RNS Number : 4246R
Persimmon PLC
01 March 2023

FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

Persimmon Plc today announces Final Results for the year ended 31 December 2022.

Dean Finch, Group Chief Executive, commented:
"Persimmon delivered a very strong performance in 2022. I am particularly pleased we combined strong financial results with five-star customer service and quality. I would like to thank colleagues across the Group who have been working hard to deliver the dream of homeownership for our customers during one of the most turbulent years anyone can remember. The strength of our financial and customer service results is testament to their hard work and commitment.

"The market remains uncertain. Our marketing campaign has helped improve the Group's sales rates in the new year from the lows at the end of 2022, but they still remain lower year on year. We have carefully managed our pricing, recognising the improved value and energy efficiency of our product in these difficult times and sales prices have proved resilient. We responded quickly to stimulate sales, enhance cost controls and preserve cash, promptly slowing new land investment in the fourth quarter of last year. Nonetheless, the sales rates seen over the last five months mean completions will be down markedly this year and as a consequence, so will margin and profits. However, it is too early to provide firm guidance.

"Looking further ahead, the fundamentals underpinning demand for new homes remain strong and we continue to target disciplined growth in the coming years while continuing to enhance our quality and service credentials. Persimmon benefits from industry-leading embedded margins in its existing land portfolio. This is a strong platform for growth from next year as we look to expand our outlet network to provide the capacity to deliver ahead of pre-Covid volumes in the future. A more proactive approach to securing permissions is starting to demonstrate success despite ongoing difficulties in the planning system. We are prioritising securing consents on sites we already own and will complement this through targeted investment in outstanding new land opportunities at the right time.

"The hard work of recent years has built a stronger and more sustainable Persimmon for the future. With a well-positioned product delivered with more consistent quality and service, together with our high quality land holdings, we are well-placed to succeed in the years ahead by growing our outlet network, increasing the number of five-star homes we build, responding swiftly to market changes and delivering sustainable returns to shareholders."

Financial Highlights

	2022	**2021**
New home completions	14,868	14,551
New home average selling price	£248,616	£237,078
Total Group revenues	£3.82bn	£3.61bn
New housing revenues	£3.70bn	£3.45bn
Underlying new housing gross margin[1]	30.9%	31.4%
Underlying operating profit[2]	£1,006.5m	£966.7m
Underlying profit before tax[2]	£1,012.3m	£973.0m
Profit before tax	£730.7m	£966.8m
Cash at 31 December	£861.6m	£1,246.6m
Land holdings at 31 December - plots owned and under control	87,190	88,043
Number of selling outlets at 31 December	272	234
Current forward sales position	£1.52bn	£2.21bn
Net assets per share	1,077p	1,136p
Underlying return on average capital employed[3]	30.4%	35.8%
Customer satisfaction score[4]	5-star	5-star

A strong trading performance combined with five-star quality for the first time

- Underlying operating profit[2] up 4% year on year to over £1bn.
- Profit before tax of £730.7m reflecting the increase in our provision by £275.0m to £350.0m (before spend to date) for building safety remediation.
- HBF customer satisfaction score[4] remained above the 90% five-star threshold for the year with continued focus on further improvements through our Persimmon Way build excellence programme.
- Average selling price increased 5% year on year, reflecting house price inflation and a more sophisticated approach to pricing in local markets.
- Build rates up 8% year on year, with the second half of the year particularly strong at 15%.
- Industry-leading underlying operating margin[5] position maintained at 27.2% (2021: 28.0%) as careful cost management and the Group's vertical integration helped mitigate build cost inflation of 8-10% through the year.
- Strong cash generation of £1,002.7m (2021: £1,209.8m) before capital return of £750.1m and net land spend of £637.6m. Cash held at 31 December 2022 £861.6m (2021: £1,246.6m) reflecting strong investment in land and work in progress and capital return.

Disciplined investment

- Proactively added additional control measures in Q4 2022 to slow land investment and ensure work in progress matched sales demand.
- Added 14,670 plots across 66 sites into our owned and under control land holdings during the year, at gross investment of £735.8m. These additions maintained both our industry-leading embedded

margins and the cost to revenue ratio of our owned land has remained at 11.4%[6].

- The Group's high quality land holdings stand at 87,190 plots owned and under control at 31 December 2022 (2021: 88,043).
- The Group's underlying return on average capital employed[3] of 30.4% (2021: 35.8%) reflects the increased investment in land and work in progress as we built up our outlet network in 2022.
- Expediting sites on owned land with consent stalled or due for application shortly, with a more proactive approach to planning including an enhanced Placemaking Framework.
- With a more selective approach in place, we expect new land investment to be reduced in 2023. We will continue to target attractive deals to help drive outlet growth from 2024 onwards, subject to planning constraints.

Creating sustainable communities

- Our private average selling price of £272,206 during 2022 is over 20% lower than the UK national average[7].
- Investment of £505.6m in local communities, including the delivery of 2,694 new homes to our housing association partners (2021: 2,533).
- Good progress made on our carbon reduction targets including through increased use of electric vehicles in our fleet and 100% renewable electricity in our offices.
- Seeking to deliver our transition to net zero carbon homes in use through innovative solutions from Space4, our timber frame manufacturing facility.
- One of only 10 companies to be awarded a Certificate of Commitment and Progress - Building Safety Stage 1, as part of the Building a Safer Future Charter Champion application process.
- Remain proud to be a Living Wage Foundation accredited employer; introduced the 2023 increase in January ahead of the requirement.

Legacy building safety provision

- In February 2021 Persimmon led the industry in committing that no leaseholder in a multi-storey development we built would have to pay for cladding removal or life-critical fire-safety remediation.
- Persimmon has signalled its intent to sign the UK government's developer remediation contract as it is in line with this existing commitment. We continue to work positively with the Welsh and Scottish governments on similar agreements.
- Good progress has already been made on buildings we developed. Of 73 developments identified as requiring remediation, work is underway or complete on 42 and we aim to start work on the remainder by the end of 2023.
- As announced in November 2022, the Group has increased its provision for building safety remediation across the UK to £350.0m (before spend to date), resulting in a £275.0m exceptional charge for the year.

Current trading and outlook

- Forward sales position reflects the significant drop in private sales rates experienced in Q4 2022 to 0.30 (Q4 2021: 0.77), although cancellation rates have reverted back to typical historic levels.
- Current forward sales stand at £1.52bn, including private average sales of £0.81bn with an average selling price of £288,638 indicating that pricing remains firm.
- Sales rates have improved to 0.52 in the first 8 weeks of the year, in-line with industry peers yet still significantly below the equivalent period last year (0.96).
- Entered 2023 with 272 active sales outlets, up from 234 at the start of 2022, with an average of 259 for the year. Average likely to remain broadly similar in 2023 reflecting selective investment and on-going effect of slow planning system.
- Too early to assess a full year sales rate, but should current rates continue for the rest of the selling year, the Group's current outlet network would imply 8,000-9,000 legal completions for 2023.
- These lower completion levels will have a margin impact.
    - If cost inflation, which is currently running at c.8%, continues all year and there is no mitigating increase in average selling price, margins may reduce by around 500bps.
    - Reduced volumes and increased sales incentives and marketing costs may further impact operating margins by around 800bps.
    - Ultimately, any margin impact will of course be a product of the interplay between each of these factors. Equally, as they improve, it will drive relative margin growth.
- While focusing on securing planning permissions from our existing owned land, it is our intention to continue to invest in land in a targeted and disciplined way, when we judge the timing is right, in order to deliver outlet growth in future years. We are confident that this will lead to growing margins and profits.
- We have taken action to reduce our costs but wish to retain our capabilities to grow again in the near term, which has reduced our ability to mitigate the margin impact of lower volumes.
- We continue to enhance our capabilities through further investment in our colleagues, innovation and vertical integration - including a new timber frame factory - to enhance our build quality and efficiency capabilities and ability to respond to improvements in the market.

Shareholder returns

- Dividends of 125p (£399.0m) and 110p (£351.1m) per share paid on 1 April 2022 and 8 July 2022 respectively, representing the capital return from 2021.
- A new capital allocation policy was announced in November to deliver sustainable returns to shareholders while investing in future growth through disciplined expansion of our industry-leading land portfolio and enhancing our quality and service capabilities. Alongside this the board considers our current assessment of prevailing market conditions, the sector's increased tax contribution and building safety remediation costs.
- For 2022, the Board proposes a final dividend of 60p per share to be paid on 5 May 2023 to shareholders on the register on 14 April 2023, following shareholder approval at the AGM. This dividend is the final and only dividend in respect of financial year 2022.
- For 2023, the Board's intention is to at least maintain the 2022 dividend per share with a view to growing this over time. As previously announced, payments will be made semi-annually and the Board intends to pay an interim dividend in the second half of this year in relation to 2023.

Footnotes

1 Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and based on new housing revenue (2022: £3,696.4m, 2021: £3,449.7m).
2 Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m). Operating profit after legacy buildings provision charge and goodwill impairment is £724.9m (2021: £960.5m).
3 12 month rolling average calculated on operating profit before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m) and total capital employed. Capital employed being the Group's net assets less cash and cash equivalents plus land creditors.
4 The Group participates in a National New Homes Survey, run by the Home Builders Federation. The rating system is based on the number of customers who would recommend their builder to a friend. The rating used here reflects the live score at time of publication.
5 Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m) and based on new housing revenue (2022: £3,696.4m, 2021: £3,449.7m)
6 Land cost value for the plot divided by the anticipated future revenue of the new home sold.
7 National average selling price for newly built homes sourced from the UK House Price Index as calculated by the Office for National Statistics from data provided by HM Land registry. Group average private selling price is £272,206.

For further information please contact:

Victoria Prior, Group IR Director	Kevin Smith
Anthony Vigor, Group Director of Policy and External Affairs	Holly Gillis
	Ellen Wilton
Persimmon Plc	Citigate Dewe Rogerson
Tel: +44 (0) 1904 642199	Tel: +44 (0) 20 7638 9571

A presentation to analysts and investors will be available in person and via webcast at 9.00am on 1 March 2023.

There will be a live webcast facility and conference call for anyone who does not wish to attend in person. All participants **must pre-register** to join the webcast and / or conference call using the **Participant Registration links**. Once registered, an email will be sent with important details for this event, as well as a unique Registrant ID. This ID is to be kept confidential and not shared with other participants.

Webcast link:

https://edge.media-server.com/mmc/p/3mp5qs8q

Conference call link:

https://register.vevent.com/register/BIe53095c2619546a99139ffbc01a54a6e

A recording of the presentation will be available on the corporate website later in the day:
https://www.persimmonhomes.com/corporate/investors/results-presentations-and-financial-reports

Chairman's Statement

Introduction

I am pleased to report that Persimmon had a strong year in 2022. For the first time in our 50 year history we delivered five star quality and service while also achieving underlying pre-tax profits[1] in excess of £1 billion.

By contrast 2023 promises to be a tough year, albeit largely for reasons beyond our control. While I am confident that our attention to build quality and customer care will remain undimmed, we will inevitably see a sharp fall in the number of completions as well as a decline in profitability as a consequence of the nationwide diminution in demand for housing arising from higher mortgage rates and challenging economic circumstances.

However, I remain very confident of the exciting long-term prospects for Persimmon. We are constantly reminded by the political classes of the national need for 300,000 homes to be built every year. I expect the outturn for 2023 may not be much more than half this number. Therefore we anticipate that our company will be a beneficiary of strong pent up demand when the economic and housing cycles turn in our favour eventually.

When I joined the company as Chairman in 2018 I quickly commissioned an Independent Review of our approach to build quality. I am delighted that Dean and his team have responded to the challenge so vigorously and diligently to deliver better homes built right first time.

Many colleagues have commented to me that 2022 was perhaps the most difficult year they have known in the building trade. The combination of material and labour shortages, significant inflation and the stark drop-off in sales rates in the fourth quarter presented myriad challenges that my colleagues have navigated with impressive skill and commitment. Our mission is to build homes with quality our customers can rely on at a price they can afford and 2022's results demonstrate the company has done just that.

A more challenging period but opportunities ahead

Following the swift rise in interest rates the Group acted quickly to enhance its already strong investment discipline and working capital cost controls, to protect our cash position and in the longer-term provide the flexibility to pursue new growth opportunities.

