



Annual report and accounts 2006

Bovis Homes Group PLC



www.bovishomesgroup.plc.uk

Contents

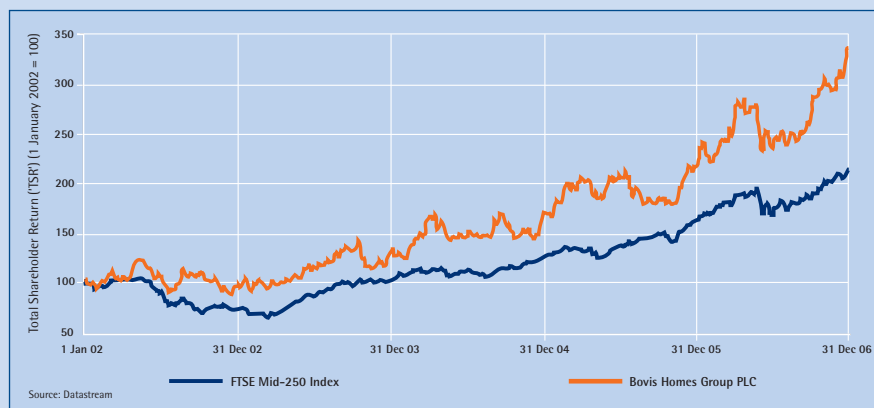
01	Financial highlights
02	Chairman's statement
06	Chief Executive's operational review
14	Financial review
20	Directors and officers
21	Corporate governance policy guidelines
22	Report of the directors
24	Report on corporate governance
27	Report on the activities of the Audit Committee
28	Report on the activities of the Nomination Committee
29	Report on directors' remuneration
37	Statement of directors' responsibilities in respect of the annual report and accounts and the financial statements
38	Independent auditors' report to the members of Bovis Homes Group PLC
39	Group income statement
39	Group statement of recognised income and expense
40	Balance sheets
41	Statement of cash flows
42	Notes to the financial statements
61	Five year record
62	Notice of meeting
64	Explanatory notes to the notice of meeting
68	Shareholders' information
69	Principal offices

Financial highlights

Total shareholder return

+234%

Five year record from 1 January 2002 to 31 December 2006



	2006	2005
Pre tax profit*	£132.0m	£116.1m

Earnings per share*	77.8p	69.0p
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Operating margin*	23.1%	24.0%
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Dividends per share	30.0p	25.0p
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*Pre tax profit, Earnings per share and Operating margin are stated before a one-off pension credit of £3.5 million (2005: £nil)



Chairman's statement
Tim Melville-Ross

Dividend

+20%
30.0p

The 2006 dividend, at 30.0p per share, is a 20% increase on the 2005 dividend of 25.0p per share and has more than doubled from 2002.

2006 was a year of good progress for Bovis Homes, delivering healthy growth in the volume of legal completions, whilst retaining the Group's sector-leading operating profit margin. Increased revenues drove strong cash generation for the Group, with positive net cash in hand at the year end, and thus the Group is well positioned to invest in future land supply throughout the Group's operations.

The Group remained cautious in 2006 over consented land investment in a highly priced, supply-constrained land market. However, the Group's long term investment programme in strategic land continues to deliver opportunities for the Group to replenish its consented land bank without resorting to purchasing open-market residential land, facilitating revenue growth at good margins.

Results

For the year ended 31 December 2006, the Group achieved pre-tax profit of £132.0 million (stated before a one-off pension credit of £3.5 million), a 13.7% increase on the previous year's performance of £116.1 million. Basic earnings per share increased by 12.8%, from 69.0p to 77.8p, again stated before the pension credit mentioned above.

Total revenue increased by 14.6%, from £521.2 million in 2005 to £597.3 million in 2006, and the volume of legal completions grew by 15.6% to 3,123 units.

The Group's average sales price increased to £183,700, 4.7% higher than 2005's £175,500. This increase was contributed to by a changing mix, with a smaller number of lower priced social and partnership units, and a greater number of private units. Despite this mix change, the average size of units legally completed has reduced in 2006 as compared to 2005, demonstrating the Group's continuing focus on good quality, mid-market private units.

The Group's operating margin, before the one-off pension credit, remained strong, at 23.1%, versus 24.0% in 2005. For the ninth consecutive year, the Group has generated a return on capital employed of at least 20%.

Dividend

Together with the 10.0p per share 2006 interim dividend declared and paid, the proposed final dividend for the year ended 31 December 2006, of 20.0p per share, demonstrates the Board's commitment to its earlier statement in respect of dividends, which is that – conditional on any necessary approvals required at future general meetings, and subject to a stable business environment – dividends will be doubled from their 20.0p per share base in 2004 to 40.0p per share in 2008, including a 5.0p per share increase in both 2007 and 2008.

The 2006 dividend, taking the interim and final dividend in total, at 30.0p per share, is a 20% increase on the 2005 dividend of 25.0p per share, and is covered 2.6 times by the basic earnings per share of 77.8p per share, excluding one-off pension credit.

The proposed final dividend of 20.0p per share for 2006 will be paid on 25 May 2007 to shareholders on the register at the close of business on 30 March 2007. The Board intends to offer a scrip dividend alternative, pursuant to which the shareholders may elect to receive the whole or part of their final 2006 dividend in new ordinary shares, credited as fully paid, as an alternative to cash.

The Board

There have been a number of Board changes to communicate. Firstly, after four and a half years as the Group Finance Director, Mr David Ritchie has been appointed, effective from 2 January 2007, to the role of Group Managing Director.

Mr Ritchie's appointment reflects both the additional demands created by the growth of the Group, and the value that Mr Ritchie has added to date as an executive director. Mr Ritchie will be responsible to the Chief Executive for the day to day running of the regional operations.

Secondly, succeeding Mr Ritchie as Group Finance Director, Mr Neil Cooper has been appointed to the Board as an executive director on 2 January 2007. Mr Cooper previously worked in senior finance roles in Reckitt Et Colman Plc and Whitbread Plc.

Thirdly, Mr Colin Holmes was appointed as a non-executive director, with effect from 1 December 2006. Mr Holmes is currently the Chief Executive of Tesco's UK convenience store business, and has been with Tesco since 1988.

The Board currently comprises five non-executive directors, including myself, and three executive directors.

The Board would like to pay tribute to Mr Mark Nicholls, who steps down from the Board at the upcoming AGM. Mr Nicholls has been a non-executive director of the Company since before flotation in 1997, and his contribution to the development of the Group has been significant.

Employees

Bovis Homes believes that the success of the Group is down to the hard work, talent and expertise of its employees. Their commitment is fundamental to achieving this success.

In making this happen, we strive to maintain a diverse workforce, reflecting the range of talents in the communities we work and operate in. We are also committed to the health, safety and welfare of all of our employees, whether on building sites, or in the office: conducting business in the right way.

I would like to thank all of our employees for their efforts towards making 2006 a successful year for Bovis Homes.

Market conditions and prospects

The housing market during 2006 was generally stronger than in 2005, helped by a broadly positive economic backdrop for much of the year. Average national earnings growth at 3.7% for the year to December 2006, and record high employment levels, have had a positive effect on the housing market in terms of both pricing, and volume trends.

Looking ahead, it is anticipated that the undersupply of new housing relative to new household generation will continue. It is generally accepted that the constraints of the planning system remain firmly in place on the supply side; constraints that both restrict supply of land for housebuilding, and increase the time taken to bring strategic land opportunities into the consented land bank. When this is allied to household growth, driven by demographic and societal changes, that is in excess of supply, then robust market fundamentals remain in place.

This said, inflationary pressures in the economy as a whole have become more acute through 2006, and in response, the Bank of England Monetary Policy Committee raised rates by 0.25% twice during 2006: in August, and in November, together with a third 0.25% rise in January 2007.

The impact of these on consumer confidence will become clear in due course, but the Group believes that it is well placed to operate successfully in its marketplace during 2007.

The Group has migrated its sales mix towards good quality mid-market private homes over a period of time, and this taken together with its ability to procure land through its long term investment strategy; the integration and efficiency of its design, build and marketing processes; the growth opportunities afforded by steady regional expansion and the further development of the urban regeneration business will enable the Group to continue to offer good prospects and to enhance shareholder value.

Tim Melville-Ross
Chairman







Chief Executive's operational review Malcolm Harris

Legal completions

+15.6%

3,123 units

The Group has increased legal completions by over 15% whilst maintaining a strong operating margin and high return on capital employed.

The Group achieved a good performance in 2006 operating in a steady housing market. The Group has increased legal completions by over 15% and delivered a pre-tax profit of £132.0 million excluding a one-off pension credit of £3.5 million whilst maintaining a strong operating margin, high return on capital employed and excellent cash management. Future expansion of the Group has been underpinned by further investment in strategic land and in the ongoing development of the urban regeneration business.

Product mix and average sales price

The Group legally completed 3,123 homes in 2006, including 135 dwellings built on third-party owned land, compared with 2,702 homes in 2005, including 147 homes built on third-party owned land. The Group's average sales price was £183,700 compared with £175,500 the previous year, a 4.7% increase. The average size of property decreased by 2.2% from 1,014 square feet in 2005, to 992 square feet in 2006, demonstrating the Group's focus on good quality mid-market homes. Taking this further progress in product mix into account, the average sales price per square foot of the Group's private homes increased by 5.1% year over year.

Regional performance

Demand was steady across England and Wales throughout the year: sale price improvements however were more significant in the Southern markets. During 2006, 72% of the Group's private home legal completions achieved an average sales price of £167,000. In addition, 13% of the total 2006 legal completions were either social or partnership housing, with an average sales price of £85,000.

The establishment of new regions with subsequent adjustments to geographical operating areas has made accurate comparisons between historical volumes, margins and average sales

prices on a regional basis challenging, and with further operations due to open, the Group averages are now more appropriate than those shown regionally.

Encouragingly, the performance of these developing regions has made a substantial contribution to the increased volume of legal completions delivered by the Group. For example, the Group's Eastern and Northern regions grew their volume of legal completions on a combined basis by 24% demonstrating the growth achievable from a platform of well controlled and judicious investment.

Partnership housing

The Group is actively involved with housing associations, local authorities and other similar bodies, providing quality new homes at affordable prices, either for rent or shared ownership, to communities throughout the country. The Group has total in-house capability to handle all aspects of each project, including major regeneration schemes. In addition to design and build, there exists expertise to provide cross-subsidies from the development and sale of open market housing and commercial buildings.

The Horfield regeneration project in Bristol remains the largest single partnership scheme currently being developed by the Group, which is now expected to deliver over 900 properties when completed.

During 2006, seventeen new developments exchanged legal agreements, providing the Group with a good base to expand this important part of its business. Further opportunities are in the pipeline which will enable the Group to work in partnership with local authorities, Government and registered social landlords in fulfilling community needs whilst generating shareholder value.

Market sector analysis

Year ended 31 December	2006			2005		
	%	Units	Average sales price £	%	Units	Average sales price £
One and two bedroom	32	996	134,300	23	602	135,100
Three bedroom	31	957	200,700	31	845	183,900
Four bedroom	14	436	265,000	12	321	266,500
Five or more bedroom	7	230	324,100	9	254	313,600
Retirement Living	3	95	242,200	3	84	239,100
Social housing	9	274	88,200	17	449	94,300
Partnership housing (3rd party owned land units)	4	135	78,400	5	147	74,100
Group	100	3,123	183,700	100	2,702	175,500

Product mix analysis

Year ended 31 December	2006			2005		
	%	Units	Average sales price £	%	Units	Average sales price £
Traditional	30	941	189,500	28	758	194,200
Room-in-roof	13	389	300,400	13	354	295,000
Three storey	21	646	213,400	21	558	202,200
Apartments	20	643	129,000	13	352	135,500
Retirement Living	3	95	242,200	3	84	239,100
Social housing	9	274	88,200	17	449	94,300
Partnership housing (3rd party owned land units)	4	135	78,400	5	147	74,100
Group	100	3,123	183,700	100	2,702	175,500

Unit completions and average sales price

Year ended 31 December	2006		2005	
	Units	Average sales price £	Units	Average sales price £
South East*	906	212,100	815	196,500
South West	836	148,700	678	149,700
Central	510	204,200	500	179,000
Eastern*	504	167,400	393	160,000
Northern	272	168,500	232	173,700
Retirement Living	95	242,400	84	239,100
Group	3,123	183,700	2,702	175,500

* Restatement of prior year to reflect the movement of the Norfolk area from South East into Eastern

Consented land bank

Total plots as at 31 December	2006	2005
	Plots	Plots
South East*	2,986	3,171
South West	3,135	3,341
Central	2,143	2,260
Eastern*	2,199	2,290
Northern	1,313	1,383
Retirement Living	251	251
Group (exc. 3rd party owned land plots)	12,027	12,696
Third party owned land plots		
South East	88	88
South West	280	354
Group consented land bank	12,395	13,138
Urban redevelopment - legal agreement exchanged#	700	-
Development approved by planning committee subject to S106 being signed#	3,100	-
Aggregate holdings	16,195	13,138
Years' supply based upon legal completions in the year (consented land bank)	4.0	4.9
Years' supply based upon legal completions in the year (aggregate holdings)	5.2	4.9

held in strategic land bank

* Restatement of prior year to reflect the movement of the Norfolk area from South East into Eastern

Strategic land bank

Total potential plots as at 31 December	2006	2005
	Plots	Plots
South East	8,256	8,207
South West	4,545	5,124
Central	9,417	7,099
Eastern	1,268	336
Northern	1,089	1,180
Retirement Living	144	220
Group strategic land bank	24,719	22,166
Years' supply based upon legal completions in the year	7.9	8.2

Land and planning

The average plot cost for the consented land bank (excluding social housing and third-party land) at the year end was £46,900 which represented 23.6% of the average sales price achieved in 2006 (excluding social housing and dwellings constructed on third-party owned land). This compared well with the average plot cost (excluding social housing and third party land) at the start of the year of £45,300.

The strategic land holdings as at 31 December 2006 stood at 24,719 potential plots (2005: 22,166). The Group was successful in promoting land during the year resulting in the attainment of planning consent and transfer to the consented land bank of 1,435 plots. As at the end of the year, the strategic land holdings included c.700 plots controlled through a legal agreement relating to redevelopment of existing residential land and c.3,100 plots approved by planning committee subject to a S106 agreement being signed. These c.3,800 plots have a high degree of certainty, and represent an additional 1.2 years potential supply, at 2006 volumes, in addition to the 4.0 years of land supply available from the Group's consented land bank in place, again at 2006 volumes. An indicator of the ability of the Group to source cost effective land via its strategic land holdings is that 41% of housing profits were generated from strategically sourced land in 2006 compared with 32% in 2005.

Research and development

With a challenging sustainability agenda ahead for the industry, the Group believes that continuous improvement through research and development is key to the continuing success of the business and is a significant factor in delivering environmental, social and sustainability objectives. The Group engages with many stakeholder organisations, including housebuilding industry warranty providers and building control bodies, the Home Builders Federation, the Building Research Establishment, and the Department of Communities and Local Government in respect of building regulation development, and actively partners many manufacturers and suppliers.

Further details are contained in the Group's Corporate Social Responsibility report, which is available to all shareholders.

Pension scheme

The Group made a commitment during 2004 to fund the past service deficit on its defined benefits pension scheme, as identified in the actuarial valuation completed in June 2004, by 2007. Up to 31 December 2006, special contributions had been paid into the pension scheme amounting to £8.6m, and the deficit has reduced substantially as at the end of 2006.

Group strategic objectives to improve shareholder value

The Group's performance during 2006 has been achieved in a manner consistent with its long-held strategic objectives, laid out below:

Achieve a minimum return on capital employed of 20%, and maximise the operating margin.

Ensure growth in profits and earnings per share.

Ensure that the Group maintains the highest level of awareness and practical implementation of health, safety and environmental standards.

The following outlines the strategies employed by the Group in achieving its objectives.

Strategies to deliver objectives

Achieve a minimum return on capital employed of 20%, and maximise the operating margin

Land supply is a fundamental requirement of a housebuilding business: its purchase and management are key to the success of the operation. The Group has a consistent land investment policy relating to purchase and management of its land holdings. An important aspect of this strategy is in the long-term assembly of large developments through strategic land holdings, assisted by the Group's Land Directors, Land Managers and Town Planners in both obtaining and promoting the Group's land resources in an effective manner. Its strategic land holdings have grown substantially over the years and underpin the future profitability and growth

of earnings and dividends, as promotion of strategic land through to a residential planning status allows the Group to add to its consented land bank without having to pay an open market price: particularly effective where land inflation is moving sharply ahead.

All investments are made on the basis of a minimum of 20% return on capital employed, setting a clear performance benchmark for its internal management team that is echoed by the Group's declared targets in this area, and the Group measures its performance in land acquisition by reference to both a consented land bank, and to its strategic land holdings.

The Group employs qualified architects, civil engineers, structural engineers, interior designers and has a Group Research and Development Department. This combined professional group works with regional and Group sales and marketing departments to ascertain customer requirements. Subsequently, continuous research and development enables delivery of homes that meet purchasers' requirements at an affordable price. This method of operating facilitates a high level of customer satisfaction and has enabled the Group to provide a wide range of homes that meet peoples' expectations in a highly integrated manner. The Group has a total professional in house capability covering all aspects and functions of the business delivering an efficient service at a cost effective price, providing shorter timescales and the ability to focus attention where necessary. Prices are maximised by effective marketing whilst ensuring that the required volumes are met. The Group measures performance by virtue of the level of customer satisfaction and profit margin achieved compared with its peer group.

The Group continues to focus attention on recruitment, training and motivation of an able and efficient management team. Bovis Homes is a "people" business. It is essential, therefore, the right calibre of individuals is recruited, trained and motivated, and staff turnover is monitored on a monthly basis.

The management and control of this Group is, and will continue to be, undertaken by people who understand the economic and political climate in which the Group operates, who are sensitive to the demands and requirements of customers and have the entrepreneurial drive to move the operation forward without compromising clear and straightforward corporate governance.

The Group's operating margin and return on capital employed is assessed by comparison to the performance of its peer group.

Ensure growth in profits and earnings per share

Planned sustainable expansion in volume and revenue is a major factor in the delivery of this key objective. The Group has set expansion targets which will be met through the establishment of new regions providing wider geographic coverage. The Group believes, for reasons of geographic focus, and cost effective and efficient management, that this model offers the right level of cost efficiency and will deliver long-term added value.

Allied to this, the Group has demonstrated progress in urban regeneration partnerships, developing private and partnership properties through effective collaboration with housing associations, Local Government and their agencies.

The Board believes that shareholders should benefit from the Group's success in this objective, and is committed to a progressive dividend policy, advising shareholders of the Board's decision (subject to a stable business environment and necessary shareholder approvals) to double the dividend between 2004 and 2008. Since 2002, the dividend per share has more than doubled, from 14.0p per share in 2002, to a proposed 30.0p per share in 2006.

The Group measures performance by regard to growth in earnings per share, and increases in pre-tax profit: both as compared to the Group's peers, and to broader market comparators.





Ensure that the Group maintains the highest level of awareness and practical implementation of health, safety and environmental standards

Best practice in health, safety and environmental awareness and management is an important element in the continuing success of the Group. The Health, Safety and Environmental Consultative Committee oversees these important matters, formulating and promulgating policy to all stakeholders. The Committee is chaired by a Bovis Homes Limited director by annual rotation to ensure that fresh ideas and initiatives are constantly introduced, assessed and, where appropriate implemented on a consistent basis. The chairman is supported by a committee comprising Group employees from numerous disciplines complemented by the Health and Safety Director and external independent professional advisers. The chairman reports formally to the Board through submission of a Health and Safety report tabled at each Board meeting.

Bovis Homes promotes all aspects of safety and environmental management throughout its operations in the interests of all stakeholders. Its record of success was recognised in 2006 with the RoSPA President's Award which was given to Bovis Homes Group PLC for an outstanding performance in occupational health and safety over a period of ten years. Bovis Homes' objective is to achieve sustainable construction and reduce environmental impact. The Group seeks to protect and, wherever possible, improve the environment by retaining mature landscaping and introducing new planting and habitats.

It is also committed to planning for the most efficient and effective use of development land. The Group has introduced higher density properties with flexible accommodation which addresses the changing lifestyles of its customers, including the ability to work from home.

