Financial statements and notes

Northfields, Somerton

Group income statement

For the year ended 31 December	Note	2019 £000 Pre Exceptional	2019 £000 Exceptional	2019 £000 Post Exceptional	2018 £000
Revenue	2.0	1,130,768	-	**1,130,768**	1,061,396
Cost of sales		(888,012)	-	**(888,012)**	(830,505)
Gross profit		242,756	-	**242,756**	230,891
Adjusted gross profit	5.12	253,431	-	**253,431**	230,891
Other operating income	5.12	(10,675)	-	**(10,675)**	-
Gross profit		242,756	-	**242,756**	230,891
Administrative expenses	2.1	(60,864)	(12,846)	**(73,710)**	(56,723)
Other operating income	5.12	10,675	-	**10,675**	-
Operating profit		192,567	(12,846)	**179,721**	174,168
Financial income	4.3	813	-	**813**	481
Financial expenses	4.3	(6,939)	(630)	**(7,569)**	(6,585)
Net financing costs	4.3	(6,126)	(630)	**(6,756)**	(6,104)
Share of profit of joint ventures	5.7	1,788	-	**1,788**	5
Profit before tax		188,229	(13,476)	**174,753**	168,069
Income tax expense	5.1	(36,243)	(131)	**(36,374)**	(31,499)
Profit for the year attributable to ordinary shareholders		151,986	(13,607)	**138,379**	136,570

Earnings per share (pence)					
Basic	2.3			101.5p	101.6p
Diluted	2.3			101.4p	101.5p

Group statement of comprehensive income

For the year ended 31 December	Note	2019 £000	2018 £000
Profit for the year		**138,379**	136,570
Other comprehensive (expense) / income			
Items that will not be reclassified to the income statement			
Remeasurements on defined benefit pension scheme	5.9	**(2,116)**	(5,781)
Deferred tax on remeasurements on defined benefit pension scheme	5.1	**464**	1,083
Total other comprehensive expense		**(1,652)**	(4,698)
Total comprehensive income for the year attributable to ordinary shareholders		**136,727**	131,872

Balance sheets

As at 31 December	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Assets					
Intangible fixed assets	5.6	**4,336**	1,079	**-**	-
Property, plant and equipment	5.4	**1,845**	2,181	**-**	-
Right-of-use assets	5.5	**21,347**	-	**-**	-
Investments	5.7	**85,129**	28,992	**14,153**	11,262
Restricted cash	4.1	**1,748**	1,381	**-**	-
Deferred tax assets	5.2	**184**	-	**-**	-
Trade and other receivables		**1,090**	611	**-**	-
Retirement benefit asset	5.9	**4,506**	1,381	**-**	-
Total non-current assets		**120,185**	35,625	**14,153**	11,262
Inventories	3.1	**1,207,667**	1,320,229	**-**	-
Trade and other receivables	3.2	**105,374**	64,505	**642,380**	452,889
Cash and cash equivalents	4.1	**361,962**	163,217	**344**	344
Total current assets		**1,675,003**	1,547,951	**642,724**	453,233
Total assets		**1,795,188**	1,583,576	**656,877**	464,495
Equity					
Issued capital	4.4	**74,169**	67,398	**74,169**	67,398
Share premium	4.4	**359,857**	216,907	**359,857**	216,907
Retained earnings		**837,940**	776,762	**220,115**	177,537
Total equity attributable to equity holders of the parent		**1,271,966**	1,061,067	**654,141**	461,842
Liabilities					
Bank and other loans	4.2	**-**	36,401	**-**	-
Lease liabilities	5.5	**16,686**	-	**-**	-
Deferred tax liability	5.2	**-**	730	**-**	-
Trade and other payables	3.3	**122,940**	183,769	**781**	781
Total non-current liabilities		**139,626**	220,900	**781**	781
Trade and other payables	3.3	**352,359**	278,706	**-**	-
Lease liabilities	5.5	**6,309**	-	**-**	-
Provisions	5.8	**3,989**	4,843	**-**	-
Current tax liabilities	5.2	**20,939**	18,060	**1,955**	1,872
Total current liabilities		**383,596**	301,609	**1,955**	1,872
Total liabilities		**523,222**	522,509	**2,736**	2,653
Total equity and liabilities		**1,795,188**	1,583,576	**656,877**	464,495

The Company made a profit for the year of £118,332,000 (2018: £117,983,000). These financial statements on pages 127 to 163 were approved by the Board of directors on 27 February 2020 and were signed on its behalf: Earl Sibley, Director.

Group statement of changes in equity

For the year ended 31 December 2019	Note	Own shares held £000	Other retained earnings £000	Total retained earnings £000	Issued capital £000	Share premium £000	Total £000
Balance at 1 January 2018		(3,642)	776,897	773,255	67,330	215,991	1,056,576
Total comprehensive income		-	131,872	131,872	-	-	131,872
Issue of share capital	4.4	-	-	-	68	916	984
Own shares disposed		22	(22)	-	-	-	-
Deferred tax on other employee benefits	5.2	-	(113)	(113)	-	-	(113)
Share based payments	5.3	-	1,413	1,413	-	-	1,413
Dividends paid to shareholders	2.2	-	(129,665)	(129,665)	-	-	(129,665)
Total transactions with owners recognised directly in equity		22	(128,387)	(128,365)	68	916	(127,381)
Balance at 31 December 2018		(3,620)	780,382	776,762	67,398	216,907	1,061,067
Balance at 1 January 2019		(3,620)	780,382	776,762	67,398	216,907	1,061,067
IFRS16 opening adjustment		-	65	65	-	-	65
Total comprehensive income		-	136,727	136,727	-	-	136,727
Issue of share capital	4.4	-	-	-	6,771	142,950	149,721
Deferred tax on other employee benefits	5.2	-	140	140	-	-	140
Share based payments	5.3	-	2,891	2,891	-	-	2,891
Dividends paid to shareholders	2.2	-	(78,645)	(78,645)	-	-	(78,645)
Total transactions with owners recognised directly in equity		-	(75,549)	(75,549)	6,771	142,950	74,172
Balance at 31 December 2019		(3,620)	841,560	837,940	74,169	359,857	1,271,966

Company statement of changes in equity

	Attributable to equity holders of the parent			
For the year ended 31 December 2019	Total retained earnings £000	Issued capital £000	Share premium £000	Total £000
Balance at 1 January 2018	187,806	67,330	215,991	471,127
Total comprehensive income	117,983	-	-	117,983
Issue of share capital	-	68	916	984
Share based payments	1,413	-	-	1,413
Dividends paid to shareholders	(129,665)	-	-	(129,665)
Balance at 31 December 2018	177,537	67,398	216,907	461,842
Balance at 1 January 2019	177,537	67,398	216,907	461,842
Total comprehensive income	118,332	-	-	118,332
Issue of share capital	-	6,771	142,950	149,721
Share based payments	2,891	-	-	2,891
Dividends paid to shareholders	(78,645)	-	-	(78,645)
Balance at 31 December 2019	220,115	74,169	359,857	654,141

Statements of cash flows

For the year ended 31 December	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash flows from operating activities					
Profit for the year		**138,379**	136,570	**118,332**	117,982
Depreciation and amortisation	5.4, 5.5, 5.6	**6,253**	905	**-**	-
Financial income	4.3	**(813)**	(481)	**(10,287)**	(9,855)
Financial expense	4.3	**6,939**	6,585	**-**	-
Loss/(profit) on sale of property, plant and equipment		**3**	(450)	**-**	-
Equity-settled share-based payment expense		**2,891**	1,413	**-**	-
Income tax expense	5.1	**36,374**	31,499	**1,955**	1,872
Share of results of joint ventures	5.7	**(1,788)**	(5)	**-**	-
Profit released on sale of assets from joint ventures		**(972)**	(1,197)	**-**	-
(Increase)/decrease in trade and other receivables		**(58,234)**	12,402	**(191,363)**	8,827
Decrease/(increase) in inventories		**115,170**	(1,891)	**-**	-
Increase/(decrease) in trade and other payables		**16,716**	(15,692)	**-**	-
Decrease in provisions and retirement benefit assets		**(8,629)**	(7,042)	**-**	-
Cash generated from operations		**252,289**	162,616	**(81,363)**	118,826
Interest paid		**(2,093)**	(2,773)	**-**	-
Income taxes paid		**(33,804)**	(29,165)	**-**	-
Net cash inflow from operating activities		**216,392**	130,678	**(81,363)**	118,826
Cash flows from investing activities					
Interest received		**131**	278	**10,287**	9,855
Acquisition of intangible fixed assets	5.6	**(3,706)**	(1,213)	**-**	-
Acquisition of property, plant and equipment	5.4	**(565)**	(1,876)	**-**	-
Proceeds from sale of property, plant and equipment		**-**	1,977	**-**	-
Movement of investment in joint ventures	5.7	**(58,511)**	(20,300)	**-**	-
Dividends received from joint ventures	5.7	**5,135**	1,067	**-**	-
Reduction in restricted cash		**(368)**	33	**-**	-
Net cash (outflow)/generated from investing activities		**(57,884)**	(20,034)	**10,287**	9,855
Cash flows from financing activities					
Dividends paid	2.2	**(78,645)**	(129,665)	**(78,645)**	(129,665)
Principle elements of lease payments		**5,562**	-	**-**	-
Net proceeds from the issue of share capital	4.4	**149,721**	984	**149,721**	984
(Repayment)/drawdown of bank and other loans	4.2	**(36,401)**	11,192	**-**	-
Net cash used in financing activities		**40,237**	(117,489)	**71,076**	(128,681)
Net increase/(decrease) in cash and cash equivalents		**198,745**	(6,845)	**-**	-
Cash and cash equivalents at 1 January	4.1	**163,217**	170,062	**344**	344
Cash and cash equivalents at 31 December	4.1	**361,962**	163,217	**344**	344

Notes to the financial statements

The notes have been grouped into sections under five key categories:

1. Basis of preparation
2. Result for the year
3. Land bank and other operating assets and liabilities
4. Financing
5. Other disclosures

The key accounting policies have been incorporated throughout the notes to the financial statements adjacent to the disclosure to which they relate. All accounting policies are included within an outlined box.

