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## Conference Call Transcript

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## PRESENTATION

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**John White - Persimmon plc - Chairman**

Okay. Good morning, ladies and gentlemen. Thanks for coming along to our presentation of the Interim Results as of June 30, and welcome to all those who are ringing in to listen to us.

I think first off you should regard these results as -- or seen in the light of some very challenging market conditions that we've encountered really since the autumn of 2007, certainly through 2008 and into 2009. Having said that and you'll see from the statement, that we have experienced an improvement in those conditions, albeit they remain challenging. But there has been an improvement more recently.

Legal completions were in line with our own expectations at around 4,000. Turnover of GBP623m. A reported pre-tax profit of GBP9.8m includes a release of NRV provision of GBP28m. And there will obviously be some more detail given on that matter throughout the presentation. We believe that that underlines the held cost of our -- the value of our land following the provisions we made at the end of 2008, and are reiterating that we do not expect any further net land provisions in the current trading conditions.

A key issue for the business as you'll know has been debt reduction over the last few periods. And we are pleased to continue with that trend. Having refinanced in March we have over GBP1b worth of funds currently, or facilities. And we are obviously working well within those. And as you will know we have commented further on our expectation for the year end in that respect.

Having repositioned our business throughout 2008 we have however experienced these challenging conditions we talk about. Restrictions on the mortgage availability has been a concern over recent months, although the situation is improving slowly. Employment prospects, of course, are still of concern to people and we expect that employment will continue to increase, so there is more to come on that front. But I think that we are factoring that into our expectations.

It's obviously had a significant impact on the house building sector, fewer purchasers who can get the right sort of mortgages and it's obviously impacted volumes, and sustained pressure on price.

In -- looking at our structure and the actions we've taken we have, I can tell you, left no stone unturned and we'll continue to take that view. We've seen a measured cost reduction program implemented, and we expect to create savings of over GBP50m per annum on an annual run rate. And we continue to drive our debt down as I've mentioned.

That focus on cash generation, well, what does it mean? Well, there's a few examples there. We've been maximizing sales on every bit of available stock. And albeit we've reduced that significantly there's still more room for improvement. We've been watching all our cost, build expenditure and overheads, as you would expect. And our approach to land replacement remains cautious.

We have, we believe, a strong and stable platform having taken this action. As I've mentioned we've completed our refinancing takes us through to 2012. We have a good strong land bank with predominately traditional housing, and I think that's key to our business, very extensive strategic land holdings. We have a good -- we continue to have good geographical coverage with our offices.

All in all this provides us the great opportunity to move forward as and when the market stabilizes -- as and when it moves forwards. So we believe we are in a very, very strong position to take advantage.

So without further comment from myself, I'll hand over to Mike Farley, our Chief Executive, who will take you through the review of operations.

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**Mike Farley - Persimmon plc - Group Chief Executive**

Thank you, John. Morning, everybody. I'll take you through the Group overview, our view on current trading as we see it at the present time. I'll look at our forward strategy in the medium and longer term, and give you our current view on the outlook for the market generally.

So, looking at the first slide, looking at the map on the right-hand side, you can see there we retained our 25 regional offices. So a key part of the review that we've carried out, it's very vital to us that as and when the marketplace does pick up, Persimmon has the basic infrastructure in place to be able to grow our business. So we are very keen to ensure that's the case. We retain the three divisional structure again, to give us quick lean operational efficiency.

Our three brands of Charles Church, Persimmon and Westbury Partnership are all performing well and working throughout the -- on a national basis.

You'll have seen from our results our completions are down in the first half due to the low forward sale position that we took into 2008. You'll recall that 2008 was particularly tough in the last quarter of that period, and hence our low carry forward position.

We've seen further underlying price weakness in the first six months of 4% leading to a total peak to trough reduction for us of circa 20% to 21% in the marketplace, and I think that's consistent to all the comments we've seen in the press and from others.



You'll be aware that Persimmon has a low exposure to the high risk apartment market. Having said that, we have taken the opportunity, particularly in this first half, to clear some of our high rise schemes. I refer to schemes particularly in York we have a scheme in York, The Forum, where this year we sold 78 apartments. And that has a marked change from the -- [Forum] only sold 16 apartments last year. I think it shows that there is an appetite for, what I would call, small scale investors coming back into the market who can get a decent return.

It has meant that in the first half our margins are under a bit of pressure, and I think that's reflected in our position. But we are pleased to clear that stock. And you'll see some of that will follow through into the second half of this year. But, as I say, I think it's a good reaction for us to take the opportunity and clearing stock at this time.

A major focus of the business has been on re-planning our schemes, our existing schemes that haven't started yet. And we've been looking at where possible revising session 106 cost, either to reduce them in some instances or re-phasing them to make the sites more viable to start site to reduce the cash up front commitments that are required.

We've been reasonably successful on that. The planning authorities by and large I think are understanding of the current market positions, and if they want their planning [going] packages they are going to have to be realistic about them.

We have taken the opportunity to look at re-planning in more traditional housing mix, two story houses. So again we believe that as and when we open these sites up they'll have the right mix that our purchasers want to purchase at that time.

If you look over the page at the statistics you'll see those -- the unit completions of just over 4,000 for the first period. And our average selling price affected, as I say, the combination there of the price falls in the market generally, and as I mentioned the skew to slightly more apartments in the first half.

Our operating margins are low, as I say, as we have focused on the drive for cash, making no bones about that, as I mentioned about the lower margins on the apartments. And I think Mike will also give you some of the underlying margin movements with the accounting standard adjustments we've had to make. So Mike will talk a bit more about that in his presentation.

As I say the net focus on cash generation we are particularly pleased to see GBP152m in that 12 month period. And as you would expect the majority of that has come from reductions in work in progress, but that trend is set to continue into second half and into 2010.

Our average borrowings have also declined and are in line with our overall debt reductions you've seen in the first period. And we are more content with our gearing levels down at 32% but are set to fall further as we reduce our debt in the future.

Looking at the review of operations, looking at the divisions -- divisional basis, I think, just picking out some highlights here. You'll see that it's quite clear that our annual completions in the North have been affected more than they have on the rest of the country. I think it's again clear that the Northern market has been a more tough market for us. And that has been reflected in the completions we've taken.

Interesting enough I think when you look across to the average selling price it's quite clear again there is a quite even spread cross the marketplace in the price declines, again, reinforcing this issue about mortgage availability. It's the mortgage finance that's driven this cost reduction in selling prices across the board. So whether you're Charles Church in the North or Central or South that's been the key driven is that lack of mortgage availability.

We've talked about our land bank. We've talked about a seven year supply of land. And you can see there again if you look through the statistics that our land bank is well spread across the country, so it matches in line with our completion figures. So we have good strong land in the South and Central divisions to match our [forward] and forward sale positions.

Charles Church has a slightly shorter land bank. It traditionally had so, and obviously we would tend to reinvest in that site -- that company on that basis. And those are the sorts of sites we are looking at to invest in, in the short term.