The Group emphasises the importance of this objective by publishing an annual report on Corporate Social Responsibility which is issued to all shareholders and contains a number of key metrics used to assess performance: these include the percentage of legal completions on brownfield land, Health and Safety statistics, and the contribution made towards fulfilling social housing needs

Outlook for 2007

The current economic outlook for the UK is relatively benign. The recent increase in retail prices has been affected by high international energy and base material prices. These commodities have now moderated in value which should feed through to lower prices over the next twelve months.

Further to the repositioning of the product range to mid-market, the Group now has a range of homes that are highly competitive compared with the second-hand market. This strategy was accompanied by a decision to release products for sale at an early stage of the production cycle. The overall effect has been to provide a good base to deliver sustainable growth.

The Group has an improved forward order book compared with last year, strong land holdings, and is in an excellent position to expand and deliver added shareholder value.

Malcolm Harris
Chief Executive







Financial review Neil Cooper

Pre tax profit*

+13.7%

£132 m

The ordinary profit before tax for the year ended 31 December 2006 was £132.0 million, up by £15.9 million from the comparable number in 2005.

*Pre tax profit is stated before a one-off pension credit of £3.5 million (2005: £nil)

Overview

The Group's continued focus on achieving cost effective land purchases through the use of its longer term strategic land investment programme, allied with the repositioning of the Group's product mix towards good quality mid-market private homes have put the Group in a position where attractive growth in the number of legal completions has been achieved whilst at the same time delivering profit at a healthy operating margin and making a 20% return on capital employed.

Whilst there has been a shift in the product mix of the Group away from social and partnership housing in 2006 as against 2005, this has been driven by timing factors around the legal completion of social housing, and the Group anticipates a higher mix of social and partnership housing going forward.

The Group's consented land bank equated to around four years supply at 2006 volumes, with 12,395 plots. This compared to 13,138 plots at the start of the year, the reduction reflecting the Group's caution in procuring consented land in the prevailing land market. However, progress in procuring strategic land was good, with 2,553 net potential plots added to the strategic land holdings during 2006.

Gearing benefited from strong revenue growth and good control over working capital, with net cash in hand at the end of the year of £103 million. The long term investment programme that the Group has in place to generate cost-effective land plots from strategic land carries material future investment requirements in both land cost and in infrastructure cost: by their nature, the timing of these costs can be uncertain.

The Group's average gearing during 2006 was 9%. The Group has historically been successful in deferring payment for a proportion of its acquired land, creating a balance sheet liability.

The practical effect of these contractual agreements is to defer cash outflow for a period of time, and thus avoid the funding requirements that would ordinarily be crystallised by this cash outflow. Average gearing would have been 19% if adjusted to reflect this liability as part of the Group's debt.

Profit before tax and earnings per share

The ordinary profit before tax for the year ended 31 December 2006 was £132.0 million stated before a one-off pension credit of £3.5 million, up by £15.9 million or 13.7% from the comparable number in 2005 at £116.1 million. This gave rise to a basic earnings per share of 77.8p for 2006, excluding the one-off pension credit (79.8p per share inclusive of the credit) up 8.8p or 12.8% from the comparable number in 2005, at 69.0p per share. Including the pension credit, ordinary profit before tax for 2006 was £135.5 million.

Revenue

Total revenue for the Group in 2006 was £597.3 million. This reflected an increase of 14.6% on the prior year at £521.2 million.

The Group housing revenue increased by 21.0%, being the key component of the Group's total revenue, from £474.2 million in 2005 to £573.7 million in 2006, benefiting both from an increase in the volume of legal completions, and an increase in average sales price from £175,500 to £183,700. This increase in average sales price between 2005 and 2006 was despite a 2.2% fall in average size per unit legally completed, from 1,014 square feet in 2005 to 992 square feet in 2006. More than offsetting the impact of this, the average sales price per square foot grew by some 7% in 2006 versus 2005: driven in part by increases in sales price per square foot for private housing legal completions, and in part by a reduction in the contribution to the mix of social and partnership housing units, which generally have a lower sales price than private units.

The Group sold £19.5 million of land in 2006, down from £34.2 million in 2005, and other income was £4.1 million in 2006, a reduction of £8.7 million from the equivalent number in 2005.

Operating profit

The Group delivered an operating profit of £137.8 million pre one-off pension credit in 2006, at an operating profit margin of 23.1%, again stated before the pension credit. Operating profit grew by 10.2%, or an incremental £12.7 million, versus the comparable £125.1 million in 2005. Including the pension credit, the Group operating profit for 2006 was £141.3 million.

Of this operating profit, land sales contributed a profit, less option costs, of £7.8 million, as against land sales profit less option costs of £13.1 million in 2005.

Administrative expenses, including sales and marketing and a provision for staff bonuses, as a percentage of revenue increased slightly in 2006 as against 2005, from 8.5% in 2005 to 8.7% in 2006, ignoring the one-off pension credit.

After excluding the impact of land sales and other income, the gross margin on housing was broadly flat year over year.

Financing

Net interest payable for the year amounted to £5.8 million (2005: £9.0 million), a year over year reduction reflecting a generally decreased level of average borrowings throughout the year. Interest cover stood at over 23 times.

Of this total, the bank interest net charge, including arrangement fees and un-drawn commitment fees was £3.6 million, down by £2.4 million from the previous year's total of £6.0 million. The remaining £2.2m cost incurred in 2006 was a finance charge reflecting the difference between the cost and nominal price of land bought on deferred terms, which is charged to the income statement over the life of the deferral. This compared to a total of £3.0 million charged in 2005.

Taxation

The Group's tax charge taken through the income statement amounted to £40.5 million. This equates to an effective tax rate of 29.9% on profit before taxation (2005: 29.8%). This income statement charge is made up of tax on the current year of £38.1 million, a tax credit of £0.4 million relating to prior years, and a deferred tax charge of £2.8 million. This deferred tax charge includes a £1.7 million deferred tax charge relating to the £5.8 million special contribution paid into the pension scheme, and a £1.0 million deferred tax charge relating to the £3.5 million one-off pension credit taken in the year.

Dividends

During the year, the Group paid the 2005 final dividend of 16.7p per share, and the 2006 interim dividend of 10.0p per share. In total, this amounted to £31.8 million (2005: £25.9 million). Post-tax earnings before the one-off pension credit in 2006 were 2.9 times the dividends paid.

The Board is recommending a 20.0p per share final dividend for 2006, taking the total dividend for 2006 to 30.0p per share. This represents a dividend cover of 2.6 times, using basic earnings per share pre one-off pension credit.

Net assets

The Group's net assets grew by some £80 million in 2006 as against 2005, with closing net assets at £678 million (2005: £598 million). The major driver of this was £63.2 million in retained earnings, inclusive of one-off pension credit, and the Group also benefited from the addition of £9.2 million of issued share capital and share premium arising from the exercise of share options and an increased uptake of scrip dividends. There was also an actuarial gain on the Group's defined benefits pension scheme, of £6.1 million net of deferred tax, during 2006.

Analysis of margin

Year ended 31 December	Total housing		Group	
	2006	2005	2006	2005
	%	%	%	%
Revenue	100.0	100.0	100.0	100.0
Land costs	(19.6)	(18.6)	(19.8)	(19.2)
Construction costs	(49.2)	(50.0)	(48.4)	(48.3)
Gross profit	31.2	31.4	31.8	32.5
Administrative expenses (including sales and marketing costs)			(8.7)	(8.5)
Operating profit			23.1	24.0

Note: 2006 data excludes £3.5 million pension credit

Analysis of net assets

	2006	2005
	£m	£m
Net assets at 1 January	598.1	538.2
Profit for the year	95.0	81.5
Dividends	(31.8)	(25.9)
Share capital issued	9.2	4.8
Actuarial gain/(loss) on defined benefits pension scheme	6.1	(2.0)
Deferred tax on other employee benefits	0.2	0.9
Adjustment to the fair value of cash flow hedges	0.5	0.3
Adjustment to reserves for share-based payments	0.5	0.3
Net assets at 31 December	677.8	598.1

Analysis of pension scheme deficit

	2006	2005
	£m	£m
Pension deficit at 1 January	22.4	20.5
Contributions in the pension scheme	(7.5)	(3.6)
One-off pension credit	(3.5)	-
Expense to the income statement	2.3	2.6
Actuarial (gain)/loss on defined benefits pension scheme	(8.6)	2.9
Pension deficit at 31 December	5.1	22.4

Return on capital employed

The return on capital employed for the Group for 2006 was 20%, taking the operating profit of the business pre one-off pension credit at £137.8 million, and an average capital employed of £689.2 million. This represents the ninth consecutive year of achievement of a minimum return of 20%.

Pensions

The Group operates a defined benefit pension scheme, on which the last actuarial valuation was on 30 June 2004; which indicated that the market value of the scheme's assets was below the present value of the scheme's liabilities at that point. As a result, the Group has agreed to contribute to reducing this deficit over an agreed period, through special contributions made by the Group to the scheme. During 2006, the Group contributed £5.8 million under this agreement.

According to the estimates provided by the Group's actuarial advisor, the deficit on the Group's scheme has fallen from £22.4 million at the start of 2006 to £5.1 million as at the end of 2006. This movement is primarily due to the payment of the £5.8 million special cash contribution, a £3.5 million one-off credit and an actuarial gain of £8.6 million.

The actuarial gain enjoyed by the scheme in 2006 has arisen in two areas: an increase in the value of the scheme's assets, and a reduction in the value of the estimated future liabilities of the scheme following re-estimation as actual results varied from previous actuarial estimations which in combination total £5.2 million, and a £3.4 million gain arising from movements in the underlying actuarial assumptions used, in particular around the discount rate applied having regard to bond yields.

As outlined previously, 2006 features a one-off pension credit of £3.5 million arising from an actuarial revaluation following scheme rule changes in April 2006, which the Group is obliged to take to the income statement. To provide a

more meaningful comparison against prior year, the Group has adjusted the reported figures by the credit to generate an underlying comparator and the table in note 17 provides a reconciliation.

Cashflow

Cashflow generation was strong during 2006 benefiting from a reduction in working capital at the year end employed in both trade and other receivables, and in the carrying costs of inventories as compared to the closing 2005 balance sheet.

Specifically, cashflow benefited from a favourable £11 million reduction in the carrying cost of home-exchange properties, and a £16 million reduction in the carrying cost of housing work in progress, with sales levels stronger in 2006 than in 2005. Cashflow also benefited from the timing of receivables between 2005 and 2006, from a £23 million favourable movement in the Group's land creditor and from an increased level of scrip dividend.

Given the nature of the Group's long term investment programme in strategic land, the cost of land acquisition and its associated infrastructure costs post consent can be both sizeable and unpredictable in terms of its timing. The Group has a number of large strategic land holdings which are expected to require substantial levels of cash expenditure during 2007 and beyond. These costs are likely to be well in excess of that required for those sites during 2006.

Net borrowings and banking facilities

The Group exited 2006 with £40.2 million of fixed rate borrowings, offset by £142.9 million of cash on short term deposit.

The Group held banking facilities of £220 million at 31 December 2006, made up of bilateral committed revolving loan facilities with six banks; effective from 7 February 2005 for 5 years to 6 February 2010.

As indicated earlier, with an average net borrowing of £54 million in 2006, average gearing stood at 9%, or 19% if taking into account land creditors. The Group's peak net borrowing position during the year was £111 million.

Financial risk and liquidity

The Group seeks to fix an element of its borrowings, in order to mitigate the risk of material interest rate fluctuations. This is achieved by entering into interest rate swaps of varying maturities, the need for which would normally be reviewed at the point of draw-down of additional loan funding, having regard to the current and future estimates of the monetary environment. Care is taken to match the maturity of the swap with that of the underlying borrowing. At 31 December 2006, the Group had interest rate swaps in place on £40 million of borrowings.

The Group's banking arrangements, which constitute a £220 million revolving credit facility, plus an overdraft facility, offer the Group adequate flexibility and liquidity for its foreseeable cash flows in the medium term. Given the bilateral and committed nature of these facilities, the Group is able to draw down funds to fulfil its needs, for periods ranging from a few days to periods extending to the life of the facilities. Investment of short term cash surpluses is strictly controlled by the Group Finance function, with care taken to ensure that funds are not deposited for periods longer than necessary.

As the Group functions wholly in the UK, currency risk management is not a material consideration.

Financial Reporting

Unlike the previous year of 2005, which featured the adoption of International Financial Reporting Standards, there have been no changes in the Group's accounting policies during 2006.

Neil Cooper
Group Finance Director

Return on capital employed

+20%

Revenue growth

+14.6%
£597m

Cash-in-hand

£103m





Directors and officers



Timothy David Melville-Ross (62)
CBE
Chairman (non-executive)

Appointed an independent non-executive director in 1997 and Chairman in 2005. He is the chairman of DTZ Holdings plc, Manganese Bronze Holdings p.l.c. and Royal London Mutual Insurance. He is president of the Chartered Management Institute. He was Director General of the Institute of Directors (1994 - 1999) and was previously chief executive of the Nationwide Building Society.



Mark Patrick Nicholls (57)
Non-executive Director

Appointed an independent non-executive director in 1997 and Senior Independent Director in 2005. He is chairman of EcoSecurities Group plc, deputy chairman of Venture Production plc and a non-executive director of Alexander Forbes Limited, Evolution Group plc, Northern Investors Company PLC and the Portman Building Society. He was previously Head of Private Equity at the Royal Bank of Scotland and prior to that Head of Corporate Finance at Warburgs.



Lesley Anne MacDonagh (54)
Non-executive Director

Appointed an independent non-executive director in 2003. Lesley is a director of Lovells, the international law firm, and was Managing Partner for 10 years until 2005. She is a non-executive director of Slough Estates plc and a supervisory board member of the Citizenship Foundation. She was previously a Governor of the London School of Economics, a member of the Court of the Solicitors' Company, a member of the Government's Property Advisory Group and the Law Society Council Member for the City of London.



John Anthony Warren (53)
Non-executive Director

Appointed an independent non-executive director in 2006. He is a non-executive director of Arla Foods UK plc, BPP Holdings plc, Rank Group plc, Spectris plc and Uniq plc. He was previously group finance director of WH Smith PLC and United Biscuits plc and a non-executive director of RAC plc and Rexam plc.



Colin Peter Holmes (41)
Non-executive Director

Appointed an independent non-executive Director in December 2006. Colin is the Chief Executive of Tesco's UK Convenience business, which operates over 700 Tesco Express and 500 One Stop stores. Colin joined Tesco in 1988, and his previous roles include UK Finance Director and Operations Director.



Malcolm Robert Harris (58)
FCMA
Chief Executive

Commenced employment with Bovis Homes in 1974. He was appointed to the Bovis Homes board in 1978 and became Chief Executive in 1996. He is a non-executive director of the Home Builders Federation Limited and the NHBC.



David James Ritchie (37)
BA (Hons) ACA
Group Managing Director

Joined Bovis Homes in 1998 as the Group's Financial Controller and was appointed Finance Director in 2002 and Group Managing Director in January 2007. Previously, he was employed by KPMG involved in advising clients on acquisitions, disposals and flotations as well as audits.



Neil Cooper (39)
BSc (Hons) ACMA
Group Finance Director

Joined Bovis Homes in January 2007 as Group Finance Director. Previously, he was employed by Whitbread plc in both group finance and divisional roles and held positions with Reckitt and Colman plc and PricewaterhouseCoopers.



Martin Trevor Digby Palmer (48)
FCIS
Group Company Secretary

Joined Bovis Homes in 2001, having been group company secretary of London Forfeiting Company PLC from 1997 to 2001 and of London & Edinburgh Trust PLC from 1994 to 1997.

Corporate governance policy guidelines

Introduction

These guidelines have been adopted by the Board. They provide guidance on how the principles of good corporate governance are applied to the Company. The Report on corporate governance is set out on pages 24 to 26. The Board represents the interests of shareholders and other stakeholders through directing the business of the Group successfully; setting and achieving short, medium and long term objectives. The Board is responsible for monitoring and ensuring that senior management, organised in an established regional management structure, operate in accordance with the Group's policies and procedures and implement and execute the determined business strategies to achieve these objectives.

Guidelines on important corporate governance issues

1 Board membership and balance

The composition of the Board is reviewed on a regular basis to ensure that it remains appropriate for successfully directing the business activities of the Group. Consideration is given to the breadth of knowledge, diversity of skills and experience of executive and non-executive directors by the Nomination Committee. The Nomination Committee and the Board give adequate consideration to planning for succession to Board and senior management positions, ensuring that appropriate management development measures are in place. The Board currently comprises the Chairman, the Senior Independent Director, three further independent non-executive directors and three executive directors.

2 Board selection

The Board receives recommendations on the appointment of directors from a Board committee, the Nomination Committee, following an evaluation of the balance of knowledge, skills and experience available on the Board. This Board committee comprises the independent non-executive directors, the Chairman and the Chief Executive and meets as required to consider proposed changes to Board membership.

3 Non-executive director independence

The non-executive directors are independent in character and judgement and free from any business or other relationship which could affect or appear to affect the exercise of their independent judgement on matters under consideration by the Board. The receipt of fair remuneration and being a shareholder is not considered to prejudice independence or prevent a non-executive director from acting independently.

4 Chairman and Chief Executive

The roles of Chairman and Chief Executive are separate and there is a clear division of responsibilities between the two roles which has been set out in writing and approved by the Board. It is normal practice for the role of Chairman to be a non-executive position.

5 Number of directors

An appropriate balance between executive and non-executive directors is maintained and the size of the Board is set as necessary to achieve this. The number of non-executive directors is decided so as to provide the diversity of knowledge, skills and experience necessary for a sound independent contribution to the Board and the successful management of the Group's business. By way of guidance, at least half the Board, excluding the Chairman, should comprise independent non-executive directors.

6 Length of appointment

Executive directors are employed on service contracts with notice periods which do not exceed one year. Non-executive directors' service agreements establish the length of their appointments at periods of up to three years and their notice periods up to twelve months. All directors are subject to retirement by rotation at least once in every three years at the Annual General Meeting. New directors appointed by the Board must be re-appointed by shareholders at the following Annual General Meeting.

7 Director training

On appointment, new directors are given a comprehensive induction to the Group's business activities, its policies and procedures and its management structure. As necessary, directors receive training to complement their roles on the Board and Board Committees.

8 Director remuneration

The Remuneration Committee in accordance with its terms of reference determines on behalf of the Board the broad policy for executive remuneration and the entire remuneration package for each of the executive directors and senior management. The Remuneration Committee comprises the independent non-executive directors. The Remuneration Committee meets as required. External advice is sought where appropriate, including to benchmark remuneration levels against comparable companies. Non-executive director remuneration, excluding that of the Chairman, is determined by the Board.

9 Financial information and internal control

The review of submissions for Board approval in respect of the Group's annual report and accounts, interim report, preliminary statement and other public financial information is the responsibility of a Board committee, the Audit Committee. The Audit Committee reviews the Group's system of internal control and oversees compliance therewith. The Audit Committee comprises the independent non-executive directors.

10 Supply of information

Senior management are responsible for providing the Board with appropriate, complete and timely information relevant to the Board's discharge of its responsibilities, the monitoring of the performance of business activities, including significant variances, and progress with the implementation of strategies. Directors have reasonable access to senior management to enable them to make further enquiries as they consider in their judgement appropriate.

11 Board procedures and authorities

The Chairman and Chief Executive determine the agenda for each Board meeting and the necessary papers are distributed in advance so that the matters contained can be properly considered by the directors. There is in place a schedule of matters reserved to the Board for decision, and detailed authorities, together with associated procedures, have been established for individual directors in the performance of their duties. The Board undertakes formal annual performance evaluations.

12 Relations with shareholders

The Board as a whole accepts responsibility for ensuring that a satisfactory dialogue is maintained with shareholders. The aim is to ensure that this dialogue is based on a mutual understanding of objectives. Investors are encouraged to attend the Annual General Meeting and to vote and participate.

13 Corporate policies

The Board ensures that corporate policies and procedures on ethical and corporate social responsibility matters, including sustainability, health and safety and the environment are maintained, monitored and reviewed on a regular basis.

Report of the directors

The directors have pleasure in submitting the annual report of the Company and its subsidiaries to the shareholders, together with the audited accounts for the year ended 31 December 2006.

Principal activities and business review

The principal activity of the Company and its subsidiary undertakings has remained housebuilding in the UK. The information that fulfils the requirements of the business review can be found in the Chairman's statement on pages 2 to 3, the Chief Executive's operational review on pages 6 to 11, the Financial review on pages 14 to 17, and in this directors' report, all of which provides a full review of the Group's performance and prospects.

