currently there is increased economic and political uncertainty associated with the process of the UK's departure from the EU, market fundamentals remain supportive. Employment levels remain positive, interest rates continue at lower levels and mortgage lenders are keen to support customers with competitive mortgage products. The Group is in a strong position in its markets with a good range and choice of homes at lower price points across our national sales network. The Group has a very strong balance sheet with a high quality land bank, robust liquidity, substantial cash holdings and a strong forward order book. We have reviewed all the constituent elements of our construction costs together with the Group's supply chain. We have worked with our suppliers to identify any material supplies which may be exposed to some disruption to availability as a result of Brexit and we are working with them to adopt appropriate mitigating measures (see further detail in "Securing quality and availability of materials" in the "Our Strategic Objectives at Work" section of this announcement).

The risks associated with the impact of the UK's departure from the EU are included in the Board's assessment of principal risks and viability set out in note 11 of this announcement.

Shareholders' equity, treasury policy and related risks

The Board remains focused on returning surplus capital to shareholders to maintain an efficient capital structure whilst minimising financial risk through the economic cycle. The Group's Capital Return Plan schedule explained earlier in this report is continually assessed by the Directors.

The Group maintains a £300m Revolving Credit Facility with its five relationship banks. During the year the Group extended the maturity of the revolving credit facility to 31 March 2023.

We retain a focus on maintaining strong liquidity. The Group's revolving credit facilities will only be used to support short term seasonal working capital needs of the business. Delivery of the Group's strategic objectives will be supported by a combination of careful management of the working capital needs of the business, the generation of annual after tax earnings and the management of the Group's equity, debt and cash management facilities. This 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

Despite the current increased uncertainties regarding the future performance of the UK economy, customer activity levels have proved resilient with good levels of customers visiting our sites over the first eight weeks of the year. The housing market continues to benefit from higher levels of employment and resilient consumer confidence supported by lower levels of interest rates and a competitive mortgage market. The continuation of disciplined lending practices with active oversight and guidance by the Financial Policy Committee will help maintain greater sustainability of the market.

We believe market fundamentals remain strong based upon a long term unfulfilled level of demand. Our commitment to helping solve these difficulties is demonstrated by our continued focus on delivering growth in our output. The Group has increased its legal completions by over 75% since 2012, and has invested over £3.81bn in land over the same period 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, across multiple tenures, by the mid-2020's. We remain keen to contribute to this increase in new home delivery and the Group is well positioned in its local markets with its attractively designed core house types, offering homes at more affordable prices on developments that concentrate on providing a good range and choice to all customers with an emphasis on first time buyers and first time movers.

As a result of the Group's strong levels of sales reservations through the autumn of last year, together with solid sales in the early weeks of 2019, the Group has a strong forward sales position (including legal completions taken to date in 2019) of £2.02bn. Whilst our average private owner occupier market sales rate per site in the first eight weeks of the year was 4% lower than the previous year, our later release of plots for sale on certain active sites together with the later release of a dozen sites for sale over the next few weeks provide the Group with the opportunity to build on this strong forward sold position, together with an improved ability to ensure we deliver the new homes reserved by our customers to more accurate move in dates.

The Group has c. 4,800 new homes forward sold to its housing association partners, 9% stronger than at the same point last year. Our Westbury Partnerships business expects to continue to offer the opportunity to acquire good volumes of new homes to its housing association partners, given the Group's strong investment in new land and external infrastructure works, which is enabling substantial new developments to be brought forward. Sites at Eve Parc in Cornwall for 300 new homes and at Mascall's Grange in Kent for 291 homes are good examples of developments which have substantial affordable housing allocations (100 and 105 affordable homes respectively) which will support the diversity and sustainability of these communities in the future as their housing needs are addressed.

We recognise that transaction volumes in the second hand housing market have been subdued for some time and we continue to offer our part exchange and home change facilities to support existing home owners' desire to purchase a newly built home from the Group. Our part exchange facilities were utilised by 10% of our private sale customers in 2018. We anticipate that more new home buyers may seek to take advantage of these opportunities as we progress through the current year, using our resale support to enable them to purchase new homes from the Group in locations in which they wish to live.

During the current year we will continue to invest in the future growth of the business to meet market demand, retaining flexibility to react to changing conditions as market events unfold. The Group's strong financial position provides a great platform to support this sustainable growth. However, we will remain vigilant to changing conditions in the sales and land markets to ensure we continue to judge our land replacement activity appropriately, recognising that the negotiations associated with the UK's exit from the EU present key uncertainties that may have a significant influence on market outcomes. The Group will continue to work tirelessly in partnership with local planning authorities to try and bring forward the Group's strategic land for inclusion in their local housing plans, which are required to meet their communities' housing needs over the next five years in line with the National Planning Policy Framework.

The Board recognises that the excellent performance of the business in 2018 results from the dedication and hard work of the whole Persimmon team. The team will continue to strive for further improvements in its operational performance in pursuit of fulfilling the Group's strategic objectives. 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 and supply chain partners for their continued contribution to the success of the Group.

* Ranked by Trustpilot

** 12 month rolling average and stated before goodwill impairment

*** Stated before goodwill impairment of £9.2m (2017: £11.0m)

A STRATEGY THAT DELIVERS SUSTAINABLE VALUE

Our Strategic Objectives

Our strategic objectives reflect our focus on the basics of good housebuilding, investing in a skilled and diverse workforce, acquiring land in sustainable locations and building good quality affordable family homes for our customers. This creates attractive neighbourhoods for our local communities and sustainable levels of value through the housing cycle for our shareholders.

1. Building quality homes for our customers

- Provide a range and choice of homes at attractive prices which satisfy local communities' housing needs
- Support first time buyers to participate in the market place
- Build quality homes in places where people want to live and work across the UK, to meet market demand
- Aim to provide high levels of customer service throughout the home buying process
- Deliver new homes tailored to our Housing Association partners' clients needs

2. Supporting sustainable communities

- Create attractive neighbourhoods with high amenity value
- Invest in local infrastructure to improve community environments
- Design our developments to reflect communities' needs through active engagement with all stakeholders during the planning and development process
- Deliver housing that fulfils occupier requirements across multiple tenures
- Build safely and responsibly
- Minimise our environmental impact

3. Maintaining a diverse skilled workforce

- Invest in our people and their skills development, ensuring talent is recognised, nurtured and supported
- Maintain a close-knit, entrepreneurial and meritocratic culture where hard work is valued
- Maintain excellent health and safety standards

- Increase diversity in our workforce to enrich our culture and grow our talent and skill base

4. Providing a sustainable supply of high quality land

- Identify and fulfil the needs of local communities through our land acquisition and planning processes
- Through well-judged land replacement, deliver a sustainable supply of high quality land to meet market demand
- Delver our strategic land holdings for development
- Maintain a high quality consented land bank

5. Securing quality and availability of materials

- Support a secure and collaborative supply chain for the long term
- Continue to strengthen our off-site manufacturing capabilities, including our Space4 modern method of construction; Brickworks, our brick manufacturing facility; and Tileworks, our roof tile manufacturing plant, which is under construction

6. Optimising working capital and returns

- Invest in working capital to meet market demand
- Maintain discipline over the level of capital employed within the business through the cycle
- Create greater certainty for shareholders regarding the timing and value of returns
- Identify capital that is surplus to the operational needs of the business and distribute to shareholders

OUR STRATEGIC OBJECTIVES AT WORK

The Group places its customers at the centre of our business. We believe that the Group's strength is generated from our approach to achieving each of our six strategic objectives. Persimmon differentiates itself by developing highly skilled land, planning and design teams that support the acquisition of sites in great locations where our customers wish to live and work. The Group generates further value for its customers and other stakeholders by master-planning desirable neighbourhoods using our attractively designed core house types that prioritise higher levels of customer satisfaction whilst seeking to reduce complexity as an aid to achieving greater site productivity and efficiency.

1. Building Quality Homes for Our Customers

Our brands - providing the range, choice and affordability of homes

The Group's strategic objective to provide a range of desirable homes at affordable prices for our customers is supported by the Group's three distinctive brands, Persimmon, Charles Church and Westbury Partnerships. The Group seeks to deliver new homes across multiple tenures with the needs of our customers (particularly the first time buyer and first time mover segments of the market) at the forefront of our development plans. In addition to developing single branded sites, the Group also benefits from providing multiple brands on some of our larger sites such as Edmund Park in Frome (a scheme for c. 450 new homes) and Buttercup Leys in Boulton Moor, south of Derby (a development of c. 500 new homes). This creates the opportunity for the Group to secure the benefits of more efficient site operations, resulting in performance improvements being captured across the business from continuity of build programmes, site resourcing and customer care performance through to health and safety compliance. By attracting a wider range of the home buying public through the multiple branding of sites the Group is able to optimise sales rates and achieve a swifter asset turn.