1.0 Basis of preparation

1.1 General information

Vistry Group PLC (the "Company"), formerly named 'Bovis Homes Group PLC' is a company domiciled in the United Kingdom, England. The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in Joint ventures. The financial statements were authorised for issue by the directors on 27 February 2020.

1.2 Basis of accounting

The consolidated financial statements of the Company and the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Company income statement and statement of comprehensive income.

The Group has applied the following standards for the first time for its annual reporting year commencing 1 January 2019:

- Amendments to IAS28 'Investments in Associates and joint ventures'
- IFRIC23 Uncertainty over income tax treatments
- IFRS16 'Leases'

The impact of these changes on the Group's financial statements is described in Note 1.7.

All other accounting policies have been applied consistently to the Company and the Group.

The financial statements are prepared on the historical cost basis.

1.3 Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the 12 months from date of approval of these financial statements. The Directors reviewed detailed financial and covenant compliance forecasts covering the period to December 2020, including the Linden Homes and Vistry Partnerships businesses, and summary financial forecasts for the periods ending 31 December 2020 and 31 December 2021.

Having started the year with net cash of £126.8 million, the Group generated a strong operating cash flow during 2019 and raised £149.7m of cash as a result of share issues, increasing the net cash position to £362.0 million after significant investment into joint ventures.

As at 31 December 2019, the Group held cash and cash equivalents of £362.0 million and had borrowings of nil.

In January 2020, the Group entered into borrowing facility agreements totalling £600.0 million, including a £150.0m term loan and £450.0 million revolving credit facility to meet the liquidity needs of the enlarged business following the Acquisition.

For these reasons, the Directors consider it appropriate to prepare the financial statements of the Group and the Company on a going concern basis.

1.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are any entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the comprehensive income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are in turn classified as:

- Joint ventures whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and
- Joint operations whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

The consolidated financial statements include the Group's share of the comprehensive income and expense of its joint ventures on an equity accounted basis and its share of income and expenses of its joint operation within the corresponding lines of the income statement, from the date that joint control commenced.

1.5 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with adopted IFRSs requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

No individual judgements have been made that have a significant impact on the financial statements, other than those involving estimates, which are outlined below.

Key sources of estimation uncertainty for the Group

Land held for development and housing work in progress

The Group holds inventories which are stated at the lower of cost and net realisable value. To assess the net realisable value of land held for development and housing work in progress, the Group completes a financial appraisal of the likely revenue which will be generated when these inventories are combined as residential properties for sale and sold. Where the financial appraisal demonstrates that the revenue will exceed the costs of the inventories and other associated costs of constructing the residential properties, the inventories are stated at cost. Where the assessed revenue is lower, the extent to which there is a shortfall is written off through the income statement leaving the inventories stated at a realisable value.

To the extent that the revenues which can be generated change, or the final cost to complete for the site varies from estimates, the net realisable value of the inventories may be different. A review taking into account estimated achievable net revenues, actual inventory and costs to complete as at 31 December 2019 has been carried out, and appropriate adjustments have been made to the carrying value of the provision. These estimates were made by local management having regard to actual sales prices, together with competitor and marketplace evidence, and were further reviewed by Group management. Should there be a future significant decline in UK house pricing, then further write- downs of land and work in progress may be necessary. Further detail on the carrying value of inventories is laid out in note 3.1.

Margin recognition

The gross margin from revenue generated on each of the Group's individual sites within the year is recognised based on the latest forecast for the gross margin expected to be generated over the remaining life of that site. The remaining life gross margin is calculated using forecasts for selling prices and all land, build, infrastructure and overhead costs associated with that site. There is inherent uncertainty and sensitivity to external forces (predominantly house prices and labour costs) in these forecasts, which are reviewed regularly throughout the year by management and are addressed on pages 32 to 37.

Defined benefit pension scheme

The Group has a defined benefit pension scheme, closed to future accrual in 2018, which is subject to estimation uncertainty. Note 5.9 outlines the way in which this Scheme is recognised in the Group's Financial Statements, the associated risks and sensitivity analysis showing the impact of a change in key variables on the defined benefit obligation.

The Company has no sources of estimation uncertainty.

1.6 Segment reporting

The Chief Operating Decision Maker, which is the Board, notes that the Group's main operation is that of a housebuilder and it operates entirely within the United Kingdom. For the year ended 31 December 2019, there are no separate segments, either business or geographic, to disclose, having taken into account the aggregation criteria provisions of IFRS8 Operating segments.

Since the Acquisition, the Board have identified two separate segments having taken into consideration IFRS8 criteria – Housebuilding and Partnerships. At 30 June 2020, segmental reporting will be presented for these business segments to reflect the Group's new management and internal reporting structure.

1.7 Impact of standards and interpretations effective for the first time

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019:

- Amendment to IAS28 'Investments in Associates and joint ventures', which has not had a significant impact on reported results or position.
- IFRIC23 Uncertainty over income tax treatments, which has not had a significant impact on reported results or position.
- IFRS16 'Leases' replaces IAS17 'Leases', requiring all assets held by the Group under lease agreements of greater than 12 months in duration to be recognised as assets within the Balance Sheet, unless they are considered to be of low value (less than £3,000 in total payments). Similarly, the present value of future payments to be made under those lease agreements must be recognised as a liability. The Group has reviewed its leasing arrangements and the impact on reported results are disclosed in note 5.5.

1.8 Impact of standards and interpretations in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, which are not expected to have a material impact on reported results and have not been early adopted in preparing these financial statements:

- Amendment to IAS 1 'Presentation of financial statements', effective 1 January 2020.
- Amendment to IAS 8 'Accounting policies, changes in accounting estimates and errors', effective 1 January 2020.
- Amendment to IFRS3, 'Definition of a business', effective 1 January 2020.

2.0 Result for the year

Revenue

Revenue is recognised in the income statement when control of each home has passed to the purchaser, which is when legal title is transferred. Revenue in respect of the sale of residential properties is recognised at the fair value of the consideration received or receivable, net of value added tax and discounts, on legal completion. In certain instances, property may be accepted in part consideration for a sale of a residential property.

The fair value is established by independent surveyors, reduced for costs to sell. Net sale proceeds generated from the subsequent sale of part exchange properties are recorded as an adjustment to cost of sales. The original sale is recorded in the normal way, with the fair value of the exchanged property replacing cash receipts. Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction to revenue.

The Group applies its policy on contract accounting when recognising revenue and profit on contracts. Revenue and costs are recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally measured by surveys of work performed to date. When it is probable that the total costs on a construction contract will exceed total contract revenue, the expected loss is recognised as an expense in the Income Statement immediately. The application of this policy requires judgements to be made in respect of the total expected costs to complete for each site. The Group has in place established internal control processes to ensure that the evaluation of costs and revenues is based upon appropriate estimates.

Revenue is recognised on land sales and commercial property sales from the point of unconditional exchange of contracts as long as there are no significant obligations remaining. Where the Group still has significant obligations to perform under the terms of the contract, revenue is recognised when the obligations are performed.

When the Group makes sales to joint ventures in which it owns an interest, it will only recognise revenue and profit in the period of the initial transaction to the extent of third parties' interests in the joint venture. The unrecognised element of revenue and profit will be deferred and released to the income statement when the joint venture has sold the assets to which the original transaction with the Group related.

Revenue by type	2019 £000	2018 £000
Private housing	897,017	866,156
Affordable housing	170,379	160,693
Partnership land transactions	42,432	-
Land sales	6,811	14,163
Release of deferred revenue from joint ventures	7,766	10,143
Other	6,363	10,241
Total	**1,130,768**	**1,061,396**
Timing of revenue recognition		
At a point in time	930,986	895,671
Over time	199,782	165,725
Total	**1,130,768**	**1,061,396**

The Group's total revenue recognised in relation to contract liabilities is shown in the table above as affordable housing revenue.

Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities relating to its existing contracts with customers:

	2019 £000	2018 £000
Contract assets included in inventory	23,533	47,546
Amounts recoverable on contracts	42,829	24,160
Payments on account	(7,731)	(11,296)

Contract assets included in inventory relate to work in progress which has not yet been recognised in the Income Statement, in line with the Group's policy for recognition for long term contracts. Amounts recoverable on contracts represent amounts where the revenue recognised on a long term contract exceeds the value of stage payments that have been made on that contract and payments on account represents positions where stage payments exceed revenue recognised on contracts. Based on historical trends, management expects in excess of 90% of the payment on account total to be recognised as revenue in the next reporting period.

For contracts in progress at the balance sheet date, contract costs incurred plus recognised profit minus recognised losses to date amounted to £428,011,000 (2018: £490,022,000).

2.1 Operating profit

Operating profit before financing costs and exceptionals is stated after charging/(crediting):

	2019 £000	2018 £000
Depreciation of tangible fixed assets (see note 5.4)	898	771
Amortisation of intangible fixed assets (see note 5.6)	449	134
Depreciation of right-of-use assets (see note 5.5)	4,906	-
Hire of plant and machinery	7,597	8,597
Personnel expenses (see note 5.3)	93,014	80,986
Rental income (included in revenue)	(101)	(736)
Government grants recognised within cost of sales (see note 4.2)	(118)	(21)
Loss/(profit) on disposal of property, plant and equipment	3	(450)

Other operating income includes:

	2019 £000	2018 £000
Joint arrangement management fees income	2,064	-
Profit on disposal of investment	8,611	-

Exceptional expenses

Exceptional items are those which, in the opinion of the Board, are material by size and non-recurring in nature and therefore require separate disclosure within the Income Statement in order to assist the users of the financial statements in understanding the underlying business performance of the Group.

	2019 £000	2018 £000
Administrative expenses resulting from the Acquisition	12,846	-
Interest costs resulting from the Acquisition	630	-
Exceptional expenses	**13,476**	-

During the year ended 31 December 2019, the Group entered into a sale and purchase agreement for the Acquisition. The administrative fees incurred in relation to this transaction include legal, financing and accounting advisory services, transaction insurance costs and other expenses. The exceptional interest costs incurred relate to the accelerated amortisation of capitalised facility arrangement fees on the 2015 revolving credit facility; this results from the early termination of this facility in January 2020 triggered by the refinancing for the Acquisition.

Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	35	30
The audit of the Company's subsidiaries, pursuant to legislation	215	174
Interim review work	30	30
Non-audit fees (included within exceptional administrative expenses)	865	-
Fees charged to operating profit before financing costs	**1,145**	234

2.2 Dividends

The following dividends were paid by the Group:

	2019 £000	2018 £000
Prior year final dividend per share of 38.0p (2018:32.5p)	51,078	43,645
Special dividend per share of nil (2018: 45.0p)	-	60,483
Current year interim dividend per share of 20.5p (2018:19.0p)	27,567	25,537
	78,645	129,665

The 2019 Special dividend was paid by way of bonus shares in January 2020 with a total value of £66.0m.

A second interim dividend of 41.0 pence per share (2018 final dividend: 38.0 pence) has been declared and will be paid on 29 May 2020 in respect of 2019.

	2019 £000	2018 £000
41.0p per qualifying ordinary share (2018: 38.0p)	60,668	51,223

2.3 Earnings per share

Profit attributable to ordinary shareholders

	2019 £000	2018 £000
Profit for the year attributable to equity holders of the parent (pre exceptional)	151,986	-
Profit for the year attributable to equity holders of the parent (post exceptional)	138,379	136,570

Weighted average number of ordinary shares

	2019	2018
Weighted average number of ordinary shares at 31 December	136,291,860	134,355,573

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2019 was based on the profit for the year attributable to ordinary shareholders after exceptionals of £138,379,000 (2018: £136,570,000) and a weighted average number of diluted ordinary shares outstanding during the year ended 31 December 2019 of 136,432,481 (2018: 134,557,450).

The average number of shares is increased by reference to the average number of potential ordinary shares held under option during the year. This reflects the number of ordinary shares which would be purchased using the aggregate difference in value between the market value of shares and the share option exercise price and fair value of future employee services. The market value of shares has been calculated using the average ordinary share price during the year. Only share options which are expected to meet their cumulative performance criteria have been included in the dilution calculation.

Weighted average number of ordinary shares (diluted)

	2019	2018
Basic weighted average number of ordinary shares at 31 December	**136,291,860**	134,355,573
Effect of share options in issue which have a dilutive effect	**140,621**	201,877
Diluted weighted average number of ordinary shares at 31 December	**136,432,481**	134,557,450

Pre and post exceptional earnings per share

	2019	2018
Basic earnings per share pre exceptional	**111.5p**	101.6p
Diluted earnings per share pre exceptional	**111.4p**	101.5p
Basic earnings per share post exceptional	**101.5p**	101.6p
Diluted earnings per share post exceptional	**101.4p**	101.5p

3.0 Land bank and other operating assets and liabilities

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in section 4. Deferred tax assets and liabilities are shown in section 5.2.

3.1 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, not including any general administrative overheads, that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated net selling price less estimated total costs of completion of the finished units.

Land held for development, including land in the course of development until legal completion of the sale of the asset, is initially recorded at cost along with any expected overage. Where, through deferred purchase credit terms, cost differs from the nominal amount which will actually be paid in settling the deferred purchase terms liability, an adjustment is made to the cost of the land, the difference being charged as a finance cost.

Options purchased in respect of land are capitalised initially at cost and written down on a straight-line basis over the life of the option.

Should planning permission be granted and the option be exercised, the option is not amortised during that year and its carrying value is included within the cost of land purchased.

Investments in land without the benefit of planning consent, either through purchase of freehold land or non refundable deposits paid on land purchase contracts subject to residential planning consent, are capitalised initially at cost. Regular reviews are completed for impairment in the value of these investments, and provision made to reflect any irrecoverable element. The impairment reviews consider the existing use value of the land and assesses the likelihood of achieving residential planning consent and the value thereof.

Ground rents are held at an estimate of cost based on a multiple of ground rent income, with a corresponding credit created against cost of sales, in the year in which the ground rent first becomes payable by the leasehold purchaser.

Part exchange properties are held at the lower of cost and net realisable value, and include a carrying value provision to cover the costs of management and resale. Any profit or loss on the disposal of part exchange properties is recognised within cost of sales in the Group Income Statement.

Notes to the financial statements continued

Group	2019 £000	2018 £000
Raw materials and consumables	**4,690**	5,424
Work in progress	**470,760**	439,753
Part exchange properties	**15,917**	16,345
Land held for development (net of provision)	**716,300**	858,707
Inventories	**1,207,667**	1,320,229

Inventories to the value of £886.4 million were recognised as expenses in the year (2018: £832.7 million). Part exchange properties of £80.5 million (2018: £64.6 million) were disposed of during the year for proceeds of £79.9 million (2018: £64.8 million).

Movement on inventory provision	2019 £000	2018 £000
Balance at 1 January	**3,439**	5,543
- Utilised on specific sites sold in the year	**(2,041)**	(2,471)
- Unutilised on specific sites sold in the year and so released to the income statement	**-**	(66)
	(2,041)	(2,537)
New provisions recognised on sites still held	**282**	33
New provisions recognised on sites identified for disposal outside of core operating area	**550**	400
Balance at 31 December	**2,230**	3,439

£4.5 million (2018: £6.4 million) of inventories were valued at net realisable value rather than at historic cost.

3.2 Trade and other receivables

Trade receivables, amounts recoverable on contracts and other debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The Group applies the IFRS9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the age of the outstanding amounts. The contract assets relate to unbilled work in progress on contracts described in note 2.0 and have a historically low level of default, similar to the Group's low default levels on trade receivables.

Other debtors include amounts receivable from the Government in relation to the Help To Buy scheme.

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade receivables	**30,563**	12,666	**-**	-
Amounts recoverable on contracts	**42,829**	24,160	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**639,712**	452,889
Other debtors	**9,307**	8,781	**-**	-
Prepayments and accrued income	**22,675**	18,898	**-**	-
Current assets	**105,374**	64,505	**639,712**	452,889

Trade receivables and amounts recoverable on contracts are shown net of their associated expected credit loss allowances, which are £678,000 (2018: £1,440,000) and £1,318,000 (2018: £1,436,000) respectively. The Group's standard invoice payment terms are 30 days.

The carrying value of amounts due from subsidiary undertakings represents the Company's maximum credit risk. Interest is charged on these amounts at a rate of 2.3% per annum. The directors consider these amounts to be fully receivable at year end.

Receivables which are past due but not impaired are not material in either period.

The Directors consider that the carrying amount of trade receivables approximates to their fair value.

3.3 Trade and other payables

Trade payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value.

Trade payables on extended terms, particularly in respect of land, are recorded at their fair value at the date of acquisition of the asset to which they relate. The discount to nominal value which will be paid in settling the deferred purchase terms liability is recognised over the period of the credit term and charged to finance costs using the effective interest rate method.

Government grants

Government grants are recognised in the income statement so as to match with the related costs that they are intended to compensate. Government grants are included within deferred income.

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Non-current liabilities				
Trade payables	**122,819**	183,530	**–**	–
Other creditors	**121**	239	**781**	781
	122,940	183,769	**781**	781
Current liabilities				
Trade payables	**259,533**	221,192	**–**	–
Payments on account	**7,731**	11,296	**–**	–
Taxation and social security	**1,750**	1,771	**–**	–
Other creditors	**1,941**	2,020	**–**	–
Accruals	**72,924**	38,288	**–**	–
Deferred income	**8,480**	4,139	**–**	–
	352,359	278,706	**–**	–
Total trade and other payables	**475,299**	462,475	**781**	781

The Group's non-current liabilities largely relate to land purchased on extended payment terms. An ageing of land creditor repayments is provided in note 4.6.

4.0 Financing

This section outlines how the Group manages its capital and related financing activities.

4.1 Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Bank balances	**11,743**	547	344	344
Call deposits	**350,219**	162,670	–	–
Cash and cash equivalents in the balance sheet and cash flows	**361,962**	163,217	344	344

Restricted cash primarily relates to amounts that the Group paid into indemnity funds as part of the NewBuy housing scheme which have not yet been released.

4.2 Bank and other loans

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs, and subsequently at amortised cost. Finance charges are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Government grants

The benefit on loans with an interest rate below market is calculated as the difference between interest at a market rate and the below market interest. The benefit is treated as a Government grant.

Interest rate profile of bank and other loans

At 31 December	Rate	Facility maturity	Carrying value 2019 £000	Carrying value 2018 £000
Revolving credit facility (terminated 3 Jan 2020)	LIBOR +120-225 bps	2022	-	-
HCA Loan	EC Base Rate +220bps	2027	-	36,401

Post balance sheet

	Rate	Facility maturity	Carrying value 2019 £000	Carrying value 2018 £000
Revolving credit facility (commencing 3 Jan 2020, amended 24 Jan 2020)	LIBOR +165-255bps	2025	-	-
Revolving credit facility (commencing 3 Jan 2020, amended 24 Jan 2020)	LIBOR +165-255bps	2023	-	-
Term Loan (commencing 3 Jan 2020, amended 24 Jan 2020)	LIBOR +165-255bps	2023	-	-
USPP Loan	403 bps	2027	-	-

Details of facilities

At 31 December 2019, the Group had a £250.0 million committed revolving credit facility, which was due to expire in December 2022. This facility syndicate comprised six banks and the facility included a covenant package, featuring three covenants covering the Group's gearing ratio, consolidated tangible net worth and interest cover. These covenants were tested semi-annually.

During 2019, the loan facility agreement with the Homes and Communities Agency in relation to the development at Stanton Cross, Wellingborough was transferred into Stanton Cross Developments LLP, a joint venture investment of the Group.