Information on the risks to which the performance of the business is subject is also provided. These risks are regularly reviewed by the Board and controls and mitigation processes put in place as explained in the report on corporate governance. Key social, environmental and ethical risks are set out below.

Key financial performance indicators include pre tax profit, earnings per share, operating margin, return on capital employed, consented and strategic land bank, volume of legal completions and net assets. Other key performance indicators are also monitored including those relating to health and safety, customer satisfaction and corporate social responsibility.

Results and dividends

Profit after taxation amounted to £95.0 million (2005: £81.5 million). An interim dividend of 10.0p (2005: 8.3p) net per share was paid on 24 November 2006 and it is proposed to pay, subject to shareholders' approval at the 2007 Annual General Meeting, a final dividend of 20.0p (2005: 16.7p) net per share on 25 May 2007 to shareholders on the register at the close of business on 30 March 2007. On this basis, the total dividend for 2006 will be 30.0p (2005: 25.0p). It is intended that a scrip dividend alternative will again be offered to allow shareholders to elect to receive the whole or part of their dividend in new ordinary shares.

Directors

Details of the directors are shown on page 20.

Details of directors' emoluments, pension rights, service contracts and directors' interests in the ordinary shares of the Company are included in the Report on directors' remuneration on pages 29 to 36.

Mr Mark Patrick Nicholls will retire as a director at the Annual General Meeting to be held on Friday 11 May 2007 and, not seeking re-appointment, will cease to hold office with effect from the end of the Meeting. In accordance with the Articles of Association, two directors, Mrs Lesley Anne MacDonagh and Mr Timothy David Melville-Ross will also retire at the 2007 Annual General Meeting and being eligible offer themselves for re-appointment. Mr Colin Peter Holmes, appointed on 1 December 2006, and Mr Neil Cooper, appointed on 2 January 2007, also offer themselves for re-appointment at the Annual General Meeting, in accordance with the Articles of Association.

Substantial shareholdings

At 9 March 2007, 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	Number of shares held	% of issued share capital
Jupiter Asset Management	7,872,238	6.53
JPMorgan Chase	7,623,912	6.32
Legal & General Group	3,883,449	3.22

Employees

The Group's employment policies do not discriminate between employees, or potential employees, on the grounds of sex, sexual orientation, age, colour, creed, ethnic origin or religious belief. It is 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.

It is the policy of the Group to train and develop employees to ensure they are equipped to undertake the tasks for which they are employed, and to provide the opportunity for career development equally and without discrimination. Employees receive regular training in health, safety and environmental matters.

Information about the Group's performance and other matters is provided regularly by a news magazine, electronic and notice board bulletins and by consultations at staff meetings.

The Group operates both a defined benefit pension scheme and a defined contribution pension scheme.

The Company has a Share Incentive Plan, a Save As You Earn Share Option Scheme, an Executive Share Option Scheme and a Long Term Incentive Plan to motivate employees and encourage strong involvement with the Group. See note 19 to the accounts for details of the option schemes.

Corporate social responsibility

The Group, in carrying out its business activities, is pursuing its commitment to sustainable development and transparent corporate conduct in social and ethical matters, corporate governance, health and safety and the environment. The Group's corporate social responsibility policy commitments focus on sustainable development, the environment, health and safety, research and development, human resources, an ethical code of conduct and stakeholder engagement. The Group has a Sustainability Working Group, with approved terms of reference, to co-ordinate developments in this area and an established process of risk identification and management is embedded in all activities, whether risk is strategic, operational, financial, compliance, legal, environmental, social or related to reputation. The Health, Safety and Environmental Consultative Committee monitors and maintains the high health and safety and environmental standards expected from offices and sites.

Report of the directors continued

The Board addresses risk in its own decision making and takes regular account of the significance of sustainability, environmental, social and ethical matters through the inclusion of relevant information and data in Board reports and other documentation provided. Ultimate responsibility rests with the Board and induction and training in this area is supported.

Key social, environmental and ethical risks are considered to include the following:

- existing land contamination is not identified pre-acquisition;
- wildlife habitats and protected species are not identified resulting in planning difficulties;
- sustainable development is not addressed leading to planning delays and the loss of potential operational efficiencies and risk management opportunities;
- failure to design for social inclusion and for use of appropriate materials and resources and minimum waste;
- environmental pollution occurs on a construction site and is not swiftly controlled;
- failure to observe health and safety standards leading to injury;
- a significant environmental, health and safety, social or ethical event impacts reputation and brand.

These risks have specific controls placed against them, which include the completion of detailed investigations and surveys, policies and procedures to achieve sustainable development, an environmental management system and a clear commitment to maintaining high health and safety standards.

Further details of risks and policies and procedures for their management are included in the Group's free-standing Corporate Social Responsibility report dated 9 March 2007, which also includes key targets and performance data. A copy of the report is available on the Group's website www.bovishomesgroup.plc.uk and on request to the Group Company Secretary.

Donations

The Group made charitable donations in the year amounting to £4,000 (2005: £nil). No political donations were made in either year by the Group or Company.

Suppliers

The Group's payment policy in respect of all suppliers is to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders.

Creditor days relating to trade creditors at the year end in respect of goods and services supplied in the normal course of trade amounted to 27 days (2005: 30 days). The calculation excludes land purchase creditors.

The aggregate amount owed to trade creditors by the Company was £nil throughout 2005 and 2006.

Annual General Meeting

Notice of the 2007 Annual General Meeting to be held on Friday 11 May 2007 is set out on pages 62 to 63. Members wishing to vote should return the form of proxy to the Company's Registrar not less than 48 hours before the time for holding the meeting. Shareholders with internet access may register their voting instructions via the internet by going to www.computershare.com.

The Bovis Homes Group PLC Save As You Earn Share Option Scheme was established in 1997 and this year will be the last year in which the Scheme can be operated. The Board has always considered that the Scheme has contributed to the motivation of employees and has encouraged their strong involvement with the performance of the Group. The Board, therefore, proposes to introduce the Bovis Homes Group PLC 2007 Save As You Earn Share Option Scheme with HMRC approval for use from 2008 and will be seeking shareholders' approval to this at the forthcoming Annual General Meeting.

Following a review of employee incentivisation, the Board proposes to introduce an employee share option plan for the benefit of middle management. The Group previously operated an executive share option scheme, which will expire this year, although no grants have been made under that scheme since 2003. It now wishes to introduce the Bovis Homes Group PLC 2007 Share Option Plan with HMRC approval as it considers that options represent an effective incentivisation mechanism for middle management. Executive directors of the Company will not participate. Accordingly, shareholders' approval to this will be sought at the forthcoming Annual General Meeting.

At a meeting on 9 March 2007, the Board resolved that a resolution be submitted to shareholders at the Annual General Meeting proposing the renewal of the authority to enable the Company to purchase up to 10% of its own shares. At the present time, the directors have no wish to exercise the authority to purchase any of the shares of the Company, but consider that it is appropriate to have the flexibility to do so. Any shares purchased would be cancelled.

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 234ZA of the Companies Act 1985.

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and, in accordance with the provisions of the Companies Act 1985, resolutions concerning their re-appointment and remuneration will be placed before the Annual General Meeting.

By Order of the Board
M T D Palmer
Company Secretary
9 March 2007

Report on corporate governance

The Company continues its commitment to high standards of corporate governance and the Board, acknowledging its responsibility to shareholders in this area, has put in place an appropriate framework as described in the corporate governance policy guidelines on page 21 of this Annual Report and Accounts.

This report sets out how the framework is applied and the Company's compliance with the 2003 Combined Code issued by the Financial Reporting Council. The Combined Code is supplemented by a publication entitled "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance) to enable listed companies to comply with Listing Rule 9.8.6 (5) and (6). The Turnbull Guidance was revised by the Financial Reporting Council to take effect for financial periods commencing on or after 1 January 2006.

The Company has throughout 2006 applied the provisions of Section 1 of the Combined Code and complied therewith, as detailed below, with the exceptions that, following his appointment as non-executive Chairman in November 2005 Mr Tim Melville-Ross remained Chairman of the Remuneration Committee and a member of the Audit Committee until 10 March 2006. Membership of these Committees included two, rather than three, independent directors until the appointment of Mr John Warren on 1 March 2006 (code provisions B.2.1 and C.3.1) and this increased to four independent directors with the appointment of Mr Colin Holmes on 1 December 2006. With effect from close of business on 10 March 2006, Mr John Warren was appointed Chairman of the Remuneration Committee and Mr Tim Melville-Ross resigned his membership of the Remuneration Committee and Audit Committee.

The Board

The Board comprises Mr Tim Melville-Ross, Chairman, who was considered independent on appointment by the Board; three executive directors, Mr Malcolm Harris, Chief Executive, Mr David Ritchie, Group Managing Director and Mr Neil Cooper, Group Finance Director; and four independent non-executive directors, Mr Mark Nicholls, Senior Independent Director, Mrs Lesley MacDonagh, Mr John Warren and Mr Colin Holmes. Mr Holmes was appointed to the Board on 1 December 2006 and Mr Cooper was appointed on 2 January 2007 following recommendations from the Nomination Committee and an evaluation of the knowledge, skills and experience that the appointments would bring to the Board in the light of the balance already available. Comprehensive, tailored and formal inductions to the Company were provided shortly after appointment. Mr Mark Nicholls, who has served as an independent non-executive director since 1997, will retire at the forthcoming Annual General Meeting.

There is a clear division of responsibilities between the Chairman and the Chief Executive, set out in writing and agreed by the Board. The Chairman provides leadership to and runs the Board, takes a leading role in determining its composition and structure, and sets its agenda. He ensures that it receives accurate, timely and clear information, facilitates the contribution of the non-executive directors and ensures constructive relations on the Board. The Chairman also ensures that effective communications are maintained with shareholders. The Chief Executive is responsible for the overall performance of the Group as dictated by the Board's strategy, including maintaining profit growth and developing strategic operating plans that reflect the objectives and priorities established by the Board.

The Board has determined that non-executive directors Mr Mark Nicholls, Mrs Lesley MacDonagh, Mr John Warren and Mr Colin Holmes are independent. This includes an assessment of their independence in character and judgement and confirmation of their being free from any business or other relationship or circumstances which could affect, or appear to affect, the exercise of their independent judgement on matters under consideration by the Board.

Mr Mark Nicholls is the Senior Independent Director and his responsibilities are to lead the annual performance evaluation of the Chairman carried out by the non-executive directors, to meet with the non-executive directors without the Chairman present when appropriate and to provide an additional point of contact for shareholders.

The Board met six times during 2006 and all the directors, then current, attended all meetings, with the exception of Mr Mark Nicholls who attended five of six meetings, missing one by prior arrangement. The Board receives timely, clear and comprehensive board papers a week in advance of each meeting and other information appropriate to enable it to discharge its duties. Meetings are conducted in a way which allows open discussion and enables the non-executive directors to challenge and test the strategy, policy and proposals put forward by the executive directors. The Chairman and the non-executive directors also met during the year under review without the executive directors present.

There is a formal schedule of matters reserved for the Board's decision which includes:

- responsibility for the overall leadership of the Group;
- approval of long term objectives, commercial strategy and annual budgets;
- oversight of the Group's operations and review of performance;
- changes to the Group's capital structure;
- financial reporting, approval of results, dividend policy and treasury policy;
- maintenance and review of the system of internal control and risk management;
- approval of major expenditure and transactions;
- changes to the structure, size and composition of the Board, including new appointments;
- determining the remuneration of the non-executive directors;
- the introduction of new employee share plans and major changes to existing plans for shareholder approval;
- approval of the division of responsibilities between the Chairman and Chief Executive;
- approval of the terms of reference of Board committees;
- annual review of its own performance and that of its Board committees;
- determining the independence of directors;
- review of the Group's overall corporate governance arrangements.

A management paper, subject to regular review, includes the authorities and decision making delegated by the Board to management and includes appropriate controls, authorities and procedures across the range of the Group's activities.

Report on corporate governance continued

All directors have the right both individually and collectively to consult the Company's professional advisers and, if they are not satisfied with the advice so received, to seek independent professional advice at the Company's reasonable expense. No such advice was sought during the year. The advice and services of the Group Company Secretary are also available to all directors.

Training is made available to directors as and when required and the Chairman ensures that directors continually update and refresh their knowledge and skills appropriate to both their role on the Board and on Board Committees. During the year under review the directors received regulatory and legal updates.

Executive and non-executive directors are subject to retirement by rotation every three years. Subject to continued satisfactory performance, re-election is proposed where appropriate by the Nomination Committee and is voted on by shareholders at the Annual General Meeting. Mrs Lesley Anne MacDonagh and Mr Timothy David Melville-Ross will stand for re-election at the forthcoming Annual General Meeting. The Board strongly supports and recommends the re-election of Mrs Lesley MacDonagh and Mr Tim Melville-Ross to shareholders. A brief summary of their biographical details is set out on page 20.

All executive directors have notice periods of twelve months after the end of their first year's service. Non-executive directors are appointed for periods up to three years duration during which they have notice periods of up to twelve months, and their terms and conditions of appointment are available for inspection.

The Company has in place an appropriate policy which insures directors against certain liabilities, including legal costs, that they may incur in carrying out their duties.

Board performance evaluation

During 2006, the Board completed a formal internal annual performance evaluation, using a questionnaire process designed to produce an objective assessment, which covered areas of board structure, board functionality, board objectives, board meetings, content of board meetings, board administration, management presentations and corporate governance. The responses were reviewed and collated by the Chairman, audited by the Company Secretary, and discussed by the Board. It was concluded that the Board was effective, recognises the right objectives and adds value to both shareholders and management. Outputs included the further development of ongoing strategy, business environment and management succession discussions, more frequent presentations from regional operations, and positive focused reviews of various areas of the business.

Individual director performance evaluations were undertaken by the Chairman using a questionnaire and interview process which covered each director's commitment, contribution, development, decision making, and interpersonal skills, with the link being made to training and development. All directors were shown as continuing to contribute effectively and to demonstrate the necessary commitment and time to their respective roles. The Senior Independent Director, with support from the other non-executive directors and following discussion with the executive directors, conducted a performance evaluation of the Chairman, and it was concluded that strong leadership was being provided and the Board was being run effectively.

Board committees

The Board is assisted by a Remuneration Committee, a Nomination Committee, and an Audit Committee.

Following the appointment of Mr Tim Melville-Ross as Chairman in November 2005, the number of independent non-executive directors on each of the Committees was reduced to two for the period to 1 March 2006, when the number again increased to three following the appointment of a further independent non-executive director and increased to four with effect from 1 December 2006. The Audit committee is chaired by Mr Mark Nicholls and, with effect from close of business on 10 March 2006, the Remuneration Committee has been chaired by Mr John Warren. The Nomination Committee is chaired by Mr Tim Melville-Ross. Each committee has written terms of reference from the Board.

The duties of the Remuneration Committee are set out in the Report on directors' remuneration on pages 29 to 36; the duties of the Audit Committee are set out in the Report on the activities of the Audit Committee on pages 27 and 28; and the duties of the Nomination Committee are set out in the Report on the activities of the Nomination Committee on page 28.

The Board completed a performance evaluation of its committees during 2006, and concluded that the committees were working and contributing effectively and achieving their respective remits.

Relations with shareholders

All shareholders are invited to attend the Company's Annual General Meeting, which the full Board including all committee chairmen attend, and they are encouraged to exercise their right to vote, including by way of an electronic voting facility. The Notice of meeting is sent to shareholders at least 20 working days before the meeting, separate resolutions are proposed on each substantially separate issue and proxy voting is disclosed, including votes withheld. Shareholders are encouraged to participate with questions and have the opportunity to talk informally with the directors and senior management following the meeting.

The Board maintains regular contact and dialogue with shareholders through a series of presentations and meetings conducted by the Chief Executive, Group Managing Director and Group Finance Director, particularly in the period post announcement of final and interim results. Feedback received during the year under review was positive and the presentations made to financial analysts in respect of interim and final results are made available on the Group's website www.bovishomesgroup.plc.uk. The Annual Report and Accounts, Preliminary Results, Interim Results, AGM voting, Corporate Social Responsibility report and other information are also available on the website.

The Chairman and the Senior Independent Director are accessible to shareholders and maintain sufficient contact with major shareholders to understand their concerns. The Chairman, the Senior Independent Director and other non-executive directors attended an investor presentation and analysts' briefing held in November 2006 and the subsequent site visit. Major shareholders attending had an opportunity to put their views and hold discussions with them.

Report on corporate governance continued

Internal control

The Board has overall responsibility for the system of internal control and has during the year reviewed the effectiveness thereof. It is able to report that the Company has complied with provision C.2.1 of the Combined Code throughout 2006 in accordance with the revised Turnbull Guidance.

A key part of the system of internal control is the maintenance of a risk register. The Board regularly reviews this register to ensure that it properly identifies and grades the risks specific to the activities and operating environment of the business and at the end of 2006 a new risk analysis document was prepared for consideration by the Board and was reviewed by the Audit Committee. In this way it is able to review the response to operational, financial, compliance and other risks and reconsider its policies of risk tolerance. In setting these policies the Board aims to ensure that the Company is neither prevented from taking opportunities nor exposed to unreasonable risk. The system of internal control is designed to manage risk rather than eliminate it and consequently it can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee reviews the system of internal control and reports to the Board thereon. It receives reports from the internal and external auditors and management which assess the efficiency of internal control and make recommendations for any improvements. The Chairman of the Audit Committee reports the outcome of committee meetings to the Board and provides minutes of the meetings.

The Group has maintained throughout the year and up to the date of approval of these Annual Report and Accounts a control environment, with policies, procedures, processes and codes of conduct which are designed to identify, evaluate, manage and mitigate risk over the range of business activities and improve business efficiency. This control environment is regularly reviewed by the Board and accords with the revised Turnbull Guidance. As new procedures and working practices are adopted, risk factors are considered and internal controls embedded into the systems wherever possible.

The principal elements of the control environment are as follows:

- regular main Board meetings;
- regular Audit Committee meetings;
- an established management structure of operating regions with short lines of communication to the executive directors;
- regular regional board meetings, with comprehensive agendas dealing with all aspects of the business;
- defined operating controls and procedures with authorisation limits at appropriate levels across the Group;
- an internal audit department reporting regularly on compliance with controls, procedures and authority limits;
- a regular self certification process in respect of internal control through the management structure;
- a comprehensive financial reporting system with actual performance compared with budgets and forecasts on a regular basis, each region reporting through its regional board; and
- a regular comparison of the Group's performance against industry statistics and competitors.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Report on the activities of the Audit Committee

The Audit Committee reviews the policies and processes for financial reporting, internal control, the identification, assessment and management of risk, audit effectiveness and compliance, the independence of the external and internal auditors and maintaining an effective relationship with them. The Audit Committee reports its activities and makes recommendations to the Board.

Composition and meetings

During 2006 the Audit Committee comprised Mr Mark Nicholls as Chairman, Mrs Lesley MacDonagh and, from 1 March 2006, Mr John Warren, all of whom are independent non-executive directors. Mr Tim Melville-Ross, who was independent until his appointment as Chairman in November 2005, resigned his membership of the Committee with effect from close of business on 10 March 2006. Mr Colin Holmes was appointed to the Committee from 1 December 2006. The Audit Committee met three times during the year and all members then current attended each meeting. The Chief Executive and the Group Finance Director attended all three meetings, the external auditors, KPMG Audit Plc, attended three meetings and the Head of Internal Audit attended two meetings. The Committee also met privately with the external and internal auditors following Committee meetings and the Committee Chairman met privately with both the audit director of KPMG Audit Plc and the Head of Internal Audit when appropriate.

Committee members bring considerable financial and accounting experience to the work of the Committee which includes past experience in finance or as members of audit committees or other comparable experience in corporate activities. Further to this collective capability to discharge the Committee's responsibilities, the Board is of the opinion that Mr Mark Nicholls satisfies the requirement for recent and relevant financial experience. Mr John Warren also has considerable financial experience as a former group finance director.

The Group Company Secretary, Mr Martin Palmer, acts as Secretary to the Audit Committee and appointments to the Committee are made on the recommendation of the Nomination Committee.

Terms of reference

The Audit Committee is authorised to investigate any activity within its terms of reference. It has access to the internal and external auditors and their reports, who in turn have unrestricted access to the Committee. If required, the Committee can obtain, at the Company's expense, outside legal or other independent professional advice. None was obtained during the year. The Audit Committee's terms of reference are available on the Group's website www.bovishomesgroup.plc.uk and on request to the Group Company Secretary.