Our brands' performance

Persimmon

The Persimmon brand delivers traditional family housing to the private owner occupier market. In the year under review Persimmon delivered 11,947 new homes, 458 (or 4%) more than 2017, representing another strong year of growth.

This year on year growth in the number of homes sold has driven a £211.1m increase in total revenues to £2,685.1m. The brand's long term growth reflects the business' ability to meet market demand by fulfilling the needs of our customers at affordable prices.

Persimmon's highest volumes were generated in our Shires and Midlands regional markets which legally completed 1,834 and 1,830 new homes respectively.

The Persimmon brand's average selling price of £224,749 (2017: £215,336), which is slightly lower than the average UK house price in December 2018 of £230,776*, reflects the Group's ongoing commitment to delivering good quality housing at affordable prices.

Our Persimmon southern regional markets secured 44% of the brand's legal completions (5,230 homes), growing by 8% compared with 2017. Persimmon's sales in these southern markets generated 51% of the brand's revenues with an average selling price for the year of £260,074 (2017: £250,228).

In our Western region, sites at Weston Super Mare, Oakwood View, and at Bridgwater, Kings Copse, contributed excellent volumes during the year. Both sites benefit from being in convenient locations offering easier access for commuting and excellent local amenities. As such, the developments have been very attractive to customers in that area and the use of the Group's core house types, our Space4 modern method of construction techniques and our detailed management of construction programmes meant that efficient build rates were achieved to meet customer demand.

Persimmon's highest average selling price of £305,197 (2017: £287,713) was in our Southern region with higher value sites at Urban Central in Grays, Essex and Hatchwood Mill in Winnersh in Berkshire.

The lowest average selling price for the brand of £176,802 (2017: £173,786) was in the Wales regional market where sites at Oakwood View and Dol Yr Ysgol, both near Bridgend in mid Glamorgan, generated high volumes of new homes to our customers at lower price points.

Our focus on expanding our geographical footprint has resulted in the creation of seven new businesses over the last four years. Recognising that our new South Yorkshire business was only opened on 2 January 2019, the remaining six new businesses generated 17% of Persimmon's legal completions and housing revenue in 2018. Our new operating business based near Ipswich in Suffolk opened at the start of 2018 and made a strong start delivering 348 new homes in 2018, including 224 Persimmon homes, 23 Charles Church homes and 101 Westbury Partnership homes.

Charles Church

The Charles Church brand both complements and differentiates itself from Persimmon by offering the customer a choice of executive housing in premium locations across the UK, with larger house types with increased specification. With this market positioning Charles Church has retained its focus on delivering higher value new homes with 61 active sales outlets at the end of 2018 (2017: 74 outlets). Charles Church generated revenues of £495.1m in 2018 (2017: £626.9m) from 1,394 legal completions (2017: 1,785).

The Charles Church average selling price increased 1% to £355,133 (2017: £351,218), with 59% (2017: 57%) of its sales being completed in southern markets. For example, strong demand and pricing were experienced at Wyvern Farm, Stanway in Essex and The Croft, Burgess Hill, West Sussex. Both sites benefit from a range of homes in excellent locations with good local amenities and excellent schools.

Westbury Partnerships

Westbury Partnerships is our brand delivering affordable social housing. Westbury Partnerships plays a key part in the delivery of new homes for the benefit of lower income occupiers, offering solutions to some of the country's affordable housing problems.

The brand delivered 3,108 new homes to our housing association partners during 2018, an increase of 12% when compared to the previous year (2017: 2,769). In total, Westbury Partnership volumes represented 19% of the Group's legal completions during 2018 (2017: 17%). The average selling price for these homes increased by 1% to £117,653 (2017: £116,068).

The Group delivered 58% of Westbury Partnerships' new homes in our southern regional market (2017: 62%).

We are keen to continue delivering affordable housing in increasing numbers to all our housing association partners across the whole of the UK. The Group will seek to further develop these strong relationships in order to support as many lower income families as possible to access the housing market in line with the aims of the National Planning Policy Framework. The Group currently has c. 4,800 affordable housing units forward sold in our order book (2017: 4,420).

The Group is focused on providing affordable housing to all of our customers. To further support this objective, Westbury Partnerships works closely with Homes England and the Housing Agencies in Scotland and Wales to manage our relationships in association with the Help to Buy: Equity Loan scheme in England and the similar schemes in Scotland and Wales. These schemes provide customers with greater access to the housing market as it enables them to buy a home with a lower deposit and at lower interest rates than many other mortgage options. During 2018, the Group delivered 7,970 (2017: 7,682) new homes to customers who elected to use the Government sponsored Help to Buy: Equity Loan scheme.

Building good quality homes

The Group's core house types, modern methods of construction and high quality supplies are important elements in supporting our aim of delivering consistent build quality across all our developments. Our build programmes include detailed quality checks at each stage of the build process from foundations and slab inspections to pre-plaster and pre-paint inspections. All of our homes are sold with a 10-year warranty backed by either the National House Building Council (NHBC), Local Authority Building Control (LABC) or Premier Guarantee and, in addition to our inspections, each warranty provider conducts their own independent checks at critical build stages. In addition, senior employees at each operating business conduct quality inspections on a proportion of our finished homes. This careful, detailed build process is designed to deliver consistently good quality homes for our customers across the UK. We support the further improvements being developed by the All Party Parliamentary Group with respect to the new homes market and we will continue to contribute to the work of the Home Builders Federation (HBF) in supporting these measures.

Customer service

We understand the importance of delivering high levels of service to our customers. We participate in a National New Homes Survey, run by the HBF, which awards homebuilders stars for customer satisfaction. The survey year covers the period from 1 October to 30 September and the rating system is based on the number of customers who would recommend their builder to a friend. Our 2018 rating from the HBF is 79%, just below a four star rating (the threshold for which is 80%). This rating, whilst in line with last year remains a key focus for us, with an improvement in our customers' experience being a key objective for the Group in 2019 and beyond.

Our customers tell us that good communication throughout the home buying process is very important, particularly regarding the crucial “move in” date. In 2018, we continued to focus on improving the systems and processes in place for communicating with our customers. These improvements ensure our customers are kept informed at all key stages, including finalising their moving in date.

We appreciate that despite our best efforts, there will be some occasions when customers experience an issue with their new home. We listen to our customers and act as promptly as possible to deal with any concerns. We have substantially increased the level of resources and skills in our customer care departments in order to improve the speed and efficiency with which we deal with our customers' issues. Our customer care operatives have received additional site based training that aims to reduce the time taken to rectify any points raised. Whilst we have seen some success in this area we continue to aim for further improvement. Since 2014, while the number of homes the Group has delivered to its customers has increased by 22%, the level of our on-site resource has increased by 66% and the resource in our customer care departments has increased by 93%.

In response to feedback from customers we have increased the flexibility of the working hours of our office based customer care staff. Our customers are now able to contact a customer care team member outside of normal working hours, at times more convenient to them. In addition, from the beginning of 2019 our site based customer care operatives are available out of hours, including Saturday mornings, to attend appointment times which are more convenient for our customers.

A key objective for 2019 is to continue to deliver tangible improvements in the level of customer satisfaction. We will focus on providing site staff induction training to cover all customer care processes, make significant investment in technology that will improve communication between our regional offices, our customer care departments and our customers, and we will continue to offer a more flexible and convenient service to our customers.

We believe that this continued investment in our customer care resources will improve service between the notification of an issue and its resolution, provide an enhanced customer experience and ensure we achieve progress in our customer satisfaction levels.

Customer care performance will continue to be included in bonus and incentive criteria for our senior operational management, aligning their interests with this priority for the Group.

FibreNest

Having listened to our customers, we understand that they have been increasingly frustrated with delays to their broadband connection by existing suppliers. In addition, the speeds available from these services can be disappointing at times. We recognise that a reliable broadband connection is considered to be the “Fourth utility” for a large number of our customers. For this reason, we have established FibreNest, our own ultrafast, full fibre to the home, broadband service which aims to be available to our customers from moving in day.

Working with experienced partners, FibreNest provides ultrafast speeds coupled with excellent levels of service, both during installation and for the duration of the service, through a UK-based call centre and utilisation of highly experienced engineers. The first customers were connected in August 2018 and the service has been introduced across more than 35 sites with further roll outs planned. The FibreNest service is highly rated by our customers and FibreNest is currently ranked in the top 30%** of internet service providers in the UK.