Subsequent to the year end, the £250.0 million committed revolving credit facility was terminated and the Group entered into the following borrowing facilities:

- a £410.0 million committed revolving credit facility which expires in January 2025, with an option to extend to January 2026 or January 2027
- a £40.0 million committed revolving credit facility which expires in January 2023
- a £150.0 million term loan which expires in January 2023
- a £100.0 million US Private Placement borrowing, novated from Galliford Try plc as part of the Acquisition.

The combined £450.0 million revolving credit facility syndicate comprises eight banks. The revolving credit facilities, USPP Loan and Term Loan all include a covenant package, as per the previous agreement, which is also tested semi-annually. The overall financing cost of the new arrangements are marginally more expensive than the previous facility.

4.3 Net financing costs

Finance costs are included in the measurement of borrowings at their amortised cost to the extent that they are not settled in the period in which they arise.

The Group is required to capitalise borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset, as part of the costs of that asset. Inventories which are produced in large quantities on a repetitive basis over a short period of time are not qualifying assets. The Group does not generally produce qualifying assets.

Net financing costs recognised in the Income Statement

	Note	2019 £000	2018 £000
Interest income		**(707)**	(372)
Net pension finance credit	5.9	**(106)**	(109)
Finance income		**(813)**	(481)
Imputed interest on deferred terms land payables		**3,453**	3,614
Interest on lease liabilities	5.5	**558**	-
Interest expense		**2,929**	2,971
Finance expenses		**6,939**	6,585
Net financing costs		**6,126**	6,104

4.4 Capital and reserves

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are included in the Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity through an own shares held reserve.

Share capital

Ordinary shares

	2019 Number of shares	2019 Issued capital £000	2019 Share premium £000	2018 Number of shares	2018 Issued capital £000	2018 Share premium £000
In issue at 1 January	**134,796,633**	**67,398**	**216,907**	134,660,750	67,330	215,991
Issued for cash	**13,541,624**	**6,771**	**146,003**	135,883	68	916
Costs of issuing equity	**-**	**-**	**(3,053)**	-	-	-
In issue at 31 December – fully paid	**148,338,257**	**74,169**	**359,857**	134,796,633	67,398	216,907

The holders of ordinary shares (nominal value 50p) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The cost of issuing equity in the year relate to the Placing.

Reserve for own shares held

The cost of the Company's shares held in the ESOP trust by the Group is recorded as a reserve in equity. During the year ended 31 December 2019, the Group did not purchase any shares (2018: nil shares purchase at a total cost of £nil). There were no shares awarded under the Group's long-term incentive plan that vested during 2019 (2018: 2,313) and therefore the balance of the own shares held reserve has not reduced in 2019 (2018: £22,000). At 31 December 2019, the Group held 385,437 of its own shares (2018: 385,437), with a value on reserve of £3,620,000 (2018: £3,620,000). The Group has suspended all rights on shares held by the Group in the Company.

Notes to the financial statements continued

4.5 Financial risk management

Group

The Group seeks to manage its capital in such a manner that the Group safeguards its ability to continue as a going concern and to fund its future development. In continuing as a going concern, it seeks to provide returns for shareholders over the housing market cycle as well as enabling repayment of its liabilities as a trading business.

The Group's capital comprises its shareholders' equity, added together with its net borrowings, or less its net cash, stated before issue costs. A five year record of its capital employed is displayed on page 163.

Whilst the blended cost of capital is a factor in the Group's decision making in assessing the right blend of shareholders' equity and debt financing, the Group has typically preferred to operate within a framework that features relatively low gearing or cash in hand. This is because the Group recognises that housebuilding can be cyclical, and higher levels of gearing can create profound liquidity risks. The Group would seek to manage its capital base through control over expenditure, maintenance of adequate banking facilities, control over dividend payments and in the longer term through adjustments to its capital structure.

An important part of capital management for the Group is its financial instruments, which comprise cash, bank and other loans and overdrafts.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also utilises financial assets and liabilities such as trade payables or receivables that arise directly from operations.

The use of these carries risk: interest rate risk, credit risk and liquidity risk. Given that the Group trades exclusively in the UK, there is no material currency risk.

Company

The Company only trades with other Group entities and is only exposed to credit risk on those intercompany balances.

a. Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business and interest rate swaps are used where appropriate to hedge exposure to fluctuations in interest rates. The Group has no exposure to currency risk as all its financial assets and liabilities are denominated in sterling. Throughout the year, the Group's policy has been that no trading in financial instruments shall be undertaken.

Effective interest rates and repricing analysis

The interest rate profile of the Group's interest bearing financial instrument is set out in note 4.2.

Sensitivity analysis

In managing interest rates, the Group aims to reduce the impact of short-term fluctuations in the Group's earnings, given that Group borrowings are variable in terms of interest rate. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

For the year ended 31 December 2019, a general increase of one percentage point in interest rates applying for the full year would not have a material impact on the financial statements.

b. Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales of private houses. There are certain categories of revenue where this is not the case: for instance, housing association revenues or land sales. The largest single amount outstanding at the year end was £20.2 million (2018: £5.2 million), which is payable by the end of October 2022. The Group retains these outstanding balances as trade and other receivables. The carrying value of trade and other receivables equates to the Group's exposure to credit risk. This is set out in note 3.2.

The Group's trade and other receivables are secured against the following:

	2019 £000	2018 £000
Consented land	-	400
Second charge against property	**1,090**	611
Unsecured	**105,374**	64,105
	106,464	65,116

In managing risk the Group assesses the credit risk of its counterparties before entering into a transaction. This assessment is based upon management knowledge and experience. In the event that land is disposed of the Group seeks to mitigate any credit risk by retaining a charge over the asset disposed of, so that in the event of default, the Group is able to seek to recover its outstanding asset.

Company

The Company's exposure to credit risk is limited as a result of all outstanding balances relating to companies within the Group.

c. Liquidity risk

The Group's banking arrangements outlined in note 4.2 are considered to be adequate in terms of flexibility and liquidity for the enlarged Group's medium term cash flow needs, thus mitigating its liquidity risk. The Group's approach to assessment of liquidity risk is outlined in the going concern sub-section in the risk management section on page 32.

d. Housing market price risk

The performance of the UK housing market affects the valuation of certain of the Group's non-financial assets and liabilities and the critical judgements applied by management in these financial statements, including the valuation of land and work in progress.

The Group's financial assets and liabilities are summarised below:

31 December 2019	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
Non-derivative financial assets			
Restricted cash	-	1,748	**1,748**
Trade and other receivables	1,090	105,374	**106,464**
Cash and cash equivalents	-	361,962	**361,962**
Non-derivative financial liabilities			
Bank and other loans	-	-	**-**
Trade and other payables	-	(475,299)	**(475,299)**
	1,090	**(6,215)**	**(5,125)**

31 December 2018	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
Non-derivative financial assets			
Restricted cash	-	1,381	**1,381**
Trade and other receivables	611	64,505	**65,116**
Cash and cash equivalents	-	163,217	**163,217**
Non-derivative financial liabilities			
Bank and other loans	-	(36,401)	**(36,401)**
Trade and other payables	-	(462,475)	**(462,475)**
	611	**(269,773)**	**(269,162)**

Notes to the financial statements continued

4.6 Financial instruments

Fair values

There is no material difference between the carrying value of financial instruments shown in the balance sheet and their fair value.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Land purchased on extended payment terms

When land is purchased on extended payment terms, the Group initially records it at its fair value with a land creditor recorded for any outstanding monies based on this fair value assessment. Fair value is determined as the outstanding element of the price paid for the land discounted to present day. The difference between the nominal value and the initial fair value is amortised over the period of the extended credit term and charged to finance costs using the 'effective interest' rate method, increasing the value of the land creditor such that at the date of maturity the land creditor equals the payment required.

Land creditor (estimated ageing)	Balance at 31 Dec £000	Total contracted cash payment £000	Due within 1 year £000	Between 1-2 years £000	Between 2-3 years £000	Between 3-4 years £000	Between 4-5 years £000	Due beyond 5 years £000
2019	**258,758**	**262,489**	**137,758**	**78,308**	**39,943**	**6,348**	**14**	**118**
2018	293,297	298,186	112,744	105,745	62,725	16,912	15	45

Bank and other loans

Fair value is calculated based on discounted expected future principal and interest flows. See note 4.3 for further details.

Trade and other receivables / payables

Other than land creditors, the nominal value of trade receivables and payables is deemed to reflect the fair value. This is due to the fact that transactions which give rise to these trade receivables and payables arise in the normal course of trade with industry standard payment terms.

5.0 Other disclosures

This section includes all disclosures which are required by IFRS or the Companies Act which have not been included elsewhere in the financial statements.

5.1 Income tax expense

Income tax comprises the sum of the tax currently payable or receivable and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Recognised in the income statement

	Note	2019 £000	2018 £000
Current tax			
Current year		**35,424**	31,316
Adjustments for prior years		**1,260**	(919)
		36,684	30,397
Deferred tax			
Origination and reversal of temporary differences	5.2	**(331)**	1,258
Adjustments for prior year	5.2	**21**	(156)
Total income tax in income statement		**36,374**	31,499

Reconciliation of effective tax rate

	2019 %	2019 £000	2018 %	2018 £000
Profit before tax		174,753		168,069
Income tax using the domestic corporation tax rate	**19.0**	**33,203**	19.0	31,933
Non-deductible expenses and disposal of ineligible assets	**1.4**	**2,441**	-	-
Other non-taxable income/non-deductable expense	**(0.4)**	**(724)**	0.4	675
Other	**0.1**	**173**	-	20
Change in tax rate	**-**	**-**	-	(54)
Adjustments to the tax charge in respect to the prior year	**0.7**	**1,281**	(0.7)	(1,075)
Total tax expense	**20.8**	**36,374**	18.7	31,499

The Group's effective tax rate of 20.8% is higher than the current rate of 19% as a result of adjustments made in respect of the prior year which have arisen as a result of a true up from the draft tax computations to the final tax computations that were filed with HM Revenue & Customs for the year ended 31 December 2018 and the exceptional costs being non-deductible for tax purposes. The Group does not have any open corporation tax enquiries with the tax authorities.