Overview of activities

During the year under review the Audit Committee followed a programme structured around the annual financial reporting cycle and reports from the internal and external auditors and management. Activities in discharging its duties included:

- Rigorous review of the Preliminary Results, the Annual Report and Accounts, the Interim Results and the Interim Report, all published under IFRS, proposed dividends and presentations to analysts prior to submission to the Board.
- Review and challenge of reports, conclusions and results prepared by the internal audit function and presented to the Audit Committee by the Head of Internal Audit, including reports on the integrity of the system of internal control and risk management systems.
- Examination and assessment of submissions presented by the external auditors in relation to the 2005 final audit, the 2006 interim review and the audit planning and strategy for the 2006 final audit.
- Review of the results and effectiveness of the final audit including reporting by the external auditors and review of the independence and objectivity of the external auditors.
- Review and approval of the fee proposals for the final audit and the interim review.
- Private discussion with the external and internal auditors with no executive management present.
- Review of the system of internal control.
- Review of the internal audit programme and the resourcing of internal audit.
- Review of the effectiveness of the internal audit function by performance evaluation.
- Review and comment on a comprehensive up-to-date risk analysis prepared by the Company prior to Board approval in January 2007. This document is an update to the Group's risk register, and serves as a framework for the Board's ongoing internal control discussions.
- Completion of a performance evaluation of its own performance.
- Review of the Committee's terms of reference.
- Review of the Group's whistleblowing policy and reports on the effectiveness of the arrangements.

Internal audit function

The activities, effectiveness and workload of the internal audit department and the adequacy of available resources were monitored using a detailed reporting process and planning and review regime. The freedom, scope and access allowed to the internal auditors in performing their duties during the year was confirmed by management as being unrestricted. The Head of Internal Audit continues to have direct access to the Chairman of the Audit Committee.

Report on the activities of the Audit Committee *continued*

External auditors

During the year under review the Audit Committee reviewed the independence and objectivity of the external auditors. This included information about the policies and processes for maintaining independence, monitoring compliance with relevant requirements and ethical guidance and consideration of all relationships between the Company and the external auditors and their staff.

A policy continues in place which requires the Audit Committee to approve all non-audit services proposed to be undertaken by the external auditors, with the exception of tax advisory and compliance work undertaken in the ordinary course of business and pension scheme audit work. If a request for approval were made, the Audit Committee would have due regard to the nature of the non-audit service, whether the external auditors were a suitable supplier, whether there was likely to be any threat to objectivity and independence in the conduct of the audit and the related fee level both separately and relative to the audit fee.

For details of fees paid to the external auditors, see note 5 on page 45.

Performance evaluation

During 2006, the Committee commenced an internal performance evaluation, using a questionnaire process designed to produce an objective assessment of the Committee's performance and audit effectiveness. It was concluded that the Committee and the audit process continued to be effective, and that the Committee had appropriate terms of reference and achieved its remit.

Briefings and training are provided where appropriate to ensure that the Committee remains informed of all material developments in best practice and regulation concerning its remit.

Mark Nicholls
Chairman of the Audit Committee
9 March 2007

Report on the activities of the Nomination Committee

The Nomination Committee reviews the structure, size and composition of the Board and succession planning arrangements, and leads the process for Board appointments and makes recommendations to the Board.

Composition and meetings

During 2006, the Nomination Committee comprised Mr Tim Melville-Ross as Chairman, Mrs Lesley MacDonagh, Mr Mark Nicholls, Mr John Warren from 1 March 2006 and Mr Malcolm Harris. Mr Colin Holmes was appointed to the Committee from 1 December 2006. The Nomination Committee met four times during the year and all members, then current, attended each meeting.

The Group Company Secretary, Mr Martin Palmer, acts as Secretary to the Nomination Committee and appointments to the Committee are made on the recommendation of the Board.

Terms of reference

The Nomination Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties. If required, the Committee can obtain, at the Company's expense, outside legal or other independent professional advice on any matters within its terms of reference. None was obtained during the year. The Nomination Committee's terms of reference are available on the Group's website www.bovishomesgroup.plc.uk and on request to the Group Company Secretary.

Overview of activities

During 2006 the Nomination Committee made recommendations to the Board concerning directors to retire by rotation and seek reappointment at the 2006 Annual General Meeting. The requirement to appoint a further non-executive director was identified and, following the Board's decision to appoint the Group Managing Director, the requirement to appoint a new Group Finance Director was addressed. Both recruitment processes were conducted and concluded on merit and against objective criteria using the services of appropriate external search consultants. The appointment of two new directors to the Board of Bovis Homes Limited was approved and general succession planning arrangements were kept under review during 2006.

Tim Melville-Ross
Chairman of the Nomination Committee
9 March 2007

Report on directors' remuneration

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and meets the relevant requirements of the Listing Rules of the Financial Services Authority and the Combined Code.

A resolution will be put to shareholders at the Company's Annual General Meeting on 11 May 2007 inviting them to consider and approve this report.

The auditors are required to report to the Company's members on that part of this remuneration report which is subject to audit and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985.

This report is therefore presented in two sections: unaudited information and audited information.

Unaudited information

The Remuneration Committee

The Remuneration Committee is made up solely of non-executive directors with no personal financial interest other than as shareholders in the matters to be decided. Those non-executive directors serving on the Remuneration Committee throughout 2006 were Mr Mark Nicholls and Mrs Lesley MacDonagh. Mr Tim Melville-Ross served until 10 March 2006 and Mr John Warren was appointed to the Committee on 1 March 2006. Mr Warren was subsequently appointed Chairman of the Committee on 10 March 2006. Mr Colin Holmes was appointed to the Committee on 1 December 2006. Mr Tim Melville-Ross was appointed non-executive Chairman in November 2005, and as a result, for a small part of 2006 the Group was not compliant with the requirements of the Combined Code in respect of the Remuneration Committee having only independent directors as members. Meetings of the Remuneration Committee are held as and when appropriate and at least annually. During 2006, the Remuneration Committee met on four occasions and each meeting was attended by all the members then current.

Advisers to the Remuneration Committee

The Remuneration Committee, from time to time, calls upon Mr Malcolm Harris (Chief Executive) to assist in discussions and deliberations of the Remuneration Committee on remuneration matters not pertaining to the remuneration or terms and conditions of his own employment. The Remuneration Committee has, on occasion, appointed the services of external advisers to advise on director remuneration. The Hay Group has been appointed as adviser to the Remuneration Committee on an ongoing basis and provides reports and advice as required. Towers Perrin act as Trustee of the Bovis Homes Group Long Term Incentive Plan. The Group Company Secretary, Mr Martin Palmer, acts as Secretary to the Remuneration Committee.

Duties of the Remuneration Committee

The Remuneration Committee is responsible for the following duties:

- Determine on behalf of the Board the framework or broad policy for the remuneration of the Chairman of the Company, the Chief Executive, the executive directors and such other members of the executive management as it is designated to consider.
- Ensure that executive directors and senior management are provided with appropriate incentives to encourage enhanced performance and are rewarded for their individual contributions to the success of the Company.
- Determine targets for any performance related pay schemes and ask the Board, when appropriate, to seek shareholder approval for any long term incentive arrangements.
- Consider and determine the terms, scope, implementation and performance criteria of all share based remuneration schemes.
- Ensure that contractual terms on termination and any payments made avoid rewarding poor performance and approve any severance payments.
- Determine the total individual remuneration package of the Chairman, Chief Executive, each executive director and other designated senior executives, including, where appropriate, bonuses, incentive payments and share options.
- Determine the policy for and scope of service agreements for executive directors and pensions arrangements, termination payments and compensation commitments.
- Consider and determine the terms, scope, implementation and performance conditions of the annual bonus scheme and approve annual bonuses.
- In determining remuneration packages and arrangements, give due regard to the requirements and recommendations of the Combined Code as well as the UK Listing Authority's Listing Rules and associated guidance.
- Review competitor companies but ensure that automatic increases are not implemented.
- Oversee any major changes in employee benefit structures throughout the Company.
- Ensure that the provisions regarding disclosure of remuneration, including pensions, as set out in the Directors' Remuneration Report Regulations 2002, are fulfilled and produce an annual report of the Committee's remuneration policy to be included in the Company's Annual Report and Accounts.

The terms of reference of the Remuneration Committee are available on the Group's website www.bovishomesgroup.plc.uk and on request to the Group Company Secretary.

Remuneration policy

The Remuneration Committee determines the Company's policy for the remuneration of executive directors, having regard to the Directors' Remuneration Report Regulations 2002 (Schedule 7A of the Companies Act 1985) and the Combined Code and its provisions on directors' remuneration (Schedules A and B).

Report on directors' remuneration continued

The Remuneration Committee sets and implements the remuneration policy for the Chairman, executive directors and designated senior management. The Remuneration Committee determines the need for independent professional advice where appropriate and has regard to information on compensation and salary levels in companies in the housebuilding sector and in other companies of comparable size, for executives with similar skills, qualifications and experience. The objectives of the remuneration policy are to:

- ensure that the individual rewards and incentives fairly relate to the performance of the individual, the Company and the interests of shareholders;
- maintain a remuneration package which enables the Company to attract, retain, and motivate executives of the appropriate calibre and experience to further the success of the Company and maximise long term shareholder value; and
- take into account pay and employment conditions elsewhere in the Group.

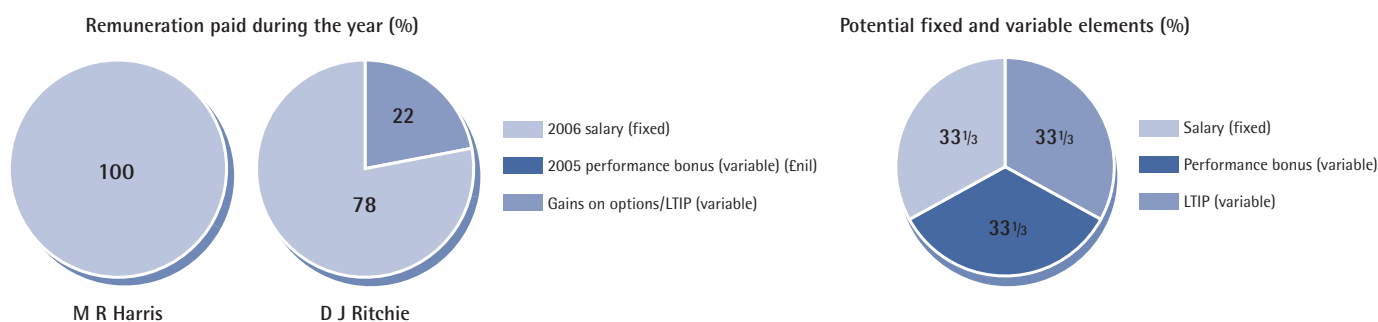
The remuneration policy was reviewed by the Remuneration Committee during 2006.

Remuneration package

The remuneration package of the executive directors consists of basic salary, performance bonus, health insurance, membership of the Bovis Homes Regulated Independent Car Scheme for Employees (BRICS), pension, death in service insurance, and participation in the Bovis Homes Group Long Term Incentive Plan.

In prior years, participation in the Bovis Homes Group PLC Executive Share Option Scheme and Bovis Homes Group Share Incentive Plan has also formed part of the executive directors' remuneration package. The Group suspended use of the Executive Share Option Scheme during 2004. During 2004, the Group also suspended use of the share incentive plan in respect of the awarding of free shares in the Company.

The Remuneration Committee aims to balance appropriately those elements of an executive director's remuneration which are subject to explicit performance conditions, accepting that all remuneration is linked with ongoing appraisal of individual performance. By virtue of the various elements of directors' remuneration subject to performance conditions, a significant part is variable and is not guaranteed. For remuneration paid during 2006 the fixed and variable elements of the remuneration package of each director is shown, by director, in the two charts immediately below and to the left:



This actual out-turn, in terms of fixed and variable remuneration elements, is as compared to a potential remuneration package, dependant on performance, reflecting one-third fixed elements and two-thirds variable elements. The chart above to the right shows this graphically.

Salary

Executive director salaries are reviewed annually on 1 July taking into account the total remuneration package at the time of the review.

External directorships

Executive directors may, if so authorised by the Board, accept appointments as non-executive directors of suitable companies and organisations outside the Group. Earnings arising from such external directorships are payable directly to the Company.

Performance bonus

Executive directors are able to earn a performance bonus up to a maximum of 100% of basic annual salary prevailing at the date of the Remuneration Committee meeting to determine bonuses. It is considered that such maximum performance bonus levels create an appropriate level of short term incentive, and align suitably with the performance bonus entitlements of other companies in the housebuilding sector as well as other publicly listed companies of a similar size to the Company.

The bonuses payable to executive directors are determined by the Remuneration Committee by reference to challenging performance criteria including exceeding the previous year's profit before taxation by a specified percentage and the achievement of other strategic targets.

The bonuses of the executive directors are paid from a bonus pool which is generated from increases in profits over the previous year. All office based employees share in this bonus pool. The rules governing the generation of the bonus pool remain consistent with prior years. Site employees are incentivised through direct site bonus schemes based on measurable site performance.

The bonus pool remains at zero until profits before taxation and bonus charge increase over the prior year by 2% above the increase in the Retail Price Index ('RPI'). Thereafter, for every 1% increase in profits before taxation and bonus charge over the prior year, a value equal to 0.5% of the Group's profit before taxation and bonus charge is allocated to the bonus pool. This applies until the increase in profits before taxation and bonus charge reaches 12% over the increase in RPI at which point the total value allocated to the bonus pool is capped. At this maximum value the bonus pool will equal 5% of the Group's profit before taxation and bonus charge. Bonus payments in aggregate are restricted to a maximum equal to the value allocated to the bonus pool.

The bonus pool is applied in settling individual employee bonuses subject to individual performance, corporate performance and set bonus caps. Any surplus bonus pool remaining after settling employee bonuses reverts to the Group and is included in the profits for that financial year.

Report on directors' remuneration continued

Executive directors have a bonus cap equal to 100% of basic salary. In addition to the requirement for the bonus pool to have sufficient value to pay employee bonuses, the Remuneration Committee has established challenging performance criteria for executive directors to determine bonus levels. For bonuses equal to 100% of basic salary to be considered for payment, specific financial criteria have to be met, including:

- achievement of an increase in Group profits before taxation and bonus of 12% over and above the increase in RPI; and
- achievement of return on capital employed in excess of 20% for the year; and
- achievement of the Group's budgeted profit before taxation for the year.

Performance bonus payments

No bonuses were paid to executive directors in 2006 in respect of the 2005 financial year after considering the achievement or otherwise of the performance criteria set for the financial year 2005. The actual performance compared to these specific financial performance criteria can be summarised:

Criteria	Performance criteria	Actual performance
Growth in Group profits before taxation and bonus	+14.4% (12%+RPI)	-17.7%
Return on capital employed	20%	20%

Following the consideration of performance criteria set for the financial year 2006 the Remuneration Committee has resolved to award bonuses to the executive directors serving during 2006, to be paid in 2007. The amounts are as set out in the Directors emoluments table on page 34.

Pension

All the executive directors who served during 2006 were senior executive members of the Bovis Homes Pension Scheme. This is a contributory funded, defined benefit scheme approved by HMRC. Pensionable earnings were equal to basic pay prior to 6 April 2006. From 6 April 2006, increases in pensionable earnings are restricted each year to the lesser of the percentage increase in basic pay and 2.5%. Mr Malcolm Harris is not subject to the earnings cap and Mr David Ritchie is subject to the statutory earnings cap for service until 5 April 2006. After this, and following the introduction of the lifetime allowance pension rules on 6 April 2006, Mr David Ritchie is not subject to an earnings cap for service from 6 April 2006. Normal retirement age for senior executive members under the scheme is 60, and the accrual rate is 1/45th of final pensionable earnings for each year of service as a senior executive.

Share schemes

The Company employs a standard set of performance conditions for all executive directors in respect of the Bovis Homes Group PLC Executive Share Option Scheme and the Bovis Homes Group Long Term Incentive Plan. These performance conditions are described under specific headings in this report. Granting of share options and awards under the Long Term Incentive Plan is at the discretion of the Remuneration Committee. The performance conditions are designed to challenge and motivate executive directors to improve profitability and enhance shareholder return. The conditions are designed to require strong collective and individual performance from the executive directors before options and awards vest, whilst at the same time offering a credible opportunity for success.

For share options and awards under the Long Term Incentive Plan to vest an independent view provided by the Company's auditors, as independent experts, is required certifying achievement of the relevant performance conditions. This independent view is evidenced by the completion of formal certificates signed by the auditors. The performance conditions attaching to share options and awards under the Long Term Incentive Plan are selected intentionally to be derived from readily available information which is straightforward and transparent. This ensures that the auditors can make objective assessments of achievement against the performance conditions.

Although there exist outstanding share options granted to executive directors and senior management which remain unexercised at the date of this report, the Remuneration Committee resolved, effective of 5 May 2004, to suspend the grant of future awards of share options. The rules of the Bovis Homes Group PLC Executive Share Option Scheme relating to vesting and exercising outstanding share options remain unaltered.

The Board has proposed that a new employee share option plan be introduced as an incentivisation mechanism for middle management. Executive directors of the Company will not participate and shareholder approval to the option plan is being sought at the forthcoming Annual General Meeting.

Bovis Homes Group PLC Executive Share Option Scheme

The Bovis Homes Group PLC Executive Share Option Scheme was established in 1997. The Remuneration Committee suspended the issuing of new share options on 5 May 2004. It is an HMRC approved scheme and has historically granted share options on an approved basis within HMRC limits and on an unapproved basis outside HMRC limits. The scheme is operated by the Remuneration Committee with participants selected at the sole discretion of the Remuneration Committee.

For outstanding share options, the performance criteria require that any share option held under the Bovis Homes Group PLC Executive Share Option Scheme can only normally be exercised if the auditors have certified that the cumulative increase in annualised earnings per share exceeds the percentage increase in RPI by at least 4% per annum (2% per annum for share options granted before 2001) over three consecutive years.

The exercise price of a share option has been determined by the Board at the date of grant and has not been less than the higher of the market value and nominal value of an ordinary share in the Company at the date of grant.

Assuming the performance criteria are satisfied, share options may, under normal circumstances, be exercised between the third and tenth anniversary from the date of grant.

Bovis Homes Group Long Term Incentive Plan

A Long Term Incentive Plan for executive directors and senior executives was approved by shareholders at the 2000 Annual General Meeting and established on 10 May 2000. An amendment to the rules of the Long Term Incentive Plan was approved by shareholders at the 2004 Annual General Meeting. Under the amended rules of the scheme at the date of this report a participant may receive in respect of any year a maximum award of shares with a market value, when the award was made, not exceeding 100% of basic salary. Each award is made subject to the achievement of certain performance criteria and awards may only be exercised at the end of three years. There is no cost to the participants in the scheme to exercise the awards.

Report on directors' remuneration continued

The extent to which the awards may be exercised is determined by two measures of performance; total shareholder return ('TSR') and earnings per share ('EPS') growth, each measured over a three year performance period and each relating to half of the shares awarded.