We have a strong platform to prepare for a new growth phase when market conditions permit. Although 2023 will be a difficult year, Persimmon has the opportunity to expand our outlet network at the right time through disciplined and targeted investment and a more sophisticated approach to securing planning to expedite approvals. We are hopeful that by next year we will be expanding once more, delivering more new homes for customers and sustainable returns for shareholders.

Industry leadership

Although the national political environment has become more challenging as backbench anti-new housing forces have gained strength, we are pleased to continue to lead the industry with cladding and fire safety remediation. We were proud to be first with our initial commitment in February 2021 to protect leaseholders from the costs of remediation in any multi-storey development we built. The government's developer remediation contract seeks to contractualise our existing commitment; a commitment we are already making good progress on. We expect to sign the contract imminently. We are also engaged in similarly positive discussions with the Welsh and Scottish governments.

As announced in November 2022, the Group increased our provision for building safety remediation across the UK to £350m (before spend to date), resulting in a £275m exceptional charge for the year. This increase reflects the extensive work we have done to get a more detailed understanding of costs over the last year. The government has also broadened the scope of works required this year to include non-cladding fire related build defects, resulting in both an increase in the amount of work required and in the number of eligible buildings. This has also happened against a background of significant build cost inflation during the period. We expect the work to be largely completed - with the associated cash impact - over the next three years.

Capital allocation policy

Persimmon remains a fundamentally strong business, with industry-leading financial performance through the cycle. The actions we are currently taking will strengthen our capabilities to grow and deliver sustainable returns over time to shareholders.

A new capital allocation policy was announced in November to deliver sustainable returns to shareholders while investing in future growth through disciplined expansion of our industry-leading land portfolio and enhancing our quality and service capabilities. Alongside this the Board considers our current assessment of prevailing market conditions, the sector's increased tax contribution and building safety remediation costs.

For 2022, the Board proposes a final dividend of 60p per share to be paid on 5 May 2023 to shareholders on the register on 14 April 2023, following shareholder approval at the AGM. This dividend is the final and only dividend in respect of financial year 2022. The Board's intention is to at least maintain the 2022 dividend per share in 2023, with a view to growing this over time. As previously announced, payments will be made semi-annually with an interim dividend paid in the second half of this year in relation to 2023.

Board changes

The only Board change during the year was Jason Windsor joining on 11 July 2022 as Chief Financial Officer, replacing Mike Killoran following his retirement in January 2022. The Board warmly welcomes Jason to the business.

Finally, on behalf of the whole Board I would like to thank our colleagues, subcontractors and suppliers for their hard work and determination to deliver a good performance in 2022. This year will not be easy. Sometimes in life you have to go backwards in order to move forwards. I am convinced our long-term future is bright and we all look forward to working together to maintain Persimmon's industry-leading position and deliver more quality homes for our customers and sustainable returns for our shareholders through the cycle.

Footnotes

1. Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m).

Chief Executive Statement

Introduction

Persimmon delivered a very strong performance in 2022. I am delighted that the Group's second half delivery was 15% higher year on year, resulting in 14,868 legal completions for 2022 (2021: 14,551), with a new housing gross margin of 30.9%[1] (2021: 31.4%) and a five-star HBF 8 week customer satisfaction score[2] maintained. This performance - perhaps Persimmon's strongest ever - was delivered despite prevailing economic headwinds and supply constraints. Its achievement is testament to the hard work of colleagues across the whole Group to preserve Persimmon's great strengths while making good progress in enhancing our build quality and customer service.

2022 trading

The Group generated total revenues of £3.82bn, a 6% increase year on year (2021: £3.61bn). Our new housing revenues increased to £3.70bn in 2022, from £3.45bn in the prior year.

Our build rates, which were a record for the Group, were 8% higher year on year. The build rate in the second half of the year was particularly strong, up 15% year on year. Delivering these build rates while maintaining a five-star HBF score demonstrates the progress we have made through the Persimmon Way to strengthen our key build quality and customer service capabilities and embed them throughout the Group.

Demand reflected the broader market, with a significant weakening in the second half of the year as concerns over the economy, mortgage rates and the cost of living weighed heavily on customer confidence. Overall private net sales rates for 2022 were 0.69 per outlet per week (2021: 0.83), driven by a steep decline in Q4 to 0.30 (Q4 2021: 0.77). Indeed, after the well-publicised problems catalysed by September's 'mini-budget', the last 7 weeks of the year saw 0.19 private net sales per outlet per week, compared to 0.61 in the comparative period the year before.

Average selling prices increased 5% year on year to £248,616 (2021: £237,078), reflecting house price inflation, our more sophisticated approach to local market pricing and the mix of homes sold. The Group's private average selling price was £272,206 in 2022, 5% higher than the prior year (2021: £259,231).

These price increases helped mitigate build cost inflation of c.8-10% for the year. Our vertically integrated factories - Brickworks, Tileworks and Space4 - also helped here, with all three increasing their production year on year. Our increased use of Space4 timber frame also helped deliver the improved build rate and efficiency in the year.

The Group delivered a 4% year on year increase in underlying operating profit[3] to £1,006.5m (2021: £966.7m) generating an underlying new housing operating margin of 27.2 %[4] (2021: 28.0%). This 80bps reduction reflects the generating an underlying new housing operating margin of 27.2% (2021: 28.0%). This 80bps reduction reflects the Group's investment in its enhanced operational capabilities, delivering improved quality and service for its customers.

Underlying profit before tax[5] grew 4% year on year to £1,012.3m (2021: £973.0m). Reflecting the £275.0m exceptional charge for building safety remediation made in the year, profit before tax was £730.7m (2021: £966.8m). The Group's cash generation was strong at £1,002.7m pre-capital return of £750.1m and net land spend of £637.6m (2021: £1,209.8m). Cash held at 31 December 2022 was £861.6m (2021: £1,246.6m) reflecting strong investment in land and work in progress and capital returns.

Disciplined investment
The Group's high quality land holdings are a key strength for the business. At 31 December 2022, the Group held 70,768 plots in its owned land holdings with a plot cost to anticipated revenue ratio of 11.4%[6]. During the year, we invested in some exciting land opportunities adding 14,670 plots across 66 sites into the Group's portfolio, a plot replacement rate of 99%. These additions maintained our industry-leading embedded margins through our well-established, disciplined approach to land investment. Reflecting this strong position, in current market conditions we are being highly selective, taking advantage of only the very best opportunities at the right time.

The Group entered 2022 with 234 selling outlets, which it successfully built up through the year as planned, ending at 272 selling outlets at 31 December 2022 and operating from an average of 259 for the year. As market conditions became increasingly uncertain, particularly during the last quarter of the year, we carefully managed outlet openings to ensure that infrastructure and work in progress investment met local demand.

Creating sustainable communities
We have a clear approach to sustainability that is centred around three core pillars: transforming communities, safe and inclusive and building for tomorrow. Our approach is embedded in our day-to-day operations and we are proud of the work that we do in creating sustainable communities for our customers. Our new Placemaking Framework considers social value and the wellbeing of our communities within our site design, for example providing public open spaces, walkways, play areas and enhancing bio-diversity.

Our private average selling price is over 20% below the UK national average[7], enabling customers to access the housing market when otherwise they might not have been able to do so. The business also delivered 2,694 homes to its Housing Association partners during the year (2021: 2,533).

We aim to provide a scalable, cost effective way of ensuring our customers can live more sustainable lives through exploring innovative solutions to deliver net zero carbon homes in use. We are undertaking a number of trials to support this transition by 2030. A "net zero carbon home" was built at one of our developments in York to evaluate how we could achieve this in a practical, repeatable way. We are working in conjunction with the University of Salford to assess the "liveability" of the home for our customers.

Building on from this trial, we are constructing a highly thermally efficient timber frame home utilising new wall cassettes from Space4, our timber frame manufacturing facility, together with zero carbon heating from air source heat pumps with connection to a 100% renewable electricity supply. This is an exciting opportunity to establish if, through use of innovative technology at our Space4 factory, we can achieve a net zero carbon home in use with relatively simple technologies inside the home for our customers to maintain. We are also trialling alternative heating solutions, such as infra-red and underfloor systems on other developments.

Investing in our colleagues
Staff engagement scores demonstrate the progress we have made in supporting our colleagues' professional development and making Persimmon a great place to work. In 2022's survey our staff engagement score was 83% (2021: 78%). Managing Directors and Site Management teams are good examples of our approach to colleagues' development. Both have received tailored training courses and plans to enhance their skills further. Alongside rolling out enhanced technical standards through the Persimmon Way, we have actively assessed our site team's understanding of the requirements to identify any gaps. Our NVQ programme continues, with over 500 site management staff undertaking courses since 2021. Managing Directors have also received assessments with plans put in place to develop skills and strengthen any gaps. As we drive up our standards and the consistency of their delivery we are investing to make Persimmon an even better place to work where colleagues' skills are developed and career aspirations fulfilled. We were delighted to be announced as a Top 100 Apprenticeship Employer by the Department for Education in 2022.

FibreNest
FibreNest continues to be a real strength for the Group, with over 30,000 customers across more than 330 developments now connected to our national ultrafast broadband network. FibreNest was created to address persistent customer frustration that larger and established internet providers were not connecting their homes from the day they moved in, and has seen a sustained improvement in day one connection rates. In 2022, FibreNest's Day One connection rate was 90% (2021: 85%). FibreNest's customer ratings on Google and Trustpilot are currently ahead of the larger and established national internet providers. Customers view broadband as a key utility and FibreNest's gigabit ready, ultrafast network is therefore an important part of our service.

Building safety and the developer remediation contract
Persimmon was proud to lead the industry with our original commitment made in February 2021 to protect leaseholders in multi storey developments we built from the cost of any necessary cladding removal or fire safety remediation. Since that original commitment, we have worked proactively with management companies and their agents to progress remediation. We have also worked positively with the Department for Levelling Up, Housing and Communities (DLUHC) this year to agree a final developer remediation contract. This was recently published by DLUHC, contractualising the Developer Pledge made in April 2022. We have signalled our intention to sign ahead of the March 13th deadline set by DLUHC.

As indicated in November 2022, the Group has increased its provision for building safety remediation at the 2022 year end to £350m. This rise reflects the more detailed understanding of costs, which now include non-cladding fire related build defects, the broader scope required by Government and an increase in the number of eligible buildings, against a background of significant cost inflation. We currently have 73 multi-storey developments identified that require cladding removal or life-critical fire safety work. Any necessary work has already been completed on 33 developments cladding removal or life-critical life safety work. Any necessary work has already been completed on [illegible] developments and is underway on a further 9. We aim for work to have started at all remaining sites by the end of 2023.

Our five priorities
Our 2022 performance demonstrates that we have delivered against the five priorities I first set out 2 years ago. These priorities have guided our approach of building on Persimmon's great strengths and enhancing our capabilities in key areas:

- Build quality: our ambition has grown from "build right, first time, every time" to trusted to deliver five-star homes consistently;
- Reinforcing trust: in seeking to build a compelling brand we will place customers at the heart of our business, trusted to deliver the best value homes customers can be proud of;
- Disciplined growth: maintain our stringent appraisal, investing in high quality land in the right areas;
- Industry-leading financial performance: sustain our industry-leading margins and returns and drive healthy profit and cash;
- Supporting sustainable communities: actively part of the net zero carbon economy transition, the communities we operate in and efforts to widen opportunity.

2023: a year of discipline
Our progress against these five priorities also provides a strong platform from which to continue to deliver against the backdrop of a challenging operational environment in 2023. We are combining operational excellence with commercial excellence to improve our product, our systems and processes and our position in the market, to serve customers well while building a stronger business for the long- term.

Proactive response to a challenging sales environment
As set out above, the sales environment has become more challenging. The sales window for 2023 completions effectively opened around September 2022. With the significant drop in sales rates in Q4 2022, we ended the year with a forward sales position of £1bn, 36% lower year on year (2021: £1.6bn). Private forward sales revenue was down more markedly (55%) at £0.5bn (2021: £1.1bn).

