Annual report and accounts 2018

Bovis Homes Group PLC

BOVIS HOMES

bovishomesgroup.co.uk

Annual report and accounts 2018

Strategic report

A review of our business model, strategy and summary financial and operational performance

Business overview

Our business and strategy

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Financial review

Earl Sibley reports on the financial performance for the year

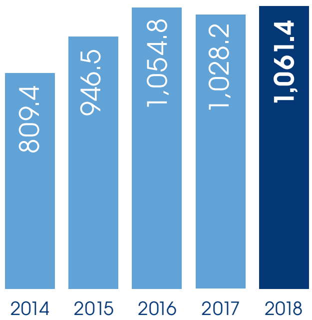
Financial highlights

Profit before tax
47% Up

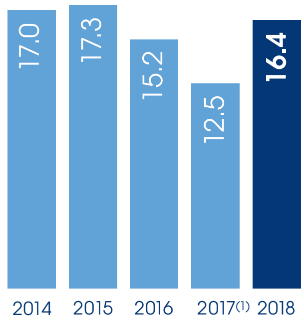
Dividends
115% Up

ROCE
41% Up

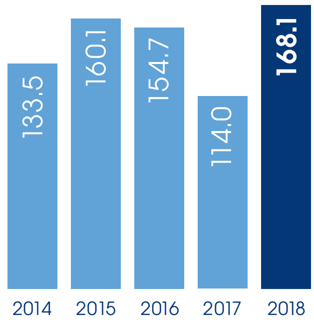
Revenue (£m)
1,061.4



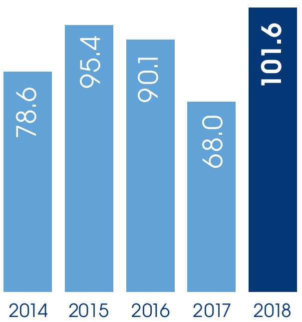
Operating profit margin (%)
16.4%



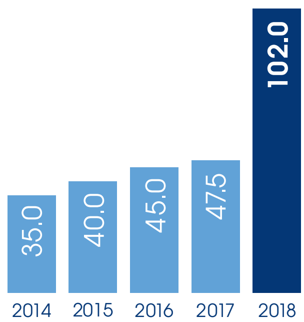
Profit before tax (£m)
168.1



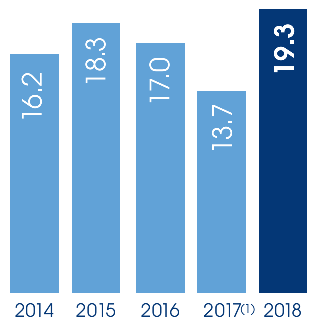
Earnings per share (p)
101.6



Dividend (p)
102.0



ROCE(2) (%)
19.3%



Notes: (1) Pre exceptional operating profit margin and ROCE are calculated prior to exceptional items totalling £6.8m related to advisory fees (£2.8m) and restructuring costs (£4.0m).

(2) Return on capital employed has been calculated as operating profit (2018: £174.2m) divided by the average of opening and closing shareholders' funds plus net debt or less net cash, excluding investment in joint ventures (2018: £904.1m). See section 5.10 on page 150 for the full reconciliation.

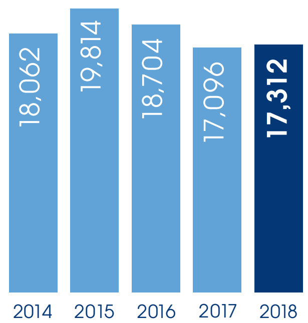
Operational highlights

Legal completions
3% ▲ Up

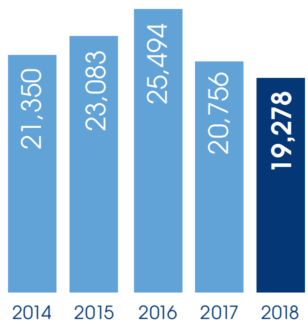
[3] HBF customer satisfaction
4★ ▲ Up

NHBC reportable items
18% ▼ Down

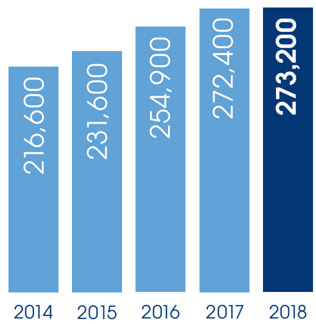
Consented land[4]
17,312 plots



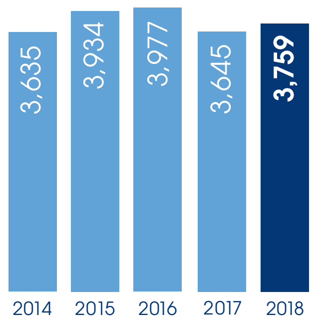
Strategic land
19,278 plots



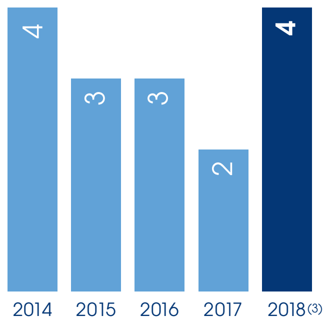
Average sales price (£)
273,200



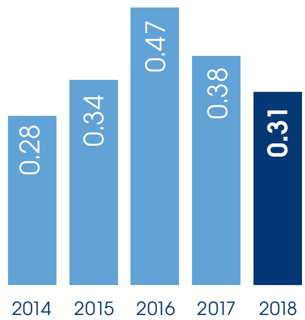
Legal completions
3,759



HBF customer satisfaction[5]
4★



NHBC reportable items[6]
0.31



Notes: (3) Based on responses from customers who legally completed between 1 October 2017 to 31 September 2018. Star rating awarded according to the proportion responding 'yes' to the question 'would you recommend your builder to a friend?: 4 star rating 80% - 89.9%. This will be announced in March 2019.

(4) Based on owned land including joint ventures and joint arrangements.

(5) Based on HBF star rating announced in March of the following year, relating to the period of 1 October to 30 September.

(6) This shows the average number of reportable items found for each NHBC inspection.

Chairman's statement | Ian Tyler

I am pleased to report that the Group made significant operational and financial progress in 2018.

Following a period of re-setting the business, 2018 has been a year of positive progress across all aspects of the Group. Our focus has remained on delivering high quality new homes in a controlled and disciplined approach with a high level of customer service.

Customers

Our customers remain at the centre of everything we do and delivering a significantly improved level of customer satisfaction was our number one priority for 2018. I am delighted with our 4 star HBF customer satisfaction rating for 2018, up from 2 star in the prior year. We are committed to retaining this rating going forwards reflecting our high quality build, and also have a range of customer facing initiatives including a new Customer Relationship Management system to be rolled out in 2019 to help us build a better Bovis Homes.

People

People remain a key priority and each year we are investing more in training and development than ever before. This is managed through our Bovis Homes Training Centre where a range of training opportunities are designed for all our employees and subcontractors.

Acknowledging the skills shortage in our industry, we are pleased to have signed the HBF's Home Building Skills Pledge, committing us to working with others in the industry to recruit and train more people to the highest industry-agreed standards. We also remain very committed to our Bovis Homes Apprenticeship Scheme and welcomed 37 new recruits in the year.

On behalf of the Board, I would like to thank all of our employees for their dedication, hard work and enthusiasm in driving the operational change through the business and delivering a step change in our financial performance. I would also like to extend my thanks to our subcontractors and suppliers who are such an important and valued component of our business.

The housing market

The fundamentals of the new build housing market remain positive with strong demand across all our regions. Interest rates remain low by historical standards and the mortgage market continues to be competitive. Increasing the supply of new homes in the UK remains a key priority for Government and their support for purchasers, in particular through the extended Help to Buy Scheme, is enabling them to access the housing market through affordable mortgage finance. Whilst the supply of labour in our market remains challenging, the planning environment continues to be positive, supporting a rational market for housing land. Brexit has caused a level of consumer and wider uncertainty and we are hopeful of a positive conclusion to it in the near term.

Ordinary dividends and capital return plan

The Board intends to continue its strategy of maintaining an efficient balance sheet and delivering sustainable dividends to shareholders. In setting the level of dividends the Board considers a range of factors including the extent to which the dividend is covered by underlying earnings and free cash flow, the prevailing strength of the balance sheet and general economic circumstances, with particular regard to the cyclicality of the industry.

The Board is pleased to recommend a final ordinary dividend of 38.0p (FY17: 32.5p) per share bringing the total ordinary dividend for FY18 to 57.0p (FY17: 47.5p) per share, representing a 20% increase.

In addition, the Board intends that surplus capital will be returned to shareholders totalling a minimum of £180m or c. 134 pence per share in the three years to 2020, with the first special dividend payment of £60m, equivalent to 45 pence per share paid in November 2018.

The Group expects to continue to be strongly cash generative and the Board is committed to reviewing the capacity for further returns to shareholders over time.

The Board

I would like to thank my colleagues on the Board for their collective support and strong individual contributions during a progressive and successful year in 2018. I was delighted to welcome Katherine Innes Ker as a non-executive director in October 2018, bringing strong experience as a non-executive director across a range of sectors including housebuilding experience, which strengthens the Board.

We value dialogue with all our shareholders, institutional and retail and have maintained ongoing engagement with our major shareholders during 2018. The Board has been very cognizant of the vote on the Directors' Remuneration Report at the 2018 AGM and was disappointed with the outcome, having made significant efforts to engage with shareholders, institutions and proxy advisors beforehand. Following the vote, we have sought to better understand the rational for the dissent including holding a corporate governance presentation in October 2018. This was well attended by major shareholders and allowed discussion to further explore and answer specific concerns.

The future

We have set out our clear medium term targets to be achieved by 2020 which will return Bovis Homes Group to being a leading UK housebuilder and deliver significantly improved returns to shareholders. Much progress has been made towards these targets during 2018 with a number already achieved.

I continue to spend a lot of my time with Bovis Homes in the regional offices and on site with the wider leadership team and am delighted to report the positive culture that has evolved over the past 18 months. I expect 2019 to be another year of great progress with a wide range of initiatives being implemented across the business to build an even better Bovis Homes for the future. We expect to deliver a controlled increase in completions volume, maintain our high level of build quality and customer service and drive forward our profitability and return on capital employed in the year ahead.

Ian Tyler
Chairman

Building on strong foundations

Delivering improvements across the business

Shinfield Meadows, Shinfield

What we do

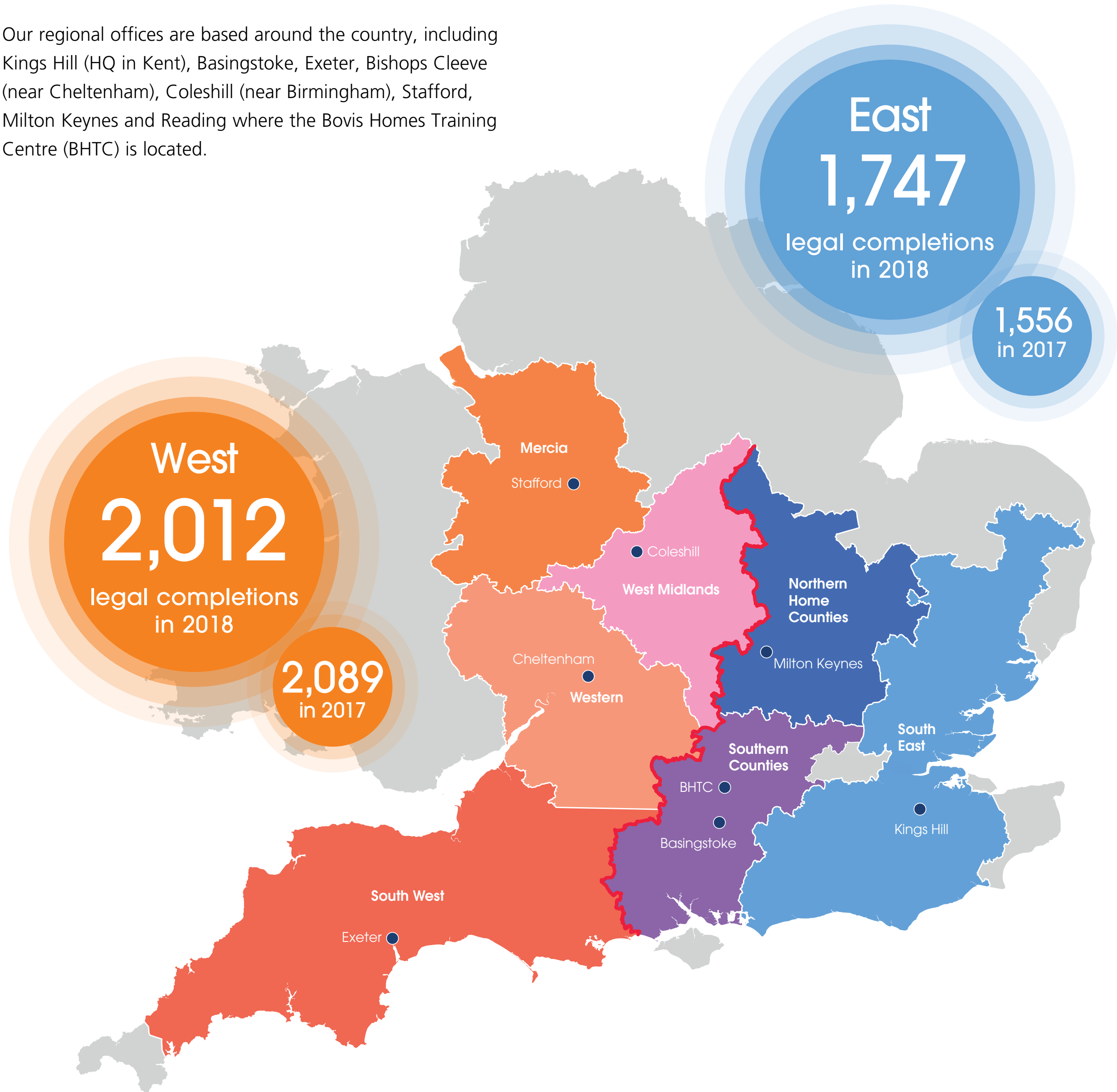
Bovis Homes is a UK builder of high quality, traditional homes. With seven regional operations and c. 1,200 employees at locations across England, we create new, sustainable communities, with a strategic focus on the south of the country excluding London.

Our product range encompasses two-bedroom starter properties through to large five-bedroom family homes, with the design and construction of our new Phoenix housing range blending tradition with innovation, creating quality dwellings and developments with contemporary living standards.

Our people have skills across a range of fields, including land buying, planning, design, surveying, engineering, purchasing, construction, sales and marketing, public relations and customer service.

Where we operate

Our regional offices are based around the country, including Kings Hill (HQ in Kent), Basingstoke, Exeter, Bishops Cleeve (near Cheltenham), Coleshill (near Birmingham), Stafford, Milton Keynes and Reading where the Bovis Homes Training Centre (BHTC) is located.



Reasons to invest

Strong business fundamentals with a high quality, valuable land bank with great future visibility.

Investment in people, systems and process positions the Group to deliver a significant improvement in operational and financial performance as it progresses towards its targets for 2020.

In addition, balance sheet optimisation and the business' strong underlying cash generation is delivering attractive cash returns to shareholders.

Building homes people want to live in

- Family homes in prime edge of town and village locations
- Traditional 2-storey houses with limited apartments
- Standard house types with leading new housing range launched in Spring 2018

Excellent strategic land supply

- Significant, deliverable strategic land pipeline
- Strong track record of strategic land conversion
- Launching land led Partnership Housing Division

High quality owned land bank

- Prime locations
- Developing on low risk greenfield sites
- Balanced portfolio across all regions

Operating in areas with strong market dynamics

- Southern location bias with no exposure to the London market
- Clearly defined operating area; proximity to regional office a key factor

Significant improvement in financial returns

- Controlled volume growth
- Recovery in profitability to min 23.5% gross margin target for 2020
- Driving ROCE to 25% target for 2020

Capital returns

- Strategy of maximising sustainable dividends to shareholders
- Special dividend programme to 2020 enhancing ordinary dividends
- Group will continue to be highly cash generative

The housing market trends our strategy responds to

Demand continues to outstrip supply

Despite ongoing market uncertainty relating to Brexit there continues to be a high demand for housing as the industry has encountered constraints to expand quickly enough over recent years. This is due to several issues, including within our planning system and supply chain that are touched on later, and has resulted in the UK facing a severe housing shortage. However, this demand for housing means that the outlook for the industry remains positive, with output continuing to increase and prices that have remained stable.

Constraints on labour resource

A lack of skills to meet the demand for labour is a challenge for our industry and we are strongly focused on developing skills, particularly through our apprenticeship scheme and our site management training. Where possible we partner with our supply chain to develop strong relationships that allow them to invest in bringing more people into our industry. Brexit vote could have an impact on the labour market over time if there is less access to skilled European workers.

Supportive government policy

The Government continues to be supportive of the industry recognising the importance of continuing to build new homes to meet the current housing shortage. The Help to Buy equity loan scheme has helped thousands of buyers purchase a new-build home and it has encouraged housebuilders including Bovis Homes to focus on homes under its threshold of £600,000.

The Government has now extended the programme for another two years to 2023. From 2021 it will only be available to first-time buyers and will include regional price caps on the value of a property you can buy using a Help to Buy loan. We do not expect this to have a material impact on our sales rates.

Delays caused by detailed planning challenges

Our relationships with government and public bodies are important in delivering the necessary volume of detailed planning consents and technical approvals required to meet the UK's housing shortage. Certain planning authorities continue to be under resourced, affecting their capacity to manage applications and develop local plans. The emphasis on neighbourhood plans and consenting to fewer larger sites has constrained outlet growth across the sector where no National Planning Policy Framework-compliant local plan is in place and adopted.

Good land availability

Short-term land availability remains good supported by the overall planning regime across the country. Outline planning approvals are outstripping housing output and this is delivering a sustainable supply of land into the market.

Implications of Brexit

Whilst the full implications of leaving the EU will remain unknown for a long period of time there is some uncertainty for our industry. Restrictions in the availability of EU labour could have significant consequences for the availability of labour which is already a constraint to growth. There are also regulatory uncertainties around current EU legislation, especially from an environmental perspective and potential impacts in our supply chain in terms of logistics and potential changes in tarrifs.

Low interest rates and good mortgage availability

Despite the more recent increase in interest rates they remain low by historical standards. This coupled with competitive pricing within the industry mean low mortgage rates that continue to boost the industry. Most observers expect interest rates to remain low, mortgage availability to remain strong and lenders to provide reasonable period fixed rate deals to their customers.

However, there is always the risk that the mortgage market could become restricted by government policy or that economic circumstances lead to rising interest rates.

Responding to government regulations and standards

Whilst the Government continues to strongly support the sector there have been three recent items that have led to some fallout within the industry. Firstly, the use of leaseholds to sell houses has been reviewed and the Government is considering banning the use of leaseholds related to the sale of houses. This is a practice that was not adopted by Bovis Homes and will therefore have no impact.

Secondly, the perceived fall in the quality of new homes being produced has been reviewed by the Government and led to the announcement of a new Ombudsman to protect the interests of homebuyers and hold developers to account. Given our renewed focus on delivering a great quality home to our customers we welcome this review and will work with whatever measures are put in place.

Finally, the Oliver Letwin review into build out rates by the Government was published in October 2018. This concluded that the homogeneity of the types and tenures of the homes on offer on sites, and the limits on the rate at which the market will absorb such homogenous products, are the fundamental drivers of the slow rate of build out. Most of the recommendations to speed up the rate of development related to potential changes to planning policy. Whilst we support this aim the key challenges to deliver this are certainty of demand in specific locations and the availability of labour.

Housing market

Demand continues to outstrip supply - outlook for the industry remains positive


Hampton Meadow, Stadhampton

2018 in review

The changes implemented across all areas of the business over the past two years have resulted in a significant step up in the operational and financial performance of the Group in 2018 and I am pleased to report a record year of profits with our profit before tax up 47.4% to £168.1m.

Customer satisfaction has been at the core of all we have done during 2018 and we expect to achieve our target of a 4 star HBF customer satisfaction rating for 2018, a significant improvement from our 2 star HBF customer satisfaction rating in 2017. This shift in quality is reflected across all of our housing delivery and in the feedback we receive from our private customers and housing association partners.

We have improved our production processes to ensure we consistently deliver high quality new homes for our customers whilst also driving operational efficiency. In the year, we delivered a total of 3,759 (2017: 3,645) units in a controlled and disciplined manner.

We launched our new housing range, the Phoenix collection in 2018 and have made excellent progress with site replans. Our first show homes from the new range have been successfully launched and we are looking forward to delivering our first completions in Spring 2019.

We are focused on controlled volume growth whilst optimising prices and costs, and this is reflected in a 390 basis points improvement in our operating margin to 16.4% for 2018. The benefits from our key margin initiatives are coming through and we expect to achieve further benefits in 2019.

We have a high quality land bank which is well positioned to meet today's demand for new homes. We have excellent forward visibility on our land, with all land for 2019 having detailed planning consent, and 97% of our land for 2020 already secured.

On balance sheet optimisation, our specific actions over the past two years have focused on ensuring we have an efficient land bank to match our strategy, the reduction in our working capital, the disposal of non performing assets and the joint venture of our two largest sites. Overall, we are aiming to achieve in excess of £250m additional net cash benefit, including a c. £68m net cash benefit on the completion of our joint venture at Wellingborough in H1 2019, well ahead of our £180m target.

I am delighted that as a result of the very positive improvements across all areas of the business, we have seen a step up in our return on capital to 19.3% in the year from 13.7% in 2017.

Overall, we have made good progress towards all of our medium term targets with a number achieved in 2018, and we expect to build upon this further in 2019.

I would like to thank all the Group's employees for their hard work and commitment over the past 12 months and to recognise that each one of them has played their part in the very positive turnaround in all aspects of the Group's performance in 2018. We have plenty more opportunities in 2019, and I am looking forward to another year of progress and returning Bovis Homes to being one of the UK's leading housebuilders.

Operational update

Customer service

Customer satisfaction has been central to all that we have done this year and we are pleased that this is reflected in our expected 4 star HBF customer satisfaction rating for 2018, a step change from the 2 star rating received in the prior year. This improvement has been seen across all our regions, with each expected to achieve at least a 4 star rating. The new year has started well with our rating tracking ahead of 2018.

We continue to invest in our customer service function and will see the implementation of a new customer relationship management system rolled out across the business in 2019. This will provide a complete end to end Bovis Homes experience for our customers, making it easier for them to engage with us, whilst driving improved efficiency.

We became a member of the Institute of Customer Service in the year, which has supported our company wide customer service training programmes and provided the opportunity to gain a professional qualification within customer service.

The Bovis Home Buyers Panel continues to meet and provides us with very valuable feedback and opinion on all aspects of our customer experience.

Strong sales position

The Group starts the year with a strong sales position with forward sales representing 48% of consensus FY19 revenues. Our focus remains on optimising prices whilst delivering controlled volume growth.

Our new sales specification, launched in 2018, gives our customers the ability to choose extras within their new home and has been well received. We see further opportunity from this in 2019 with our Select range of customer options now well established and available across a greater proportion of our developments.

The Government sponsored Help to Buy scheme remains important, particularly for first time buyers, and was used for 38% (2017: 37%) of our private completions in 2018.

Part exchange is a positive sales proposition for our customers and during 2018 we reviewed our polices and procedures for the scheme to ensure we operate it efficiently and minimise our levels of part exchange stock. In the year, 8.7% of our private completions used part exchange. We see an increase in its use as a sales opportunity for 2019 and are comfortable for part exchange to be at a similar level as the prior year which was 22.2% of private completions.

Our focus remains on building high quality desirable family homes in prime locations on lower risk greenfield sites. We have structured the business to ensure all our developments are well serviced by our regional offices and have seven well balanced regions operating across the southern half of England. We have no developments within the M25 and apartments account for just 4% of our owned land bank plots. Our strategy, in the medium term, is to reduce the proportion of larger homes we build and increase our offering of two and three bedroom homes and this was reflected in our development replans and land buying during 2018.

96% of our land bank plots have an average selling price of less than £600k with 42% at less than £300k, with the average selling price in our land bank at £305k. Only 1% of the 4,164 plots we acquired in 2018 are expected to have a sales price in excess of £600k.

High build quality

Improving our build quality has been a key priority and we have made further progress during the year. We have high calibre construction directors, site managers and site teams across all our regions, and a far greater hands on approach is now entrenched across the business, with best practice promoted and shared.

We are delighted that in 2018, six of our site managers and site teams were awarded NHBC Pride in the Job Quality awards, an increase from two awards in 2017 and in-line with our highest number since 2004.

Our NHBC Construction Quality Review for 2018 highlighted an 18% improvement in our Group score over the past two years bringing it broadly in line with industry average, with the NHBC noting during a review that 'Bovis Homes has made a significant step-up in build quality and customer satisfaction results in a relatively short time frame.' We have also seen a significant reduction in our NHBC reportable items which are in line with the industry average.

We have invested in our health and safety function and have seen very positive results in terms of more frequent and transparent reporting, a more pro-active culture across the business, and an improved overall health and safety record year on year.

People

People satisfaction is a key strategic priority and we are committed to investing in the development and training of our workforce including our subcontractors. We have a dedicated Learning and Development team which supports the business through a full range of training and development programmes, leveraging our in-house Bovis Homes Training Centre. In 2018 we delivered 4,505 delegate training days, up 14% on the prior year.

A key priority has been the development of our leadership teams with the roll out of our bespoke leadership framework programmes to over 140 leaders across the business. We are also very focused on strengthening our talent pipeline through our annual succession planning review.

In 2018 we launched our trainee assistant site manager programme which lasts 18 months and covers all aspects of site management. We are very committed to our apprenticeship scheme and recruited a further 37 apprentices in the year taking our total to 68.

As part of our commitment to the HBF's Home Building Skills Partnership we continue to offer training opportunities to our subcontractors including the Site Supervisor Safety Training scheme to over 150 people in 2018, as well as mental health training to raise the awareness and importance of personal well-being across the industry.

We are pleased to report an ongoing steady improvement in our employee engagement level as measured by our monthly employee engagement survey.

Phoenix housing range

We launched our new housing range of 28 new house types for both private and affordable housing in April 2018. It is designed to meet our customers' needs today including more open plan living, larger bedrooms and better storage. The range also reflects a complete construction specification review to ensure time, material and labour efficient designs. With our first completions due in Spring 2019, the new range will deliver exciting, high quality new homes as well as drive further price optimisation and a reduction in production costs.

We have made good progress implementing the new range with 34 sites replanned with the new house types and a further 19 developments in the planning process. Our first new show homes launched in January at our Hampton Meadows development in Stadhampton and at our Priory Fields development in Wells with excellent customer feedback, and our first completions will be in H1 19. Overall, we expect up to 15% of our private completions in 2019 to be Phoenix house types and this will increase quickly in future periods.

We expect to replan c. 3,500 plots from our land bank and all new sites are being acquired and designed with the Phoenix product.

We anticipate the new range will facilitate an improvement to the embedded gross margin in our land bank of 1% as the positive impact of replanning comes through improving our layouts, optimising pricing and reducing build costs. The range provides significant opportunities and will ensure we remain competitive for the prime sites we are seeking to secure for the future.

Margin initiatives

Driving Group profitability is key and our Margin initiatives have delivered results in 2018 with further progress expected in 2019:

1. Price optimisation

We remain focused on driving our prices across all our products and developments, reflecting our priority of controlled volume growth, high levels of customer satisfaction and increased profitability. Our new sales commission structure is aligned to and supports this.

2. Specification review

Our new sales specification has been well received and we see further opportunity in 2019 for our 'Select' range of extras as more of our developments offer it. Our build specification is under continual review for both materials and suppliers, and we see further opportunities for 2019.

3. Cost reduction

We have made good progress with our priority of 'getting it right' first time and improving build processes and better quality management. As a result, we are running with a c. 1% non-utilisation of our cost contingency.

4. New housing range

Launched in April 2018 we are looking forward to our first completions from our new Phoenix housing range in Spring 2019. The range will not only deliver added value to our customers, it will optimise prices and drive a reduction in production costs across the Group. This will also allow us to be more competitive in the land market.

Chief Executive's report | Greg Fitzgerald

Building a better Bovis Homes

The investment in efficient systems and processes and the development of our operational teams is a key priority for the Group and we are now 18 months into a 3.5 year plan of implementing a series of major business change projects, system improvements and upgrading equipment across the Group.

We successfully implemented COINS as our primary business system in Spring 2018 and it is already providing significant improvements in process, reporting and cost control. The second phase will be implemented during 2019 delivering further improvement across our commercial, construction and land activities.

A key focus is also to support mobile working, allowing our commercial and technical teams in particular to be active on our development sites and support the site teams as much as possible.

Further process changes are being coordinated across the business including a consistent automated document management system to support our teams as well as our supply chain, and in time, provide information directly to our customers. A new financial planning and modelling tool is being rolled out during 2019, and we are implementing a new integrated HR, payroll and learning management solution. In addition, we continue to invest in our sales website to ensure we build a better Bovis Homes.

These changes alongside the new customer relationships management system, revised customer journey and the new Phoenix housing range represent a significant investment as well as considerable ongoing business development to enable the group to drive further operational improvements and our financial performance forward in the medium term.

Partnership housing

The housing shortage and in particular the need for greater delivery of affordable homes in the UK remains very significant. Housing Associations are seeking new ways to support their traditional affordable housing delivery and following the Letwin review, the Government is focused on facilitating the quicker delivery of larger schemes.

Bovis Homes is exceptionally well placed to play its part and we are delighted to be developing our new Partnership Housing Division during 2019. It is a land led strategy reflecting our valuable and deliverable strategic land bank with a number of sites of significant scale. The Group has significantly improved its relationships with Housing Associations over the last couple of years, and often under resourced the Housing Associations are seeking partnerships with Bovis Homes a partner of choice. The new division will be led by Keith Carnegie as CEO of Partnership Housing who has much experience in this area.

The Group already has successful partnerships with Housing Associations on its sites at Wokingham and Boorley Green, and with Live West for the development of our site at Tavistock. Most recently we have entered into a 50:50 joint venture with Clarion Housing Group for the development of our site at Sherford and we expect to complete the joint venture of our site at Wellingborough with a housing association this year.

There is a strong pipeline of pull-through from our strategic land bank with six sites including North Whitely, Alphington, near Exeter, and Taunton all identified as being suitable for partnership development.

This partnership approach is expected to drive the best returns from our land opportunities, enable good working capital management on key schemes and deliver incremental volume from our sites in future periods.

Land

The Group has a high quality owned land bank with strong fundamentals and excellent forward visibility. All our land for 2019 has detailed planning consent and 97% of our land for 2020 is secured.

We continue to see good opportunities in the land market and increased our land activity in 2018 to ensure we maintain this strong supply, in line with our target of a 3.5 to 4.0 years land bank. In the year we secured a total of 4,164 plots (2017: 2,550) across 19 (2017: 11) sites.

As at 31 December 2018, we had a total of 15,832 (2017: 17,096) owned plots in our land bank representing a 4.0 year owned land supply assuming our target 4,000 completions. We also had 1,496 plots at our development at Sherford which was put into a 50:50 joint venture during H2 2018.

As at 31 December	2017	2018
Total consented land	17,096	**17,328**
Joint venture plots	-	**1,496**
Owned land bank plots	17,096	**15,832**
Land bank years(1)	4.3 yrs	**4.0 yrs**

(1) Land bank years calculated assuming 4,000 completions p.a.

Our strategic landbank remains a very valuable source of high quality land for the Group. We saw a step up in the strategic land pull-through in the year as we made progress on a number of major projects which will form a key part of delivering new homes for years to come. These are exciting high quality developments including North Whitely in the highly desirable borough of Winchester, Alphington, an excellent location on the edge of Exeter, Staplehurst in Kent, and a development at Tavistock, Devon where we have entered into a partnership with Live West, a leading developer of affordable housing in the South West.

Our strategic pipeline is strong with our developments in Taunton (832 plots), Camborne (863 plots) and Collingtree (349 plots) all having received outline planning and ideal for development within our newly formed Partnership Housing division.
We continue to pursue new strategic land opportunities that are within our core operating area and in the year optioned 1,415 strategic land plots (2017: 2,338).

As at 31 December 2018, we had a total of 19,278 plots (2017: 20,756) in our strategic land bank across 53 sites (2017: 52).

Balance sheet optimisation

As part of our strategic review in 2017 we set out a clear plan to optimise our balance sheet with a target of realising an additional net cash benefit of £180m from this.
Since mid 2017 our focus has been on working capital management, the disposal of non performing assets and optimising the structure of our balance sheet. I am pleased to report that we have delivered £180m of additional net cash benefit to date and are now aiming to realise a total of c. £250m with the completion of our joint venture at Wellingborough. There remain some further opportunities including the disposal of PRS joint ventures, and we will maintain a strong focus on active balance sheet optimisation going forward.

On land optimisation we have realised a total of £81m of net cash benefit to date including £15m from the joint venture of our development at Sherford with Clarion Housing Group. We have disposed of parcels of land on some of our larger sites and also disposed of several sites outside of our operating area. We expect to deliver c. £68m net cash benefit from the completion of our joint venture of Wellingborough in H1 19 and c. £4m from the disposal of an out of operating area site.

Our initiatives on work in progress have totalled £43m net cash benefit of which the reduction of our part exchange properties contributed £26m. The balance reflects optimisation of our site-by-site WIP and other initiatives such as the sale and leaseback of our show homes.

We have disposed of other non-returning assets to release total net cash of £56m, the largest of which was the sale of our shared equity portfolio in 2017, realising total cash receipts of £30m.

Delivering our medium term targets

The Group set out its medium term targets to be achieved by 2020 and return Bovis Homes to being a leading UK housebuilder whilst significantly improving returns to our shareholders. We have made very good progress against these targets in 2018 with several already achieved.

We expect to make further progress in 2019 with the first completions from our new Phoenix housing range and our on-going specification review. We also expect to further the opportunity from our customer extras Select range, and will continue to drive revenue and cost management, all supported by more effective systems and ways of working.

Target	Progress to date	Timing / outlook
4 star HBF customer satisfaction rating	• 4 star HBF customer satisfaction score for 2018	Achieved • Maintain 4 star rating
4,000 completions p.a.	• 3% increase in completions in FY18, in-line with expectations	2020 • Further controlled volume growth expected in FY19
3.5 to 4.0 year owned land bank	• Divestment of sites outside of our core operating areas • Sherford joint venture completed	Achieved • Completion of Wellingborough joint venture in H1 2019 • Maintain 3.5 to 4.0 year owned land bank (ex joint ventures)
Min 23.5% gross margin	• 380 basis point improvement in Group gross margin in FY18 to 21.8% • Margin initiatives delivering progress in FY18 with further opportunities • New land acquired in FY18 at an average gross margin in excess of 26%	2020 • Margin initiatives underpin and provide upside to 2020 gross margin target • Embedded land gross margin at 24.8% will drive further improvements over time
5% admin expense as % of revenues	• Effective operating structure in place with continued investment in process and systems to deliver efficiency • Improvement in admin expense to revenue ratio to 5.3% in FY18	2019
Min £180m net cash from balance sheet optimisation	• In aggregate, balance sheet initiatives aiming for £250m net cash benefit, with £180m achieved to date	Achieved • Further c. £68m net cash benefit from completion of Wellingborough joint venture • On-going active balance sheet optimisation and review of capital returns
25% return on capital employed	• Increase in Group ROCE to 19.3% in FY18 from 13.7% in FY17	2020

Chief Executive's report | Greg Fitzgerald

Ordinary dividend and capital return plan

The Board intends to pursue a strategy of maximising sustainable dividends to shareholders. In setting the level of dividend the Board will consider a range of factors including the extent to which the dividend is covered by underlying earnings and free cash flow, the prevailing strength of the balance sheet and general economic circumstances, with particular regard to the cyclicality of the industry.

The Board is recommending a final ordinary dividend of 38.0p per share (FY17: 32.5p) bringing the total ordinary dividend for FY18 to 57.0p per share (47.5p), representing a 20% increase on the prior year.

In 2017, the Board stated that it intended that surplus capital totalling £180m or c. 134p per share will be returned to shareholders in the three years to 2020. We are pleased to report that the first payment of £60m was made via a special dividend of 45p per share in November 2018. The Group will continue to be strongly cash generative and given the balance sheet position the Board is committed to reviewing capacity for further returns to shareholders over time.

Outlook

We have seen strong sales in the first eight weeks of the year with a rate of 0.58 sales per site per week, an increase of 15.7% on the prior year. Given the current increased level of uncertainty surrounding the broader UK economy, we are encouraged by the positive start to the year and are pleased to report our forward sales represent 48% of consensus total 2019 revenues for the Group.

We remain focused on delivering controlled volume growth whilst maintaining our absolute focus on high quality build and customer service.

During 2019 we are implementing a number of initiatives across all areas of the business to build a better Bovis Homes. In particular, we are looking forward to the first completions from our new Phoenix housing range this Spring, with our new house types designed to best meet our customers' needs whilst driving forward Group profitability.

We have excellent visibility on our land with all of our developments for 2019 delivery launched and 97% of our land for 2020 secured.

We are launching our new Partnership Housing division, a land led strategy which will see Bovis Homes helping to address the severe housing shortage in the UK whilst maximising our output and returns.

The Group set out its medium term targets to be achieved by 2020 and return Bovis Homes to being a leading UK housebuilder whilst significantly improving returns to our shareholders. We have made very good progress against these targets in 2018 with several already achieved, and we expect to make additional progress on the Group's operational and financial performance in 2019.

The Board is pleased to recommend a final ordinary dividend of 38.0p per share (FY17: 32.5p) bringing the total ordinary dividend for FY18 to 57.0p per share (47.5p), representing a 20% increase on the prior year. Including the special dividend of 45.0p per share paid in November 2018, dividends for FY18 more than doubled to 102.0p per share (2017: 47.5p).

Greg Fitzgerald
Chief Executive

	FY18	FY19	FY20
Ordinary dividend	57p per share	Trend to 2 x cover	
Special cash return	45p per share	Total c. 90p per share	

Emmbrook Place, Wokingham

Driving value across the cycle

We have core expertise and competitive advantage across all the areas we operate, with our business model set up to deliver a strong performance across the cycle


1
BOVIS HOMES
Land acquired for future residential development
www.bovishomes.co.uk
2
3
4
Where quality counts
Our DNA
building and selling quality family homes

Strategic priorities

We have established a clear set of strategic priorities which underpin how we operate across all aspects of our business and will support driving towards our medium term targets

Strategic priorities	Risks involved	Measuring success
People satisfaction See page 22		
Investment in the development and training of our people to ensure a committed, motivated and engaged workforce	• People capability and change • Health, safety and environmental • Increased regulation	• Unplanned staff turnover • Employee engagement score
Customer satisfaction See page 24		
Delivering our customers quality new homes and a high level of customer service that meets their expectations throughout their entire journey with Bovis Homes	• Customer service • Increased regulation	• HBF customer satisfaction • NHBC reportable items
Healthy and safe working environment See page 26		
Ensuring the health and safety of our people and minimising the accident frequency rate whilst delivering on time, is unequivocally at the core of our business	• Materials and subcontract labour • Health, safety and environmental • Increased regulation	• RIDDOR • Accident frequency rate
Enhanced shareholder returns See page 28		
Driving enhanced returns for our shareholders through increased profitability, return on capital employed and total shareholder returns	• Economic and sales environment • Materials and subcontract labour • Project delivery • People capability and change • Increased regulation	• Profitability • ROCE • TSR

People satisfaction

Investment in the development and training of our people to ensure a committed, motivated and engaged workforce

Our approach

People development is a priority, and as a company we are investing in more training than ever before.