The TSR measure requires the comparison of the growth in the Company's TSR over a three year period to that of a group of comparator companies in the housebuilding industry specified by the Remuneration Committee at the start of the performance period. TSR is the aggregate of share price growth and dividends paid during the three year period (assuming that such dividends are reinvested in ordinary shares). The Company's ranking amongst the comparator companies will determine the percentage of the shares under the award which will vest, as follows:

TSR ranking	% of total award which can be realised
1st position	50% of the shares in the award
2nd position	45% of the shares in the award
3rd position	37.5% of the shares in the award
4th position	30% of the shares in the award
5th position	20% of the shares in the award
6th position	15% of the shares in the award

The group of comparator companies is as follows:

Comparator companies			
Barratt Developments PLC	Bellway p.l.c.	The Berkeley Group plc	Crest Nicholson PLC
Wilson Bowden plc	Persimmon plc	Redrow Group plc	Taylor Woodrow plc
George Wimpey PLC			

The EPS growth measure is based on the extent to which the Company's average annual EPS growth over the three year performance period falls between minimum and maximum EPS growth targets set by the Remuneration Committee as follows:

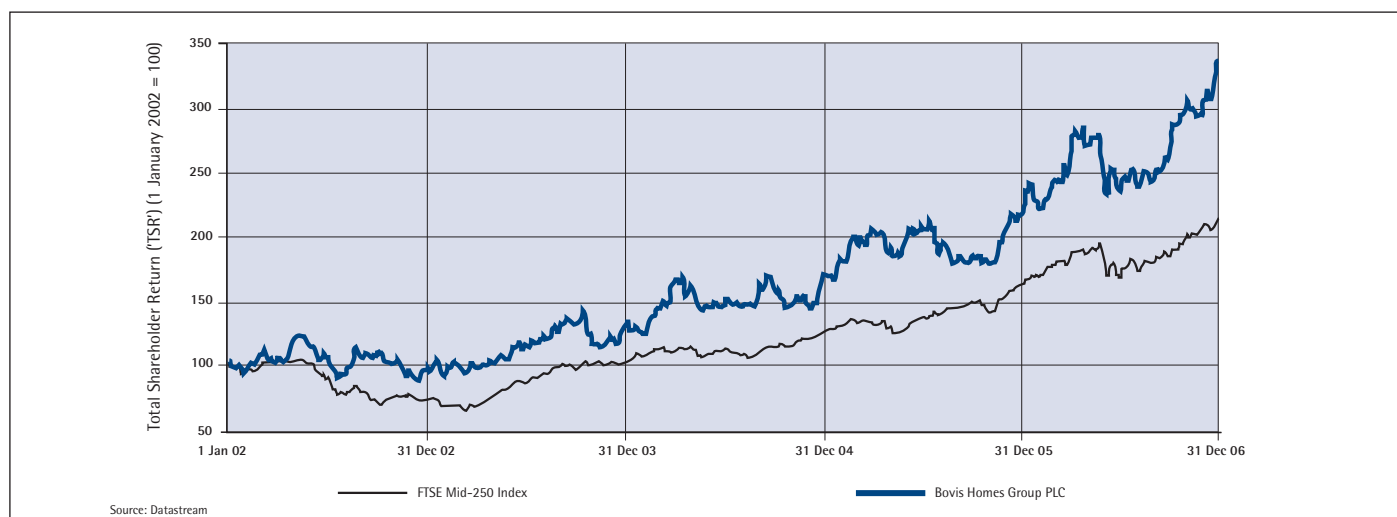
EPS growth	% of total award which can be realised
Maximum EPS growth	50% of the shares in the award
Minimum EPS growth	20% of the shares in the award

For the current outstanding awards, the minimum and maximum EPS growth targets are 4% and 10% above RPI respectively. Where EPS growth falls between the minimum and maximum EPS growth targets, the number of shares which can be realised will be determined on a straight line sliding scale. Where EPS growth falls below 4% above RPI, none of the shares in the award judged by reference to EPS growth can be realised.

The shares required to satisfy the awards have been purchased by the Bovis Homes Group Employee Trust. The grant price of the awards is set as the market value of the shares at the date the shares are purchased by the Trustee. The market value of the shares attributable to each director will be included in remuneration in the year in which the awards are exercised. An award may only be exercised within six months of the realisation date, the realisation date being the date of notification from the Trustee of the Bovis Homes Group Employee Trust that the award is realisable in whole or in part.

Performance graph

As required by the Directors' Remuneration Report Regulations 2002, the following performance graph compares, over the last five financial years, the Total Shareholder Return of an ordinary share held in Bovis Homes Group PLC against the Total Shareholder Return of the FTSE mid-250 index. In previous years, this graph was prepared against the FTSE All Share Construction and Buildings Material Index, but this index has been discontinued. As Bovis Homes Group PLC is a constituent of the FTSE mid-250 index, together with all but one of the listed UK housebuilders contained in the comparator group selected by the Remuneration Committee for benchmarking performance, the Remuneration Committee considers this to be a representative broad market index against which to assess the performance of the Group, having regard to the size and nature of the companies in this index.



Report on directors' remuneration continued

Service agreements and terms of appointment

In respect of each of the executive directors, the service agreements are rolling twelve month contracts with a twelve month notice period due from either employer or employee after one year's service. Before one year's service is completed the notice period is six months from either party.

In addition to their salaries, the executive directors are entitled to participate in the Bovis Homes' employee share schemes including the Long Term Incentive Plan, and to be considered for a performance bonus, dependent on the achievement of targets set down annually by the Remuneration Committee. They are also entitled to membership of the Bovis Homes Pension Scheme as a senior executive where service began on or before 2001, membership of the defined contribution pension scheme where service began after 2001 and between 24 and 27 working days holiday per annum determined by length of service. The directors hold membership of the Bovis Homes Regulated Independent Car Scheme for Employees (BRICS). There are no specific provisions for compensation on early termination.

The non-executive directors have entered into service agreements for their services which are established for periods up to three years duration based upon the frequency of re-election to the Board with notice periods up to twelve months. The service agreements for the non-executive directors are available for inspection on request to the Group Company Secretary. The fees for their services were last reviewed as follows:

	Fees reviewed	Annual Fees
Non-executive directors		
T D Melville-Ross	1 July 2006	£95,000
C P Holmes	1 December 2006	£35,000
M P Nicholls	1 July 2006	£45,000
L A MacDonagh	1 July 2006	£35,000
J A Warren	1 July 2006	£40,000

There are no specific provisions for compensation on early termination.

Directors' interests

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

Ordinary shares of 50p each	At 31 December 2006 or earlier date of ceasing to be a director				At 31 December 2005 or subsequent date of appointment			
	Number of ordinary shares held	Number of shares under Executive Share Options	Number of shares under the Long Term Incentive Plan	Number of shares under Save As You Earn Options	Number of ordinary shares held	Number of shares under Executive Share Options	Number of shares under the Long Term Incentive Plan	Number of shares under Save As You Earn Options
Executive directors								
M R Harris	313,751	104,602	206,192	5,732	313,578	104,602	229,530	5,732
D J Ritchie	38,182	34,867	102,652	2,672	33,143	50,047	99,710	2,672
N Cooper	-	-	-	-	-	-	-	-
Non-executive directors								
T D Melville-Ross	5,216	-	-	-	5,067	-	-	-
M P Nicholls	5,320	-	-	-	5,168	-	-	-
L A MacDonagh	1,000	-	-	-	1,000	-	-	-
J A Warren	2,500	-	-	-	2,500	-	-	-
C P Holmes	10,000	-	-	-	-	-	-	-

Changes in the number of ordinary shares held arose from the exercise of share options, and the investment during the year in partnership shares through the HMRC approved Bovis Homes Group Share Incentive Plan. Other changes in the number of shares held arose through the electing for shares in place of dividends as part of the Company's scrip dividend offer and a share purchase by Mr Colin Holmes. There were no changes in the holdings of ordinary shares of any of the directors between 31 December 2006 and 9 March 2007, other than the normal monthly investment in partnership shares through the Bovis Homes Group Share Incentive Plan. Mr Neil Cooper is beneficially interested in nil shares.

The directors' interests in share options and awards under the Long Term Incentive Plan are detailed on pages 35 to 36. There were no changes in the holdings of share options and awards under the Long Term Incentive Plan between 31 December 2006 and 9 March 2007.

Share ownership guidelines

There exist guidelines for executive directors in respect of share ownership of Bovis Homes' shares. The Board expects executive directors benefiting from the exercise of Long Term Incentive Plan awards or exercise of share options to retain at least 50% of the net value derived from the exercise, after settling all costs and income tax due, as shares. This guideline is expected to be applied until such time as the executive director holds shares with a market value equal to current basic annual salary.

Report on directors' remuneration continued

Audited information Directors' emoluments

Year ended 31 December	Salary/ fees 2006 £000	Performance bonus 2006 £000	Benefits in kind 2006 £000	Total 2006 £000	Total 2005 £000
Executive directors					
M R Harris	488	500	-	988	468
D J Ritchie	264	300	1	565	269
N Cooper (appointed 2 January 2007)	-	-	-	-	-
Non-executive directors					
Sir Nigel Mobbs (resigned 9 September 2005)	-	-	-	-	55
T D Melville-Ross	88	-	-	88	36
M P Nicholls	39	-	-	39	30
L A MacDonagh	31	-	-	31	27
J A Warren (appointed 1 March 2006)	30	-	-	30	-
C P Holmes (appointed 1 December 2006)	3	-	-	3	-
Directors' emoluments	943	800	1	1,744	885
Pension charge				151	124
				1,895	1,009

Executive director salaries were reviewed by the Remuneration Committee on 1 July 2006 and salary changes were approved as follows:

	Salary on 30 June 2006 £	Salary on 1 July 2006 £	Change £	Percentage change %
Executive directors				
M R Harris	475,000	500,000	25,000	5.3%
D J Ritchie	250,000	262,500	12,500	5.0%

Mr Malcolm Harris' increase was assessed against equivalent salaries of Chief Executives working for other housebuilders and publicly listed companies of a similar size.

The increase in respect of Mr David Ritchie's basic salary was assessed against equivalent salaries of Finance Directors working for other publicly listed UK housebuilders and companies of comparable size. On taking up the position of Group Managing Director on 2 January 2007, Mr David Ritchie received a further increase taking his salary to £300,000. This new salary was assessed against the equivalent salary for similar roles in other publicly listed housebuilders and companies of comparable size.

In addition to his basic salary, Mr David Ritchie received payments equivalent to the employer's pension contributions above the statutory earnings cap. During 2006, £7,942 was paid in this respect. These payments ceased on 5 April 2006.

During 2006, the company reviewed the level of fees paid to its non-executive directors, supported by an independent benchmarking exercise assessing the fees payable to non-executive directors in similar companies, comparable both in terms of sector, and in terms of size.

As a result, the fees payable to Mr Tim Melville-Ross, the non-executive chairman, have been increased from £80,000 to £95,000, and the fees payable to Mr Mark Nicholls, the senior independent director and chairman of the Audit Committee, have been increased from £33,000 to £45,000. The fees payable to Mrs Lesley MacDonagh have been increased from £27,000 to £35,000, and the fees payable to Mr John Warren have been increased from £27,000 to £40,000, partly as a result of the benchmarking exercise, and partly following his appointment as Chairman of the Remuneration Committee.

Directors' emoluments are in the form of cash with the exception of the provision of health insurance and death in service insurance provided in excess of the earnings cap until 5 April 2006, where applicable.

The gains for directors on the exercise of share options are shown on page 36.

Report on directors' remuneration continued

Directors' pension accruals under the UKLA Listing Rules

	Age at 31 December 2006	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 December 2006 £ p.a.	Accumulated total accrued pension at 31 December 2005 £ p.a.	Increase in accrued pension during the year (net of inflation) £	Transfer value of increase (less Director contributions) £
Executive directors							
M R Harris	58	104,373	28,465	329,369	303,215	17,967	285,742
D J Ritchie	37	46,312	12,631	20,409	15,239	4,758	13,151

Note 1: The accumulated total accrued pension as at 31 December 2005 has been adjusted for inflation in arriving at the increase in the accrued pension at 31 December 2006. The increase in accrued pension during the year excludes any increase due to inflation.

Note 2: The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.

Note 3: In respect of Mr David Ritchie, the directors' pensionable earnings were restricted to the statutory earnings cap for service until 5 April 2006.

Directors' pension accruals under Directors' Remuneration Report Regulations 2002

	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 December 2006 £ p.a.	Increase in accrued pension during the year £	Transfer value of accrued pension at 31 December 2006 £	Transfer value of accrued pension at 31 December 2005 £	Increase in transfer value of increase (less Director contributions) £
Executive directors							
M R Harris	104,373	28,465	329,369	26,154	5,913,586	5,297,934	587,187
D J Ritchie	46,312	12,631	20,409	5,170	112,546	79,052	20,863

Note 1: The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.

Note 2: In respect of Mr David Ritchie, the directors' pensionable earnings were restricted to the statutory earnings cap for service until 5 April 2006.

Directors' interests in share options

	Date of grant	Scheme	At 1 January 2006	Granted/ (lapsed) in year	Exercised in year	At 31 December 2006	Exercise price per share	Option exercise period
Executive directors								
M R Harris	18 March 2003	Exec	104,602	-	-	104,602	358.3p	3/06-3/13
	9 April 2003	SAYE	5,732	-	-	5,732	286.5p	6/08-12/08
D J Ritchie	17 September 2002	Exec	15,180	-	15,180	-	415.0p	9/05-9/12
	18 March 2003	Exec	34,867	-	-	34,867	358.5p	3/06-3/13
	11 April 2005	SAYE	2,672	-	-	2,672	618.3p	6/10-12/10

All of the share options granted by the Company were granted at the market price prevailing on the date of grant, with the exception of Save As You Earn options which were granted at a 20% (10% post 1 January 2004) discount to the market price prevailing 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 either the Executive Share Option Scheme ('Exec') or the Save As You Earn Share Option Scheme ('SAYE') during the financial year.

Share options held in the Save As You Earn Share Option Scheme, which are not subject to performance conditions, may under normal circumstances be exercised during the six months after maturity of the savings contract.

For those executive directors serving as at 31 December 2006, in respect of each director's holdings of Executive Share Options at 31 December 2006, no share options were held under an HMRC approved scheme.

Report on directors' remuneration continued

Share options exercised in year

Dealings in shares through exercising of share options of the Company during the year by executive directors are summarised as follows:

	Date of exercise	Scheme	Number of options	Exercise price	Shares retained	Gain on exercise £000	Market price on exercise
D J Ritchie	20 March 2006	Exec	15,180	415.0p	4,866	76	918.5p
			15,180		4,866	76	

During the year ended 31 December 2005 gains arising from the exercise of share options by directors amounted to £356,000.

Directors' interest in Long Term Incentive Plan shares

	Award date	Vesting date	Interest in number of shares at beginning of year	Interest in number of shares at end of year	Value of shares at date of award £000	Percentage of award subject to each performance criteria		LTIP awards vesting and exercised in 2006	Value of shares at vesting date £000	Gain on exercise £000	Shares retained on exercise
						EPS	TSR				
M R Harris	11.3.03	11.3.06	78,892	-	281	50%	50%	-	-	-	-
	9.3.04	9.3.07	61,686	61,686	330	50%	50%	-	-	-	-
	7.9.04	7.9.07	22,766	22,766	130	50%	50%	-	-	-	-
	15.3.05	15.3.08	66,186	66,186	460	50%	50%	-	-	-	-
	14.3.06	14.3.09	-	55,554	475	50%	50%	-	-	-	-
D J Ritchie	11.3.03	11.3.06	26,296	-	94	50%	50%	-	-	-	-
	9.3.04	9.3.07	25,936	25,936	139	50%	50%	-	-	-	-
	7.9.04	7.9.07	15,104	15,104	86	50%	50%	-	-	-	-
	15.3.05	15.3.08	32,374	32,374	225	50%	50%	-	-	-	-
	14.3.06	14.3.09	-	29,238	250	50%	50%	-	-	-	-

During the year awards of 84,792 shares were granted to executive directors at up to 100% of basic salary, exercisable in 2009. The awards granted to executive directors were as follows:

Director	Grant date	Grant price	Number of shares awarded
M R Harris	14 March 2006	855.0p	55,554
D J Ritchie	14 March 2006	855.0p	29,238

The charge for the year under the requirements of IFRS 2: "Share based payments" in respect of these directors was £289,000 (2005: £167,000).

Share price

The middle market price of the shares at 31 December 2006 was £10.84 (2005: £7.97). During the year ended 31 December 2006 the share price recorded a middle market low of £7.30 and a high of £10.96.

By order of the Board
John Warren
 Chairman of the Remuneration Committee
 9 March 2007

Statement of directors' responsibilities in respect of the annual report and accounts and the financial statements

The directors are responsible for preparing the annual report and accounts and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group and Parent Company financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, report on directors' remuneration and report on corporate governance that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Bovis Homes Group PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Bovis Homes Group PLC for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Statements of Recognised Income and Expense, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on directors' remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Report on directors' remuneration and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 37.

Our responsibility is to audit the financial statements and the part of the Report on directors' remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Annual Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the report on corporate governance reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report on directors' remuneration to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on directors' remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report on directors' remuneration to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of the profit for the year then ended;
- the parent company financial statements give a true and fair view in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006.
- the financial statements and the part of the Report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
London
9 March 2007

Group income statement

For the year ended 31 December 2006	Note	Continuing operations	
		2006 £000	2005 £000
Revenue		597,290	521,194
Cost of sales		(407,204)	(351,997)
Gross profit		190,086	169,197
Administrative expenses		(48,803)	(44,120)
Operating profit before financing costs	5,6	141,283	125,077
Financial income	7	654	557
Financial expenses	7	(6,453)	(9,556)
Net financing costs		(5,799)	(8,999)
Profit before tax		135,484	116,078
Income tax expense	8	(40,446)	(34,603)
Profit for the period attributable to equity holders of the parent		95,038	81,475
Basic earnings per share	17	79.8p	69.0p
Diluted earnings per share (restated - see note 2)	17	79.5p	68.7p

Group statement of recognised income and expense

For the year ended 31 December 2006	2006 £000	2005 £000
Effective portion of changes in fair value of interest rate cash flow hedges	642	468
Deferred tax on changes in fair value of interest rate cash flow hedges	(193)	(140)
Actuarial gains/(losses) on defined benefit pension scheme	8,640	(2,850)
Deferred tax on actuarial movements on defined benefit pension scheme	(2,592)	855
Deferred tax on other employee benefits	218	869
Net income/(expense) recognised directly in equity	6,715	(798)
Profit for the period	95,038	81,475
Total recognised income and expense for the period attributable to equity holders of the parent	101,753	80,677

There is no difference between the profit for the period for the Company of £31,500,000 (2005: £24,750,000) and its total recognised income and expense for the period.

Balance sheets

As at 31 December 2006	Note	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
Assets					
Property, plant and equipment	10	14,778	14,663	-	-
Investments	11	22	23	284	284
Deferred tax assets	12	6,089	11,447	-	-
Trade and other receivables	14	2,850	5,727	-	-
Total non-current assets		23,739	31,860	284	284
Inventories	13	758,078	781,373	-	-
Trade and other receivables	14	22,446	70,523	223,931	214,973
Cash	15	142,841	344	344	344
Total current assets		923,365	852,240	224,275	215,317
Total assets		947,104	884,100	224,559	215,601
Equity					
Issued capital	16	60,288	59,699	60,288	59,699
Share premium	16	155,494	146,849	155,494	146,849
Hedge reserve	16	(112)	(561)	-	-
Retained earnings	16	462,162	392,160	8,296	8,553
Total equity attributable to equity holders of the parent		677,832	598,147	224,078	215,101
Liabilities					
Bank loans	18	25,100	40,802	-	-
Trade and other payables	21	44,264	32,666	459	459
Retirement benefit obligations	19	5,140	22,370	-	-
Provisions	20	2,114	1,345	-	-
Total non-current liabilities		76,618	97,183	459	459
Bank overdraft	15,18	-	6,367	-	-
Bank loans	18	15,060	15,000	-	-
Trade and other payables	21	159,368	151,493	22	41
Tax liabilities	9	18,226	15,910	-	-
Total current liabilities		192,654	188,770	22	41
Total liabilities		269,272	285,953	481	500
Total equity and liabilities		947,104	884,100	224,559	215,601

These accounts were approved by the board of directors on 9 March 2007 and were signed on its behalf:

M R Harris
N Cooper
Directors

Statement of cash flows

For the year ended 31 December 2006	Note	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
<i>Cash flows from operating activities</i>					
Profit for the year		95,038	81,475	31,500	24,750
Depreciation	5	1,499	1,509	-	-
Investment income	7	(654)	(557)	(31,500)	(24,750)
Interest expense	7	6,453	9,556	-	-
Profit on sale of property, plant and equipment	5	(120)	(56)	-	-
Equity-settled share-based payment expenses	6	455	423	-	-
Income tax expense	8	40,446	34,603	-	-
Operating profit before changes in working capital and provisions		143,117	126,953	-	-
Decrease/(increase) in trade and other receivables		51,099	(34,442)	(8,958)	(3,736)
Decrease/(increase) in inventories		23,295	(81,456)	-	-
Increase/(decrease) in trade and other payables		19,619	18,154	(19)	18
Decrease in provisions and employee benefits		(8,590)	(990)	-	-
Cash generated from operations		228,540	28,219	(8,977)	(3,718)
Interest paid		(5,829)	(10,467)	-	-
Income taxes paid		(35,342)	(39,450)	-	-
Net cash from operating activities		187,369	(21,698)	(8,977)	(3,718)
<i>Cash flows from investing activities</i>					
Interest received		512	651	-	-
Dividends received		-	-	31,500	24,750
Acquisition of property, plant and equipment	10	(1,668)	(3,303)	-	-
Proceeds from sale of plant and equipment		174	97	-	-
Net cash from investing activities		(982)	(2,555)	31,500	24,750
<i>Cash flows from financing activities</i>					
Dividends paid	16	(31,757)	(25,858)	(31,757)	(25,858)
Proceeds from the issue of share capital	16	9,234	4,825	9,234	4,825
Repayment of borrowings		(15,000)	(20,000)	-	-
Purchase of own shares*	16	-	(351)	-	-
Sale of own shares*		-	128	-	128
Net cash from financing activities		(37,523)	(41,256)	(22,523)	(20,905)
Net increase/(decrease) in cash and cash equivalents		148,864	(65,509)	-	127
Cash and cash equivalents at 1 January	15	(6,023)	59,486	344	217
Cash and cash equivalents at 31 December	15	142,841	(6,023)	344	344

* Reclassified from 'cash flows from investing activities' in 2005.