2. Supporting Sustainable Communities

We create attractive neighbourhoods for our customers, with good infrastructure and access to local amenities. We engage with local communities and work closely with planning authorities to deliver much needed affordable and private market housing to ensure we develop successful and sustainable neighbourhoods that effectively integrate within existing communities.

Our land acquisition process aims to acquire sites in attractive locations where demand for homes is high. The Group has invested in highly skilled land, planning and design teams who have the knowledge and experience to deliver sites which provide the range, choice and affordability of homes that our customers require. In addition, our teams assess how we can mitigate our impact on existing communities and enhance local facilities providing investment in local infrastructure such as transport, education, retail and recreation facilities.

All of our developments are designed to promote social inclusion, incorporating housing for families with a broad span of incomes. In 2018, we provided 3,108 homes, or £366m of housing, to housing associations and a further 225 homes, or £28m of housing, to qualifying customers using affordable Discounted Open Market Value Housing. This is housing that is sold at a discount of around 20-30% to the local market value with the discount remaining with the property in perpetuity. These homes can only be purchased by customers who meet eligibility criteria set by local councils. Overall, we provided £394m of affordable housing for lower income families in 2018 (2017: £348m).

Engaging with Our Communities

We have 31 regional teams with detailed knowledge of the local communities in which they operate. In addition to fulfilling the housing needs of our customers by delivering newly built homes to their local market, our teams seek to support their local communities in a variety of ways:

- By consultation throughout the planning and development process
- By employing local tradespeople
- By engaging with local suppliers
- Through charitable donations to support local good cause
- Through engagement with local schools
- By delivering new amenities
- By delivering improvements to local infrastructure

The Group strives to deliver excellence in planning and our sensitivity in understanding the impact our developments have on wider society ensures that our developments are fully integrated into existing infrastructure as well as delivering improvements that benefit existing residents. Under the planning process, we invest in local communities in many forms, such as parks and open space; education provision; community buildings and roads and other infrastructure, either through direct construction or through financial contributions to local authorities. During 2018 we contributed over £80m to local communities (2017: £64m) through planning contributions to local authorities. Of the money contributed, £31.2m related to education provision.

The Persimmon Charitable Foundation

The Persimmon Charitable Foundation made c. 900 donations, amounting to £1.3m, to local charities, community groups and good causes and to local sporting organisations, in 2018. The Foundation ran two campaigns during the year, our successful Community Champions campaign, aimed at local charity and community groups, and our Healthy Communities campaign, aimed at supporting local clubs offering sporting facilities for children and young people. Organisations can apply for funding online at www.persimmonhomes.com/charity.

The Community Champions campaign was launched in 2015 and provides funding to local community groups and charities operating in the areas in which we build across the UK. Each of our 31 operating businesses and our head office make donations of up to £1,000 every month to each of two local good causes, to match the organisations own fund raising efforts. During 2018, Community Champions donated c. £770,000 to c. 800 local groups.

The Foundation's Healthy Communities initiative concluded in 2018 and over the course of a year has donated more than £600,000 to support amateur sports clubs, teams and individuals aged 21 and under in England, Wales and Scotland. This initiative encouraged local sports teams to apply for a donation from the Foundation. Almost 200 sporting organisations or individuals received a donation of £750 for sporting equipment and kit.

In January 2018, the trustees of the Foundation, together with an independent leading fund raiser, picked 30 finalists from all of the applications received to be put forward to a public vote, with the winner receiving a £200,000 donation and two runners up receiving £50,000 each. The other finalists received a donation of £5,000 each. In determining the finalists, the panel were looking to reward those who came up with the most innovative and compelling ideas as to how they would use the prize money to benefit young people in sport.

The Healthy Communities winners were announced at a gala dinner held in March 2018, to which representatives of each of the finalists were invited. The dinner was generously supported by a number of the Group's major suppliers and the evening itself raised £13,000 for the Charitable Foundation's funds.

The Heart of England Boxing Club was the eventual winner. This Leicestershire club helps young people overcome issues such as ADHD, autism, anti-social behaviour and bullying, and received a cheque from the Persimmon Charitable Foundation for £200,000. SportsAble in Maidenhead and Park Wrekin Gymnastics Club in Shropshire each received a donation of £50,000 as runners up.

Following the success of Healthy Communities, in January 2019 we launched a new initiative, Building Futures, which aims to donate over £1 million to support children across the UK. We are joining forces with Team GB - the Great Britain and Northern Ireland Olympic Team run by the British Olympic Association – to help organisations that support children across England, Wales and Scotland. Building Futures is solely for children under the age of 18. We will be aiming to make donations in three areas;

amateur sport, health (physical and mental) and Arts and Education (schools and clubs outside of schools).

As an official partner of Team GB, we are extremely proud to be supporting the organisation in the run up to, and beyond, the next Olympic Games in Tokyo.

Building safely and responsibly

Building safely and responsibly remains a key focus for the Group. Maintaining excellent health and safety standards and ensuring the wellbeing, health and safety of our employees, workforce and customers is of paramount importance to us. The Group is committed to being proactive in striving to reduce the health and safety risks associated with all the work activities the Group undertakes.

The Board ensures that the investment in Group Health and Safety resources devoted to ensuring our development sites, manufacturing plants and offices remain safe and healthy environments, is appropriate to support Operational Management at Group, Regional and Operating Business level. The Health and Safety team under the direction of our senior management team has considerable experience in providing both a pro-active advisory, and reactive incident led, approach to identify and mitigate health and safety risk.

Pre-start and ongoing planning of construction activities as our sites progress is undertaken by our management as they strive to maintain high levels of health and safety performance. The Group provides extensive training to safeguard the wellbeing of all people who come onto our sites, manufacturing plants or into our offices including construction and sales staff, customers and the local communities surrounding our sites.

In addition to the training and planning that is undertaken, both our Group Health and Safety Department and our operational management teams carry out regular monitoring and review of all our work activities to maintain the required standards detailed in the Group Health and Safety Policy. In 2018, the Group Health and Safety department undertook 5,971 pro-active site inspections (2017: 5,776).

During 2018 we reported 45 construction work related incidents in our housebuilding operations to the Health and Safety Executive under the Reporting of Incidents, Diseases and Dangerous Occurrences Regulations (RIDDOR). This was four less than the previous year (2017: 49) and with a further increase in production the level of build per RIDDOR improved to 365 legal completions per RIDDOR (2017: 330). The RIDDORs per thousand workers also improved compared to last year at 3.22 accidents per thousand workers (2017: 3.62). In our manufacturing operations we reported 3 RIDDORs in 2018 (2017: 3).

Minimising our environmental impact

The Group is committed to managing the direct and indirect impacts on the environment of both the new homes we build and our ongoing business operations.

The Group identifies all major environmental risks it faces in both the short and long term and our development processes include appropriate management actions that will mitigate these risks.

Addressing these issues at the start of our development plans ensures our environmental performance remains robust and helps the Group secure more sustainable business processes.

The environmental impact of our homes

We believe that the most important indirect environmental impact of our development activities is the ongoing impact of our new homes. The Group's focus is therefore on building new homes to high sustainability standards harnessing the benefits of good design and improvements in materials and building techniques to deliver new homes with high sustainable qualities.

Fabric first approach

All of our homes are designed to have good levels of energy efficiency. We harness the benefits of good design and improvements in materials and building techniques, to build homes to high sustainability standards. The average Standard Assessment Procedure (SAP) rating of our new homes is 83, which is around 40% more energy efficient than the existing housing stock, which has an average SAP rating of around 60. The use of Space4's timber frame build system is one way we help to ensure high levels of insulation and air tightness resulting in the homes built requiring less heating while also improving heat retention.

The environmental impact of our operations

We monitor our own operational efficiency and direct environmental impact in a number of ways including measuring our greenhouse gas emissions (CO_2e) and the amount of waste that we generate and recycle for each home we build.

Greenhouse Gas Emissions^
tonnes CO_2e

	2018	2017 (restated)^^
Scope 1 emissions from gas, transport and construction site fuel use	**35,450**	30,050
Scope 2 emissions from electricity use	**2,950**	3,470
Total greenhouse gas emissions	**38,400**	33,520
Greenhouse gas emissions per home sold	**2.33**	2.09

^To calculate our greenhouse gas emissions we collate data from across the Group and from our suppliers to identify the amount of energy used in our operations. Greenhouse gas (GHG) emissions are reported in line with the UK Government's Environmental Reporting Guidelines, including mandatory GHG reporting guidance (June 2013), and have been calculated using the GHG factors outlined in the BEIS 2018 Government GHG Conversion Factors for Company Reporting (July 2018).