Recognised directly in Group statement of changes in equity or in the Group statement of comprehensive income

	Note	2019 £000	2018 £000
Relating to actuarial movements on pension scheme (Group statement of comprehensive income)	5.2	**464**	1,083
Relating to share-based payments (Group statement of changes in equity)	5.2	**140**	(113)
Deferred tax recognised directly in Group statement of changes in equity or the Group statement of comprehensive income		**604**	970

5.2 Tax assets and liabilities

The tax currently payable or receivable is based on taxable profit or loss for the year and any adjustment to tax payable or receivable in respect of previous years. Taxable profit or loss differs from net profit or loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from non-tax deductible goodwill, from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit, and from differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

Current tax assets and liabilities

The current liability of £20,939,000 (2018: £18,060,000) represents the remaining balance of income taxes payable in respect of current and prior years.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Property, plant and equipment	–	–	(41)	(126)	(41)	(126)
Non-current trade payables	–	–	(17)	(21)	(17)	(21)
Available for sale financial assets	–	–	(446)	(536)	(446)	(536)
Employee benefits – pensions	–	–	(766)	(214)	(766)	(214)
Employee benefits – share-based payments	1,495	297	–	–	1,495	297
Provisions	149	149	–	–	149	149
Inventories	–	–	(194)	(447)	(194)	(447)
Profit on sale of assets to joint ventures	4	168	–	–	4	168
Tax assets/(liabilities)	**1,648**	614	**(1,464)**	(1,344)	**184**	(730)

Movement in temporary differences during the year

Group	Balance 1 Jan 2019 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2019 £000
Property, plant and equipment	(126)	85	–	**(41)**
Trade payables	(21)	4	–	**(17)**
Available for sale financial assets	(536)	90	–	**(446)**
Employee benefits – pensions	(214)	(1,016)	464	**(766)**
Employee benefits – share-based payments	297	1,058	140	**1,495**
Provisions	149	–	–	**149**
Inventories	(447)	253	–	**(194)**
Profit on sale of assets to joint ventures	168	(164)	–	**4**
Movement in temporary differences	**(730)**	**310**	**604**	**184**

Group	Balance 1 Jan 2018 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2018 £000
Property, plant and equipment	(113)	(13)	–	**(126)**
Trade payables	(24)	3	–	**(21)**
Available for sale financial assets	(625)	89	–	**(536)**
Employee benefits – pensions	(359)	(938)	1,083	**(214)**
Employee benefits – share-based payments	737	(299)	(141)	**297**
Provisions	330	(181)	–	**149**
Inventories	(888)	441	–	**(447)**
Profit on sale of assets to joint ventures	372	(204)	–	**168**
Movement in temporary differences	**(570)**	**(1,102)**	**942**	**(730)**

Factors affecting future tax charge

The UK corporation tax rate is 19% (effective from 1 April 2017) and reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax asset at 31 December 2019 has been calculated based on the current enacted rate of 17%.

Employee benefits

The Group recognises the deficit or surplus on its defined benefits pension scheme under the requirements of IAS19 (Revised): 'Employee benefits'.

This has generated a surplus of £4.5 million (2018: surplus of £1.4 million). As at 31 December 2019, a deferred tax liability of £766,000 (2018 tax liability: £214,000) was recognised.

5.3 Directors and employees

The weekly average number of employees of the Group, all of whom were engaged in the United Kingdom on the Group's principal activity, together with personnel expenses, are set out below.

Average staff numbers – Group

	2019	2018
Average staff numbers	**1,340**	1,251

The Company had no employees during 2019 (2018: nil).

A breakdown of staff numbers split by type of role is included on page 49.

Personnel expenses – Group

	2019 £000	2018 £000
Wages and salaries	**77,888**	68,874
Compulsory social security contributions	**9,056**	8,056
Contributions to defined contribution plans	**2,602**	1,787
Expenses related to defined benefit plans	**577**	856
Equity-settled share-based payments	**2,891**	1,413
Personnel expenses	**93,014**	80,986

The Company had no personnel expenses during 2019 (2018: nil).

Share-based payments

The Group has applied the requirements of IFRS2: "Share-based payments".

The Group issues equity-settled share-based payments to certain employees in the form of share options over shares in the Parent Company. Equity-settled share-based payments are measured at fair value at the date of grant calculated using an independent option valuation model, taking into account the terms and conditions upon which the options were granted. The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, with a corresponding credit to equity except when the share- based payment is cancelled where the charge will be accelerated.

Movements in the number of share options outstanding and their related weighted average exercise prices

Long Term Incentive Plan	2019 Average exercise price in £ per share option	2019 Share options £000	2018 Average exercise price in £ per share option	2018 Share options £000
At 1 January	-	1,144	-	1,377
Granted	-	317	-	184
Lapsed	-	(26)	-	(415)
Exercised	-	-	-	(2)
At 31 December	-	1,435	-	1,144

Executive and other share options	2019 Average exercise price in £ per share option	2019 Share options £000	2018 Average exercise price in £ per share option	2018 Share options £000
At 1 January	7.56	33	9.19	153
Granted	-	-	-	-
Lapsed	-	-	11.29	(71)
Exercised	5.02	(8)	7.26	(49)
At 31 December	8.37	25	7.54	33

Save As You Earn	2019 Average exercise price in £ per share option	2019 Share options £000	2018 Average exercise price in £ per share option	2018 Share options £000
At 1 January	7.15	464	6.56	496
Granted	9.30	143	9.06	138
Lapsed	7.58	(60)	6.71	(84)
Exercised	7.15	(61)	7.22	(86)
At 31 December	7.73	486	7.15	464

Out of the 1,946,000 outstanding options (2018: 1,641,000), 314,000 options (2018: 117,000) were exercisable. Options exercised in 2019 resulted in 69,000 shares (2018: 137,000) being issued at a weighted average share price of £6.90 each (2018: £7.13 each).

Expiry date and exercise price of share options outstanding at the end of the year

Long Term Incentive Plan

Grant vest	Expiry date	Exercise price in £ per share option	2019 Share options £000	2018 Share options £000
2011-14	15/03/2021	–	**14**	14
2012-15	28/02/2022	–	**16**	16
2013-16	26/02/2023	–	**23**	23
2013-16	20/08/2023	–	**8**	8
2014-17	25/02/2024	–	**19**	19
2016-19	15/08/2026	–	**209**	–
2017-18	02/05/2027	–	**154**	154
2017-20	08/09/2027	–	**368**	580
2018-21	05/03/2028	–	**321**	330
2019-22	04/03/2029	–	**303**	–
		–	**1,435**	1,144

Executive and other share options

Grant vest	Expiry date	Exercise price in £ per share option	2019 Share options £000	2018 Share options £000
2012-15	22/08/2019	5.02	**–**	8
2013-16	21/08/2020	7.73	**5**	5
2014-17	20/08/2021	8.53	**20**	20
		–	**25**	33

Save As You Earn

Grant vest	Expiry date	Exercise price in £ per share option	2019 Share options £000	2018 Share options £000
2014-19	01/12/2019	7.97	**–**	3
2016-18	01/12/2020	7.66	**–**	1
2015-20	24/09/2020	7.66	**11**	13
2016-19	24/09/2019	7.12	**–**	56
2016-21	24/09/2021	7.12	**15**	15
2017-20	24/09/2020	6.12	**181**	200
2017-22	24/09/2022	6.12	**34**	47
2018-21	23/09/2021	9.06	**93**	109
2018-23	23/09/2023	9.06	**20**	20
2019-22	01/12/2022	9.30	**114**	–
2019-24	01/12/2024	9.30	**18**	–
		–	**486**	464

The weighted average fair value of the options granted during the period determined using the Binomial model was £6.87 per option (2018: £7.14). The significant inputs into the model were a weighted average share price of £11.42 (2018: £11.32) at the grant date, the exercise price shown in the table on the previous page, volatility of 37.25% (2018: 37.25%), an expected option life of 5 years (2018: 5 years) and an annual risk-free rate of 0.81% (2018: 1.00%). The volatility is measured at the standard deviation of continuously compounded share returns, based on statistical analysis of daily share prices over the last 3 years.

Share based payments expense in the income statement

	2019 £000	2018 £000
Long Term Incentive Plan	**2,489**	948
Executive and other share options	**6**	116
Save As You Earn share options	**395**	349
Total expense recognised as personnel expenses	**2,890**	1,413

Information relating to directors' remuneration, compensation for loss of office, long term incentive plan, share options and pension entitlements appears in the directors' remuneration report on pages 88 to 106. The directors are considered to be the only key management personnel. A summary of key management remuneration is as follows:

	2019 £000	2019 £000
Wages and salaries	**2,083**	1,409
Compulsory social security contributions	**286**	194
Contributions to defined contribution plans	**19**	24
Key management remuneration	**2,388**	1,627

Details of the equity settled share based schemes are set out below.

Long Term Incentive Plan

A long term incentive plan for executive directors and senior executives was approved by shareholders at a General Meeting in December 2019. One grant of awards under this plan was made in 2019. Details of the vesting conditions of these awards are laid out in the directors' remuneration report which can be found on pages 88 to 106.

Project 200 Incentive plan

The Project 200 incentive plan was implemented for members of the executive management team during 2017, and is designed to support the Group's programme of balance sheet optimisation and reduction in capital reduction in order to facilitate the potential return of capital to shareholders through special dividends.

Save As You Earn share options

The Vistry Group PLC Save As You Earn Option Scheme was established in 2007 and renewed in 2017. Share options held in the Save As You Earn Option Scheme are not subject to performance conditions and may under normal circumstances be exercised during the six months after maturity of the agreement. Save As You Earn share options are generally exercisable at an exercise price which includes a 20% discount to the market price of the shares at the date of grant.

5.4 Property, plant and equipment

Plant, property and equipment is recorded at prime cost less accumulated depreciation. The sub-categories of PPE are depreciated as follows:

- Freehold buildings on a 2% straight line basis;
- Plant, machinery and vehicles on a 33.3% reducing balance basis; and
- Furniture and fittings on a 25% reducing basis, other than computer equipment which is depreciated on a straight line basis over 3 years.