We responded proactively, including with a marketing campaign launched on Boxing Day. This campaign offered "up to 10 months mortgage free" or 105% part exchange for those reserving before the end of February. Our website visitors increased markedly year on year after its launch. Beyond the campaign specifically, our marketing is more sophisticated, using targeted, digital channels to drive sales and our brand reputation.

These actions have helped drive an improvement in sales rates in 2023 compared to the end of last year. Private sales rates per outlet per week are running at 0.52 for the first 8 weeks of the year. This is still below last year's comparable rate of 0.96.

Pricing has remained firm and cancellation rates have returned to typical historical norms. Sales incentives costs have increased slightly to around 3% of gross sales price from 2.39% in the fourth quarter of last year. Part Exchange is proving popular, accounting for around 25% of sales in the first 8 weeks of the year (2021: c.6%).

There have been some encouraging signs in the mortgage market recently, with rates reducing compared to late last year. However, affordability and mortgage product availability still remain the key issues, with particular challenges in the south of England. Our sales rates are proving more resilient in the North and Midlands. The end of Help to Buy means that for the first time in over a decade there is not a significant government scheme to assist first time buyers in place. With the affordability challenges in London and the south east, its removal is being felt most strongly there.

Our enduring relative pricing position in the market and national network has helped maintain first time buyer interest outside of London and the South East especially, and helped mitigate the impact on sales rates. Given the political salience of young families and the aspiration of homeownership, this may prove to be a policy area that the major parties revisit ahead of the general election. In the meantime, we will continue to focus on improving our product, our quality and our service whilst maintaining this price advantage within the market for the benefit of our customers. Our mission 'to build homes with quality our customer can rely on at a price they can afford' has never been more relevant.

Our Partnership Homes team has also been working to improve our business processes and reputation amongst Registered Providers (RP) and local authorities. By drawing on our improved product and build quality consistency, they have reviewed our standard approach to working with RPs across the Group. This is leading to more RPs looking to partner with us and puts us in a stronger position to drive market competition and secure enhanced returns. Equally, we have proactively engaged with the First Homes pilot scheme which delivers homes to first time buyers at a 30% discount to prevailing market value. We have around 215 homes either completed or allocated within the current Homes England programme. We have also identified the potential for additional homes to be included subject to Homes England's approval.

Disciplined cost controls and opportunities for further efficiency
Within this challenging market we are exerting ever-more discipline and even greater cash and cost control. Since Q4 2022 we have been increasingly selective on new land investment. We are only targeting exceptional deals and expect our land spend to be down in 2023, compared to 2022. Our local teams are focused on securing planning consents from sites we already own and are working closely with our External Affairs team to enhance our stakeholder engagement and presentation to achieve approvals from planning committees. Recent successes with previously stalled applications are already demonstrating the benefit of this new approach. We are also embedding this more proactive approach earlier on in our new planning application process.

Persimmon has a strong track record of disciplined cost control and we have strengthened these further. We are taking clear actions to mitigate the impact of the deterioration in sales rates and have added extra control stages into our existing processes to ensure work in progress is being spent most effectively and at the right time to secure the best returns. A key part of this is closely managing construction programmes to local sales rates. We already operate with a lean cost base and are operating from a relatively low number of outlets but we also have a hiring freeze in place, except where the role is business critical. Our approach is one of prudent discipline and agility: seeking to reduce costs where appropriate while making sure the company is ready for an upturn in demand. We are therefore looking to retain and enhance key skills and capabilities in the business to respond with even better customer service and build quality.

Securing efficiency gains in our build programmes continues to be a key area of focus for the business. A detailed review last year found that Space4 timber frame construction is around 7 weeks faster than traditional build. Space4's timber frames are therefore being rolled out to more regions across the Group. We are looking to expand timber frame's use more widely and our planning application for our new state of the art factory in Leicestershire was submitted last year. This factory will provide a wider variety of timber frame products and innovative solutions to delivering increasingly energy efficient homes even more cost effectively.

Our tendering processes have been strengthened through greater central oversight and an expanded use of framework agreements. Build cost inflation is currently c.8%, showing some slight moderation from last year but still persisting. Strict disciplines have been in place since the fourth quarter of 2022 to ensure new contracts did not fix prices beyond 6 months, to give the opportunity for price reductions at that time. Where incumbents are not willing to negotiate we will go to a tender process, while maintaining quality, service and safety standards, to secure best value. With greater central specification and standardisation of layouts and products (such as internal door sets) the Group is using framework agreements to secure cost efficiency, enhanced quality consistency and greater certainty on materials' delivery.

We have conducted a thorough review of build programmes to identify further opportunities. Every business now has a build programme that better matches their prevailing conditions. This allows for more accurate forecasting and the timely call off and delivery of materials. This provides greater assurance of delivery and efficiency in build. We are also trialling the procurement of some key materials directly from manufacturers, as opposed to a traditional supply and fix model, as part of this drive for assurance and efficiency.

This combination of disciplined cost control and investment, alongside ever-improving build efficiency underpins our next phase of the Group's industry-leading financial performance.

Quality and customer improvements

Alongside this drive for ever-greater efficiency our focus on enhancing quality continues. Our NHBC Construction Quality Review score improved by 9% in 2022 compared to 2021. We are stepping up further our Persimmon Way programme including trialling a new app to provide direct personal communication with our site-based workforce, providing induction, site-specific, quality and health and safety information amongst other areas. We were also pleased to become one of only 10 companies to be awarded a Certificate of Commitment and Progress - Building Safety Stage 1, as part of the Building a Safer Future Charter Champion application process.

As well as our enhancements to our sales and marketing set out above, we have been investing in new tools and training to strengthen our customer service. A training programme has been rolled out to support Sales Advisors selling in this more challenging market. This has been complemented by a mystery shopper exercise on every site, identifying areas for further improvement to help drive sales. This training builds on recent progress. We were pleased to become the first homebuilding company to achieve the Institute for Sales Professionals' Investor in Sales award for our commitment to develop strong customer relationships based on integrity, trust, and ethical selling.

We also welcomed the New Homes Quality Board's New Homes Quality Code and registered last year. The aims of the code and its supporting process are consistent with the Group's own focus on further improving build quality and customer service standards. We intend to activate in the coming months and have rolled out training programmes across the Group - not limited to customer service roles - to prepare. We are also putting extra assurance in place to align our build programme to meet its requirements, including effective earlier legal completion dates ahead of our year end.

We have procured a new CRM system (YourKeys, developed by the Zoopla Group), which will allow a comprehensive and integrated system from initial instruction through to completion. This platform will allow both customers and our colleagues to communicate more effectively and provide enhanced information such as on progression and layouts all in one place. We will be piloting it shortly, with a view to rolling out across the Group later this year.

We are continuing to invest in our staff and are further enhancing our training offer to colleagues, including through a new e-learning initiative. We are also pioneering new approaches, as the Persimmon Academy in Llanilid, South Wales demonstrates. In partnership with Bridgend College, we have established an innovative on-site education and training academy, which is producing the next generation of construction workers and site staff in South Wales. It has already been recognised for best-practice by key political stakeholders and shortlisted in the Welsh Government's Apprenticeships Awards Cymru and the National Federation of Builders' Construction Excellence Awards 2023. As part of building the next generation or tradespeople we are looking to develop similar academies elsewhere across the Group.

We continue to benefit from highly experienced management teams across the business. Our senior management teams bring decades of experience to managing the current market challenges and are driving our investment disciplines while leading programmes to enhance our capabilities. We will continue to invest in our colleagues' development and our systems and technology to support them in both their professional development and drive to deliver ever more consistent quality for our customers.

Capital allocation policy

A new capital allocation policy was announced in November to deliver sustainable returns to shareholders while investing in future growth through disciplined expansion of our industry-leading land portfolio and enhancing our quality and service capabilities. Alongside this the board considers our current assessment of prevailing market conditions, the sector's increased tax contribution and building safety remediation costs.

Outlook

The longer-term fundamentals of the UK housing market remain strong. Despite the current challenges and uncertainty, the historic lack of supply means demand for new housing will remain. The key current challenges are affordability and mortgage product availability. While there has been some recent easing in mortgage rates from their high at the end of last year, the majority of respected forecasters do not expect them to return quickly to the levels seen during the previous cycle.

Persimmon's 2022 performance demonstrates our capabilities to deliver both strong financial performance and consistent build quality and customer service for the first time in our history. We have an improved - and improving - product that is well positioned in the market, with a below average selling price at a time when affordability is key. The breadth of our nationwide network and near absence from London provides some protection from the most acute affordability challenges. Combined with our excellent land holdings with its industry-leading embedded margins, we have a strong platform for the future. A strong balance sheet also provides options and flexibility to pursue future growth.

Our proactive sales and marketing initiatives and improved market conditions have helped increase the sales rate in recent weeks but they still remain lower than last year. With our focus on continually enhancing our product, including through an ever-greater consistency of quality and service delivery, and investment in a new CRM and further training, we aim to improve the sales rate further.

It is too early to assess sales rates for the year as a whole, but were our prevailing 0.52 sales rate to continue for the rest of the selling year, the current outlet network would imply 8,000-9,000 legal completions for 2023. This includes homes sold to housing associations, which we anticipate will deliver a higher proportion of this year's completions than is typical, with a higher weighting in the first half.

At these lower completion levels, there will be a margin impact. To provide an illustration, assuming cost inflation which is currently running at around 8% continues all year without a mitigating increase in average selling price, margins may reduce by around 500bps. As well as assuming this level of inflation, reduced volumes and increased sales incentives and marketing costs may further impact operating margins by around 800bps. Ultimately any margin impact will of course be a product of the interplay between each of these factors. Equally, as they improve, it will drive relative margin growth.

We are taking action to manage our already lean cost base through disciplined cost control and £40m of efficiencies were identified in the 2023 operating budget, meaning that our combined overhead costs on an underlying basis are holding broadly flat year on year. We have a hiring freeze in place, other than where the role is business critical. We believe 2023 will represent the floor in our volumes and we want to retain our experienced and skilled teams to respond quickly when the market turns back in our favour.

We have been rebuilding our outlet position following the pause in investment a few years ago. At the start of 2022 we had a relatively low number of selling outlets (234) and successfully grew this to 272 outlets by year end. This figure is itself still relatively low for the Group - we have been up in the high 300s in the past - and we have been looking to progressively grow our outlet network while maintaining our disciplined approach to investment.

In light of the market shift late in 2022, we exerted even greater control on land spend and were highly selective with any new investment. We expect to spend less on land in 2023 than in the previous year and forecast land creditor spend of £270m in 2023. We anticipate lower levels of cash balances in 2023, reflecting lower completion levels, careful investment in land and work in progress and building safety remediation costs. We will continue to exert disciplined cash control and ensure our infrastructure and build programme spend matches local demand. Some outlet openings have been delayed as a result of this action. We are likely to have a broadly similar number of average sales outlets in 2023 as 2022.

However, we are working now to grow our outlet network, at the right time, to provide the capacity to deliver ahead of pre-Covid volumes over the longer-term. We are focusing on securing consents on land we already own to pull through more outlets most efficiently. A more proactively engaged approach to local planning is already starting to unlock some blocked consents and we are also embedding it at an earlier stage in our applications process to seek consents quicker. We will remain very disciplined on new investment. Where we see excellent land investment opportunities meeting our strict financial disciplines, we will invest at the right time. We are also strengthening our strategic land teams to secure new opportunities in the years ahead.

Our 2022 performance demonstrates that we have combined our great financial strength with renewed capabilities of build quality and customer service. We will continue to invest in these capabilities, in a disciplined manner, so that we are even more efficient and ever more consistent in the quality homes we deliver to our customers. The investment in a new timber frame factory will provide the capacity to deliver an additional 7,000 timber frame units a year, as well as new innovations in wall systems and panelling. As timber frame homes are typically 7 weeks faster to construct, this investment will enhance our build efficiency further. Targeted investment will help deliver further enhancements to our BrickWorks and TileWorks factories. We will continue to improve our product and our service to meet customer demand with excellence and efficiency. Our existing land portfolio gives us a strong platform to build from and again we will invest in it further in a disciplined manner. While our margin will be impacted by the contraction in volumes this year, it will grow as we increase completions in the years ahead.