Our Partnership business has suffered in the first half. Having said that, when you look at the percentage of completions when compared to the first half of 2008, it was only 21% there. So again I think there are further volumes to come on our Partnership business in the second half as we've renegotiated with the local authorities to start more schemes in the second half of the year.

Looking at further depth into the Northern divisions, just give you some flavors here. I think as I say no two ways about it our Northwest and Yorkshire regions are the toughest that we've seen in the country, and that's where prices and volumes are most under pressure.



Our Scottish market was difficult particularly early part of the year, the loss of confidence with all the banking crisis did seem to affect East Scotland quite dramatically. But that now has returned. I think prices have stabilized in Scotland now, and we are seeing good levels return to that marketplace.

Looking into the Central division, in Birmingham we saw a good volume increase, again as we took the chance to clear some apartment schemes in and around Birmingham. But we have seen higher than average price reductions around 22% in Birmingham to enable us to do that. So -- but we think that was good business for us to do.

The rest of the business, particularly as you come through the South and the Central region, North London, etc., has stood up pretty -- very well both in terms of volumes and the marketplace.

Looking into the Southern division the South East market has remained strong for both Persimmon and Charles Church in those locations. We did see again the South West volumes were more difficult at the early parts of the year and sales rates were lower there. Well, I'm pleased to see now the rates have picked up and we are seeing a return to more confidence in that marketplace.

Looking across to the current trading conditions, as I say, as John's outlined, I think we are now in a much more stable environment where there is more visibility to both our visitor levels on site. We are seeing less down valuations, I think we said as an industry, down valuations were a problem to us. They still are in some parts of the country, but I believe we've seen the worst of those criteria as prices have stabilized valuation issues have tended to recede.

Visitor levels to the site are ahead of where they were this time last year. Again, a showing -- a sign of overall confidence, and again another key factor that cancellation rate's down to 16% against the peak of 34% in 2008. And 16% is probably lower than the average run rate that would be more nearer 20%. So I think it shows that people that do commit are more cautious before do committing, but once they do there is a lower fallout rate.

We've seen our part exchange stock reduced to around GBP11m down from GBP55m at the year end. Again, showing the secondhand market where the stock is properly priced is turning over quite readily. So again it's a good situation for us.

Our net reservations are marginally behind in the period from July 1 to date in the last eight weeks. But I think ahead of where we expected to be for this of year. The July/August period, as some you will -- some of you may know, is traditionally holiday time, people away, so our level of sales usually decline in that period. But we've been pleased that the rate of sale has increased so above our expectation for that period.

As John's mentioned, obviously we are continuing to drive down our cash. But having said that we invested in 40 new sites in the first half of the year, so we are back out there reinvesting in new commitments, and are set to start on a further 50 sites in the second half of the year. Again, in new opportunities, in new sites that have been re-planned with the right products to them.

Our use of shared equity and HomeBuy Direct is gaining momentum. More HomeBuy Direct to this time and less to shared equity. The HomeBuy Direct scheme is a scheme for those who don't know it -- operated with the Government where you defer the equity, and that's been very successful.

That is now gaining momentum, and we are phasing out our own shared equity per se with the exception of Scotland and Wales which don't have shared equity. So there will be some shared equity on our balance sheet going forward, the majority of it will be under the HomeBuy Direct guise.

And this is a key factor for us because it is the mortgage market that is driving us to the use of this issue. And it's the fact it's a lot higher loan to value mortgages that aren't available in the marketplace. You can borrow quite happily at 75% loan to value, but if you get up to 85% -- 80% or 80% loan to value, A, you are going to pay a 1.5% or 2% more for that mortgage but it is -- they are much more rare and therefore first time buyers don't have that deposit and do the -- need that help on the HomeBuy Direct.

Again reviewing the trading position you'll see there we came into the year in a negative position, as I say with a low forward order book. And we are pleased to say by the time we got to the half year on a like for like basis we were 7% ahead of last year's figures, and you'll see from here that we have now -- that's now grown to 9% ahead.

So we continue that momentum that we are building in the period. And in the last eight weeks we've sold 1,250 sales. As I say for this time of year we are pleased with that volume. The majority of those sales are private housing sales, and not much a part affordable housing in that mix.



What is our strategy looking forward? Obviously, we have to set that in the context of the current environmental conditions, particularly the mortgage market which I referred to earlier, unemployment prospects effectively how that's going to affect the housing market. But on that basis I say I think we continue the focus on debt reduction that's our primary focus. But I think now we are now starting to look to repair and rebuild those margins.

And how are we going to do that? Well, I think we outline below those criteria. We are starting the new sites with our new lower build costs. So again our margins on those sites should be improved and enhanced as we start those new sites and start taking completions off towards the latter end of this year and early into 2010.

And we said we've re-planned some of these sites for better mix, more saleable mix that will give us the better return. We renegotiated some of these 106 costs to again enhance the margins.

We've been selective on acquisitions. We are looking at acquiring new sites at attractive prices. I wouldn't say there's a lot of new land out in the marketplace to be sold at distressed prices. But where there are good opportunities we believe for us, particularly in the housing market we are able to take those opportunities forward, and are continuing to do so.

As, again as some of you know, Persimmon has always focused on strategic land, we have over 20,000 acres of strategic land in our portfolio, and that's been a good source of land for us in the past. And will continue to do so in the future. And we will now recommence pulling through some of that strategic land to enhance the future margins of the business in 2010 and beyond.

Again, we are selective on the new sites, but we are investing as I mentioned earlier, into 50 new outlets into this second half of the year and looking to stabilize our outlets into 2010 around the 370 mark. We believe that can sustain our business and moves after that will be upwards on our outlets for growth of volume as we move into 2010.

We've look at Space4, some of you recall at the acquisition of Westbury in 2006 we acquired Space4, which is a modern method of construction. We've been working on that to simplify and improve the system. If you like, technology is moving towards us on that front, and the green agenda clearly on the horizon. For 2010 and on and beyond we will have to build houses to Code Level 3.

Space4 can currently build to Code Level 3 already, so the cost benefits that we'll derive will start showing greater dividends on both the affordable housing front and also through our traditional housing stock as we move into more Code Level 3 housing in 2010 and beyond.

Also the benefit we'll get -- derive from Space4 is that it is a system that allows us to build a house a day on site, a house an hour in a factory but a house a day on site. Now if there are any potential labor shortages as the market picks up and volumes start increasing we will be able to call on Space4 to deliver greater volumes without the need for the bricklayers and carpenters that are traditionally in short supply if there is an upturn in the marketplace.

A great factor for us, as I said, is this -- retaining the existing structure that allows us with 25 offices to build quite comfortably 14,000 units, so this year between 9,000 and 9,500. We have the basic infrastructure in place with the management teams there set that can build up to 14,000 per annum as and when the mortgage market allows us to do so. So we have that infrastructure in place.

I am particularly pleased to say also that for the first time we are setting on new staff and particularly pleased to say that we are able to set on over 20 school leavers for reinvestment. They are going to be our future site managers and technical managers within the business. So we've talked a lot about redundancies in this business for a number of periods, it's nice for us to now start reinvesting and growing the business and looking forwards. So I am particularly pleased about that for the future.