Cost

Year ended 31 December 2019	Freehold buildings £000	Furniture, fittings and equipment £000	Plant, machinery and vehicles £000	Total £000
Opening balance	–	2,552	1,103	**3,655**
Additions	–	492	73	**565**
Disposals	–	(16)	–	**(16)**
Closing	**–**	**3,028**	**1,176**	**4,204**

Accumulated depreciation

Opening	–	1,149	325	**1,474**
Charge for the year	–	665	233	**898**
Disposals	–	(13)	–	**(13)**
Closing	**–**	**1,801**	**558**	**2,359**

Cost

Year ended 31 December 2018	Freehold buildings £000	Furniture, fittings and equipment £000	Plant, machinery and vehicles £000	Total £000
Opening balance	2,033	3,625	279	**5,937**
Additions	–	992	884	**1,876**
Disposals	(1,781)	(2,098)	(279)	**(4,158)**
Reclassifications	(252)	33	219	**–**
Closing	**–**	**2,552**	**1,103**	**3,655**

Accumulated depreciation

Opening	393	2,677	264	**3,334**
Charge for the year	–	486	285	**771**
Disposals	(320)	(2,047)	(264)	**(2,631)**
Reclassifications	(73)	33	40	**–**
Closing	**–**	**1,149**	**325**	**1,474**

Net book value at 31 December

2019	**–**	**1,227**	**618**	**1,845**
2018	**–**	**1,403**	**778**	**2,181**

The total of future minimum lease payments under short term and low value non-cancellable operating lease rentals are payable as follows:

	Property £000	Plant, machinery and vehicles £000	Total £000
Within one year	329	722	**1,051**
Between one and five years	28	1,435	**1,463**
Total	**357**	**2,157**	**2,514**

5.5 Leases

The Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. For adjustments recognised on adoption of IFRS16 on 1 January 2019, please refer to note 5.14.

The amounts recognised in the Group Balance Sheet were:

Right-of-use assets cost

Year ended 31 December 2019	Office properties £000	Show home properties £000	Site cabins £000	Office equipment £000	Motor vehicles £000	Total £000
Opening balance (on implementation of IFRS16)	13,574	1,796	5,632	205	1,794	**23,001**
Additions	13,574	3,965	5,632	500	2,533	**26,204**
Closing	**13,574**	**3,965**	**5,632**	**500**	**2,533**	**26,204**
Accumulated amortisation						
Opening balance	-	-	-	-	-	**-**
Charge for the year	1,597	1,051	1,408	62	739	**4,857**
Closing	**1,597**	**1,051**	**1,408**	**62**	**739**	**4,857**
Net book value at 31 December						
2019	**11,977**	**2,914**	**4,224**	**438**	**1,794**	**21,347**

Lease liabilities

	31 Dec 2019 £000	1 Jan 2019 £000
Current	**6,309**	5,108
Non-current	**16,686**	19,128
Total lease liabilities	**22,995**	24,236

The amounts recognised in the Group Income Statement were:

	31 Dec 2019 £000
Depreciation of right-of-use assets	4,906
Interest expense	558
Expense relating to short-term leases	2,358
Expense relating to leases of low-value assets	14

The total cash outflow for leases in 2019 was £8,827,000.

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

5.6 Intangible Fixed Assets

Intangible fixed assets are recorded at prime cost less accumulated amortisation. IT software is amortised on a straight line basis over a period of 3 – 5 years.

Cost

Year ended 31 December 2019	Assets under construction £000	IT Software £000	Total £000
Opening balance	-	1,213	**1,213**
Additions	344	3,362	**3,706**
Closing	**344**	**4,575**	**4,919**

Accumulated amortisation

Opening	-	134	**134**
Charge for the year	-	449	**449**
Closing	**-**	**583**	**583**

Net book value at 31 December

2019	**344**	**3,992**	**4,336**

Cost

Year ended 31 December 2018	Assets under construction £000	IT Software £000	Total £000
Opening balance	-	-	**-**
Additions	-	1,213	**1,213**
Closing	**-**	**1,213**	**1,213**

Accumulated amortisation

Opening	-	-	**-**
Charge for the year	-	134	**134**
Closing	**-**	**134**	**134**

Net book value at 31 December

2018	**-**	**1,079**	**1,079**

5.7 Investments

Fixed asset investments

Investments in subsidiaries are carried at cost less impairment. The Parent Company accounts for the share based payments granted to subsidiary employees as an increase in the cost of its investment in subsidiaries and the value of this investment is supported by net assets. Joint ventures are those arrangements in which the Group has rights to the net assets of the arrangements and treated on an equity accounted basis in the Group's balance sheet.

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Subsidiary undertakings				
Interest in subsidiary undertakings' shares at cost (100% ownership of ordinary shares)	**-**	-	**14,153**	11,262
Investments accounted for using the equity method				
Interest in joint ventures – equity	**61,155**	5,116	**-**	-
- loan	**23,952**	23,854	**-**	-
	85,107	28,970	**14,153**	11,262
Other investments	**22**	22	**-**	-
Total investments	**85,129**	28,992	**14,153**	11,262

In April 2019, Vistry Homes Limited (formerly Bovis Homes Limited) entered into a joint venture at Wellingborough, near Northampton, with Riverside Regeneration Limited. As part of the initial transaction, land owned by the Group was sold into the joint venture, Stanton Cross Developments LLP. The Group's 50% share of the acquisition price was financed by equity, resulting in an increase in the Group's equity interests in joint ventures. Vistry Homes Limited (formerly Bovis Homes Limited) also entered into a joint venture with Metropolitan Living Limited in 2019, purchasing land at Cambourne West financed by a combination of debt and equity.

The Group's joint venture entered into in December 2018 with Clarion Housing Group continues to develop the site at Sherford, near Plymouth, and completed its first house sales during the year ended 31 December 2019.

The carrying value of the Groups interests in join ventures accounted for using the equity method are set out in the table below:

	% age of ownership interest		Carrying value	
	2019 %	2018 %	2019 £000	2018 £000
Bovis Peer LLP	**50**	50	**69**	4,715
Stanton Cross Developments LLP	**50**	100	**56,069**	-
Bovis Latimer (Sherford) LLP	**50**	50	**31**	-
Bovis Homes Cambourne West LLP	**50**	-	**4,677**	-
IIH Oak Investors LLP	**26**	26	**309**	401
Total investments			**61,155**	5,116

Notes to the financial statements continued

The subsidiary and associated undertakings and joint ventures in which the Group has interests are incorporated in Great Britain. In each case their principal activity is related to housebuilding and estate development. As at 31 December 2019 the Group had thirty four subsidiaries, which are listed below (with the company names as at 27 February 2020).

	Registered office	Country of incorporation	Ownership interest in ordinary shares	
			2019 %	2018 %
Bovis Homes (Quest) Company Limited	1	United Kingdom	100	100
Vistry Homes Limited	1	United Kingdom	100	100
Bovis Country Homes Limited	1	United Kingdom	100	100
Bovis Homes (Broadbridge Heath) Limited	1	United Kingdom	100	100
Bovis Homes Limited	1	United Kingdom	100	100
Bovis Homes BVC Limited	1	United Kingdom	100	100
Bovis Homes Cornwall Limited	1	United Kingdom	100	100
Bovis Homes Developments Limited	1	United Kingdom	100	100
Vistry Limited	1	United Kingdom	100	100
Bovis Homes Eastern Limited	1	United Kingdom	100	100
Bovis Homes Freeholds Limited	1	United Kingdom	100	100
Bovis Homes Insulation Limited	1	United Kingdom	100	100
Bovis Homes Midlands And Northern Limited	1	United Kingdom	100	100
Bovis Homes North Whiteley LLP	1	United Kingdom	100	100
Bovis Homes Pension Scheme Trustee Limited	1	United Kingdom	100	100
Bovis Homes Projects Limited	1	United Kingdom	100	100
Bovis Homes South East Limited	1	United Kingdom	100	100
Bovis Homes Southern Limited	1	United Kingdom	100	100
Bovis Homes Wessex Limited	1	United Kingdom	100	100
Elite Homes Group Limited	1	United Kingdom	100	100
Elite Homes (North West) Limited	1	United Kingdom	100	100
Gigg Lane Limited	1	United Kingdom	100	100
Elite Homes (Yorkshire) Limited	1	United Kingdom	100	100
H.Newbury & Son (Builders) Limited	1	United Kingdom	100	100
Kilbride Tavistock Limited	1	United Kingdom	100	100
Nether Hall Park Open Space Management Company Limited	1	United Kingdom	100	100
Orchard Homes (Pitt Manor) Limited	1	United Kingdom	100	100
Oxford Land Limited	1	United Kingdom	67	67
Page Johnson Properties Limited	1	United Kingdom	100	100
R.T.Warren (Builders, St.Albans) Limited	1	United Kingdom	100	100
Unitpage Limited	1	United Kingdom	100	100
Vistry Latimer Collingtree LLP	1	United Kingdom	100	100
Bovis Homes Scotland Limited	2	United Kingdom	100	100
Knights Mount Management Company Limited	9	United Kingdom	100	100

At 31 December 2019 the Group had an interest in the following joint ventures which have been equity accounted to 31 December and are registered and operate in England and Wales. As noted on the previous page, Stanton Cross Developments LLP and Bovis Homes Cambourne West LLP are new joint ventures entered into during the year ended 31 December 2019. The principal activity of both joint ventures is housebuilding and estate development.