The hard work of recent years has enhanced our value proposition to customers and built a stronger and more sustainable business for the future. By combining operational excellence and commercial excellence along with disciplined investment we will grow the business from 2024 onwards. We will expand our outlet network at the right time and enhance our capabilities to respond quickly and efficiently to any increase in market demand. This growth will deliver the opportunity of a new home to more customers, create sustainable communities across the country and drive sustainable returns to our shareholders for the years to come that will include payment of an attractive and improving dividend.

Footnotes

1 Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and based on new housing revenue (2022: £3,696.4m, 2021: £3,449.7m)
2 The Group participates in a National New Homes Survey, run by the Home Builders Federation. The build quality score is based on how satisfied customers are with the quality of their home. The rating used here reflects the live score at time of publication.
3 Stated before legacy buildings provision charge of £275.0m (2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m).
4 Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m) and based on new housing revenue (2022: £3,696.4m, 2021: £3,449.7m).
5 Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m).
6 Land cost value for the plot divided by the anticipated future revenue of the new home sold.
7 National average selling price for newly built homes sourced from the UK House Price Index as calculated by the Office for National Statistics from data provided by HM Land registry. Group average private selling price is £272,206.

Chief Financial Officer's statement

Trading

2022 quarterly performance	Q1	Q2	HY	Q3	Q4	FY
Completions	1,950	4,702	6,652	2,270	5,946	14,868
Net private sales rate	0.98	0.89	0.91	0.63	0.30	0.69
FTB[1] %(private completions)	33%	46%	42%	42%	42%	42%
HTB[2]%(private reservations)	23%	21%	23%	21%	8%	21%
Average sales outlets	245	255	250	269	267	259

1 First time buyers
2 Help to Buy

Trading through the first half of the year was strong with good levels of customer demand and average private weekly sales rate in line with the prior year at 0.91. The summer months showed the "normal seasonal" expected slow-down, with sales rates in Q3 decreasing to 0.63 (Q3 2021: 0.63). In the second half, pricing remained firm whilst cancellation rates stepped upwards as the ongoing war in Ukraine, along with the UK Government changes and the increased cost of living, created significant uncertainty in the UK economy. The change in market conditions gathered pace in Q4 with weaker consumer confidence impacting on customer behaviour across the housing market. This weakening was reflected in the Group's private weekly sales rate that fell to 0.30 in Q4 (Q4 2021: 0.77) and to 0.19 for last seven weeks of the year (2021: 0.61).

The strong forward sales position at the start of the 2022 financial year supported the excellent financial performance for the year. As a result of the lower sales rate and elevated cancellations in the second half of the year, the Group's forward sales position reduced significantly year on year to £1.0bn (2021: £1.6bn) at 31 December 2022.

For 2022, the Group generated total revenues of £3.82bn (2021: £3.61bn), with new housing revenue 7% higher than 2021 at £3.70bn (2021: £3.45bn). The Group delivered 2% more new homes in 2022 when compared to the prior year (2022: 14,868; 2021: 14,551) at an average selling price of £248,616 (2021: £237,078), 5% higher.

The Group delivered 12,174, new homes to private customers, an increase of 1% on 2021 (2021: 12,018). The private average selling price of £272,206 (2021: £259,231) was up 5% year on year largely reflecting improvements in achieved selling prices and the mix of new homes sold. The Group delivered a further 2,694 new homes to its housing association partners (2021: 2,533) at an average selling price up 8% at £142,017 (2021: £131,976).

The Group's underlying gross profit[1] for the year was £1,142.5m (2021: £1,083.8m) with a new housing gross margin of 30.9%[2] (2021: 31.4%). The Group's well established land replacement strategy, the improved selling prices achieved and agile management of the high cost inflation environment we experienced during the year continued to deliver industry-leading margins.

Underlying operating profit[3] for the Group was £1,006.5m (2021: £966.7m), generating an underlying new housing operating margin[4] of 27.2% (2021: 28.0%).

On 8 November 2022 we announced that we expected to increase our legacy buildings safety provision to approximately £350.0m from £75.0m. This increase has been finalised and has resulted in a £275.0m exceptional charge to the Income Statement in 2022.

After the exceptional charge the Group's reported gross profit was £867.5m (2021: £1,083.8m) and its reported operating profit was £724.9m (2021: £960.5m).

The Group generated a profit before tax of £730.7m in the year (2021: £966.8m).

Taxation

The Finance Act 2022 received Royal Ascent on 24 February 2022 introducing a new residential property developer tax (RPDT) which was effective from 1 April 2022 and is chargeable at 4% of profits generated from residential property development in excess of an annual threshold. RPDT was introduced by HM Treasury to obtain further contributions from the UK's largest residential property developers towards the cost of remediating defective cladding and fire safety in the UK's "orphaned" high-rise housing stock developed by third-parties.

As a result the Group has an overall tax charge of £169.7m for the year (2021: £179.6m) and an effective tax rate of 23.2% (2021: 18.6%), marginally higher than the mainstream rate of 22.0% (2021: 19.0%). Factors that may affect the Group's taxation charge include changes in tax legislation and the closure of certain open matters in the ordinary course of business in relation to prior year's tax computations.

Underlying return on average capital employed ('ROACE') including land creditors remained strong at 30.4%[5], albeit lower than the prior year (2021: 35.8%). The reduction on the prior year reflects the increased investment in land and work in progress during the year leading to a 22% increase in average capital employed, partially offset by the 4% increase in underlying operating profit[3]. ROACE excluding land creditors was 35.6%[5] compared with 40.9% at 31 December 2021. On a statutory basis ROACE including land creditors was 21.9% (2021: 35.6%).

Return on Equity based on underlying profit after tax[6] was in line with the prior year at 22.0% (2021: 20.1%).

Balance sheet

The Group has maintained its robust balance sheet with net assets of £3,439.3m at 31 December 2022 (2021: £3,625.2m), equivalent to 1,077p net assets per share (2021: 1,136p). This was after returning £750.1m of surplus capital to shareholders under the previous capital allocation plan. Retained earnings were £2,868.5m (2021: £3,055.1m). Underlying basic earnings per share[3] for the year was 247.3p, 0.6% lower than the prior year (2021: 248.7p).

The Group's defined benefit pension asset has increased to £155.9m at 31 December 2022 (2021: £148.8m). The increase being due to an increase in discount rates and a decrease in inflation assumptions which have reduced the increase being due to an increase in discount rates and a decrease in inflation assumptions which have reduced the value placed on the liabilities offset by falling asset values resulting from weak asset performance.

As noted above we have increased the legacy buildings safety provision by £275.0m in the year. At 31 December 2021, the provision stood at £72.7m and during the year works have continued across a number of affected developments resulting in spend of £14.4m. At 31 December 2022, the provision stands at £333.3m and is management's best estimate of the costs of completing works to ensure fire safety on the remaining affected buildings that we are responsible for.

The Group's land holdings
At 31 December 2022, the carrying value of the Group's land assets increased by c.16% to £2,091.7m (2021: £1,798.2m), reflecting the continuation of the Group's disciplined land replacement strategy and its investment in its future. During 2022, the Group made investments totalling £735.8m in new land (2021: £531.2m). The Group's land cost recoveries for the year of 12.0%[7] of new housing revenue (2021: 13.2%) reflect the attractive margin embedded in the Group's land holdings.

During the year the Group brought 14,670 plots into its owned and under control land holdings across 66 locations, of which 5,348 (36%) of the plots added were converted from our strategic land portfolio.

The owned and under control land holdings of 87,190 at 31 December 2022 (2021: 88,043) represents 5.9 years of forward supply at 2022 volumes. 70,768 plot are owned of which 35,860 have a detailed implementable planning consent, providing excellent visibility of the near to medium term. The Group's owned land holdings represents 4.8 years of forward supply at 2022 volumes, with an overall pro-forma gross margin[8] of c.32% and a cost to revenue ratio of 11.4%[9] (2021: 11.4%).

A further 16,422 plots are under the Group's control (2021: 20,954), being plots where the Group has exchanged contracts to acquire the site but has yet to complete the contract due to outstanding planning conditions remaining unfulfilled. Cash outflows with regard to these under control plots will be limited to deposits paid on the exchange of contracts and fees associated with progressing the sites through the planning system. During the year the Group's progressed c.18,500 under control plots through the planning system, transferring them into the Group's owned land holdings.

The Group incurred £663.8m of cash land spend during 2022, including £206.7m relating to the satisfaction of deferred land commitments as well as the associated cash spend on the acquisition of sites previously held as under control sites and their movement into the Group's owned land holdings.

In 2022, the Group acquired interests in a further 450 acres of strategic land, securing a total of c. 13,100 acres at 31 December 2022 (2021: c.13,700 acres). This will provide a long-term supply of forward plots for future development by the Group.

Work in progress
We entered 2022 with c.4,100 equivalent units of new homes under construction. Execution of our build programmes was strong throughout 2022. Overall build rates tracked c. 8% ahead of 2021, with an average of 276 equivalent units of build per week, compared to 255 per week in 2021. When allowing for the strong delivery of new homes in 2022, we start 2023 with a significant level of work in progress, with c.3,900 equivalent units of build on the balance sheet.

The Group increased its outlet position by 16% in the year and continued to support investment in a number of large sites which require high levels of infrastructure and enabling works. In addition, we have seen higher rates of cost inflation. This has resulted in our work in progress investment at 31 December 2022 of £1,263.9m being 20% higher than the level of investment with which we entered 2022 (2021: £1,054.1m).

We remain focused on build levels throughout 2023, managing appropriate levels of build against customer demand, facing into the continuing operational challenges within the industry and whilst securing the availability of key build components through our in-house manufactured bricks, roof tiles, closed panel timber frame kits and pre-manufactured roof cassettes. All of this whilst delivering high levels of customer satisfaction and build quality.

Cash generation and liquidity
At 31 December 2022 the Group had a cash balance of £861.6m (2021: £1,246.6m) with the Group having generated £1,002.7m (2021: £1,209.8m) of cash before returning £750.1m of surplus capital to shareholders in relation to the 2021 financial year under the previous capital return programme and net land spend of £637.6m. Resulting from the Group's increased activity in the land market during 2022 the Group's deferred land commitments have increased by £65.2m to £472.8m from £407.6m at 31 December 2021. Cash generated from operations was £566.3m (2021: £972.8m).

Operational cash generated, being cash generated before returns to shareholders and after land investment, was £266.9m (2021: £678.6m).

The Group has an undrawn £300m Revolving Credit Facility which extends out to 31 March 2026.

As at 31 December 2022, we had 286 part exchange properties (2021: 130) on the balance sheet at a value of £62.5m (2021: £25.9m).

The Group's shared equity loans have generated £13.3m of cash in the year (2021: £18.9m). The carrying value of these outstanding shared equity loans, reported as "Shared equity loan receivables", is £36.0m at 31 December 2022 (2021: £45.6m).

Net finance income for the year was £5.8m (2021: £6.3m) and includes £3.9m of gains generated on the Group's shared equity loan receivables (2021: £7.9m) and £1.8m of imputed interest payable on land creditors (2021: £1.8m).

Capital allocation policy, treasury and related risks
A key feature of the Group's strategy is the commitment to minimise financial risk, retain flexibility and maintain capital discipline over the long-term through the housing cycle.

In November 2022, we announced the conclusion of the capital return programme that was first introduced in 2012, and the move to a new capital allocation policy that takes into account political and economic uncertainty and the sector's increased taxation rates.

The Group has a long track record of delivering returns for shareholders and the Board will continue to prioritise value creation from a strong and sustainable return on capital by investing in land and other opportunities as they arise.

For 2022, the Board proposes a final dividend of 60p per share to be paid on 5 May 2023 to shareholders on the register on 14 April 2023, following shareholder approval at the AGM. This dividend is the final and only dividend in respect of financial year 2022.

For 2023, the Board's intention is to at least maintain the 2022 dividend per share with a view to growing this over time whilst maintaining an average payout that is well covered by earnings over the housing cycle. This approach will balance shareholder payouts with the company's objective to retain capital to invest sustainably and profitably for growth.

Any dividend proposal in future years is subject to the company's financial performance and position at that time.

In periods of higher profitability, any excess capital will be returned to shareholders through a share buyback or special dividends.