We have developed a culture of 'hands on leadership' with a greater operational focus, facilitating quicker decision making and accountability across the business. We have closely aligned our employee incentive packages with the strategic goals and medium term targets of the Group.

KPIs

Unplanned staff turnover

22%

(2017: 31%)

Peakon engagement score

7.7

(2017: 7.3)

Progress in 2018

We are pleased to have seen a steady improvement in our employee engagement as measured by our monthly engagement survey.

We have further increased our investment in our people delivering over 4,505 delegate training days in 2018 (2017: 3,914). The Bovis Homes Training Centre is the focal point and we are delighted it was a finalist in the HBF Housebuilder Awards.

A key priority has been the development of our leadership teams with the roll out of our internally designed leadership framework programme: Building Leadership Excellence. A bespoke 3 tier leadership development programme, it targets leaders from all levels, and we delivered the senior and intermediate programmes to over 140 employees across 560 delegate training days. We have also trained our managers in recruitment, managing performance, managing absence, and all employees in diversity and inclusion. A major conference involving over 100 women from the business explored opportunities for women and barriers to women joining the sector.

We continue to focus on our talent pipeline through our annual succession planning review and during the year had a new intake of trainee assistant site managers enrol in our 18-month programme, and almost doubled our intake of apprentices.

There has been continued development of our sales staff with the redesign of the sales development programme to cover all aspects of the required knowledge, skills and behaviours to meet the challenges within the sector.

As part of our commitments to the HBF's Home Building Skills Partnership we continue to offer training to our subcontractors with the delivery of the Site Supervisor Safety Training Scheme to over 150 people as well as mental health training to raise awareness of the importance of personal well-being throughout the industry.

Priorities for 2019

Overall, our focus is to continue to provide our employees a stable and thriving workplace resulting in a reduction in the rate of unplanned staff turnover across the Group.

In Q1 2019 we are launching the self service aspect of our new HR and payroll system which will automate some of our processes such as holiday booking and expenses. Further modules such as payroll with online payslips and a Learning Management System (LMS) will be introduced during 2019.

We will continue to invest in the training and development of our people in 2019 with the roll out of the foundation leadership programme; the final tier of Building Leadership Excellence.

We will be introducing our functional development framework in which we will profile all development requirements to support the knowledge, skills and behaviours of all roles within the business. This will include the development of functional Subject Matter Experts (SME) to facilitate implementation of business change initiatives.

In conjunction with the introduction of the LMS, we will continue to expand access to learning and development through the implementation of our eLearning platform and development of our digital portfolio; moving beyond the classroom to allow employees to access learning wherever they are and when they require it.

Investing in our people

Putting the focus on training and employee engagement

Customer satisfaction

Delivering quality service and homes for our customers remains a key strategic commitment

Our approach

2018 has seen a step change in our customer satisfaction moving from a 2 star to 4 star performance.

Customer
Creating a customer centric culture

Listening to our customers
Ensuring we listen, understand and meet the changing needs of our customers

People
Equipping our people to deliver a high quality service

Progress in 2018

Customer
We have put the customer back at the core of everything we do and our approach has evolved from an initial focus on our customer facing roles and actions to reviewing how all roles and decisions impact upon our customers. This has been supported by both group and regional led programmes.

Listening to our customers
Our industry leading Home Buyers panel continues to provide valuable feedback, ensuring our customers have a voice and are able to share their views about important changes at Bovis Homes. This has included the launch of our new housing range, updates and enhancements to our consumer website, the type of training and development our people would best benefit from, as well as helping shape the future customer journey.

Survey feedback is also shared throughout the organisation on a daily basis enabling people to act and continuously improve, whilst get recognised for the great service they are delivering.

People
We continue to invest in our people and their service skills and in 2018 we joined the Institute of Customer Service. The institute has been delivering their accredited training programmes to our key customer service roles, ensuring that benchmarked cross industry standards for service professionals are reached.

A cross section of our people have been working to develop our service of the future and defining the business requirements for our Customer Relationship Management (CRM) platform to be rolled out in 2019. We have also introduced Group and Regional level awards that recognise individuals and their contributions in delivering quality service to our customers.

Priorities for 2019

We are very committed to continuing to deliver quality service and by doing so retain our 4 star customer satisfaction rating. We are looking forward to the roll-out of our new CRM platform which will make it easier for our customers to do business with us and for our people to deliver a seamless service. Alongside this new software capability, we have taken the opportunity to simplify business processes and standardise functionality. During implementation, we will deliver consistent service skills training across the Group.

KPIs

HBF customer satisfaction[1]

★★★★

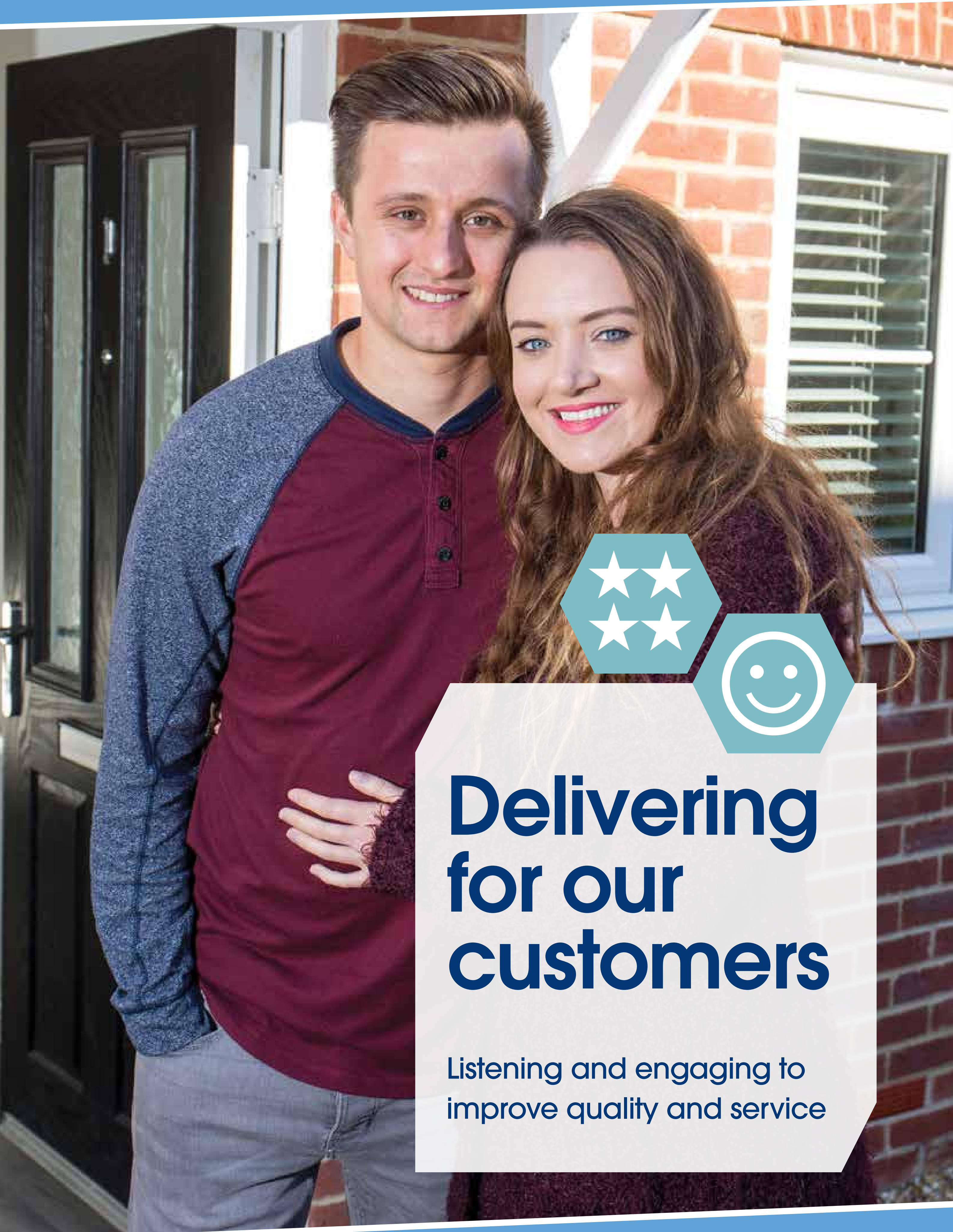
(2017: ★★)

NHBC reportable items

0.31

(2017: 0.38)

(1) Based on HBF star rating announced in March of the following year relating to the prior period of 1 October to 30 September.



Delivering for our customers

Listening and engaging to improve quality and service

Healthy and safe working environment

Ensuring the health and safety of our people and minimising the accident frequency rate whilst delivering on time, remains at the core of our business

Our approach

The Group is committed to delivering a high standard of health and safety for all our employees, subcontractors and other on-site visitors.

During the year we appointed a new Group Health, Safety and Environmental Director whose focus is to further improve all of our health, safety and environmental systems. This includes an initial review of our fundamental principles and the development and implementation of a three-year strategy plan.

Progress in 2018

Getting our teams involved in bottom up safety management.

In 2018 we have been rolling-out our Standard Operating Procedures with valuable input from our employees and subcontractors and this will continue to mid-year 2019.

Key to success is stakeholder engagement and our bottom up approach is designed to get our specialist contractors involved right from the start, working with site management to get the best results.

In line with the company's IT strategy we are digitising our system wherever possible, creating a one-stop shop health and safety platform.

Priorities for 2019

We are continually looking to improve our systems and processes, and in 2019 will see the introduction of a biometric system for our construction sites (fingerprint recognition). This will be designed to cater for online inductions and the reading and importing of CSCS SmartCard and photographic information, including the upload of important data. All of this will free up valuable time for site managers.

We are producing an off-site induction video for workers and visitors accessible through a mobile app and which will communicate with the biometric system.

As part of our continuous improvement we will also be investing in our online reporting system and shifting our focus to using leading indicators to drive continuous improvement such as number of site inspections, audits and closeout of actions. Tracking these leading indicators will help us measure our safety success and put in place process changes to proactively reduce accidents and incidents.

KPIs

RIDDOR

21

(2017: 22)

Total recordable injury frequency rate (TRIFR)*

1.14

(2017: 1.17)

*As part of our bottom-up safety management strategy and to better align to industry standards leaders, we have adjusted the way we report in 2018 by focusing on lagging indicators such as RIDDORs and recordable incidents. These indicators will tell us how we have performed in the past to help build upon our existing foundations.

Keeping our sites safe

Committed to protecting the public and our people

Enhanced shareholder returns

Driving enhanced returns for our shareholders through increased profitability, return on capital and total shareholder returns

Our approach

The Group has set out its medium term targets to be achieved by 2020 which will return Bovis Homes Group to being a leading UK housebuilder and deliver significantly improved returns to shareholders.

The management incentive schemes are aligned to these medium term targets. Reflecting the Group's commitment to increasing the efficiency of the balance sheet through the reduction of capital employed in the business, the Board intends that the surplus capital will be returned to shareholders.

Progress in 2018

The Group made significant progress operationally during 2018 delivering a step change in the business and financial performance. As a result, the Group had a record year of profits with profit before tax increasing by 47.4% to £168.1m. We made very good progress against all of our medium term targets to be achieved by 2020 with several already achieved. In particular, we progressed our programme of balance sheet optimisation initiatives and are now aiming to deliver c. £250m additional net cash benefit from these, significantly ahead of the initial £180m target.

Priorities for 2019

The Group is committed to building upon the significant progress made over the past 18 months. There are a range of initiatives for 2019 which are all designed to build a better Bovis Homes including the first completions from our new Phoenix Housing range and the development of our new Partnership Housing division. The Group remains focused on price optimisation, controlled volume growth and margin enhancement, whilst maintaining a high build quality and customer service, and expects to make further operational and financial progress in 2019.

KPIs

Profit before tax

£168.1m

(2017: £114.0m)

Return on capital employed (pre exceptional)

19.3%

(2017: 13.7%)

For calculation of ROCE, see table on page 150

Total shareholder return

14.4%

(2017: 57%)

Focus on better returns

Driving improvements for our shareholders

Risk management

The Board is required to assess the prospects of the Company, taking account of its current position and principal risks, and to explain how this has been done, over what period and why that period is considered appropriate.

The assessment context

The Board has considered the longer term viability of the Group, reviewing this over a 5 year period based on the strategy as outlined on pages 18 to 29 to the current performance of the Group and its principal risks. The average life cycle of our housing developments falls within a 5-year time period and this aligns with the timeframe focused on for the annual strategic review exercise conducted within the business and reviewed by the Board.

The Group's strategy was communicated in detail during 2018 with a focus on improving operational performance. The Board has considered the Group's risk appetite and believes this to be towards the lower end of the risk scale for the housebuilding sector. The Board have highlighted the following elements of the strategy as key considerations in reaching this view, all of which have an impact on the Group's key investment decisions:

- Focused on a Southern biased geography
- Targeted at edge of town and large village greenfield locations
- Delivering a high proportion of standard Phoenix designed housing
- Traditional two storey family housing is the core product offering with only limited low rise apartments in the mix
- Trending to reduce the average size of our homes over time and ensure they remain affordable
- The Group's strategy is to drive cash into the business leading to expected low levels of debt

The assessment process and assumptions

A Risk Governance Committee operates with representation from all parts of our business to identify and monitor the threats identified from within the Group. This is coupled with a robust assessment carried out by the Board to formally agree and assess the principal risks facing the Group, including those that would threaten the execution of its strategy, future performance and liquidity. Management and mitigation of these principal risks, as set out on page 32 to 35, have been taken into consideration when considering the future viability of the Group.

As part of its annual strategic review the Board also considered the Group's 5 year financial plan, the core assumptions underpinning this plan and how the current economic and regulatory environment may impact this plan. The early years of the financial plan are prepared in detail with the basis being the development of our existing land bank. There is inherently more uncertainty in the later years of the plan as these incorporate a higher level of assumed housing completions from land owned currently without planning or land not currently owned by the Group.

The Group's financial plan has been reviewed in the context of its operational performance during 2018 and stress tested against scenarios to assess the future viability of the Group.

The potentially highest impact risks, from a Group viability point of view, are seen as those which arise from either a downturn in the economic environment, for example following Brexit or fundamental changes in government policy, leading to decreased affordability, reduced demand for housing and falling house prices.

In testing our economic downturn scenarios there have been sensitivities applied to the assumptions on sales rates (sales volumes reductions of 15% in year 1 and 25% in year 2), pricing (5% reduction in year 1 and 10% reduction in year 2) and costs (moderate reduction assumed).

The sensitivities along with the impact of the expected mitigating actions that would be taken by the Group, were overlaid on the Group's 5 year Strategic Plan. The key mitigating actions we expect the business to take in a downturn include restricting investment in land, reducing the level of production and work in progress held and optimising our overhead base to ensure it aligns with the scale of operations through the cycle.

The results of this stress testing indicated that the Group would be able to withstand the impact of these assumptions, taking into account the impact of mitigating actions, on the Group's financial performance.

Viability statement

Based on the results of this analysis, the Board have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period reviewed.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph in note 1.3 to the accounts. In forming this view, the Group has analysed its forecast covenant compliance over the period linked to its banking arrangement, arriving at an assessment of the headroom evident between the forecast covenant headroom and the outcomes necessary to achieve covenant compliance.

The Group entered into its current banking arrangement on 3 December 2015 and it was extended for one year in both December 2016 and January 2018. This arrangement provides a committed revolving credit facility with a limit of £250 million maturing in December 2022. The Group regards its current banking arrangement as adequate for its needs in terms of flexibility and liquidity. As at 31 December 2018, the Group had nil drawings under the facility and had net cash of £127 million.

More details on the Group's approach to financial risk management are laid out in note 4.6.

Final touches before Phoenix takes off

Principal risks and uncertainties

		Description	Potential impact	Link to strategic priorities	Annual change
Market risk	Economic and sales environment	Deterioration of the health of the UK economy, brought about by uncertainty, loss of consumer confidence, higher interest rates and increasing unemployment, leading to decreased affordability, reducing demand for housing and falling house prices.	Adverse affects on consumer confidence and demand for new homes, with consequential impact on revenues, profits and potentially asset carrying values. Potential for increased restrictions on mortgages granted could reduce demand for homes and therefore revenues and profits.		+
Operational risk	Materials and subcontract labour	Increasing production across the industry may lead to shortages of both materials and subcontract labour. Pressures on supply chain brought about by Brexit, or a weakening of £ exchange rate impacting material prices or availability of skilled labour	The Group's ability to build is constrained and may impact profitability if costs rise. Inability to source raw materials or unplanned delays in our supply chain.		+
	Project delivery	Inability to convert land assets to support required housing development. A failure to achieve our operational targets through the execution of our build programme, or a failure to control our life of site costs.	Unable to deliver sufficient shareholder returns from current developments or a failure to achieve our anticipated completions.		=

What's changed over the last year?	How we are mitigating the risks?
• Whilst Brexit negotiations continue, there is no definitive outcome and uncertainty of the impact remains speculative. • Bank of England base rate increased from 0.50% to 0.75%. • Whilst the Help to Buy scheme has been confirmed beyond 2021, it will only be applicable to first time buyers and subject to regional caps.	• Close monitoring of lead indicators in the housing market, notably visitors to sales outlets, sales rates and price achieved. • Maintaining a rigorous approach to land acquisition, with spend focused in the south of England, where the economy is expected to remain more robust. • A focus on cash generation to further strengthen our financial resilience. • New reporting that covers a variety of metrics to signpost early warning of changes in consumer confidence.
• Working with suppliers to assess plans in the event of Brexit supply issues. • EU net migration has reduced compared to previous years. • Fully established offices in the heart of each regional operating area.	• Maintain clear visibility of future production requirements and its impact on suppliers and subcontractors. • Maintain close relationships with key suppliers and subcontractors to gain visibility of future supply against need. • Centralised processes to monitor life of site costs across all our active sites, providing early warning and trend analysis. • Revised remuneration package for our employed site managers to retain a quality workforce.
• Letwin report published October 2018 detailing recommendations in support of government homebuilding targets. • New sites acquired, and a number of large schemes have become joint ventures with developers or housing association partners. • Implementation of core financial and commercial system to provide greater transparency and control over life of site costs.	• Monthly build and cost forecasting processes with regular group oversight of regional performances. • Close monitoring of build performance and delivery against plan through regular onsite visits from the leadership community. • A new ERP system has been implemented, and investment has been prioritised to deliver new system capability to improve build forecasting and planning processes • A quarterly supplier survey process has been established to better understand Bovis Homes strengths and areas for improvement in managing our supply-chain relationships

Principal risks and uncertainties

		Description	Potential impact	Link to strategic priorities	Annual change
Operational risk	Customer service	Product quality and service standards that do not meet our customers' expectations or fall short of the standards expected from supervisory bodies.	The reputation of the Bovis Homes brand is diminished with an adverse effect on sales volumes and returns. Excessive time and expense rectifying and compensating customer, impacting planned business operations.		−
Operational risk	People, change and business continuity	An inability to attract, develop or retain good people. Our change programmes fail and prevent business operations. Major IT failure or cyber attack disabling critical systems.	The loss of key staff or the failure to attract, develop and retain suitable talent may inhibit the Group's ability to achieve its strategy. The loss of IT capability or significant data loss. Business disruption, expense and potential fines from a failure to manage customer and employee data in accordance with legislation.		=
Operational risk	Health, safety and environmental	Unsafe practices in our construction activities causing injury or death to our stakeholders and damage to communities.	A loss of trust in the ability of Bovis Homes to build homes safely and in an environmentally responsible way, affecting the reputation and financial health of the business.		=
Operational risk	Increased regulation	Inability to adhere to an increasingly stringent regulatory planning and technical requirements affecting the housing market. Strict regulatory framework relating to the management of customer and employee information.	Increased costs and significant delays in production leading to reduced legal completions. Reduced number of active sales outlets due to delays in planning process leads to lower build and sales activity.		+

What's changed over the last year?	How we are mitigating the risks?
• Continued media scrutiny of customer issues relating to home build quality across the sector. • Now trending as a 4 star builder due to a much improved quality and customer service. • Continued to develop our Homebuyers panel of customers. • Joined the Institute of Customer Service to enhance training.	• All homes built are subject to NHBC building control inspections. • Quality inspections completed by build staff, sales staff and regional directors. • Customer Home Buyer panel to gather insights which are being used to improve our customer offering and service. • Development of a new Customer Relationship Management tool that is allowing us to revisit all our customer processes to simplify and improve the customer experience.
• Cyber attacks and instances of customer data loss have occurred in large listed businesses across the globe. • Several HR related changes covering pay, gender pay reporting and family related benefits. • New IT capability and networking delivered replacing legacy systems, improving resilience. • Reduction in headcount churn.	• A reward system that motivates achievement of performance targets. • Development programmes tailored to our employees. • Succession planning reviewed regularly to ensure pipeline for our leaders within the business. • Culture Internal Audit has been undertaken with action taken • New staff policies and processes to improve benefits and employee experience. • A working group overseeing all project and programme change, aligned to a new in-house developed programme management standard.
• Investment made in additional health and safety advisors to increase performance across the business. • New Health and Safety Director has been appointed to bolster team capability. • Reinforced as a key priority at every level within the business.	• A consultative committee reviews performance and regulatory requirements for health, safety and environmental matters. • Monitoring health, safety and environmental performance against a standard of excellence. • A requirement for regular training for all staff and site based personnel. • Effective communication processes in place to proactively manage and monitor issues.
• Government has confirmed legislation to require developers of new build homes to belong to a New Homes Ombudsman. • New General Data Protection Regulation (GDPR) became effective during 2018.	• Self-assessment process to check that controls and external standards are being adhered to across the business. • Participation in industry forums and events discussing potential regulatory changes and impacts. • Investment in customer facing systems that help support compliance to anticipated standards should a regulator be enacted. • Mandatory training has been delivered to all employees across a number of topics including GDPR and information security.


Kings Reach, Ottery St Mary

Introduction

This report provides an update on our performance during the year and further information, including relevant policies, can be found on our website, bovishomesgroup.co.uk.

Highlights

During 2019 the Group set out a new company ethos to promote behaviours consistent with Bovis Homes values of Integrity, Caring and Quality. These values underline the importance of positive behaviours in all areas of the work we do for our people, customers, the communities we operate within, our operations and sub-contractors, as well as our shareholders.

In addition, an internal audit that assessed the culture of Bovis Homes was undertaken involving all levels of the organisation. Throughout the review, the auditors looked for alignment and consistency of message across the organisation, but also across the hierarchy to understand the difference in cultural perceptions between colleagues and the leadership team. Overall the assessment was positive, and the improvements made to enhance the standard of communication, modernise and improve HR policies and deliver increased openness will continue throughout 2019.

Developing our people has also been a major theme. We have introduced a comprehensive leadership programme. This is complemented by functional development and continuation of customer service training. We also embarked on a major initiative to help train specialist contractors in our supply chain. Our commitment to training was recognised by the HBF, which shortlisted the Bovis Homes Training Centre as a finalist in its annual Housebuilder Awards. Furthermore, we have increased our commitment to apprenticeships by raising the intake substantially.

The Group continued its commitment to the nation through its own Armed Forces Covenant. Bovis Homes is proud to be a supporter of the Armed Forces Covenant and is committed to ensuring that our nation's Forces personnel (past and present), and their families, are treated with respect and fairness.

Our regional businesses continue to contribute significant benefits to the communities in which our developments are based through the provision of new and affordable housing supported by a range of community benefits including new facilities and green open spaces. Furthermore, our regional businesses actively support the communities through local sponsorships and charitable donations. These include one-off and ongoing support, contributions and fundraising activities across a number of causes such as school and school fetes, local sports clubs, hospitals and hospices, roundtables, elderly care, local communities' initiatives alongside financial support for local and national charities.

The Group recognises the importance of climate change and the collective responsibility we all have to mitigate its negative effects. It is our policy to strive for continuous improvement in this area, by increasing our energy efficiency, reducing greenhouse gas emissions and minimising the waste we send to landfill.

1 People

2018 performance	
Improve our customer satisfaction rating	Priority met
Improve customer service training	Priority met
Formation of home-buyers' panel	Priority met
Embed our core values across the Group and new joiners	Priority met
Continue to develop our apprenticeship programme	Priority met
Employee engagement score	Priority met
Employee wellbeing initatives	Priority partially met/within range

See page 40

2 Health and safety

2018 performance	
Reduce annual injury incidence rate	Priority met
Improving leadership behaviours	Priority met
Enhancing quality of workforce engagement	Priority met
Increasing awareness of occupational health risk	Priority met

See page 44

3 Environment

2018 performance	
Refine our waste reduction strategy	Priority met
Reduce active waste per home	Priority partially met/within range
Reduce active waste sent to landfill	Priority met
Set target for active waste per plot	Priority met
Reduce our GHG emissions against our chosen intensity measures	Priority partially met/within range

See page 48

4 Community

2018 performance	
Continue to develop our strategic offering to assist with affordable housing	Priority met
Continue to build on our relationships and support our subcontractors and suppliers	Priority met

See page 52

Key: ● Priority not met ● Priority partially met/within range ● Priority met

Focusing on our CSR priorities

Supporting sustainability, our people and communities

Our corporate social responsibility (CSR) priorities

People

KPIs	2018	2017
Staff turnover (unplanned)	**22%**	31%
Training days	**4,505**	3,914
Apprentices	**37**	20
Customer satisfaction rating*	**4 Star**	2 star

*We are on track to achieve our target of a 4 star rating for 2018. Based on the HBF star rating relating to legal completions in the annual survey period 1 October 2017 to 30 September 2018 (to be announced in March 2019 by the HBF)

Customers

Our continued focus has been on customer service with the handover of high-quality homes to customers remaining a priority.

There has been a step change in customer satisfaction during the year with the Group's HBF customer satisfaction rating for the current survey year trending at 4 star, this is against previous year rating of 2 star.

We have continued to work with our Industry leading Homebuyers panel of customers who provide valuable insight and feedback ensuring that the voice of the customer remains at the heart of everything that we do. Their ongoing influence has been brought to life in projects such as the launch of our new housing range. Ensuring we have incorporated their ideas and suggestions has enabled us to provide a truly customer centric range of new homes.

The year has enabled us to continue to provide our people with the training, coaching and development required for professional customer service. We have this year joined the Institute of Customer Service which is an independent, professional membership body for customer service founded in 1996. This membership has provided us the opportunity for ICS to deliver their accredited training to those leading and delivering customer service.

Employees

The Group operates solely in the UK and complies with all relevant legislation and regulations. The Group continues to apply its employment policies to not discriminate between employees, or potential employees, on the grounds of gender, sexual orientation, age, colour, creed, ethnic origin or religious belief.

Bovis Homes passionately believes in equality and diversity for all. To that end, we have a Diversity and Inclusion policy which is rigorously enforced and promoted. It is also Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) where requirements may be adequately covered by these persons and to comply with any current legislation with regard to disabled persons. The Group's policies are supported by the Group's Dignity at Work policy which prohibits bullying, harassment or victimisation.

The total employee turnover rate decreased significantly to 28% (2017: 44%) due in part to a reduction in the number of redundancies made during the year. Furthermore, unplanned staff turnover reduced to 22% (2017: 31%) which is supported by a much-improved overall employee satisfaction score in 2018, rising to 7.7 (2017: 7.3) recorded in November 2018. We now have a number of initiatives in order to attract and retain staff, including a benefits portal "mybenefitstoolbox" which allows our employees to view and amend their benefits from any internet-enabled device.

During 2018 we also introduced a number of additional employee benefits, including the cycle to work scheme. In addition, deals have been agreed with a number of popular consumer brands that allow our employees to purchase goods and services at preferred rates.

As part of the focus on improved communication, a People Forum continued to run through the year comprising of employee representatives from each of our regional businesses. In addition, a confidential employee engagement survey is sent to all employees every second month covering a number of topics that are assessed regularly by the senior leadership team. A new weekly podcast from the Chief Executive called the Bovis Homes Bite provides regular light-hearted updates on a range of topics including business priorities, performance and an opportunity to provide individual and collective recognition across the business.

The Group believes that it has a key role to play in ensuring that employees have an appropriate work life balance. To that end, we are committed to working towards ensuring that no employees work excessive hours. In addition, we seek to minimise weekend and late night working to a minimum and when it is essential. Moreover, the Group has introduced a process of buying and selling holiday. Bovis Homes also encourages flexible working.

Putting the focus on people

Supporting our staff to deliver quality for customers

Our corporate social responsibility (CSR) priorities

We have launched some smaller initiatives to improve employee experience such as a relaxation on our office-based dress code and an improvement to a number of employee policies.

The Bovis Homes Annual Awards celebrate the talent and dedication of our people across the country. The awards recognise those individuals and teams that particularly represent the Group's values of Integrity, Caring and Quality. Recognition of our people including contractor of the year, to reinforce our commitment to the supply chain. We remain committed to our valuable apprentice scheme with the intake during 2018 having increased significantly over previous years.

As well as the company induction that all new starters attend, the Group continues to develop its appraisal process to ensure that its values of Integrity, Caring and Quality are considered and discussed by employees and their line managers. These values feed into many communications with staff, and are regularly referenced in the CEO's messages and those of other ELT members and regional directors. The importance of this was also cited within the Culture internal audit which reinforced the progress made within the business to improve communication and support.

In terms of mental health, we were the first house builder to commit as a supporter of Mates in Mind. This construction industry wide initiative aims to increase awareness of mental health and reduce the stigmas attached to it. To build on this, all managers attended an absence management course which included training on the early signs of mental health issues, alongside the support that is available and the support available to individuals through the company.

In 2016, the Group adopted an Anti-Slavery and Human Trafficking Policy in support of its efforts to combat modern slavery. A statement in line with the provisions of the Modern Slavery Act 2015 is available on our website.

The Group auto-enrols new starters on to the People's Pension scheme, alongside operating a defined contribution pension scheme which is recommended to all employees.

The Group has a Share Incentive Plan, Save As You Earn share option scheme and a Long-Term Incentive Plan to motivate employees and encourage strong involvement with the Group.

Staff are kept informed of the Group's performance and news from around the business through a variety of means. There is the Bovis Homes bite, a weekly podcast from the CEO or other ELT member, which was launched in 2018. This is a five-minute audio round-up of news and events, which is broadcast every Monday, distributed via an email from the Group Communications team linking to the audio file hosted on the intranet. Other communication channels include Update News, the quarterly staff newsletter, and biannual regional roadshows, which see the CEO and GFD travel around the regional offices in the weeks following the full-year and half-year City announcements to deliver a bespoke presentation to both site and office staff, supported by that region's Managing Director. Each regional business also meets regularly with employee representatives to discuss matters that may impact staff. Two-way communication is encouraged across all employee engagement platforms and the whistleblowing policy and contact details are regularly promoted.

As at 31 December 2018, the Group directly employed 1,295 people (2017: 1,203). In common with the construction industry, the majority of our site-based population is employed by our subcontractors. We have expanded our apprenticeship programme to include office based and sales roles, whilst increasing numbers of onsite trade apprentices. We continued our customer service training, which included support from the Institute of Customer Service.

Finally, during 2018 a 100 years, 100 women event saw Bovis Homes employees from a range of backgrounds discuss what could be done to increase the number of women working in construction. The day included speeches from Lt Col Katie Hislop, who talked about her experiences as a female within the Armed Forces, and Jenny Herdman, the director for the Home Building Skills Partnership.

Director and employee profile

The following table shows the gender split within the Group as at 31 December 2018. In common with the construction industry, the majority of the workforce is male at 65.8% (2017: 64.5%). While a lower proportion of senior management and directors are female, the Group encourages and supports diversity, including gender. Bovis Homes gender pay gap report detailing performance and priorities is available on our website.

Analysis by role and gender

Role	Female	Male	Total
Non-executive directors	2	4	6
Executive directors	0	2	2
Senior managers	3	20	24
Managers	77	166	243
Site and sales staff	129	411	540
Support staff	224	188	412
Apprentices	8	60	68
Total	**443**	**852**	**1,295**

Analysis by age

Age	No. of employees	%
<21 years	60	4.6
21 – 30 years	246	19.0
31 – 40 years	292	22.5
41 – 50 years	329	25.4
51 – 60 years	278	21.5
>60 years	90	7.0
Total	**1,295**	**100**

Training

We have continued our investment in training during the year to ensure our employees are equipped to undertake the functions for which they are employed, and to provide the opportunity for career development equally and without discrimination.

All new starters attend the centralised company induction on their first day with the company, with personal emphasis on our values from the Chief Executive. They receive a welcome personally from a member of the ELT, followed by subject matter experts providing key information on subjects such as our values, HR, H&S, learning and development and IT. This is then complemented by regional and functional induction at the normal place of work from day two.

Training needs are identified against the Group's H&S core training matrix and where there are role specific training requirements. Training needs are further discussed with individual employees as part of their probation and annual appraisal. In addition to this, training needs can be identified on other occasions, either by senior directors as a result of a change in business need, or as a result of an individual changing position or being promoted. The Group has an educational sponsorship policy to support employee's personal development and will meet course expenses, including allowing day release, where appropriate.

Employees continue to receive regular training as a matter of course on topics such as health, safety and environmental matters, IT, management, sales and customer care. The sales training programme is embedded into normal business, further HR training for managers has evolved, General Data Protection Regulation (GDPR) and information security training have been undertaken company-wide. A total of 4,505 training days were delivered during the year via our Group Learning & Development team (2017: 3,914), equivalent to 3.5 days per employee (2017: 3.1). Additional training is also arranged by our regional businesses where they identify specific needs.

We have a number of partnerships established that further enhance the training we're able to offer our people. One such example is the Royal Institute of Chartered Surveyors (RICS) who are supporting the development route to professional qualification for our surveying teams. We have also trained over 150 specialist contractor supervisors in SSSTS (Site Supervision Safety Training Scheme), making a clear demonstration of our commitment to our supply chain. Specialist contractors have also been included in mental health awareness training.

Furthermore, all directors and middle management have benefitted from a comprehensive residential leadership programme, which has been delivered by our own in-house team.

Our Apprenticeship scheme increased with 37 new apprentices joining (2017: 20).

Anti-corruption and anti-bribery

The Group is committed to high ethical, legal and moral standards and all members of staff are expected to share this commitment. The Group has adopted an anti-bribery and corruption policy and has procedures in place designed to prevent such issues from arising.

All subcontractors are made aware of our policies relating to anti-bribery and corruption and encouraged to adopt their own policies. Employees, subcontractors and others are encouraged to use our whistleblowing service to report any suspicion of bribery or corruption. In 2018 Bovis Homes heavily promoted the whistleblowing policy, which included matters relating to bribery, and corruption that were fully investigated. We now have a robust investigation process for all allegations, and we share lessons learned to the entire company, so our people appreciate that their concerns are listened to, and where appropriate action is taken.

All employees are subject to the Group's corporate hospitality policy. Details of corporate hospitality are reviewed by the Audit Committee on a regular basis.

Priorities for 2019

- Maintain 4 star for the HBF Customer Satisfaction Survey.
- Improve employee retention through enhanced rewards and benefits offering, leadership training and employee wellbeing initiatives, together with a revised recruitment strategy to attract talented individuals.
- Continued investment in IT to improve ways of working and employee experience.
- Investment in training to support our change programmes including investment in new processes and systems
- Renaming our Whistleblowing policy to "Speak up" to enhance visibility.

2

Health and safety

KPIs*	2018	2017
RIDDORs	**21**	22
Total Recordable Injuries	**220**	238
Lost Time Injury Frequency Rate (LTIFR)	**0.11**	0.11
Total Recordable Injury Frequency Rate (TRIFR)	**1.14**	1.17

*As part of our bottom-up safety management strategy and to better align to industry standards leaders, we have adjusted the way we report in 2018 by focusing on lagging indicators such as RIDDORs and recordable incidents. These indicators will tell us how we have performed in the past to help build upon our existing foundations.

Getting our teams involved in bottom up safety management

During 2018 work commenced to refresh our health, safety and environmental system, supported by a new Health, Safety and Environment Director. This has underlined the importance of both the highest possible standards and the significance of our values and behaviours both today and in the future. As part of this, we are implementing a new three-year strategy plan to support continuous improvement.

These ongoing improvements have continued to deliver a reduction in our annual injury reporting indications with a reduction of total recordable injuries down to 220 (2017: 238).

Bovis Homes operates an internal inspection regime which features an overall H&S performance KPI which has been set for all sites and provides a Gold – Green – Amber – Red – Black dashboard indicator that is updated by the regions daily. This continues to be well received by site teams and has increased the level of engagement with both site management teams and contractors and is consistent with our strategy to bring about behavioural change.

Furthermore, we actively promote worker engagement at site level through daily activity briefings ("DABs"). These provide an opportunity for site management to communicate with subcontractors in respect of tasks scheduled to occur that day and particular risks that may arise as a result. They also provide a forum for subcontractors to provide feedback for example in respect of near-misses and agree improvements implemented.

Health and safety remain a fundamental priority, with this topic being one of the first to be covered in all executive meetings and highlighted early at our new starter induction and with clear linkage to our values and company ethos.

The Bovis Homes safety awards recognise this with excellent performance in health and safety at our developments rewarded through a Best Sites Award. This year there were awards for two divisional site winners, two regional winners and two that were highly commended. In recognising performance, more emphasis has been placed on planning, attitude, team relationships as well as performance.

During 2018 the roll-out of refreshed standard operating procedures commenced and will continue to mid-year 2019. We are identifying current gaps in the business between departments and setting up a fit-for-purpose platform that is available to everyone, regardless of location. This is to ensure appropriate communication and an understanding of the protocols in place.

There has also been an increased emphasis on stakeholder engagement, supported by the new management system. Our bottom up approach ensures our specialist contractors are involved, right from the start, to deliver improved consistency.

We are continually looking to improve our systems, and 2019 will see the introduction of Biometric systems for our construction sites (fingerprint recognition). Our system will be designed to cater for online inductions, reading and importing of CSCS SmartCard and photographic information including uploading of data such as training records, inspection records, insurance documents, risk and method statements.

The intention is to free-up valuable time for site managers by carrying out all checks up front, prior to people arriving on site.