Notes to the financial statements

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 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The financial statements were authorised for issue by the directors on 9 March 2007.

1. Statement of compliance

The consolidated financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS) and its interpretations as adopted by the International Accounting Standards Board (IASB). On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

2. Basis of preparation

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, 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 making the judgements about 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.

Judgements made by management in the application of adopted IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently to the Company and the Group where relevant.

Diluted earnings per share in the prior year has been restated by adjusting earnings for share-based payment expenses. This has reduced 2005 diluted earnings per share by 0.2p per share.

3. 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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 those 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 total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

4. Accounting policies

Revenue

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the purchaser. Revenue comprises the fair value of the consideration received or receivable, net of value-added tax, rebates and discounts. Revenue in respect of the sale of residential properties and land is recognised at the fair value of the consideration received or receivable on legal completion of the sale transaction. Revenue does not include the value of the onward legal completion of properties accepted in part exchange against a new property. The net gain or loss arising from the legal completion of these part exchange properties is recognised in cost of sales.

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.

Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Lease incentives received are recognised as an integral part of the total lease expenditure.

Net financing costs

Net finance costs comprise:

- interest payable on borrowings, including any premiums payable on settlement or redemption and direct issue costs, accounted for on an accrual basis to the income statement using the effective interest method;
- interest receivable on funds invested accounted for on an accrual basis to the income statement using the effective interest method;
- dividend income recognised on the date the right to receive payments is established; and
- gains and losses on hedging instruments that are recognised in the income statement.

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.

Notes to the financial statements continued

4. Accounting policies continued

Taxation

Income tax comprises the sum of the tax currently payable 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.

The tax currently payable is based on taxable profit for the year and any adjustment to tax payable in respect of previous years. Taxable profit differs from net profit 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 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.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group uses interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised at fair value. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account interest rates and the current creditworthiness of the swap counterparties.

Where the derivative instrument, typically an interest rate swap, is deemed an effective hedge over the exposure being hedged, the derivative instrument is treated as a cash flow hedge and hedge accounting applied. Under a cash flow hedge, gains and losses on the effective portion of the change in the fair value of the derivative instrument are recognised directly in equity.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting and any ineffectiveness in the hedge relationship are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in reserves is retained in reserves until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in reserves is transferred to net profit or loss for the period.

Property, plant and equipment

Property, plant and equipment are stated at cost as deemed cost less accumulated depreciation and impairment losses. Certain property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to adopted IFRS, are measured on the basis of deemed cost, this being the revalued amount at the date of that revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Regular reviews of the carrying values of property are completed to assess any impairment in value. When impairment is identified, the asset's recoverable amount is assessed and any shortfall is written off through the income statement.

Depreciation is charged so as to write off the cost less residual value (which is reassessed annually) of assets over their estimated useful lives. Depreciation is charged on property in respect of the value of the building. Land is not depreciated. The basis of depreciation for each class of asset is as follows:

- Buildings straight line over 50 years
- Plant and machinery 33.3% reducing balance
- Computer equipment straight line over 3 years
- Office equipment 25% reducing balance

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Fixed asset investments

Investments in subsidiaries are carried at cost less impairment.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Notes to the financial statements continued

4. Accounting policies continued

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 selling price less estimated total costs of completion of the finished goods.

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. Where, through deferred purchase credit terms, cost differs from the nominal amount which will actually be paid in settling the deferred purchase terms liability, no 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. Regular reviews are completed for impairment in the value of these options, and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking account of any concerns over whether the remaining time available will allow successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

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.

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.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at fair value, net of direct issue costs. 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.

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 amortised over the period of the credit term and charged to finance costs using the effective interest rate method.

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.

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.

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 are recognised in the periods in which they arise. All actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

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

Notes to the financial statements continued

4. Accounting policies continued

Share-based payments

The Group has applied the requirements of IFRS 2: "Share-based payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

As 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.

Adopted IFRS not yet applied

The following standards and interpretations were available for early adoption, but have not been applied by the Group in these financial statements:

- IFRS7: "Financial instruments: disclosure" applicable for years commencing on or after 1 January 2007.

The application of IFRS7 in the year ended 31 December 2006 would not have affected the balance sheet or income statement as the standard is only concerned with disclosure. The Group plans to adopt this standard in 2007.

- IFRIC8: "Scope of IFRS2" applicable for years commencing on or after 1 May 2006.

The application of IFRIC8 in the year ended 31 December 2006 would not have affected the balance sheet or income statement, as neither the Group or the Company used its shares as consideration for goods or services during this year, excepting the use of its own shares for reasons of employee remuneration, and which is fully disclosed in accordance with IFRS2. The Group plans to adopt this interpretation in 2007.

- IFRIC7: "Applying the restatement approach under IAS29 financial reporting in hyperinflationary economies" applicable for years commencing on or after 1 March 2006.

- IFRIC9: "Reassessment of embedded derivatives" applicable for years commencing on or after 1 June 2006.

5. Operating profit before financing costs

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

	2006 £000	2005 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	28
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	97	92
- Other services pursuant to legislation	15	61
- Tax services	38	32
Depreciation of tangible fixed assets	1,499	1,509
Net profit on disposal of property, plant and equipment	(120)	(56)
Hire of plant and machinery	1,962	2,424
Rental income (included in revenue)	(519)	(779)

Fees charged by the auditor and its associates during the year in respect of non-audit work for interim review were £15,000 (2005: £15,000) and for taxation advice and compliance were £38,000 (2005: £32,000). Fees relating to the implementation of IFRS were nil in 2006 (2005: £45,000).

6. Directors and employees

Information relating to directors' emoluments, compensation for loss of office, long term incentive plan, share options (including gains thereon) and pension entitlements appears in the Report on directors' remuneration on pages 29 to 36. The directors are considered to be the only key management personnel.

The Company bears the costs of non-executive director fees and these fees are recharged to subsidiary companies within the Group. The Company has no other staff.

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

	2006	2005
Average staff numbers	923	917

Notes to the financial statements continued

6. Directors and employees continued

Personnel expenses

	2006 £000	2005 £000
Wages and salaries	34,718	27,857
Compulsory social security contributions	3,729	3,045
Contributions to defined contribution plans	403	320
(Decrease)/increase in liability for defined benefit plans	(1,150)	2,560
Equity-settled transactions	455	423
Personnel expenses	38,155	34,205

7. Net financing costs

	2006 £000	2005 £000
Interest income	(654)	(557)
Interest expense	6,453	9,556
Net financing costs	5,799	8,999

8. Income tax expense

Recognised in the income statement

	Note	2006 £000	2005 £000
<i>Current tax expense</i>			
Current year		38,104	34,663
Adjustments for prior years		(449)	(390)
		37,655	34,273
<i>Deferred tax expense</i>			
Origination and reversal of temporary differences	12	2,791	330
Total income tax expense in income statement		40,446	34,603

Reconciliation of effective tax rate

	2006 %	2006 £000	2005 %	2005 £000
Profit before tax		135,484		116,078
Income tax using the domestic corporation tax rate	30.0	40,645	30.0	34,823
Non-deductible expenses	0.2	270	0.1	207
Other	-	(20)	-	(37)
Over provided in prior years	(0.3)	(449)	(0.3)	(390)
Current tax expense	29.9	40,446	29.8	34,603

Deferred tax recognised directly in equity

	Note	2006 £000	2005 £000
Relating to actuarial movements on pension scheme	12	(2,592)	855
Relating to share-based payments	12	218	869
Relating to fair value adjustments on interest rate swaps	12	(193)	(140)
Deferred tax recognised directly in equity		(2,567)	1,584

Notes to the financial statements *continued*

9. Current tax assets and liabilities

The current tax liability of £18,226,000 (2005: £15,910,000) represents the amount of income taxes payable in respect of current and prior periods that exceed payments on account to the end of the period.

10. Property, plant and equipment

Group	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
<i>Cost</i>				
Balance at 1 January 2005	10,343	6,595	2,183	19,121
Additions	1,874	1,224	205	3,303
Disposals	-	(442)	(170)	(612)
Balance at 31 December 2005	12,217	7,377	2,218	21,812
Balance at 1 January 2006	12,217	7,377	2,218	21,812
Additions	400	1,053	215	1,668
Disposals	-	(660)	(31)	(691)
Balance at 31 December 2006	12,617	7,770	2,402	22,789
<i>Depreciation and impairment losses</i>				
Balance at 1 January 2005	258	4,230	1,723	6,211
Depreciation charge for the year	169	1,099	241	1,509
Disposals	-	(402)	(169)	(571)
Balance at 31 December 2005	427	4,927	1,795	7,149
Balance at 1 January 2006	427	4,927	1,795	7,149
Depreciation charge for the year	192	1,105	202	1,499
Disposals	-	(609)	(28)	(637)
Balance at 31 December 2006	619	5,423	1,969	8,011
<i>Carrying amounts</i>				
At 1 January 2005	10,085	2,365	460	12,910
At 31 December 2005	11,790	2,450	423	14,663
At 1 January 2006	11,790	2,450	423	14,663
At 31 December 2006	11,998	2,347	433	14,778

The directors have undertaken an impairment review on the properties as at 31 December 2006.

Notes to the financial statements continued

11. Investments

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
<i>Subsidiary undertakings</i>				
Interest in subsidiary undertakings' shares at cost (100% ownership of ordinary shares)	-	-	284	284
<i>Associated undertakings - share of net assets</i>				
Bishops Park Limited (50% ownership of ordinary shares)	4	4	-	-
CCB Stevenage Limited (33% ownership of ordinary shares)	13	13	-	-
Haydon Development Company Limited (39% ownership of ordinary shares)	4	4	-	-
<i>Other investments</i>				
Listed investments	1	2	-	-
	22	23	284	284

The subsidiary and associated undertakings 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 not earned any significant profit or loss from its investment in associates during either financial year.

The Group has twenty three subsidiaries, of which there is one principal subsidiary undertaking. A full list of the Group's subsidiaries will be filed with the Company's next annual return.

	Country of incorporation	Ownership interest in ordinary shares	
		2006	2005
Bovis Homes Limited	Great Britain	100%	100%

12. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Property, plant and equipment	310	396	(61)	(61)	249	335
Non current trade payables	2,974	3,156	-	-	2,974	3,156
Interest rate swaps	48	241	-	-	48	241
Employee benefits - pensions	1,542	6,711	-	-	1,542	6,711
Employee benefits - share-based payments	1,137	796	-	-	1,137	796
Provisions	139	208	-	-	139	208
Tax assets/(liabilities)	6,150	11,508	(61)	(61)	6,089	11,447

Movement in temporary differences during the year

Group	Balance 1 Jan 06 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 06 £000
	Property, plant and equipment	335	(86)	-
Non current trade payables	3,156	(182)	-	2,974
Interest rate swaps	241	-	(193)	48
Employee benefits - pensions	6,711	(2,577)	(2,592)	1,542
Employee benefits - share-based payments	796	123	218	1,137
Provisions	208	(69)	-	139
Movement in temporary differences during 2006	11,447	(2,791)	(2,567)	6,089

Notes to the financial statements continued

12. Deferred tax assets and liabilities continued

Movement in temporary differences during the year continued

Group	Balance 1 Jan 05 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 05 £000
Property, plant and equipment	405	(70)	-	335
Non current trade payables	3,046	110	-	3,156
Interest rate swaps	381	-	(190)	241
Employee benefits - pensions	6,153	(297)	855	6,711
Employee benefits - share based payments	100	(173)	869	796
Provisions	108	100	-	208
Movement in temporary differences during 2005	10,193	(330)	1,584	11,447

Non current trade payables

The Group recognises differences between the fair value and nominal value of long term creditors relating to purchases of land for development and charges these differences as finance costs using the effective interest method. The Group does not receive a tax deduction for this difference between fair value and nominal value when it is charged to the income statement, a tax deduction being obtained at a later date when the associated land cost is charged on legal completion of the house sale. As at 31 December 2006, £9,913,000 (2005: £10,520,000) of finance costs had not received a tax deduction. The Group anticipates obtaining a current tax deduction in respect of this in the future and has therefore created a deferred tax asset to reflect this future tax deduction.

Employee benefits

The Group recognises the deficit on its defined benefits pension scheme under the requirements of IAS19 (Revised): "Employee benefits". This has generated a liability of £5,140,000. In future years the Group will continue to pay contributions to fund the pension deficit and there will be further movements in the deficit through actuarial gains and losses. On the basis that such future deficit payments in excess of current service costs will obtain a tax deduction as they are paid, a deferred tax asset of £1,542,000 was included at 31 December 2006. This deferred tax asset will be recovered and used to normalise the tax charges during these periods when tax deductions for additional contributions are obtained.

13. Inventories

Group	2006 £000	2005 £000
Raw materials and consumables	2,277	2,824
Work in progress	185,353	200,794
Part exchange properties	22,997	33,922
Land held for development	547,295	543,677
Development properties	156	156
	758,078	781,373

Inventories to the value of £407,210,000 were recognised as expenses in the year (2005: £349,984,000).

Notes to the financial statements continued

14. Trade and other receivables

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
<i>Non-current assets</i>				
Other debtors	2,850	5,727	-	-
	2,850	5,727	-	-
<i>Current assets</i>				
Trade receivables	19,957	69,749	-	-
Amount due from subsidiary undertakings	-	-	223,931	214,973
Other debtors	1,165	214	-	-
Prepayments and accrued income	1,324	560	-	-
	22,446	70,523	223,931	214,973
Total trade and other receivables	25,296	76,250	223,931	214,973

15. Cash and cash equivalents

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank balances	3,513	344	344	344
Call deposits	139,328	-	-	-
Cash and cash equivalents in the balance sheet	142,841	344	344	344
Bank overdrafts	-	(6,367)	-	-
Cash and cash equivalents in the statement of cash flows	142,841	(6,023)	344	344

Notes to the financial statements continued

16. Capital and reserves

Reconciliation of movement in capital and reserves – Group

For the year ended 31 December 2006	Attributable to equity holders of the parent								Total £000
	Own shares held* £000	Retirement benefit obligations £000	Other reserves £000	Other retained earnings £000	Total retained earnings £000	Issued capital £000	Share premium £000	Hedge reserve £000	
Balance at 1 January 2005	(3,541)	(15,113)	203	355,832	337,381	59,146	142,577	(889)	538,215
Total recognised income and expense	-	(1,995)	869	81,475	80,349	-	-	328	80,677
Issue of share capital	-	-	-	-	-	553	4,272	-	4,825
Own shares disposed	512	-	-	(296)	216	-	-	-	216
Purchase of own shares	(351)	-	-	-	(351)	-	-	-	(351)
Share-based payments	-	-	-	423	423	-	-	-	423
Dividends paid to shareholders	-	-	-	(25,858)	(25,858)	-	-	-	(25,858)
Balance at 31 December 2005	(3,380)	(17,108)	1,072	411,576	392,160	59,699	146,849	(561)	598,147
Balance at 1 January 2006	(3,380)	(17,108)	1,072	411,576	392,160	59,699	146,849	(561)	598,147
Total recognised income and expense	-	6,048	218	95,038	101,304	-	-	449	101,753
Issue of share capital	-	-	-	-	-	589	8,645	-	9,234
Own shares disposed	-	-	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	455	455	-	-	-	455
Dividends paid to shareholders	-	-	-	(31,757)	(31,757)	-	-	-	(31,757)
Balance at 31 December 2006	(3,380)	(11,060)	1,290	475,312	462,162	60,288	155,494	(112)	677,832

*Own shares held totalled 775,329 at 31 December 2006 (2005: 775,432).

Reconciliation of movement in capital and reserves – Company

For the year ended 31 December 2006	Attributable to equity holders of the parent					Total £000
	Own shares held £000	Other retained earnings £000	Total retained earnings £000	Issued capital £000	Share premium £000	
Balance at 1 January 2005	(216)	9,661	9,445	59,146	142,577	211,168
Total recognised income and expense	-	24,750	24,750	-	-	24,750
Issue of share capital	-	-	-	553	4,272	4,825
Own shares disposed	216	-	216	-	-	216
Dividends paid to shareholders	-	(25,858)	(25,858)	-	-	(25,858)
Balance at 31 December 2005	-	8,553	8,553	59,699	146,849	215,101
Balance at 1 January 2006	-	8,553	8,553	59,699	146,849	215,101
Total recognised income and expense	-	31,500	31,500	-	-	31,500
Issue of share capital	-	-	-	589	8,645	9,234
Own shares disposed	-	-	-	-	-	-
Dividends paid to shareholders	-	(31,757)	(31,757)	-	-	(31,757)
Balance at 31 December 2006	-	8,296	8,296	60,288	155,494	224,078

Notes to the financial statements continued

16. Capital and reserves continued

Share capital and share premium

	Ordinary shares	
	2006	2005
In issue at 1 January	119,398,936	118,291,142
Issued for cash	268,486	808,895
Scrip dividend	909,120	298,899
In issue at 31 December – fully paid	120,576,542	119,398,936

At 31 December 2006, the authorised share capital comprised 150,000,000 ordinary shares (2005: 150,000,000). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Reserve for own shares held

The cost of the Company's shares held by the Company and the Group is recorded as a reserve in equity. During the year ended 31 December 2006, there were no share purchases, and no shares held in the Group's long term incentive plan vested. The balance of the own shares held reserve remained the same at the end of 2006 as at the start of the year.

Dividends

The following dividends were paid by the Group:

	2006 £000	2005 £000
November 2006: 10.0p per qualifying ordinary share (November 2005: 8.3p)	11,931	9,822
May 2006: 16.7p per qualifying ordinary share (May 2005: 13.6p)	19,826	16,036
	31,757	25,858

After the balance sheet date the following dividend was proposed by the directors. The dividend has not been provided for and there are no income tax consequences.

	2006 £000	2005 £000
20.0p per qualifying ordinary share (2005: 16.7p)	24,115	19,813

17. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit attributable to ordinary shareholders of £95,038,000 (2005: £81,475,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 119,103,010 (2005: 118,119,910), calculated as follows:

Profit attributable to ordinary shareholders

	2006 £000	2005 £000
Profit for the period attributable to ordinary shareholders	95,038	81,475

Weighted average number of ordinary shares

	2006	2005
Issued ordinary shares at 1 January	119,398,936	118,291,142
Effect of own shares held	(775,381)	(792,513)
Effect of shares issued in year	479,455	621,281
Weighted average number of ordinary shares at 31 December	119,103,010	118,119,910

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2006 was based on profit attributable to ordinary shareholders of £95,038,000 (2005: £81,475,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 119,523,151 (2005: 118,595,375).

Notes to the financial statements continued

17. Earnings per share continued

The average number of shares is diluted in reference to the average number of potential ordinary shares held under option during the period. This dilutive effect amounts to 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. The market value of shares has been calculated using the average ordinary share price during the period. Only share options which have met their cumulative performance criteria have been included in the dilution calculation.

Profit attributable to ordinary shareholders (diluted)

	2006 £000	2005 £000
Profit attributable to ordinary shareholders (diluted)	95,038	81,475

Weighted average number of ordinary shares (diluted)

	2006	2005
Weighted average number of ordinary shares at 31 December	119,103,010	118,119,910
Effect of share options in issue which have a dilutive effect	420,141	475,465
Weighted average number of ordinary shares (diluted) at 31 December	119,523,151	118,595,375

The following table outlines the impact of the £3.5 million one-off pension credit on basic earnings per share as well as on other key management measures.