^^During 2017, the Group brought in house some direct groundworks operations, in order to provide improved control over our build processes and programmes with associated efficiency gains. The 2017 greenhouse gas emissions data has therefore been updated to include these business operations for the full year in order to provide a more appropriate comparator.

As noted within our Financial Review, the Group took advantage of the good summer weather to advance our build programmes, resulting in larger volumes of plot foundations and infrastructure works being carried out on a number of sites to provide a strong basis for build to progress in the first half of 2019. This earlier investment is the main reason for the Group's increase in greenhouse gas emissions in 2018 compared to the prior year.

The Group remains focused on reducing our greenhouse gas emissions, on a like for like basis. We have implemented a range of initiatives, embracing both our operations and procurement practices, to improve the Group's environmental impact. This has included securing faster connection of new homes to the National Grid, thereby reducing the need for diesel to power on-site generators, and the replacement of older plant and equipment with newer, more fuel-efficient alternatives.

We have again participated in the CDP climate survey, alongside many of the world's largest companies. To do this, we supply information on climate risks and our low carbon opportunities. Our participation demonstrates the importance we attach to the challenges posed by climate change and how we are addressing these issues, both at a strategic and operational level. We maintained our rating for 2018 at C (Awareness). For 2019, we aim to externally verify our greenhouse gas emissions data which may help us to identify further areas where we can reduce our greenhouse gas emissions and improve our rating in the CDP survey.

Brickworks

The Group's Brickworks facility, manufacturing concrete bricks, is now fully operational. The Group's use of concrete bricks on its developments has increased over recent years. Concrete bricks are easier to make and their manufacture and use generate significant savings in greenhouse gas emissions when compared to the production of clay bricks using natural gas fired kilns. Each tonne of concrete bricks produces 100 kg of CO_2e less than the same quantity of clay bricks during the manufacturing process. Additionally, concrete is an absorber of carbon dioxide and these bricks are fully recyclable.

Waste generated

During 2018 the percentage of waste we recycled increased to 96% (2017: 92%) and the amount of waste per home built decreased to 6.73 tonnes (2017: 7.25 tonnes). One of the reasons we have recycled more of our waste is due to the increased re-use of brick and block waste on site. This brick and block waste is crushed for re-use on site, for example in piling platforms and scaffold bases, which not only reduces the amount of waste we send to landfill, but also reduces our requirement for third party aggregates. We have identified a number of operational areas where we can seek to drive improvements in the amounts of waste produced and reduce the cost of disposal. For example, we require our operating businesses to improve the segregation of waste on our sites in order that we have a better understanding of the type of waste we are producing so that it is more efficiently controlled. Our operating businesses are also using smaller skips and are now producing league tables for skip usage on sites in their region.

Climate Change

The potential impacts of climate change and how best to address them are systematically considered during the planning, development and building process of each of our sites. We take the effects of climate change very seriously when developing our sites. The Group conducts 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. Our development master plans seek to maintain green spaces as a key element supporting the health and wellbeing of local communities. In 2018 we incorporated over 300*** hectares of public open space and gardens in our developments. The Group works closely with planning authorities and other statutory bodies to identify and implement the most effective counter-measures that mitigate the effects climate change may have on our operations. For example, around three quarters of our current developments incorporate Sustainable Urban Drainage Systems to address the risks of flooding caused by changes in weather patterns. During 2018, the Board reviewed its principal risks and included climate change as a principal risk.

Further information can be found on our policies, including our Environment Policy, Waste and Resource Management Policy and Climate Change Position Statement which are available on our corporate website at www.persimmonhomes.com/corporate.

3. Maintaining a diverse skilled workforce

A large part of the success of our business is due to the energy and commitment of our workforce at all levels. The Group has a close knit, entrepreneurial and meritocratic culture where we strive for excellence. Our people are encouraged to contribute new ideas in an open environment to enhance the Group's processes. The Group recognises the importance of having a diverse, skilled and engaged workforce to ensure we have access to the talent we need. The Group's average number of employees increased by 6% in 2018 to over 4,800. We are proud that Persimmon has a long history of promoting from within the business. Our growth provides opportunities for our employees to develop rewarding careers with us.

Training

Due to the growth in the housebuilding industry over recent years, the labour market for housebuilding skills remains constrained. To address this and to provide opportunities to develop good careers in the Group we continue to invest in training to build the skills base of our workforce. This involves a large programme of graduate, trainee and apprentice recruitment and training.

In 2018, the Group provided c. 11,000 training days (excluding apprenticeships) to our employees and construction workforce (2017: c. 10,600). In addition, we currently have 381 traditional apprentices training within the Group, which is among the largest commitment to apprentice training in the housebuilding industry, together with around 80 sales trainees and a further 170 colleagues training in disciplines such as quantity surveying, planning and construction. In total, almost 15% of our workforce is participating in a formal training programme.

In 2019, the Group has invested in its Human Resources function, increasing the team by c. 40%, particularly in the training function to enhance the level of support and guidance provided to our employees. This investment will allow us to extend both the scope and scale of the personal and professional development opportunities to colleagues across the business.

The Group continues to be heavily involved in the Home Building Skills Partnership, a joint initiative of the Construction Industry Training Boarding and the Home Builders Federation (HBF) that aims to address the shortage of skilled workers in the industry.

Voluntary Living Wage

We are pleased to report that with effect from January 2019, the Group has adopted the payment criteria of the Living Wage Foundation for its employees. The relevant Real Living Wage is currently £9 an hour for our employees and is calculated based on living costs. Although the vast majority of our employees were already paid above this level, this has led to some small changes to pay structure for 64 employees and increases for 2% of our employees.

Diversity in the workforce

At 31 December 2018, the number of people we employed increased to 4,943 (2017: 4,713) of whom 3,705 (75%) were male and 1,238 (25%) female (2017: 3,559 (75%) male; 1,154 (25%) female). At 31 December 2018 we had two female and six male directors on the Company's Board and 35 female and 154 male colleagues in our 189 strong senior management team.

We have published our Gender Pay Gap report for 2018. The median pay gap for the Persimmon Group was 8.0% (2017: 7.9%), compared to the Office of National Statistics figures for 2017 of 18.4%. Further information can be found in our Gender Pay Gap report on our website, www.persimmonhomes.com/corporate.

The Group is committed to reducing the gender pay gap and increasing the number of women in its workforce, and in the senior management team. Indeed, of the total year on year increase of 230 employees, 37% were female. In 2018, the Board established a Gender Diversity Panel to consider and suggest policy amendments and initiatives to improve the gender diversity of the Group, particularly within its senior management team. The Panel is made up of four female members of the senior management team. They have set an initial goal of engagement with local schools and colleges during 2019 to promote the benefits of working within the housebuilding industry to young women. The Panel also recommended that the Group adopt a more formal flexible working policy to support both men and women. This policy is being introduced in the first quarter of 2019 for office based staff.

Persimmon is also a member of the Apprenticeship Diversity Champions Network (ADCN), part of the National Apprenticeships Service. ADCN members are apprentice employers who champion diversity and drive an open and inclusive culture in recruitment and employment practices. The Group shares case studies and best practice with the aim of promoting diversity in the recruitment of apprentices. We are also part of the HBF Diversity Group and are actively participating in their initiative to raise awareness of mental health in the construction industry.

Employee Engagement

The Group encourages feedback and new ideas from its staff to enhance our culture, systems and processes. In February 2019, to enhance the Group's existing engagement channels, an Employee Engagement Panel was established consisting of twelve voluntary members from a wide cross section of employees across the business, plus the HR Director, who will chair the Panel. The membership of the Panel will enable the views of a broad cross section of employees, both site and office based, to be represented. The Panel will meet twice a year and will strengthen feedback to the Board from two way dialogue with the Group's employees. Some meetings will be attended by a member of the Board in order that the Panel can hear directly from them.

Members of the Board regularly visit the Group's local businesses to see operations first-hand. Informal dinners are held with Board members and local senior staff, which are an opportunity for the Directors to receive feedback and to further explain matters of particular focus and importance for the Group.

In addition, we publish an employee newsletter "HQ" regularly throughout the year. A formal facility is incorporated where employees can provide their feedback with any received being provided to the Group's Corporate Responsibility Committee for consideration.

Human Rights

We demand the appropriate levels of conduct from all of our stakeholders, including our employees in all of our operations. We value our reputation for ethical behaviour, integrity and reliability. We have Human Rights and Anti-Bribery policies, a code of Ethics and a Modern Slavery Statement, which are all available on our website at www.persimmonhomes.com/corporate.