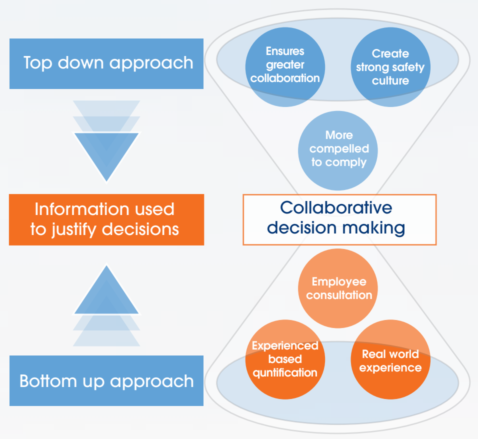
In parallel the filming of the Bovis Homes induction video has commenced. It is anticipated that both workers and visitors will be able to access these videos on-line through a dedicated hyperlink which will communicate with the biometric system and can be accessed by an App on their phone.

Priorities for 2019

During 2019 we will improve our quality, environmental, health and safety performance. We will do this by:

- Strengthening our environmental, health and safety teams, committee structure and safety management system;
- Continuing to take a sensible, proportionate approach to managing the hazards associated with our work activities.

Bottom up safety management



Committed to health and safety

Comprehensive health and safety training for all employees

Case study

Jack Allen, Site Manager at Bovis Homes' Whitehouse Park in Milton Keynes

NHBC Seal of Excellence/Pride in the Job

Jack, 23, wins national Seal of Excellence award for his work at Milton Keynes.

A young site manager at a Northern Home Counties location has praised his team after winning top national recognition for quality excellence.

Jack Allen, who works at Bovis Homes' Whitehouse Park location, received the National House Building Council (NHBC)'s Seal of Excellence, having been in the role for only 18 months.

Rising star Jack was picked out of 16,000 other site managers to win a Pride in the Job Award 2018 for the Southern region, which then put him in the running for the Seal of Excellence.

The accolade is presented to the best site managers across the country.

Jack, from Woburn Sands, said: *"I feel very proud and honoured to have won the NHBC Seal of Excellence. This is a massive milestone in my career and has been something I have aspired to achieve.*

"But it would not have been possible without the hard work and support of the team around me. I work with a fantastic group of dedicated individuals who take pride in every aspect of their roles.

"Feedback from the customers on site reflects the hard work and dedication the whole team have put in. I would like to thank Bovis Homes and also all the subcontractors involved."

Jack, who attended Walton High school, started his career in house building as a labourer and storeman and worked his way up to site manager.

Outside of work, he enjoys socialising with friends and family and going to the gym.

His achievement highlights Bovis Homes drive to build quality new homes and deliver for its customers in its Northern Home Counties region.

Jack is one of six Bovis Homes site managers who won Pride in the Job awards across England this year. It is the housebuilder's highest number since 2012.

To determine the Pride in the Job Award winners, judges assessed the skills demonstrated by the site managers in their day-to-day work, over 12 months.

NHBC Pride in the Job

100 years, 100 women

Education is the key to encouraging women into the industry say female construction colleagues

Education is the key to attracting women into the construction industry, according to female house building staff who attended a special event organised by Bovis Homes.

With a need to increase skilled labour in construction to meet the housing demand, and with only a small percentage of those working within the industry being female, Bovis Homes brought together women from across its business to find out how this could be changed.

"Since women were given the right to vote 100 years ago, there have been huge strides in the rights for women and equality, but females are still in the minority within the house building sector," says Vicky Beckwith, Head of Human Resources at Bovis Homes. *"We are aware that there is a certain perception of the industry and we're keen to try and change this."*

The 100 years, 100 women event saw Bovis Homes employees from a range of backgrounds discuss what could be done to increase the number of women working in construction.

The day included speeches from Lt Col Katie Hislop, who talked about her experiences as a female within the Armed Forces, and Jenny Herdman, the director for the Home Building Skills Partnership.

"It was really interesting day, which will not only help us to move forward as a company, but also help the industry as a whole," explains Vicky. *"As well as having a range of break-out sessions where ideas were fed back to the room, we also asked the attendees a variety of questions to help us find out and explore what they felt were the important factors in helping to encourage women into the industry."*

In response to 'How can we encourage women to work on our sites?' and 'What can we do to improve the number of women working in house building?' the most popular answer was 'education'.

"We've noticed at many of the career fairs that we've attended that girls seem to bypass us, thinking that house building is a job for men. However, there's so much variety and opportunity within the sector and we think we need to start changing these perceptions and encourage more women," says Vicky.

Bovis Homes employs nearly 1,295 people, with 34 percent women. The house builder currently employs 13 women on its developments as site managers, assistant site managers and in trades.

"There are huge opportunities working within construction. If you work for a house builder, it doesn't necessarily mean you are working out on a building site. We have jobs ranging from marketing, sales and graphics to commercial, technical and surveying. We've had women start in these roles, and then move to more site-based roles, or vice versa," explains Vicky.

Rachel Colin currently works as an assistant site manager at Bovis Homes' Didcot location.

She said: *"As part of my architectural engineering degree, I did a year in placement and as part of this I worked out on site – and I loved it!*

"I really enjoy that every day is completely different. You can go to work thinking that you know what the day holds, and then it will completely change! I really like the problem-solving aspect of it and the organisation and project management side of the job too. The tradesmen are really down-to-earth and straight-talking and it's great being outside."

Bovis Homes is now evaluating the results from its polls and reviewing suggestions made by its staff as it looks at implementing ideas to encourage more women into the company and the industry.

3

Environment

KPIs	2018	2017
Recycling	**94%**	94%
Waste per plot	**5.94**	5.72
GHG emissions	**1.71**	2.01

The Group has adopted an environment policy and recognises its responsibilities to protect and enhance the environment and to minimise, so far as it is safe, practicable and economically sound, any adverse environmental impact of its activities.

The Group seeks to minimise its impact on the environment through a number of activities including reducing waste from its activities, limiting as far as practicable our greenhouse gas emissions, ecology and sustainable water management and the maintenance or incorporation of open space in our developments.

The Group recognises that as a leading national home builder it needs to minimise its impact on the environment. We always aim to operate efficiently, reducing waste and minimising the energy and natural resources we use.

During 2018 we benefited from a full year of having a single waste and recycling partnership with Reconomy. The 2018 reporting period showed a modest increase in overall waste per plot with consistant data from our landfill and recycling outputs giving us insight to the next actions we will take. Overall our level of recycling remained steady at 94% and we are making significant progress in reducing waste and expect 2019 to show further improvements.

We now have a fully segregated waste policy across all regional and at site level, and regular monthly management information is made available at all levels to support monitoring and corrective action.

Tonnes	2018	2017*
Total waste diverted from landfill	**23,972**	21,167
Comprising: Timber	**3,094**	1,985
Plaster	**3,291**	1,522
Hazardous	**19**	1
Other	**17,568**	17,659
Total waste to landfill	**1,469**	1,375
Comprising: Timber	**0**	0
Plaster	**0**	0
Hazardous	**0.2**	2
Other	**1,469**	1,373
Total waste	25,441	22,542
Number of plots	**3,759**	3,645

*Aggregation of multiple sources for 2017 and prior.

We continue to research and develop more efficient build processes and modern methods of construction which should reduce the amount of waste generated from our activities.

Protect and enhance the environment

Aiming to take a sustainable approach

Our corporate social responsibility (CSR) priorities

Case study A joined up approach to waste management

"All waste and recycling services for Bovis Homes are managed by its appointed partner, Reconomy – the UK's leading provider of outsourced waste management services. Since first joining forces in 2009, the two companies have formed a close working relationship, with an ongoing commitment to minimising waste volumes, increasing recycling rates and reducing waste sent to landfill.

By moving away from the use of general waste skips and implementing a focused, group-wide policy of effective waste segregation at source, the partnership achieved further success in 2018.
In March 2018 Bovis Homes Group and Reconomy refreshed the waste policy to the regional business units. Bovis Homes gave this additional focus during weekly conference calls, supported by Reconomy so that waste is now a focal point at all Regional meetings. Furthermore, Reconomy provided monthly visits to all sites, providing onsite support, tool box talks, and support where required.

Regular review meetings with Build Directors, together with the production of a monthly management dashboard to monitor cost and waste have enabled the swift identification of any corrective actions, thereby ensuring the delivery of Bovis Homes waste management KPIs. Regular reporting and communication have also led to the creation of a regional league table for waste performance, which has fuelled internal competition and driven further improvements."

Tony Filson,
Reconomy

Greenhouse gas emissions

We continue to recognise the importance of climate change and minimise our impact on the environment.

Our impact on climate change also means that careful thought is given to the homes that we build. Our preference is for a fabric first approach to ensure that the heating of space, which has the greatest impact on a home's energy efficiency, is mitigated as far as possible within the actual construction of homes.

We continue to review green energy provision on our developments, including the use of photovoltaic roof tiles in place of traditional panels.

We have revised our company car policy to limit CO2 emissions and have renewed our forklift truck fleet and specified machines to be no more than 2 years old, to ensure improved efficiency.

Performance and methodology

GHG emissions have been reported from all sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within the Group's operational control. The Group does not have responsibility for any emission sources that are not included in the consolidated financial statements and are outside the boundary of operational control.

During the year, measures were operated to collect emissions data from our construction sites. Where this data was incomplete at the year end, we have extrapolated total emissions by using (i) an averaging approach to extend data to a full year for sites with part-year data, and (ii) applied an average calculated from all sites to sites returning inadequate data. The calculations allow for sites which opened and closed during the year.

GHG emissions have been calculated using emission factors from UK Government's GHG Conversion Factors for Company Reporting 2018. Scope 1 emissions arise from the consumption of gas at our facilities, diesel on construction sites and UK business mileage in fleet cars. Emissions from air conditioning in offices have been excluded as not being material. Scope 2 emissions represent purchased electricity. Scope 3 emissions represent business mileage completed in private vehicles.

Greenhouse gas (GHG) emissions data for the period 1 January 2018 to 31 December 2018 (with prior year comparatives)

Emissions from:	2018	2017	2016	Unit
Combustion of fuel at our facilities and construction sites as well as fleet vehicle use (Scope 1 emissions)	4,902	5,638	4,780	*
Purchased electricity (Scope 2 emissions)	1,336	1,522	1,627	*
Total GHG emissions (Scope 1 and Scope 2)	6,238	7,160	6,409	*
Scope 3 emissions (private vehicle mileage)	483	786	677	*
Company's chosen intensity measurements:				
(i) Total GHG emissions per legally completed unit (1)	1.78	2.17	1.77	**
(ii) Total GHG emissions per 1,000 sq ft legally completed	1.71	2.01	1.69	†

*Tonnes of CO_2e. ** Tonnes of CO_2e per legally completed unit. † Tonnes of CO_2e per 1,000 sq ft legally completed. (1) re stated to include scope 3 emissions.

Priorities for 2019

- Reduce our GHG emissions against our chosen intensity measures.
- To reduce the cost and tonnes per sqft built
- Measure and therefore maximise skip volume to ensure skip capacity is fully utilised on site.

Open space, ecology and sustainable water management

Our developments are about more than just homes and the incorporation of open space and communal areas is considered at an early stage.

All of our sites are subject to extensive pre-construction assessments. Our ecology assessments include an evaluation of the suitability of habitats for protected species and proposals to mitigate the impact of our developments more generally. Mitigating measures can include translocating species and creating wildlife corridors. An archaeological assessment will also be undertaken to determine whether a site is likely to contain archaeological remains and any mitigating actions that may be required.

We work closely with local authorities to retain and protect trees wherever possible and provide mature environments for local wildlife populations. Where trees are removed, we aim to provide a net improvement to the number of habitats, through planting and the inclusion of bird and bat boxes and other wildlife habitats.

All sites are reviewed at acquisition stage to determine the likely ground conditions and the type of surface water measures required to limit surface water discharge and any potential for localised flooding. This involves active consultation with the Environment Agency and water authorities to ensure that there is, as a minimum, no impact from our development on local flood conditions. Our approach is not to acquire sites on flood plains and to incorporate sustainable drainage systems where appropriate for the development.

We specify Forestry Stewardship Council (FSC) or PEFC certified timber is used for all of our developments.

Case study

House builder Bovis Homes paves way to landfill-free future

Bovis Homes in Bishop's Cleeve has achieved zero-to-landfill status after an 'incredible transformation' that has seen a recycling overhaul at its Western region headquarters.

Desk bins have been replaced with eco-sort recycling bins and improved its waste management system as part of a green strategy that will now see the processes implemented in the company's Stafford and Coleshill locations.

Cheltenham-based recycling and shredding firm Printwaste, which has worked with Bovis Homes for 14 years, has been part of the success story and praised the changes.

Simon Vincent, business development manager, said: *"Bovis Homes decided to expand their partnership with us, and now have a tailor-made waste management system in place.*

"They've brought in new recycling practices, such as replacing desk bins with our eco-sort recycling bins, and positioning these effectively within the office.

"They've also achieved zero-to-landfill status at their Bishop's Cleeve site, and we are now working hard to achieve this across their other two sites in Stafford and Coleshill.

"This has been an incredible transformation, and shows how, with a few simple changes and a whole team effort, we can all go green."

Bovis Homes made the changes as General Data Protection Regulation (GDPR) came into effect and underwent a waste audit which looked at where its waste streams are deposited.

Simon Bond, facilities co-ordinator at Bovis Homes, said: *"We are thrilled with the changes we have made after working with Printwaste.*

Our employees have been very quick to adapt to the changes and we are seeing increasingly positive results as we progress our waste management.

"Bovis Homes is committed to reducing its carbon footprint and this is the latest in a number of steps we have taken, including reducing our paper storage, to achieve this."

Bovis Homes representatives also visited the Printwaste offices to find out more about its operations as part of the process.

The two companies have been in partnership for more than 14 years, when Printwaste recycled the home builder's used IT equipment, electrical waste and shredded confidential documents.

4

Community

KPIs	2018	2017
Affordable housing completions	**1,192**	1,072
Planning obligations spend	**£25.7m**	£26.4m

The Group has a CSR policy which supports the creation of sustainable developments that are designed for social inclusion.

We recognise that we have a fundamental role in tackling the country's housing supply challenge and work with registered providers to provide affordable housing across a range of different tenure types. We also offer the Government's Help to Buy Scheme on all of our developments.

As part of each development we create we commit to provide resources and improvements to the local area in agreement with the local authority.

We work with our supply chain to ensure that they are appropriately resourced and have the relevant skills and, prior to appointment, conduct due diligence on suppliers and subcontractors.

We provide assistance and sponsorship to local good causes and support our employees in raising money for charities that are important to them.

Affordable housing

Working collaboratively with our public sector partners is central to the way we operate, and we are proud to be playing a key role in tackling the country's housing supply challenge. We work with local authorities and registered providers (RPs) to ensure the provision of affordable housing on the majority of our developments in a way that meets local needs.

During the year we continued to build on our affordable housing offering by working with RPs and government agencies to offer a range of different tenures providing solutions that meet the affordable housing needs of our partners and the communities in which we work.

We offer Help to Buy and our own Trinity Discount Scheme for Armed Forces personnel as part of our Armed Forces Covenant.

We have been working with a number of providers to develop a bespoke specification for the homes we deliver to RPs in response to the growing demands they are under.

Of our 3,759 homes (2017: 3,645) completed in 2018, 1,192 were sold to RPs, representing 32% of the homes we sold (2017: 1,072 and 29%)

Armed forces covenant

Bovis Homes is proud to be a supporter of the Armed Forces Covenant and is committed to ensuring that our nation's Forces personnel (past and present), and their families, are treated with respect and fairness. A copy of our specific commitments can be found on our website. In recognition of this commitment, Bovis Homes has been awarded the Silver Award of the Defence Employer Recognition Scheme.

We regularly attend Career Transition Partnership recruiting events for members of the armed forces. Some of our own staff who are themselves veterans support service leavers at the events to provide examples of what can be achieved in their next career.

We have relaunched our trainee assistant site manager programme and specifically targeted military service. Working with a social enterprise (Salute my Job) who sourced suitable candidates, 1/4 of those who were successful to join the programme were ex-military.

The Group has also continued its policy of helping ex-servicemen and women find new roles in the Company through the Career Transition Partnership (CTP), and supporting staff members who choose to be members of the Reserve forces.

As part of our commitment to supporting our servicemen and women, we have specifically devised our two exclusive armed forces schemes to make the process a little easier.

The 'All Inclusive' Discount Scheme specifically designed to help individuals to buy a brand new home as simply and affordably as possible. When this 'all inclusive' package is combined with the Government Help to Buy - Equity Loan and the Forces Help to Buy initiatives, in what we call Trinity, it provides the ultimate home buying assistance.

Supply chain

We continue to work with our supply chain to ensure timely delivery of our homes in an environmentally and socially aware way. Our suppliers and subcontractors are involved at an early stage in site development to ensure adequate resource planning is in place and health and safety remains a number one priority.

Creating vibrant new communities

Supporting our customers on their new home adventure

Our corporate social responsibility (CSR) priorities

The use of local and regional suppliers means that our developments provide benefits for the wider community, through job creation and opportunities for other local businesses to support the development.

We collaborate with our supply chain on the development of skills for the industry, with our apprenticeship programme incorporating secondments to learn key construction skills. We offer work experience placements to those attending school and college.

We work with our suppliers to provide innovative designs and products as well as providing training on topics such as health and safety and site supervisor safety.

In return for our commitment, our suppliers must meet our anti-bribery and ethical conduct standards. A whistleblowing procedure is in place to support our contractors and their staff.

Community and infrastructure improvements

All of our developments are subject to extensive public consultation prior to work commencing, which identifies the needs of local communities and provisions such as affordable housing, open space and educational needs.

During the planning phase for our developments, we always seek to incorporate leisure and amenity areas together with integrating developments into local public transport infrastructure. Where appropriate, local resident travel vouchers may be provided to encourage use of public transport.

Our larger developments will often include provision of a local school, which will also benefit the local community.

All of our sites have defibrillators installed and staff are trained how to use them. These can be called upon by local communities and we have also taken the step to ensure that these defibrillators remain within the local area once our developments have been completed.

Charity

The Group continues to support fundraising events and local sponsorship opportunities that are important for our staff. Staff have been involved in activities and supporting local good causes. We have continued to make facilities available to staff, with local fundraising days. Charitable donations and sponsorship are managed by each regional business to ensure that local causes and charities important to staff are given priority.

Our regional businesses actively support the communities in which they serve through a number of local sponsorships and donations. These include one-off and ongoing sponsorships, donations and fundraising activities across a number of causes such as school and school fetes, local sports clubs, hospitals and hospices, roundtables, elderly care, local communities' initiatives and financial support for local and national charities.

In order to support our staff, we also offer a payroll giving initiative to enable employees to contribute to their chosen charities directly from their salary.

Priorities for 2019

- Continue to develop our strategic offering to assist with affordable housing.
- Continue to build on our relationships and support our subcontractors and suppliers trough regular meetings and training opportunities

Case study

Back to school to promote housing challenge

A trainee Assistant Site Manager at Southern Counties' Nightingale View returned to her former school to encourage young people to consider a career in the construction industry.

Amanda McCuloch was part of a team of construction ambassadors who visited Henry Beaufort School in Winchester.

The group, which included experts from sales, marketing and build, talked to parents and pupils about the opportunities available, how to get into the sector and the skills required.

"It was great to be back at school to introduce construction to pupils," she said. *"They were asking all about apprenticeships, other routes into the industry and what qualifications they need.*

"It was fantastic to see a good mix of male and female pupils asking us about the industry and there were a lot more students than parents too, which was a great sign.

My former teachers who were there were very impressed with what we were doing too!"

The construction ambassadors, who have participated in a Construction Industry Training Board programme, attend career events in places such as schools and prisons. Alix Laflin, Marketing Assistant at Bovis Homes, said more construction ambassadors were needed to help those from all backgrounds enter the industry.

"I think its super-important based on my own experience, as before I started at Bovis Homes I was really unaware of the great opportunities there are in housebuilding," she said.

"You just don't know what is out there unless you are given the information you need. I also think that apprenticeship schemes are hugely important and should be talked about a lot more in places, such as prisons, for those who might not necessarily know that this is an option available to them.

"We were all very proud to be at Henry Beaufort School showcasing what opportunities Bovis Homes can offer."

Case study

S106 school contribution

Marking a monumental milestone in the development of the new Devon community, Sherford's first primary school – Sherford Vale – is now officially open and welcoming pupils.

Sherford's first primary school

Located at the heart of Sherford and taking just a year to complete, with construction and infrastructure firm Morgan Sindall leading its construction, the children aged between 2-11 years old are the first of 420 pupils set to attend the new school. Pupils were greeted by high-quality facilities, state-of-the-art equipment, and indoor and outdoor learning and play spaces.

Sherford Vale is set to offer a rich and balanced curriculum, with an emphasis on providing outstanding teaching across science, technology, arts, maths and PE, in addition to a wide variety of extracurricular activities. Teaching will also focus on sustainability, taking advantage of Sherford's extensive Country Park, woodland and wildlife habits.

The new school represents a £6m investment into community infrastructure and has been funded by the Sherford Consortium – the partnership of award-winning homebuilders, Bovis Homes, Linden Homes and Taylor Wimpey – with £1m also pledged towards its creation by Devon County Council. The school is sponsored and run by the Westcountry Schools Trust (WeST), which has a proven track record in education excellence locally.

Rob Haring, CEO of WeST said: *"It is fantastic to greet the very first Sherford Vale pupils and their families, as well as celebrating the landmark moment with those who have helped make the new school a reality. It has been an exciting journey to see the plans for Sherford Vale come to fruition, with the firm aim of providing outstanding education to the children of Sherford and its surrounding area.*

"Our vision is focused on academic excellence and success for all children, who will be encouraged to think creatively, while being given opportunities to take part in a wide range of activities and sports, which has a proven track record in local educational excellence."

Bradley Davison, Sherford Consortium said: *"We would like to welcome the Class of 2018; the first pupils, their families, and teaching staff to Sherford's first school. This is one of the biggest milestones in the town's development and an incredible amount of work and investment have gone into bringing the school to life. Its completion is a testament to how far the new community has come in just a few years – and this progress will continue, with three more schools set to open in the coming years."*

Nigel Whelan, Area Director at Morgan Sindall, said: *"It's been a pleasure to work alongside our partners and staff at the school during the construction of Sherford Vale. The new school is an outstanding facility that will create an inspiring and motivational space for pupils to come to learn every day."*

Devon County Council leader, John Hart, said: *"It's absolutely vital when we are trying to create new communities that people putting down roots there know that they will have the facilities they need to go with their new homes."*

"I was pleased that Devon County Council was able to contribute £1 million towards ensuring the new school was up and running as people move into Sherford. Not only will it provide an excellent education for the children, but I hope it will become a real focal point for everyone living there."

Strategic report approval

The strategic report outlined on pages 2 to 59, incorporates the financial highlights, the Chairman's statement, the strategic review, the Chief Executive's report, the financial review, the risks and uncertainties review and corporate social responsibility review.

By Order of the Board
Earl Sibley, Finance Director
28 February 2019

Saxons Plain, West Durrington

Trading performance

In line with our strategy, the Group delivered controlled growth during 2018 resulting in a 3% increase to 3,759 legal completions (2017: 3,645).

The completions included 1,192 affordable homes representing 32% of our completions (2017: 29%). Total revenue was £1,061.4m, an increase of 3% on the previous year (2017: £1,028.2m).

Housing revenue was £1,026.9m, 3% ahead of the prior year (2017: £992.9m). The average sales price for our private homes increased 1% to £337,400 (2017: £334,500) with our overall average sales price remaining broadly flat at £273,200 (2017: £272,400). The group's revenue includes sales of private homes to Heylo Housing Association including the impact of the bulk transaction of 275 homes which exchanged in December 2017 with all homes under the deal completing during 2018.

Other revenue was £20.4m (2017: £3.3m) driven by the release of deferred revenue from disposals within our PRS joint ventures and land sales revenue, associated with three land sales, was £14.1m in 2018, compared to five land sales achieved in 2017 with total revenue of £32.0m.

Total gross profit was £230.9m (gross margin: 21.8%), compared with £184.6m (gross margin: 18.0%) in 2017. Housing gross margin was 21.9% in 2018, strongly ahead of the 18.3% achieved in 2017 driven by the increasing embedded margin in our land bank, reduced customer care costs and our ongoing operational improvements including the initial impacts from our margin initiatives.

During 2018, our construction costs increased by 3% per square foot, reflecting the inflationary impact of labour and materials that we estimate to be around 3 – 4% during the year offset by reductions in our cost base as we delivered production in a controlled manner, changes in specification and the under-utilisation of contingency in line with our margin initiative.

The profit on land sales in 2018 was £1.2m (2017: £2.4m) as we continue the strategy of managing our capital base through the disposal of parcels of land on several of our larger sites although these disposals will not impact our delivery in the next 2 to 3 years. The Group also entered into its first major joint venture in December 2018 at Sherford, near Plymouth, with Clarion Housing Group.

Operating profit increased to £174.2m (2017: £128.0m) at an operating profit margin of 16.4% (2017: 12.5%). Overheads were broadly flat in 2018 at £56.7m (2017: £56.6m) reflecting the efficient Group structure put in place during 2017, offset by higher employee costs and the ongoing investment in new processes, systems and training.

The Group delivered a record profit before tax for the year ended 31 December 2018 £168.1m, comprising operating profit of £174.2m and net financing charges of £6.1m. This compares to £114.0m of profit before tax in 2017, which comprised £128.0m of operating profit, exceptional costs of £6.8m and £7.2m of net financing charges.

Financing and Taxation

Net financing charges during 2018 were £6.1m (2017: £7.2m). Net bank charges were £2.7m (2017: £3.0m), because of lower net debt during 2018 than 2017 offset by a higher level of commitment fees and issue costs amortised in 2018. We incurred a £3.6m finance charge (2017: £5.1m charge), reflecting the imputed interest on land bought on deferred terms. The Group had no finance credit during the period (2017: £1.1m) arising from the unwinding of the discount on its available for sale financial assets as the portfolio was sold during 2017. There were also other credits of £0.2m (2017: expenses of £0.2m).

The Group has recognised a tax charge of £31.5m at an effective tax rate of 18.7% (2017: tax charge of £22.7m at an effective rate of 19.9%). The reduced tax rate is driven by the reduced level of corporation tax to 19%. The Group has a current tax liability of £18.1m in its balance sheet as at 31 December 2018 (2017: £16.9m).

Earnings per share and Dividends

Basic earnings per share for the year were 101.6p compared to 68.0p in 2017. This has resulted in a return on equity of 13% (2017: 9%).

As previously communicated the Board will propose a 2018 final dividend of 38.0p per share. This dividend will be paid on 24 May 2019 to holders of ordinary shares on the register at the close of business on 29 March 2019. Combined with the interim dividend paid of 19.0p and the special dividend of 45.0p, the dividend for the full year totals 102.0p and compares to a total of 47.5p for 2017, an increase of 115%. The dividend reinvestment plan gives shareholders the opportunity to reinvest their dividends in ordinary shares.

Net assets and cash flow

As at 31 December 2018 net assets of £1,061.1m were £4.5m higher than at the start of the year. Net assets per share as at 31 December 2018 were 790p (2017: 787p).

Inventories decreased during the year by £1.7m to £1,320.2m. The value of residential land, the key component of inventories, decreased by £54.7m, as we reduced our land investment in line with our medium term strategy. Other movements in inventories included an increase in work in progress of £56.3m driven by the infrastructure investment at our key Wellingborough site in the year. We have also increased the level of housing work in progress which will support controlled delivery in the first half of 2019 as we seek to improve our phasing profile over a period of time. There was also a further reduction in part exchange properties of £3.4m.

Trade and other receivables decreased by £12.4m, including a reduced level of land sales debtors. Trade and other payables totalled £462.5m (2017: £478.2m). Land creditors increased to £293.3m (2017: £246.7m) reflecting increased land investment during the year and the settlement of existing creditors. The second half of 2018 was our strongest period of land acquisition since the start of 2017, including significant strategic land conversion at Whiteley, Hampshire and Exeter which contributed to the year end land creditors. Trade and other creditors decreased to £169.2m (2017: £231.5m), driven by the timing of payments, a reduction in deferred income from our housing association partners and controlled build delivery around our year end.

As at 31 December 2018 the Group's net cash balance was £126.8m. Having started the year with net cash of £144.9m, the Group generated an operating cash inflow before land expenditure of £291.2m (2017: £350.6m). Net cash payments for land investment were reduced at £145.4m (2017: £188.9m), reflecting the deferred payment terms achieved, the timing of acquisitions towards the end of the year and reduction in land sales debtors. Non-trading cash outflow, excluding the fixed asset disposals, increased to £163.9m (2017: £55.4m) with significantly increased dividends and higher corporation tax payments.

Cash flow

	2018 £m	2017 £m
Net cash at 1 January	**144.9**	38.6
Profit in the year	**136.6**	91.3
Dividends and taxes paid	**(158.8)**	(79.5)
(Increase)/Decrease in inventories	**(1.9)**	122.1
Other	**6.0**	(27.6)
Net cash at 31 December	**126.8**	144.9

We have a committed revolving credit facility of £250m in place which expires in December 2022.

Land bank

	2018	2017
Consented plots added	**4,164**	2,550
Sites added	**19**	11
Sites owned at period end	**117**	117
Total plots in land bank at period end including joint ventures	**17,328**	17,096
Average consented land plot ASP	**£305,000**	£293,000
Average consented land plot cost	**£54,900**	£53,300

The Group's total land bank including joint ventures of 17,328 plots as at 31 December 2018 represents 4.6 years of supply based on the 2018 completions volume. If the land bank is adjusted to reflect the joint venture at Sherford, the land bank reflects our strategy to deliver c. 4,000 completions per annum from 2019 onwards and maintain an optimal land bank at 3.5 to 4.0 times. The 3,759 plots that legally completed in the year were replaced by a combination of site acquisitions and conversions from our strategic land pipeline. Based on our appraisal at the time of acquisition, the new additions, on average, are expected to deliver a future gross margin over 26% and a ROCE in excess of 25%.

The average selling price of all units within the consented land bank increased over the year to £305,000, 4% higher than the £293,000 at 31 December 2017. The estimated embedded gross margin in the consented land bank as at 31 December 2018, based on prevailing sales prices and build costs is 24.8% and reflects the initial impact of our margin initiatives.

Strategic land continues to be an important source of supply and during the year 1,958 plots have been converted from the strategic land pipeline into the consented landbank.

Earl Sibley
Finance Director

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Keeping customers happy

Delivering a high standard of customer service has been a priority across the Group

Marbury Meadows, Wrenbury

Directors and officers

1 | Ian Tyler

2 | Ralph Findlay

3 | Chris Browne

4 | Nigel Keen

5 | Katherine Innes Ker

6 | Mike Stansfield

7 | Greg Fitzgerald ELT

8 | Earl Sibley ELT

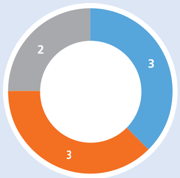
9 | Martin Palmer ● ELT

10 | James Watson ELT

11 | Darrell White ELT

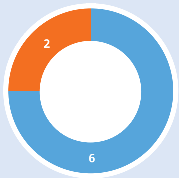
12 | Keith Carnegie ELT

Tenure
(Number of directors)



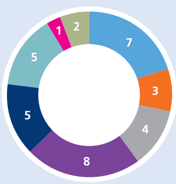
0-2 years | 2-4 years | 5+ years

Diversity
(Number of directors)



Male | Female

Board skillset
(Number of directors)



- Construction and property
- Retail
- Financial
- Strategy and business development
- People and culture
- Health and safety and regulation
- Public sector
- Environment and sustainability

ELT Executive Leadership Team

● Company secretary

1 | Ian Tyler (58)

Non-executive Chairman

Committee membership: Nomination Committee

Date appointed: 29 November 2013

Experience: Ian was Chief Executive of Balfour Beatty plc from 2005 to March 2013, having joined the company in 1996 as Finance Director and becoming Chief Operating Officer in 2002. He is a Chartered Accountant and prior to 1996 was Financial Comptroller of Hanson and Finance Director of ARC Ltd, one of its principal subsidiaries, and held financial roles at Storehouse plc. He was a non-executive director of Mediclinic International plc until February 2017 and Cable & Wireless Communications Plc until September 2015, where he was also chairman of its audit committee, and a non-executive director of VT Group plc until 2010.

What he brings to the Board: Board leadership and debate, construction health and safety matters, familiarity with dealing with international shareholders, business growth and value creation.

External directorships: *Listed:* BAE Systems plc, Cairn Energy PLC. *Non-listed:* Amey PLC, a subsidiary of Ferrovial S.A., AWE Management Ltd (a joint venture company between Lockheed Martin, Jacobs Engineering and Serco).

2 | Ralph Findlay (58)

Independent Non-executive Director and Senior Independent Director

Committee membership: Chairman of the Audit Committee and member of the Nomination and Remuneration Committees

Date appointed: 07 April 2015

Experience: Ralph is a Chartered Accountant and is Chief Executive Officer of Marston's PLC, a position he has held since 2001, having been Finance Director from 1996 to 2001 and Group Financial Controller from 1994 to 1996. He previously held roles with Geest plc as Group Chief Accountant, Bass plc as Treasury Manager and qualified and worked with Price Waterhouse as a specialist in financial services.

What he brings to the Board: Commercial, financial and general management experience in a consumer facing industry. Land acquisition and business growth experience.

External directorships: *Listed:* Chief Executive of Marston's PLC.

3 | Chris Browne OBE (58)

Independent, Non-executive Director

Committee membership: Nomination, Remuneration and Audit Committees

Date appointed: 01 September 2014

Experience: Chris is Chief Operating Officer of easyJet plc, where she served as a non-executive director from January to September 2016. She was Chief Operating Officer, Aviation, of TUI Travel plc until September 2015 and was managing director of Thomson Airways from 2007 to May 2014 and managing director First Choice Airways from 2002 to 2007. She has a Doctorate of Science (Honorary) for Leadership in Management and was awarded an OBE in 2013 for services to aviation.

What she brings to the Board: Commercial and general management experience in a consumer facing and highly regulated industry, plus leadership and operational skills.

External directorships: *Non-listed:* easyJet Airline Company Limited.

4 | Nigel Keen (57)

Independent Non-executive Director

Committee membership: Chairman of the Remuneration Committee, member of the Nomination and Audit Committees

Date appointed: 15 November 2016

Experience: Nigel was Property and Development Director of the John Lewis Partnership until January 2018, where he was responsible for the property strategy and portfolio across both John Lewis and Waitrose, including stores, supermarkets, distribution centres and manufacturing sites. He joined the John Lewis Partnership in 1999, having previously held roles with Tesco plc from 1989 to 1999, including as Construction Director, and with John Evers & Partners from 1985 to 1989, having trained as a Quantity Surveyor.

What he brings to the Board: Property, construction and customer experience in a consumer facing industry. Property strategy, land acquisition and development.

External directorships: *Non-listed:* Non-executive director of RG Carter Construction, Trustee of Sported Foundation and Trustee of Maudsley mental health charity.

5 | Katherine Innes Ker (58)

Independent Non-executive Director

Committee membership: Nomination, Remuneration and Audit Committees

Date appointed: 09 October 2018

Experience: Katherine Innes Ker is Senior Independent Director and Chair of the Remuneration Committee at Go-Ahead Group PLC, Chair of the Mortgage Advice Bureau (Holdings) plc, and a non-executive director and Chair of the Remuneration Committee of building products company Forterra plc. Katherine was a non-executive director of Taylor Wimpey plc from 2001 to 2011 and Chair of the Remuneration Committee from 2004 to 2011 and NED of Bryant Group plc prior to the acquisition by Taylor Woodrow. She was NED at St Modwen Properties PLC from 2010 -2013, and other appointments include Gigaclear Limited until 2018 and Colt Telecom Group SA until 2015. Katherine has a degree in Chemistry and a PhD in Molecular Biophysics from Oxford University.

What she brings to the Board: Strong Board and broad commercial experience, corporate finance, mortgage lending, house building and residential construction industry.

External directorships: *Listed*: Go-Ahead Group PLC, Chair of the Mortgage Advice Bureau (Holdings) plc, Forterra PLC. *Non-listed:* Independent Chair of the Remuneration Committee of Balliol College, Oxford and member of the Management Board of the Bonavero Institute of Human Rights, Oxford University.

6 | Mike Stansfield (62)

Independent Non-executive Director

Committee membership: Nomination, Remuneration and Audit Committees

Date appointed: 28 November 2017

Experience: Mike Stansfield is non-executive Chairman of Braidwater Limited and Campion Homes Limited, the private equity backed residential development companies. During his executive career he was Chief Executive of David Wilson Homes from 1997 until 2005, having been appointed a director of Wilson Bowden plc in 1994 and holding positions with David Wilson Homes, including Divisional Chairman and Managing Director. He was also Chairman of WBD City Homes Limited from 2003 to 2005, a board member of the Housing Forum from 2002 to 2011, and a non-executive director of NHBC Building Services from 2005 to 2014.

What he brings to the Board: House building and residential construction industry, strategy and business development.

External directorships: *Non-listed:* Non-executive chairman of Braidwater Limited and Campion Homes Limited, and Partner of MJS Development Consultancy LLP.

7 | Greg Fitzgerald (54)

Chief Executive

Committee membership: None

Date appointed: 18 April 2017

Experience: Greg was Chief Executive of Galliford Try Plc from 2005 to 2015, having previously been Managing Director of its house building division from 2003. Prior to this he was a founder and later Managing Director of Midas Homes, which was acquired by Galliford Try Plc in 1997. As Chief Executive, he transformed Galliford Try Plc from a building contractor into a well-respected house building and construction business, which included the acquisition of Linden Homes in 2007. Greg was Executive Chairman of Galliford Try Plc during 2015 before becoming non-executive Chairman from January to November 2016. He was a non-executive Director of the National House Building Council from 2010 until July 2016.

What he brings to the Board: Leadership and strategic focus in house building and construction industry, business growth and value creation.

External directorships: *Non-listed:* Non-executive Chairman of Ardent Hire Solutions Limited and Baker Estates Limited.

8 | Earl Sibley (46)

BA (Hons) ACA, Group Finance Director

Committee membership: None

Date appointed: 16 April 2015

Experience: Earl is a chartered accountant and rejoined Bovis Homes as Group Finance Director in April 2015 having worked as Group Financial Controller from 2006 to 2008. Earl served as Interim Chief Executive from January to April 2017. He held a number of senior finance and operational positions with Barratt Developments plc from 2008 to 2015, including Regional Finance Director and previously worked for Ernst & Young.

What he brings to the Board: Leadership, strategic focus, financial and accounting expertise.

External directorships: None.

9 | Martin Palmer (60)

FCIS, Group Company Secretary

Committee membership: Secretary to the Board and Board committees

Date appointed: 01 December 2001

Experience: Martin is a Fellow of the Institute of Chartered Secretaries and Administrators. He has seventeen years of experience with Bovis Homes and was previously Group Company Secretary of London Forfaiting Company PLC from 1997 to 2001.

What he brings to the Board: Governance, regulation and compliance.

External directorships: None

10 | James Watson (46)

Divisional Chairman – East Division

Experience: James joined Bovis Homes in 2016 and is a member of the Royal Institute of Chartered Surveyors. Previously he held a number of divisional managing director roles, firstly with Barratt Developments PLC and latterly with Persimmon PLC throughout the UK.