	Registered office	Country of incorporation	Ownership interest in ordinary shares	
			2019 %	2018 %
Bovis Peer LLP	1	United Kingdom	50	50
Stanton Cross Developments LLP	1	United Kingdom	50	100
Bovis Latimer (Sherford) LLP	1	United Kingdom	50	50
Bovis Homes Cambourne West LLP	1	United Kingdom	50	-
Bishops Park Limited	1	United Kingdom	50	50
Rissington Management Company Limited	3	United Kingdom	50	50
IIH Oak Investors LLP	4	United Kingdom	26	26

Significant holdings in undertakings other than subsidiary undertakings

Berkshire Land Limited	1	United Kingdom	33	33
Bishop's Stortford North Consortium Limited	5	United Kingdom	25	25
C.C.B.(Stevenage) Limited	6	United Kingdom	33	33
Haydon Development Company Limited	7	United Kingdom	39	39
Oxfordshire Land Limited	8	United Kingdom	25	25

Registered office

1. 11 Tower View, Kings Hill, West Malling, Kent, ME19 4UY
2. C/o Gilliespie MacAndrew LLP, 5 Atholl Crescent, Edinburgh, Scotland, EH3 8EJ, United Kingdom
3. Cowley Business Park, Cowley, Uxbridge, Middlesex, UB8 2AL
4. New Zealand House 15th Floor, 80 Haymarket, London, United Kingdom, SW1Y 4TE
5. St Bride's House, 10 Salisbury Square, London, EC4Y 8EH
6. Croudace House, Tupwood Lane, Caterham, Surrey, CR3 6XQ
7. 6 Drakes Meadow, Penny Lane, Swindon, Wiltshire, SN3 3LL
8. Persimmon House, Fulford, York, YO19 4FE
9. Gateway House, 10 Coopers Way, Southend On Sea, Essex, SS2 5TE

The movement on the investment in the material joint venture (Stanton Cross Developments LLP) during the year is as follows:

	2019 £000	2018 £000
At the start of the year	–	–
Equity invested during the year	57,986	–
Share of results	1,757	–
Unrealised profit on transactions with joint venture	(3,674)	–
At the end of the year	**56,069**	**–**

Summarised financial information relating to the material joint venture is as follows:

	2019 £000	2018 £000
Non-current assets	–	–
Current assets	140,357	–
– Cash and cash equivalents	4,107	–
Current liabilities	(2,195)	–
– Current financial liabilities	–	–
Non-current liabilities	(37,572)	–
– Non-current financial liabilities	(37,572)	–
Net assets of joint venture	**100,590**	**–**
Group share of net assets recognised in the Group balance sheet at 31 December	**50,295**	**–**

Revenue	15,845	–
Costs	**(12,331)**	**–**
Operating profit	3,514	–
Income tax expense	–	–
Profit for the year	3,514	–
Group share of profit for the year recognised in the Group income statement	**1,757**	**–**
Group share of Bovis Latimer (Sherford) LLP profit for the year recognised in the Group income statement	31	–
Share of profit of joint ventures	**1,788**	**–**

The material joint venture has no significant contingent liabilities or commitments to which the Group is exposed and the Group has no significant contingent liabilities in relation to its interest in the material joint venture.

Transactions with Bovis Peer LLP and IIH Oak Investors LLP

Bovis Homes Limited is contracted to provide property and letting management services to Bovis Peer LLP. Fees charged in the period, inclusive of VAT, were £25,000 (2018: £109,000). None of these fees are outstanding at 31 December 2019 (31 December 2018: nil).

Bovis Homes Limited is part of a Joint Venture, IIH Oak Investors LLP, to invest in private rental homes. IIH Oak Investor LLP repaid its loan to Bovis Homes Limited in November 2019 leaving a nil balance at 31 December 2019 (31 December 2018: £1,598,319) with £77,000 of interest charges have been made on the balance during the year (31 December 2018: £118,000).

Vistry Homes Limited (formerly Bovis Homes Limited) is part of a Joint Venture, Bovis Latimer (Sherford) LLP, to build houses in Sherford. As at 31 December 2019 loans of £20,174,000 (31 December 2018: £22,256,000) were in place with an interest rate of 5%. Interest charges made in respect of the loans were £559,000 (year ended 31 December 2018: £nil). Vistry Homes Limited (formerly Bovis Homes Limited) also provides ongoing services to the LLP for construction, management, accounting, company secretariat, sales and marketing services; charges made in respect of these services were £260,700 inclusive of VAT (year ended 31 December 2018: £nil).

In April 2019, Vistry Homes Limited (formerly Bovis Homes Limited) entered into a Joint Venture, Stanton Cross Developments LLP, with Riverside Regeneration Limited, with the LLP purchasing the Group's interest in its land and infrastructure at Wellingborough, near Northampton. Vistry Homes Limited (formerly Bovis Homes Limited) provides ongoing services to the LLP for construction, sales and company secretariat support; charges made in respect of these services were £2,194,000 inclusive of VAT (year ended 31 December 2018: £nil).

In December 2019, Vistry Homes Limited (formerly Bovis Homes Limited) entered into a Joint Venture, Bovis Homes Cambourne West LLP, with Metropolitan Living Limited, with the purpose of acquiring land for development at Cambourne West. Vistry Homes Limited (formerly Bovis Homes Limited) has a loan to Bovis Homes Cambourne West LLP in place at 31 December 2019 of £3,777,000 (31 December 2018: nil) at an interest rate of 4.5%.

5.8 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

	Restructuring costs (see note 2.1) £000	Site-related costs £000	Other £000	Total £000
As at 1 January 2019	930	2,289	1,624	**4,843**
Additional provisions made	–	659	–	**659**
Amounts used	(930)	(583)	–	**(1,513)**
As at 31 December 2019	–	2,365	1,624	**3,989**

Of the total provisions detailed above, £400,000 are expected to be utilised within the next year (2018: £930,102).

5.9 Employee benefits

The Group accounts for pensions and similar benefits under IAS 19 (Revised): "Employee benefits". In respect of defined benefit schemes, the net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, such benefits measured at discounted present value, less the fair value of the scheme assets. The discount rate used to discount the benefits accrued is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the Projected Unit Method. The operating and financing costs of such plans are recognised separately in the income statement; service costs are spread systematically over the lives of employees and financing costs and credits are recognised in the periods in which they arise. All actuarial gains and losses are recognised immediately in the Group statement of comprehensive income.

Payments to defined contribution schemes are charged as an expense as they fall due.

Pension cost note

The Company operates a UK registered trust based pension scheme, Bovis Homes Pension Scheme, that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that at least one-third of the Trustees are nominated by the members of the Scheme. There are two categories of pension scheme members:

- Deferred members: former active members of the Scheme, not yet in receipt of pension
- Pensioner members: in receipt of pension

The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings, (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method used is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2019 was 19 years.

Risks

Through the Scheme, the Company is exposed to a number of risks:

- Asset volatility: the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the Scheme invests significantly in equities and other growth assets. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- Changes in bond yields: a decrease in corporate bond yields would increase the Scheme's defined benefit obligation, however this would be partially offset by an increase in the value of the Scheme's LDI holdings.
- Inflation risk: a significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit. However, the caps in place limit the potential impact of higher inflation and the Scheme's LDI holdings hedge inflation rate changes to some extent.
- Life expectancy: if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.
- Liquidity: the Scheme holds a significant direct property investment with low liquidity. However the majority of the Scheme's assets are liquid.

The Trustees and Company manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.
- LDI: the Scheme invests in LDI assets, whose long term investment returns are expected to partially hedge interest rates and inflation movements.

Retirement benefit obligations

The Group makes contributions to one defined benefit scheme that provides pension benefits for employees upon retirement.

	2019 £000	2018 £000
Present value of funded obligations	**127,765**	115,215
Fair value of plan scheme assets	**(132,271)**	(116,596)
Recognised asset for defined benefit obligations	**(4,506)**	(1,381)

Movements in the net asset for defined benefit obligations recognised in the balance sheet

	2019 £000	2018 £000
Net asset for defined benefit obligations at 1 January	**(1,381)**	(2,111)
Contributions received	**(5,712)**	(5,798)
Expense recognised in the income statement	**471**	747
Loss recognised in equity	**2,116**	5,781
Net asset for defined benefit obligations at 31 December	**(4,506)**	(1,381)

The cumulative loss recognised in equity to date is £20.9million (2018: £19.2 million).

Change in defined benefit obligation over the year

	2019 £000	2018 £000
Defined benefit obligation at beginning of year	**115,215**	124,244
Net interest cost	**3,032**	2,867
Current service cost	**-**	205
Past service cost	**-**	115
Actual member contributions	**-**	19
Actual benefit payments by the scheme	**(5,903)**	(9,883)
Loss/(gain) on change of assumptions:		
Actuarial loss: experience differing from that assumed	**875**	-
Actuarial loss: changes in demographic assumptions	**376**	3,101
Actuarial loss/(gain): changes in financial assumptions	**14,170**	(5,453)
Defined benefit obligation at end of year	**127,765**	115,215

Notes to the financial statements continued

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that the trustees are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of GMP. As a result, all schemes with GMP rights will have to act to allow for equalisation of benefits for the effect of unequal GMPs. The impact of this change on the Group's obligations has been estimated and is shown as the past service cost in the table on the previous page.

Change in scheme assets over the year

	2019 £000	2018 £000
Fair value of scheme assets at beginning of year	**116,596**	126,355
Interest income	**3,138**	2,976
Actual benefit payments by the scheme	**(5,903)**	(9,883)
Actual Group contributions	**5,712**	5,798
Actual member contributions	**-**	19
Gain/(loss) on assets	**13,305**	(8,018)
Administration costs	**(577)**	(651)
Fair value of scheme assets at end of year	**132,271**	116,596

The major categories of scheme assets are as follows:

	2019 £000	2018 £000
Return seeking		
Equities	**63,317**	58,626
Bonds	**19,500**	-
Other		
Property	**3,530**	11,282
Cash	**7,578**	1,624
Liability driven instruments	**38,346**	45,064
Total market value of assets	**132,271**	116,596

All pension scheme assets have a quoted market price in an active market, apart from property investments, which are directly held.

During 2016, scheme assets were invested in cash and liability driven instruments ("LDIs"), moving away from bonds and gilts, and in 2017 and 2018 further scheme assets were invested in LDIs in order to increase the level of liability hedging. The liabilities within a defined benefit pension scheme are particularly sensitive to changes in the discount rate applied to future liabilities (which is determined by the long term yield on investment grade corporate bonds or gilts) and the level of inflation (see sensitivity analysis table below). LDIs aim to reduce the exposure of a pension scheme to these risks by holding assets which behave in the same way as the scheme's liabilities when interest rates or inflation, or future expectations of them, change.