As we are a UK housebuilder and the vast majority of our sub-contractors and suppliers are also UK based, we do not consider that human rights abuses, modern slavery and bribery represent a significant risk to our business. However, we have appropriate procedures in place to provide assurance that our employees and suppliers are working to the high standards we demand.

We have identified the most significant potential human rights impact areas to be; the labour and employment rights of our employees, subcontractors and those working within our supply chain; the health and safety of our workforce; and the rights of communities where we undertake our developments. As a responsible employer, we are committed to compliance with all UK labour, health and safety, planning and environmental legislation.

We continue to take our role in combatting modern slavery and human trafficking seriously, and have implemented a number of initiatives within the year to strengthen support in this area. This included a detailed survey and analysis of our supply chain to increase supplier and sub-contractor awareness of modern slavery and to identify and further mitigate potential risks. Further detail on this survey and our other initiatives on modern slavery are set out in detail within our 2018 Modern Slavery Statement on our website (see above).

Staff are given details of the Group's Anti-Bribery policy and management reinforce the adherence to our policies and procedures. In addition we have whistleblowing facilities to ensure employees and others can raise concerns confidentially. During the year we ran a campaign to remind employees of the whistleblowing facility. Any whistleblowing reports are investigated by our Group Risk department.

4. Providing a sustainable supply of high quality land

The Group's land buying and management strategy, which ensures our continued growth over the longer term, is to continue to make substantial investment in good locations where people wish to live and work across the UK. Our planning and acquisition processes work in partnership with local planning authorities and involve the local community and other stakeholders as appropriate. Once sites have been identified, further value is engineered through innovative design, the use of our core house types, introducing simplicity and economies of scale, and the creation of attractive neighbourhoods for our customers.

Delays in achieving planning consents remain a constraint on the speed with which we are able to deliver the new home volumes required to satisfy local communities' housing needs. The Government's Revised National Planning Policy Framework, published in July 2018, aims to make it easier for planners, developers and local councils to deliver good quality homes in places where people want to live, at a faster pace. The Government's ambition is to achieve the delivery of 300,000 new homes a year across all tenures by the mid 2020's. We welcome the initiatives to support the development of a more efficient planning system which will enable the industry to continue to expand output and deliver the new homes the country needs.

All of the Group's land acquisitions are assessed on a consistent basis by dedicated and experienced management teams taking into account likely levels of profitability and the sites' projected return on capital employed. Acquisitions are only made when specific thresholds are met.

The Group has maintained a robust high quality land platform for the longer term by maintaining a disciplined approach to land investment, remaining increasingly selective given the risks and uncertainties generated by the headwinds confronting the UK economy, in particular those relating to the process of the UK leaving the EU. Given the strength of the existing land bank the Group can, and will, remain selective in its land replacement activities moving forward.

Our land bank

The Group has an excellent track record of successfully managing the promotion of land through the planning system and its subsequent acquisition. We have delivered 97,175 homes since 2012, invested £3.81bn in new land and acquired c. 133,000 plots. This has been achieved while maintaining greater velocity of asset turn supporting superior levels of returns for our shareholders.

At the year end the Group owned 75,793 plots of land. Within this land bank, the Group owned 47,305 plots on sites with detailed planning consent, which are all under development. This will provide c. 2.9 years of forward supply at 2018 output levels. These plots will provide support to each of our regional operations as they seek to achieve a sustainable market share. The Group has also entered into conditional contracts for an additional 23,295 plots on land which we are actively promoting through the planning system.

The Group's land bank strength allows us to serve our markets best by continuing to invest in the right land at the right time. The growth in the Group's new home delivery of over 75% since the launch of the Group's new strategy in 2012 has been enabled by the substantial investment in new land over the last six years.

Our brands' investment in land

During 2018, our Persimmon brand acquired 12,811 new plots of land resulting in a forward consented land bank at the end of 2018 of 69,275 plots (2017: 68,411). Of these total plots, 33,992 have an implementable detailed residential planning consent (2017: 37,867) with all sites under construction. At 2018 output levels the current land bank represents c. 2.8 years of forward supply.

Charles Church owned and controlled 11,448 plots in its forward consented land bank at the end of 2018 (2017: 11,191). Of these total plots 5,274 have an implementable planning consent (2017: 5,774) providing c. 3.8 years of forward supply at 2018 sales volumes. This forward supply reflects the success achieved in gaining detailed planning consents on some larger Charles Church developments, for example at Penny Pot Lane in Harrogate, North Yorkshire, a development for 367 homes. During the year 1,651 new plots were acquired by Charles Church.

Our strategic land

A fundamental element of the Group's business model is the continued investment in strategic land and successfully promoting this land through the planning system to deliver plots with detailed residential consent. During the year we acquired interests in a further c. 950 acres of strategic land and we converted 3,772 plots of land from our strategic land portfolio, representing c. 23% of the Group's land consumption. Conversions from our strategic land bank continue to ensure the Group remains in a strong position to offer new housing to local communities across the UK.

We are confident that our strategic land portfolio of c. 16,500 acres will, in due course, yield in excess of 100,000 forward plots for future development by the Group and will continue to support planning authorities and local communities to bring these sites through the planning system as quickly as possible.

The successful promotion and conversion of plots from our strategic land portfolio remains a focus for the Group and adds to the strength of our land bank.

During the year, the Group's Persimmon business enjoyed success in securing planning consents for residential development from its strategic land portfolio with 2,862 plots, across 22 sites, being delivered into its owned and under control land bank, representing 24% of the plots consumed by legal completions in the year. Notable strategic land conversions were achieved at Sacriston, Monkswood, in Durham, a c. 200 unit development and at Portchester, Cranleigh Road in Hampshire, a site that will deliver c. 120 homes.

5. Securing quality and availability of materials

Engaging with our supply chain

The Group enjoys long established and strong relationships with each of our main suppliers which we greatly value having invested in these over the long term. We have a centralised procurement department that seeks to secure Group deals covering all major elements of our construction requirements. This helps the Group establish certainty of quality, supply and cost of materials and provides our suppliers with certainty of volume and revenues. In addition, our operating businesses work closely with regional suppliers to secure locally sourced materials. Local suppliers benefit from the Group providing them with consistent order volumes which help sustain their businesses and strengthen our supply chain. The Group works with over 5,500 suppliers and is proud to support over 30,000**** jobs in its supply chain.

Our regional offices engage with a large number of local subcontractors in the construction of our homes. This ensures that the Group secures good availability of the skilled trades that we require locally and provides our subcontractors with continuity and consistency of work. The Group supports over 20,000**** jobs on its sites.

Off-site manufacturing

A key area of differentiation for the Group is through our commitment to innovation. Our off-site manufacturing capabilities assist the Group in securing the supply of some key materials which increases the Group's resilience at times when the availability of these key materials become constrained, together with providing the opportunity for some cost mitigation.

Space4

Homes England are supporting the industry to meet the demand for new housing through the increased use of modern methods of construction, including modular build and timber frame construction techniques.

The Group's Space4 business, based in Castle Bromwich near Birmingham, produces a 'fabric first' solution to the construction of new homes using off-site manufacturing techniques to produce timber frames, highly insulated wall panels and roof cassettes. The construction process using this system delivers high levels of thermal efficiency for the new homes built and positions the Group at the forefront of the industry with the ability to accommodate changes to building regulations that are targeted to reduce carbon emissions and global warming in the future. The use of the Space4 modern method of construction eases the requirement for some traditional skills on site which can benefit productivity and build programmes. Space4 employs approximately 140 people at its factory and has recently increased its capacity to be able to supply up to c. 9,500 units per year, consisting of c. 7,750 timber frames and c. 1,750 'room in the roof' systems.

During 2018 Space4 delivered c. 6,000 timber frame house kits and insulated roof systems to the Group's housebuilding businesses. Since its launch in 2001, Space4 has supported the delivery of over 52,000 new homes to the market and has made an important contribution to the Group's volume growth over recent years.

Brickworks

The Group started construction of its own Brickworks factory in 2016 to manufacture concrete bricks with the aim of securing the supply of this key material element. The facility is now fully operational with the capacity to produce c. 80m bricks annually, which approximates to two thirds of the Group's brick requirements. During the year, as we geared up production from the completion of commissioning in the second quarter of 2018, the facility provided c. 30m bricks to the Group's operations. The factory, sited at Harworth near Doncaster, has good access to the motorway network supporting efficient logistics for delivery to Group operations. The plant and manufacturing process is highly automated and is very durable with low maintenance requirements.