11 | Darrell White (47)

Divisional Chairman – West Division

Experience: Darrell joined Bovis Homes in 1995 as a surveyor. He has held a number of roles and was promoted to Division Managing Director in 2015 having been Regional Managing Director for the Northern region and Operations Director for Central region.

12 | Keith Carnegie (49)

CEO Partnerships Housing

Experience: Keith is a qualified solicitor (non-practising) and joined Bovis Homes in 1999 as a Regional Legal Director, having been a partner in private practice. He has held a number of senior roles within the Group, including Regional Managing Director, Division Chairman and Chief Operating Officer.

Ian Tyler
Chairman

2018 was a year of significant progress and signalled a step change for the Group in terms of operational and financial performance. We are reclaiming our position as a leading housebuilder, having transformed our customer service, and returned to consistently delivering quality homes to satisfied customers.

We also launched a new housing range and made significant strides in improving our operational capabilities, including investing in people and systems to deliver sustainable success into the future.

Our people, subcontractors and suppliers have worked tirelessly to put the Group back on track, achieving key objectives in a shorter timeframe than could have been expected. The Board is delighted with this progress and I would like to thank them for their commitment.

In 2018 the Group built on the foundations laid in 2017, when it set out its medium term targets to be achieved by 2020. These targets were designed to return Bovis Homes to being a leading UK housebuilder, whilst significantly improving returns to our shareholders. The progress made against these targets in 2018 has been significant, with several already achieved and the Group entering 2019 with a clear direction and energised to achieve further progress.

Strong leadership has played its part and our Chief Executive has continued to provide a driven "hands on" operational focus, regularly visiting development sites. I also made a series of visits to the regions and their sites during 2018, talking to Division staff, the regional MDs, their teams, and our hard working site staff and sub-contractors.

A programme of regional office and site visits was also commenced for the non-executive directors to better understand the Group's operations and to test the culture and observe behaviours first hand. An independent culture review completed during the year further allowed the Board to assess progress in embedding the Group's values of Integrity, Quality and Caring and to temperature check whether our culture is developing at the right pace for an organisation of our size.

2018 was also notable for the significant operational improvements that have been made, investing in our people and in systems to allow them to work and contribute more effectively and the Group to function cost efficiently.

The full benefit of these investments will start to bear fruit in 2019 and it is highly positive that the Group is, once again, seen as an organisation that quality people want to join.

Among the many achievements in the year, the programme of balance sheet optimisation has been a significant success, releasing cash from the balance sheet and seeing one of the Group's larger investments placed into a joint venture with a Housing Association. This programme was demanding and required a high level of commitment from our staff and is directly benefiting shareholders in releasing cash for special dividend payments, the first of which was made in November 2018.

Looking ahead, 2019 is set to be an exciting year for many reasons, including valued customers moving into our new Phoenix range homes for the first time, and the creation of a land-led Partnership Housing division, building on our improved relationships with Housing Associations as key repeat customers, which will help address the shortage in affordable homes.

The Board has ultimate responsibility for the success of the Company and my task focuses on ensuring that it provides strong strategic leadership, monitors the delivery of strategic priorities and objectives and rises to challenges along the way, whilst keeping an eye on the principal risks. In doing so, the Board must ensure that it upholds the highest standards of integrity and promotes effective relationships, communication, openness and accountability in the boardroom, throughout the business and externally with stakeholders.

Rebuilding trust continues to be vitally important in the corporate world and high standards of corporate governance help to underpin this work.

The Board believes that the right culture and values play a pivotal role in delivering long term success and require continuous focus, while the right standards and behaviours enable the Board to function effectively in supporting and overseeing senior management as they reinforce the Group's culture and values. We continue with our improved induction process for all new staff, leadership sessions, and the publicising of our whistleblowing reporting line, designed to promote transparency and accountability. As noted above, I and the other non-executive directors are making personal visits to the regions and sites and holding one to one meetings with staff.

The Board completed an internal formal evaluation of its 2018 performance at the beginning of 2019, which followed the external independent evaluation carried out for 2017. The process adopted has allowed the Board to assess performance in 2018 and the progress with the action plan arising from the 2017 external evaluation, whilst looking forward to areas for further development in 2019. The Board is performing effectively and the action plan for 2019 has been designed to refine many of the areas already in progress and at the same time focus on forthcoming challenges and opportunities. The development of structured succession planning will be continued, engagement with shareholders will be further developed, and focus on the monitoring of culture will be refined. Further information is provided on pages 74 to 75.

The main activities of the Board during 2018 are provided in detail in the report and, in addition to regular activities, included three visits to the regions, an in-depth review of strategy at the annual strategy day, a review of succession planning, and receiving reviews and presentations on a range of topics from senior management and the NHBC. Members of the Board also attended a Capital Markets Day in May 2018 and provided a corporate governance presentation for major shareholders in October 2018.

Our corporate governance practices remain aligned with the version of the UK Corporate Governance Code applicable to our 2018 financial year. As part of preparations for the new version of the Code, the Board via the Nomination Committee reviewed and approved a new diversity and inclusion policy in December 2018 to promote and support a diverse and inclusive culture, supported by our values, both in the boardroom and across the Group.

I would like to thank my colleagues on the Board for their collective support and strong individual contributions during a progressive and successful year in 2018. I was delighted to welcome Katherine Innes Ker as a non-executive director in October 2018, bringing as she does strong experience as a non-executive director across a range of sectors, in addition to housebuilding experience, which strengthen the Board.

We value dialogue with all our shareholders, institutional and retail, and have maintained ongoing engagement with our major shareholders during 2018. The Board has been very cognizant of the vote on the directors' remuneration report at the 2018 AGM and was disappointed with the outcome, having made significant efforts to engage with shareholders, institutions and proxy advisors beforehand. Following the vote, we have sought to better understand the rationale for the dissent and, as noted above, held a corporate governance presentation in October 2018, which was well attended by major shareholders, and allowed discussion to further explore and answer specific concerns. Looking forward, our 2019 AGM will be held on 22 May 2019 and you will find the Notice at the end of this Annual Report.

This report has been approved by the Board and I can confirm that your Company was compliant with the provisions of the UK Corporate Governance Code during 2018.

Ian Tyler
Chairman

Corporate governance report

Mildenhall, Sherborne

Corporate governance report

Introduction

This report sets out the Company's compliance with the UK Corporate Governance Code "the Code" issued by the Financial Reporting Council (publicly available at www.frc.org.uk) and also describes how the governance framework, explained in our corporate governance policy guidelines, available on the Company's website (bovishomesgroup.co.uk/investors/corporate-governance), is applied.

The Board is pleased to report that the Company has, throughout 2018, complied with and applied the provisions of the 2016 UK Corporate Governance Code.

Corporate governance report

Our leadership structure

The Board is responsible to the Company's shareholders for the long-term success of the Group and its values, strategy, business model and governance.

It sets and reaffirms the Group's culture, provides leadership and direction and determines strategy and strategic objectives. The implementation of strategy is monitored and business plans, budgets and forecasts are reviewed and challenged, applying independent judgement via the non-executive directors.

The monitoring of overall performance and progress with operations against business plans, using KPIs and coupled with site and regional office visits, allows the Board to test the collective capabilities of the Group and its ability to deliver quality homes, on time and on budget to satisfied customers.

These activities are carried out within an approved risk appetite and with regular monitoring of internal controls and risk management.

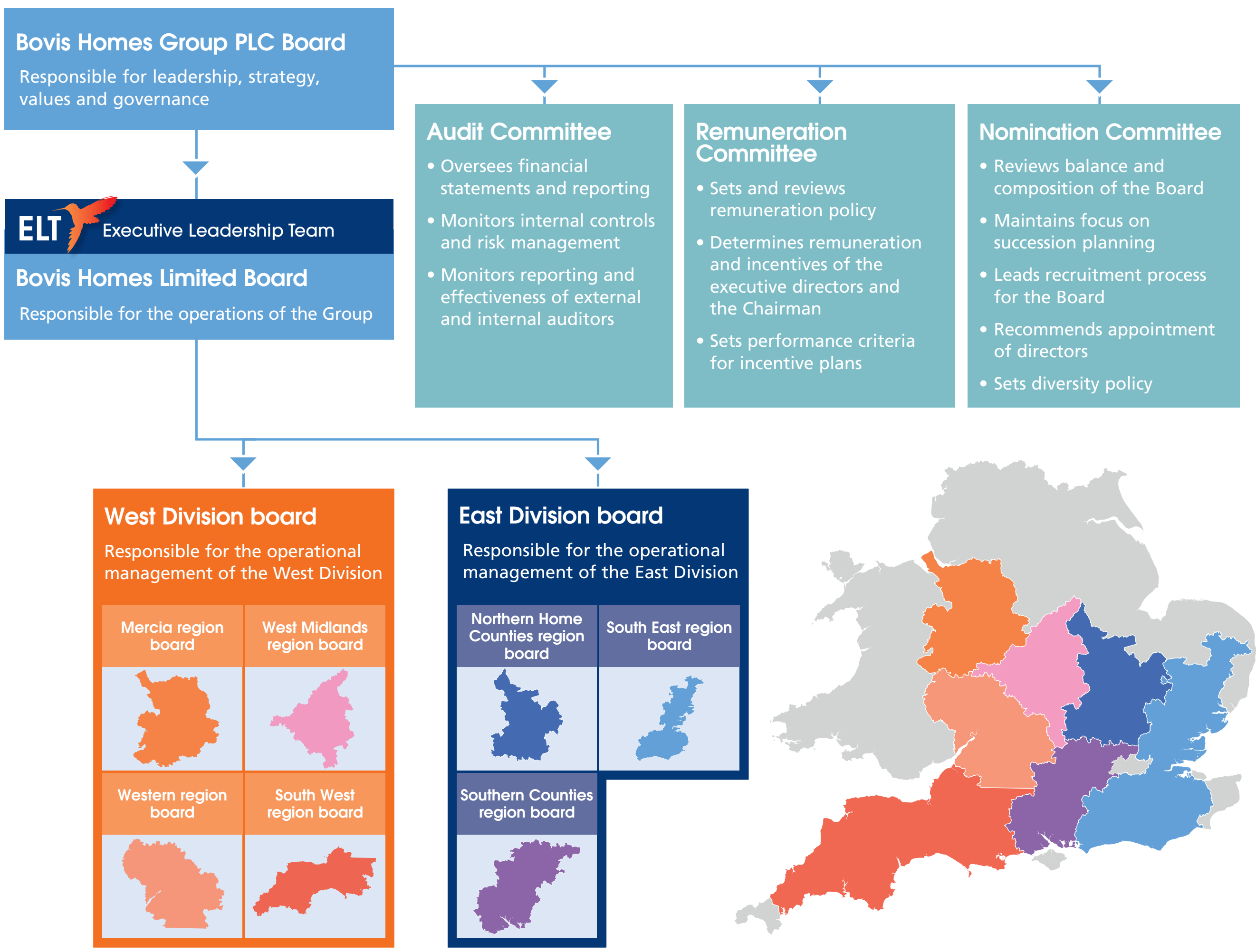
The Board has a schedule of matters reserved for its decision, which is reviewed and approved on an annual basis. A copy is available on the Company's website (www.bovishomesgroup.co.uk/investors/corporate-governance).

Below the Board, the Executive Leadership Team ("ELT") is responsible for the day to day operations of the Group and the CEO and Group Finance Director report in to the Board, with the other members of the ELT attending meetings and reporting on operations within their remit at various points during the year.

Operations are managed in two Divisions, which are responsible for the collective management of the regions within their operating areas. Division staff provide leadership, operational direction and finance support. The Divisions report through the Divisonal Chairmen to the CEO and the ELT.

The Group currently has seven regions, each operating within a specified geography and run by a regional board comprising directors responsible for specific disciplines. Standardised operating procedures and systems have been adopted and their implementation and consistent application is monitored to provide an effective method of operating across the Group, which reduces risk and supports the delivery of forecast outcomes. The regional MDs report in to the Divisonal Chairmen.

Group functions provide support to the Board, the executive directors, the ELT, the Divisions and the regions. In total, the leadership team comprises approximately 85 members of staff. The leadership and governance structure in 2018 and for 2019 is shown below.



Our culture

The Group's values have been defined as Integrity, Quality and Caring. We arrived at our values after consultation with employees and other stakeholders, ensuring that they are a natural fit with what Bovis Homes is all about. All staff receive an induction which explains the importance of culture, how our values feed through into the right behaviours, and our expectations of them as they go about their daily working lives. Our leadership teams model our values, our internal messaging to staff reflects them, and all staff presentations and events carry reminders of who we are and how we go about what we do. We provide support to staff to underpin the right behaviours, including an open and accessible management style, people functions which provide advice when needed, and our whistleblowing reporting line, which allows concerns to be raised.

The Board maintains a focus on culture and uses discussion in Board meetings to hear the views of senior management on the continuing progress in embedding our values. Coupled with visits to regional offices and sites, which allow the directors to talk to staff at all levels and hear their views, the Board can get a real sense of how our culture is developing and the underlying behaviours and attitudes being portrayed.

"The Board keeps a focus on culture, supporting the message from executive management"

These visits also provide opportunity for the non-executives to engage in a way that models and reinforces the Group's values, supporting the message from executive management.

Together with KPIs and other data, this engagement allows the Board to periodically assess whether culture is as expected and reflects that set by the Board and to influence where necessary. As an additional step in 2018, a culture review was completed in the middle of the year by Grant Thornton and Internal Audit to further understand the extent which the Group's culture was embedding. The review concluded that culture was positioned as expected, given the considerable change that had taken place in the Group, and was consistent with other large businesses that had been through a similar turnaround.

The Board

During the majority of the year the Board comprised the non-executive Chairman, five independent non-executive and two executive directors.

Alastair Lyons retired from the Board at the 2018 AGM, having completed nine years' service since his first election at an AGM. Katherine Innes Ker was appointed an independent non-executive director on 9 October 2018, returning the number of non-executives to five and bringing further housebuilding experience to the Board. The provision of a comprehensive and tailored induction is ongoing for Katherine and includes site visits, visits to the regional offices, meetings with senior management, and briefings on specific topics.

Biographical details for the directors are provided on pages 62 to 63. Their dates of appointment, length of service to the end of 2018 and attendance at Board meetings are shown below. The Board held eight main board meetings and all members attended the AGM and a strategy day in accordance with its scheduled calendar for the year.

The Board has a broad range of expertise and experience and a strong blend of skills, which has allowed it to perform effectively during a period of significant forward progress for the business.
The non-executive Chairman brings a strong track record of commercial experience in construction and infrastructure related industries, which benefit the Group in the delivery of its strategy and oversight of its business plans and performance.
Ralph Findlay, Senior Independent Director, has strong commercial, financial and general management expertise from a consumer facing industry and Chris Browne brings a strong commercial and operational background, again from a consumer facing industry.

Name	Date of appointment	Current role	Tenure in current role	Attendance at meetings
Ian Tyler	29/11/13	Chairman	5.1 years	8/8
Chris Browne	01/09/14	Non-executive	4.3 years	8/8
Ralph Findlay	07/04/15	Non-executive	3.75 years	8/8
Nigel Keen	15/11/16	Non-executive	2.1 years	8/8
Mike Stansfield	28/11/17	Non-executive	1.1 years	8/8
Katherine Innes Ker	09/10/18	Non-executive	0.25 years	2/2
Greg Fitzgerald	18/04/17	Chief Executive	1.75 years	8/8
Earl Sibley	16/04/15	Group Finance Director	3.75 years	8/8

Directors' names and functions are listed on pages 62 to 63

Notice of the 2019 Annual General Meeting pages 154 to 159

Nigel Keen has an in-depth construction and property background and experience of running property strategy and portfolios, once again from a consumer facing industry, and Mike Stansfield brings a strong housebuilding industry background, spanning three decades. Katherine Innes Ker is a highly experienced non-executive director across a range of sectors and has extensive experience of the City, in addition to housebuilding experience.

The five non-executive directors have been determined by the Board to be independent in character and judgement with no relationships or circumstances likely to affect, or that could appear to affect, their judgement.

All the directors will be offering themselves for re-election at the forthcoming AGM, in accordance with the Code. The Board strongly supports all the individual director's re-elections, taking account of the balance of skills and expertise and the performance of the Board as a whole. The directors' biographies provided on pages 62 to 63 and the notes to the AGM Notice on pages 154 to 159 together provide details explaining why their individual contributions are and continue to be important for the Group's long term sustainable success.

In accordance with the Companies Act 2006 and as permitted by the Company's Articles of Association, the Board has authorised actual and potential conflicts of interest and conflicts are reviewed annually. The Board is satisfied that powers to authorise actual and potential conflicts are operating effectively.

The Board, via the Nomination Committee, reviewed and approved a new diversity and inclusion policy in December 2018 to promote and support a diverse and inclusive culture, supported by our values, both in the boardroom and across the Group. The Board seeks a mix of talented people with a range of experience, skills, vision and independence, recognising the importance of a blend of abilities, views and social and ethnic backgrounds to enable it, as the objective of the policy, to function effectively. The Board has two female non-executive directors and three female members of senior management report in to the level below the Board. A high emphasis is also being placed on ensuring the development of diversity in senior management roles across the Group by strengthening the talent pipeline and through internal promotion and recruitment. There are no particular considerations, applicable to the Board or senior management, concerning aspects such as age, gender, or educational and professional backgrounds, beyond the requirement for qualified professional staff to hold certain positions. All staff received diversity and inclusion training during 2018 and the policy is being implemented by circulation throughout the Group and publication on the Group's website and has incorporated the Group's long-standing equal opportunities policy. Gender metrics are contained in the corporate social responsibility report on page 42.

All the directors have service agreements or contracts and the details are set out in the current remuneration policy, available at www.bovishomesgroup.co.uk./investors/corporate-governance.

The Board's site visit to the Group's Wellington development

In October 2018, the Board visited Mercia region's Haygate Fields development in Wellington, Shropshire.

Our Haygate Fields development opened in May 2018 and is located on the edge of the Shropshire market town of Wellington, just a few miles from the famous landmark, The Wrekin. Wellington offers a range of shops, schools and leisure facilities and is a short drive from the M54, which provides easy commuting to Telford and Shrewsbury. The development features 3, 4 and 5 bedroom homes, to include those from our new Pheonix housing range.

A tour of the construction site was conducted by the site team, which provided the opportunity for discussion and feedback on progress with the build programme, specific elements of the development, which features mature tree preservation, training and support to site teams, welfare, and health and safety performance.

Viewing of the sales office was then coupled with discussion with regional management and site and sales staff on the local market, production, sales rates and customer satisfaction, followed by a tour and inspection of the show homes. Discussion summarising the site's overall performance and objectives for 2018 and 2019 concluded the visit.

Board meetings and main activities

There were eight scheduled meetings during 2018.

The Board maintains and reviews a rolling agenda plan, which ensures that all key issues and matters reserved to the Board are discussed at the appropriate time, and any requirement for additional meetings is identified by the Chairman, in conjunction with the Chief Executive, Group Finance Director and Company Secretary.

The Chairman reviews meeting agendas with the Chief Executive and Company Secretary and the Company Secretary maintains a rolling schedule of matters arising, which tracks progress with actions and is reviewed at each meeting.

The Board receives a comprehensive electronic meeting pack a week in advance of each meeting plus other information required to enable it to discharge its duties. Meetings are conducted in an atmosphere of open and free flowing discussion and debate, with a questioning approach which enables the non-executive directors to challenge and test the strategy, progress made with implementation and delivery, and proposals put forward by the executive directors. Members of the ELT attended a number of meetings in 2018 and this widens debate and increases the range of views and input available to the non-executive directors.

The main activities at Board meetings in 2018 were as follows:

- the Chief Executive provided reports and updates spanning the Group's activities, including progress with implementation of the strategy, customer satisfaction, health and safety, HR matters, investor feedback, trading performance, land acquisitions/ sales, affordable housing, part-exchange, and progress with key projects, including joint ventures.
- the Group Finance Director presented the 2018 Budget for approval and provided a regular finance report. The finance report includes, at various times, rolling forecasts, Group KPIs, budgets, results, projections, leading market indicators, analyst consensus data, an analysis of share price valuation and movements, as well as progress reports from disciplines reporting to the Group Finance Director and project updates.
- the Budget for 2019 was the subject of debate, challenge and detailed consideration.
- the Divisional Chairmen presented on the performance of their Divisions and explained the progress made across the range of their operations and the challenges experienced and lying ahead.
- the Board received regular reports covering health and safety and discussed performance against KPIs, areas for improvement and monitored actions taken, including the effectiveness of engagement with site teams and subcontractors.
- a presentation on the new approach to behavioural health and safety was also received and discussed.
- monitored customer satisfaction performance and HBF survey scores, including a presentation from the Group Customer Experience Director.
- reviewed progress with margin initiatives and received a presentation on the launch of the Group's new Phoenix housing range.
- a presentation was given by the NHBC, which provided feedback on the Group's performance across a range of KPIs, followed by a question and answer session.
- the 2017 results and the 2018 interim results were reviewed and approved, including release to the London Stock Exchange.
- actions arising from the 2017 Board performance evaluation were progressed and monitored and the approach to the internal formal evaluation for 2018 was approved and the evaluation process commenced.
- succession planning reviews were presented by the Head of HR for the ELT and for the leadership team below the ELT.
- progress with the recruitment of a new non-executive director was monitored, appointing Katherine Innes Ker with effect from 9 October 2018.
- assessed the requirements of the new UK Corporate Governance Code and put in place and monitored an action plan.
- considered the possible impact of Brexit on the Group's activities.

The Board also reviewed principal risks and mitigation, regulatory announcements, major shareholdings, litigation, the process for the longer-term viability statement, and plans for the 2018 strategy day.

Two of eight scheduled meetings were held in London and six were held in the regions, providing opportunity to interact with regional management teams, tour regional offices and active sites and meet staff at all levels. Three regional management teams provided presentations to the Board in informative open discussion and in question and answer sessions. These followed site visits to view construction activities, show homes and sales offices. All sessions concluded with an evening meeting with regional management and members of the ELT, allowing more informal discussion to take place, including individual interaction with the non-executive directors.

"The regional management teams presented to the Board in open discussion and question and answer sessions"

"The Board considers stakeholders in its deliberations"

The Board considers stakeholders in its deliberations and takes into account the views of and feedback from shareholders, employees, subcontractors, suppliers, and customers.

The Board held a Capital Markets Day for major shareholders and analysts in May 2018 at our Wootton site in Bedfordshire, which illustrated the progress being made by the Group, and the feedback was extremely positive. Following the vote on the remuneration report at the 2018 AGM, the Board engaged with major shareholders by holding a corporate governance presentation on 2 October 2018, which the Chairman, Senior Independent Director and Chairman of the Remuneration Committee attended. Feedback from all those attending was positive (further information on this event is provided under Shareholder Engagement on page 77).

The Board has considered the most suitable approach for workforce engagement from the begining of 2019 and has selected a non-executive director to lead, which method will operate alongside other feedback channels. In 2018 the views of employees were received, via the executive team, from employee liaison groups and also in reports from the HR function, which were taken into account in decisions affecting operations and employment conditions.

Engagement with suppliers is considered by the Board in discussions on build activity, supply relationship management, and procurement. A supply chain survey has been implemented and feedback to date has been positive and independent feedback will also come from the NHBC. Subcontractors attend adjudication and project meetings and they also have ongoing involvement regarding health and safety. Suppliers attend regular meetings and provide input to product and specification. KPIs are under consideration to monitor relationships and service charters, portal websites, supplier visits and supply chain events are under consideration.

Feedback from customers is monitored on a continual basis, both in terms of customer satisfaction and the HBF survey, but also through feedback from sites, updates on individual cases, the Group's Homebuyers Panel, and input on the Group's product range.

The annual strategy day held in July provided the Board with the opportunity for an in-depth review of the strategy for the Group and progress with implementation. Brokers provided a presentation giving housing market context, before moving on to the competitive and political landscape and perceptions regarding UK housebuilders. An operational strategy update was provided covering the range of the Group's activities, followed by sessions on people and succession planning, long term capital structure, a risk assessment update and the risk appetite. Operational and financial plan targets were also discussed.

A programme of informal non-executive visits to the regions was commenced, which allows them to learn more about the Group's activities and receive a range of views on the Group progress from staff at all levels. Importantly, the visits allow the non-executives to establish a relationship with local management and to test the culture and hear any concerns from staff. A total of 23 non-executive director visits took place across our sites and offices.

The Chairman led the way in 2018 in terms of increased engagement with our regional teams and completed 13 visits to all our regional offices, holding 1-2-1 discussions with the regional MDs and then with the wider management teams, before visiting sites. The Chairman held meetings with Division staff and sat in on a number of sessions that discussed the Group's margin initiatives to get a feel for direction and progress on the ground.

During the year, the Chairman held a meeting with the non-executive directors, without the executive directors present, and the Senior Independent Director held a meeting with the non-executives, without the Chairman present.

Haygate Fields, Wellington

The Board completed its third external independent performance evaluation towards the end of 2017, which was conducted by Independent Board Evaluation ("IBE"), who have no other connection with the Company.

The overall result was highly positive. The action plan, formulated based on the key recommendations and areas of focus for the Board to take forward was set out in the 2017 Annual Report. During 2018, the Board focused on the aspects of its performance set out in the table below:

2018 action plan

Strategy

The Board participated in a strategy day in July 2018 to review the three to five year horizon. Relevant aspects of these discussions were fed into the Nomination Committee affecting board composition, board skills training, and succession planning in the executive.

Board composition

A formal competency matrix was developed, assessing the Board's strengths and weaknesses, and reflecting the skills and characteristics required and is being monitored. A new non-executive director was appointed, enhancing the diversity of the current Board.

Individual performance evaluation

A more formal annual process was instigated by the Chairman to review individual director performance and is to be further developed.

Succession planning

A more structured approach to succession planning was developed and is ongoing, particularly regarding longer term planning around the Chief Executive and his senior team.

Understanding culture

A programme of Chairman and non-executive director visits to the regions and sites was put in place to test culture and promote business understanding.

Decision making

A delegation of authority schedule was put in place establishing clarity on areas where the Board is consulted or informed and the issues within the remit of management.

Board meetings

The schedule and timetable for Board and committee meetings, was reviewed, ensuring that sufficient time is allocated to specific topics under consideration, with consequent adjustments to agenda management.

Board papers

Improvements to the format and content of the Board pack were made, including KPIs and non-financial benchmarking. More external data and assurance is now available to the Board

The Board carried out an internal formal evaluation of its 2018 performance at the beginning of 2019 using a questionnaire designed to capture feedback on progress made by the Board following the external independent performance evaluation conducted towards the end of 2017, assess the performance of the Board and the progress made during 2018, and to look forward to areas for further development and action for 2019.

The Chairman then conducted open discussions with each director, picking up on specific points raised, and a draft paper was prepared for Board consideration. It was concluded that the relationship between the executive and the Board is open and positive and that access of the non-executive directors to the business through the executive is excellent. Discussions around strategy have been open and appropriate, recognising that a progressively longer-term view will need to be taken. Actions identified for 2018 were largely complete and the Board agreed the following action plan for 2019:

The performance evaluation of the Chairman was led by the Senior Independent Director, with input from all other members of the Board. It was considered that the Board had increased in its effectiveness under the Chairman's leadership in 2018. Board meetings are well-planned and have appropriate agendas, based on a good understanding of the Company's business model and strategy and continue to be held in a conducive environment with a strong focus on the important issues, with open debate and constructive challenge. The Chairman engages the Board well, runs meetings efficiently, and facilitates a broad effective contribution from all the directors with the right level of detail and has a positive and constructive relationship with the CEO.

Once again, during 2018, the Chairman spent significant time visiting regional offices and sites and engaging with the Company's executives and relevant external advisers. He also put in place a programme of non-executive visits to increase their knowledge of the Company's operations and allow them to test culture.

2019 action plan

Succession planning	Investment review
Further progress to be made with structured succession planning, particularly for the executive directors, but also for the wider executive team, including monitoring development plans.	Past investment decisions to receive review and appraisal periodically, focusing on those made since January 2017.
Engagement	**Understanding culture**
Further develop engagement with major shareholders and particularly with proxy voting agencies.	Monitoring of culture and Chairman and non-executive director visits to the regions and sites to be more accurately recorded and regular debriefs to be held drawing conclusions.

Following the external independent performance evaluation completed towards the end of 2017, he ensured that an action plan was put in place and was followed through in 2018.

As Chairman of the Nomination Committee, the Chairman has ensured a clear focus on succession planning, both to increase the Board's effectiveness, recruiting a further non-executive director, and to ensure that a clear direction is in place for senior executive succession in the context of the Group's strategy and the challenges and opportunities ahead.

Board committees

The Board is supported by standing Audit, Nomination and Remuneration Committees.

Membership, roles and activities are set out in separate reports. The Audit Committee report is on pages 102 to 105, the Nomination Committee report is on pages 106 and 107, and the Remuneration Committee report is on pages 82 to 101. Each Committee reports to and has terms of reference approved by the Board and the minutes of Committee meetings are circulated to the Board.

The Audit Committee is chaired by Ralph Findlay, the Remuneration Committee is chaired by Nigel Keen and the Nomination Committee is chaired by Ian Tyler. Nigel Keen took over the Chair of the Remuneration Committee on the retirement of Alastair Lyons at the 2018 AGM.

The internal formal Board evaluation included performance evaluations of the Committees and all were identified as having areas where performance could be improved. Further detail is given in the individual Committee reports.

Governance through the business

The Board aims to meet governance best practice in light of the Group's business model, organisation structure, processes and internal controls. Information on the Group's current approach to governance best practice are set out below.

The Group currently complies with and applies the provisions of the 2016 UK Corporate Governance Code and has reviewed the 2018 edition of the Code and determined the actions it should take to meet the revised requirements. These include measures to enable greater engagement with the workforce, strengthening the role of the Nomination Committee and widening the role of the Remuneration Committee.

Matters reserved for the Board include the overall leadership of the Group, setting the Group's values and standards, approval of strategy and budgets, oversight of operations and performance, structure and capital, financial reporting, internal controls, corporate governance, and approval of major expenditure and transactions.

The Board has approved a written division of responsibilities between the non-executive Chairman and the Chief Executive and the role of the Senior Independent Director has been similarly defined.

The Chairman is primarily responsible for:

- the effective working of the Board,
- taking a leading role in determining the Board's composition and structure, and
- ensuring that effective communications are maintained with shareholders.

The Chief Executive is responsible for:

- the operational management of the Group,
- developing strategic operating plans and presenting them to the Board, and
- the implementation of strategy agreed by the Board.

The Senior Independent Director supports the Chairman in ensuring that the Board is effective and constructive relations are maintained, in addition to leading the annual performance evaluation of the Chairman and providing an additional point of contact for shareholders.

The control framework is subject to Board review. The Group has a defined set of authorities, procedures and controls across the range of its activities, which have been mapped and documented and are available to all staff via the Group's intranet, including the authorities and decision making delegated by the Board to management in respect of the operational control of the Group.

These are regularly and formally assessed both by Internal and external audit, in addition to being subject to a quarterly self-assessment process established in 2017 and embedded during 2018, which is working well. The Group's leadership structure provides the framework for governance control, reporting and risk management and is set out on page 68.

The advice and services of the Group Company Secretary are available to the directors. All directors have access to the Company's professional advisers and can seek independent professional advice at the Company's expense. There was no advice sought during the year.

Training is made available to directors at induction and as required to develop and maintain knowledge. The Chairman is responsible for ensuring that directors continually update and refresh their knowledge and skills appropriate to their role on the Board and Board Committees. Directors are also required to maintain their awareness of the culture and operations of the Group. During 2018, the directors received training on the 2018 UK Corporate Governance Code, a general corporate governance briefing, and updates on other regulatory developments.

The Company has an insurance policy in place which insures directors against certain liabilities, including legal costs. Information on share capital is provided on pages 109 and 110.

Shareholder engagement

The Company has a comprehensive investor relations programme, which allows our major shareholders to regularly engage with the Chief Executive and Group Finance Director.

In addition to one-to-one meetings through the year, the Company holds a series of presentations and meetings following the announcement of the final and half-yearly results. These presentations are made publicly available so that all shareholders can access them on the Group's website at www.bovishomesgroup.co.uk/investors/corporate-governance.

An increased level of shareholder engagement has been maintained since the strategic update in September 2017 and subsequent announcements, enabling the Board to monitor shareholder sentiment. Discussions took place with shareholders and proxy advisors prior to the publication of the 2017 Annual Report, particularly around remuneration, the unusual circumstances that had required certain actions in 2017, and the proposal to include the Group Finance Director in the Project 200 Incentive Plan. Having considered the views of shareholders, an alternative approach (suggested by one of our top shareholders) was adopted and an exceptional LTIP award was granted to the Group Finance Director, with the additional element to be entirely measured against the Project 200 Incentive Plan performance measures.

Following the vote on the 2017 directors' remuneration report at the 2018 AGM, the Board considered the best way forward, including the comprehensive explanations of the approach to remuneration in 2017 and for 2018 already provided to institutions and proxy advisors, and engaged with major shareholders by holding a corporate governance presentation on 2 October 2018, which the Chairman, Senior Independent Director and Chairman of the Remuneration Committee attended. Discussion took place on the recent progress made by the Group; the 2017 external independent board evaluation and the actions implemented; key Board considerations going forward; internal audit, controls and risk management; and remuneration, including the background to the 2018 AGM vote on the remuneration report and the anticipated approach to remuneration in 2019. Feedback was positive both to the approach to corporate governance adopted by the Group and to the anticipated approach to remuneration for 2019.

The Board also held a Capital Markets Day for major shareholders and analysts in May 2018 at our Wootton site in Bedfordshire, comprising an extensive site visit showcasing build and sales activity, followed by presentations from directors and senior staff, which illustrated the progress being made by the Group. Question and answer sessions followed and the feedback was extremely positive.

The Board reviews feedback from investor relations meetings, visits and presentations, including commentary on the matters discussed. The overall feedback received during 2018 was extremely helpful to the Board in terms of the strategic direction of the Group.

The Board also values other channels to obtain shareholders' views. The Chairman is responsible for ensuring that all directors are aware of any issues or concerns raised by major shareholders. In addition, the Senior Independent Director is accessible to shareholders.

All shareholders are invited to attend the Company's AGM, which this year will be held on 22 May 2019. The full Board, including all Committee Chairmen, attend and value this meeting as a means of communicating with private investors, encouraging their participation.

All shareholders have the opportunity to exercise their right to vote and can appoint proxies if they are unable to attend. To facilitate ease of voting we provide an electronic voting facility. Shareholders attending the AGM have the opportunity to ask questions relevant to the business of the meeting and hear the views of other shareholders before casting their vote. After the meeting the results of voting on all resolutions are published on the Group's website.

Risk management and internal control

The Board has responsibility for maintaining and monitoring sound risk management and internal control systems.

The Board's role includes responsibility for the risk appetite and the identification, management and mitigation of risk. Risk is a regular discussion item, which allows the directors to review the risk appetite and principal risks and assess the quality of risk management processes and risk mitigation. Risk is also a theme that runs naturally through Board discussions on a range of topics.

In setting its approach to risk, the Board aims to ensure that the Company is neither prevented from taking opportunities nor exposed to unreasonable risk.

Monitoring and review forms part of the work undertaken by the Audit Committee and is based principally on the review and interrogation of reports from the Internal Audit function and from management. It covers all material controls, including financial, operational and compliance controls and compliance with risk management processes. In addition, an established Risk Governance Committee operates with representation from the regional businesses to support the monitoring of existing risk and the effectiveness of controls and mitigation, alongside the identification of emerging risk across the Group.

"The Risk Governance Committee has representation from the regional businesses"

In reviewing the effectiveness of the Company's system of internal control and risk management systems during 2018, the Board (i) considered the risk appetite and (ii) reviewed changes in the nature, likelihood and impact of the principal risks, their mitigation, the controls placed against them and the Company's ability to respond to changes and (iii) received reports from the Audit Committee on the operation and effectiveness of the risk management and internal controls systems and their integration with strategy and the business model. The Board also reviewed the minutes of Audit Committee meetings and the minutes of Risk Governance Committee meetings.

Recommendations for improvements to internal controls were made during the year and corrective action was taken, but they did not represent significant control failings or weaknesses. A self-assessment process supports our internal control framework, where all directors across the company report regional business performance in control adherence.

Previous year weaknesses in the application of operational and customer service controls have been resolved and are now fully effective in maintaining operational control in respect of quality and customer service. This has been reflected in lower internal audit risk ratings from regional reviews, alongside improvements to the level of compliance across the wider control framework.

The Board has complied with Principle C.2 of the Code by completing a robust assessment of the principal risks facing the Company and it has established a continuous process for identifying, evaluating and managing the principal risks, in accordance with the FRC's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". This process has been in place for the period under review and up to the date of approval of the Annual Report and Accounts and includes compliance with provision C.2.3.

It is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

Control framework

The Company maintains a comprehensive control environment, which is regularly reviewed by the Board.

The principal elements of the control environment include regular board meetings, the Division and regional structure, defined operating controls and authorisation limits, the Internal Audit function, the Risk Governance Committee, and a comprehensive financial reporting system.

There are a number of elements of the Company's internal control and risk management systems that are specifically related to the Company's financial reporting process:

- there is a well understood management structure which allows for clear accountability and an appropriately granular level of financial control.
- the structure is underpinned by documented authority levels for business transactions.
- the process is supported by process documents and systems for both internal management reporting and external reporting which stipulates, amongst other things, reporting timetables and the contents of key management reports.
- best practice processes and procedures are mapped for all core and support activities.
- a quarterly self-assessment for all director level employees had been embedded to confirm adherence to mandatory controls and non-conformities are reported to the ELT for discussion and remediation.
- Internal Audit plays a key role in monitoring the control environment and in identifying and supporting the mitigation of threats to the business.

The Company operates software systems that record financial transactions and whose effectiveness is reviewed by the Internal Audit function on a regular basis. Findings arising from these exercises are reported to the Audit Committee and action is taken, as appropriate.

Control over cash expenditure is a key component of the financial control framework. The Company maintains tight control in this area through a centralised treasury function, regional payment functions, three-way matching of payments, authorisation documentation, and the segregation of authorisation accountability.

The Company maintains a regular weekly and monthly financial reporting cycle and an alternate monthly cost valuation process, allowing management to assess financial progress against objectives.

Reporting is supported by a formal budget and monthly rolling forecasting which ensures that there is a recent financial forecast in place at all times against which to assess performance. Together with this financial reporting, Division and regional management teams report key business issues promptly and as part of a standard monthly regional operational reporting pack.

Finally, there is a process of accounts preparation which ensures that there is an audit trail between the output from the Company's financial reporting systems and the preparation of the financial statements.

Keeping customers happy

Delivering a high standard of customer service has been a priority across the Group

The Avenue, Moreton-in-Marsh

Directors' remuneration report

Nigel Keen

Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2018. It provides details on how directors were paid in 2018 and the link between remuneration and the Company's performance.

There are no changes to remuneration policy for 2019 and the report outlines how we intend to implement the policy in 2019. The Report is subject to an advisory shareholder vote at the 2019 AGM.