So looking to the market overall, obviously there are encouraging signs out there. But I think you have to understand whilst the mortgage market continues its uncertainty, it has improved, but with low loan to values it is going to be still restrained, and that is a major factor for us as a business in allowing us to grow the business into the longer term.

We are pleased the action the Government has taken. I think HomeBuy Direct is well received, it's well received by the public, it's good business for us. And I think it's good business for the Government. It's an economical way for us to finance and help restart the housing industry. So, we are very pleased to have a major share of the HomeBuy Direct scheme. We've also applied for further allocations under the Kickstart program, and obviously our allocation is being assessed at this present time. So we'll know more about that by the end of September.



Obviously, the contraction in volumes in the industry does give us an opportunity, as I keep -- I reiterated we have the infrastructure in place, we have the teams, we have the balance sheet to enable us to grow the business in the longer term. And I think there is support in the public and private market to allow us to do that.

Looking in conclusion I think obviously our refinance is in place as you heard, we've got over GBP1b of facilities. With our debt going below GBP400m that gives us good opportunity to enhance and expand the business with opportunities.

We continue to generate cash ahead of forecast, and that is our focus. As John has mentioned we will continue our good housekeeping, our good tight working controls which we have in the business, have established over many years. We are able to reinvest in starting new sites. And those new investments will be carefully evaluated.

I make no apology for the final part. We have a strong geographic coverage with experienced management teams which allow us to take advantage of the future as and when the market will allow us. So that's our key message at this time.

If I pass onto Mike he will give you a further overview on the financial part.

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**Mike Killoran - Persimmon plc - Group Finance Director**

Thanks, Mike. What I want to do in the financial review is cover some of the key points of emphasis, key features in the numbers in terms of trading. Have a quick look at the balance sheet and the cash generation, and return to the capital structure. And just to review the capital [spot] of the business moving forward, as Mike's just mentioned.

So looking at our trading overview, couple of key things in the first half, obviously John at the top of the meeting mentioned the exceptional release of net realizable value provision. And we'll come onto a little bit more detail on that, together with the increase in use of shared equity which Mike's mentioned, which has given rise to a charge against turnover and profits of around about GBP11m in the first half. And again, we'll come on to understand that in a little bit in more detail.

In Appendix 3 to the pack you'll see some detail in terms of how the numbers are built up. That's obviously with the intention to ensure that everybody has a clear view of how the numbers are constructed, which are summarized on page 14 of the pack.

So, moving onto the release of net realizable provision, obviously it's not so long ago you -- we were telling you about what we'd done last December, the assumptions that we used. And I think we got across the message that we'd established quite a conservative position in terms of the balance sheet, which essentially a couple of key elements with that.

We have included a 27% peak to trough price weakness view which was included in that December position together with a requirement for our sites to deliver perhaps a 7%, 8% net contribution.

And what we've done at June is done a full line by line review again based on the same principles, the same assumptions. And that has given rise to movements in terms of the provision requirement. As you can imagine revenues have been moving around, we've been refining sites, putting new schemes on. We've been attacking the Section 106 area, and obviously revenues have been moving around as well as we've been experiencing the trading conditions of the first half.

So there has been a lot of movement in site performance through the first half of the year. And when we've reviewed the site performances at June that's given rise to a net release, as we say, of around about GBP28m in the first half.

And I think looking further ahead a common sense view would be, well, we haven't experienced the 27% price weakness in the market, underlying price weakness, so a common sense view would be up until that point, on the legal completions that we do take every six months, there is going to be a little bit of surplus there built into our provision as we move forward over and above how the site portfolio moves in terms of its end life margin forecast that we do.

So, I think you've got to draw your own conclusions in terms of how that will sort of unwind moving forward. And obviously it's very much dependant on market conditions as they develop moving forward. And obviously within Q&A if you've got any particular elements of that area we can discuss that a little bit further then.

Obviously, through the first half gross margins have been influenced by the lower prices. They do also reflect our prudent NRV stance at December. Obviously, the sites that were subject to NRV review were somewhat locked into that view of a net contribution 7%, 8%.

So given that I've already said that we are continuing with our view that we feel a 27% peak to trough position on pricing is about right in the market, with a view on near term risks in terms of potential increase in unemployment and the like, then obviously those sites are locked into delivering a net contribution level in the short term until we get a clear review as to how the market is going to respond to the more general recessionary challenges that face us all.

And obviously, we've invested, we've chose to invest in the share equity incentive which has taken a little bit of value out of the near term position. Shared equity sales of about GBP150m have been subject to that fair value adjustment, the GBP11m. And it's effectively -- the GBP11m represents the reduction in the deferred receipt value that we've sort of parked up and expecting to receiver over the next five to 10 years on shared equity transactions.

And we've net present valued that to today's value and that's what the GBP11m refers to. It's really the discounting back to today's value of those deferred receipts. And we feel that we've taken a prudent view of that. And obviously that will reverse as we move forward. It comes back as interest receivable through the interest line as we move forward in line with IAS39.

So that's just something to be aware of. It's not value that's gone out of the business. It's been sort of parked up for the future release through the interest line as we move forward.

Selling cost performance in the first half around about 4% of sales compares with about 5% of sales. That's excluding the shared equity. So you need to review the shared equity slightly separately.

And I know the concern there is well, how will that develop moving forward? And I think you just need to walk through the basis parameters to you can do your forecasting, and we can perhaps talk about that offline so to speak.

John has already mentioned good reduction in overheads, around about 40% compared with '07 which was the last year before the restructuring of '08, which is going to support our profitability. But I think as Mike said that has not undermined our ability to gear up our output in sales levels moving forward, which we've been keen to protect our operational gearing, if you will, to take advantage of the market as it develops moving forward.

Moving onto the balance sheet, as Mike's already mentioned, we are very keen to continue to release capital from the business. The balance sheet, to be frank, is a little bit too sizeable for the level of trading we are currently doing. So that drive will continue principally in the land and work in progress area.

We've reminded everybody there, on the slide, what the land expenditure profile was and an update as to how we've done against that, which is slightly better but more or less in line.

Work in progress 13% reduction from the year end, the active program of destocking that Mike's already mentioned will continue. We've made great strides in respect of that. There's a little bit more to come there, so more cash release from our efforts in that area as we move forward.

Part exchange stock, obviously this means less for the future, notable the cost of that down at around GBP11m which even is actually a little bit lower than that currently. And that's the shift of focus on incentives to the current market really requiring this shared equity incentive rather than perhaps the part exchange.

We are still doing a lot of part exchange, but we don't take the equity interest. We are actually back to backing the existing unit with the new sale, and that's a reflection of the better market conditions currently. Shared equity receivables there you can see GBP47m net carried value at this point.

On the cash generation we are generating a lot of cash. GBP129m of free cash generated in the first half, which really reflects the management action we've taken across the piece ahead of our earlier expectations. And Mike's already mentioned the update on the yearend position where we expect to be lower than GBP400m now rather than the GBP450m guidance we'd given earlier on this year.