Our manufacturing process has strong environmental credentials due to the significant reduction in energy usage compared to more traditional clay brick manufacturing methods.

Tileworks

The Group commenced construction of its own concrete roof tile manufacturing plant in August 2018, again with the aim of securing the supply of this key material element. The factory is located adjacent to the Group's Brickworks sharing common infrastructure. The Tileworks factory aims to supply approximately two thirds of the Group's requirements for roof tiles across the UK, and plans to commence deliveries to site in the second half of 2019.

Both Brickworks and Tileworks are further developments of the Group's off-site manufacturing capabilities, delivering consistently high quality products and securing the Group's supply of these key material components.

The impact of the UK's exit from the EU on our supply chain

The details regarding the basis on which the UK will leave the EU, together with the proposed future trading relationship, remain uncertain. As a result, we believe the key risks facing the business associated with these circumstances are; the impact of increased uncertainty surrounding the UK economy and availability and potential impact on the cost of certain materials which form part of our construction requirements.

The Group's activities are focused on the regional housing markets across mainland UK, covering England, Wales and Scotland. The Group has undertaken a review of its construction elements and its supply chain. The majority of our material supplies are sourced from within the UK. The Group has worked with its suppliers in respect of any material supplies which may be exposed to some disruption to availability. In these cases, our suppliers are typically building up increased stock holdings and/or are changing their ports of importation to mitigate the risk of delays. We are also providing support by way of earlier and increased commitment to our suppliers where required. In addition, our off-site manufacturing capabilities, Space4, Brickworks and, going forward, Tileworks, will help us mitigate any potential supply disruption and material cost impacts.

Whilst we recognise the heightened risk profile associated with the Brexit process, the Group is in a strong position in its markets offering affordably priced homes, with a good range and choice of affordable house types available across our national outlet network. The Group has a very strong balance sheet with a high quality land bank, robust liquidity, substantial cash holdings and strong forward order book. The Group is in a strong position to react to market conditions as events unfold.

6. Optimising working capital and returns

Delivering superior levels of shareholder value over the long term and returning surplus capital to shareholders are key priorities for the Group. We achieve this by:

- Optimising our sales and the capital intensity of the Group
- Maintaining a disciplined approach to the investment of capital in land at the appropriate points in the housing cycle. The Group's land replacement and acquisition processes are key features of our approach
- Maintaining strong control over the Group's levels of work in progress across all of our developments
- Managing our supply chain and entering into robust tendering processes to help manage our costs
- Vertical integration and the manufacture of some key material elements
- Improving our build programme management through increasing use of the Group's core house type portfolio across our developments

The Group has invested in strong land, planning and design teams that have a proven track record in supporting the Group's investment in appropriate land opportunities in attractive locations, at the right point in the housing cycle. The Group's investment decisions consider actual and prospective conditions in both the land and sales markets. Our teams have a clear planning and investment strategy that places our customers' needs firmly at the centre of our land replacement activities. This ensures that planning consents are successfully achieved for sites where demand for the Group's well designed core house types is high.

A cost effective and efficient build programme is imperative in optimising working capital. The Group's detailed build programme management processes aim to support improved productivity and our site management teams, suppliers, sub-contractors and site workers have all worked extremely hard to deliver further improvements in 2018. The use of our core house types assist consistency of construction and enable us to better control our development costs. Our build and direct costs are 50 basis points lower than last year at 52.1% of housing revenue (2017: 52.6% of housing revenue).

During 2018 we increased our investment in development work in progress to support higher levels of output to meet demand in the market. The cash efficiency of our land replacement activities, our strong asset turn and the expansion of our cash margins, has allowed us to continue to invest selectively in new land holdings at a rate of c. 104% of 2018 consumption. Recognising the current increased uncertainties regarding the future performance of the UK economy we are maintaining our selective approach to new land commitment.

By exercising this capital discipline, together with maximising the cash efficiency of operational activities, the Group will deliver strong cash generation whilst minimising financial risk through the cycle.

The return of capital to shareholders that is considered surplus to the reinvestment needs of the business is a key feature of the Group's strategy launched in 2012. The evaluation as to whether the business is operating at optimal scale within its regional markets, executing disciplined land investment at the appropriate time through the cycle, whilst minimising financial risk is a primary consideration when assessing the level of surplus capital that is available for return to shareholders.

Capital Return Plan

The Board has committed to maintain its existing Capital Return Plan as explained earlier in the Operational Review. Instalments of £732.3m or 235 pence per share (2017: £416.6m or 135 pence per share) were paid during the year. In total surplus capital of £7.20 per share, or £2.22 billion, has now been returned to shareholders.

Dave Jenkinson
Group Chief Executive
25 February 2019

Mike Killoran
Group Finance Director

* Source Office of National Statistics
** Ranked by Trustpilot
*** Using average garden size and site density
**** Estimated using an economic toolkit

PERSIMMON PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	**2018** **Total** **£m**	2017 (restated - note 1) Total £m
Revenue	1, 2	**3,737.6**	3,597.8
Cost of sales		**(2,557.7)**	(2,526.1)
Gross profit		**1,179.9**	1,071.7
Other operating income		**5.6**	9.4
Operating expenses		**(102.8)**	(126.0)
Profit from operations before impairment of intangible assets		**1,091.9**	966.1
Impairment of intangible assets		**(9.2)**	(11.0)
Profit from operations		**1,082.7**	955.1
Finance income		**20.4**	24.5
Finance costs		**(12.3)**	(13.5)
Profit before tax		**1,090.8**	966.1
Tax	3	**(204.4)**	(179.2)
Profit after tax (all attributable to equity holders of the parent)		**886.4**	786.9
Other comprehensive income			
Items that will not be reclassified to profit:			
Remeasurement gains on defined benefit pension schemes	10	**19.7**	22.1
Tax	3	**(3.3)**	(3.7)
Other comprehensive income for the year, net of tax		**16.4**	18.4
Total recognised income for the year		**902.8**	805.3
Earnings per share			
Basic	5	**283.3p**	255.0p
Diluted	5	**280.8p**	243.1p

PERSIMMON PLC

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 £m	2017 (restated - note 1) £m
Assets			
Non-current assets			
Intangible assets		**193.4**	202.6
Property, plant and equipment		**58.0**	52.5
Investments accounted for using the equity method		**3.0**	3.0
Shared equity loan receivables	7	**70.6**	103.2
Trade and other receivables		**7.0**	7.0
Deferred tax assets		**13.4**	92.0
Retirement benefit assets	10	**90.6**	67.7
		436.0	528.0
Current assets			
Inventories	6	**3,059.5**	2,825.9
Shared equity loan receivables	7	**16.3**	14.1
Trade and other receivables		**91.8**	86.1
Cash and cash equivalents	9	**1,048.1**	1,302.7
		4,215.7	4,228.8
Total assets		**4,651.7**	4,756.8
Liabilities			
Non-current liabilities			
Trade and other payables		**(270.4)**	(294.1)
Deferred tax liabilities		**(27.7)**	(24.0)
Partnership liability		**(35.2)**	(38.5)
		(333.3)	(356.6)
Current liabilities			
Trade and other payables		**(1,058.5)**	(1,099.6)
Partnership liability		**(5.4)**	(5.4)
Current tax liabilities		**(60.0)**	(93.6)
		(1,123.9)	(1,198.6)
Total liabilities		**(1,457.2)**	(1,555.2)
Net assets		**3,194.5**	3,201.6
Equity			
Ordinary share capital issued		**31.7**	30.9
Share premium		**15.5**	13.5
Capital redemption reserve		**236.5**	236.5
Other non-distributable reserve		**276.8**	276.8
Retained earnings		**2,634.0**	2,643.9
Total equity		**3,194.5**	3,201.6

PERSIMMON PLC

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018

	Share capital	Share premium	Capital redemption reserve	Other non-distributable reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 January 2017	**30.8**	**10.6**	**236.5**	**276.8**	**2,182.7**	**2,737.4**
Profit for the year	-	-	-	-	786.9	786.9
Other comprehensive income	-	-	-	-	18.4	18.4
Transactions with owners:						
Dividend on equity shares	-	-	-	-	(416.6)	(416.6)
Issue of new shares	0.1	2.9	-	-	-	3.0
Exercise of share options/share awards	-	-	-	-	(0.9)	(0.9)
Share-based payments	-	-	-	-	72.5	72.5
Satisfaction of share options from own shares held	-	-	-	-	0.9	0.9
Balance at 31 December 2017	**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**