The remuneration policy table, which was approved by shareholders at the 2017 AGM, is annexed on pages 99 to 101. The remuneration policy can be found on the Company's website in its entirety.

Remuneration in context

During 2018 the Group made considerable strides towards its strategy, operational priorities and turnaround, maintaining momentum towards its medium-term targets, with further progress expected in 2019. This step change has been reflected in the quality of our product, our customer satisfaction scores, and in our financial performance. Our production processes now consistently deliver high quality new homes to satisfied customers and are driving operating efficiencies, whilst our balance sheet optimisation programme is benefiting shareholders, with the first special dividend payment made in November 2018.

The Group delivered a record profit before tax for the year ended 31 December 2018 of £168.1m, which compares to profit before tax of £114.0m in 2017. Basic earnings per share ("EPS") increased by 49.4% to 101.6p from 68p in 2017 and Return on Capital Employed ("ROCE") finished at 19.3%, up from 13.7% in 2017. At the same time, the Group delivered a strong forward sales position to support growth in 2019.

The Board considers it vital that our remuneration arrangements are aligned to the execution of our strategy and delivery of our medium term targets.

At the core of our strategy is a material improvement in the Group's Return on Capital Employed and this is planned to be achieved by an improvement in our operating margins and a reduction in capital employed, in particular by our programme of balance sheet optimisation, which in turn is delivering the ability to return capital to shareholders in the form of special dividends. During 2018 we made further progress with this balance sheet restructuring and had a net cash balance of £126.8m at the year end.

The Board is committed to building upon this progress and our remuneration framework is designed to continue to underpin the achievement of our strategic objectives in 2019.

2018 Remuneration

The performance in 2018 resulted in 89% of maximum bonus being awarded to the Chief Executive, Greg Fitzgerald, and the Group Finance Director, Earl Sibley, against the stretching financial and operational targets detailed later in the Report. Further explanation of the annual bonus performance assessment can be found on pages 87 to 88.

At the General Meeting on 2 May 2017 shareholders approved a Recruitment Award for Greg Fitzgerald to recompense him for relinquishing management of certain investments in order to take up the role as Chief Executive.

The Recruitment Award was subject to a performance condition that required the Group's total shareholder return over the period from 4 April 2017 to 31 December 2018 to be at least equal to the median of a TSR comparator group. The performance condition has been met and that the recruitment award will vest in full. The shares will be released on the third anniversary of Greg's appointment (18 April 2020), subject to his continued employment until 18 April 2019.

As a result of the EPS, ROCE and TSR performance conditions not being met, the LTIP awards granted in 2016 will lapse in full.

Responding to AGM vote

The Board and the Committee are very cognisant of the vote on the directors' remuneration report at the 2018 AGM. Although the remuneration policy received 97% support at the 2017 AGM, the 2017 directors' remuneration report saw a significant level of votes against. The Committee was disappointed with this outcome, and sought to better understand the rationale for the dissent. We understand that the main concern was in relation to the discretion used during the year, notably in relation to the exceptional LTIP awards made to the executive directors and the use of discretion in respect of the Group Finance Director's bonus to recognise his significant contribution when undertaking the role of Interim CEO. As highlighted last year, 2016 had a difficult end and during 2017 the Group saw a number of challenges and leadership changes.

The Committee believes the decisions made were in the best interest of shareholders and is committed to maintaining an ongoing dialogue. As a result of the vote at the 2018 AGM, the Board engaged with major shareholders by holding a corporate governance presentation on 2 October 2018, which the Chairman, Senior Independent Director and I attended. Feedback from all those attending was positive. Earl has voluntarily decided to waive his entitlement to his exceptional LTIP award and the Remuneration Committee has accepted Earl's decision whilst noting that, as highlighted earlier, 2018 has seen significant improvement against our strategy and Earl has been instrumental in delivering this performance.

2019 Remuneration

In terms of remuneration for 2019, Greg Fitzgerald's salary was increased from £666,250 to £679,575 (2.0%), below the general increase for the wider employee population of 3.0%. Earl Sibley's salary was increased from £325,000 to £334,750 (3.0%) in line with the general increase for the wider employee population.

Following the regular annual review, the Committee determined that the annual bonus measures for 2019 should be adjusted to focus on financial metrics supporting our medium term targets, whilst continuing to prioritise high levels of customer satisfaction. The Committee has, therefore, increased the weighting for financial metrics to 100% from 60%, introduced average capital employed (replacing the legal completion profile measure), and redesigned the customer satisfaction measure to act as a threshold, below which total bonus earned can reduce to zero. Full details of the metrics and weightings are provided on pages 95 and 96.

The performance measures for the LTIP are to remain the same as those for the 2018 awards, with the exception that the financial measures (TSR, ROCE and EPS) will comprise 100% of awards, as opposed to three quarters, with the customer satisfaction performance measure being removed, given the rapid progress made by the Group in improving its performance in this area. The Committee has also determined to reduce the level of vesting for threshold performance from 30% to 25% of the maximum for each of these measures.

Conclusion

I hope you find that this report clearly explains the remuneration approach adopted by Bovis Homes and our response to the vote at the 2018 AGM. As we review our policy during the course of the year, prior to submitting it for shareholder approval at the 2020 AGM, we will engage in a timely manner with shareholders and proxy advisors. I look forward to your support at the 2019 AGM in respect of this report and will be available on the day to take any questions you may have.

Nigel Keen
Chair of the Remuneration Committee

Remuneration report

Introduction

This annual remuneration report explains how the remuneration policy has been implemented in the year ended 31 December 2018 and how it will be implemented for 2019. Details of remuneration in 2018 are set out first, followed by the approach for 2019.

At a glance summary

Component and where to find	Greg Fitzgerald – CEO	Earl Sibley - GFD
Single figure totals for 2018 (page 86)	£2,180k	£682k
Annual bonus payments for 2018 (pages 87 to 88)	89% of maximum	89% of maximum
Recruitment award vesting in respect of 2018 (page 90)	100% of total award vested, to be released in April 2020 subject to continued employment until April 2019	n/a
LTIP awards vesting in respect of 2018 (page 90)	n/a	Lapsed in full
LTIP awards granted in 2018 (page 89)	200% of basic salary	200% of basic salary (125% basic salary and 75% of basic salary on an exceptional basis linked to Project 200). The GFD has voluntarily decided to waive his entitlement to the exceptional award and his LTIP therefore solely consists of the standard award of 125% of base salary.
Salaries for 2019 (page 94)	£679,575 (+2.0%)	£334,750 (+3.0%)
Shareholding as % of salary (page 92) *Guideline: 100% of salary (CEO 200%)*	530%	27.7%
Changes to the remuneration policy for 2019	None	
Annual bonus for 2019 (pages 95 and 96) **Profit before tax:** 60% weighting **Operating margin:** 20% weighting **Average capital employed:** 20% weighting **Customer satisfaction:** Acts as threshold to bonus	Bonus opportunity remains at 100% of basic salary. The balance of financial and non-financial metrics is recast to focus on financial metrics, with an increase to profit before tax weighting from 40% to 60% of the bonus. Average capital employed replaces the legal completion profile measure and the customer satisfaction measure, which previously had a weight of 20%, now acts as a threshold, below which a stepped reduction in total bonus earned on the financial metrics applies, potentially down to zero.	
LTIP awards for 2019 (page 96) **TSR:** 33.3% weighting **ROCE:** 33.3% weighting **EPS:** 33.3% weighting	150% of basic salary	125% of basic salary
	Given the progress with customer satisfaction, the customer satisfaction rating has been removed as a performance measure for the LTIP. TSR, EPS and ROCE remain equally weighted and their respective weights have therefore been increased to 1/3.	

The link between remuneration and strategy

As set out in the Strategic Report, the Group has a clear set of strategic priorities designed to drive the business towards medium term targets and to enhance shareholder value. These priorities include people satisfaction, customer satisfaction, a healthy and safe working environment, and enhanced shareholder returns through increased profitability, ROCE and total shareholder return. Our medium term targets, to be achieved by 2020, include 4 Star customer satisfaction (measured by the Home Builders Federation ("HBF") survey score and achieved in the 2017/18 HBF year), 4,000 completions per annum, a 23.5% gross margin, administration expenses of no more than 5% of revenue, a three and a half to four year land bank, delivery of a minimum of £180 million net cash from balance sheet restructuring, and delivery of circa 25% ROCE via a focus on profitability and balance sheet optimisation. Underlining its commitment to increasing the efficiency of the balance sheet, the Group is returning surplus capital to shareholders in the form of special dividends totalling £180 million in the three years to 2020 and the first payment of £60 million was made in November 2018.

The link between remuneration and the strategic priorities and medium term targets has been carefully considered by the Committee, including the importance of driving behaviours that underpin the culture of the business and support sustainable success. Our medium term targets are monitored and progress measured by reference to the Group's reported KPIs of pre-tax profit, operating margin, net cash, ROCE, earnings per share, private and affordable completions, the HBF customer satisfaction score, plots added to the land bank, and involuntary staff turnover, many of which feature in the Group's incentive schemes.

Annual bonus arrangements link to the Group's near term strategic priorities and, for 2018, the Committee selected operating margin and legal completion profile measures to sit alongside the profit before tax and customer satisfaction performance measures. Margin improvement is critical to the improvement of ROCE and the legal completion measure was designed to support a more controlled phasing of completions and assist in managing capital employed. For 2019, focus is placed directly on average capital employed as a performance measure and customer satisfaction evolves into a threshold, reducing bonus earned if not achieved.

The LTIP takes a longer term perspective and 2018 awards saw the repeat of the HBF customer satisfaction survey score as a performance measure, albeit with a weight reduced from 33.3% to 25% of the LTIP, in addition to the financial and share price performance measures of relative total shareholder return, earnings per share and ROCE, which remained equally weighted, increased from 22.2% to 25%. Having achieved the Group's medium term target of 4 Star customer satisfaction in the 2017/18 HBF year, the 2019 awards will return to the financial and share price based metrics. High levels of customer satisfaction continue to be incentivised in 2019 via the near term annual bonus arrangements, as explained above.

Balance sheet optimisation and reduction in capital employed is permitting the return of capital to shareholders and is incentivised across all levels of senior management via the Project 200 Incentive Plan. The CEO and GFD do not participate in the Plan, although the same measures and targets are being used to determine how much of the GFD's exceptional 2018 LTIP award (representing an additional 75% of basic salary) will vest, as explained in last year's report. The GFD has decided to waive his entitlement to the exceptional award and the Committee has accepted his decision, whilst noting individual contribution to the significant progress made on our balance sheet optimisation and cash generation, enabling the funding of return of cash to shareholders.

Key remuneration decisions during 2018

During 2018, the Committee determined the performance measures and set targets for the 2018 annual bonus (shown on page 88), approved 2017 bonus payments and approved the vesting of the CEO's 2017 Bonus Award. It also determined the performance measures and set targets for and approved LTIP awards made in 2018 and confirmed the total lapse of the 2015 LTIP awards. Malus and clawback provisions for incentive awards and a two year post vesting holding period for LTIP awards continued to be applied in 2018.

Towards the end of 2018, the Committee completed an advisor review appointing Willis Towers Watson in place of Deloitte LLP with effect from 12 December 2018. It also considered the structure for the 2019 annual bonus and completed the 2019 remuneration review, which included consideration of the link between executive remuneration and pay and employment conditions throughout the Group (including oversight of the general proposals for staff for 2019). The Chairman's fee was also reviewed.

Remuneration report

Implementation of remuneration policy for the year ended 31 December 2018
Single figure of executive directors' remuneration (audited)

The following table reports a single figure for total remuneration for each executive director who served during the 2018 financial year.

	Greg Fitzgerald (appointed CEO 18 April 2017)		Earl Sibley (appointed GFD 16 April 2015)	
	2018 £000	2017 £000	2018 £000	2017 £000
Base salary	666	455	325	(1) 339
Benefits (2)	1	1	19	13
Annual bonus	593	829	289	258
Long Term Incentives (3)	(6) 787	n/a	-	-
Sub-total	**2,047**	**1,285**	**633**	**610**
Pension (4)	-	-	25	51
Other – pension salary supplement (5)	133	91	24	-
Total remuneration	**2,180**	**1,376**	**682**	**661**

Notes:

(1) *Earl Sibley was appointed Interim Chief Executive from 9 January to 18 April 2017 and received a temporary salary uplift to a rate of £450,000 per annum whilst in this role.*

(2) *Taxable benefits include medical insurance and loan account balancing payment relating to membership of the Bovis Homes Regulated Car Scheme, plus income tax and national insurance due on this payment.*

(3) *The 2015 LTIP measured over the three year period to 31 December 2017 lapsed in full. The 2016 LTIP measured over the three year period to 31 December 2018 will lapse in full.*

(4) *The single figure for Earl Sibley has been calculated as the employer's cash contribution, half of which is taken as a pension salary supplement. Greg Fitzgerald was not a member of a pension scheme during the year.*

(5) *Greg Fitzgerald receives a non-bonusable and non-pensionable pension salary supplement. Earl Sibley receives a non-bonusable and non-pensionable pension salary supplement representing the balance his pension allowance not contributed to a pension scheme..*

(6) *The recruitment award for Greg Fitzgerald was approved by shareholders at the General Meeting held on 2 May 2017. The performance condition, which required the Company's total shareholder return over the period from 4 April 2017 to 31 December 2018 to be at least equal to the median of the TSR comparator group applicable to awards granted under the LTIP in 2017, has been met and the award vests in full. The award will be paid entirely in shares, to be released in April 2020 and subject to continued employment until April 2019. The value is calculated using the share price on the vesting date (1,025.0 pence on 21 February 2019).*

Greg Fitzgerald is non-executive Chairman of Baker Estates Limited, for which he received no fee during the year, and non-executive Chairman of Ardent Hire Solutions Limited, for which his personal service company receives fees of £115,000 per annum. Earl Sibley does not currently hold any external directorships.

The following table shows the remuneration for the non-executive directors who served during the 2018 financial year

Non-executive directors	Salary / fees £000 2018	Salary / fees £000 2017
Ian Tyler	170	170
Alastair Lyons (retired 23/05/18)	31	79
Chris Browne	49	49
Ralph Findlay	64	58
Katherine Innes Ker (appointed 9/10/18)	11	-
Nigel Keen	54	49
Mike Stansfield (appointed 28/11/17)	49	4
Total	**428**	**409**

Annual bonus payment in respect of 2018

The maximum opportunity for the Chief Executive and Group Finance Director for the year ended 31 December 2018 was 100% of salary. Provisions that enable the recovery of sums paid (clawback) continue to apply, as set out in the policy table.

A breakdown of the performance against the measurement criteria is shown overleaf. Building on the progress made in 2017 and focusing senior management on the Group's medium term targets, the Committee adjusted the balance of financial and non-financial metrics from 50%:50% for 2017 to 60%:40% for 2018. An operating margin measure was introduced in place of ROCE and a legal completion profile measure was adopted to place emphasis on a more controlled phasing of activity across the year and to deliver operating efficiencies, replacing the build programme delivery measure. The operational gateway applied to the HBF survey score customer satisfaction measure continued in 2018, adjusted so that at least 70% customer satisfaction must be achieved before any of the bonus measures could pay out, as opposed to only the financial measures. The measure related to individual performance was removed.

All targets were set in January 2018 and a maximum target was introduced for the profit before tax measure, in addition to threshold, on target and stretch.

Measure	Weighting (as a % of maximum)	Threshold	On target	Stretch and maximum	Outcome and award achieved (% of maximum)
Financial measures (60%)					
Profit before tax	40%	0% of maximum £155.8m	50% of maximum £164.0m	90% of maximum £168.0m (100% maximum pay-out set at £173.0m)	£168.1m (36.1%)
Operating margin	20%	0% of maximum 14.1%	50% of maximum 14.8%	100% of maximum 16.0%	16.4% (20.0%)
Non-financial measures (40%)					
Customer satisfaction (HBF survey score) (completions between 1 October 2017 and 30 September 2018 to reach at least 70% before any measure can pay out)	20%	On target is threshold 75%	50% of maximum 75%	100% of maximum 80%	86.5% (20.0%)
Legal completion profile (private completion profile measured cumulatively)	20%	Threshold 0%: 10% below Budget On target 50%: in line with Budget Maximum 100%: 10% above Budget			64.5% (12.9%)
Total bonus for Group FD (% salary)					**89%**

Pre-tax-profit for 2018 was £168.1 million, just exceeding the target set for stretch performance, but not reaching towards the target for maximum performance. A pay-out of 36.1% versus the 40% allocated to this measure was achieved. Operating margin finished at 16.4%, exceeding the maximum target of 16.0% and a full pay-out of the 20% of allocated to this measure was delivered. The customer satisfaction performance measure saw the Group's HBF survey score reach 86.5%, above the 80% score required for full pay-out of the 20% of allocated to this measure. The legal completion profile target was not fully delivered and a 12.9% pay-out was achieved versus the 20% allocated to this measure. There was no discretion exercised in arriving at the 2018 bonus outcome for the executive directors, representing a total pay-out of 89% of the 100% bonus opportunity. The Committee determined that this outcome had a clear link to the progress made by the Group in 2018 and was a fair reflection of the performance delivered by the executive directors.

Executive director	Maximum bonus % of salary	Target bonus % of salary	Actual bonus % of salary	Total 2018 bonus £000
Greg Fitzgerald	100	50	89%	593
Earl Sibley	100	50	89%	289

Bovis Homes Group Long Term Incentive Plan

Long term incentive awards are made in the form of performance shares or nil-cost options under the Bovis Homes Group Long Term Incentive Plan which was approved by shareholders at the 2010 Annual General Meeting. Each award is made subject to the achievement of performance criteria as set out below and will ordinarily vest after three years. A two year holding period following vesting was introduced for the 2017 awards onwards, which extends to five years the time between awards being granted and when they can be exercised. Provisions that enable the withholding of payment or the recovery of sums paid (malus and clawback) were strengthened for 2017 awards onwards. Discretions available to the Committee contained in the LTIP rules are set out in the policy table on page 100 and also in the exit payments policy in the remuneration policy, available on our website: www.bovishomesgroup.co.uk/investors/corporate-governance.

Awards granted during 2018 (audited)

For the 2018 awards, the Committee decided to retain customer satisfaction as a performance measure, using the independently assessed HBF customer satisfaction survey score rating, alongside the financial and share price performance measures. The financial and share price measures and the customer satisfaction measure each comprise one quarter of awards.

An award of 123,037 shares was made to Greg Fitzgerald at 200% of basic salary (in accordance with the circular to shareholders dated 7 April 2017) on 5 March 2018, calculated based on a share price of £10.83 on 2 March 2018.

The award is subject to a three year performance period ending on 31 December 2020 and exercisable in 2023, following a two year holding period, as follows:

Executive director	Type of award	Number of shares awarded	Face value of award £000	% of face value that would vest at threshold
Greg Fitzgerald	Performance share award	123,037	1,332	*22.5

An award of 60,018 shares was made to Earl Sibley at 200% of basic salary on 5 March 2018, calculated based on a share price of £10.83 on 2 March 2018, subject to a three year performance period ending on 31 December 2020 and exercisable in 2023, following a two year holding period, as follows:

Executive director	Type of award	Number of shares awarded	Face value of award £000	% of face value that would vest at threshold
Earl Sibley	Performance share award	60,018	650	*22.5

(*) Consistent with prior years, threshold vesting for the proportion of the awards measured against each of the EPS, TSR and ROCE performance conditions was set at 30% of the maximum for each measure or 7.5% of the shares in the total award. The customer satisfaction measure requires the achievement of at least 4 Star performance (80% to 89.9%) and does not have a threshold. The percentage of face value of the total award that would vest at threshold is, therefore, 22.5%. This is 2.5% higher than the 2017 awards because the customer satisfaction measure was reduced from one third to one quarter of total awards.

The performance measures for all 2018 awards are Customer Satisfaction (25.0%), TSR (25.0%), EPS (25.0%) and ROCE (25.0%). Achieving threshold performance for the financial and share price performance measures would result in 22.5% of the total award vesting. The proportion of the total award relating to the customer satisfaction measure lapses in its entirety should the performance target not be achieved (it does not have a threshold).

The performance targets are:

- Customer satisfaction – HBF customer satisfaction rating for the period October 2019 to September 2020 to be at least "4 Star" (80% to 89.9%).
- TSR – threshold performance equal to the annualised median of the index and maximum performance equal to the annualised median of the index, plus 7.5% (reduced from 10.0% in the prior year so that maximum performance is more closely aligned with upper quartile performance of sector peers).
- EPS – threshold performance at cumulative EPS of 300 pence and maximum performance at cumulative EPS of 343 pence.
- ROCE – threshold performance at 21.8% and maximum performance at 25.0%, both as measured in the third year of the performance period (2020).

The 2018 constituents of the TSR index, which may be subject to change, are as listed below:

TSR comparator group			
Barratt Developments plc	Bellway plc	The Berkeley Group plc	Countryside Properties PLC
Crest Nicholson Holdings plc	Persimmon plc	Redrow plc	Taylor Wimpey plc

The award for the Group Finance Director includes a 75% exceptional element entirely measured against the same cash generation and capital employed metrics as adopted within the Project 200 Incentive Plan. As highlighted earlier, the GFD has voluntarily decided to waive his entitlement to his exceptional LTIP award.

Awards vesting in respect of 2018

The LTIP awards made in 2016 were measured over the three year period to 31 December 2018 and will lapse in full. One third of the award was measured against each of EPS performance, TSR performance against an index of the UK's leading housebuilders, and ROCE performance. Vesting for threshold performance was set at 30% against each metric.

The threshold EPS target was 370p and the maximum target was 440p measured on a cumulative three year basis. Absolute cumulative EPS over the three year performance period was 259.7p.

The threshold TSR target was performance equal to the annualised median of the index and the maximum target was performance equal to the annualised median of the index, plus 10%. Actual TSR was 14.4% which was below the median of the index of 16.8%.

The threshold ROCE target was 20.5% and the maximum target was 25.3% measured in the third year of the performance period (2018). Actual ROCE in 2018 was 19.3%.

Greg Fitzgerald - 2017 Recruitment Award (audited)

Following approval at the General Meeting held on 2 May 2017, Greg Fitzgerald was granted a conditional right to acquire 76,786 ordinary shares of the Company (the "Recruitment Award") to recompense him for relinquishing management of certain investments in order to take up the role as Chief Executive. The award represented 100% of base salary and the number of ordinary shares was determined by the share price on 4 April 2017 of £8.465, being the dealing day before his appointment was announced. Provisions that enable the withholding of payment or the recovery of sums paid (malus and clawback) apply to the award. The award has the benefit of dividend equivalents.

Executive director	Type of award	Number of shares awarded	Face value at date of grant £000	% of face value that would vest at threshold
Greg Fitzgerald	Recruitment award	76,786	650	n/a

The Recruitment Award was subject to a performance condition that required the Company's total shareholder return over the period from 4 April 2017 to 31 December 2018 to be at least equal to the median of the TSR comparator group applicable to awards granted under the LTIP in 2017. TSR was calculated on 4 April 2017 at the start of the performance period and averaged over the three month period prior to the end of the performance period. The Committee has determined that the performance condition has been met and that the recruitment award should vest with effect from 31 December 2018 and be payable on the third anniversary of appointment, being 18 April 2020, subject to Greg Fitzgerald remaining in employment until April 2019. Vesting has been achieved against a backdrop of the significant progress made by the Group in both 2017 and 2018 and Greg Fitzgerald's key role in securing the Group's turnaround and establishing and progressing delivery of the Group's strategy and medium term targets.

Historical LTIP awards

The table below summarises the historical long term incentive awards made to the executive directors.

		Award size (% salary)		Performance criteria				
Year of grant	Performance period	(CEO)	(GFD)	Customer satisfaction	TSR	EPS	ROCE	Percentage of award vesting
2015	01/01/2015 – 31/12/2017	150%	*150%		33.3%	33.3%	33.3%	0%
2016	01/01/2016 – 31/12/2018		125%		33.3%	33.3%	33.3%	0%
2017	01/01/2017 – 31/12/2019	**200%	125%	33.3%	22.2%	22.2%	22.2%	Ongoing
2018	01/01/2018 – 31/12/20120	†200%	†200%	25%	25%	25%	25%	Ongoing

**As explained in the 2016 Directors' Remuneration Report, this level of award was granted on an exceptional basis.*

***As explained in the 2017 Directors' Remuneration Report, this level of award was granted on an exceptional basis.*

† As explained on page 89, these awards were granted on an exceptional basis.

Pensions

Earl Sibley is a member of the Bovis Homes Group Personal Pension Plan ("GPP"). The Company contributes up to 15% of his base salary to the GPP. During 2018, Earl Sibley took half of this contribution as a pension salary supplement.

Greg Fitzgerald was not a member of a pension scheme during the year and receives a pension salary supplement of 20% of his base salary.

There are no special early retirement or early termination provisions for executive directors, except as noted in the exit payments policy in the remuneration policy, available on our website at www.bovishomesgroup.co.uk/investors/corporate-governance.
Any new appointments include eligibility for membership of the GPP.

Payments for loss of office

There were no payments for loss of office made during the year. There were also no payments to past directors.

Directors’ shareholdings and share interests (audited)

Directors’ beneficial share interests

The directors’ interests in the share capital of the Company are shown below. All interests are beneficial.

	31 Dec 2018				31 Dec 2017			
	Ordinary shares	Share Options	Shares under the LTIP (shares subject to performance conditions)	SAYE options (options subject to continuous employment)	Ordinary shares	Share Options	Shares under the LTIP (shares subject to performance conditions)	SAYE options (options subject to continuous employment)
Executive directors								
Greg Fitzgerald (appointed 18/04/17)	389,563	-	388,581	-	365,694	-	265,544	-
Earl Sibley	9,771	-	148,400	4,213	5,866	-	121,597	4,213
David Ritchie (resigned 9/01/17)	-	-	-	-	-	-	13,300	-
Non-executive directors								
Ian Tyler	2,388	-	-	-	2,185	-	-	-
Alastair Lyons (retired 23/05/18)	25,350	-	-	-	25,350	-	-	-
Chris Browne	1,026	-	-	-	1,026	-	-	-
Ralph Findlay	2,687	-	-	-	2,687	-	-	-
Nigel Keen	-	-	-	-	-	-	-	-
Mike Stansfield (appointed 28/11/17)	-	-	-	-	-	-	-	-
Katherine Innes Ker (appointed 9/10/18)	-	-	-					

There were no changes in the holdings of ordinary shares of any of the directors between 31 December 2018 and 28 February 2019 other than the normal monthly investment in partnership shares through the Bovis Homes Group Share Incentive Plan.

The directors’ interests in share options and awards under the Long Term Incentive Plan are detailed on page 92. There were no changes in the holdings of share options and awards under the Long Term Incentive Plan between 31 December 2018 and 28 February 2019.

Shareholding guidelines

Guidelines have been approved for executive directors in respect of ownership of Bovis Homes' shares. The Board expects executive directors to retain 100% of the net value derived from the exercise of Long Term Incentive Plan awards as shares, after settling all costs and income tax due, until such time as executive directors hold shares with an historical cost equal to basic annual salary and, from 2017 onwards, the CEO holds shares with an historical cost equal to twice basic annual salary. Shares no longer subject to performance conditions but subject to deferral or holding period can count towards the guideline (on a net of tax basis).

Executive director	Shareholding at 31 Dec 2018	Historical acquisition cost	Salary at 1 Jan 2019	% shareholding achieved	Shareholding guideline
Greg Fitzgerald	389,563	£3,604,976	£679,575	530%	200%
Earl Sibley	9,771	£92,793	£334,750	27.7%	100%

Greg Fitzgerald continued to meet the shareholding guidelines during 2018 and, having acquired further shares, now holds shares with a historical cost equal to more than five times basic annual salary. Earl Sibley made further progress towards meeting the shareholding guidelines during 2018.

Directors' interests in Long Term Incentive Plan shares

Executive director	Award date	Vesting date	Interest as at 31 Dec 2017	Interest as at 31 Dec 2018	Value of shares at date of award (£000)	Vesting and exercised in year	Lapsed in year	Expiry date	Market value at vesting (£000)	Gain on exercise (£000)	Shares retained on exercise
Greg Fitzgerald	02/05/17	31/12/17	76,786	*76,786	650	-	-	18/04/20	829	-	-
	02/05/17	31/12/18	76,786	*76,786	650	-	-	18/04/20	787	-	-
	08/09/17	08/09/20	111,972	111,972	1,300	-	-	08/09/27	-	-	-
	05/03/18	05/03/21	-	123,037	1,332	-	-	05/03/28	-	-	-
Earl Sibley	18/08/15	18/08/18	33,215	-	375	-	33,215	18/08/25	-	-	-
	24/02/16	24/02/19	39,040	39,040	344	-	-	24/02/26	-	-	-
	08/09/17	08/09/20	49,342	49,342	**375	-	-	08/09/27	-	-	-
	05/03/18	05/03/21	-	60,018	650	-	-	05/03/28	-	-	-

** 2017 Bonus award and Recruitment Award granted to Greg Fitzgerald following approval at a General Meeting held on 2 May 2017.*

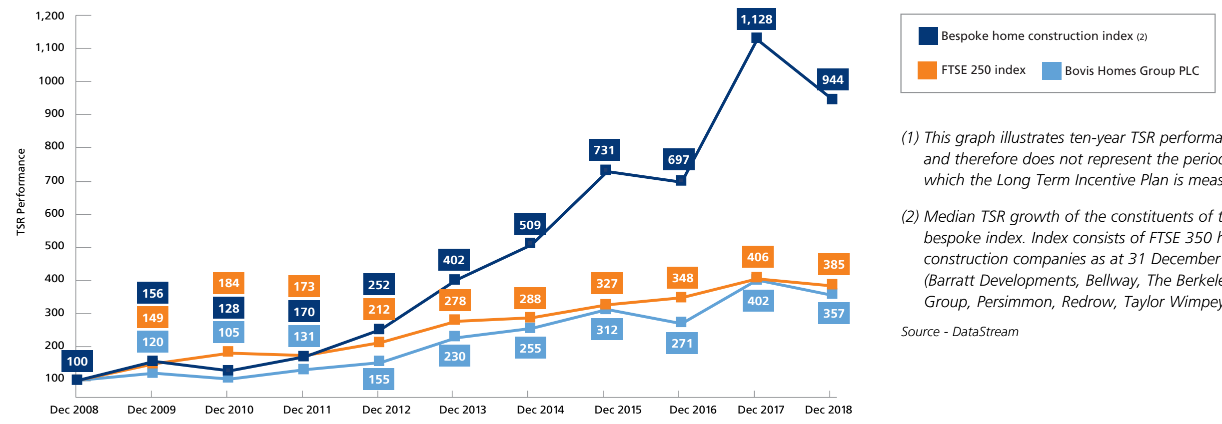
*** As explained in th 2017 Directors' Remuneration Report, the award was calculated based on the closing middle market share price on 21 February 2017, which was £7.60 per share.*

Directors' interests in share options

Executive director	Date of grant	Scheme	Interest as at 31 Dec 2017	Granted in year	Lapsed in year	Exercised in year	Interest as at 31 Dec 2018	Exercise price per share	Option exercise period
Earl Sibley	24/03/2016	SAYE	4,213	-	-	-	4,213	712.00	06/21 – 12/21

The Save As You Earn (SAYE) options were granted at a 20% discount to the prevailing market price on the date of grant. There was no payment required to secure the grant of any share options. There was no change in the terms and conditions of any outstanding options granted under the SAYE Scheme during the financial year. Share options held in the SAYE Scheme, which are not subject to performance conditions, may under normal circumstances be exercised during the six months after maturity of the savings contract.

Total Shareholder Return performance graph (1)



(1) This graph illustrates ten-year TSR performance and therefore does not represent the period under which the Long Term Incentive Plan is measured

(2) Median TSR growth of the constituents of the bespoke index. Index consists of FTSE 350 home construction companies as at 31 December 2008 (Barratt Developments, Bellway, The Berkeley Group, Persimmon, Redrow, Taylor Wimpey)

Source - DataStream

As required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the above graph shows the Total Shareholder Return of an ordinary share held in Bovis Homes Group PLC over the last ten financial years, compared to the FTSE 250 index and the median of the FTSE 350 home construction companies (as listed at 31 December 2008) over the same period. As a constituent of the FTSE 250 operating in the home construction sector, the Committee considers both these indices to be relevant benchmarks for comparison purposes.

The middle market price of the Company's shares at 31 December 2018 was £8.618 (2017: £11.72). During the year ended 31 December 2018 the share price recorded a middle market low of £8.28 and a high of £13.015. As at the date of this report the share price stood at £10.815.

Total CEO remuneration

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Single figure total £000	518	1,016	836	1,315	1,440	1,596	1,505	1,029	1,376	2,180
Annual bonus against maximum %	0	100	82.4	84.2	97.8	88.7	59.8	10	100	89
Long Term Incentive Plan vesting against maximum	31	31	0	50	50	66.7	66.7	35.9	n/a	n/a
Recruitment award vesting against maximum	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100

Note: Columns for 2009 to 2016 relate to David Ritchie and those for 2017 and 2018 relate to Greg Fitzgerald

Change in remuneration of CEO

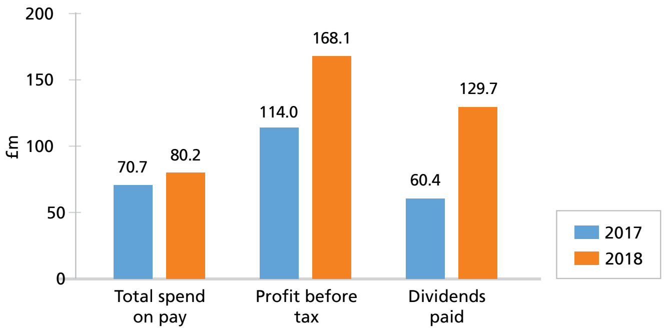
The table below sets out the percentage change in the remuneration awarded to Greg Fitzgerald between 2017 and 2018 compared to the average percentage change for employees as a whole.

Executive director	Base salary	Benefits	Annual bonus
Greg Fitzgerald	2.0%	0%	(28.5)%
Employees as a whole	3.64%	0%	*54%

**Excludes sales and build functions which have tailored incentive schemes.*

Relative importance of spend on pay

The graph below details Group wide expenditure on pay for all employees (including variable pay, social security, pensions and share based payments) as reported in the audited financial statements for the last two financial years, compared with profit before tax and dividends paid to shareholders.



Notes:

- *Total spend on pay in 2017 was £70.7 million and in 2018 was £80.2 million, representing an increase of 13.4%.*
- *Profit before tax in 2017 was £114.0 million and in 2018 was £168.1 million, representing a increase of 47.5%.*
- *Dividends paid to shareholders totalled £60.4 million in 2017 and £129.7 million in 2018, representing an increase of 114.7%.*

Implementation of remuneration policy for the year ending 31 December 2019

Changes in the way that the remuneration policy will be implemented in 2019 versus 2018 are as follows:

- Base salary increases in line with or below increases awarded to the workforce.
- In the annual bonus, average capital employed replaces the legal completion profile measure, to sit alongside the profit before tax and operating margin. The customer satisfaction measure becomes a threshold, with total bonus earned starting to reduce if the threshold is not met, potentially down to zero. The weighting given to the profit before tax measure has been increased.
- For the LTIP, the financial measures and TSR will comprise 100% of awards, as opposed to three quarters, with the HBF Customer Satisfaction rating performance measure being removed (it remains in the annual bonus operating as a threshold).

Executive directors’ base salaries and benefits

The salaries of the executive directors with effect from 1 January 2019 were as follows:

Executive directors	Position	2019 base salary	% increase from 2018
Greg Fitzgerald (appointed 18/04/17)	CEO	£679,575	2.0%
Earl Sibley	GFD	£334,750	3.0%

When determining the base salary increases, the Committee took account of increases awarded to the workforce as well as the individual performance of executive directors and the impact of the increase on their total compensation.

The salary of Greg Fitzgerald, the Chief Executive, was increased by 2.0%, below the award of 3.0% to the wider employee population.

The final stage of the phased approach increasing the salary of Earl Sibley was implemented in 2018 and for 2019 his salary was increased by 3.0%, in line with the wider employee population. Whilst the base salary is competitive against the market, the Committee is mindful that Earl Sibley is remunerated at around the lower quartile pay of peers.

An allowance of just over 3% of salary was provided for general staff increases. Benefits will continue on the same basis as for 2018.

Approach to annual bonus

Following the regular annual review and the success of the emphasis on operational delivery and customer satisfaction in 2018, the Committee determined that the annual bonus scheme for 2019 should be adjusted to focus on financial metrics supporting our medium term targets, whilst continuing to prioritise high levels of customer satisfaction. The Committee has, therefore, increased the weighting for financial metrics to 100% from 60%, replaced the legal completion profile measure with average capital employed, and has redesigned the customer satisfaction measure so that it acts as a threshold, below which total bonus earned is reduced. Threshold is set at 80% customer satisfaction in the Home Builders Federation ("HBF") survey and at this level bonus earned on the financial metrics is triggered without reduction. A customer satisfaction score of 79% leads to a reduction of 25% of bonus earned and scores of 77%, 74% and 70% lead to further 25% reductions, until no bonus is earned at a score of 70%. Margin improvement is seen as critical to achieving our medium term targets and the operating margin and average capital employed measures are designed to deliver operating efficiencies and a more controlled profile of completions across the year from an appropriate level of work in progress across sites. Lastly, the weighting for the profit before tax performance measure has been increased. There is no change to quantum.

Measure	2018 Weighting (as a % of maximum)	2019 Weighting (as a % of maximum)
Profit before tax	40%	60%
Operating margin	20%	20%
Average capital employed	n/a	20%
Financial measures	**60%**	**100%**
Customer satisfaction (HBF survey score)	20%	Acts as threshold
Legal completion profile	20%	n/a
Non-financial measures	**40%**	**0%**

Provisions that enable the withholding of payment or the recovery of sums paid (malus and clawback) apply to the annual bonus in circumstances of (i) a serious misstatement of results; (ii) an error in assessing a performance condition or in the information on which the award was granted; (iii) serious misconduct; (iv) a material failure of risk management; (v) serious reputational damage; or (vi) any other circumstances that the Committee considers to be similar in nature or effect. Malus can apply prior to the bonus payment date and clawback can apply for a two year period thereafter.

The Committee has decided not to disclose the detail of performance targets in advance as they are considered commercially sensitive, being closely indicative of the Group's strategy, but will disclose them retrospectively in the 2019 annual remuneration report. The 2019 performance measures and weightings are described below.