As previously announced, capital allocation payments will be paid semi-annually and the Board intends to pay an interim dividend in relation to 2023, in the second half of this year.

The business maintains a robust balance sheet with an efficient capital structure and controls around its working capital management. The Group's £300m Revolving Credit Facility provides further flexibility to the Group's working capital resource. These facilities are available to support the working capital needs of the business.

The Group will continue to effectively manage its liquidity and working capital investment needs, whilst ensuring they are aligned with the Group's focus on outlet growth, high levels of build quality and excellent customer service. The Group will continue to ensure it maintains flexibility when considering the generation of 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 and maintain the Group's robust balance sheet and strong liquidity levels, securing a resilient position for the future.

1. Stated before legacy buildings provision charge of £275.0m (2021: £nil).
2. Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and based on new housing revenue (2022: £3,696.4m, 2021: £3,449.7m)
3. Stated before legacy buildings provision charge of £275.0m (2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m).
4. Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m) and based on new housing revenue (2022: £3,696.4m, 2021: £3,449.7m).
5. 12 month rolling average calculated on operating profit before legacy buildings provision charge (2022: £275.0m, 2021: £nil) and goodwill impairment (2022: £6.6m, 2021: £6.2m) and total capital employed. Capital employed being the Group's net assets less cash and cash equivalents plus land creditors. ROACE excluding land creditors is calculated on capital employed being the Group's net assets less cash and cash equivalents excluding land creditors.
6. 12 month rolling profit after tax pre legacy buildings provision charge generated from the average of the opening and closing total equity for the 12 month period.
7. Land cost value for the plot divided by the anticipated future revenue of the new home sold.
8. Estimated weighted average gross margin based on assumed revenues and costs at 31 December 2022 and normalised output levels.
9. Land cost value for the plot divided by the anticipated future revenue of the new home sold.

PERSIMMON PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	**2022 Total £m**	2021 Total £m
Revenue	3	**3,815.8**	3,610.5
Cost of sales		**(2,948.3)**	(2,526.7)
Gross profit		**867.5**	1,083.8
Analysed as:			
Underlying gross profit		**1,142.5**	1,083.8
Legacy buildings provision	4	**(275.0)**	-
Other operating income		**10.3**	6.4
Operating expenses		**(152.9)**	(129.7)
Operating profit		**724.9**	960.5
Analysed as:			
Underlying operating profit		**1,006.5**	966.7
Legacy buildings provision		**(275.0)**	-
Impairment of intangible assets		**(6.6)**	(6.2)
Finance income		**9.9**	9.9
Finance costs		**(4.1)**	(3.6)

Profit before tax		**730.7**	966.8
Analysed as:			
Underlying profit before tax		**1,012.3**	973.0
Legacy buildings provision		**(275.0)**	-
Impairment of intangible assets		**(6.6)**	(6.2)
Tax	5	**(169.7)**	(179.6)
Profit after tax (all attributable to equity holders of the parent)		**561.0**	787.2
Other comprehensive (expense)/income			
Items that will not be reclassified to profit:			
Remeasurement gain on defined benefit pension schemes	13	**5.2**	83.3
Tax	5	**(7.6)**	(24.8)
Other comprehensive (expense)/income for the year, net of tax		**(2.4)**	58.5
Total recognised income for the year		**558.6**	845.7
Earnings per share			
Basic	7	**175.8p**	246.8p
Diluted	7	**174.3p**	245.6p

PERSIMMON PLC

Consolidated Balance Sheet

As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Non-current assets			
Intangible assets		**173.0**	175.6
Property, plant and equipment		**118.6**	99.0
Investments accounted for using the equity method		**0.3**	0.3
Shared equity loan receivables	9	**29.1**	35.7
Trade and other receivables		**0.3**	0.6
Deferred tax assets		**10.5**	9.7
Retirement benefit assets	13	**155.9**	148.8
		487.7	469.7
Current assets			
Inventories	8	**3,462.9**	2,920.7
Shared equity loan receivables	9	**6.9**	9.9
Trade and other receivables		**193.2**	123.9
Current tax assets		**21.8**	21.4
Cash and cash equivalents	12	**861.6**	1,246.6
		4,546.4	4,322.5
Total assets		**5,034.1**	4,792.2
Liabilities			
Non-current liabilities			
Trade and other payables		**(214.8)**	(203.4)
Deferred tax liabilities		**(72.1)**	(54.6)
Partnership liability		**(19.6)**	(23.8)
Legacy buildings provision	10	**(196.8)**	-
		(503.3)	(281.8)
Current liabilities			
Trade and other payables		**(949.4)**	(807.0)
Partnership liability		**(5.6)**	(5.5)
Legacy buildings provision	10	**(136.5)**	(72.7)
		(1,091.5)	(885.2)
Total liabilities		**(1,594.8)**	(1,167.0)
Net assets		**3,439.3**	3,625.2
Equity			
Ordinary share capital issued		**31.9**	31.9
Share premium		**25.6**	24.9
Capital redemption reserve		**236.5**	236.5
Other non-distributable reserve		**276.8**	276.8

Other non-distributable reserve	**276.8**	276.8
Retained earnings	**2,868.5**	3,055.1
Total equity	**3,439.3**	3,625.2

PERSIMMON PLC

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022

	Share capital	Share premium	Capital redemption reserve	Other non-distributable reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 January 2021	**31.9**	**22.3**	**236.5**	**276.8**	**2,950.9**	**3,518.4**
Profit for the year	-	-	-	-	787.2	787.2
Other comprehensive income	-	-	-	-	58.5	58.5
Transactions with owners:						
Dividends on equity shares	-	-	-	-	(749.6)	(749.6)
Issue of new shares	-	2.6	-	-	-	2.6
Share-based payments	-	-	-	-	8.1	8.1
Balance at 31 December 2021	**31.9**	**24.9**	**236.5**	**276.8**	**3,055.1**	**3,625.2**
Profit for the year	-	-	-	-	561.0	561.0
Other comprehensive expense	-	-	-	-	(2.4)	(2.4)
Transactions with owners:						
Dividends on equity shares	-	-	-	-	(750.1)	(750.1)
Issue of new shares	-	0.7	-	-	-	0.7
Own shares purchased	-	-	-	-	(0.7)	(0.7)
Exercise of share options/share awards	-	-	-	-	(1.0)	(1.0)
Share-based payments	-	-	-	-	5.6	5.6
Satisfaction of share options from own shares held	-	-	-	-	1.0	1.0
Balance at 31 December 2022	**31.9**	**25.6**	**236.5**	**276.8**	**2,868.5**	**3,439.3**

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 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities:			
Profit for the year		**561.0**	787.2
Tax charge	5	**169.7**	179.6
Finance income		**(9.9)**	(9.9)
Finance costs		**4.1**	3.6
Depreciation charge		**15.8**	14.5
Impairment of intangible assets		**6.6**	6.2
Legacy buildings provision	10	**275.0**	-
Share-based payment charge		**9.0**	6.4
Net imputed interest income		**2.1**	6.1
Other non-cash items		**(7.9)**	(7.9)
Cash inflow from operating activities		**1,025.5**	985.8
Movements in working capital:			
Increase in inventories		**(532.5)**	(9.8)
Increase in trade and other receivables		**(81.1)**	(59.5)
Increase in trade and other payables		**141.1**	37.4
Decrease in shared equity loan receivables		**13.3**	18.9
Cash generated from operations		**566.3**	972.8
Interest paid		**(3.3)**	(3.7)
Interest received		**3.5**	1.9
Tax paid		**(164.2)**	(186.2)
Net cash inflow from operating activities		**402.3**	784.8
Cash flows from investing activities:			
Joint venture net funding movement		**-**	1.8
Acquisition of subsidiary		**(0.2)**	-
Purchase of property, plant and equipment		**(30.5)**	(20.9)
Proceeds from sale of property, plant and equipment		**0.9**	0.9
Net cash outflow from investing activities		**(29.8)**	(18.2)
Cash flows from financing activities:			
Lease capital payments		**(3.3)**	(3.3)
Payment of Partnership liability		**(4.1)**	(3.8)
Own shares purchased		**(0.7)**	-
Share options consideration		**0.7**	2.6

Share options consideration		[illegible]	[illegible]
Dividends paid	6	**(750.1)**	(749.6)
Net cash outflow from financing activities		**(757.5)**	(754.1)
(Decrease) / Increase in net cash and cash equivalents	12	**(385.0)**	12.5
Cash and cash equivalents at the beginning of the year		**1,246.6**	1,234.1
Cash and cash equivalents at the end of the year	12	**861.6**	1,246.6

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 2022.

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 2022 or 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies, and those for 2022 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 using the recognition and measurement requirements of UK adopted International Accounting Standards (IAS), this announcement does not itself contain sufficient information to comply with IAS. The Company expects to send its Annual Report 2022 to shareholders on 22 March 2023.

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 14. 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 UK endorsed new amendments to standards are mandatory for the first time for the financial year beginning 1 January 2022:

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a First-time Adopter
- Amendment to IFRS 9 Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities
- Amendment to IAS 14 Agriculture - Taxation in Fair Value Measurements
- Amendment to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract
- Amendment to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use
- Amendment to IFRS 3 Reference to the Conceptual Framework

The effects of the implementation of these amendments have been limited to disclosure amendments where applicable.

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

- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 8 Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting policies

The Group is currently considering the implication of these amendments with the expected impact upon the Group being limited to disclosures if applicable.

Going concern

The Group has performed well in the twelve months ended 31 December 2022. Persimmon's long-term strategy, which recognises the risks associated with the housing cycle by maintaining operational flexibility, investing in high quality land, minimising financial risk and deploying capital at the right time in the cycle, has equipped the business with strong liquidity and a robust balance sheet.

The Group delivered a strong trading performance in the twelve months to 31 December 2022, completing the sale of 14,868 new homes (2021: 14,551) and generating an underlying profit before tax* of £1,005.7m (2021: £966.8m). At 31 December 2022, the Group's strong financial position included £861.6m of cash (2021: £1,246.6m), high quality land holdings and land creditors of £472.8m (2021: £407.6m). In addition, the Group has an undrawn Revolving Credit Facility of £300m, which extends out to 31 March 2026.

Given the economic turmoil resulting from the "mini budget" in September 2022 and the adverse impact it has had on the UK housing market the Group's forward order book, including legal completions taken so far in 2023, is c. 30% weaker year on year with new home forward sales of c. £1.5bn. We have over 2,800 new homes sold forward into the private owner occupier market with an average selling price of over £288,600, which is 11% stronger than a year ago. The cumulative average private sales reservation rate for the first 8 weeks of the year is c. 70% stronger than the rate achieved in Q4 2022.

The Directors have carried out a robust assessment of the principal risks facing the Group, as described in note 14 of this announcement. The Group has considered the impact of these risks on the going concern of the business by performing a range of sensitivity analyses, covering the period to 30 June 2024, including severe but plausible scenarios based on experience gained by management during the Global Financial Crisis from 2007 to 2010, materialising together with the likely effectiveness of mitigating actions that would be executed by the Directors. For further detail regarding the approach and process the Directors follow in assessing the long-term viability of the business, please see the Viability Statement in note 14.

The scenarios emphasise the potential impact of severe market disruption, including for example the ongoing effect of economic disruption from the cost of living crisis and the war in Ukraine, on short to medium-term demand for new homes. The scenarios' emphasis on the impact on the cash inflows of the Group through reduced new home sales is designed to allow the examination of the extreme cash flow consequences of such circumstances occurring. The Group's cash flows are less sensitive to supply side disruption given the Group's sustainable business model, flexible operations, agile management team and off-site manufacturing facilities.

In the first downside scenario modelled, the combined impact is assumed to cause, when compared to the 2022 outturn, a c. 59% reduction in volumes and a c. 15% reduction in average selling price in 2023. The combined impact results in a c. 65% fall in the Group's 2023 housing revenues. From the lower 2023 position, the scenario then assumes a c. 40% increase in housing revenue as a result of a c. 34% increase in volume and a c. 5% increase in average selling price.