And the bulk of that cash is coming from our principal asset classes being the land and the work in progress area. And that is despite, and this just to emphasize this, that is despite the reinvestment in opening up new sites. It's not as if we are not opening up new sites. Mike's already



mentioned 40 opened up in the first half, 50 to come in the second half. So we are making sure that we have the platform to gather our sales in an appropriate way moving forward. And we expect that cash generation to continue as we move forward over, certainly the next 12 months.

Looking at the capital structure in support of the business this will come as no surprise. I think this is a slide that you've seen over many periods now. And it's principally broken down into the revolving credit facility sourced out of the UK debt capital market. And the drawn funds on the private notes, which are being serviced as planned.

We have a lot of headroom against those committed facilities that were renegotiated on, I think it's was March 13, they were signed up this year. And we feel that we've got the right mix of debt instruments if you will in support of the business. And provides us with the firepower if you will for us to invest into the asset base as and when we see the right timing as the market develops moving forward.

So at this point I'll hand back to John to summarize.

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**John White - Persimmon plc - Chairman**

Right, thank you. I'd just like to quickly summarize then what you've heard. I hope we've shown that our business is in a good position, it's got plenty of headroom to take forward opportunities. But we will only do that when we believe the time is right.

Forward sales are healthy at this new level of business, but we recognize the need to focus on margin improvement. And that indeed will be assisted by the fact that pricing is becoming -- has stabilized and we will be looking to move the margin along wherever possible.

Further assisted by the fact that we've cut our operating expenses back, but a very key point, a key issue for the business, we are determined to retain our infrastructure for future growth. And I think you can -- from Mike has told you -- hopefully you can quite clearly see that we are positioned very well geographically to take advantage as and when the market improves.

We continue to apply tight control over all of our investments. And I can assure you we will be not dropping our guard in that respect. So despite the slightly more encouraging market conditions we have at the moment, we -- we won't be complacent about that.

All in all, I think from -- with our strong balance sheet we are very much in a position with an excellent platform to create increased value for shareholders in the future, as and when the opportunities arise.

So thank you very much for listening to us. I think we should now quickly move onto Q&A. And, as usual, we have a microphone available, and we would ask that you now introduce yourself before putting the questions to us. So can we have some questions? Just come down the front Will.

## QUESTION AND ANSWER

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**Will Jones - RBS - Analyst**

Will Jones from RBS, just two question please. Firstly on -- in terms of write-downs just as we think and try and work out what possibly could be released over the life of the land bank if house prices didn't fall further in the year. For example, could you give us any idea or guidance as to what the write-down would have been back at December had you only assumed say 20%, 21% peak to trough rather than 27% perhaps? Any help there would be great.

And just secondly in terms of land spend clearly you've talked about having a seven year land bank and no need for huge investment in the short term. One, clearly lots of headroom as we look with regards to debt facilities. But if we -- in terms of 2010 obviously the one thing we are not sure of, because it hasn't been disclosed is the issue around cash flow cover and capacity you might have viewing it from a covenant perspective.

Just if you could give us some idea of how much capacity you might have to spend on land in terms of that side of things. Just in terms of covenants next year, please.

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**Mike Farley - Persimmon plc - Group Chief Executive**

Aug. 25. 2009 / 5:30AM ET, PSN.L - Interim 2009 Persimmon plc Earnings Conference Call

Shall I do the land one first then, Mike, you do that. On the land front I think, as you say, you can see that we are generating good cash and continue to do so. I think with a seven year land supply we don't have to buy land. I think this is the first point as I mentioned earlier. But I think if there are the right opportunities for a Charles Church site in the right locations, we can buy at the right time, we have plenty of cash there.

But I haven't sort of set a budget to say I am going to spend X million pounds on it because frankly it's kind of what the market conditions are doing. If the market is stronger then we'll invest more heavily. If the market is more challenging, as I say, I think you have to look ahead.

There is still the issue of a mortgage market, where is the mortgage market and level going to finish. Affordability is the issue. There is an election coming, and that creates some uncertainty. And I think the jobs market is something else that is ahead of us.

So I think we will need to be cautious in our approach, but taking [advantage of] opportunities. So I think I don't believe, and I can assure you we will not be constrained by our banking covenants, because we are generating, as you can see, well in excess of the cash flows generated -- through our sales. And as I say, as the sales rate pick up we are going to generate even more cash, so I think, as I say, the (inaudible) cash is not a problem to us, so -- it's just a case of what opportunities there are out there against the backdrop of what the market's doing.

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**Will Jones - RBS - Analyst**

You wouldn't foresee a position whereby say in the first half of next year you'd look to renegotiate the debt facilities simply to give you more potential? (multiple speakers)

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think we have enough potential anyway. I think prefer to our bankers, when we set out covenants, I think, as I say, they were pretty tough with us over the fees. And I think they're realistic to know at the end of the day that we need it to run a business, I think, it wouldn't all be downside. So I think when renegotiating our current package, the models we put forward we're able to substantiate. And I don't really get any push-back from the banks, they were very supportive on that front. Because I think they knew at some stage that we'd need to reinvest in our business. But [a lot of their interest to compound] a bit of (inaudible) up front.

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**Mike Killoran - Persimmon plc - Group Finance Director**

I'll take the NRV. Obviously we said that we've created quite a realistically conservative view as we coined the phrase last December. The last six months has surprised on the upside, I guess, in terms of the stabilization that we've seen in some regions in terms of pricing. And we think that's really a function of the increased volume coming back into the market, which is obviously being supported by the greater availability of credit.

Now in terms of how it will play out in the future, I think if these conditions continue then there's a fair expectation that we might see some reversal of that provisioning come December, little bit more surplus being available. It's very hard to predict how much and the rate at which that may happen. As I say, it's not just about pricing, it's about your cost base, provisioning's all about what level of net contribution can a site deliver. And as you know, there's a lot of moving parts within that.

So I wouldn't like to be definitive about how much and when, albeit the fact that there's a bit of surplus coming out after the first six months is a good indicator in these conditions at these levels of pricing. And I think one commonsense element to it is well, we have to take a view of 27% peak to trough across all the future land bank, 69,000 plots in December. Now the 4,000 plots that we've legally completed in the first half haven't experienced that price swing. So there's always going to be a bit of surplus in relation to that front end usage of that land bank, which again, now here we are with 64,000 plots, however many we do in the second half of the year, we're going to be presented with that similar situation if pricing remains where -- about where it is now.

So as always, we need to feel our way through this market. And obviously we're pretty reticent to predict where it's going to go, given what we've experienced over the last 12 to 18 months.

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**Will Jones - RBS - Analyst**

Could I just ask, in terms of the GBP28m net in the note of the accounts, was that a reversal of GBP149m and then new impairment of GBP121m?

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**Mike Farley - Persimmon plc - Group Chief Executive**

Yes. Yes.

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**Will Jones - RBS - Analyst**

That GBP121m, was that on flats? Was that the apartment side that may have fallen more (multiple speakers)?