Measure	Rationale / link to strategy	% weighting
Financial measures (100%)		
Profit before tax	Incentivise the achievement of profit targets, with the objective of sustainably increasing shareholder value.	60%
Operating margin	Incentivise increase in operating margin and hence profitability.	20%
Average capital employed	Incentivise management of the level of capital employed within the business, aligning with shareholder interests in progressively and sustainably increasing returns.	20%
Non-financial measure		
Customer satisfaction	Maintaining our focus on quality of service is seen as key to reputation and future success, both in terms of customer demand and achieved selling prices. Measured by the HBF survey score for legal completions between 1 October 2018 and 30 September 2019. Should a customer satisfaction score of 80% not be achieved, total bonus earned from the financial measures starts to reduce.	Acts as threshold
Total opportunity		**100%**

Approach for Long Term Incentive Plan awards

The key features of the long term incentive arrangements (as outlined on page 89) are expected to remain the same as those for 2018, with the exception that the TSR and financial measures will comprise 100% of awards, as opposed to three-quarters. The HBF Customer Satisfaction rating has been removed as a performance measure, as the Group has made rapid progress in improving its performance and is expecting to return to being rated as a 4 Star housebuilder.

Provisions that enable the withholding of payment or the recovery of sums paid (malus and clawback) can apply to LTIP awards in certain circumstances, consistent with those that apply to the bonus, disclosed on the previous page. Malus can apply prior to the award vesting date and clawback can apply for a two year period thereafter. A two year holding period following vesting extends to five years the time between awards being granted and when they can be exercised.

Performance measures and targets for 2019 LTIP awards

The performance measures for all 2019 awards will be TSR (33.3%), EPS (33.3%) and ROCE (33.3%). In previous years and in accordance with our policy, the vesting at threshold was set at 30% for each financial measure. The introduction of customer satisfaction in 2017 with no threshold vesting led to a mechanical overall reduction of the level of vesting at threshold. With the removal of customer satisfaction for 2019, the vesting at threshold would have normally reverted back to 30%. However, the Committee has determined to set the threshold level at 25% for each measure, recognising that this is more in line with market practice.

The performance targets are:

- TSR – threshold performance equal to the annualised median of the index and maximum performance equal to the annualised median of the index, plus 7.5%.
- EPS – threshold performance at cumulative EPS of 320 pence and maximum performance at cumulative EPS of 353 pence.
- ROCE – threshold performance at 22.0% and maximum performance at 25%, both as measured in the third year of the performance period (2021).

Pensions

Pension arrangements (as outlined on page 90) will continue on the same basis as in 2018. The defined benefit scheme closed to future accrual on 28 February 2018.

Non-executive directors' remuneration

The fees for the non-executive director positions for 2019 are set out below.

Role	2018	2019
Chairman fee	£170,000	£185,000
Deputy Chairman fee (to 23/05/18)	£70,000	n/a
Senior Independent Director fee (from 23/05/18)	n/a	£10,000
Non-executive director base fee	£49,000	£53,000
Additional fees:		
Audit Committee chair	£9,000	£10,000
Remuneration Committee chair	£9,000	£10,000

The fees for the Chairman and the other non-executive directors were increased to their current levels with effect from 1 January 2019, following a review which took into account competitive positioning, responsibilities, time commitment for the roles and the size and complexity of the Company. The Chairman's fee had last been reviewed with effect from 29 November 2015 and, in assessing market competitiveness, was found to be below the lower quartile of comparators. The Committee decided the increase (equating to 3% per year over three years), taking account of the value delivered by the Chairman in post, that the fee level had fallen behind the market, and that it had not been reviewed for a number of years. The non-executive director base fee was last reviewed with effect from 1 January 2017.

Remuneration of senior management and other below board employees

In addition to responsibility for executive directors, the Committee is also involved in consideration of the remuneration arrangements for the Executive Leadership Team below the Board, in conjunction with the Chief Executive. Alignment is delivered by ensuring that senior management and executive directors participate in the same bonus and incentive schemes as far as possible, with similar performance measures and targets. The Committee has visibility of the remuneration of management teams below the Executive Leadership Team and has oversight of payment and employment conditions throughout the Group and takes these into account when setting executive pay.

The Committee is mindful of the new UK Corporate Governance Code provision regarding the alignment of pension provisions with the broader workforce. This will form part of the review of the remuneration policy that will be conducted during 2019.

The Remuneration Committee

Committee membership and meetings

All members of the Committee are independent non-executive directors who have no personal financial interest, other than as shareholders, in the matters to be decided. Biographical details are provided on pages 62 to 63.

Name	Date of appointment	Role	Attendance at meetings
Alastair Lyons (retired as Chairman 23/05/18)	01/10/2008	Chairman	3/3
Nigel Keen (appointed Chairman 23/05/18)	15/11/2016	Chairman	6/6
Chris Browne	01/09/2014	Member	6/6
Ralph Findlay	07/04/2015	Member	6/6
Mike Stansfield	28/11/2017	Member	6/6
Katherine Innes Ker	9/10/2018	Member	2/2

The Committee met six times in 2018. In addition to the key activities and decisions mentioned in the introduction to this report, the Committee reviewed the remuneration policy, with no changes being made for 2019, approved the directors' remuneration report for inclusion in the 2017 Annual Report, and reviewed feedback from shareholders and institutions, including regarding the vote on the remuneration report at the 2018 AGM. It approved the lapse of 2015 CSOP options, approved the 2018 offer of the SAYE scheme. It received a 2018 AGM season review and market update and considered the actions required in widening the role of the Committee under the 2018 UK Corporate Governance Code and reviewed the Committee's terms of reference accordingly. An evaluation of the Committee's performance during 2018 was performed as part of the internal formal performance evaluation of the Board and it was found to be performing effectively and fulfilling its remit. The Committee had received greater support from HR and its advisors during 2018, which was appreciated. The Committee felt better informed on remuneration policy and practices and focus would be placed on improved decision making, particularlry around the design of incentive schemes and the setting of targets. The quality of communication with shareholders was highlighted as an important factor in developing a new remuneration policy to be submitted to shareholders at the 2020 AGM.

Remuneration report

The Committee starts its meetings without executive management present when it wishes to do so. During 2018, the Committee asked Ian Tyler (Chairman), Greg Fitzgerald (Chief Executive), and Earl Sibley (Group Finance Director) to attend meetings and assist its discussions. This excluded matters connected to their own remuneration, service agreements or terms and conditions of employment. The Committee takes care to recognise and manage conflicts of interest when receiving views from executive directors or senior management and no director or senior executive is involved in any decisions regarding their own remuneration.

The Group Company Secretary acts as secretary to the Committee.

Advisers to the Committee

Willis Towers Watson were appointed advisors to the Committee on 12 December 2018, following a selection and interview process. Prior to that date, Deloitte LLP had been advisers to the Committee since August 2009. Willis Towers Watson (and formerly Deloitte) provide independent advice on all aspects of executive remuneration and attend Remuneration Committee meetings when invited by the Chairman of the Committee. The Committee reviews the advice, challenges conclusions and assesses responses from its advisors to ensure objectivity and independence. Deloitte did not provide any other services to the Company during the period. Willis Towers Watson provide actuarial consultancy and administration services to the Trustee of the Bovis Homes Pension Scheme. They also provide consultancy services to the Company in respect of pensions. Willis Towers Watson and Deloitte are founder members of the Remuneration Consultants Group and have signed the voluntary Code of Practice for remuneration consultants. The fees paid to Deloitte for services provided in 2018 were £31,350 (2017: £56,485). The fees paid to Willis Towers Watson for services provided in 2018 were £20,740 (2017: £nil).

Shareholder voting at the 2018 AGM and GM

At the AGM held on 23 May 2018, shareholder proxy voting on the directors' remuneration report for the year ended 31 December 2017 was as follows:

Resolution	For	%	Against	%	Total votes	Withheld (1)
Directors' remuneration report 2017	65,095,214	62.38	39,265,744	37.62	104,360,958	1,994,818

Shareholder voting at the 2017 AGM

At the AGM held on 2 May 2017, shareholder proxy voting on the directors' remuneration policy was as follows:

Resolution	For	%	Against	%	Total votes	Withheld (1)
Directors' remuneration policy	95,683,008	97.05	2,911,577	2.95	98,594,585	5,311,610

(1) A vote withheld is not a vote in law and is not counted in the calculation of votes for and against.

The Company is committed to ongoing shareholder dialogue and seeks to understand any concerns investors may have. Should there be a significant level of votes against resolutions relating to directors' remuneration, the Company seeks to understand the reasons for this and will set out any actions taken in response. Steps were taken in light of the vote on the 2017 directors' remuneration report and the Company engaged with major shareholders. The Committee understands that the main concerns raised were in relation to the discretion used by the Committee during 2017, in what was an exceptionally challenging period and included a change in leadership. We will continue our engagement with shareholders as we review our Policy prior to seeking approval for a new Policy at the 2020 AGM.

By order of the Board
Nigel Keen
Chairman of the Remuneration Committee

28 February 2019

Note: This Directors' Remuneration Report has been prepared in accordance with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority, and describes how the Board has complied with the principles and provisions of the UK Corporate Governance Code relating to remuneration matters. Remuneration tables subject to audit in accordance with the relevant statutory requirements are contained in the annual remuneration report.

The full remuneration policy is contained in the 2016 Annual Report and available at www.bovishomesgroup.co.uk/investors/corporate-governance.

Components of the remuneration framework for executive directors

The policy table below summarises the main components of the remuneration framework, a large proportion of which is performance related.

Fixed pay

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary To attract and retain high performing talent required to deliver the business strategy, providing core reward for the role.	Ordinarily reviewed annually. The review typically considers competitive positioning, the individual's role, experience and performance, business performance and salary increases throughout the Group. Market benchmarking exercises are undertaken periodically and judgement is used in their application.	Whilst we do not consider it appropriate to set a maximum base salary level, any increases will take into account the individual's skills, experience, performance, the external environment and the pay of employees throughout the Group. Whilst generally the intention is to maintain a link with general employee pay and conditions, in circumstances such as significant changes in responsibility or size and scope of role or progression in a role, higher increases may be awarded. Thus, where a new director is appointed at a salary below market competitive levels to reflect initial experience, it may be increased over time subject to satisfactory performance and market conditions.	Not applicable.
Benefits To provide market competitive benefits consistent with role.	Benefits typically include medical insurance, life assurance, membership of the Bovis Homes Regulated Car Scheme for Employees or cash car allowance, annual leave, occupational sick pay, health screening, personal accident insurance, and participation in all employee share schemes (SAYE and SIP). In line with business requirements, other expenses may be paid, such as relocation expenses, together with related tax liabilities.	We do not consider it appropriate to set a maximum benefits value as this may change periodically.	Not applicable.
Pension To attract and retain talent by enabling long term pension saving.	Executives joining the Group since January 2002 can choose to participate in a defined contribution arrangement, or may receive a cash equivalent. A salary supplement may also be paid as part of a pension allowance arrangement. Executives who joined the Group prior to January 2002 can continue to participate in the defined benefit pension arrangement (the scheme closed to future accrual on 28 February 2018).	A pension allowance of up to 20% of base salary may be paid. This may be taken as a contribution to the Group Personal Pension Plan, as a salary supplement, or a combination of the two. For executive directors who participate in the Company's defined benefit scheme, to the extent that the annual value of their participation is less than the pension allowance, the balance may be taken as a salary supplement (the scheme closed to future accrual on 28 February 2018).	Not applicable.

Variable pay

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual bonus To incentivise and reward the delivery of near term business targets and objectives.	The annual bonus scheme is a discretionary scheme and is reviewed prior to the start of each financial year to ensure that it appropriately supports the business strategy. Performance measures and stretching targets are set by the Committee. Bonuses are normally paid in cash. In any year in which no dividend is proposed discretion may be exercised to pay part, or all, of the bonus in ordinary shares, deferred for two years. Actual bonus amounts are determined by assessing performance against the agreed targets after the year end. The results are then reviewed to ensure that any bonus paid accurately reflects the underlying performance of the business. Clawback provisions can be applied for a period of two years from the bonus payment date in certain circumstances, including a material misstatement, serious misconduct, a material failure of risk management or serious reputational damage to any Group company.	The annual bonus scheme offers a maximum opportunity of up to 100% of base salary. Achievement of stretching performance targets is required to earn the maximum.	Performance measures are selected to focus executives on strategic priorities, providing alignment with shareholder interests and are reviewed annually. Weightings and targets are reviewed and set at the start of each financial year. Financial metrics will comprise at least 50% of the bonus and are likely to include one or more of: • a profit based measure • a cash based measure • a capital return measure Non-financial metrics, key to business performance, will be used for any balance. These may include measures relating to build quality and customer service. Overall, quantifiable metrics will comprise at least 70% of the bonus. Below threshold performance delivers no bonus and target performance achieves a bonus of 50% of base salary.
Long Term Incentive Plan ("LTIP") To incentivise, reward and retain executives over the longer term and align the interests of management and shareholders.	Typically, annual awards are made under the LTIP. Awards can be granted in the form of nil-cost options, forfeitable shares or conditional share awards. Performance is measured over a performance period of not less than three years. LTIP awards do not normally vest until the third anniversary of the date of the grant. Vested awards are then subject to a two year holding period. For nil-cost options this will be a prohibition on exercise until the end of the holding period. Awards may be granted with the benefit of dividend equivalents, so that vested shares are increased by the number of shares equal to dividends paid from the date of grant to the date of exercise. Malus provisions can be applied to awards prior to the vesting date and clawback provisions can be applied for two years thereafter in certain circumstances, including a material misstatement, serious misconduct, a material failure of risk management or serious reputational damage to any Group company.	The maximum annual award, under normal circumstance • 150% of base salary for the CEO. • 125% of base salary for the GFD. In exceptional circumstances an award may be granted under the LTIP rules up to 200% of base salary.	The performance measures applied to LTIP awards are reviewed annually to ensure they remain relevant to strategic priorities and aligned to shareholder interests. Weightings and targets are reviewed and set prior to each award. Performance measures will include long term performance targets, of which financial and / or share price based metrics will comprise at least two thirds of the award. Quantifiable non-financial metrics, key to business performance, will be used for any balance. Any material changes to the performance measures from year to year would be subject to prior consultation with the Company's major shareholders. Below threshold performance realises 0% of the total award, threshold performance realises 30% and maximum performance realises 100%. The Committee may adjust downwards the number of shares realised in the event that the formulaic outcome does not, in its opinion, reflect the underlying financial performance of the Company.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Shareholding guideline To encourage executives to build up a meaningful shareholding over time and align the interests of management and shareholders.	Executive directors benefitting from the exercise or release of LTIP awards are expected to retain 100% of the net value derived as shares, after settling all costs and income tax due, until such time as the guideline is met.	The guideline for the CEO is 200% of base salary and for the GFD is 100% of base salary.	Not applicable.

Notes to the policy table

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

The executive directors may request and the Company may grant salary and bonus sacrifice arrangements.

The LTIP rules permit the substitution or variance of performance conditions to produce a fairer measure of performance as a result of an unforeseen event or transaction and include discretions for upwards adjustment to the number of shares to be realised in the event of a takeover, scheme of arrangement or voluntary winding up. Non-significant changes to the performance metrics may be made by use of discretion under the LTIP rules. Awards are normally satisfied in shares, although there is flexibility to settle in cash.

The Committee reserves the right to make remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the policy table set out above where the terms of the payment were agreed:

(i) before the policy came into effect; or

(ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes "payments" includes the Committee satisfying awards of variable remuneration and an award over shares is "agreed" at the time the award is granted.

Performance measures for the annual bonus scheme and the LTIP are selected to focus the executive directors on strategic financial and operational priorities, both short term and those related to long term sustainable performance, providing alignment with shareholder interests. Targets for each performance measure are then set by the Committee in light of strategic objectives over the short term for the annual bonus scheme and over at least a three year performance period for the LTIP. In setting targets the Committee takes into account a number of reference points including internal and analysts' forecasts.

Audit committee report

I am pleased to introduce the Audit Committee report for 2018. During the year the Committee reviewed the Group's financial reporting, internal control systems and risk management. It also maintained oversight of external and Internal Audit. The Committee continues to play a fundamental role in protecting shareholders' interests.

Ralph Findlay

Committee Chairman

Overview

During the year, the Committee reviewed the integrity of the Group's financial statements and kept operating, financial and accounting practices under review. It also carefully reviewed significant areas of judgement and the viability statement.

The Committee monitored the system for internal control, financial reporting and risk management and its effectiveness was reviewed in the context of the Group's strategic priorities and its operational performance. Reporting from management, Internal Audit and the external auditor was openly debated in free-flowing discussion, testing conclusions, audit outcomes and judgements. The effectiveness of the Group's Internal Audit function has significantly improved and focus continues in this area with a view to progressing to Internal Audit being a driver of performance and compliance across the Group. The process of reviewing risk management via the Risk Governance Committee is now embedded and the Committee is contributing well to the understanding and mitigation of evolving risk facing the business.

Committee membership and meetings

The Committee comprised five independent non-executive directors for the majority of the year. Alastair Lyons retired at the 2018 AGM on 23 May 2018 and Katherine Innes Ker was appointed to the Committee on 9 October 2018. The non-executive directors have, between them, the recent and relevant experience required by the UK Corporate Governance Code and as a whole they have competence relevant to the sector in which the Company operates. Biographical details and information on skillsets are provided on pages 62 and 63.

Committee membership is determined by the Board following recommendation from the Nomination Committee and is reviewed as part of the Committee's performance evaluation. The Company Chairman, Chief Executive and Group Finance Director were present at all meetings in 2018 by invitation. PricewaterhouseCoopers LLP, the external auditors, and the Head of Internal Audit & Risk attended all meetings and the Group Financial Controller attended two meetings.

The Committee met three times in 2018 and detailed papers and information were received sufficiently in advance of meetings to allow proper consideration of the matters for discussion. The Committee also met with the external auditors and the Head of Internal Audit & Risk, without executive management present, at the end of two meetings. These discussions focused on opportunities for improvement in the control environment and how new systems implementation would support this improvement. Ralph Findlay met privately with the audit engagement partner of the external auditors during the year. The Group Company Secretary acts as secretary to the Committee. An overview of the main activities during 2018 is provided below.

"The Committee is satisfied with the ongoing progress made in improving the control environment in 2018"

Name	Date of appointment	Role	Attendance at meetings
Ralph Findlay (appointed Chairman 15/05/15)	07/04/2015	Chairman	3/3
Alastair Lyons (retired 23/05/18)	01/10/2008	Member	1/1
Chris Browne	01/09/2014	Member	3/3
Nigel Keen	15/11/2016	Member	3/3
Mike Stansfield	28/11/2017	Member	3/3
Katherine Innes Ker	09/10/2018	Member	1/1

Responsibilities and terms of reference

The key responsibilities of the Committee are:

- Monitoring the integrity of the financial statements, the accompanying reports to shareholders and corporate governance statements, including reviewing and testing the findings of the external auditor.
- Reviewing and monitoring the effectiveness of systems for internal control, financial reporting and risk management.
- Overseeing and reviewing the effectiveness of the Group's Internal Audit function.
- Making recommendations to the Board in relation to the appointment and removal of the external auditor and approving their remuneration and terms of engagement.
- Reviewing and monitoring the external audit process and the independence and objectivity of the auditor, as well as the nature and scope of the external audit and its effectiveness.
- The pre-approval of all audit related and non-audit services proposed to be undertaken, taking into account relevant ethical guidance.

The Committee's terms of reference are available on the Company's website (www.bovishomesgroup.co.uk/investors/corporate-governance).

Main activities during the year

The Committee followed a programme structured around the annual reporting cycle and received reports from Internal Audit, the external auditor and management. The key activities undertaken were:

- Discussed the key accounting considerations and judgements reflected in the Group's results for the year ended 31 December 2017 with the external auditor.
- Reviewed the 2017 annual report and accounts, so as to recommend to the Board that, taken as a whole, it was fair, balanced and understandable.
- Assessed the results and effectiveness of the 2017 final audit.
- Reviewed and discussed the key accounting considerations and judgements reflected in the Group's results for the six months ended 30 June 2018 with the external auditor.
- Evaluated and agreed the external auditor's audit strategy memorandum in advance of the 2018 year-end audit.
- Received reports from Internal Audit (further detail below).
- Reviewed and assessed the Group's risk appetite.
- Reviewed ongoing progress with the review of risk management and the work completed by the Risk Governance Committee, including having sight of minutes.
- Reviewed the effectiveness of the system of internal control and risk management systems and monitored progress with the implementation of a key new software system to ensure the expected improvements in the control environment were delivered.
- Completed an assessment of anti-bribery, fraud risk and anti-fraud measures.
- Received updates on the significantly improved IT security environment and further steps to be taken.
- Reviewed progress with the Group's GDPR project to ensure delivery by the Regulation's commencement date.
- Reviewed management's going concern assessment at each reporting period end, considering detailed financial forecasts, future cash flow projections and the resources available to the Group, including the current banking facility and forecast covenant compliance.
- Reviewed management's viability assessment for the year end reporting period covering strategic planning, principal risks, detailed financial forecasts, resources available to the Group, scenario testing, qualifications and assumptions and the period chosen.
- Reviewed the Company's whistleblowing policy, arrangements for reporting concerns, and general nature of the cases reported.
- Reviewed the Committee's terms of reference.

The Audit Committee were provided with summarised findings and action plans from all internal audits throughout the year. These included process reviews which covered the entirety of the Group, alongside regional reviews that tested the end-to-end control framework in detail within a particular region. The audit cycle ensures each region is subjected to detailed review a minimum once every three years, although the frequency is often increased based on perceived risk and operational performance.

In September 2018, the Committee discussed the findings of a Culture Review, which sought to understand the extent to which the Group's culture was embedding, providing a "temperature check". The Review concluded that progress was as expected, given the considerable change that had taken place within the Group over the previous eighteen months, and consistent with other large businesses that had been through a similar turnaround. Actions to deliver further clarity and alignment amongst staff were put in place as a result.

In December 2017, the Committee considered the new ERP system implementation review focusing on consistency and efficiency of use and also discussed the programme assurance review, a continuous activity designed to ensure that a number of key projects forming part of a wider change programme are co-ordinated and delivered as expected.

Audit committee report

Whistleblowing was also discussed, which saw a further increase in the number of reported cases and investigations in 2018. The Group operates a confidential reporting service run by an external provider and investigations are completed by independent resource within the Group.

Thirty cases were raised during 2018, demonstrating that the concerted awareness campaign run throughout 2018 was highly effective. The Committee and executive management remain committed to ensuring that the whistleblowing facility is well publicised throughout the Group in 2019 and will continue to monitor reporting and investigations to ensure that appropriate action is taken, with cases being closed out on a timely basis.

At its meeting in February 2019, the Committee discussed with the external auditor the key accounting considerations and judgements reflected in the Group's results for the year ended 31 December 2018 and reviewed the 2018 Annual Report and Accounts, to be able to recommend to the Board that, taken as a whole, it was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy. The approach taken was to analyse key areas of progress and challenge during the year, followed by reviewing the 2018 annual report and accounts to ensure that all key areas had been reported upon in a balanced and fair way.

Significant areas

The key accounting judgements considered by the Committee in relation to the 2018 accounts and discussed with the external auditors, were:

- Inventory provisioning - the level of inventory provisioning impacts the carrying value of the most significant balance on the balance sheet.
  The Company carries a provision to write down the value of the land held within inventories to the lower of cost and net realisable value, less costs to sell, where this is less than the historical cost and reviews this provision annually.

  The assessment of the level of provision required necessitates the exercise of judgement by management.

  At this year end the provision remaining was £3.4m and had been audited and reported on by the external auditors. The utilisation in the period, and adjustments proposed were discussed and justified by management and the land write down provision remaining at the period end was reviewed.

  Following discussion, the Committee was satisfied that the judgements exercised were appropriate and that the provision was appropriately stated at the year end. Details of the movements in the provision are provided in note 3.1 to the accounts on pages 128 to 129.

- Margin forecasting and recognition - the gross margin from revenue generated on each individual site within the year is based on the latest forecast or the gross margin expected to be generated over the 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. The assessment of house prices and cost to complete is based on the specific details of each site and incorporates certain assumptions and judgements by management.
  The level of profit recognised in the income statement is monitored throughout the year via the Group's usual budgeting, forecasting and management accounts reporting.
  The control processes surrounding the review of life of site revenue and costs have been enhanced by the implementation of a new ERP system.
  The methodology adopted and the Group's performance to date against expectations have been audited by the external auditors.

External auditor

PricewaterhouseCoopers LLP (PwC) were appointed as external auditor at the 2015 AGM, following the completion of a competitive audit tender process supervised by the Committee. In doing so, the Committee complied with the provisions of the Competition & Markets Authority Order, including the appointment of the auditor to audit and non-audit services. Our 2019 AGM Notice contains a resolution for the re-appointment of PwC as auditors to the Company. In making this recommendation, the Committee took into account, amongst other matters, the independence and objectivity of PwC, the effectiveness of the external audit process and cost. There are no contractual restrictions on the choice of external auditor. The AGM Notice also contains a resolution to give the directors authority to determine the auditor's remuneration, which provides a practical flexibility to the Committee.

During the year, the Committee reviewed the independence and objectivity of the external auditor, which was confirmed in an independence letter containing information on procedures providing safeguards established by the external auditor. Regulation, professional requirements and ethical standards were taken into account, together with consideration of all relationships between the Company and PwC and their staff.

Relations with the external auditors are managed through a series of meetings and regular discussions and the Committee ensures a high quality audit by challenging the key areas of the external auditor's work.

At its meeting in February 2019, the Committee reviewed the effectiveness of the external audit process as part of its consideration of the 2018 final audit. This involved assessing delivery and content against the audit plan for the 2018 year end audit, including determination of audit risks and significant areas of judgement, consideration of the performance and communication of the audit team, and the quality of reporting, observations, recommendations and insight. It also included reviewing comprehensive papers from the external auditors, discussing and challenging their conclusions and audit judgements and assessing responses from the external auditor. Lastly, feedback was taken on the effectiveness and conduct of the audit from those involved, including feedback from the regional businesses on visits to the regions, which was positive.

The Committee keeps under review its policy which requires the Committee to approve all audit related and non-audit services proposed to be undertaken by the external auditors, with the exception of compliance work undertaken in the ordinary course of business, which is treated as pre-approved.

When a request for approval is made, the Committee has due regard to the nature of the audit related or non-audit service, whether the external auditor is a suitable supplier, and whether there is likely to be any threat to independence and objectivity in the conduct of the audit.

The related fee level, both separately and relative to the audit fee is also considered. For an analysis of fees paid to PwC for audit services see note 2.1 on page 127. There were no non-assurance services provided by PwC during the year, beyond a de-minimis technical accounting subscription service.

Internal Audit

Internal Audit was further strengthened during 2018 with an additional member joining the team to ensure progress towards a significantly improved internal capability, led by the Head of Internal Audit & Risk. The Committee has again reviewed the progress being made to enhance the effectiveness of the work of Internal Audit and the role and profile of the Risk Governance Committee in identifying and mitigating threats to the business. The co-sourced approach to Internal Audit continued in 2018. Overall, the Committee is pleased with the progress made and the plan for future improvements in the control environment and risk management during 2019, including opportunities for Internal Audit to act as a driver of performance and compliance throughout the business.

Performance evaluation

An evaluation of the performance of the Committee was completed as part of the internal formal performance evaluation of the Board, completed at the begining of 2019. The Committee is considered to be performing well and to have made further good progress in driving improvements around audit and risk. The Chairman continues to bring focus and rigour to the Committee and to display a good balance between the technical skills required and ability to challenge. The agenda is well managed, items are allowed sufficient time for discussion, and Committee members present the right level of challenge. Areas for consideration have been identified, principally related to progressing Internal Audit away from co-sourcing to further improve the robustness of the internal control environment and to develop Internal Audit to be a driver of performance and compliance. Deeper dives into specific topics are also to be considered, as they arise.

The Committee also undertook an assessment of the effectiveness of the external auditor and the Group's Internal Audit function. Having gained a strong understanding of the Group's business and building on effective working relationships, the Committee considers PwC to have carried out a high quality and thorough audit in the fourth year since appointment. The Committee was satisfied with the scope of the external audit and, having reviewed all services provided to the Group by PwC, that they demonstrate independence. The Committee believes the external audit to be effective. Internal Audit is considered to have made further significant progress, cementing credibility through the business, identifying risk and control weaknesses, producing clear and well-articulated reports for Committee review and supporting an ongoinng improvement in processes and controls. The Committee is satisfied with the progress made in improving the control environment in 2018 and the plan for 2019.

Ralph Findlay
Chairman of the Audit Committee

28 February 2019

Nomination Committee report

Ian Tyler
Committee Chairman

Overview

During 2018, the Committee focused forward on succession planning, continued to place emphasis on the knowledge, skills and experience available to the Board amongst the non-executive, and reviewed and tested plans for senior executive succession below the Board, all against the context of challenges and opportunities ahead and the considerable progress being made by the Group.

Board composition has continued to be a key consideration and the search for a further non-executive director with experience across a range of sectors, in addition to housebuilding experience, culminated in Katherine Innes Ker joining the Board in October 2018. This appointment increases diversity on the Board and widens the range of views available in Board debate and the input to effective decision making. The Committee reviewed and approved a policy on diversity and inclusion towards the end of 2018.

The Committee will continue to develop and review progress with succession planning and monitor the balance and composition of the Board during 2019 as the Group makes further progress. Information on the Board's skillset is set out on pages 62 to 63, together with biographies.

The Committee continued to keep the composition of the Board under review during 2018, recommending a non-executive director for appointment to the Board and maintaining its concentration on wider succession planning.

Committee membership and meetings

All members of the Committee are independent non-executive directors, with the exception of the Chairman of the Company. Ian Tyler chaired the Committee during the year and the other members were Alastair Lyons (until 23 May 2018), Chris Browne, Ralph Findlay, Nigel Keen, Mike Stansfield and Katherine Innes Ker (from 9 October 2018).

Name	Date of appointment	Role	Attendance at meetings
Ian Tyler	29/11/2013	Chairman	6/6
Alastair Lyons (retired 23/05/18)	01/10/2008	Member	3/3
Chris Browne	01/09/2014	Member	6/6
Ralph Findlay	07/04/2015	Member	6/6
Nigel Keen	15/11/2016	Member	6/6
Mike Stansfield	28/11/2017	Member	6/6
Katherine Innes Ker	09/10/2018	Member	1/1

The Committee met six times in 2018, with focus in the early part of the year being placed on the recruitment of a new non-executive director and the formulation of executive succession planning. Planning for the retirement of A D Lyons at the 2018 AGM continued with the review of a non-executive director competency matrix and a recommendation to the Board on the appointment of a new Chairman Committee. The non-executive director recruitment was progressed and monitored and culminated in a recommendation to the Board that Katherine Innes Ker, who has extensive non-executive experience including in housebuilding, be appointed.

Planning for senior executive succession was further developed mid-year and was presented to the Committee by the Head of HR for the level below the Board. This planning was reviewed and tested and it was agreed that it be regularly revisited. Further discussion took place towards the end of 2018 on executive director succession planning.

In preparation for the new version of the UK Corporate Governance Code a diversity and inclusion policy was reviewed and approved, noting the actions to be put in place supporting the policy and the broader challenges faced by the industry.

For all meetings, papers and supporting documentation were circulated in advance, allowing proper consideration of matters for discussion. The Chief Executive attended six meetings and the Group Finance Director attended three meetings, both by invitation. The Group Company Secretary acts as secretary to the Committee.

Responsibilities and terms of reference

The key responsibilities of the Committee:

- Reviewing the structure, size and composition of the Board (including skills, knowledge, experience and diversity) and making recommendations to the Board.
- Considering succession planning for directors and senior executives, taking account of the challenges and opportunities facing the Company and the skills and expertise needed in the future.

- Monitoring the leadership needs of the Company and leading the process for Board appointments, ensuring they are conducted on merit, against objective criteria, including diversity and inclusion, using the services of an appropriate external search consultant.
- Making recommendations to the Board, including on the re-appointment of non-executive directors, the re-election of directors at the AGM, and membership of the Audit and Remuneration Committees.

The Committee also reviews the results of the Board performance evaluation relating to the composition of the Board. External legal or other independent professional advice can be obtained at the Company's expense and this facility was not utilised during the year. The Committee's terms of reference are available on the Company's website (www.bovishomesgroup.co.uk/investors/corporate-governance).

Main activities during the year

The main activities during the early part of 2018 were focused on the recruitment of a new non-executive director and the development of succession planning for the executive directors, including alternatives approaches and options for the future. A non-executive competency matrix was prepared and agreed and a search initiated for an experienced non-executive director. The Committee monitored the search into the second half of 2018 before recommending the appointment of Katherine Innes Ker. Katherine's appointment took place with effect from 9 October 2018. A formal, comprehensive and tailored induction is ongoing for Katherine, including visits to the regional offices, site visits, meetings with senior management, and briefings on specific topics.

Planning for senior executive succession was further developed in the middle of 2018, including for senior executives below the Board, which was presented to the Committee by the Head of HR, with a summary and analysis being tested and challenged and it being agreed that progress be kept under review. Planning for senior executive succession continued towards the end of the year and a series of actions and steps were agreed, together with responsibilities, resulting in a clear direction in the context of the Group's strategy and anticipated future challenges and opportunities.

A summary of the Committee's activities during 2018 follows:

- Keeping the structure, size and composition of the Board under review and, having concluded that the Board balance, composition and diversity should be supplemented by an additional non-executive director with strong non-executive experience, commencing the recruitment.
- Running the recruitment process for a new non-executive director, using objective criteria and the external search services of The Zygos Partnership (who have no other connection with the Company), culminating in a recommendation of appointment to the Board.
- Considering and developing succession planning for the executive directors, with a view to future requirements, challenges and opportunities.
- Reviewing succession planning for senior executives below the Board, including a presentation from the Head of HR on the status of planning and future development.
- Recommending the appointment of Nigel Keen as Chairman of the Remuneration Committee with effect from the conclusion of the 2018 AGM.
- Reviewing and approving a diversity and inclusion policy, together with measures designed to launch and embed the policy throughout the Group.
- Recommending the directors to stand for re-election at the 2018 AGM in accordance with the UK Corporate Governance Code.
- Approving the Nomination Committee report for the 2018 Annual Report.
- Reviewing the Committee's terms of reference.

With the retirement of A D Lyons at the 2018 AGM, after considering the competencies of the non-executive directors and their existing commitments, the Committee recommended to the Board that Nigel Keen be appointed Chairman of the Remuneration Committee with effect from its conclusion.

Non-executive directors' service contracts are renewed on an annual basis following the conclusion of a second three year term, subject to satisfactory performance and there being no need to re-balance the Board, with the third year of the third term extending until the subsequent AGM. Having served for three years, a recommendation was made to the Board that the service contract for Ralph Findlay be renewed for a second three year term. This decision followed rigorous review, including the contribution, performance and commitment of Ralph, his appointment as the Senior Independent Director, and the composition of the Board as a whole.

The Nomination Committee reviewed and approved a new diversity and inclusion policy in December 2018 which is designed to promote and support the development of a diverse and inclusive culture, both in the boardroom and across the Group.

The policy expresses how the Board seeks a mix of talented people with a range of experience, skills, vision and independence, recognising the importance of a blend of abilities, views and social and ethnic backgrounds to enable it, as the objective of the policy, to function effectively. In implementing the policy, a high emphasis is being placed on ensuring the development of diversity in senior management roles across the Group by strengthening the talent pipeline and through internal promotion and recruitment. The policy is being implemented by circulation throughout the Group, regular communication, and publication on the Group's intranet and website.

Performance evaluation

An evaluation of the performance of the Committee was completed as part of the internal formal performance evaluation of the Board, completed at the begining of 2019. The Committee was found to be effective and had expanded its scope, but should continue to develop deeper consideration of board composition relative to strategy and succession planning, including diversity.

Ian Tyler
Chairman of the Nomination Committee

28 February 2019

Directors' report

The directors have pleasure in submitting their annual report for the year ended 31 December 2018.

Other disclosures made in the Annual Report

The Company is required to disclose certain information in its directors' report which the directors have chosen to disclose elsewhere in the Annual Report and is incorporated by reference. Details of where this information can be found are set out below:

Research and development

We continue to undertake research and development to improve the processes, materials and products used in the construction of our developments and to enhance the energy efficiency of our range of homes.

Disclosure of information under Listing Rule 9.8.4R

There is no further information to be disclosed in accordance with Listing Rule 9.8.4R.

A final dividend of

38.0p

(2017: 32.5p) is proposed

Directors' names and functions are listed on pages 62 to 63 →

Notice of the 2019 Annual General Meeting pages 154 to 159 →

Dividends

An interim dividend of 19.0p (2017: 15.0p) per share and a special dividend of 45.0p (2017: nil) per share was paid on 23 November 2018. The Board proposes to pay, subject to shareholder approval at the 2019 Annual General Meeting, a final dividend of 38.0p (2017: 32.5p) per share in respect of the 2018 financial year on 24 May 2019 to shareholders on the register at the close of business on 29 March 2019. On this basis, the total dividend for 2018 will be 102.0p (2017: 47.5p), representing an increase of 115%.

The dividend reinvestment plan gives shareholders the opportunity to reinvest dividends.

Annual General Meeting

Notice of the 2019 Annual General Meeting to be held on Wednesday, 22 May 2019 is set out on pages 154 to 159. Members wishing to vote should return forms of proxy to the Company's Registrar not less than 48 hours, (excluding non-working days), before the time for holding the meeting.

The directors believe that all the resolutions to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole. The directors unanimously recommend that all shareholders vote in favour of the resolutions, as the directors intend to do in respect of their own shares in the Company.

Directors

Details of the directors and their biographies are shown on pages 62 to 63.

Alastair Lyons retired from the Board on 23 May 2018 after nine years as a non-executive director.

Katherine Innes Ker was appointed as an independent non-executive director on 9 October 2018.

In accordance with the UK Corporate Governance Code, all the directors will retire at the 2019 Annual General Meeting and, being eligible, offer themselves for re-appointment.

Details of directors' pay, pension rights, service contracts and directors' interests in the ordinary shares of the Company are included in the Directors' Remuneration Report on pages 82 to 101.

Directors' indemnities

During the financial year and as at the date of this report, indemnities were in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company or any of its subsidiaries.

The Company's subsidiary, Bovis Homes Limited, has granted a qualifying pension scheme indemnity to the directors of the Pension Trustee to the extent permitted by law in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Pension Trustee.

Powers of the directors

Subject to the Company's Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares and these powers may be exercised under authority of resolutions of the Company passed at its Annual General Meeting. The rules in relation to the appointment and replacement of directors are set out in the Company's Articles of Association.

Articles of Association

Unless expressly specified to the contrary in the Articles of Association, they may only be amended by a special resolution of the Company's shareholders at a general meeting.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 28 February 2019, its share capital comprised 134,800,246 fully paid Ordinary Shares of 50 pence each. At the Company's 2018 AGM, the directors were authorised to:

- allot shares in the Company or grant rights to subscribe for, or convert, any security into shares up to an aggregate nominal amount of £22,423,521;
- allot shares up to an aggregate nominal amount of £44,847,042 for the purpose of a rights issue; and
- make market purchases up to 13,467,580 shares in the Company (representing approximately 10% of the Company's issued share capital at the time).

Shareholders will be asked to renew similar authorities at the 2019 AGM.

During the year the Company allotted 135,745 shares in connection with the exercise of options under the Company's employee share plans. The Employee Benefit Trust did not purchase any shares during the year.

The Company has not held any shares in treasury during the period under review.