	2006 reported £000	Pension credit £000	2006 underlying £000
Revenue - continuing operations	597,290	-	597,290
Gross profit	190,086	-	190,086
Administrative expenses	(48,803)	(3,470)	(52,273)
Operating profit before financing costs	141,283	(3,470)	137,813
Net financing costs	(5,799)	-	(5,799)
Profit before tax	135,484	(3,470)	132,014
Income tax expense	(40,446)	1,041	(39,405)
Profit for period	95,038	(2,429)	92,609
Basic earnings per share (p)	79.8	-	77.8
Administrative expenses ratio to revenue (%)	8.2	-	8.7
Operating profit margin (%)	23.7	-	23.1
Return on capital employed (%)	20.5	-	20.0

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rates see note 22.

	2006 £000	2005 £000
<i>Non-current liabilities</i>		
Bank loans	25,000	40,000
Interest rate swaps fair value	100	802
	25,100	40,802
<i>Current liabilities</i>		
Bank overdraft	-	6,367
Bank loans	15,000	15,000
Interest rate swaps fair value	60	-
	15,060	21,367
Interest-bearing loans and borrowings	40,160	62,169

Notes to the financial statements continued

19. Employee benefits

Retirement benefit obligations

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

	2006 £000	2005 £000
Present value of funded obligations	70,090	74,950
Fair value of plan assets	(64,950)	(52,580)
Recognised liability for defined benefit obligations	5,140	22,370

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

	2006 £000	2005 £000
Net liability for defined benefit obligations at 1 January	22,370	20,510
Contributions received	(7,440)	(3,550)
(Income)/expense recognised in the income statement	(1,150)	2,560
(Income)/expense recognised in equity	(8,640)	2,850
Net liability for defined benefit obligations at 31 December	5,140	22,370

Change in defined benefit obligation over the year

	2006 £000	2005 £000
Defined benefit obligation at beginning of year	74,950	60,820
Interest cost	3,370	3,190
Current service cost	2,620	2,450
Actual member contributions	450	490
Actual benefit payments by the scheme	(1,480)	(1,190)
Curtailments	(3,470)	-
(Gain)/loss on change of assumptions	(3,400)	8,780
Experience (gain)/loss	(2,950)	410
Defined benefit obligation at end of year	70,090	74,950

Change in scheme assets over the year

	2006 £000	2005 £000
Fair value of scheme assets at beginning of year	52,580	40,310
Actual total benefit payments	(1,480)	(1,190)
Actual Group contributions	7,440	3,550
Actual member contributions	450	490
Expected return on plan assets	3,670	3,080
Actuarial gain	2,290	6,340
Fair value of scheme assets at end of year	64,950	52,580

History of experience gains and losses

For the year ended 31 December	2006	2005	2004
<i>Gain on scheme assets</i>			
Amount (£000)	2,290	6,340	1,370
Percentage of scheme assets at year end (%)	3.50	12.06	3.40
<i>Experience loss/(gain) on scheme liabilities</i>			
Amount (£000)	(2,950)	410	120
Percentage of scheme liabilities at year end (%)	4.20	0.55	0.20

Notes to the financial statements continued

19. Employee benefits continued

Scheme assets and expected rate of return

	At 31 December 2006		At 31 December 2005	
	Expected rate of return % pa	Market value £000	Expected rate of return % pa	Market value £000
Equities	7.8	42,400	7.8	38,640
Bonds (fixed interest)	5.1	14,750	4.6	9,210
Bonds (index linked)	4.4	7,810	4.1	4,480
Other	4.1	(10)	3.9	250
Total	6.8	64,950	6.9	52,580

Expense recognised in the income statement

	2006 £000	2005 £000
Current service costs	2,620	2,450
Gain on curtailment	(3,470)	-
Interest on obligation	3,370	3,190
Expected return on plan assets	(3,670)	(3,080)
(Income)/expense recognised in the income statement	(1,150)	2,560

The expense is recognised in the following line items in the income statement:

	2006 £000	2005 £000
Cost of sales	239	378
Administrative expenses	(1,389)	2,182
Expense recognised in the income statement	(1,150)	2,560

Assumptions

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

	2006 %	2005 %	2004 %
Discount rate at 31 December	5.1	4.7	5.3
Expected return on plan assets at 31 December	6.8	6.9	7.2
Future salary increases	2.5	4.4	4.3
Inflation	3.1	2.9	2.8
Future pension increases	3.1	2.9	2.7

The mortality assumptions are based on the 92-series including full allowance for the improvements in mortality built into the 92-series projections.

The Group estimates that the contribution in 2007 by the Group to the scheme will be in the region of £3.5 million.

Share-based payments

The Bovis Homes Group PLC Executive Share Option Scheme was established in 1997. The Remuneration Committee suspended the issuing of new share options on 5 May 2004. In accordance with scheme rules, options are exercisable at the market price of the shares at the date of grant. The last grant of executive share options took place on 18 March 2003.

Under the Executive Share Option Scheme, options are granted on a discretionary basis relative to executives' seniority within the Group. The options can be exercised if the auditors have certified that the cumulative increase in annualised basic earnings per share exceeds the percentage increase in RPI by at least 4% per annum (2% per annum for share options granted before 2001) over three consecutive financial years. Assuming this condition is satisfied, options may, under normal circumstances, be exercised between the third and tenth anniversary of the date of grant.

There are four historical grants of executive share options prior to 7 November 2002 where there remain exercisable share options unexercised at 31 December 2006. In accordance with the provisions of IFRS1 and the transitional provisions of IFRS2, the recognition and measurement principles in IFRS2 have not been applied to these grants.

Notes to the financial statements continued

19. Employee benefits *continued*

Share-based payments *continued*

The Bovis Homes Group PLC Save as You Earn Share Option Scheme was established in 1997. Share options held in the Save As You Earn Share 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 either a 10% or 20% discount to the market price of the shares at the date of grant.

Save as You Earn Share Option Scheme

	2006	2005
Options granted during the period	68,935	92,383
Date of Grant	10 April 2006	11 April 2005
Fair value at measurement date (Black-Scholes methodology)	£2.35 - £2.65	£1.70 - £2.02
Share price	£9.20	£6.77
Exercise price	£7.70	£6.18
Expected volatility	24.3%	24.9%
Option life (contract length)	3 - 5.5 yrs	3 - 5.5 yrs
Expected dividend	3.00%	2.94%
Risk free interest rate	5.11% - 5.13%	4.64% - 4.68%

There are three historical grants of Save As You Earn share options prior to 7 November 2002 where there remain exercisable share options unexercised at 31 December 2006. In accordance with the provisions of IFRS1 and the transitional provisions of IFRS2, the recognition and measurement principles in IFRS2 have not been applied to these grants.

A Long Term Incentive Plan for executive directors and senior executives was approved by shareholders at the 2000 Annual General Meeting and established on 10 May 2000. An amendment to the rules of the Long Term Incentive Plan was approved by shareholders at the 2004 Annual General Meeting on 5 May 2004.

Long Term Incentive Plan

	2006	2005
Options granted during the period	92,948	205,388
Date of Grant	14 March 2006	15 March 2005
Fair value at measurement date (Monte Carlo methodology)	£5.16	£2.48
Share price	£8.55	£6.87
Exercise price	-	-
Expected volatility	24.36%	25.40%
Option life	3 yrs	3 yrs
Expected dividend	3.00%	2.94%
Risk free interest rate	5.07%	4.68%

The expected volatility is based on the historic volatility calculated as the annualised average of the standard deviations of the daily historical continuously compounded returns one, two and three years back from the date of grant where applicable.

Notes to the financial statements continued

19. Employee benefits continued

Share-based payments continued

Details of the Executive share options and Save As You Earn share options outstanding are as follows:

Executive Share Option Scheme	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
Date of grant					
17 March 1999	1,108,051	3 years service / 2% cumulative increase in earnings per share above RPI over three consecutive years	278.5p	8,797	3/02 - 3/09
16 March 2000	495,167		295.5p	507	3/03 - 3/10
19 March 2001	384,709	3 years service / 4% cumulative increase in earnings per share above RPI over three consecutive years	384.5p	19,747	3/04 - 3/11
19 March 2002	690,919		407.5p	43,126	3/05 - 3/12
18 March 2003	879,481		358.5p	556,616	3/06 - 3/12

Save As You Earn Share Option Scheme	Options issued	Vesting conditions	Exercise price	Options outstanding
Date of grant				
12 April 2000	247,457	3, 5 or 7 years service depending on type of Save As You Earn contract	236.0p	30,826
11 April 2001	142,191		304.0p	17,761
10 April 2002	129,803		348.5p	55,077
9 April 2003	342,628		286.5p	217,167
7 April 2004	121,900		480.6p	78,450
11 April 2005	92,383		618.3p	69,381
10 April 2006	68,935		769.5p	58,508

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2006	Number of options 000's 2006	Weighted average exercise price 2005	Number of options 000's 2005
Outstanding at the beginning of the period	360.4p	1,527	346.7p	2,451
Forfeited during the period	402.7p	(171)	375.1p	(128)
Exercised during the period	325.2p	(269)	347.2p	(888)
Granted during the period	769.5p	69	618.3p	92
Outstanding at the end of the period	386.7p	1,156	360.4p	1,527
Exercisable at the end of the period	384.7p	72	365.0p	214

The weighted average share price at the date of exercise of share options exercised during the period was 854.6p (2005: 685.6p).

The options outstanding at 31 December 2006 have an exercise price in the range of 236.0p to 769.5p and a weighted average contractual life of 4.1 years.

Share-based payments expense in the income statement

	2006 £000	2005 £000
Long Term Incentive Plan	365	207
Executive share options	(37)	131
Save As You Earn share options	127	85
Total expense recognised as personnel expenses	455	423

Notes to the financial statements continued

20. Provisions

Group	Site remedial works £000	Litigation and claims £000	Total £000
Balance at 1 January 2006	972	373	1,345
Provisions made during the year	95	1,023	1,118
Provisions released during the year	(110)	-	(110)
Provisions used during the year	(223)	(16)	(239)
Balance at 31 December 2006	734	1,380	2,114
Non-current	562	950	1,512
Current	172	430	602

Provisions relate to known claims or remedial works on site. There remains uncertainty as to the outcome, but the provisions represent management's best estimate of the amount that will be settled. A number of these provisions relate to historical issues where outstanding decisions have delayed their resolution whilst the remainder relate to current issues which are being resolved and on which expenditure will be incurred over the course of the next financial year.

21. Trade and other payables

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
<i>Non current liabilities</i>				
Trade creditors secured by bond or guarantee	4,909	12,210	-	-
Other trade creditors	38,896	19,997	-	-
Other creditors	459	459	459	459
	44,264	32,666	459	459
<i>Current liabilities</i>				
Trade creditors secured by bond or guarantee	21,867	16,751	-	-
Other trade creditors	123,397	123,418	-	-
Taxation and social security	1,074	1,051	-	-
Other creditors	1,826	5,343	22	32
Accruals and deferred income	11,204	4,930	-	9
	159,368	151,493	22	41
Total trade and other payables	203,632	184,159	481	500

All amounts are payable within five years.

Notes to the financial statements continued

22. Financial instruments

The Group's financial instruments comprise cash, bank loans and overdrafts, and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

Exposure to interest rate risk arises in the normal course of the Group's business and interest rate swaps are used 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.

Interest rate risk

Hedging

The Group mitigates its exposure to changes in interest rates on a core level of borrowings through procuring interest rate swaps, denominated in sterling. At 31 December 2006, the Group held interest rate swaps totalling £40 million (2005: £40 million) designated as a hedge over £40 million (2005: £40 million) of borrowings. The principal sums, draw down dates and maturity dates match those of the floating rate borrowings over which the swaps provide the hedge.

The Group classifies these interest rate swaps, subject to the swaps remaining effective hedges, as cashflow hedges and measures them at fair value. The net fair value of swaps at 31 December 2006 was £160,000 (2005: £802,000). These amounts were recognised as derivatives measured at fair value.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Effective interest rate %	2006				Effective interest rate %	2005			
		Total £000	6 months or less £000	6-12 months £000	1-2 years £000		Total £000	6 months or less £000	6-12 months £000	2-5 years £000
Bank balances	2.0	3,513	3,513	-	-	0.0	344	344	-	-
Call deposits	5.1	139,328	139,328	-	-	-	-	-	-	-
Bank overdraft	-	-	-	-	-	5.5	(6,367)	(6,367)	-	-
Bank loans	6.4	(40,000)	(15,000)	-	(25,000)	6.1	(55,000)	(15,000)	-	(40,000)
		102,841	127,841	-	(25,000)		(61,023)	(21,023)	-	(40,000)

Sensitivity analysis

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

For the year ended 31 December 2006, it is estimated that a general increase of one percentage point in interest rates applying for the full year would decrease the Group's profit before tax by approximately £140,000 (year ended 31 December 2005: decrease of £131,000). Interest rate swaps have been included in this calculation.

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 by using the effective interest method. 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, increasing the value of the land creditor such that at the date of maturity the land creditor equals the payment required.

Interest bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest flows.

Interest rate swaps

At each period end, an external valuation of the fair value of each interest rate swap is obtained from the relevant swap providers.

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.

Interest rates used for determining fair value

The Group uses the effective interest rate of its bank loans to discount financial instruments. For the year ended 31 December 2006 the interest rate used to discount was 6.4% (year ended 31 December 2005: 6.1%).

Notes to the financial statements continued

23. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Group	2006 £000	2005 £000
Less than one year	52	52
Between one and five years	169	208
More than five years	-	13
Operating leases	221	273

With regard to the operating leases held by the Group as lessor, the Group recognised £519,000 of rental income in the income statement in 2006. £234,000 related to the temporary rental of surplus office space by the Group. The remainder primarily related to the ground rents collected on the freehold of leasehold apartments sold by the Group prior to the freehold disposal.

24. Capital commitments

The Group is committed to incur capital expenditure of £84,000 (2005: £200,000). This relates to plant and equipment.

25. Contingencies

The Group has contingent liabilities in respect of bonds and other agreements entered into in the normal course of business and the Company has guaranteed the performance of certain of these agreements entered into by its subsidiary companies. The Company had guaranteed the repayment of bank loans made to one of its subsidiaries under bilateral loan facility agreements which amounted to £40 million at 31 December 2006 (31 December 2005: £55 million).

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

26. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

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 recoverable value. To the extent that the revenues which can be generated change, the net realisable value of the inventories may be different. Based on the appraisals completed at or close to the year end, there were no net realisable value write offs necessary and management remain content that the inventory values are fully recoverable.

Part exchange properties

The carrying values of part exchange properties are assessed based on external valuations completed on the properties. These valuations are based on the prevailing market conditions in the second hand housing market and to the extent that housing market pricing levels change, the values of the part exchange properties may vary. Part exchange property values at the end of the financial year were based on recent valuations and were based on realistic market expectations.

Financial instruments

The Group mitigates its exposure to interest rates through using interest rate swaps. These interest rate swaps are held at their fair value. This fair value is based on the likely income or cost associated with terminating the swap at the balance sheet date. Where interest rates are volatile, the fair value of the interest rate swaps may vary as interest rates change. The fair value of the Group's interest rate swaps reflected the interest rate position at the balance sheet date.

Pension assumptions

The Group has utilised a range of assumptions including a rate of return on assets, a discount rate and mortality assumptions having been advised by its actuary. To the extent that such assumed rates are different from what actually transpires, the pension liability of the Group would change.

Five year record

Years ended 31 December

	2006 IFRS £m	2005 IFRS £m	2004 IFRS £m	2003 UK GAAP £m	2002 UK GAAP £m
<i>Revenue and profit</i>					
Revenue	597.3	521.2	559.5	478.4	461.3
Operating profit before financing costs	141.3	125.1	151.5	129.2	109.6
Net financing costs	(5.8)	(9.0)	(6.7)	(6.2)	(4.9)
Profit before tax	135.5	116.1	144.8	123.0	104.7
Tax	(40.5)	(34.6)	(43.1)	(36.5)	(31.2)
Profit after tax	95.0	81.5	101.7	86.5	73.5

Balance sheet

Equity shareholders' funds	677.8	598.1	538.2	465.5	395.9
Add borrowings	40.2	62.2	76.3	75.3	76.9
Capital employed	718.0	660.3	614.5	540.8	472.8

Returns

Operating margin (note 1)	24%	24%	27%	27%	24%
Return on shareholders' funds (note 2)	14%	14%	19%	19%	19%
Return on capital employed (note 3)	21%	20%	26%	26%	25%

Homes (including units sold on third party owned land)

Number of unit completions	3,123	2,702	2,700	2,482	2,691
Average sales price (£'000)	183.7	175.5	197.9	184.7	168.5

Ordinary shares

Earnings per share (p)	79.8	69.0	86.8	74.2	63.5
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Dividends per share

Paid (p)	26.7	21.9	17.5	14.7	13.1
Interim paid and final proposed (p)	30.0	25.0	20.0	16.4	14.0

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 closing shareholders' funds.

Note 3: Return on capital employed has been calculated as profit before interest and tax over the average of opening and closing shareholders' funds plus debt.

Notice of meeting

NOTICE IS HEREBY GIVEN that the 2007 Annual General Meeting of Bovis Homes Group PLC will be held at The Institute of Directors, 116 Pall Mall, London SW1Y 5ED on Friday 11 May 2007 at 11.30am for the following purposes:

Resolution

Ordinary business

- 1 To receive and adopt the audited accounts of the Company for the year ended 31 December 2006 and the reports of the directors and auditors.
- 2 To approve the report on directors' remuneration for the year ended 31 December 2006.
- 3 To declare the final dividend recommended by the directors.
- 4 To re-appoint Mrs Lesley Anne MacDonagh as a director of the Company, who retires by rotation.
- 5 To re-appoint Timothy David Melville-Ross as a director of the Company, who retires by rotation.
- 6 To re-appoint Colin Peter Holmes as a director of the Company, appointed by the Board of directors since the last Annual General Meeting.
- 7 To re-appoint Neil Cooper as a director of the Company, appointed by the Board of directors since the last Annual General Meeting.
- 8 To re-appoint KPMG Audit Plc as auditors of the Company.
- 9 To authorise the directors to determine the remuneration of the auditors.

Special business

As special business to consider and, if thought fit, to pass the following resolutions:

10 Ordinary resolution

That the Bovis Homes Group PLC 2007 Save As You Earn Share Option Scheme, the main features of which are described in item 10 in the explanatory notes to this Notice and the rules of which are produced to the Meeting and initialled by the Chairman for the purpose of identification, be and is hereby approved and that the directors be and are hereby authorised to do all acts and things which they may consider necessary and expedient to carry the same into effect.

11 Ordinary resolution

That the Bovis Homes Group PLC 2007 Share Option Plan, the main features of which are described in item 11 in the explanatory notes to this Notice and the rules of which are produced to the Meeting and initialled by the Chairman for the purpose of identification, be and is hereby approved and that the directors be and are hereby authorised to do all acts and things which they may consider necessary and expedient to carry the same into effect.

12 Ordinary resolution

That, in substitution for the existing authority for the purposes of Section 80 of the Companies Act 1985 ("the Act") conferred upon the directors by a resolution passed at the Annual General Meeting of the Company held on 10 May 2006, the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Act to allot relevant securities (which for the purposes of this resolution shall have the same meaning as in Section 80(2) of the Act) of the Company PROVIDED THAT:

- (i) the maximum amount of relevant securities that may be allotted pursuant to the authority given by this resolution shall be up to an aggregate nominal amount of £14,707,421.50 being equal to the unissued share capital of the Company;
- (ii) subject as provided in sub-paragraph (iii) below, such authority shall expire at the conclusion of the Annual General Meeting of the Company in 2008 or fifteen months from the date of this resolution, whichever is the earlier, but may be previously revoked or varied by an ordinary resolution of the Company;
- (iii) such authority shall permit and enable the directors to make an offer or agreement before the expiry of such authority, which would or might require relevant securities to be allotted after such expiry and to allot such securities pursuant to any such offer or agreement as if such authority had not expired; and
- (iv) in relation to the grant of any rights to subscribe for, or to convert any security into, shares in the Company, the reference in this resolution to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such rights.

13 Special resolution

That the directors pursuant to the general authority conferred on them by ordinary resolution number 12 above be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotments, such power to expire at the conclusion of the Annual General Meeting of the Company in 2008 or fifteen months from the date of this resolution, whichever is the earlier (but so as to enable the Company, before the expiry of such power, to make offers or agreements which would or might require equity securities to be allotted after such expiry and to enable the directors to allot equity securities in pursuance of such offers or agreements as if the power conferred thereby had not expired) and to be limited to:

- (i) the allotment of equity securities in connection with an invitation or offering by way of rights to ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and
- (ii) the allotment otherwise than pursuant to sub-paragraph (i) above of equity securities up to an aggregate nominal amount of £3,014,628.50 being 5% of the issued share capital of the Company.