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**Mike Killoran - Persimmon plc - Group Finance Director**

A mixture again, it was a real mixture of -- across the portfolio. As I say, we did a line-by-line review. Again, very detailed exercise. And as you know, we've -- a key control in our business since the business started, is the bimonthly valuation process that we deploy throughout the business on every site. And we do that every two months. And the exercise we do for NRV provisioning is using that discipline that we've had running through the business over many, many years. So we're in a good position to identify where sites are doing a bit better or doing slightly worse than previous expectations, so we can adjust this as we go along.

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**Will Jones - RBS - Analyst**

Okay.

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**John White - Persimmon plc - Chairman**

(technical difficulty)

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**Charlie Campbell - Liberum Capital - Analyst**

Thanks, it's Charlie Campbell here at Liberum. I've just got a couple of questions really, that I guess follow on a bit from where we are at the moment. The first question was on land spend. And I guess you've shown us a lot of headroom there. You're saying there's some caution as well. Maybe to help us out, could you give us an idea of where the right gearing levels are for the business in current, subdued market conditions? And how far you'd be prepared to push that gearing number?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think we are comfortable with our gearing at the present figure. And obviously the numbers are set to drop from that, Charlie, to answer your question on that. As I say, I think it's really the continued strength of the market. I think we have to bring it into context. Here we are today, mortgage approvals are 47,000 a month against in November they were at 27,000. So we've seen a long way. But we've still got a long way to go to get back to 93,000.

So I think -- we're not complacent about the market. I think we're there, but what we don't do is get carried away at this stage. I think the signs are positive and we're set well to take advantage of that. We're starting the new sites, we're committing, we'll commit to new land as we see the opportunities. But I think if we set a budget today it means we're going to commit to sites. If the market doesn't turn down in the autumn period then we don't want find we over-committed on new land already having a seven-year supply.

So that's why we're cautious in our approach. We're not forced to go out and commit to new land. Other businesses may be, they may be running out of land, we're not. As I say, I think you can see from that slide, we've got good coverage across the UK. So we're not running short in the South or North. Our land bank is fairly well spread across the country. So we are well set. As I say, we'd like to invest in some sites for Charles Church and if we can see small sites for that location, not heavy commitment, I think we'll take those forward.

Aug. 25. 2009 / 5:30AM ET, PSN.L - Interim 2009 Persimmon plc Earnings Conference Call

But I'm not going to preset and prejudge a market today in summer months for something that could happen the first quarter of '10. It's -- I don't think it's necessary really for the business.

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**Charlie Campbell - Liberum Capital - Analyst**

Thank you. And one other question I just had from the first half margin, 1.5%. You made the point there was some exceptional items in there, so you sold off some units in York and Birmingham at obviously quite low prices. What do you think the right underlying margin would have been, excluding those low level prices?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think undoubtedly our margins will be higher in the second half than the first half. As you say, we are coming from a low base. If you took the shared equity out, alone that accounts for about 2% of our margins, so if you -- which is just an accounting standard treatment. If you just reverse that, that puts about 2% straight in our margin at that front. But I do think we will see another 1% or 2% come on our margins in the second half as a result of not having to discount as heavily into that part of the market.

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**Charlie Campbell - Liberum Capital - Analyst**

Thank you.

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**John White - Persimmon plc - Chairman**

Okay. Why don't we come to Chris. Alastair, if you -- we've got it, microphones in stereo. Sorry, Alastair, you do that and you get the one ready for the next question, okay.

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**Alastair Stewart - Investec - Analyst**

Three questions. The first two on the land market really. You sounded cautious on land spend. But were you to buy land in the market just now, what sort of margin requirement would you be looking for? Bovis said quite specifically yesterday 25%, others privately have said the lower 20s. Can you be specific? Or at least give a range for gross margins?

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**Mike Farley - Persimmon plc - Group Chief Executive**

It's difficult, because what some people account in their gross margins against others, it can be misleading. I think we are able to buy land at acceptable hurdle rates at the present time in the marketplace. So if you ask me a direct question, no, I'm not going to give you our margin hurdle rates. But I think we're able to buy sufficient land. There are -- there is attractive land out there for us to buy. There's not a lot of distress selling, I have to say, so you're not really buying land at super margins, which I think some people thought there would be opportunities to buy land at super margins. I think they're acceptable margins to us in good locations where we're being selective in what we buy.

But I think there is opportunity out there. I think the opportunity for us to grow our margins, to get better, super, more super margins, is through the strategic land. And that's where I think we will probably focus some of our attention, because we've obviously not pushed that in the last 18 months, two years, because there's not been the need. But now I think, from our own perspective, and also landowners' perspective, there is opportunity out there to do in that price. So I think you'll see us have a combination of being selective in the marketplace and (multiple speakers).

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**Alastair Stewart - Investec - Analyst**

Can I press you on whether it would have a 2 in front of it or not?

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**Mike Farley - Persimmon plc - Group Chief Executive**



Yes, it would, yes.

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**Alastair Stewart - Investec - Analyst**

It would? Fine. In the strategic land, going forward, what -- roughly what sort of density per acre would you be looking to develop?

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**Mike Farley - Persimmon plc - Group Chief Executive**

About 16.

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**Alastair Stewart - Investec - Analyst**

16. And finally, you mentioned obliquely the potential for labor shortages. That's the first time I've heard the word shortage connected to labor. Is there any sign of that?

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**Mike Farley - Persimmon plc - Group Chief Executive**

No, there's not. I'm just saying traditionally, the industry, we've cut back production very rapidly. And I think we've seen this, undoubtedly a lot of labor has left the industry. I'm going back in history, general idea, when you've seen these previous downturns in the market, as and when the market does turn up, there are certain trades that are in short supply but can typically become in short supply which are bricklayers and carpenters, and that's just historical fact. So we're not seeing it today. But if the industry was to suddenly increase its volume by 30%, I think you would see some shortage of labor in certain parts of the country. And that's why I think Space4 could come in handy, the low skill base to erect the kit basically.

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**John White - Persimmon plc - Chairman**

Chris?

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**Chris Millington - Numis Securities Ltd - Analyst**

Chris Millington, Numis. Two, if I may, please. Firstly just on strategic land. Clearly, you are looking to focus on it going forward. I'm just wondering how long it takes to get that machine up and running again? And what is the sustainable rate of [pull]? You have set targets in the past. I'm just wondering if you can give us some feel what quantum of land can come out of it?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think what we're focused on at the present time, Chris, as I said, the strategic land has always been there. But what we have been revisiting as we've been revisiting on the current sites is also revisiting on the strategic sites to get those planning consents in the right shape, to get the planning -- to get the 106 agreements back into the right positions, to get the phasing of those payments right. So that's where we've been focusing our work in the last 12, 18 months.

So we haven't been doing no work at all on these sites. So we have actually been working on them to make them more valuable assets. And I think what we can -- we've got agreement for one. So we are careful how we bring them forward. And as I say I think at this stage we have a reasonable supply of land. I keep coming back to this seven years' supply. But we are conscious that there are one or two areas where we can see as sites come to close we need further exposure, we will bring those sites on stream. So it's not so much I think for this year but more into 2010. But as I say, there are good opportunities out there which we're bringing forward.