A second, even more extreme, scenario assumes a significant and enduring depression of the UK economy and housing market in 2023, consistent with the above scenario, causing a reduction of c. 59% in new home sales volumes, a c. 15% fall in average selling prices and a c. 65% fall in the Group's housing revenue in 2023. The scenario then assumes that neither volumes nor revenue recover into 2024.

In each of these scenarios, cash flows were assumed to be managed consistently, ensuring all relevant land, work in progress and operational investments were made in the business at the appropriate time to deliver the projected new home legal completions. Each scenario fully reflects the current estimate of cash outflows, value and timing, associated with the legacy buildings provision.

In addition the Group has been increasingly assessing climate related risk and opportunities that may present to the Group. During the period assessed for going concern no significant risk has been identified that would materially impact the Group's ability to generate sufficient cash and continue as a going concern.

Having considered the inherent strength of the UK housing market, the resilience of the Group's average selling prices and the Group's scenario analysis as detailed above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

* Stated before legacy buildings provision charge (2022: £275.0m, 2021: £nil)

2. Segmental analysis

The Group has only one reportable operating segment, being housebuilding within the UK, under the control of the Executive Board. The Executive Board has been identified as the Chief Operating Decision Maker as defined under IFRS 8 Operating Segments.

3. Revenue

	2022	2021
	£m	£m
Revenue from the sale of new housing	**3,696.4**	3,449.7
Revenue from the sale of part exchange properties	**110.6**	155.4
Revenue from the provision of internet services	**8.8**	5.4
Revenue from the sale of goods and services as reported in the statement of comprehensive income	**3,815.8**	3,610.5

4. Exceptional Items

During 2022 the Group have recognised an exceptional charge of £275.0m (2021: £nil) in relation to the increase in the anticipated costs of the Group's commitments to support leaseholders in buildings we had developed with the costs of removal of combustible cladding and other fire related remediation works. This reflects the extended commitment of the government long form contract, the identification of further developments for which we are now responsible, and a greater understanding of remediation costs. Further detail on this matter is provided in note 10 to this announcement.

This has been disclosed as an exceptional item due to the non-recurring nature and scale of the charge, in order to aid understanding of the financial performance of the Group and to assist in the comparability of financial performance between accounting periods.

5. Tax

Analysis of the tax charge for the year

	2022	2021
	£m	£m
Tax charge comprises:		
UK corporation tax in respect of the current year	**138.8**	181.2
Residential Property Developer Tax (RPDT) in respect of the current year	**28.7**	-
Adjustments in respect of prior years	**(2.8)**	(8.3)
	164.7	172.9
Deferred tax relating to origination and reversal of temporary differences	**-**	5.4
Impact of introduction of RPDT on deferred tax	**3.9**	-
Adjustments recognised in the current year in respect of prior years deferred tax	**1.1**	1.3
	5.0	6.7
Tax charge for the year recognised in Statement of Comprehensive Income	**169.7**	179.6

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

	2022	2021
	£m	£m
Profit from continuing operations	**730.7**	966.8
Tax calculated at UK corporation tax rate of 22% (inclusive of RPDT) (2021: 19%)	**160.8**	183.7
Accounting base cost not deductible for tax purposes	**-**	0.2
Goodwill impairment losses that are not deductible	[illegible]	[illegible]

Goodwill impairment losses that are not deductible	**1.2**	1.2
Expenditure not allowable for tax purposes	**0.8**	0.2
Effect of change in rate of corporation tax	**-**	2.7
Impact of introduction of RPDT	**3.9**	-
Items not deductible for RPDT	**6.8**	-
Enhanced tax reliefs	**(2.1)**	(1.3)
Adjustments in respect of prior years	**(1.7)**	(7.1)
Tax charge for the year recognised in Statement of Comprehensive Income	**169.7**	179.6

The UK corporation tax rate will increase from 19% to 25% with effect from 1 April 2023. Legislation to increase the corporation tax rate was enacted during the 31 December 2021 accounting period and the impact on deferred tax was taken into account at the previous balance sheet date. The Finance Act 2022 received Royal Ascent on 24 February 2022 introducing a new residential property tax ('RPDT') which was effective from 1 April 2022 and is chargeable at 4% of profits generated from residential property development in excess of an annual threshold. RPDT was introduced by HM Treasury to obtain contributions from the UK's largest residential developers towards the cost of remediating defective cladding in the UK's high-rise housing stock.

Deferred tax recognised in other comprehensive income

	2022 £m	2021 £m
Recognised on remeasurement gain on pension schemes	**7.6**	24.8

Tax recognised directly in equity

	2022 £m	2021 £m
Arising on transactions with equity participants		
Current tax related to equity settled transactions	**(0.8)**	0.1
Deferred tax related to equity settled transactions	**4.2**	(1.8)
	3.4	(1.7)

6. Dividends/Return of capital

	2022 £m	2021 £m
Amounts recognised as distributions to capital holders in the period:		
2020 dividend to all shareholders of 125p per share paid 2021	**-**	398.7
2020 dividend to all shareholders of 110p per share paid 2021	**-**	350.9
2021 dividend to all shareholders of 125p per share paid 2022	**399.0**	-
2021 dividend to all shareholders of 110p per share paid 2022	**351.1**	-
Total capital return to shareholders	**750.1**	749.6

The Directors propose to return 60 pence of surplus capital to shareholders for each ordinary share held on the register on 14 April 2023 with payment made on 5 May 2023 as a final dividend in respect of the financial year ended 31 December 2022. The Directors do not intend to return any further surplus capital in respect of the financial year 31 December 2022. The total anticipated distributions to shareholders is 60 pence per share (2021: 235 pence per share) in respect of the financial year ended 31 December 2022.

7. 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 of 319.2m shares (2021: 319.0m) which excludes those held in the employee benefit trust and any treasury shares, all of which are treated as cancelled.

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 321.8m shares (2021: 320.2m).

Underlying earnings per share excludes the legacy buildings provision charge and goodwill impairment. The earnings per share from continuing operations were as follows:

	2022	2021
Basic earnings per share	**175.8p**	246.8p
Underlying basic earnings per share	**247.3p**	248.7p
Diluted earnings per share	**174.3p**	245.6p
Underlying diluted earnings per share	**245.3p**	247.6p

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

	2022 £m	2021 £m
Underlying earnings attributable to shareholders	**789.5**	793.4
Legacy buildings provision (net of tax)	**(221.9)**	-
Goodwill impairment	**(6.6)**	(6.2)
Earnings attributable to shareholders	**561.0**	787.2

At 31 December 2022 the issued share capital of the Company was 319,323,432 ordinary shares (2021: 319,206,474 ordinary shares).

8. Inventories

	2022 £m	2021 £m
Land	**2,091.7**	1,798.2

Work in progress	**1,263.9**	1,054.1
Part exchange properties	**61.0**	24.8
Showhouses	**46.3**	43.6
Inventories	**3,462.9**	2,920.7

The Group has conducted a further review of the net realisable value of its land and work in progress portfolio at 31 December 2022. Our approach to this review has been consistent with that conducted at 31 December 2021 and was fully disclosed in the financial statements for the year ended on that date. The key judgements and estimates in determining the future net realisable value of the Group's land and work in progress portfolio are future sales prices, house types and costs to complete the developments. Sales prices and costs to complete were estimated on a site by site basis. There is currently no evidence or experience in the market to inform management that expected selling prices used in the valuations are materially incorrect.

Net realisable value provisions held against inventories at 31 December 2022 were £5.5m (2021: £18.6m). Following the review, £2.9m of inventories are valued at net realisable value rather than historical cost (2021: £4.1m).

9. Shared equity loan receivables

	2022 **£m**	2021 £m
Shared equity loan receivables at 1 January	**45.6**	56.2
Settlements	**(13.3)**	(18.9)
Gains	**3.7**	8.3
Shared equity loan receivables at 31 December	**36.0**	45.6

All gains/losses have been recognised in the Consolidated Statement of Comprehensive Income. Of the gains recognised in finance income for the period, £0.3m (2021: £4.2m) was unrealised.

10. Legacy buildings provision

	2022 **£m**	2021 £m
Legacy buildings provision at 1 January	**72.7**	75.0
Additions to provision in the year	**275.0**	-
Provision utilised in the year	**(14.4)**	(2.3)
Legacy buildings provision at 31 December	**333.3**	72.7

In 2020 the Group made an initial commitment that no leaseholder living in a building we had developed should have to cover the cost of removal of combustible cladding. During 2022 we have signed the Building Safety Pledge (England) and worked constructively with the government to agree the 'Long Form Contract' that turns the pledge into a legal agreement, which will be signed imminently. As we have worked through this process we have identified further eligible multi-storey developments requiring remediation for which we will be liable, and developed a more detailed understanding of remediation costs. The number of developments we are responsible for has increased and now stands at 73 (of which 33 have now either secured EWS1 certificates or concluded any necessary works). This, along with a broader scope, including reimbursement of any funds already outlaid by the Building Safety Fund, remediation of non-cladding fire related build defects and interim protection measures for residents, set against a background of significant build cost inflation has resulted in our total provision for fire related build remediation works increasing by £275.0m to £350.0m, before spend to date. It is assumed the majority of the work will be completed over the next 3 years and the amount provided for has been discounted accordingly.

The charge of £275.0m in the year has been separately disclosed on the face of the Consolidated Statement of Comprehensive Income.

This is a highly complex area with judgments and estimates in respect of the cost of the remedial works, with investigative surveys ongoing to determine the full extent of those required works. Where remediation works have not yet been fully tendered we have estimated the likely scope and costs of such works based on experience of other similar sites. Whilst management have exercised their best judgement of these matters, there remains the potential for variations to this estimate from multiple factors such as material, energy and labour cost inflation, limited qualified contractor availability and abnormal works identified on intrusive surveys. Should a 10% variation in the costs of untendered projects occur then the overall provision would vary by +/- £14.3m.

The financial statements have been prepared on the latest available information, however there remains the possibility that despite managements endeavours to identify all such properties, including those constructed by acquired entities well before acquisition, further developments requiring remediation may emerge.

11. 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:

	2022	2021
	Level 3 **£m**	Level 3 £m
Shared equity loan receivables	**36.0**	45.6

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 ten years (2021: ten years) and discount rate 7% (2021: 5%) based on current observed market interest rates offered to private individuals on secured second loans.

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.

12. Reconciliation of net cash flow to net cash and analysis of net cash

	2022 **£m**	2021 £m
Cash and cash equivalents at 1 January	**1,246.6**	1,234.1
(Decrease) / Increase in net cash and cash equivalents in cash flow	**(385.0)**	12.5
Cash and cash equivalents at 31 December	**861.6**	1,246.6
IFRS 16 lease liability	**(10.9)**	(8.8)
Net cash at 31 December	**850.7**	1,237.8

Net cash is defined as cash and cash equivalents, bank overdrafts, lease obligations and interest bearing borrowings.

13. Retirement benefit assets

As at 31 December 2022 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:

	2022 **£m**	2021 £m
Current service cost	**1.9**	2.0
Administrative expense	**0.6**	0.6
Pension cost recognised as operating expense	**2.5**	2.6
Interest cost	**11.3**	8.9
Return on assets recorded as interest	**(14.1)**	(9.6)
Pension cost recognised as net finance credit	**(2.8)**	(0.7)
Total defined benefit pension (income)/cost recognised in profit or loss	**(0.3)**	1.9
Remeasurement gain recognised in other comprehensive income	**(5.2)**	(83.3)
Total defined benefit scheme gain recognised	**(5.5)**	(81.4)

The amounts included in the Balance Sheet arising from the Group's obligations in respect of the Pension Scheme are as follows:

	2022 **£m**	2021 £m
Fair value of Pension Scheme assets	**555.6**	751.9
Present value of funded obligations	**(399.7)**	(603.1)
Net pension asset	**155.9**	148.8

The increase in the net pension asset to £155.9m (2021: £148.8m) is largely due to an increase in long-term corporate bond yields increasing the discount rate assumption applied to scheme obligations to 4.8% (2021: 1.9%) offset by underperformance of asset returns compared to the expected return assumed at the start of the year.

14. Principal Risks and Viability Statement

In line with the UK Corporate Governance Code 2018, the Group defines its principal risks as those considered to have a potentially material impact on its strategy and business model, including its future performance, solvency, liquidity and reputation. The Group has identified 11 risk areas that meet its criteria for consideration as principal risks.