During 2019, the majority of the scheme's property portfolio was sold and investment was made into bonds to de-risk the scheme's assets.

Expense recognised in the income statement

	2019 £000	2018 £000
Current service cost	-	205
Administration expenses	**577**	651
Net interest credit	**(106)**	(109)
Expense recognised in the income statement	**471**	747

Assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

Group	2019 %	2018 %	2017 %
Discount rate at 31 December	1.9	2.7	2.4
Future salary increases	n/a	n/a	2.5
Inflation - RPI	3.0	3.2	3.2
- CPI	2.0	2.2	2.2
Future pension increases	n/a	n/a	2.5

Sensitivity analysis

Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+0.5%pa / -0.5%pa	-£10.2m / +£11.6m
RPI and CPI inflation	+0.5%pa / -0.5%pa	+£4.1m / -£5.7m
Assumed life expectancy	+1 year	+£4.5m

Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated. The Scheme invests in LDI assets which aim to hedge changes in the value of the Scheme's liabilities. Changes in the discount rate and inflation would therefore be partially offset by a change in the value of the Scheme's assets.

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Present value of defined benefit obligations	**127,765**	115,215	124,244	125,594	102,160
Fair value of scheme assets	**132,271**	116,596	126,355	119,004	109,277
Surplus/(deficit) in the scheme	**4,506**	1,381	2,111	(6,590)	7,117

The most recent formal actuarial valuation was carried out as at 30 June 2016. The results have been updated to 31 December 2019 for accounting purposes by a qualified independent actuary. As part of this valuation exercise, the mortality assumptions for the scheme are now based on the SAPS 2 "all" tables and Core CMI_2018 projections with a long-term rate of improvement of 1.5% pa. These tables imply the following remaining life expectancy at age 63.

Remaining years of life at 63	Current age at 43	Current age at 63
Men	**26.6**	24.9
Women	**28.7**	26.9

The Trustees are required to carry out an actuarial valuation every 3 years. The latest actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 30 June 2016. This valuation revealed a funding shortfall of £36.1 million however allowing for changes in market conditions and in particular the strong returns on the Scheme's assets, the Scheme Actuary estimated that the Scheme's shortfall had decreased to around £25m as at 31 December 2017. In addition, the closure of the Scheme to future accrual was agreed with effect from 28 February 2018.

The 2019 actuarial valuation is being finalised at the date of this report.

To eliminate the shortfall at 31 December 2017, the Trustee and the Company agreed that three contributions of £5.5m will be paid into the Scheme by the Company. The first of these was made on 28 February 2018, with further payments following on 31 January 2019 and 31 January 2020.

Alongside the latest valuation and the recovery plan the Company has also agreed the principles of a longer-term plan to de-risk the pension scheme assets and liabilities position.

5.10 Related party transactions

Transactions between fellow subsidiaries, which are related parties, have been eliminated on consolidation, as have transactions between the Company and its subsidiaries during this year.

Transactions between the Group, Company and key management personnel in the year ended 31 December 2019 were limited to those relating to remuneration, which are disclosed in the directors remuneration report (which can be found on pages 88 to 106 and in note 5.3).

Mr Greg Fitzgerald, appointed Group Chief Executive, is non-executive Chairman of Ardent Hire Solutions ("Ardent"). The Group hires forklift trucks from Ardent.

Mr Graham Prothero, appointed Chief Operating Officer, is non-executive Director and Chair of the Audit Committee of Marshalls PLC. The Group incurred costs with Marshalls PLC in relation to landscaping services.

Mr Ian Baker, is the Managing Director of Baker Estates Ltd where Mr Greg Fitzgerald is a majority shareholder. The Group received advisory services from Ian Baker's consultancy company IB (SW) in the period.

Ms Katherine Innes Ker, is a non-executive director of Forterra PLC and Vistry Group PLC. The Group incurred costs with Forterra PLC in relation to the supply of bricks.

The total net value of transactions with related parties were as follows:

	2019 £000	2018 £000
Expenses paid to Ardent	2,736	2,059
Expenses paid to IB (SW)	20	–
Expenses paid to Marshalls PLC	19	–
Expenses paid to Forterra PLC	545	108

The balance of expenses payable to Ardent at 31 December 2019 was £274,399 (2018: £155,000) and no income was receivable (2018: £nil), the balance payable to IB (SW) at 31 December 2019 was £67,200 and no income was receivable (2018: £nil), the balance payable to Marshalls at 31 December 2019 was £nil and no income was receivable (2018: £nil), and the balance payable to Forterra at 31 December 2019 was £98,141 and no income was receivable (2018: £nil). There have been no other related party transactions in the financial year which have materially affected the financial performance or position of the Group, and which have not been disclosed.

Transactions between the Group, Company and joint ventures are in note 5.7.

5.11 Reconciliation of Return on Capital Employed performance measure

	2019 £000	2018 £000
Operating profit before exceptional items	192,567	174,168
Opening total equity	1,061,068	1,056,576
Deduct: investment in joint ventures	28,992	8,717
Deduct: net cash	126,816	144,853
Opening capital employed	905,260	903,006
Closing net equity including joint ventures	1,271,966	1,061,067
Deduct: investment in joint ventures	85,129	28,992
Deduct: net cash	361,962	126,816
Closing capital employed	824,875	905,259
Average capital employed (note 1)	865,068	904,133
ROCE excluding joint ventures	22.3%	19.3%

Note 1 Average of opening and closing capital employed for the year.

5.12 Reconciliation of adjusted gross profit

The Group uses an alternative performance measure which is not defined within IFRS. The Directors use this alternative performance measure, along with IFRS measures, to assess the operational performance of the Group. The definition and reconciliation of the financial alternative performance measure used to IFRS measures, is shown below:

Adjusted gross profit is defined as gross profit plus other operating income:	2019 £000
Gross Profit per Consolidated Income Statement	242,756
Other operating income	10,675
Adjusted gross profit	**253,431**

5.13 Business combinations

On 3 January 2020, the Group acquired the Linden and Partnerships and Regeneration businesses from Galliford Try plc for consideration of c. £1,400m. This acquisition will position the Group as a top five national housebuilder by volume, expand the Group's presence across the UK and into Yorkshire and establish the Group as one of the leaders in the highly attractive, high-growth partnerships business.

Linden Homes is a top UK housebuilder, and Vistry Partnerships is a market leading partnerships business. The combination of these businesses with the existing Vistry business will create the capacity to deliver more than 14,000 new units per year over the medium term, deliver an enhanced customer proposition, enhance the Group's geographical footprint, realise synergies and strengthen the senior management team.

The acquisition was of the entire share capital and control of the holding companies Goldfinch (Jersey) Limited and Galliford Try Partneships Ltd. and all of their trading subsidiaries.

The c.£1,400.0m consideration for the Linden and Partnerships and Regeneration businesses includes cash of c.£400m, the novation of a £100m term loan, and 63,739,385 consideration shares with a fair value of £13.42 per share at the date of acquisition, totalling £855.4m in share consideration. The amount of cash consideration is deferred until April 2020, if any, is not finalised at the date of this report.

At the date of this report it is impracticable to disclose the provisional fair values of the total consideration paid and the acquired assets, liabilities, contingent liabilities and goodwill.

The goodwill that will be recognised is expected to capture synergies that will be achieved as an enlarged business, as well as intangible assets which do not qualify for separate recognition such as workforce. It is impracticable to conclude at the date of this report the total amount of goodwill which is expected to be deductible for tax purposes.

As this acquisition took place on 3 January 2020, the statement of comprehensive income does not include any revenue, profit or loss relating to the acquired Linden Homes and Vistry Partnerships businesses for the year ended 31 December 2019.

5.14 Change in accounting policy

This note explains the impact of the adoption of IFRS16 'Leases' on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS16 prospectively from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

a. Adjustments recognised on adoption of IFRS16

On adoption of IFRS16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%

	2019 £000
Operating lease commitments disclosed as at 31 December 2018	**27,233**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**(1,714)**
(Less): short-term leases recognised on a straight-line basis as expense	**(1,281)**
(Less): low-value leases recognised on a straight-line basis as expense	**(2)**
Lease liability recognised as at 1 January 2019	**24,236**

Of which are:	
Current lease liabilities	**5,108**
Non-current lease liabilities	**19,128**
Total lease liabilities as at 1 January 2019	**24,236**

The associated right-of-use assets for the Group's leases were measured on a prospective basis, applying the new rules from 1 January 2019. Where relevant, right-of-use assets have been adjusted for onerous lease contracts at the date of initial application.

The recognised right-of-use assets at cost relate to the following types of assets:

	31 Dec 2019 £000	1 Jan 2019 £000
Office properties	**13,574**	13,574
Show home properties	**3,965**	1,796
Site cabins	**5,632**	5,632
Office equipment	**500**	205
Motor vehicles	**2,533**	1,794
Total right-of-use assets	**26,204**	23,001

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by £23.0m
- Lease liabilities – increase by £24.2m
- Provisions – decrease by £0.6m
- Creditors – decrease by £0.1m

The net impact on retained earnings on 1 January 2019 was a decrease of £0.1m.

Practical expedients applied

In applying IFRS16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

b. The Group's leasing activities and how these are accounted for

The Group leases various offices, site cabins, office equipment, cars and show homes. Rental contracts are typically made for fixed periods of 1 to 4 years but may be for longer or include extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a fixed annual rate increase

The lease payments are discounted using lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise site equipment and other items less than £3,000 in total lease costs.

5.15 Post balance sheet events

On 3 January 2020, the Group acquired the Linden and Partnerships and Regeneration businesses from Galliford Try plc, as detailed in note 5.13. The Board believes the acquisition will result in the Group becoming firmly positioned as one of the UK's top housebuilders (across both private and affordable housing) and more importantly establish the Group as one of the leaders in the highly attractive, high growth partnerships business.

At the date of the Acquisition the Group also entered into new borrowing facilities which are detailed further in note 4.2. Graham Prothero was also appointed as Director of Vistry Group PLC on 3 January 2020.