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**Chris Millington - Numis Securities Ltd - Analyst**

And is there any reason to suggest it couldn't get back to the same percentage of land sourcing as it was in 2006/2007?



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**Mike Farley - Persimmon plc - Group Chief Executive**

No. There's no reason why in the fullness of time, not in the short time because you don't turn the tap on overnight. But I think in the short term - in the longer period, in the 12, 18 month period there's no reason whatsoever. Because, as I say, we have 20,000 acres of land held strategically, so those are good opportunities. And it's not going to be easy to get planning consent whilst there is this downturn that's in place. So those are good sites and should come through in the fullness of time.

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**Chris Millington - Numis Securities Ltd - Analyst**

And just one quick one, gents, is just in terms of cost savings. You've mentioned it a couple of times, I'm just wondering what you think peak to trough those cost savings have been so far.

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think we've said about 14%, Chris, is the figure that we've looked at, and built up about 10% of that is labor reductions we've been able to achieve. And about 2% in material costs. And around 2% has been by revisiting, looking at the specification or the way we build things. And as (inaudible) by streamlining our build processes. So that can give you a flavor.

I think looking forward it's going to be more difficult. I think we've gone well through the labor rates. And I think there's only so far you can go on that front. So I think labor rates are at a low point. In terms of materials, again I think there are signs that on a worldwide basis things like timber are getting in short supply. So I think if anything there's going to be more upward pressure, not so much with '09, but I think with '10 we're going to see pressure on material prices into '10. So I think there could be a little bit of unwinding in '10 on prices to do materials. But again, we continue with our buying power to try and mitigate and offset those. But I think there will be upward pressure.

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**Chris Millington - Numis Securities Ltd - Analyst**

Thank you.

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**John White - Persimmon plc - Chairman**

Okay.

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**Andrew Gardner - MF Global - Analyst**

Andrew Gardner from MF Global. Just one, if I could. It's on -- one of your peers talked about recently hopefully once emerging from downturn into recovery over the next few years as they did in early 1990s maybe looking to more than double volumes in coming years. Obviously you're still in the mode of, as you say, right sizing the balance sheet and the business to where we are. Even post that process of right sizing and albeit feeling more comfortable about market conditions, is that something you're particularly bothered about? Or I get the impression maybe more comfortable in not pushing too hard for volumes going forward further out?

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**Mike Farley - Persimmon plc - Group Chief Executive**

It's a boring response, but it depends on the mortgage market. I think we find ourselves, our buildings were 16,000 when mortgages were 120,000 a year. Until you can determine the size of the mortgage market, it's difficult for us to forecast. I think what you can see is we are setting our strategy. We have the capacity in the business to build 14,000 units. We've been very careful to make sure we have that capacity built into our business without very much infrastructure input.

Rest assured we're there with the sites, the strategic land to take advantage if those market conditions arise. But we cannot set the market conditions and the banks and the building societies set that. As and when the mortgage market does improve and allows for greater volumes then



I think we will be there. So we won't be shy in increasing our volumes. We're setting our business though and the capacity to do so but we're not master of our own destinies. It is the mortgage market will dictate volumes for the industry as a whole.

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**John White - Persimmon plc - Chairman**

I think if I could just add, I think it would be unrealistic to expect an explosion of volume beyond where we are now. Yes, things are more encouraging. But I think the chances are that it would be steady growth which can be managed a lot more sensibly within the industry. And that would be our expectation.

Right, John?

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**John Messenger - RBS - Analyst**

Thanks. John Messenger at RBS. If I could ask three, actually. First one, just coming back on the land write-down, write-up and everything else, Mike. Persimmon was more cautious than many of the house builders in terms of getting into the methodology. Behind the write back up, your methodology, restoring the 7% to 8%, have you had any feedback? Is that something that you feel is cast in stone? Have you had any questions raised from the FRRP? Because everyone's used different methods. Yours seems more prudent, but it's restoring more margin. Is there any danger that actually that restoration in margin, you won't be able to sustain because the laws will change (multiple speakers)?

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**Mike Killoran - Persimmon plc - Group Finance Director**

No, I think the subject as you can imagine has been subject to detailed interrogation by our auditors. We've not had an enquiry from the FRRP with respect to the methodology we've used. I suspect they'll be asking all the peer group in the industry to provide them with an insight in that regard. But as you can imagine, the major audit firms are subject to audit inspection unit challenge themselves on these matters. So they are quite keen to make sure that the standards are applied in a justifiably robust fashion. And I think that's where we are. We wouldn't like to allow the FRRP to police what we do, if you will, in that regard. We apply the standard as we see fit and KPMG apply it accordingly. And they don't have any issue.

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think you have to put it in context. I think it's not that long ago people were saying this 30% or 35% amount, had we not been -- were we cautious enough? We believe that 27% we were right, time will tell. But I think some people are saying well, actually, we think the market should go up 30%, 35%. And as I say, I can remember reading some people saying Persimmon will have to take more write-downs on land.

The market has changed very rapidly. But I don't think the overall concept has changed. As I say, unemployment is still a specter there, we're not -- we're seeing better trading currently, but I don't think we want to get carried away that we're out of it, the (inaudible) is completed, there is still uncertainty. As I say, we are using a lot of HomeBuy Direct. Now if that finishes, then obviously how will that sustain the market? I think you have to bear in mind we are obviously a very short term situation. Today we've announced it. But I think if the longer term situation went on, as I say, I'm comfortable with 27% price reduction.

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**John Messenger - RBS - Analyst**

And just on the modeling on shared equity, if I do the math on that number, you've taken GBP11.2m, it looks like a 7% cost of debt you've assumed a five-year average for those shared equities? Is that (multiple speakers) an assumption that they on average come back within five rather than ten years? Is that (multiple speakers)?

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**Mike Killoran - Persimmon plc - Group Finance Director**

-- about seven to ten.

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**John Messenger - RBS - Analyst**



Seven to ten?

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**Mike Killoran - Persimmon plc - Group Finance Director**

Being pretty conservative.

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**John Messenger - RBS - Analyst**

And when you look at it from the point of view of P&L, when you move to HomeBuy Direct, 15 outstanding for 25 plays -- 25 outstanding for ten, clearly one of them looks better in the short term. But do you guys have a view as to -- obviously you're scaling back your own scheme. Yet do you have a concern that that 25 year wait for some of those people, just depending on the dynamics of that? And will you use a similar 8%, but maybe for 12% or 14%?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think our experience has been, as I say, when we've used share equity in the past, and I don't think -- is that people tend to be in the five to seven year category, John. People move on. This is a way of getting people on the ladder to buy their first house. And obviously once they get to a situation where their income grows on, they need to move because they've got a family, whatever, they will tend to move that equity forward. We can even move it onto new property, and we've done that in the past. So it's our experience that people tend to trade up over time. It's just a case of in the short term, because of the mortgage availability, they're not able to get that deposit. They could well afford to pay for the mortgages.