The 2022 assessment has identified a new principal risk concerning legacy buildings. This reflects the potential for further legacy properties to be brought into the scope of cladding and life-critical fire safety remediation works, for costs to be greater than anticipated, or other regulatory changes to occur in this area.

The assessment has also noted movements in our rating of the risks in respect of UK economic conditions, mortgage availability and cyber and data risk.

The Group no longer considers the previously reported pandemic and strategy risks as meeting the criteria of principal risks. This reflects the Group's comprehensive suite of controls deployed during the Covid-19 pandemic, which could be swiftly adapted and redeployed as necessary, and that the likely effects of a future pandemic are reflected within the Group's other principal risks, such as those concerning UK economic conditions and Government policy.

The results of the Board's assessment of the Group's principal risks are outlined below.

<table>
<tr><th colspan="6">1. UK economic conditions</th></tr>
<tr><td rowspan="3">Residual risk rating</td><td rowspan="3">Very High</td><td colspan="3">Risk trend assessment</td><td rowspan="3"></td></tr>
<tr><td>Overall</td><td>Impact</td><td>Likelihood</td></tr>
<tr><td>Increase</td><td>No change</td><td>Increase</td></tr>
<tr><td colspan="2">Risk description</td><td colspan="2">Approach to risk mitigation</td><td colspan="2">How we monitor the risk</td></tr>
<tr><td colspan="2">The housebuilding industry is sensitive to changes in the economic environment, including unemployment levels, interest rates and consumer confidence. A deterioration in economic conditions</td><td colspan="2">In order to minimise risk and maintain financial flexibility, the Group pursues a highly disciplined approach to investments in land and work in progress, ensuring these are</td><td colspan="2">- The Board closely monitors sales activity and UK economic trends closely.
- The Principal Risk Lead Indicator reports issued to each meeting of the Board includes analysis of</td></tr>
</table>

deterioration in economic conditions could adversely affect demand and pricing for new homes, which could in turn impact upon our revenues, margins, profits and cash flows and potential 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.	progress, ensuring these are appropriate and reflective of current and anticipated levels of demand. Pricing structures are regularly reviewed to reflect local market conditions. The Group benefits from a UK-wide network (with no significant presence in London), mitigating the effects of regional economic fluctuations.	the Board includes analysis of economic indicators, using both internal and external sources.

2. Government policy and political risk

Residual risk rating	High	Risk trend assessment		
		Overall	Impact	Likelihood
		No change	No change	No change

Risk description	Approach to risk mitigation	How we monitor the risk
Changes to government policy have the potential to impact on several aspects of our strategy and operational performance. Recent examples include the impacts of the withdrawal of the Help to Buy scheme, the introduction of the Residential Property Developer Tax, and proposed changes in planning regulations. Further policy changes may arise in response to the anticipated CMA market study into the housebuilding sector. Such changes have the potential to adversely affect revenues, margins, tax charges and asset values, and potentially impact on the viability of land investments.	Our mission and our five key priorities are aligned with the government's stated ambition to increase housing stock. Investment decisions in land and work in progress are tightly controlled in order to mitigate exposure to external influences, including potential changes in Government policy. The Group has experienced teams with expertise in managing and responding to relevant areas subject to Government involvement, including our Group Planning, Technical and External Affairs departments.	- Likely evolutions in government policy in relation to the housing market are monitored closely by our External Affairs, Technical and Land and Planning departments, with regular feedback to the Executive Committee and Board. - We routinely engage with industry bodies to review the impact of any anticipated legislative or regulatory changes.

3. Health, safety and environment

Residual risk rating	High	Risk trend assessment		
		Overall	Impact	Likelihood
		No change	No change	No change

Risk description	Approach to risk mitigation	How we monitor the risk
In addition to the human impacts of any health, safety or environmental breach or incident, there is the potential for reputational damage, construction delays and financial penalties.	The Board retains a very strong commitment to health and safety and managing the risks in this area effectively. Operationally, this commitment is implemented by a range of measures, including: - Comprehensive policies and procedures to manage construction activities safely. - Training programmes to embed the Group's policies effectively. - Inspection regime led by our Group Health, Safety and Environment department. - Engagement with industry forums and best practice groups.	- Data from inspections by the Group Health, Safety and Environment department feed into management reports at all levels of the Group. - The Principal Risk Lead Indicator reports issued to each meeting of the Board includes analysis of inspection metrics provided by the Group Health, Safety and Environment department. - The Group Health, Safety and Environment Director is a member of the Group Executive Committee, and provides additional periodic reports and updates to both the Board and the Audit & Risk Committee.

4. Skilled workforce, retention and succession

Residual risk rating	High	Risk trend assessment		
		Overall	Impact	Likelihood
		No change	No change	No change

Risk description	Approach to risk mitigation	How we monitor the risk
Recruiting and retaining a highly skilled workforce and supporting management teams is essential to the delivery of the Group's strategy. Heightened competition for skilled	The Group has deployed a range of measures to maintain an appropriately skilled workforce, including: - Comprehensive range of	- The Group HR department provides reporting, including metrics such as training hours, to management at all levels of the Group. - The Group HR Director is a member

labour creates risks of increased costs, operational disruption and potential delays to build programmes.	training programmes managed by the Group Training department, including apprenticeships, graduate scheme and the Persimmon Pathways in core disciplines. - Talent management and succession planning programmes. - Remuneration benchmarking to ensure reward is appropriate to attract and retain talent at all levels. - Utilisation of our Space4 products, which improve build efficiency and require less on-site labour than traditional construction. - Increased focus on employee engagement measures. - Deployment of hybrid working practices, where appropriate.	of the Group Executive Committee, and provides additional periodic reports and updates to both the Board on employment trends. - Feedback from the employee engagement panel is reviewed by the Board. - The Principal Risk Lead Indicator reports issued to each meeting of the Board includes staff turnover data and commentary from the Group HR department.

5. Materials and land purchasing

Residual risk rating	High	Risk trend assessment			
		Overall	Impact	Likelihood	
		No change	No change	Decrease	

Risk description	Approach to risk mitigation	How we monitor the risk
<u>Availability of materials</u> Ensuring access to materials of the requisite quantity and specifications is critical in delivering high quality homes. Heightened levels of demand for materials may cause availability constraints and increase cost pressures. Build quality may be compromised if unsuitable materials are procured leading to damage to the Group's reputation and overall customer experience.	<u>Availability of materials</u> Various mitigations are in place to ensure consistent sourcing of materials and cost efficiency: - Vertical integration through the Brickworks, Tileworks and Space4. - Strategic approach to procurement, led by our Group Procurement team. - Supply chain engagement, including robust processes for appointing suppliers and reviewing their performance thereafter. - Detailed forecasting and planning of materials requirements to inform supplier negotiations. - Support for our supply chain through adherence to the Prompt Payment Code.	<u>Availability of materials</u> - The Group Procurement department provides routine monitoring of trends and supplier performance. - Site budgets and performance, including availability and pricing of materials, are assessed through the bi-monthly valuation process. - The Principal Risk Lead Indicator reports issued to each meeting of the Board include commentary from the Group Commercial Director on materials purchasing trends and issues.
<u>Land purchasing</u> Maintaining an appropriate supply of suitable land is crucial to the Group's strategy. Failure to maintain a sufficient supply of land at the appropriate levels of return could adversely affect sales, margins and return on capital employed.	<u>Land purchasing</u> The Group maintains strong land holdings. All land purchases undergo comprehensive viability assessments and must meet specific levels of projected returns, taking into account anticipated market conditions and sales rates.	<u>Land purchasing</u> The Group's Land Committee meets regularly to review the Group's current land holdings and future needs, and to assess potential land transactions.

6. Climate change

Residual risk rating	Medium	Risk trend assessment			
		Overall	Impact	Likelihood	
		No change	No change	No change	

Risk description	Approach to risk mitigation	How we monitor the risk
The effects of climate change and the UK's transition to a lower carbon economy could lead to increasing levels of regulation and legislation, as seen with the Future Homes Standard. These may in turn result in planning delays, increased costs and competition for	The potential impacts of climate change are considered systematically in key business decisions, from land acquisition through to planning and build processes. In response, the Group has established a range of measures to improve its	- The Sustainability Committee meets regularly to review progress on the Group's climate related initiatives. - Key indicators including CO_2 emissions and waste generation are monitored and reported on. - External review of our Scope 1, Scope 2, Scope 3 Category 1

some materials. 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 in response to financial institutions considering the possible impacts relating to climate change.	operational efficiency and direct environmental impact, including: - Maintaining a detailed climate change risk register. - Setting science based carbon reduction targets, accredited by the Science Based Targets Initiative. - Targets to deliver 'net zero' homes in use to our customers by 2030 and become 'net zero' in our operations by 2040. - Regular meetings of the low carbon homes working group, comprising senior employees from various disciplines, including preparation for the implementation of the Future Homes Standard. - Introduction of electric vehicle options into the Group's fleet. - Procurement of 100% renewable energy for our offices and manufacturing facilities.	(Purchased goods and services) and Scope 3 Category 11 (Use of sold products) emissions.

7. Reputation

Residual risk rating	Medium	Risk trend assessment			
		Overall	Impact	Likelihood	
		No change	No change	No change	

Risk description	Approach to risk mitigation	How we monitor the risk
Failure to live up to our expected high standards in governance, build quality (including remediation of legacy issues), customer experiences, operational performance, management of health and safety or local planning concerns could damage stakeholder relationships and have a detrimental impact on financial performance.	The Group is committed to ensuring an appropriate culture and maintaining high quality in all aspects of its operations. This is subject to oversight from the Board. We have made significant investments in build quality, through The Persimmon Way and the supporting IQC regime, and in addressing legacy issues. We formally commenced the registration process for the New Homes Quality Code (NHQC) within 2022. The Group supports the NHQC's focus on driving quality and customer service improvement across the industry. The Group also proactively works to build positive relationships with all of our stakeholders. This includes supporting communities in addressing housing needs, creating attractive neighbourhoods and employing local people, both on our sites and in the supply chain. We make significant contributions to local infrastructure and good causes within the communities in which the Group operates.	- Operational performance, including build quality and customer experience, are subject to routine management oversight, with reporting to the Executive Committee and Board. - The Board also oversees stakeholder engagement, including monitoring feedback from shareholders, and the results of our employee engagement surveys and the Employee Engagement Panel. - The Principal Risk Lead Indicator reports issued to each meeting of the Board includes analysis of media coverage and trends that could be indicative of the Group's overall reputation.

8. Regulatory compliance

Residual risk rating	Medium	Risk trend assessment			
		Overall	Impact	Likelihood	
		No change	No change	No change	

Risk description	Approach to risk mitigation	How we monitor the risk
The housebuilding industry is subject to increasingly complex	The Group maintains comprehensive management	- The Board and Audit & Risk Committee are provided with regular

subject to increasingly complex regulations, particularly in areas such as land acquisition, planning, building regulations and the environment. Further regulatory evolutions are expected in the short-term, such as the introduction of the NHQC, and measures on audit and corporate governance reform, which will affect many of our processes. Failure to comply with regulations could result in imposition of financial penalties and potential damage to the Group's reputation.	comprehensive management systems to ensure regulatory and legal compliance, including policies and procedures for key areas of regulation. Additional oversight is in place through the Group-level functions and cross-functional steering groups for key areas, such as GDPR compliance. In respect of land and planning, experienced management teams are in place at Group and local level. These enable effective engagement with planning authorities and other stakeholders to reduce the likelihood and impact of any delays or disruption.	Committees are provided with regular updates on core areas of regulatory compliance and preparation for upcoming regulatory change.