All issued shares are fully paid and free from any restrictions on their transfer, except where required by law, such as insider trading rules. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Group Company Secretary.

Shareholders are entitled to attend, speak and vote at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives.

On a show of hands at a general meeting of the Company every shareholder present in person or by proxy and entitled to vote has one vote and on a poll every shareholder present in person or by proxy and entitled to vote has one vote for every ordinary share held. Further details regarding voting, including the deadlines for voting, at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting at the back of this Annual Report and Accounts. No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other shareholder rights if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 and has failed to supply the Company with the requisite information within the prescribed period.

Shareholders may receive a dividend and on a liquidation may share in the assets of the Company. None of the ordinary shares of the Company, including those held by the Company's share schemes, carry any special rights with regard to control of the Company.

Employees participating in the Bovis Homes Group Share Incentive Plan may direct the trustee to exercise voting rights on their behalf at any general meeting but are not required to do so.

The instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve.

The Board may refuse to register any instrument of transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. Certain employees and officers of the Company must conform to the Company's share dealing rules; these restrict the ability to deal in the Company's shares at certain times and require permission to deal. The Board may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using the relevant system and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of the relevant system and with UK legislation. There are no other limitations on the holding of ordinary shares in the Company and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

An interim dividend of

19.0p

(2017: 15.0p)

per share was paid on 23 November 2018 together with a special dividend of

45.0p

Directors Remuneration Report pages 82 to 101

Notice of the 2019 Annual General Meeting pages 154 to 159

Substantial shareholdings

As at 31 December 2018, the following interests of 3% or more in the Company's issued share capital had been notified to the Company:

Ordinary shares of 50p each	% direct holding	% indirect holding	% financial instruments	Total number of shares held	% of voting rights of the issued share capital
BlackRock, Inc.	-	7.45	0.51	10,726,928	7.96
Schroders plc	-	4.96	-	6,680,423	4.96
Prudential plc group of companies	-	4.73	0.20	6,644,963	4.93
Standard Life Aberdeen plc group of companies	-	4.87	-	6,562,807	4.87
Woodford Investment Management Ltd	4.74	-	-	6,389,100	4.74
Royal London Asset Management Limited	4.14	-	-	5,567,004	4.14
Norges Bank	3.05	-	0.17	4,335,572	3.22

Between 1 January and 28 February 2019, the Company did not receive any notifications under the Disclosure Guidance and Transparency Rule 5.

Takeover directive

On a change of control, provisions in the Group's syndicated banking facility agreements (described in note 4.3 to the accounts) would allow lenders to withdraw the facility.

All of the Group's share schemes contain provisions relating to a change of control. Under these provisions, a change of control would be a vesting event, allowing exercise of outstanding options and awards, subject to satisfaction of performance conditions, as required.

There are a number of commercial contracts that could alter in the event of a change of control. None is considered to be material in terms of their potential impact on the Group in this event.

Financial risk management

Details of financial risk management and exposure to credit / liquidity risks are included in note 4.6 to the accounts.

Political donations

No political donations were made during the year ended 31 December 2018 (2017: nil). The Group has a policy of not making donations to political parties or incurring political expenditure.

Auditors

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Following an audit tender process conducted at the end of 2014, PricewaterhouseCoopers LLP were appointed as auditor at the 2015 AGM. In accordance with the provisions of the Companies Act 2006, resolutions concerning the re-appointment of PricewaterhouseCoopers LLP and their remuneration will be placed before the 2019 Annual General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 62 to 63 of the Annual Report confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By Order of the Board
M T D Palmer
Group Company Secretary
28 February 2019

Bovis Homes Group PLC
Registered number 306718

Independent auditors' report to the members of Bovis Homes Group PLC

Report on the financial statements

Our opinion

In our opinion, Bovis Homes Group PLC's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the Group and Company Balance sheets as at 31 December 2018; the Group income statement and the Group statement of comprehensive income, the Group and Company statements of cash flows, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 2.1 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Context

Bovis Homes Group PLC is a British housebuilder listed on the London Stock Exchange. The Group is wholly UK based, operating in England and Wales. The Group is dependent on macroeconomic factors as well as the conditions of the UK residential property market. The Group may be particularly adversely affected by any factor that reduces sales prices or transaction volumes or presents constraints in the supply chain in the UK residential property market. This was particularly relevant for our work in the areas of margin forecasting and the valuation of inventory.

Our audit approach - Overview

- Overall Group materiality: £8.4 million (2017: £5.7 million), based on 5% of profit before tax.
- Overall Company materiality: £4.6 million (2017: £4.7 million), based on 1% of total assets.

- The Group consists of one main trading entity and is structured into seven regions, being Mercia, West Midlands, Western, South West, Northern Home Counties, South East and Southern Counties. The Group financial statements are a consolidation of these seven regional reporting units and the centralised Group functions.
- We undertook work across the seven regions which together account for 100% of the Group revenue.

- Margin forecasting and recognition (Group).
- Carrying value of inventory (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Health and Safety at Work etc Act 1974, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure. Audit procedures performed included:

- review of the financial statement disclosures to underlying supporting documentation;
- review of correspondence with and reports to the regulators;
- review of correspondence with legal advisors;
- enquiries of management and review of internal audit reports in so far as they related to the financial statements; identifying and testing journal entries in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Margin forecasting and recognition (Group)	
Refer to page 104 of the Audit Committee Report ('Significant Areas') and Note 1.5 of the financial statements ('Key sources of estimation uncertainty for the Group). The Group's margin forecasting and recognition system ("COINS") incorporates the input of a number of key assumptions including: • Build costs (allocated to each plot based on the Group's site wide margin model); • Land costs and central site costs, including infrastructure costs (allocated to each plot based on the Group's site wide margin model); and • Sales price (based on an expected sales price for the type and size of property). Periodic surveyor and financial appraisals are performed to determine the costs to date and work in progress, based upon the stage of completion of each unit. COINS is updated accordingly. If the overall site is loss making then management consider this as part of the land write down provisioning process. There is uncertainty within the above assumptions from potential changes in the market conditions or unforeseen circumstances. This could result in the forecast assumptions being inaccurate and an incorrect margin being recognised. We consider this to be the most significant financial reporting risk for the Group principally due to the high level of management judgement inherent in the accounting for the Group's developments.	At a regional level we tested management's forecasting and monitoring controls, including observation of a selection of the site review meetings attended by representatives from the Build, Commercial and Finance teams to ensure costs are accurate and complete. We understood significant differences between the forecast cost and actual cost incurred. We tested a sample of actual costs incurred and forecast costs to third party support. We selected a sample of cost variations and verified that these have had been appropriately approved. We attended surveyor counts at a sample of sites which provided evidence over existence of inventory as well as the basis for the valuation of costs incurred. We also tested that the system correctly recalculated site margins. We have tested a sample of forecast sales prices to the actual sales price attained to support the validity of estimated sales prices in COINS. Based on the procedures performed, we did not identify any sites where we considered the underlying assumptions in the forecast to be inappropriate.
Carrying value of inventory (Group)	
Refer to page 104 of the Audit Committee Report ('Significant Areas') and Note 1.5 of the financial statements ('Key sources of estimation uncertainty for the Group). Inventory is comprised of land held for development, work in progress (WIP), raw materials and completed plots and part exchange properties. Land held for development and raw materials are held at cost. WIP is made up of the cost of the land being built on, direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Completed plots are held at build cost and part exchange properties are held at the market value determined at the time of exchange. Inventories are stated at the lower of cost and net realisable value ("NRV"), NRV being the estimated net selling price less costs to sell and estimated total costs of completion based on management's forecast. Due to the cyclical nature of the housing industry or issues experienced during the build programme, there is a risk that the NRV of the inventory is lower than cost and therefore inventory is held at the incorrect value.	We attended surveyor counts at a sample of sites which provided evidence over existence of inventory as well as the basis for the valuation of costs incurred. We reviewed margins for all major sites to identify those with low or eroding margins, for example due to specific issues or under performance. We discussed the identified sites with management, including considering the level of provisions held against these sites and corroborated the explanations to support the carrying value of inventory. We tested the percentage completion of units across a sample of sites and checked that forecasts have been appropriately updated for costs incurred to date and expected costs to completion. We also assessed the historical accuracy of management's forecasting. We considered the level and ageing of part exchange properties and challenged the recoverability of these assets. We checked that appropriate site acquisition approvals had been obtained for significant sites, which include consideration of site profitability. Based on the procedures performed we did not identify any sites where we determined that additional impairments were required in the year, above those already made by management.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group consists of one main trading entity and is structured into seven regions, being Mercia, West Midlands, Western, South West, Northern Home Counties, South East and Southern Counties. The Group financial statements are a consolidation of these seven regional reporting units and the centralised Group functions.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall Group materiality	£8.4 million (2017: £5.7 million).	£4.7 million (2017: £4.7 million).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax provides us with the most appropriate benchmark given the business' listed status and stakeholder focus on profits.	We believe that total assets provides us with the most appropriate benchmark given the business' listed status and stakeholder focus on assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.4 million (Group audit) (2017: £0.3 million) and £0.2 million (Company audit) (2017: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report, Directors' report and Corporate governance statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate governance report (on pages 67 to 81) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") in the Directors' report (on pages 108 to 111), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate governance report (on pages 67 to 81), and Directors' report (on pages 108 to 111), with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 30 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 30 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 111, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 104 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 111, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 15 May 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2015 to 31 December 2018.

Christopher Burns

Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

February 2019

Group income statement

For the year ended 31 December	Note	2018 £000	2017 £000
Revenue	2.0	1,061,396	1,028,223
Cost of sales		(830,505)	(843,572)
Gross profit		230,891	184,651
Administrative expenses before exceptional items		(56,723)	(56,619)
Exceptional administrative expenses	2.1	-	(6,812)
Administrative expenses	2.1	(56,723)	(63,431)
Operating profit before exceptional items	2.1	174,168	128,032
Exceptional items	2.1	-	(6,812)
Operating profit		174,168	121,220
Financial income	4.4	481	1,337
Financial expenses	4.4	(6,585)	(8,536)
Net financing costs	4.4	(6,104)	(7,199)
Share of profit/(loss) of joint ventures	5.6	5	(20)
Profit before tax		168,069	114,001
Income tax expense	5.1	(31,499)	(22,706)
Profit for the year attributable to ordinary shareholders		136,570	91,295

Earnings per share (pence)			
Basic	2.3	101.6p	68.0p
Diluted	2.3	101.5p	67.8p

Group statement of comprehensive income

For the year ended 31 December	Note	2018 £000	2017 £000
Profit for the year		136,570	91,295
Other comprehensive (expense) / income			
Items that will not be reclassified to the income statement			
Remeasurements on defined benefit pension scheme	5.8	(5,781)	9,286
Deferred tax on remeasurements on defined benefit pension scheme	5.1	1,083	(1,630)
Items reclassified to the income statement			
Available for sale reserve reclassified on disposal		-	1,696
Deferred tax on available for sale reserve movement	5.1	-	(288)
Total other comprehensive (expense) / income		(4,698)	9,064
Total comprehensive income for the year attributable to ordinary shareholders		131,872	100,359

Balance sheets

As at 31 December	Note	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Assets					
Intangible fixed assets	5.5	**1,079**	-	-	-
Property, plant and equipment	5.4	**2,181**	2,603	-	-
Investments	5.6	**28,992**	8,717	**11,262**	9,849
Restricted cash		**1,381**	1,414	-	-
Trade and other receivables		**611**	832	-	-
Available for sale financial assets	4.2	-	-	-	-
Retirement benefit asset	5.8	**1,381**	2,111	-	-
Total non-current assets		**35,625**	15,677	**11,262**	9,849
Inventories	3.1	**1,320,229**	1,321,952	-	-
Trade and other receivables	3.2	**64,505**	76,686	**452,889**	463,454
Cash and cash equivalents	4.1	**163,217**	170,062	**344**	344
Total current assets		**1,547,951**	1,568,700	**453,233**	463,798
Total assets		**1,583,576**	1,584,377	**464,495**	473,647
Equity					
Issued capital	4.5	**67,398**	67,330	**67,398**	67,330
Share premium	4.5	**216,907**	215,991	**216,907**	215,991
Retained earnings		**776,762**	773,255	**177,537**	187,806
Total equity attributable to equity holders of the parent		**1,061,067**	1,056,576	**461,842**	471,127
Liabilities					
Bank and other loans	4.3	**36,401**	25,209	-	-
Deferred tax liability	5.2	**730**	570	-	-
Trade and other payables	3.3	**183,769**	93,089	**781**	781
Provisions	5.7	-	812	-	-
Total non-current liabilities		**220,900**	119,680	**781**	781
Trade and other payables	3.3	**278,706**	385,079	-	-
Provisions	5.7	**4,843**	6,187	-	-
Current tax liabilities	5.2	**18,060**	16,855	**1,872**	1,739
Total current liabilities		**301,609**	408,121	**1,872**	1,739
Total liabilities		**522,509**	527,801	**2,653**	2,520
Total equity and liabilities		**1,583,576**	1,584,377	**464,495**	473,647

The Company made a profit for the year of £117,983,000 (2017: £107,299,000).

These financial statements on pages 119 to 150 were approved by the Board of directors on 28 February 2019 and were signed on its behalf: Earl Sibley, Director.

Group statement of changes in equity

For the year ended 31 December 2018	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 2017		(2,328)	735,937	733,609	67,261	215,057	1,015,927
Total comprehensive inocme		-	100,359	100,359	-	-	100,359
Issue of share capital	4.5	-	-	-	69	934	1,003
Own shares disposed		1,261	(1,261)	-	-	-	-
Purchase of own shares	4.5	(2,575)	-	(2,575)	-	-	(2,575)
Deferred tax on other employee benefits	5.1	-	49	49	-	-	49
Share based payments	5.3	-	2,243	2,243	-	-	2,243
Dividends paid to shareholders	2.2	-	(60,430)	(60,430)	-	-	(60,430)
Total transactions with owners recognised directly in equity		(1,314)	(59,399)	(60,713)	69	934	(59,710)
Balance at 31 December 2017		(3,642)	776,897	773,255	67,330	215,991	1,056,576
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	4.5	-	-	-	68	916	984
Own shares disposed		22	(22)	-	-	-	-
Deferred tax on other employee benefits	5.1	-	(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

Company statement of changes in equity

	Attributable to equity holders of the parent			
For the year ended 31 December 2018	Total retained earnings £000	Issued capital £000	Share premium £000	Total £000
Balance at 1 January 2017	138,693	67,261	215,057	421,011
Total comprehensive income	107,300	-	-	107,300
Issue of share capital	-	69	934	1,003
Share based payments	2,243	-	-	2,243
Dividends paid to shareholders	(60,430)	-	-	(60,430)
Balance at 31 December 2017	187,806	67,330	215,991	471,127
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

Statements of cash flows

For the year ended 31 December	Note	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Cash flows from operating activities					
Profit for the year		136,570	91,295	117,982	107,299
Depreciation and amortisation	5.4, 5.5	905	1,514	-	-
Revaluation of available for sale financial assets		-	1,355	-	-
Available for sale reserve reclassified on disposal		-	1,696	-	-
Financial income	4.4	(481)	(1,337)	(9,855)	(9,038)
Financial expense	4.4	6,585	8,536	-	-
Profit on sale of property, plant and equipment		(450)	(4,117)	-	-
Equity-settled share-based payment expense	5.3	1,413	2,243	-	-
Income tax expense	5.1	31,499	22,706	1,872	1,740
Share of results of joint ventures	5.6	(5)	20	-	-
Profit on sale of assets to joint ventures		(1,197)	-	-	-
Decrease/(increase) in trade and other receivables		12,402	13,232	8,827	(49,613)
Decrease in available for sale financial assets		-	27,577	-	-
(Increase)/decrease in inventories		(1,891)	122,097	-	-
(Decrease) in trade and other payables		(15,692)	(104,664)	-	-
(Decrease) in provisions and retirement benefit obligations		(7,042)	(3,685)	-	-
Cash generated from operations		162,616	178,468	118,826	50,388
Interest paid		(2,773)	(3,250)	-	-
Income taxes paid		(29,165)	(19,074)	-	-
Net cash inflow from operating activities		130,678	156,144	118,826	50,388
Cash flows from investing activities					
Interest received		278	142	9,855	9,039
Acquisition of intangible fixed assets	5.5	(1,213)	-	-	-
Acquisition of property, plant and equipment	5.4	(1,876)	(1,371)	-	-
Proceeds from sale of property, plant and equipment		1,977	13,237	-	-
Movement of investment in joint ventures	5.6	(20,300)	32	-	-
Dividends received from joint ventures	5.6	1,067	119	-	-
Reduction in restricted cash		33	-	-	-
Net cash (outflow)/generated from investing activities		(20,034)	12,159	9,855	9,039
Cash flows from financing activities					
Dividends paid	2.2	(129,665)	(60,430)	(129,665)	(60,430)
Proceeds from the issue of share capital	4.5	984	1,003	984	1,003
Purchase of own shares		-	(2,575)	-	-
Drawdown of bank and other loans	4.3	11,192	25,209	-	-
Net cash used in financing activities		(117,489)	(36,793)	(128,681)	(59,427)
Net (decrease) / increase in cash and cash equivalents		(6,845)	131,510	-	-
Cash and cash equivalents at 1 January	4.1	170,062	38,552	344	344
Cash and cash equivalents at 31 December	4.1	163,217	170,062	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

Bovis Homes Group PLC (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 December 2018 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 28 February 2019.

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 period commencing 1 January 2018:

- IFRS9 'Financial instruments'
- IFRS15 'Revenue from Contracts with Customers'

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

The accounting policies have been applied consistently to the Company and the Group where relevant.

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 2019 and summary financial forecasts for the following two years.

Having started the year with net cash of £144.9 million, the Group generated a strong operating cash flow during 2018 but also made significantly increased dividend payments, decreasing the net cash position to £126.8 million. As at 31 December 2018, the Group held cash and cash equivalents of £163.2 million and had borrowings of £36.4 million. On 3 December 2015, the Group entered into a new £250.0 million committed revolving credit facility that was extended for a further year both during 2016 and early in 2018. This facility now expires in December 2022 and was fully available for drawdown at 31 December 2018.

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 2018 has been carried out, which has identified no material net movement in 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 35.

Defined benefit pension scheme

The Group has an active defined benefit pension scheme, which is subject to estimation uncertainty. Note 5.8 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. There are no separate segments, either business or geographic, to disclose, having taken into account the aggregation criteria provisions of IFRS8.

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 2018:

- IFRS9 'Financial instruments' replaced IAS39 'Financial Instruments: Recognition and Measurement' and was effective from 1 January 2018. Consistent with the disclosure made in the Group's 2017 Annual Report and Accounts, the implementation of the standard has not had a material impact on the Group's or the Company's 2018 financial statements for the following reasons:
  - i. The Group disposed of its shared equity available for sale assets during 2017
  - ii. The Group does not presently hold any complex financial instruments
  - iii. Any investments in equities for outside of the Bovis Homes Group are immaterial
  - iv. Any trade debtors are held under standards terms agreed with the customer
  - v. The Group has experienced a low level of default events on its debtors historically and currently has no reason to expect this to change significantly in future
  - vi. The Group has no reason to expect any impairment or losses on the intercompany balance held between Bovis Homes Group and Bovis Homes Limited

- IFRS 15, 'Revenue from contracts with customers' replaced IAS 18 'Revenue' and IAS 11 'Construction contracts', setting out new revenue recognition criteria particularly with regard to performance obligations. Consistent with the disclosure made in the Group's 2017 Annual Report and Accounts, the implementation of the standard has not had a material impact on the revenue and cash flows reported by the Group for the year ended 31 December 2018. The reasons for this are outlined by each of the Group's main revenue types below:
    i. Private housing: the impact is immaterial as housing revenue is recognised on completion of the single performance obligation of supplying a house
    ii. Affordable housing: no or minimal impact as the significant majority of the Group's contracts give the Housing Association control over houses as they are built and the Group the right to payment for work done, and therefore revenue will continue to be recognised over time by reference to the stage of completion of the building works. Contracts continue to be assessed individually as they are entered into to confirm that these criteria are met. Where land sales to Housing Associations are de-linked from housebuilding contracts, land sale revenue will be recognised separately, as was the case prior to the implementation of the new standard
    iii. Land Sales: the Group will continue to separate land sales revenue from any significant infrastructure-related performance obligations that may exist within contracts

Properties taken in part exchange as consideration for private house sales and then subsequently sold on by the Group will continue to be recognised through cost of sales within the income statement based on the profit or loss made on the resale as they are seen to be incidental to the operations of the business and not a part of its core activities.

Additional disclosure of the Group's contracts with customers is required within the standard and this is included in note 2.0.

- Amendment to IFRS 2 'Share-based payments', amendment to IFRS 4 'Insurance Contracts' regarding the implementation of IFRS 9 'Financial Instruments', amendment to IAS 40 'Investment Property', and annual Improvements 2014-2016, have all come into effect with no significant impact on the Group.

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 2018, and have not been applied in preparing these financial statements:

- IFRS16 'Leases' replaces IAS17 'Leases' and is effective from 1 January 2019. The new standard requires 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. Similarly, the present value of future payments to be made under those lease agreements must be recognised as a liability. The Group incorporated the new standard into its accounting policies from 1 January 2019, with the effect that any lease agreements are reviewed against the criteria within the standard to determine whether identifiable assets exist that should be recognised on the Group balance sheet, along with any associated liabilities. These assets are depreciated over the remaining term of the lease agreement with the cost being taken to the Income Statement, along with service charges and the interest charge calculated on the liability. Any agreements that are short-term (being of less than 12 months duration) or low-value (less than £3,000 in value) in nature are excluded and will continue to be expensed to the Income Statement on a straight-line basis. Only existing agreements considered to contain leases under IAS17 will be reviewed against the new standard; those not considered to be assets under IAS17 will not be impacted by the new standard. Based on the Group's analysis of the lease agreements that are currently in place, it is estimated that the new standard will have the effect of increasing the Group's assets by around £4.5m, with a marginally higher increase in the Group's liabilities, resulting in a small reduction in the Group's net assets. The new standard is also expected to increase the Group's Operating Profit by around £1.5m with an increase of similar magnitude in Financial Expenses. There will not be any impact on the Group's cash flows. The Group will adopt the "modified retrospective" transition approach, whereby an adjustment will be made to equity on 1 January 2019 and prior period financial information will not be restated for the impact of the standard.
- Amendment to IAS 28 'Investments in Associates and joint ventures', effective from 1 January 2019, which is not expected to have a significant impact on the Group's financial statements.
- IFRIC 23 Uncertainty over income tax treatments, effective 1 January 2019, which is not expected to have a significant impact on the Group's financial statements.

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.
Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Revenue by type	2018 £000	2017 £000
Private housing	**866,156**	860,616
Affordable housing	**160,693**	132,308
Land sales	**14,163**	32,036
Release of deferred revenue from joint ventures	**10,143**	-
Other	**10,241**	3,263
Total	**1,061,396**	1,028,223
Timing of revenue recognition		
At a point in time	**895,671**	895,915
Over time	**165,725**	132,308
Total	**1,061,396**	1,028,223

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:

	2018 £000	2017 £000
Contract assets included in inventory	**47,546**	35,452
Amounts recoverable on contracts	**24,160**	45,191
Payments on account	**(11,296)**	(41,352)

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 £490,022,000 (2017: £425,147,000).

2.1 Operating profit

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

	2018 £000	2017 £000
Depreciation of tangible fixed assets (see note 5.4)	771	1,514
Amortisation of intangible fixed assets (see note 5.5)	134	-
Hire of plant and machinery	8,597	8,445
Personnel expenses (see note 5.3)	80,986	70,739
Rental income (included in revenue)	(736)	(408)
Government grants recognised within cost of sales (see note 4.3)	(21)	(31)
Profit on disposal of property, plant and equipment	450	4,117

Exceptional administrative 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.

	2018 £000	2017 £000
Advisory fees resulting from the bid approaches from Redrow plc and Galliford Try plc	-	2,800
Costs relating to the strategic restructuring of the business	-	4,012
Exceptional administrative expenses	-	6,812

During the year ended 31 December 2017, the Group implemented various fundamental restructuring activities, consistent with the strategic and structural review completed by the Chief Executive and announced in September 2017. These costs included redundancies and onerous lease costs arising from merging certain business units, reducing from eight operating regions to seven and office relocations.

There were no items during the year ended 31 December 2018 that the Board considered to be exceptional in nature, and no impact on the Group's income tax expense for the year from exceptional administrative expenses (2017: £772,000 reduction).

Auditors' remuneration

	2018 £000	2017 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	30	30
The audit of the Company's subsidiaries, pursuant to legislation	174	145
Non-Audit Fees	-	
Interim review work	30	25
Other assurance related services	-	4
Fees charged to operating profit before financing costs	234	204

2.2 Dividends

The following dividends were paid by the Group:

	2018 £000	2017 £000
Prior year final dividend per share of 32.5p (2017:30.0p)	43,645	40,300
Special dividend per share of 45.0p (2017: nil)	60,483	-
Current year interim dividend per share of 19.0p (2017:15.0p)	25,537	20,130
	129,665	60,430

The Board decided to propose a final dividend of 38.0p per share in respect of 2018. The dividend has not been provided for and there are no income tax consequences.

	2018 £000	2017 £000
38.0p per qualifying ordinary share (2017: 32.5p)	51,223	43,639

2.3 Earnings per share

Profit attributable to ordinary shareholders

	2018 £000	2017 £000
Profit for the year attributable to equity holders of the parent	**136,570**	91,295

Weighted average number of ordinary shares

	2018	2017
Weighted average number of ordinary shares at 31 December	**134,355,573**	134,246,134

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2018 was based on the profit for the year attributable to ordinary shareholders of £136,570,000 (2017: £91,295,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2018 of 134,557,450 (2017: 134,566,722).

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)

	2018	2017
Basic weighted average number of ordinary shares at 31 December	**134,355,573**	134,246,134
Effect of share options in issue which have a dilutive effect	**201,877**	320,588
Diluted weighted average number of ordinary shares at 31 December	**134,557,450**	134,566,722

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.

Group	2018 £000	2017 £000
Raw materials and consumables	**5,424**	5,997
Work in progress	**439,753**	382,893
Part exchange properties	**16,345**	19,692
Land held for development (net of provision)	**858,707**	913,370
Inventories	**1,320,229**	1,321,952

Inventories to the value of £832.7 million were recognised as expenses in the year (2017 £836.2 million). Part exchange properties of £64.6 million (2017: £176.9 million) were disposed of during the year for proceeds of £64.8 million (2017: £173.6 million).

Movement on inventory provision	2018 £000	2017 £000
Balance at 1 January	**5,543**	3,021
and sales - Utilised on specific sites sold in the year	**(2,471)**	(1,639)
- Unutilised on specific sites sold in the year and so released to the income statement	**(66)**	-
	(2,537)	(1,639)
New provisions recognised on sites still held	**33**	861
New provisions recognised on sites identified for disposal outside of core operating area	**400**	3,300
Balance at 31 December	**3,439**	5,543

£6.4 million (2017: £8.9 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 IFRS 9 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 affordable housing 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	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade receivables	**12,666**	15,130	**-**	-
Amounts recoverable on contracts	**24,160**	45,191	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**452,889**	463,454
Other debtors	**8,781**	1,939	**-**	-
Prepayments and accrued income	**18,898**	14,426	**-**	-
Current assets	**64,505**	76,686	**452,889**	463,454

Trade receivables and amounts recoverable on contracts are shown net of their associated expected credit loss allowances, which are £1,440,000 and £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.

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	
	2018 £000	2017 £000	2018 £000	2017 £000
Non-current liabilities				
Trade payables	**183,530**	92,630	**-**	-
Other creditors	**239**	459	**781**	781
	183,769	93,089	**781**	781
Current liabilities				
Trade payables	**221,192**	307,434	**-**	-
Payments on account	**11,296**	41,352	**-**	-
Taxation and social security	**1,771**	1,903	**-**	-
Other creditors	**2,020**	1,649	**-**	-
Accruals	**38,288**	16,251	**-**	-
Deferred income	**4,139**	16,490	**-**	-
	278,706	385,079	**-**	-
Total trade and other payables	**462,475**	478,168	**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 4.7.

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	
	2018 £000	2017 £000	2018 £000	2017 £000
Bank balances	**547**	363	**344**	344
Call deposits	**162,670**	169,699	**-**	-
Cash and cash equivalents in the balance sheet and cash flows	**163,217**	170,062	**344**	344

Restricted cash 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 Available for sale financial assets

During the year ended 31 December 2017, the Group disposed of or redeemed assets with a fair value of £27.6m, at a profit of £1.2m. Included within these figures is the disposal of assets with a fair value of £22.3m to PMM Group on 31 October 2017 for £21.5m, net of transaction costs, generating a loss on disposal of £0.8m.

4.3 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

	Rate	Facility maturity	Carrying value 2018 £000	Carrying value 2017 £000
Revolving credit facility	LIBOR +120-225 bps	2022	-	-
HCA Loan	EC Base Rate +220bps	2027	**36,401**	25,209

Details of facilities

On 3 December 2015 the Group entered into a £250 million committed revolving credit facility and this was extended for a further one year both during 2016 and early in 2018, and expires in December 2022. The facility syndicate comprises six banks. The facility includes a covenant package, featuring three covenants covering the Group's gearing ratio, consolidated tangible net worth and interest cover. These covenants are tested semi-annually as per the previous facility agreement. The overall financing cost of the new arrangement is marginally better than the previous facility.

On 11 April 2017 the Group entered into a loan facility agreement with the Homes and Communities Agency in relation to its development at Stanton Cross, Wellingborough. The facility has a total aggregate of £35 million which the Group has now fully drawn down in order to support the funding of its infrastructure investment on the development with accrued interest making up the balance of the carrying value at 31 December 2018. The Group will then use an agreed proportion of its proceeds from the development to repay the loan once the aggregate proceeds exceed a threshold level. The Group's latest estimates indicate that repayments of the loan will begin in 2021 and that the majority of the repayments will be made in periods beyond 5 years from 31 December 2018.

4.4 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.

Notes to the financial statements continued

Net financing costs recognised in the income statement

	Note	2018 £000	2017 £000
Interest income		(372)	(216)
Net pension finance credit	5.8	(109)	-
Imputed interest on available for sale assets		-	(1,121)
Finance income		(481)	(1,337)
Imputed interest on deferred terms land payables		3,614	5,118
Net pension finance charge	5.8	-	177
Interest expense		2,971	3,241
Finance expenses		6,585	8,536
Net financing costs		6,104	7,199

4.5 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

	2018 Number of shares	2018 Issued capital £000s	2018 Share premium £000s	2017 Number of shares	2017 Issued capital £000s	2017 Share premium £000s
In issue at 1 January	134,660,750	67,330	215,991	134,522,340	67,261	215,057
Issued for cash	135,883	68	916	138,410	69	934
In issue at 31 December – fully paid	134,796,633	67,398	216,907	134,660,750	67,330	215,991

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.

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 2018, the Group did not purchase any shares (2017: 275,000 shares purchase at a total cost of £2,575,000). There were 2,313 shares awarded under the Group's long-term incentive plan that vested during 2018 (2017: 133,020) and accordingly the balance of the own shares held reserve reduced by £22,000 (2017: £1,261,000). At 31 December 2018, the Group held 385,437 of its own shares (2017: 387,750), with a value on reserve of £3,620,000 (2017: £3,642,000). The Group has suspended all rights on shares held by the Group in the Company.

4.6 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 151.

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 4.3.

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 2018, 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 £5.2 million (2017: £4.8 million), which is payable by the end of March 2019. 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:

	2018 £000	2017 £000
Consented land	**400**	7,027
Second charge against property	**611**	832
Unsecured	**64,105**	69,659
	65,116	77,518

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 4.3 are considered to be adequate in terms of flexibility and liquidity for its 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 30.

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 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)**

31 December 2017	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
Non-derivative financial assets			
Restricted cash	-	1,414	1,414
Trade and other receivables	832	76,686	77,518
Cash and cash equivalents	-	170,062	170,062
Non-derivative financial liabilities			
Bank and other loans	-	(25,209)	(25,209)
Trade and other payables	-	(478,168)	(478,168)
	832	**(255,215)**	**(254,383)**

4.7 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
2018	**293,297**	**298,186**	**112,744**	**105,745**	**62,725**	**16,912**	**15**	**45**
2017	246,742	252,183	168,297	44,377	11,248	8,321	4,390	15,550

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	2018 £000	2017 £000
Current tax			
Current year		**31,316**	23,976
Adjustments for prior years		**(919)**	(1,926)
		30,397	22,050
Deferred tax			
Origination and reversal of temporary differences	5.2	**1,258**	(2,299)
Adjustments for prior year	5.2	**(156)**	2,955
Total income tax in income statement		**31,499**	22,706

Reconciliation of effective tax rate

	2018 %	2018 £000	2017 %	2017 £000
Profit before tax		168,069		
Income tax using the domestic corporation tax rate	**19.0**	**31,933**	19.25	21,945
Non-deductible expenses and disposal of ineligible assets	**0.4**	**675**	(0.3)	(388)
Other	**0.0**	**20**	(0.0)	7
Change in tax rate	**0.0**	**(54)**	0.1	113
Adjustments to the tax charge in respect to the prior year	**(0.7)**	**(1,075)**	0.9	1,029
Total tax expense	**18.7**	**31,499**	19.9	22,706

The Group's effective tax rate of 18.7% is lower 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 & Customers for the year ended 31 December 2017. 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	2018 £000	2017 £000
Relating to actuarial movements on pension scheme (Group statement of comprehensive income)	5.2	**1,083**	(1,630)
Relating to share-based payments (Group statement of changes in equity)	5.2	**(113)**	49
Relating to available for sale financial assets (Group statement of comprehensive income)	5.2	-	(288)
Deferred tax recognised directly in Group statement of changes in equity or the Group statement of comprehensive income		**970**	(1,869)

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.

Notes to the financial statements continued

Current tax assets and liabilities

The current liability of £18,060,000 (2017: £16,855,000) 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	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Property, plant and equipment	-	-	**(126)**	(113)	**(126)**	(113)
Non-current trade payables	-	-	**(21)**	(24)	**(21)**	(24)
Available for sale financial assets	-	-	**(536)**	(625)	**(536)**	(625)
Employee benefits - pensions	-	-	**(214)**	(359)	**(214)**	(359)
Employee benefits - share-based payments	**297**	737	-	-	**297**	737
Provisions	**149**	330	-	-	**149**	330
Inventories	-	-	**(447)**	(888)	**(447)**	(888)
Profit on sale of assets to joint ventures	**168**	372	-	-	**168**	372
Tax assets/(liabilities)	**614**	1,439	**(1,344)**	(2,009)	**(730)**	(570)

Movement in temporary differences during the year

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)**

Group	Balance 1 Jan 2017 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2017 £000
Property, plant and equipment	(273)	160	-	**(113)**
Trade payables	(27)	3	-	**(24)**
Available for sale financial assets	(714)	377	(288)	**(625)**
Employee benefits - pensions	1,120	151	(1,630)	**(359)**
Employee benefits - share-based payments	132	556	49	**737**
Provisions	1,407	(1,077)	-	**330**
Inventories	(62)	(826)	-	**(888)**
Profit on sale of assets to joint ventures	372	-	-	**372**
Movement in temporary differences	**1,955**	**(656)**	**(1,869)**	**(570)**

Factors affecting future tax charge

UK corporation tax rate reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

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 £1.4 million (2017: surplus of £2.1 million). As at 31 December 2018, a deferred tax liability of £214,000 (2017 tax liability: £359,000) 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

	2018	2017
Average staff numbers	**1,251**	1,297

The Company had no employees during 2018 (2017: nil)

A breakdown of staff numbers split by type of role is included on page 42.

Personnel expenses - Group

	2018 £000	2017 £000
Wages and salaries	**68,874**	59,405
Compulsory social security contributions	**8,056**	6,556
Contributions to defined contribution plans	**1,787**	1,250
Increase in expenses related to defined benefit plans	**856**	1,285
Equity-settled share-based payments	**1,413**	2,243
Personnel expenses	**80,986**	70,739

The Company had no personnel expenses during 2018 (2017: 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	2018 Average exercise price in £ per share option	2018 Share options £000	2017 Average exercise price in £ per share option	2017 Share options £000
At 1 January	-	1,377	-	737
Granted	-	184	-	918
Lapsed	-	(415)	-	(145)
Exercised	-	(2)	-	(133)
At 31 December	-	1,144	-	1,377

Executive and other share options	2018 Average exercise price in £ per share option	2018 Share options £000	2017 Average exercise price in £ per share option	2017 Share options £000
At 1 January	9.19	153	8.59	275
Granted	-	-	-	-
Lapsed	11.29	(71)	8.53	(53)
Exercised	7.26	(49)	7.30	(69)
At 31 December	7.54	33	9.19	153

Save As You Earn	2018 Average exercise price in £ per share option	2018 Share options £000's	2017 Average exercise price in £ per share option	2017 Share options £000's
At 1 January	6.56	496	7.27	357
Granted	9.06	138	6.12	397
Lapsed	6.71	(84)	6.73	(189)
Exercised	7.22	(86)	7.22	(69)
At 31 December	7.15	464	6.56	496

Out of the 1,641,000 outstanding options (2017: 2,026,000), 117,000 options (2017: 164,000) were exercisable.Options exercised in 2018 resulted in 137,000 shares (2017: 271,000) being issued at a weighted average share price of £7.13 each (2017: £3.71 each).

Notes to the financial statements continued

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	2018 Share options £000	2017 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
2014-17	19/08/2024	-	-	2
2016-18	24/02/2025	-	-	136
2016-18	18/08/2025	-	-	33
2016-18	16/09/2025	-	-	-
2017-19	23/02/2026	-	-	180
2016-19	16/08/2026	-	-	28
2017-18	02/05/2027	-	154	154
2017-21	08/09/2027	-	580	764
2018-23	08/03/2028	-	330	-
		-	1,144	1,377

Executive and other share options

Grant vest	Expiry date	Exercise price in £ per share option	2018 Share options £000	2017 Share options £000
2011-14	01/09/2018	3.79	-	9
2012-15	22/08/2019	5.02	8	11
2013-16	21/08/2020	7.73	5	16
2014-17	20/08/2021	8.53	20	46
2016-18	19/08/2022	11.29	-	71
		-	33	153

Save As You Earn

Grant vest	Expiry date	Exercise price in £ per share option	2018 Share options £000	2017 Share options £000
2013-18	23/09/2018	5.88	-	17
2014-19	02/11/2019	7.97	3	4
2016-18	24/09/2018	7.66	1	63
2016-20	24/09/2020	7.66	13	20
2017-19	24/09/2019	7.12	56	71
2016-21	24/09/2021	7.12	15	15
2017-20	24/09/2020	6.12	200	245
2017-22	24/09/2022	6.12	47	61
2018-21	23/09/2021	9.06	109	-
2018-23	23/09/2023	9.06	20	-
			464	496

Notes to the financial statements continued

The weighted average fair value of the options granted during the period determined using the Black Scholes model was £7.14 per option (2017: £9.12). The significant inputs into the model were a weighted average share price of £11.32 (2017: £11.61) at the grant date, the exercise price shown in the table above, volatility of 37.25% (2017: 37.12%), an expected option life of 5 years (2017: 5 years) and an annual risk-free rate of 1.00% (2017: 0.21%). 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

	2018 £000	2017 £000
Long Term Incentive Plan	**948**	765
Executive and other share options	**116**	941
Save As You Earn share options	**349**	537
Total expense recognised as personnel expenses	**1,413**	2,243

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 82 to 101. The directors are considered to be the only key management personnel. A summary of key management remuneration is as follows:

	2018 £000	2017 £000
Wages and salaries	**1,409**	928
Compulsory social security contributions	**194**	130
Contributions to defined contribution plans	**24**	52
Key management remuneration	**1,627**	1,110

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 the 2010 Annual General Meeting. One grant of awards under this plan was made in 2018. Details of the vesting conditions of these awards are laid out in the directors' remuneration report which can be found on pages 82 to 101.