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**Mike Killoran - Persimmon plc - Group Finance Director**

And HomeBuy Direct is, we feel is, to the industry, the -- to our advantage in that it does enable us to spread our commitments over a larger number of shared equity positions. So it does de-risk that asset to a certain degree compared with if we're doing it all on our own balance sheet.

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**Mike Farley - Persimmon plc - Group Chief Executive**

And again, if you look at history tells us, if we look in the past, in the 90s where we did shared equity, we subsequently made money on that. But that's not factored into these numbers. But with prices now, if they are stable, and they start to move forward, then obviously those factors will only benefit the balance sheet in the longer term.

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**John Messenger - RBS - Analyst**

A final one was just on your cash flow. You talk about free dividend, pre-dividend free cash flow generation in a GBP100m estimate for the second half. Just -- your land spend in the second half is going to be GBP70m lower. We always think of the seasonality being rather more cash flow generated in Half 2. Your working capital, or pure work in progress is down at GBP553m. That looks like 39%, 40% of where your revenue's going to be. Is it the working capital dynamic in the second half that is making you produce a rather low -- I'd have thought either it's caution and you're going to do a lot better than GBP100m, or there's something else in the mix that we all need to be bearing in mind? Because your cash spend on land is coming down quite sharply.

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**Mike Killoran - Persimmon plc - Group Finance Director**

I think there's an element of caution because obviously how the market, the autumn season develops is going to be quite important. Just as we saw last year, the shape of last year, we were all aware of the shape last year. And autumn didn't arrive, in fact it got worse through the autumn. So it's a case of seeing what we can see, telling you guys what we can see, but not prejudging it. And I think there's an element of caution there. But as Mike's already mentioned, it does depend on our reinvestment philosophy. If we pick up one or two things through the strategic land bank, for example, then obviously that either absorption or release can change a little bit.



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**John Messenger - RBS - Analyst**

Your hard WIP in terms of GBP553m, thinking about in the good old days it was 25% revenue. Clearly, I guess there's more weighting of some infrastructure in there on some of the bigger sites?

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**Mike Killoran - Persimmon plc - Group Finance Director**

Yes.

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**John Messenger - RBS - Analyst**

Is that GBP553m pulling out as low as you believe it will go, and therefore it should, it'll have to grow usefully in the next --?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think it'll -- I think it actually, I think if you look at our work in process, it's basically in two camps. It's in the infrastructure camp and the unit build. I think we have, as you say, depleted the unit build element, as I say, we don't have much stock on the ground, then as we start new sites we're reinvesting. But as we leave or complete on those sites, which we've already committed to, that infrastructure recovery, that's where I think you'll see most of, the majority of our cash release come from in the longer term. So you will have those sites in the longer term.

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**John Messenger - RBS - Analyst**

Okay.

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**John White - Persimmon plc - Chairman**

Back row, Tobias.

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**Tobias Woerner - MF Global Securities Ltd - Analyst**

Tobias Woerner, from MF Global. Just one question here. All your commentary and language today, i.e. you have a long enough land bank, you have strategic land, you have a balance sheet you're comfortable with, doesn't point to the fact that you might need more capital at some stage as the market stabilizes and recovers to a certain extent. Historically when markets stabilized and recovered, a lot of your peers have taken on new capital or gone for rights issue. Am I misinterpreting your language here?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think, as I say, it is our belief at this stage that we can continue to get the debt down whilst we're in that process. And as I say, I know we set targets for the year end, but we won't stop once we get to GBP400m and say we've put enough cash in the business. If we can get, generate more cash we'll continue to do so to give us that headroom. I don't think, unless we had something specific to go for that we'd want to go to our shareholders for a rights issue or something like that to raise cash because I think we have the equity there. We're not constrained by our cash -- our covenants, with the banking arrangement. So we can go out and buy good opportunities in the land market as we see them. And unless there was something specific came up that we thought there's a special need for this, then I don't really think there's a need for us to go out and raise cash at this time. You can never say never, Tobias. But as I said here today, I don't -- that's not high on the agenda at this stage.

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**Tobias Woerner - MF Global Securities Ltd - Analyst**

That's pretty clear, Mike.



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**John White - Persimmon plc - Chairman**

And is there somebody at -- Kevin?

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**Kevin Cammack - Cenkos Securities - Analyst**

Kevin Cammack at Cenkos. Two questions, really. Firstly, could you talk a little bit about the sales rates you've been achieving? If you ex out the socials, and the sales that have gone through the HomeBuy Direct scheme, just looking at the core of the PD business, could you talk a little bit about the trend in sales rates there over the last three months and first half?

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**Mike Farley - Persimmon plc - Group Chief Executive**

I think if you just look at the two-month period, there's about 1250 sales that have gone through the two-month period since June. I think 95% of that, about 60 of those were housing associations. About 1200 of those sales are private sales. So the vast majority of sales we've taken in the last eight weeks have been on the private sales side of life.

In terms of HomeBuy Direct/shared equity, I would say about one in four of our sales currently, Kevin, is coming through in that matrix. So it's a good source of sales for us at this stage.

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**Mike Killoran - Persimmon plc - Group Finance Director**

And if you compare it with the same eight-week period Kevin, to the eight week, similar eight-week period the prior year, it's about 25% to 30% up in terms of sales rate per site per week, which is -- if that's what you're asking?

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**Kevin Cammack - Cenkos Securities - Analyst**

Yes. That's brilliant. And just the second thing, it's not really a question, it's a bit of an observation, really. It seems quite strange, you've talked about getting the business into position where some of the focus is back on regrowing profits and margins rather than the balance sheet focus. And yet one of the obvious ways you're going to rebuild margin quicker is by leaving the NRV untouched, isn't it? I'm just slightly bemused as to why you've chosen so quickly to release exceptional profit back rather than take it through individual sales. Is it purely because audit-wise you've been instructed that this is what you need to do?

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**Mike Farley - Persimmon plc - Group Chief Executive**

No, I think -- the management team have to assess the carrying value of its assets all the time. We get the opportunity to discuss this aspect of the business with you guys every six months. So the management team are required to assess whether the carrying value of its assets is impaired or not continually. And its obligation to make the market aware of anything material that arises in that respect. That's the techie answer.

So it's incumbent on us, what we have to do as a management team is assess our one work in progress and other asset classes for further impairment. And as I say, we've done a line-by-line review as we did back in December. We'll do that every six months, because we think that's the right thing to do. And we'll inform the market of the end results of that unless there's something significant happens in the market where we have to update the market earlier.

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**Kevin Cammack - Cenkos Securities - Analyst**

Can I just ask one thing, then? In terms of the overall review, has there been any obviously consistent feature which has given rise to those sites where you've written back? You're making the point that it wasn't just price. But has it been the fact you've cleared a lot of the apartment stuff out which you've made old provisions on? Or has there been a theme behind?

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**Mike Farley - Persimmon plc - Group Chief Executive**



I think, as I say, where we did the exercise in December, obviously we reviewed our land bank and our planning consent as we have at the time. Obviously, we continue to work on that, but if you're looking for accounts, I suppose you have to work with what you physically have on that day. So that's the assessment made on that day. We're now six months further down the line. We have a new set of planning consents and we've drawn down, as I say, with less apartments, more houses. Our build costs are lower than they were in December so we're able to factor those in. So if you factor in the selling price situation, the mix and also your build cost, those are the factors that we affect.