Notice of meeting continued

14 Special resolution

That the Company be and is hereby granted general and unconditional authority, for the purposes of Section 166 of the Companies Act 1985 ("the Act"), to make market purchases (within the meaning of section 163(3) of the 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 12,058,515 ordinary shares and shall expire at the conclusion of the next Annual General Meeting of the Company in 2008 (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 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 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) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses); and
- (iii) the minimum price which may be paid for an ordinary share shall be 50 pence in each case exclusive of expenses.

Bovis Homes Group PLC
The Manor House, North Ash Road
New Ash Green, Longfield
Kent DA3 8HQ

By Order of the Board
M T D Palmer
Company Secretary
10 April 2007

Notes:

- (i) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only holders of ordinary shares entered on the register no later than 6.00pm on 9 May 2007 will be entitled to attend or vote at the meeting or any adjournment thereof. Changes to entries on the register after 6.00pm on 9 May 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting. Shareholders of the Company may appoint one or more proxies (whether members or not) to attend and, on a poll, to vote instead of the member. Participants of the Bovis Homes Group Share Incentive Plan may instruct the trustee to vote on their behalf on a poll. The instrument appointing a proxy, 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, PO Box 1075, Bristol BS99 3FA or received via the Computershare website, (www-uk.computershare.com) (full details of the procedures are given on the website) not less than 48 hours before the time for holding the meeting. Completion of the proxy form will not preclude a member from attending and voting in person instead of his/her proxy. The Company will announce the level of proxy votes for and against each resolution and the number of abstentions once the resolution has been voted on by a show of hands, except where a poll is called. When announcing a decision on a poll, the Company will disclose the total number of votes in favour and against and the number of abstentions. If a member returns 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.
- (ii) 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 before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. 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.
- (iii) 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 11.00am 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;
 - (c) the register of directors' interests;
 - (d) the rules of the Bovis Homes Group PLC 2007 Save As You Earn Share Option Scheme; and
 - (e) the rules of the Bovis Homes Group PLC 2007 Share Option Plan.

Explanatory notes to the notice of meeting

Item 1: Report and accounts

The directors must present to shareholders at the Annual General Meeting the report of the directors and the accounts of the Company for the year ended 31 December 2006. The report of the directors, the accounts and the report of the Company's auditors on the accounts are contained within the annual report and accounts.

Item 2: Directors' remuneration

The directors are required to present the report on directors' remuneration, which sets out remuneration policy, to shareholders for approval under the Directors' Remuneration Report Regulations 2002.

The report on directors' remuneration can be found on pages 29 to 36 of the report and accounts.

Item 3: Final dividend

Subject to the declaration of the final dividend at the meeting, the dividend will be paid on 25 May 2007 to shareholders on the register at the close of business on 30 March 2007. It is intended that a scrip dividend alternative will also be offered to shareholders.

Items 4, 5, 6 and 7: Re-appointment of directors

The Company's Articles of Association require that at every Annual General Meeting one third of the directors who are subject to retirement by rotation shall retire from office. Mrs Lesley Anne MacDonagh and Timothy David Melville-Ross will retire by rotation and offer themselves for re-appointment.

The Company's Articles of Association also require that any director appointed by the Board since the last Annual General Meeting shall hold office only until the next following Annual General Meeting. Accordingly, Colin Peter Holmes and Neil Cooper will offer themselves for re-appointment.

The 2003 Combined Code on Corporate Governance contains provisions dealing with the re-appointment of non-executive directors. In relation to the re-appointment of Mrs Lesley Anne MacDonagh as a non-executive director, the Chairman has confirmed following the formal performance evaluation conducted during 2006 that she continues to be effective in and demonstrate commitment to her role, including commitment of time for Board and committee meetings. In relation to the re-appointment of Timothy David Melville-Ross as a non-executive director, the Senior Independent Director has confirmed following the formal performance evaluation that he continues to be effective in and demonstrate commitment to his role, including commitment of time for Board and committee meetings and his appointment as Chairman. The Chairman has also confirmed that Colin Peter Holmes has been effective in and demonstrated commitment to his role, including commitment of time for Board and Committee meetings, since his appointment on 1 December 2006. Brief details of all the directors are to be found on page 20 of the report and accounts.

Items 8 and 9: Re-appointment of auditors and auditors' remuneration

The auditors of a company must be re-appointed at each general meeting at which accounts are presented. Resolution 8 proposes the re-appointment of the Company's existing auditors, KPMG Audit Plc, for a further year. Resolution 9 gives authority to the directors to determine the auditors' remuneration.

Item 10: The Bovis Homes Group PLC 2007 Save As You Earn Share Option Scheme

The Company proposes to establish the Bovis Homes Group PLC 2007 Save As You Earn Share Option Scheme ("the SAYE Scheme") to supersede the Bovis Homes Group PLC Save As You Earn Share Option Scheme which will terminate on the tenth anniversary of its adoption, being 4 November 2007.

Overview

Under the terms of the SAYE Scheme, employees of Bovis Homes Group PLC ("the Company") and its subsidiaries (together, "the Group") may be granted options to acquire ordinary shares in the Company ("shares") at a fixed exercise price ("the option exercise price"). In order to exercise the option granted to them employees are required to save each month into a savings account for a period of either three or five years ("the savings contract"). At the end of the savings contract, a tax free bonus is payable on the savings in the savings account. Employees will have a right to acquire the number of shares which they are able to acquire at the option exercise price using the savings in their savings account and the bonus. Employees may choose either to use the funds accumulated to exercise the option within six months of the end of the savings period or to have the savings and bonus repaid to them. Employees who save for a period of five years may leave their savings with the savings carrier for a further two years, at which point an enhanced bonus is payable.

The Company intends to apply for approval of the SAYE Scheme by HM Revenue & Customs ("HMRC"). This will enable options granted under the SAYE Scheme potentially to benefit from favourable tax treatment.

Grant period

Options may be granted within the 42 days commencing on (i) the date of HMRC approval of the SAYE Scheme; (ii) the day immediately following the day on which the Company makes an announcement of its results for the last preceding financial year, half year or other period; (iii) any day on which the Board resolves that exceptional circumstances exist which justify the grant of options; or (iv) any day on which any change to the legislation affecting savings-related share option schemes approved by HMRC is proposed or made.

Eligibility

All eligible employees (including the executive directors of the Company) who have been employed for a minimum period (not exceeding five years) or have otherwise been nominated as eligible by the Board, are entitled to participate in the SAYE Scheme. In accordance with HMRC legislation, all employees eligible to participate must do so on similar terms.

Employee contributions

The maximum amount that an employee may save each month during the savings contract is currently £250 per month.

Option exercise price

The option exercise price may be set by the Board at a discount of up to 20% to the middle market quotation for a share as derived from the Daily Official List of the London Stock Exchange on the dealing day preceding the date of invitation or, if the Board so decides, averaged over the three days preceding the date of invitation. The option exercise price may not be less than the nominal value of a share.

Explanatory notes to the notice of meeting continued

Cessation of employment

An option holder who ceases to be an employee of a member of the Group in certain circumstances (for example due to injury, disability, redundancy, retirement on or after age 60 or following a sale of the employing company or transfer of the employing business out of the Group) may exercise all outstanding options within six months of ceasing to be an employee. If an option holder dies, his personal representative may exercise the option within twelve months of the earlier of the date of death or the bonus date of the option. An option holder who leaves the Group in these circumstances may only exercise outstanding options to the extent of the savings plus interest and / or bonus that has accumulated in the savings account up to the date of exercise.

If an option holder ceases to be an employee of a member of the Group for any other reason (except for gross misconduct) he may exercise outstanding options which were granted more than three years before the cessation of his employment. Any options which have not been exercised at the end of the six month period will lapse automatically.

If an option holder ceases to be an employee of a member of the Group by reason of gross misconduct the option will lapse upon cessation of employment.

Change of control

In the event of a takeover, scheme of arrangement or voluntary winding up of the Company, unexercised options will become exercisable for a limited period but only to the extent of the savings plus interest or bonus that has accumulated in the related savings account up to the date of exercise. Options which are not exercised during that period will lapse. Alternatively, option holders may be given the opportunity to exchange their options for equivalent options over shares in the acquiring company.

Item 11: The Bovis Homes Group PLC 2007 Share Option Plan

The Company proposes to establish the Bovis Homes Group PLC 2007 Share Option Plan ("the Share Option Plan") as an incentivisation mechanism for middle management. Executive directors of the Company will not participate.

Overview

Under the terms of the Share Option Plan, employees of the Group may be granted options to acquire shares in the Company at a fixed exercise price.

The Company intends to apply for approval of the Share Option Plan by HMRC. This will enable options granted up to a prescribed limit to benefit from favourable tax treatment.

Conditional on shareholders approving the Share Option Plan, it is intended that the first grant of options under the Plan will be made within 42 days following the AGM. These options will normally become exercisable three years after their grant but only if and to the extent that the performance conditions, to which they are subject (see below) have been satisfied.

Grant period

Options may be granted within the 42 days commencing on (i) the approval of the Share Option Plan by shareholders; (ii) the day immediately following the day on which the Company makes an announcement of its results for the last preceding financial year, half year or other period; or (iii) any day on which the Remuneration Committee resolves that exceptional circumstances exist which justify the grant of options.

Eligibility

The Remuneration Committee may grant options to any employee of the Company or any other member of the Group. Participants will be selected on a discretionary basis.

The Company's executive directors will not be eligible to participate in the Share Option Plan.

Option exercise price

The option exercise price will not be less than the higher of (i) the middle market quotation for a share as derived from the Daily Official List of the London Stock Exchange for the dealing day immediately preceding the date of grant; and (ii) the nominal value of a share.

Individual limits

The maximum market value of shares over which options may be granted to an employee in any calendar year (as measured at the date of grant) may not be greater than an amount equal to 100% of the employee's annual basic salary at the date of grant.

The Remuneration Committee may grant options in excess of this limit in exceptional circumstances where the grant is required to recruit or retain a key employee.

Performance conditions

The exercise of options will be subject to the satisfaction of a performance condition, which will be stated at the date of grant. It is intended that for the initial grant of options the performance condition will relate to earnings per share growth of 4% above RPI. There will be no re-testing of the performance condition. For future grants, the Remuneration Committee may impose performance conditions as it considers appropriate. The Remuneration Committee may vary the performance conditions during the performance period if it considers that the varied condition is no less demanding and no more difficult to satisfy.

Exercise of options

Options will normally only become exercisable on the third anniversary of the date of grant, subject to the satisfaction of the performance condition, and remain exercisable until seven years after the date of grant.

Cessation of employment

An option holder who ceases to be an employee of a member of the Group in certain circumstances (for example due to injury, disability, redundancy, retirement on or after normal retirement age or following a sale of the employing company or transfer of the employing business out of the Group and otherwise at the discretion of the Remuneration Committee) may, subject to the satisfaction of relevant performance conditions, exercise options within six months of the end of the relevant performance period. Options will become exercisable pro-rata to the proportion of the performance period during which the option holder was in service. The Remuneration Committee will have a discretion to allow options to be exercised over a greater or lesser number if it considers it appropriate.

If an option holder dies, his personal representative may exercise the option within twelve months of the date of death regardless of whether performance conditions are satisfied.

Explanatory notes to the notice of meeting continued

Change of control

In the event of a takeover, scheme of arrangement or voluntary winding up of the Company, unexercised options will become exercisable for a limited period providing that the Remuneration Committee is satisfied that the performance conditions have been satisfied (measured at the date of the change of control) but reduced if necessary to reflect the period of time that has elapsed between the date of grant/start of the performance period and the relevant event (as a proportion of the three year performance period). Options which are not exercised during that period will lapse. Alternatively, option holders may be given the opportunity to exchange their options for equivalent options over shares in the acquiring company.

The Remuneration Committee will have discretion to allow options to be exercised over a greater or lesser number if it considers it appropriate.

Options will not become exercisable on an internal reorganisation but will be rolled-over into options over shares in the new holding company.

Provisions relating only to HMRC approved options

It is intended to seek HMRC approval for the grant of HMRC approved options, which are those satisfying the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003. HMRC approved options are subject to the same provisions as summarised above except that:

- individual limit: an employee cannot be granted an approved option which would, at the time it is granted, enable the employee to acquire shares under approved option schemes (which are not savings-related) exceeding the HMRC limit from time to time, which is currently £30,000; and
- HMRC approval: any amendment to a key feature of the Share Option Plan requires the prior approval of HMRC.

Items 10 and 11: The Bovis Homes Group PLC 2007 Save As You Earn Share Option Scheme and the Bovis Homes Group PLC 2007 Share Option Plan

Administration

The SAYE Scheme will be administered by the Board or the Remuneration Committee. The Share Option Plan will be administered by the Remuneration Committee.

Limits on the issue of shares

The rules of the SAYE Scheme and the Share Option Plan permit options to be granted over shares that are to be newly issued, are held in the Company's treasury or purchased in the market.

To the extent that new shares are to be issued to satisfy options granted under the SAYE Scheme and the Share Option Plan:

- (a) no options may be granted under the Share Option Plan if it would cause the aggregate number of shares that are capable of being issued pursuant to options granted under the Share Option Plan, when added to the number of shares issued or issuable pursuant to rights to subscribe for shares granted during the preceding ten years under the Share Option Plan or any other discretionary executive share plan operated by the Company (excluding rights granted prior to the Company's flotation on the London Stock Exchange), to exceed five percent of the Company's issued ordinary share capital from time to time; and
- (b) no option may be granted under the Share Option Plan or the SAYE Scheme if it would cause the aggregate number of shares that are capable of being issued pursuant to options granted under the Share Option Plan and the SAYE Scheme, together with any other share plans operated by the Company when added to the number of shares issued or issuable pursuant to rights to subscribe for shares granted during the preceding ten years under the those plans or any other employee share plan operated by the Company (excluding rights granted prior to the Company's flotation on the London Stock Exchange), to exceed ten percent of the Company's issued share capital at the proposed date of grant.

Treasury shares will count as new issue shares for the purposes of these limits. Shares under option that have lapsed or been surrendered are excluded when calculating these limits. If options are to be satisfied by a transfer of existing shares, the percentage limits stated above will not apply.

Rights attaching to shares

Any shares allotted when an option is exercised will rank equally with all other shares of the Company in issue (except for rights arising by reference to a record date before their allotment).

Variation of capital

In the event of any variation of the Company's share capital including a capitalisation issue, a rights issue, a sub-division or consolidation of shares, or a reduction in capital, or in the event of a demerger, payment of a capital dividend or similar event involving the Company, the Remuneration Committee may make the adjustments it considers appropriate to the number of shares under option or comprised in an award granted under the SAYE Scheme and the Share Option Plan and any option exercise price, subject to the approval of HMRC in the case of options granted under the SAYE Scheme and HMRC approved options granted under the Share Option Plan.

Participant's rights

Benefits under the SAYE Scheme and the Share Option Plan are not pensionable.

Options granted under the SAYE Scheme and the Share Option Plan are not transferable and may only be released to or exercised by the persons to whom they were granted or their personal representatives.

Explanatory notes to the notice of meeting continued

Amendments

The Board or the Remuneration Committee may, at any time, amend the rules of the SAYE Scheme and the Share Option Plan, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of shares, terms of exercise (other than in respect of the performance conditions as described above), the rights attaching to the shares acquired and the adjustment of awards. The approval of HMRC will also be required for any amendment to a key feature of the SAYE Scheme and, in relation to approved options, the Share Option Plan.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to obtain or maintain HMRC approval of the SAYE Scheme or the Share Option Plan, to benefit the administration of the SAYE Scheme or the Share Option Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group.

Termination

The SAYE Scheme and the Share Option Plan will terminate on the tenth anniversary of their adoption, or such earlier time as the Board or the Remuneration Committee may determine, after which time no further options may be granted but the rights attaching to existing awards will not be affected by such termination.

Item 12: Authority to allot shares

Resolution 12 renews the authority given to your directors at the last Annual General Meeting to allot relevant securities in accordance with Section 80 of the Companies Act 1985, such authority to 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 authority sought is limited to an aggregate nominal amount of £14,707,421.50 being 24.39% of the Company's total ordinary share capital in issue as at 16 March 2007. The Company did not hold any shares in treasury as at 16 March 2007.

The Board has no specific plans to exercise this authority other than in connection with employee share schemes, and the operation of any scrip dividend offer and any scrip dividend mandate scheme. 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 an Extraordinary General Meeting of the Company which would be both costly and time consuming.

Item 13: Disapplication of pre-emption rights

Resolution 13 seeks to renew the authority given to your directors at the last Annual General Meeting to make limited allotments of ordinary shares for cash without application of the statutory pre-emption rights (which require a company to offer all allotments of ordinary shares for cash proportionately to existing shareholders first) pursuant to Section 89 of the Companies Act 1985. This power would provide the directors with the flexibility to act in the best interests of shareholders when opportunities arise, so that:

- (i) the Company can follow normal practices in the event of a rights issue; and
- (ii) ordinary shares may be issued wholly for cash other than proportionately to existing ordinary shareholders up to a maximum of £3,014,628.50 which represents 5% of the Company's total ordinary share capital in issue as at 16 March 2007. In accordance with the recommendations of the Pre-Emption Group, the directors confirm their intention that no more than 7.5% of the issued share capital of the Company will be issued for cash on a pre-emptive basis during any three year period.

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 13 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 14: Authority to purchase own shares

In accordance with Article 45 the directors are seeking renewal of the authority granted at last year's Annual General Meeting to enable the Company to make market purchases of up to 12,058,515 of its own shares representing approximately 10% of the Company's total ordinary share capital in issue as at 16 March 2007. Before exercising such authority, the directors would ensure that the Company was complying with the current relevant UK Listing Authority and ABI 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 be in the best interests of shareholders generally. Any shares so purchased would be cancelled. The directors have no present intention of making such purchases but, in view of the strong balance sheet position, would like to have the flexibility to consider such purchases in the future.

Any purchase of ordinary shares would be by means of market purchases through the London Stock Exchange. The maximum 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 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 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 2008.

As at 16 March 2007 there were options over 1,137,287 ordinary shares in the capital of the Company which represent 0.94% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares was exercised in full, these options would represent 1.05% of the Company's issued ordinary share capital.

Shareholders' information

Registered office

The Manor House
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Registered number **306718** registered in England

Financial calendar

Annual report posted	10 April 2007
Annual General Meeting	11 May 2007
Payment of 2006 final dividend	25 May 2007
Announcement of 2007 interim results	September 2007
Payment of 2007 interim dividend	November 2007
Announcement of 2007 final results	March 2008
Payment of 2007 final dividend	May 2008

Analysis of shareholdings - at 31 December 2006

Size of shareholding	Number of shareholders	%	Number of ordinary shares	%
1 - 5,000	1,952	77.58	1,999,596	1.66
5,001 - 50,000	343	13.63	6,016,478	4.99
50,001 - 250,000	132	5.25	16,812,288	13.94
250,001 - 500,000	35	1.39	10,927,700	9.06
500,001 - 1,000,000	28	1.11	19,545,232	16.21
1,000,001 - and over	26	1.03	65,275,248	54.14
Total	2,516	100.00	120,576,542	100.00

Share price (middle market) - year to 31 December 2006

At end of year: **1084.0p** Lowest: 729.5p Highest: 1095.5p

Advisers

Auditors KPMG Audit Plc	Principal bankers Banca Intesa S.p.A.	Joint stockbrokers ABN AMRO Hoare Govett 250 Bishopsgate London EC2M 4AA	Insurance brokers Heath Lambert Limited
Financial advisers Hawkpoint Partners Limited	Bank of Ireland International Finance Limited	Deutsche Bank AG London Winchester House 1 Gt Winchester Street London EC2N 2DB	Registrars Computershare Investor Services PLC The Pavilions Bridgewater Road Bristol BS99 7NH
Solicitors Freshfields Bruckhaus Deringer	Barclays Bank PLC HSBC Bank plc Royal Bank of Scotland plc Westdeutsche Landesbank		

Share dealing service

A telephone share dealing service has been established with our Registrar, Computershare which provides shareholders with a simple low cost way of selling shares or adding to their holding. Detailed terms and conditions are available on request by telephoning 0870 889 3236. An internet share dealing service has also been established with our Registrar (www-uk.computershare.com).

The provision of these services is not a recommendation to buy, sell or hold shares in Bovis Homes Group PLC.

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