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 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities:			
Profit for the year		**886.4**	786.9
Tax charge	3	**204.4**	179.2
Finance income		**(20.4)**	(24.5)
Finance costs		**12.3**	13.5
Depreciation charge		**10.0**	8.4
Impairment of intangible assets		**9.2**	11.0
Share-based payment charge		**7.9**	18.8
Net imputed interest income		**1.9**	5.0
Other non-cash items		**(0.2)**	(1.5)
Cash inflow from operating activities		**1,111.5**	996.8
Movement in working capital:			
Increase in inventories		**(225.5)**	(176.6)
Increase in trade and other receivables		**(26.7)**	(20.5)
(Decrease)/increase in trade and other payables		**(82.7)**	131.1
Decrease in shared equity loan receivables		**41.6**	46.6
Cash generated from operations		**818.2**	977.4
Interest paid		**(3.9)**	(3.9)
Interest received		**5.8**	3.4
Tax paid		**(165.8)**	(152.9)
Net cash inflow from operating activities		**654.3**	824.0
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(15.5)**	(18.0)
Proceeds from sale of property, plant and equipment		**0.5**	0.3
Net cash outflow from investing activities		**(15.0)**	(17.7)
Cash flows from financing activities:			
Payment of Partnership liability		**(3.2)**	(3.0)
Own shares purchased		**(1.3)**	-
Share options consideration		**2.8**	3.0
Net settlement of share-based payments		**(159.9)**	-
Dividends paid	4	**(732.3)**	(416.6)
Net cash outflow from financing activities		**(893.9)**	(416.6)
(Decrease)/increase in net cash and cash equivalents	9	**(254.6)**	389.7
Cash and cash equivalents at the beginning of the year		**1,302.7**	913.0
Cash and cash equivalents at the end of the year	9	**1,048.1**	1,302.7

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 2018.

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 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 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 2018 to shareholders on 18 March 2019.

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 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Annual Improvements to IFRS Standards 2014-2016 Cycle

With the exception of IFRS 15 Revenue from Contracts with Customers, the effects of the implementation of these standards have been limited to presentational and disclosure amendments.

Following the implementation of IFRS 15, Revenue from Contracts with Customers, revenues reported in the Consolidated Statement of Comprehensive Income now include the fair value of consideration received or receivable on the sale of part exchange properties, in addition to the previously reported fair value of the consideration received or receivable on the legal completion of a newly built residential property sale. IFRS 15 has been applied fully retrospectively and as a result of the change revenue and cost of sales for the year ended 31 December 2017 has been increased by £175.5m. For the current period, revenue is £191.8m higher than it would have been prior to the implementation of IFRS 15. There is no change to the reported profit from operations and there is no impact on the Group's cash flows or balance sheet.

IFRS 9 Financial Instruments came into effect on 1 January 2018 replacing IAS 39 Financial Instruments: Recognition and Measurement and requires changes to the classification and measurement of certain financial instruments from that under IAS 39. The new standard has been applied fully retrospectively and on review the majority of the Group's financial assets and liabilities will continue to be accounted for on an identical basis under IFRS 9 as they were under IAS 39. There is no material effect from applying IFRS 9 for expected credit losses.

The exception to this is the Group's shared equity loan portfolio. These were held under IAS 39 as Available for Sale Financial Assets. This classification is no longer available under IFRS 9 and the assets have been reclassified as Fair Value Through Profit and Loss and reported as "Shared equity loan receivables" in the Balance Sheet. The fair value of the loans is unchanged following this reclassification and there is no impact on the Profit or Loss or Balance Sheet in the current or comparative periods. In implementing this change we have more appropriately reflected the ageing of the Shared equity loan receivables and have analysed the receivable between non-current and current for the reported period end and its comparative period ends. There has been no impact on profits or cash flows in the current or previous periods as a result of this re-analysis.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions was endorsed by the EU during the year and is effective for periods commencing on or after 1 January 2018. The amendment has been applied in the period and had no impact on prior periods.

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

- IFRS 16 Leases
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments

The Group is currently considering the implication of these new standards with the expected impact upon the Group as follows:

IFRS 16 Leases will be effective for the Group from 1 January 2019. The key effect of this standard will be to require the company to create a long term depreciating "right of use" asset and corresponding lease liability for leases currently classified as operating leases and charged over the lease term in accordance with the current standard IAS 17 Leases. The Group operate a number of such operating leases, principally in relation to office properties and vehicles. If IFRS 16 was applied from 1 January 2018, both fixed assets and other payables would have been increased by £10.0m at 31 December 2018. Reported profit from operations would have been £0.4m higher at £1,083.1m with reported profit before tax being unchanged at £1,090.8m.

2. Revenue

	2018 £m	2017 £m
Revenue from the sale of new housing	**3,545.8**	3,422.3
Revenue from the sale of part exchange properties	**191.8**	175.5
Revenue from the sale of goods as reported in the statement of comprehensive income	**3,737.6**	3,597.8

3. Tax

	2018 £m	2017 £m
Tax charge comprises:		
UK corporation tax in respect of the current year	**202.1**	187.1
Adjustments in respect of prior years	**(5.0)**	(8.4)
	197.1	178.7
Deferred tax relating to origination and reversal of temporary differences	**6.9**	1.0
Adjustments recognised in the current year in respect of prior years deferred tax	**0.4**	(0.5)
	7.3	0.5
	204.4	179.2

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

	2018 £m	2017 £m
Profit from continuing operations	**1,090.8**	966.1
Tax calculated at UK corporation tax rate of 19% (2017: 19.25%)	**207.3**	186.0
Accounting base cost not deductible for tax purposes	**0.5**	-
Goodwill impairment losses that are not deductible	**1.7**	2.1
Expenditure not allowable for tax purposes	**0.3**	0.2
Effect of change in rate of corporation tax	**(2.2)**	(0.1)
Deferred tax written off on lapsed share-based payments	**1.4**	-
Adjustments in respect of prior years	**(4.6)**	(9.0)
Tax charge for the year recognised in profit	**204.4**	179.2

The Group's overall effective tax rate of 18.7% 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 has reduced from 19.25% in the prior year to 19% in line with corporation tax rates effective from 1 April 2017. In relation to the Group's deferred tax calculations, a further 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 2019 or 2020.

In addition to the amount recognised in profit, deferred tax of £3.3m was charged directly to other comprehensive income (2017: charge of £3.7m), and a £71.7m charge was recognised in equity (2017: credit of £47.4m). The Group has recognised deferred tax liabilities of £15.4m (2017: liabilities of £11.5m) on retirement benefit assets of £90.6m (2017: assets of £67.7m).

4. Dividends/Return of capital

	2018 **£m**	2017 £m
Amounts recognised as distributions to capital holders in the period:		
2016 dividend to all shareholders of 25p per share paid 2017	**-**	77.1
2016 dividend to all shareholders of 110p per share paid 2017	**-**	339.5
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**	-
Total capital return	**732.3**	416.6

The Directors propose to return 125 pence of surplus capital to shareholders for each ordinary share held on 8 March 2019 with payment made on 29 March 2019 as an interim dividend in respect of the financial year ended 31 December 2018. In addition, the Directors propose the payment of the regular annual capital return instalment of 110 pence per share, with payment scheduled for 2 July 2019 as a final dividend with respect to the financial year ended 31 December 2018, to shareholders for each ordinary share held on 14 June 2019. The total return to shareholders is therefore 235 pence per share (2018: 235 pence per share) in respect of the financial year ended 31 December 2018.

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, excluding those held in the employee benefit trusts and any treasury shares, all of which are treated as cancelled, which were 312.9m (2017: 308.6m).

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 315.7m (2017: 323.7m).

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

	2018	2017
Basic earnings per share	**283.3p**	255.0p
Underlying basic earnings per share	**286.3p**	258.6p
Diluted earnings per share	**280.8p**	243.1p
Underlying diluted earnings per share	**283.7p**	246.5p

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

	2018	2017
	£m	£m
Underlying earnings attributable to shareholders	**895.6**	797.9
Goodwill impairment	**(9.2)**	(11.0)
Earnings attributable to shareholders	**886.4**	786.9

6. Inventories

	2018	2017
	£m	£m
Land	**2,077.2**	2,010.6
Work in progress	**881.8**	723.9
Part exchange properties	**56.2**	45.2
Showhouses	**44.3**	46.2
	3,059.5	2,825.9

The Group conducted a further review of the net realisable value of its land and work in progress portfolio during 2018. Our approach to this review has been consistent with that conducted at 31 December 2017. Net realisable provisions held against inventories at 31 December 2018 were £37.8m (2017: £41.9m). Following the 2018 review, £16.5m (2017: £28.3m) of inventories are valued at fair value less costs to sell rather than historical cost.