9. Cyber and data risk

Residual risk rating	High	Risk trend assessment		
		Overall	Impact	Likelihood
		Increase	Increase	No change

Risk description	Approach to risk mitigation	How we monitor the risk
In common with most modern businesses, the Group is reliant on the consistent availability and security of its IT systems. Failure or significant disruption to the Group's core IT systems, particularly those in relation to customer information and customer service could result in significant financial costs, reputational damage and business disruption. As the Group's use of technology to support operational processes continues to develop, cyber and data risks have become an area of increased focus for the Group. This is reflected in the elevation of this risk from 'medium' to 'high'.	The Group has dedicated cyber security resource, led by the Chief Information Security Officer, in order to manage and oversee security controls. This includes use of third party expertise to ensure implementation of good-practice controls. External partners are used to support the Group, both through cyber security assessments and periodic penetration testing. In the event of an incident, the Group has a defined Cyber Incident Response Plan. Training and regular communications are delivered to all users to increase awareness of cyber risks, with particular focus on risks associated with remote and hybrid working.	- In recognition of the serious nature of cyber risk to modern businesses, the Board receives reports from the Group's Chief Information Officer (CIO) at each of its meetings. The CIO also serves as a member of the Group Executive Committee, ensuring IT and cyber risks are a consideration in all key business decision making. - Routine reporting on cyber security and IT developments is presented to the Audit & Risk Committee. - The Principal Risk Lead Indicator reports issued to each meeting of the Board include a section on IT developments. - The Group has an internal GDPR Steering Group to monitor all processes, risks and controls associated with personal data.

10. Mortgage availability

Residual risk rating	Very High	Risk trend assessment		
		Overall	Impact	Likelihood
		Increase	Increase	Increase

Risk description	Approach to risk mitigation	How we monitor the risk
Higher interest rates or tightening of bank lending criteria could reduce both the affordability and availability of mortgages for our customers. This could reduce demand for new homes and affect sales prices, revenues, profits, cash flows, and asset values.	The Group closely monitors the economic outlook for the UK, including indicators on mortgage availability and affordability. Investments in land and work in progress are moderated to align with our level of sales and expectations of the current market conditions. Incentive schemes to support sales are kept under review by management, and can be flexed according to underlying market conditions.	- The Board closely monitors sales activity and UK economic trends closely, including Bank of England commentary on credit conditions, lenders' announcements and reports from UK Finance. - The Principal Risk Lead Indicator reports issued to each meeting of the Board includes analysis of lending trends and mortgage approval rates.

11. Legacy buildings

Residual risk rating	High	Risk trend assessment		
		Overall	Impact	Likelihood
		NEW	NEW	NEW

Risk description	Approach to risk mitigation	How we monitor the risk

Risk description	Approach to risk mitigation	How we monitor the risk
In line with our commitments under the Developer Pledge, the Group remains committed to undertaking any cladding or life-critical fire safety remediation works for buildings it has constructed, and to protecting leaseholders. Provisions have been made to cover the anticipated costs of these works; however, the works are complex and could be protracted in nature. As such, the value may be subject to revision if legislation or regulation evolve, further properties are identified, or costs prove to be greater than anticipated.	The Group has a dedicated Special Projects team, responsible for the identification of affected buildings, assessment of any remediation required, and ensuring that the work is completed as quickly as practicable. Detailed investigations are undertaken on all identified buildings and independent fire risk assessments completed. The Group's assumptions on the estimated financial costs associated with the remediation works have been subject to comprehensive challenge.	- A report on the progress of the works is provided to every Board meeting. - All identified buildings are assessed and, where necessary, interim measures carried out to ensure the residents safety until remedial works are carried out. - The Finance team monitors costs incurred and provides assurance on the utilisation and appropriateness of the Group's provision.

VIABILITY STATEMENT

Persimmon's prospects and viability

The long-term prospects and viability of the business are a consistent focus of the Board when determining and monitoring the Group's strategy. The identification and mitigation of the principal risks facing the business, which have been updated to reflect current UK economic conditions and uncertainties (including the ongoing cost of living crisis and war in Ukraine), also form part of the Board's assessment of long-term prospects and viability*.

Assessing Persimmon's long-term 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. The Board recognises that 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. However, the Board and the Group's strategy recognises the inherently cyclical nature of the UK housing market. The Group has therefore been able to maintain a position of strength with good liquidity, high quality land holdings and a strong balance sheet throughout the disruption caused by the ongoing cost of living crisis and war in Ukraine. The future impacts of the cost of living crisis and other factors creating uncertainty within the UK economy on the Group's sales and construction programmes remain uncertain. The Board has considered these potential impacts in depth when assessing the long-term prospects of the Group.

Whilst this uncertainty remains, Persimmon possesses the sound fundamentals required to realise the Group's purpose and ambitions and deliver sustainable success:

- Talented teams focused on consistently delivering good quality homes for our customers;
- High quality land holdings that allow us to create attractive places in areas where people wish to live and work;
- Strong customer and local community relationships;
- Continued investment in the training and development of our teams;
- Market knowledge, expertise and industry know-how;
- Long-term healthy supplier engagement; and
- Vertical integration ensuring internalised supply of key materials.

By continuing to build on these solid foundations through, for example, The Persimmon Way and our ongoing investments in the customer experience, its land, development sites and in its supply chain, the Group aims to create enduring value for the communities we serve and our wider stakeholders. This is reflected within the Group's materiality assessment, which ensures a thorough review of stakeholder interests is incorporated within the assessment of the Group's long-term prospects.

The Group adopts a disciplined annual business planning regime, which is consistently applied and involves the management teams of the Group's 30 house building businesses and senior management, with input and oversight by 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 12 month budgets are established for each business annually.

This planning process provides a valuable platform, which facilitates the Board's assessment of the Group's short and long-term prospects. Consideration of the Group's purpose, current market position, its five key priorities and overall business model, and the risks that may challenge them 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 high amenity value to support sustainable, inclusive neighbourhoods which generate long-term value to the community.
- Disciplined land replacement reflecting the extent and location of housing needs across the UK provides a high quality land bank in the most sustainable locations supporting future operations.
- Long-term supplier and subcontractor relationships providing healthy and sustainable supply chains.
- Sustained investment to support higher levels of construction quality and customer service through the implementation of initiatives such as The Persimmon Way.
- Strong financial position with considerable cash reserves and with additional substantial working capital credit facilities

maturing March 2026.

2. Strategy and business model

- Strategy focuses on the risks associated with the housing cycle and on minimising financial risk and maintaining financial flexibility.
- Focusing on constructing new homes for our customers to the high quality standards that they expect and helping to create attractive neighbourhoods.
- Strategy recognises the Group's ability to generate surplus capital beyond the reinvestment needs of the business.
- Substantial investment in staff engagement, training and support to sustain operations over the long-term.
- Approach to land investment and development activity provides the opportunity to successfully deliver much needed new housing supply and create value over the long-term.
- Differentiation through vertical integration, achieving security of supply of key materials and complementary modern methods of construction to support sustainable growth.
- Simple capital structure maintained with no structural gearing.

3. Principal risks associated with the Group's strategy and business model include:

- Disruption to the UK economy adversely affecting demand for and pricing of new homes, or contributing to inflationary pressures.
- Changes in government policy affecting the housebuilding sector, such as those relating to taxation, planning conditions or market support.
- Changes in market conditions affecting the availability and pricing of land and/or construction materials.
- Reduction in mortgage availability and/or affordability arising from, for example, reduced risk appetite of lenders or significant regulatory change.
- Climate change risk, comprising both transition (legal and regulatory changes affecting the housebuilding sector) and physical (operational disruption through more frequent and prolonged adverse weather) elements.
- Adverse market competition and construction workforce trends, resulting in an inability to attract and retain high quality workers and an appropriately experienced management team.
- Cyber and data risk, including potential for significant or prolonged operational disruption arising from cyber-attack or failure of critical IT systems.

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 towards the end of 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 construction programmes and 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, allocating capital with the aim of achieving the long-term strategic objectives of the Group including our five key priorities. 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. 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 development construction planning, impairment reviews, funding projections, reviews of the Group's liquidity and capital structure, and for the identification of surplus capital available for return to shareholders via the Group's Capital Allocation Policy, 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 period for the purpose of assessing the viability of the Group is considered the most appropriate time horizon, as it reflects the business model of the Group, with 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. This is already in alignment with anticipated evolutions in corporate reporting, such as the resilience statement criteria referenced within the government's response to the BEIS consultation 'restoring trust in audit and corporate governance'.

A key feature of the Group's strategy, as documented in the Strategic Report, is the Group's commitment to maintain capital discipline over the long-term through the housing cycle. This commitment is reinforced by the introduction of the Group's Capital Allocation Policy ("CAP"). Following a comprehensive review and reflecting the increased uncertainty in the political and macro-economic environment, alongside increased corporation tax and the residential property tax, the Board decided to conclude the previous Capital Return Programme, which was introduced in 2012.

On 8 November 2022, the Directors announced the implementation of the new CAP with the following key principles:

- Invest in the long-term performance of Persimmon by ensuring the business retains sufficient capital to continue our disciplined and appropriately timed approach to land acquisition;
- Operate prudently, with low balance sheet risk, and a continued focus on achieving a superior return on capital;
- Ordinary dividends will be set at a level that is well covered by post-tax profits, thereby balancing capital retained for investment in the business with those dividends; and
- Any excess capital will be distributed to shareholders from time to time, through a share buyback or special dividend.

On 1 March 2023, the Directors announced the scheduled CAP payment in respect of the financial year ended 31 December 2022, to be paid in May 2023. Further details can be found in the Chief Executive's statement 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 on issues such as the timing of legal completions of new homes sold, average selling prices achieved, profitability, working capital requirements and cash flows. They also include the CAP. The Directors have made the assumption that the Group's revolving credit facility is renewed during the period, having extended the maturity of the facility out to 31 March 2026 during 2021.

The Directors have also carried out a robust assessment of the principal and emerging 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. This risk assessment was also informed by the performance of the Group's materiality assessment, incorporating views from the Group's key stakeholders, and through a comprehensive survey to incorporate input from the Board and senior management from across the Group. The Directors have considered the impact of these risks on the viability of the business by performing a range of sensitivity analyses to a Base Case, including severe but plausible scenarios materialising together with the likely effectiveness of mitigating actions that would be executed by the Directors.

The scenarios emphasise the potential impact of severe market disruption including, for example, the ongoing effect of economic disruption from the cost of living crisis and the war in Ukraine on the short to medium-term demand for new homes. The scenarios' emphasis on the impact on the cash inflows of the Group through reduced new home sales is designed to allow the examination of the extreme cash flow consequences of such circumstances occurring. The Group's cash flows are less sensitive to supply side disruption given the Group's sustainable business model, flexible operations, agile management team and off-site manufacturing facilities.

In the first scenario modelled, the combined impact is assumed to cause, when compared to the 2022 outturn, a c. 59% reduction in volumes and a c. 15% reduction in average selling price in 2023. As a result of these factors, the Group's housing revenues were assumed to fall by c. 65% during this period. The scenario assumes a subsequent recovery to current volume levels within a seven year time period.

A second, even more extreme, scenario assumes a significant and enduring depression of the UK economy and housing market in 2023, consistent with the above scenario, causing a reduction of c. 59% in new home sales volumes, a c. 15% reduction in average selling price and a c. 65% fall in the Group's housing revenue in 2023. The scenario then assumes that neither volumes nor average selling prices recover from this point through to 2027.

In each of these scenarios, cash flows were assumed to be managed consistently, ensuring all relevant land, work in progress and operational investments were made in the business at the appropriate time to deliver the projected new home legal completions. Each scenario fully reflect the current estimate of cash outflows, value and timing, associated with the legacy buildings provision. The Directors assumed they would continue to make well-judged decisions in respect of capital allocation payments, ensuring that they maintained financial flexibility throughout.

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 2027.

* The Directors have assessed the longer-term prospects of the Group in accordance with provision 31 of the UK Corporate Governance Code 2018.

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 2022 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 2022 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
Dean Finch	Group Chief Executive
Jason Windsor	Chief Financial Officer
Nigel Mills	Senior Independent Director
Simon Litherland	Non-Executive Director
Joanna Place	Non-Executive Director
Annemarie Durbin	Non-Executive Director

Annemarie Durbin	Non-Executive Director
Andrew Wyllie	Non-Executive Director
Shirine Khoury-Haq	Non-Executive Director

By order of the Board

Dean Finch	**Jason Windsor**
Group Chief Executive	Chief Financial Officer
28 February 2023	

The Group's Annual financial reports, half year reports and trading updates are available from the Group's website at www.persimmonhomes.com/corporate.

FR TPMJTMTATTTJ