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 Bovis Homes Group PLC 2007 Save As You Earn Option Scheme was established in 2007. 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, fixtures 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 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**

Cost

Year ended 31 December 2017	Freehold buildings £000	Furniture, fittings and equipment £000	Plant, machinery and vehicles £000	Total £000
Opening balance	9,802	3,871	12,629	**26,302**
Additions	-	514	857	**1,371**
Disposals	(7,769)	(760)	(13,207)	**(21,736)**
Closing	2,033	3,625	279	**5,937**

Accumulated depreciation

Opening	2,057	3,060	9,315	**14,432**
Charge for the year	132	367	1,015	**1,514**
Disposals	(1,796)	(750)	(10,066)	**(12,612)**
Closing	393	2,677	264	**3,334**

Net book value at 31 December

2018	-	**1,403**	**778**	**2,181**
2017	1,640	948	15	2,603

During the year ended 31 December 2018, the Group continued to dispose of non-core assets as part of its strategy to reduce capital employed in its operations, selling its office building at New Ash Green for disposal proceeds of £1,977,000.

The total of future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	Property £000	Plant, machinery and vehicles £000	Total £000
Within one year	3,508	3,027	6,535
Between one and five years	7,183	6,986	14,169
Over five years	4,399	-	4,399
Total	**15,090**	**10,013**	**25,103**

5.5 Intangible Fixed Assets

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

Cost

Year ended 31 December 2018	IT software £000
Opening balance	-
Additions	1,213
Closing	1,213
Accumulated amortisation	
Opening balance	-
Charge for the year	134
Closing	134
Net book value at 31 December	
2018	1,079
2017	-

5.6 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 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Subsidiary undertakings				
Interest in subsidiary undertakings' shares at cost (100% ownership of ordinary shares)	-	-	11,262	9,849
Investments accounted for using the equity method				
Interest in joint ventures – equity	5,116	4,981	-	-
- loan	23,854	3,714	-	-
	28,970	8,695	11,262	9,849
Other investments	22	22	-	-
Total investments	28,992	8,717	11,262	9,849

During December 2018, the Group entered into its first major joint venture at Sherford, near Plymouth, with Clarion Housing Group. As part of the initial transaction, land and infrastructure owned by the Group was sold into the joint venture, Bovis Latimer (Sherford) LLP. The Group's 50% share of the acquisition price was financed by debt from the Group, resulting in an increase in the Group's loan interests in joint ventures. Interest is charged on this debt at a rate of 5% per annum, to be reviewed annually against market rates.

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. The Group has thirty four subsidiaries, which are listed below.

	Registered office	Country of incorporation	Ownership interest in ordinary shares 2018 %	2017 %
Bovis Homes (Quest) Company Limited	1	United Kingdom	100	100
Bovis 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 (New Ash Green) 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
Bovis Homes Devon 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	-
Bovis Homes Pension Scheme Trustee Limited	1	United Kingdom	100	100
Bovis Homes Projects Limited	1	United Kingdom	100	100
Bovis Homes Scotland Limited	2	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
Knights Mount Management Company Limited	9	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
Stanton Cross Developments LLP	1	United Kingdom	100	-
Unitpage Limited	1	United Kingdom	100	100

At 31 December 2018 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 above, Bovis Latimer (Sherford) LLP is a new joint venture entered into during the year ended 31 December 2018.

	Registered office	Country of incorporation	Ownership interest in ordinary shares 2018 %	2017 %
Bovis Peer LLP	1	United Kingdom	50	50
IIH Oak Investors LLP	4	United Kingdom	26	26
Bovis Latimer (Sherford) LLP	1	United Kingdom	50	-
Bishops Park Limited	1	United Kingdom	50	50
Rissington Management Company Limited	3	United Kingdom	50	50

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	20
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

Notes to the financial statements continued

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 largest joint venture by revenue (Bovis Peer LLP) during the year is as follows:

	2018 £000	2017 £000
At the start of the year	4,551	4,670
Share of results	(55)	-
Release of deferred profit	718	-
Dividend received	(500)	(119)
At the end of the year	4,714	4,551

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

	2018 £000	2017 £000
Non-current assets	12,245	31,248
Current assets	407	1,178
- Cash and cash equivalents included in current assets	355	1,082
Current liabilities	(1,712)	(20,375)
- Current financial liabilities included in current liabilities	(1,345)	(20,236)
Non-current liabilities	-	-
- Non-current financial liabilities included in current liabilities	-	-
Net assets of joint venture	10,940	12,051
Group share of net assets recognised in the Group balance sheet at 31 December	5,470	6,026
Revenue	20,465	1,767
Costs	(20,224)	(1,071)
Operating profit	241	696
Revaluation of properties	-	-
Interest expense	(354)	(697)
Interest income	3	1
Profit before taxation	-	-
Income tax expense	-	-
(Loss) for the year	(110)	-
Group share of (loss) for the year recognised in the Group income statement	(55)	-
Group share of IIH Oak Investors LLP profit/(loss) for the year recognised in the Group income statement	60	(20)
Share of profit/(loss) of joint ventures	5	(20)

The material joint venture has no significant contingent liabilities 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 £109,000 (2017: £169,000). None of these fees are outstanding at 31 December 2018 (2017: nil).

In 2014, Bovis Homes Limited entered into a joint venture arrangement with IIH Oak Investors LLP to hold 190 homes under a private rental scheme. As at 31 December 2018, loans of £1,598,319 (2017: £3,714,314) are outstanding with IIH Oak Investors at an interest rate of 6%. Interest charges made in respect of loans were £118,000 (2017: £214,000)

In December 2018, Bovis Homes Limited entered into a joint venture arrangement with Clarion Housing Group, with the joint venture purchasing the Group's interest in its land at Plymouth, near Sherford. Part of this consideration was financed by debt from the Group, with the associated loan balance between the Group and Bovis Latimer (Sherford) LLP being £22,256,000 at 31 December 2018.

5.7 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.

	Customer care costs (see note 1.5) £000	Restructuring costs (see note 2.1) £000	Site-related costs £000	Other £000	Total £000
As at 1 January 2018	1,385	2,074	830	1,547	**5,836**
Additional provisions made	-	-	1,539	809	**2,348**
Amounts used	(1,385)	(1,144)	(80)	(69)	**(2,678)**
Unused provisions reversed	-	-	-	(663)	**(663)**
As at 31 December 2018	-	930	2,289	1,624	**4,843**

Of the total provisions detailed above, £4,843,000 are expected to be utilised within the next year (2017: £5,544,000).

5.8 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 2018 was 18 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.

	2018 £000	2017 £000
Present value of funded obligations	**115,215**	124,244
Fair value of plan scheme assets	**(116,596)**	(126,355)
Recognised (asset) for defined benefit obligations	**(1,381)**	(2,111)

Movements in the net (asset)/liability for defined benefit obligations recognised in the balance sheet

	2018 £000	2017 £000
Net (asset)/liability for defined benefit obligations at 1 January	**(2,111)**	6,590
Contributions received	**(5,798)**	(876)
Expense recognised in the income statement	**747**	1,462
Loss/(gain) recognised in equity	**5,781**	(9,287)
Net (asset) for defined benefit obligations at 31 December	**(1,381)**	(2,111)

The cumulative loss recognised in equity to date is £19.2 million (2017: £12.5 million).

Change in defined benefit obligation over the year

	2018 £000	2017 £000
Defined benefit obligation at beginning of year	**124,244**	125,594
Net interest cost	**2,867**	3,228
Current service cost	**205**	982
Past service cost	**115**	-
Actual member contributions	**19**	114
Actual benefit payments by the scheme	**(9,883)**	(4,016)
(Gain)/loss on change of assumptions:		
Actuarial (gain): experience differing from that assumed	**-**	(1)
Actuarial loss/(gain): changes in demographic assumptions	**3,101**	(2,609)
Actuarial (gain)/loss: changes in financial assumptions	**(5,453)**	952
Defined benefit obligation at end of year	**115,215**	124,244

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 above.

Change in scheme assets over the year

	2018 £000	2017 £000
Fair value of scheme assets at beginning of year	**126,355**	119,004
Interest income	**2,976**	3,051
Actual benefit payments by the scheme	**(9,883)**	(4,016)
Actual Group contributions	**5,798**	876
Actual member contributions	**19**	114
(Loss)/gain on assets	**(8,018)**	7,629
Administration costs	**(651)**	(303)
Fair value of scheme assets at end of year	**116,596**	126,355

The major categories of scheme assets are as follows:

	2018 £000	2017 £000
Return seeking		
Equities	**58,626**	77,698
Other		
Property	**11,282**	10,724
Cash	**1,624**	233
Liability driven instruments	**45,064**	37,700
Total market value of assets	**116,596**	126,355

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.

Sensitivity analysis

Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+0.5%pa / -0.5%pa	-8% / +9%
RPI and CPI inflation	+0.5%pa / -0.5%pa	+4% / -3%
Assumed life expectancy	+1 year	+3%

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.

Expense recognised in the income statement

	2018 £000	2017 £000
Current service cost	**205**	982
Administration expenses	**651**	303
Net interest (credit)/expense	**(109)**	177
Expense recognised in the income statement	**747**	1,462

Assumptions

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

Group	2018 %	2017 %	2016 %
Discount rate at 31 December	**2.7**	2.4	2.6
Future salary increases	**n/a**	2.5	2.5
Inflation - RPI	**3.2**	3.2	3.4
- CPI	**2.2**	2.2	2.4
Future pension increases	**n/a**	2.5	2.5

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of defined benefit obligations	**115,215**	124,244	125,594	102,160	104,020
Fair value of scheme assets	**116,596**	126,355	119,004	109,277	103,352
Surplus/(deficit) in the scheme	**1,381**	2,111	(6,590)	7,117	(668)

The most recent formal actuarial valuation was carried out as at 30 June 2016. The results have been updated to 31 December 2018 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_2016 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**	24.8
Women	**28.6**	26.7

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.

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.

5.9 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 2018 were limited to those relating to remuneration, which are disclosed in the directors remuneration report (which can be found on pages 82 to 101 and in note 5.3).

Mr Greg Fitzgerald, appointed Group Chief Executive on 18 April 2017, is non-executive Chairman of Ardent Hire Solutions ("Ardent"). The Group hires forklift trucks from Ardent and has also undertaken a sale of forklift trucks to Ardent as part of its capital optimisation initiatives. The total net value of transactions with Ardent were as follows:

	2018 £000	2017 £000
Rental expenses paid to Ardent	**2,059**	1,413
Income received from Ardent for the sale of forklift trucks	-	2,287

The balance of rental expenses payable to Ardent at 31 December 2018 was £155,000 (2017: £160,000) and no income was receivable (2017:£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 5.6.

5.10 Reconciliation of Return on Capital Employed performance measure

	2018 £000	2017 £000
Operating profit before exceptional items	**174,168**	128,032
Opening total equity	**1,056,576**	1,015,927
Deduct: investment in joint ventures	**8,717**	8,786
Deduct: net cash	**126,816**	38,552
Opening capital employed	**903,006**	968,589
Closing net equity including joint ventures	**1,061,068**	1,056,576
Deduct: investment in joint ventures	**28,992**	8,717
Deduct: net cash	**126,816**	144,853
Closing capital employed	**905,260**	903,006
Average capital employed (note1)	**904,133**	935,798
ROCE excluding joint ventures	**19.3%**	13.7%

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

5.11 Post balance sheet events

There are no post balance sheet events to disclose as at 28 February 2019.

Five year record - unaudited

Years ended 31 December	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue and profit					
Revenue	**1,061.4**	1,028.2	1,054.8	946.5	809.4
Operating profit before financing costs	**174.2**	121.2	160.0	163.5	137.6
Net financing costs	**(6.1)**	(7.2)	(5.6)	(5.2)	(4.4)
Share of result of joint ventures	**0.0**	0.0	0.3	1.8	0.3
Profit before tax	**168.1**	114.0	154.7	160.1	133.5
Tax	**(31.5)**	(22.7)	(33.9)	(32.1)	(28.3)
Profit after tax	**136.6**	91.3	120.8	128.0	105.2
Balance sheet					
Equity shareholders' funds	**1,061.1**	1,056.6	1,015.9	957.8	879.1
Net cash	**(126.8)**	(144.9)	(38.6)	(30.0)	(5.2)
Capital employed	**934.3**	911.7	977.3	927.8	873.9
Returns					
Operating margin (note 1)	**16%**	12%	15%	17%	17%
Return on shareholders' funds (note 2)	**13%**	9%	13%	15%	13%
Return on capital employed (note 3)	**19%**	14%	17%	18%	16%
Homes (including units sold on third party owned land)					
Number of unit completions	**3,759**	3,645	3,977	3,934	3,635
Average sales price (£'000)	**273.2**	272.4	254.9	231.6	216.6
Ordinary shares					
Earnings per share (p) (note 4)	**101.6**	68.0	90.1	95.4	78.6
Dividends per share					
Paid (p)	**96.5**	45.0	41.3	36.7	21.5
Interim paid and final proposed (p)	**57.0**	47.5	45.0	40.0	35.0

Note 1: Operating margin has been calculated as operating profit over turnover.

Note 2: Return on shareholders' funds has been calculated as profit after interest and tax over opening shareholders' funds.

Note 3: Return on capital employed has been calculated as operating profit over the average of opening and closing shareholders' funds plus net debt or less net cash, excluding investment in joint ventures.

Note 4: Earnings per share is calculated on post exceptional basis (see note 2.3 on page 128).

The introduction of new accounting standards have not had a material impact on the Group's financial statements and the historical metrics presented (see note 1.7).

Medium term targets

Returning the Group to being a leading UK housebuilder by 2020

Shinfield Meadows, Shinfield

Notice of meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Notice of meeting

NOTICE IS HEREBY GIVEN that the 2019 Annual General Meeting of Bovis Homes Group PLC (the "Company") will be held at The Spa Hotel, Mount Ephraim, Royal Tunbridge Wells, Kent TN4 8XJ on Wednesday, 22 May 2019 at 12.00 pm for the following purposes:

Ordinary resolutions

Reports and accounts

1 To receive the audited accounts of the Company for the year ended 31 December 2018 and the reports of the directors and auditors.

Remuneration report

2 To approve the directors' remuneration report in the form set out in the Company's annual report and accounts for the year ended 31 December 2018 in accordance with section 439 of the Companies Act 2006.

Dividend

3 To declare the final dividend recommended by the directors.

Directors

4 To re-appoint Ian Paul Tyler as a director of the Company.

5 To re-appoint Margaret Christine Browne as a director of the Company.

6 To re-appoint Ralph Graham Findlay as a director of the Company.

7 To re-appoint Nigel Keen as a director of the Company.

8 To re-appoint Michael John Stansfield as a director of the Company.

9 To re-appoint Katherine Innes Ker as a director of the Company.

10 To re-appoint Gregory Paul Fitzgerald as a director of the Company.

11 To re-appoint Earl Sibley as a director of the Company.

Auditors

12 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company.

13 To authorise the directors to determine the remuneration of the auditors.

Authority to allot shares

14 That the directors be generally and unconditionally authorised to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company pursuant to and in accordance with section 551 of the Companies Act 2006 ('the 2006 Act'):

(a) up to an aggregate nominal amount of £22,444,280; and

(b) comprising equity securities (as defined in the 2006 Act) up to an aggregate nominal amount of £44,888,560 (including within such limit any shares issued or rights granted under paragraph (a) above) in connection with an offer by way of a rights issue to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter;

such authorities to apply (unless previously renewed, varied or revoked by the Company in a general meeting) until the conclusion of the Annual General Meeting of the Company in 2020 or fifteen months from the date of this resolution, whichever is the earlier, but in each case so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after the authority ends and the directors may allot shares and grant rights under any such offer or agreement as if the authority had not ended.

Special resolutions

Notice of general meetings

15 That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Authority to disapply pre-emption rights

16 That if resolution 14 is passed, and in place of all existing powers, the directors be authorised pursuant to section 570 and 573 of the 2006 Act to allot equity securities (as defined in the 2006 Act) wholly for cash under the authority given by that resolution as if section 561 of the 2006 Act did not apply to any such allotment or sale, such power:

(a) to expire (unless previously renewed, varied or revoked by the Company in a general meeting) at the conclusion of the Annual General Meeting of the Company in 2020 or fifteen months from the date of this resolution, whichever is the earlier, but, in each case during this period the directors may make an offer or agreement which would or might require equity securities to be allotted after the power ends and the directors may allot equity securities under any such offer or agreement as if the power had not ended;

(b) to be limited to the allotment of equity securities in connection with an offer of equity securities (but in the case of the authority granted under resolution 14(b) by way of a rights issue only) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(c) to be limited, in the case of the authority granted under resolution 14(a), to the allotment of equity securities for cash otherwise than pursuant to paragraph (b) up to an aggregate nominal amount of £3,370,012.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the 2006 Act as if in the first paragraph of this resolution the words 'under the authority given by that resolution' were omitted.

Authority to purchase own shares

17 That the Company be and is hereby granted general and unconditional authority, for the purposes of section 701 of the 2006 Act, to make market purchases (within the meaning of section 693(4) of the 2006 Act) of the ordinary shares of 50 pence each in its capital PROVIDED THAT:

(i) this authority shall be limited so that the number of ordinary shares of 50 pence each which may be acquired pursuant to this authority does not exceed an aggregate of 13,480,048 ordinary shares and shall expire at the conclusion of the next Annual General Meeting of the Company in 2020 (except in relation to the purchase of ordinary shares the contract for which was concluded before such time and which is executed wholly or partly after such time);

(ii) the maximum (exclusive of expenses) price which may be paid for each ordinary share shall be the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS); and

(iii) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 50 pence.

Bovis Homes Group PLC
11 Tower View
Kings Hill, West Malling
Kent ME19 4UY

By Order of the Board
M T D Palmer
Group Company Secretary

22 March 2019

Notes:

(i) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 360B(2) of the 2006 Act, the Company gives notice that only holders of ordinary shares entered on the register of members no later than 8.00pm on 20 May 2019 (or, in the event of any adjournment, 8.00pm on the day which is two days before the adjourned meeting) will be entitled to attend and vote at the meeting and a member may vote in respect of the number of ordinary shares registered in the member's name at that time. Changes to entries on the register after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(ii) A proxy form is enclosed. A registered member of the Company may appoint one or more proxies in respect of some or all of their ordinary shares to exercise that member's rights to attend, speak and vote at the Annual General Meeting. A registered member appointing multiple proxies must ensure that each proxy is appointed to exercise rights attaching to different shares and must specify on the proxy form the number of shares in relation to which that proxy is appointed. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Members or their duly appointed proxies are requested to bring proof of identity with them to the meeting in order to confirm their identity for security reasons. A shareholder attending the meeting has the right to ask questions relating to the business being dealt with at the meeting in accordance with section 319A of the 2006 Act. In certain circumstances prescribed by the same section, the Company need not answer a question.

(iii) The proxy form must be executed by or on behalf of the member making the appointment. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. A corporation may execute the form(s) of proxy either under its common seal or under the hand of a duly authorised officer, attorney or other authorised person. A member may appoint more than one proxy to attend and vote on the same occasion.

(iv) A proxy need not be a member of the Company.

(v) Participants of the Bovis Homes Group Share Incentive Plan may instruct the trustee to vote on their behalf on a poll.

(vi) The proxy form and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be received at the office of the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or received via the Computershare website, (www.investorcentre.co.uk/eproxy) (full details of the procedures are given in the notes to the proxy form enclosed with the report and accounts and on the website) not less than 48 hours (excluding non-working days) before the time for holding the meeting. Completion of the proxy form, other such instrument or any CREST proxy instruction (as described in paragraph (vii) below) will not preclude a member from attending the Annual General Meeting and voting in person instead of through his proxy or proxies. Voting on all substantive resolutions will be by a poll. When announcing the results of the poll voting, the Company will disclose the total number of votes in favour and against and the number of abstentions on the Company website (www.bovishomesgroup. co.uk) and through a Regulatory Information Service. If a member returns both paper and electronic proxy instructions, those received last by the Registrar before the latest time for receipt of proxies will take precedence. Members are advised to read the website terms and conditions of use carefully.

(vii) To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours (excluding non-working days) before the time appointed for holding the meeting (and any adjournment of the meeting) in accordance with the procedures described in the CREST Manual. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(viii) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions and the appropriate CREST message must be properly, authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions and described in the CREST Manual (available via www.euroclear. com CREST). It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

(ix) Any person to whom this Notice is sent who is a person nominated under section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may have a right, under an agreement between him and the member by whom he was nominated, to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in paragraph (ii) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.

(x) As at 22 March 2019 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 134,800,481 ordinary shares, carrying one vote each on a poll. Therefore, the total voting rights in the Company as at 22 March 2019 are 134,800,481.

(xi) Under section 527 of the 2006 Act, members meeting the relevant threshold requirements set out in that section may require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting for the financial year beginning 1 January 2018 that the members propose to raise at the Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 (requirements as to website availability) of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

(xii) Under sections 338 and 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company: (a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business unless (i) (in the case of a resolution only) it would, if passed, be ineffective whether by reason of inconsistency with any enactment or the Company's constitution or otherwise, (ii) it is defamatory of any person, or (iii) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 8 April 2019, being the date six clear weeks before the meeting, and (in the case of a matter to be included on the business only) must be accompanied by a statement setting out the grounds for the request.

(xiii) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(xiv) Except as provided above, members who wish to communicate with the Company in relation to the Annual General Meeting should do so using the following means: (1) by writing to the Company Secretary at the registered office address; or (2) by writing to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of meeting or in any related documents (including the Chairman's Statement, the Annual Report 2018 and the proxy form) to communicate with the Company for any purposes other than those expressly stated.

(xv) A copy of this Notice and other information required to be published in accordance with section 311A of the 2006 Act in advance of the Annual General Meeting can be found at www.bovishomesgroup.co.uk.

(xvi) The following documents will be available for inspection at the Company's registered office, during normal business hours, on any weekday (excluding public holidays) from the date of this Notice until the date of the Annual General Meeting and on that date they will be available for inspection at the place of the meeting from 11.30am until the conclusion of the meeting:

(a) copies of the directors' service contracts;

(b) copies of the terms and conditions of appointment for each non-executive director; and

(c) the register of directors' interests.

(xvii) The results of the voting at the Annual General Meeting will be announced through a Regulatory Information Service and will appear on the Company's website, www.bovishomesgroup.co.uk, as soon as reasonably practicable following the conclusion of the Annual General Meeting.

(xviii) Data protection statement: your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's Registrar) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

Explanatory notes to the notice of meeting

Resolutions 1 to 14 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

Resolutions 15 to 17 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Item 1: Reports and accounts

The directors are required to present to shareholders at the Annual General Meeting the report of the directors, the strategic report and the accounts of the Company for the year ended 31 December 2018. The report of the directors, the strategic report, the accounts and the report of the Company's auditors on the accounts and on those parts of the directors' remuneration report that are capable of being audited are contained within the Company's annual report and accounts for the year ended 31 December 2018 (the "2018 Annual Report and Accounts").

Explanatory notes to the notice of meeting continued

Item 2: Directors' annual remuneration report

Under section 439 of the 2006 Act, the directors are required to present the directors' remuneration report prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), for the approval of shareholders by way of an advisory vote. The directors' remuneration report, the relevant pages of which can be found on pages 82 to 101 of the 2018 Annual Report and Accounts, gives details of the directors' remuneration for the year ended 31 December 2018 and sets out the way in which the Company will implement its policy on directors' remuneration during 2019. The Company's auditors, PricewaterhouseCoopers, have audited those parts of the directors' remuneration report capable of being audited and their report may be found on pages 112 to 118 of the 2018 Annual Report and Accounts.

The vote on the directors' remuneration report is advisory in nature in that payments made or promised to directors will not have to be repaid, reduced or withheld in the event that this resolution is not passed. However, if the vote on the directors' remuneration report is not passed, the directors' remuneration policy will be presented to shareholders for approval at the next Annual General Meeting.

A copy of the directors' remuneration policy, which was approved at the 2017 Annual General Meeting, is available on the website at www.bovishomesgroup.co.uk or in hard copy on request from the Group Company Secretary.

Item 3: Final dividend

Subject to the declaration of the final dividend at the meeting, the dividend will be paid on 24 May 2019 to shareholders on the register at the close of business on 29 March 2019.

Items 4 to 11: Re-appointment of directors

The UK Corporate Governance Code ("the Code") requires FTSE 350 companies to put all directors forward for re-appointment by shareholders on an annual basis. The purpose of this requirement is to increase accountability to shareholders. Accordingly, all the directors of the Company will retire at the Annual General Meeting and offer themselves for re-appointment. The Company's Articles of Association require that any director appointed by the Board shall hold office only until the first annual general meeting for which notice is first given after their appointment. Accordingly, Katherine Innes Ker will offer herself for re-appointment on this basis.

The Code contains provisions dealing with the re-appointment of non-executive directors. In relation to the re-appointment of Chris Browne, Ralph Findlay, Nigel Keen, Mike Stansfield and Katherine Innes Ker as non-executive directors, the Chairman has confirmed following the formal performance evaluation conducted during early 2019 that they continue to be effective in and demonstrate commitment to their roles, including commitment of time for Board and committee meetings. In reaching its recommendations, the Board also considered the individual skills and experience brought by each director, their relevance to the Company and its particular circumstances, and the overall skill set of the Board. Chris Browne provides a strong commercial and operational background in a consumer facing industry. Ralph Findlay adds strong commercial, financial and general management expertise, again from a consumer facing industry. Nigel Keen brings an in-depth construction and property background and experience of managing property strategy and portfolios, once again from a consumer facing industry. Mike Stansfield brings considerable housing developer experience. Katherine Innes Ker was newly appointed in October 2018 and brings a broad range of business knowledge and skills to the Board, Ian Tyler, non-executive Chairman, has considerable construction industry knowledge and international business experience.

The Board believes that the directors' combined experience and contribution is a great asset to the Board and the Company and continues to be important to the Company's long-term sustainable success. The Board, therefore, strongly supports and recommends the re-appointment of the directors to shareholders.

Biographical details of all the directors can be found on pages 62 to 63 of the 2018 Annual Report and Accounts.

Items 12 and 13: appointment of auditors and auditors' remuneration

The auditors of a company must be appointed at each general meeting at which accounts are presented. Resolution 12 proposes the re-appointment of the Company's existing auditors, PricewaterhouseCoopers LLP, as the Company's auditors, for a further year. PricewaterhouseCoopers LLP were first appointed at the 2015 AGM. Resolution 13 gives authority to the directors to determine the auditors' remuneration.

Item 14: Authority to allot shares

The authority given to your directors at last year's Annual General Meeting under section 551 of the 2006 Act to allot shares expires on the date of the forthcoming Annual General Meeting. Accordingly, this resolution seeks to grant a new authority under section 551 to authorise the directors to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company up to an aggregate nominal

amount of £22,444,280 and also gives the Board authority to allot, in addition to these shares, further of the Company's shares up to an aggregate nominal amount of £44,888,560 in connection with a pre-emptive offer to existing members by way of a rights issue (with exclusions to deal with fractional entitlements to shares and overseas shareholders to whom the rights issue cannot be made due to legal and practical problems). This

is in accordance with the latest institutional guidelines published by the Investment Association. This authority will expire at the conclusion of the next Annual General Meeting (or, if earlier, 15 months from the date of the resolution). The directors intend to seek renewal of this authority at subsequent Annual General Meetings.

The amount of £22,444,280 represents less than 33.3% of the Company's total ordinary share capital in issue as at 22 March 2019 (being the latest practicable date prior to publication of this Notice). The amount of £44,888,560 represents less than 66.6% of the Company's total ordinary share capital in issue as at 22 March 2019 (being the latest practicable date prior to publication of this Notice). The Company did not hold any shares in treasury as at 22 March 2019.

Explanatory notes to the notice of meeting continued

The Board has no present intention to exercise this authority other than in connection with employee share schemes. It wishes to obtain the necessary authority from shareholders so that allotments can be made (should it be desirable and should suitable market conditions arise) at short notice and without the need to convene a general meeting of the Company which would be both costly and time consuming.

If the Board takes advantage of the additional authority to issue shares or grant rights to subscribe for, or convert any security into, shares in the Company representing more than 33.3% of the Company's total ordinary share capital in issue or for a rights issue where the monetary proceeds exceed 33.3% of the Company's pre-issue market capitalisation, all members of the Board wishing to remain in office will stand for re-election at the next Annual General Meeting following the decision to make the relevant share issue.

Item 15: Notice of general meetings

This resolution is required as a result of the implementation in 2009 of the Shareholder Rights Directive. The regulation implementing this Directive increased the notice period for general meetings under the 2006 Act to 21 days. The Company will be able to continue to call general meetings (other than an Annual General Meeting) on 14 clear days' notice as long as shareholders have approved the calling of meetings on 14 days' notice. Resolution 15 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, where it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice. It is confirmed that the ability to call a general meeting on 14 clear days' notice would only be utilised in limited circumstances and where the shorter notice period will be to the advantage of shareholders as a whole.

Item 16: Disapplication of pre-emption rights

Resolution 16 seeks authority for the directors to issue equity securities (as defined in the 2006 Act) in the Company for cash as if the pre-emption provisions of section 561 of the 2006 Act did not apply. Other than in connection with a rights issue or any other pre-emptive offers concerning equity securities, the authority contained in this resolution will be limited to the issue of equity securities for cash up to an aggregate nominal value of £3,370,012 which represents approximately 5% of the Company's total ordinary share capital in issue as at 22 March 2019 (being the latest practicable date prior to publication of this Notice). In accordance with the Pre-emption Group's Statement of Principles, the directors confirm their intention that no more than 7.5% of the issued share capital (excluding treasury shares) will be issued for cash on a non pre-emptive basis during any rolling three-year period.

This resolution seeks a disapplication of the pre-emption rights on a rights issue so as to allow the directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas members.

There are presently no plans to allot ordinary shares wholly for cash other than in connection with employee share schemes. Shares allotted under an employee share scheme are not subject to statutory pre-emption rights.

The authority sought by resolution 16 will last until the conclusion of the next Annual General Meeting (or, if earlier, 15 months from the date of the resolution). The directors intend to seek renewal of this power at subsequent Annual General Meetings.

Item 17: Authority to purchase own shares

This resolution renews the authority granted at last year's Annual General Meeting to enable the Company to make market purchases of up to 13,480,048 of its own shares, representing approximately 10% of the Company's total ordinary share capital in issue as at 22 March 2019 (being the latest practicable date prior to publication of this Notice). Before exercising such authority, the directors would ensure that the Company was complying with the current relevant UK Listing Authority rules and Investment Association guidelines. No purchases would be made unless the directors believe that the effect would be to increase the earnings per share of the remaining shareholders and the directors consider the purchases to promote the success of the Company for the benefit of its shareholders as a whole. Any shares so purchased would be cancelled. The directors have no present intention of exercising the authority to purchase the Company's ordinary shares but would like to have the flexibility of considering such purchases in the future.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange. The maximum price (exclusive of expenses) which may be paid for each ordinary share shall be the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS). The minimum price (exclusive of expenses) would be 50 pence, being the nominal value of each ordinary share. The authority will only be valid until the conclusion of the next Annual General Meeting in 2020.

As at 22 March 2019 there were options over 481,831 ordinary shares in the capital of the Company which represent 0.36% of the Company's issued ordinary share capital at that date. If the authority to purchase the Company's ordinary shares was exercised in full, these options would represent 0.40% of the Company's issued ordinary share capital.

The directors consider that all the resolutions to be put to the meeting promote the success of the Company for the benefit of its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

Shareholder information

Registered office

11 Tower View, Kings Hill, West Malling, Kent ME19 4UY. Registered number 306718 registered in England.

Financial calendar

Annual report posted	8 April 2019
Annual General Meeting	22 May 2019
Payment of 2018 final dividend	24 May 2019
Announcement of 2019 interim results	5 September 2019
Announcement of 2019 final results	February 2020

Analysis of shareholdings - at 31 December 2018

	Number of shareholders	%	Number of ordinary shares	%
1 - 5,000	**1,748**	78.70	1,575,071	1.17
5,001 - 50,000	**254**	11.44	4,209,821	3.12
50,001 - 250,000	**121**	5.45	14,776,054	10.96
250,001 - 500,000	**52**	2.34	18,188,815	13.49
500,001 - 1,000,000	**25**	1.13	18,452,386	13.69
1,000,001 - and over	**21**	0.95	77,594,348	57.56
Total	**2,221**	100.0	134,796,495	100.0

Share price (middle market) - year to 31 December 2018

At end of year: 861.8p Lowest: 828.0p Highest: 1,301.5p

Advisers

Auditors

PricewaterhouseCoopers LLP

Financial advisers

Moelis & Company

Solicitors

Linklaters LLP

Principal bankers

Abbey National Treasury Services PLC

Barclays Bank PLC

Handelsbanken Capital Markets, Svenska Handelsbanken AB

HSBC Bank plc

Lloyds Bank PLC

Royal Bank of Scotland plc

Joint stockbrokers

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2DB

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Insurance brokers

Arthur J Gallagher

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Registrar

Shareholder enquiries regarding change of address, dividend payment or lost certificates should be directed to: Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ. Bovis Homes Shareholder Helpline: 0370 889 3236.

Investor Centre:
the easy way to manage your shareholdings online:

Many shareholders want to manage their shareholding online and do so using Investor Centre, Computershare's secure website. With Investor Centre you can view shares balances, history and update your details. Visit www.investorcentre.co.uk for more information

Internet and telephone share dealing is available via Investor Centre:

Internet dealing - The fee for this service is 1% of the value of each sale or purchase of shares (subject to a minimum of £30). Stamp duty of 0.5% is payable on purchases. Before you trade you will need to register for this service. This can be done by going online at www.computershare.trade.

Telephone dealing - The fee for this service will be 1% of the value of the transaction (plus £35). To use this service please call 0370 703 0084 with your SRN to hand. Please note that due to the regulations in the UK, Computershare are required to check that you have read and accepted the terms and conditions before being able to trade, which could delay your first telephone trade. If you wish to trade quickly, we suggest visiting their website and registering online first at www.computershare.trade

Note: The provision of these services is not a recommendation to buy, sell or hold shares in Bovis Homes Group PLC

Dividend Reinvestment Plan (DRIP)
The DRIP gives shareholders the opportunity to reinvest their dividends to buy ordinary shares in the Company through a special dealing arrangement. For further information please contact the Bovis Homes Shareholder Helpline: 0370 889 3236.

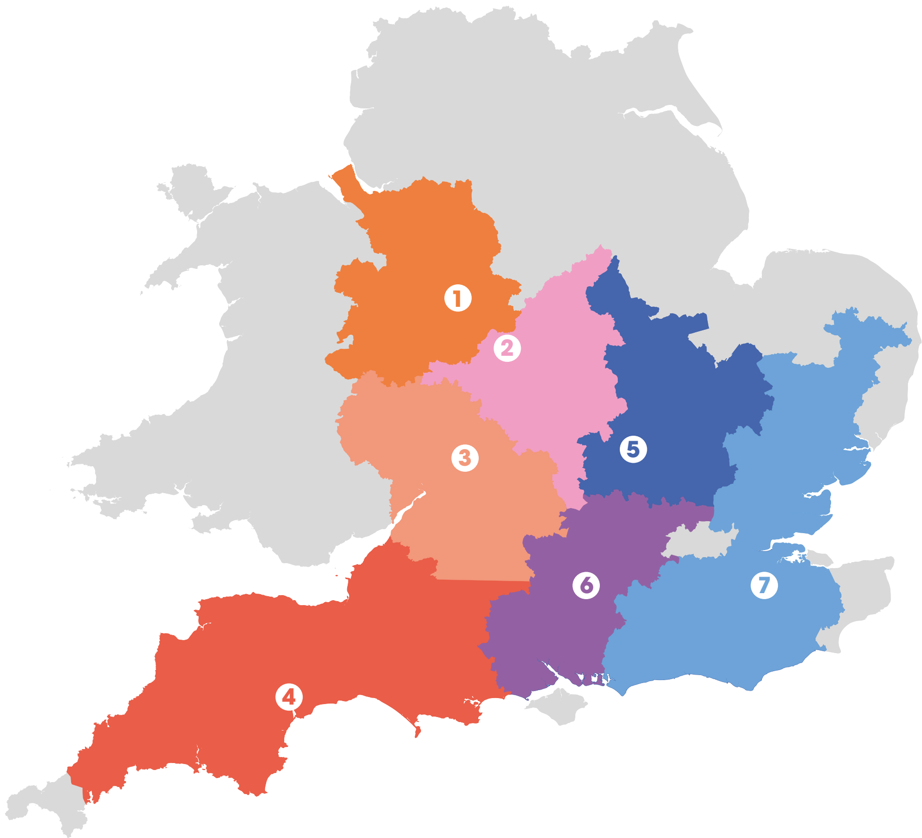
Electronic communications
Instead of receiving printed documents through the post many shareholders now receive their annual report and other shareholder documents electronically, as soon as they are published. Shareholders that would like to sign up for electronic communications should go to www.investorcentre.co.uk/ecomms where they can register.

Principal offices

Bovis Homes Group PLC

11 Tower View
Kings Hill
West Malling
Kent
ME19 4UY

Tel: (01732) 280400



West division

1 Mercia region

Dunston Hall
Dunston
Stafford
Staffordshire
ST18 9AB

Tel: (01785) 714412

2 West Midlands region

Bromwich Court
Highway Point
Gorsey Lane
Coleshill
Birmingham B46 1JU

Tel: (01675) 437000

3 Western region

Cleeve Hall
Cheltenham Road
Bishops Cleeve
Cheltenham
Gloucestershire GL52 8GD

Tel: (01242) 388500

4 South West region

Heron Road
Sowton Industrial Estate
Exeter
Devon
EX2 7LL

Tel: (01392) 344700

East division

5 Northern Home Counties region

St Annes House
Caldecotte Lake Business Park
Milton Keynes
Buckinghamshire MK7 8JU

Tel: (01908) 088500

6 Southern Counties region

Central 40
Lime Tree Way
Chineham Park
Basingstoke, Reading
RG24 8GU

Tel: (0845) 812 7777

7 South East region

11 Tower View
Kings Hill
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