Just to pick up the other point, Kevin, I think the other thing is obviously as we release the NRV it does increase our net asset value to the business. So we're getting a lot of matrix on our valuations, on our share price effectively in relation to that, so that's again another issue to consider. It's not high on our priorities but it is a factor as well.

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**Kevin Cammack - Cenkos Securities - Analyst**

Thank you.

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**John White - Persimmon plc - Chairman**

Down the front, please.

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**Mark Stockdale - UBS - Analyst**

Thank you, Mark Stockdale, UBS. Just a few quick ones, I think. Firstly, the land credit, Mike, at June was GBP196m. Is that as low as you go? Or can you push that down a bit further?

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**Mike Killoran - Persimmon plc - Group Finance Director**

No, we'll continue to be paid down, because it's basically a product of new inputs. And given that we're not doing the usual level of land replacement, you would expect that to continue to decline. And that's why free cash will accelerate a little, because that burden reduces as we move forward.

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**Mark Stockdale - UBS - Analyst**

Where would you anticipate that troughing out? Can you get down to GBP100m, or --?

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**Mike Killoran - Persimmon plc - Group Finance Director**

Yes. Yes, that's a reasonable rule of thumb.

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**Mark Stockdale - UBS - Analyst**

Thank you. Similarly just on the release again, going to the GBP121m of additional land write-down, how many plots did that relate to?

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**Mike Killoran - Persimmon plc - Group Finance Director**

When we looked at it in December about 55% of our plots were touched by NRV. If you remember, what we said back then, and this is a similar sort of position that we've arrived at at the end of June. So there's a good degree of consistency. So it's an issue not particularly of reach or penetration, if you will, into the land bank. It's the extent to which it (inaudible).

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**Mark Stockdale - UBS - Analyst**



Aug. 25. 2009 / 5:30AM ET, PSN.L - Interim 2009 Persimmon plc Earnings Conference Call

And of those 64,347 plots, how many are actually owned?

**Mike Killoran - Persimmon plc - Group Finance Director**

Owned? Well, we provide the full (multiple speakers) full analysis of that, of the 64,000 you can see more or less 50,000 around --

**John White - Persimmon plc - Chairman**

(inaudible)

**Mike Killoran - Persimmon plc - Group Finance Director**

Yes.

**Mark Stockdale - UBS - Analyst**

Thank you. And then finally for the full year, what percentage do you anticipate, as you said, about social coming through? What percentage of completions would be social, do you think?

**Mike Killoran - Persimmon plc - Group Finance Director**

I think in the forward order book we've got about 2,000 units currently booked. But some are beyond the '09 period end. So in total we'd probably expect something around maybe 1700, 1800 perhaps this year.

**John White - Persimmon plc - Chairman**

Just if you pass that back to Tessa.

**Tessa Guy - Investec - Analyst**

Hi, just quickly on the methodology, the NRV provisions. Can I just quickly ask on overhead, just to clarify your treatments and to ask if anything's changed since December in terms of treatment? I know there's quite a variation between different companies in the industry.

**Mike Farley - Persimmon plc - Group Chief Executive**

Yes. On our net contribution, we ask our sites for 7%, 8%. It's basically designed to cover the direct costs attributable to their site in terms of overhead. So what it doesn't include, it's probably easier to describe what it doesn't include. When you look at the net operating expenses that we disclose in the statutory numbers, that net contribution doesn't cover those net operating expenses, they're classified as indirect. So direct expenses, to our business, means things like selling and PX costs. It means things like maintenance, customer care costs, security costs and the like. That's the type of direct overhead that that net contribution is designed to cover.

**Tessa Guy - Investec - Analyst**

There's been no change since December?

**Mike Farley - Persimmon plc - Group Chief Executive**

No, the methodology's entirely consistent with what we do at December. And will continue to be.



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**John White - Persimmon plc - Chairman**

Okay.

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**Clyde Lewis - Citigroup - Analyst**

Clyde Lewis of Citi. Two, if I may please, gents. On HomeBuy Direct, I think you've got an allocation of 2,800? Is that right? Has that changed at all?

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**Mike Killoran - Persimmon plc - Group Finance Director**

No, it hasn't changed, but we have under the new Kickstart program applied for further allocation obviously. And we'll know by the end of September whether we've got any further allocation on new sites and stuff.

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**Clyde Lewis - Citigroup - Analyst**

And the current number, given the Welsh and the Scottish schemes, and then your own schemes, where are you left in terms of that 2008?

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**Mike Killoran - Persimmon plc - Group Finance Director**

As I said, currently the scheme has to complete, be completed by the middle of next year. So we are talking about HomeBuy, the HCA at the present time. And I think there's good indication that they will extend the scheme because it has been -- they're pleased. For the government, as I say, it's low cost finance to kick start the industry, effectively, so they're pleased with the way it's gone. It has been a slower start, so I think they will extend the scheme. So which is good news. But we're in those discussions at the present time.

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**Clyde Lewis - Citigroup - Analyst**

The second I had was on the new sites, the 50 new sites that you've got coming through. The gross margins that you'd expect from those, presumably they're going to be somewhere in between what you've been reporting and what you would get from new sites due to the cost savings?

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**Mike Killoran - Persimmon plc - Group Finance Director**

Yes.

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**Clyde Lewis - Citigroup - Analyst**

About 15%, 18% type of band?

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**Mike Killoran - Persimmon plc - Group Finance Director**

As much as (inaudible).

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**Clyde Lewis - Citigroup - Analyst**

All right, thanks very much.



Aug. 25. 2009 / 5:30AM ET, PSN.L - Interim 2009 Persimmon plc Earnings Conference Call

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**John White - Persimmon plc - Chairman**

Right. (technical difficulty) if you could just go (technical difficulty) and then on to Leslie.

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**Anthony Codling - Cazenove - Analyst**

Anthony Codling at Cazenove. Just a quick question, could you confirm, please, your unutilized, or level of unutilized taxes?

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**Mike Killoran - Persimmon plc - Group Finance Director**

Yes, we've got unutilized loss release of about GBP100m to carry forward.

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**John White - Persimmon plc - Chairman**

Yes, same row.

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**Leslie Kent - FinnCap - Analyst**

Leslie Kent, FinnCap. How many sites are you going to be selling off by the end of this year?

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**Mike Farley - Persimmon plc - Group Chief Executive**

390. 390.

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**Leslie Kent - FinnCap - Analyst**

Okay. And how many were you selling off at the beginning of the year?

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**John White - Persimmon plc - Chairman**

410, 420.

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**Leslie Kent - FinnCap - Analyst**

Okay, thanks.

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**John White - Persimmon plc - Chairman**

Any more questions, anyone? No? Okay. Thank you, ladies and gentlemen, thanks for coming along. You know where we are if you want any more information.

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**Mike Farley - Persimmon plc - Group Chief Executive**

Thanks very much.



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