7. Shared equity loan receivables

	2018	2017
	£m	£m
Shared equity loan receivables at 1 January	**117.3**	148.7
Settlements	**(41.6)**	(46.6)
Gains (Finance income)	**11.2**	15.2
Shared equity loan receivables at 31 December	**86.9**	117.3

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, £3.0m (2017: £4.9m) 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:

	2018	2017
	Level 3	Level 3
	£m	£m
Shared equity loan receivables	**86.9**	117.3

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 10 years (2017: 10 years) and discount rate 9% (2017: 8%) 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

	2018 **£m**	2017 £m
(Decrease)/increase in net cash and cash equivalents in cash flow	**(254.6)**	389.7
Net cash at 1 January	**1,302.7**	913.0
Net cash at 31 December	**1,048.1**	1,302.7

10. Retirement benefit assets

As at 31 December 2018 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:

	2018 £m	2017 £m
Current service cost	**2.0**	2.3
Past service cost	**5.5**	-
Administrative expense	**0.9**	0.7
Pension cost recognised as operating expense	**8.4**	3.0
Interest cost	**14.2**	15.9
Return on assets recorded as interest	**(15.9)**	(16.9)
Pension cost recognised as net finance credit	**(1.7)**	(1.0)
Total defined benefit pension cost recognised in profit or loss	**6.7**	2.0
Remeasurement gains recognised in other comprehensive income	**(19.7)**	(22.1)
Total defined benefit scheme gain recognised	**(13.0)**	(20.1)

The past service cost recognised in the period is an estimate of the impact of recent 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:

	2018 £m	2017 £m
Fair value of Pension Scheme assets	**616.8**	649.1
Present value of funded obligations	**(526.2)**	(581.4)
Net pension asset	**90.6**	67.7

11. Principal risks and Viability Statement

UK's exit from the EU		
Residual Risk High **Change in 2018** Increased	**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, profits and cash flows and may result in the impairment of asset values. Potential legislative changes on customs arrangements and increases in trade tariffs could create bottlenecks at ports and impact on the availability and cost of imported materials and components within our supply chain. Possible restrictions on freedom of movement may impact on the availability of skilled construction workers.	**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 closely manage and control our work in progress and land investment and our stringent investment appraisals will continue, ensuring exposure to market disruption is reduced. We maintain close contact with our key suppliers and will continue to employ robust tendering processes to ensure risks around material availability and cost are mitigated as far as possible. The vertical integration afforded by use of our own Brickworks, Space4 and going forwards Tileworks production mitigates this risk further. We will remain focused on our training initiatives to improve the supply of the necessary management and construction skills the Group requires. (Also see mitigation and review of Government policy and Labour and Resources)
National and regional economic conditions		
Residual Risk High	**Impact** The housebuilding industry is sensitive to changes in the economic	**Mitigation** We continually monitor lead indicators on the future direction of the UK housing market so as to manage

Change in 2018 No change	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.	our exposure to any future market disruption. Our diversity of geographical market presence and our continual monitoring of our geographical spread helps us mitigate the effects of local economic fluctuations. We control the level of build on site by closely monitoring our work in progress levels. We carry out extensive due diligence prior to our land investment decisions having regard to local market conditions and the Group's existing strategic and on market land holdings. Significant land additions are reviewed by the Board.
Government policy		
Residual Risk High **Change in 2018** No change	**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 Help to Buy scheme 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.	**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. We actively manage our land investment decisions and levels of work in progress to mitigate exposure to external influences. Both major political parties in the UK continue to support the Help to Buy scheme, which was recently extended to remain in place until 2023.
Mortgage availability		
Residual Risk High **Change in 2018** 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 monitor customer access to mortgages through our sales processes. 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 anticipated 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 in 2018** 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 lead to reputational damage and financial penalties.	**Mitigation** The Board has a 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 High **Change in 2018** Increased	**Impact** Access to an appropriately skilled workforce is a key requirement for the Group. Increasing 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, including our Combat to Construction (C2C) programme, to provide adequate supply of skilled labour. We are 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 career management and performance incentives. At the most senior level, the Nominations Committee oversees these processes and promotes effective succession planning.
Labour and Resources: Materials and Land Purchasing		
Residual Risk Medium **Change in 2018** No change	**Impact** Materials 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. Land Purchasing Land may be purchased at too high a price, in the wrong place and at the wrong time in the housing cycle.	**Mitigation** Materials Our build programmes and our supply chain are closely monitored to allow us to manage and react to any supply chain issues. 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 commence operations in 2019. 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. Land Purchasing 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 current market conditions and sales rates.

Strategy		
Residual Risk Low **Change in 2018** No change	**Impact** The Group's strategy has been developed by the Board as the most appropriate approach to successfully deliver the optimal sustainable value for shareholders and other 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.	**Mitigation** The Group's strategy is agreed by the Board at an annual strategy meeting and thereafter regularly reviewed at Board meetings. The Board engages with management and employees to ensure the strategy is communicated and understood and that all employees have a clear understanding of the potential benefits and risks of the strategy.
Climate Change		
Residual Risk Medium **Change in 2018** New	**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 take account of impacts relating to climate change. Changes in weather patterns may increase build costs and/or development timeframes.	**Mitigation** We monitor our operational efficiency and direct environmental impact in a number of ways including measuring our own CO_2 emissions and the amount of waste we generate for each home we sell. 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 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 and other technology on all our new sites, subject to local planning requirements, to address the risk of flooding. We continually seek to strengthen our supply chain. 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.
Reputation		
Residual Risk Medium **Change in 2018** New	**Impact** Access to housing is a significant social issue and housebuilding is a high profile industry which attracts a great deal of media and political attention. In cases where customer experiences, operational performance, management of health and safety, remuneration matters or local planning concerns fall short of our usual high standards, this may attract media attention. This may impinge on the reputation of the business which may have an	**Mitigation** The Group has a strong commitment to high quality of operations. Oversight from the Board seeks to ensure key processes are robust and any matters are addressed. We engage actively with stakeholders to minimise the risks of reputational damage and we aim to comply with best practice in corporate governance. 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.

	adverse impact on the Group's operations.	Significant contributions are made to local infrastructure and good causes within the communities in which the Group operates.
Regulatory compliance		
Residual Risk Low **Change in 2018** No change	**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.	**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. 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.

VIABILITY STATEMENT

Persimmon's prospects and viability

The long term prospects and viability of the Group are a consistent focus of the Board when determining and monitoring the Group's strategy and business model. The identification and mitigation of the Group's principal risks 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. Whilst 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, the Board recognise 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 greater future success – talented commercially driven teams, strong local community and customer relationships, market knowledge, expertise and industry know-how, and high quality land located in places where our customers want to live and work. By building on these solid foundations the Group aims to support local communities through continued investment in its people, its land, and its development sites and in its supply chain.

The Group adopts a disciplined annual business planning regime which involves the management teams of the Group's 31 house building businesses and senior management, with input and oversight of 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 significant contribution to the Board’s assessment of the Group’s prospects. The Group’s current market position, its strategy and business model, and the risks that may challenge its business model 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 good amenity value to support sustainable neighbourhoods and sales activity
- Disciplined land replacement reflecting the extent and location of housing needs across the UK provides a high quality land bank supporting future operations
- Long term supplier and subcontractor relationships keeping construction costs well controlled
- A flexible cost structure is maintained to allow the effective response to changes in market conditions
- Continued investment to support higher levels of customer service
- Strong financial position with considerable cash reserves and with additional substantial working capital credit facilities maturing March 2023

2. Strategy and business model

- Clear strategy for disciplined growth and surplus capital generation launched in 2012
- Strategy recognises the importance of mitigating the impacts of the cyclicality of the UK housing market
- Substantial investment in staff training and support to sustain operations over the long term
- Approach to land investment and development activity provides the opportunity to generate high quality growth delivered by the management talent in the business
- Differentiation through vertical integration achieving security of supply of key materials and complementary modern methods of construction to support 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 process of the UK leaving 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 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 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 seven years the Group is ahead of plan and has paid £7.20 per share, or £2.22bn back to shareholders. On 25 February 2019 the Directors announced the scheduled Capital Return Plan payments in respect of the financial year ended 31 December 2018. Further details can be found in the Operational Review 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 2023.

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 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. 20% over an initial three year period, during which time it was also assumed that sales volumes fell by over 40%, 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. 54% 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 2023.

* The Directors have assessed the longer term prospects of the Group in accordance with provision C.2.2 of the UK Corporate Governance Code 2016.

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 2018 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 2018 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 25 February 2019	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.