



Annual report and accounts 2009

Bovis Homes Group PLC

[www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc)

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# Financial highlights

£4.8m

**Pre tax profit**

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(2008: Pre tax loss £78.7m)

2.8p

**Earnings per share**

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(2008: Loss per share 49.1p)

6.2%

**Operating margin\***

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(2008: 7.5%)

£112.3m

**Net cash**

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(2008: Net debt before issue cost £108.4m)

*\*Stated before pre tax exceptional profits of £1.5 million (2008: Pre tax exceptional charges of £93.1m)*



## Chairman's statement



The Group has made good progress having successfully delivered on the strategies set out for 2009

**Malcolm Harris** | Chairman

Malcolm Harris

## Chairman's statement

With the backdrop of the UK housing market continuing to be challenging, the Group is pleased to be able to report on a successful year in 2009. Good progress was made in delivery of the strategic objectives laid out by the Group at the start of 2009: progress which leaves the Group well placed to deliver profitable growth looking ahead.

The Group achieved strong year over year growth during 2009 in both the number of private homes legally completed and the private reservations taken in the year. It benefited from new initiatives such as the upgrading of sales systems and by innovations in how the Group marketed and sold its homes, including methods to assist customers in raising the necessary mortgage deposits. During 2009, the Group achieved 1,801 private reservations, representing an 82% increase in sales levels compared to the 989 private reservations taken in 2008.

Over the year, the Group has effectively controlled costs and work in progress levels. Overheads were reduced by 34% compared with 2008. Cash inflow was very strong resulting in £221 million being generated during the year, including a £59 million equity placing, providing the Group with £112 million of net cash in hand at 31 December 2009 compared with £108 million of net debt pre issue costs at 31 December 2008.

### Results

For the year ended 31 December 2009, the Group generated £281.5 million of revenue from the legal completion of 1,803 homes, as compared to revenues of £282.3 million in 2008 from 1,817 legal completions.

The Group achieved a pre-exceptional pre tax profit of £7.5 million in 2009 (2008: £14.4 million) with pre-exceptional basic earnings per share at 4.4p (2008: 9.2p per share).

There was a £2.7 million pre tax exceptional charge for the year following the release in the second half of £11.6 million of inventory provision not now required.

This provision release offset an £8.9 million inventory provision charged in the first half of 2009. There was also a £4.2 million exceptional interest charge linked to the refinancing of the Group's facility agreement, which was agreed in December 2009 and signed in January 2010, and £1.2 million of other items.

Taking exceptional items into account, the Group achieved a pre tax profit of £4.8 million (2008: pre tax loss £78.7 million) and a basic earnings per share of 2.8p (2008: basic loss per share of 49.1p).

On a pre-exceptional basis, the Group achieved an operating margin of 6.2% in 2009, marginally below the prior year's 7.5%. A 9% decline in private home prices impacted gross margins, though this was substantially offset by the Group's strong performance in controlling costs and reducing overhead.

The Group's net assets increased from £632.3 million at the start of 2009 to £692.6 million at 31 December 2009, equating to a net asset value of £5.20 per share. The major element of the net asset movement over the year of £60.3 million was the net £59.0 million raised by the Group's equity placing in September. Retained earnings increased by £1.2 million including retained profit for the year of £3.5 million and the reserves adjustment for the Group's pension deficit which increased from £6.8 million to £8.9 million.

### Dividend

As previously announced, having regard to trading conditions the Board did not recommend payment of a final dividend for 2008 and did not pay an interim dividend in 2009.

No cash payments have therefore been made in 2009 relating to dividends. The Board does not propose payment of a final dividend for 2009 although it recognises the importance of dividends to shareholders, and anticipates that delivery of the Group's trading and investment plans will create a solid basis for the resumption of dividends.

### **The Board**

There were no changes to the Board during 2009, although the Group Finance Director, Mr Neil Cooper, announced his intention in November 2009 to leave the Group in order to pursue career options elsewhere. Mr Cooper will continue serving with the Group until the 2009 Annual General Meeting on 6 May 2010. The Board would like to thank Mr Cooper for his significant contribution to the Board and to the robust performance of the Group in the current challenging market conditions. The Board would also like to thank Mrs Lesley McDonagh, who steps down at the upcoming AGM, for her contribution to the success of the Group since 2003.

### **Employees**

Following on from what was a challenging year for its employees in 2008, the Group would like to thank its employees for their hard work and commitment during 2009, a year during which the Group made real progress in strengthening its balance sheet so as to enable it to compete successfully in the future. The Board recognises that in 2009 its employees were working in a business with substantially reduced headcount, focussing on cash preservation and generation, whilst also taking actions to facilitate future business growth. Those actions to generate savings also impacted on the suppliers and sub-contractors of the Group and the Board would like to thank them for their contribution to the performance of the Group.

### **Market conditions and prospects**

The Group expects that a degree of stabilisation in house prices evidenced in the marketplace in later 2009 will continue into 2010. Statistics would suggest the market as a whole has seen the commencement of modest pricing growth in the second half of 2009, although the Group remains somewhat cautious due to relatively low levels of second hand stock supporting price growth in the second hand market which appears to have moved ahead at a faster rate than the new build sector during 2009.

Pricing is a function of both supply and demand. Whilst supply as evidenced by second hand stocks appears to have been relatively lower than demand over 2009, absolute demand in 2009 has been limited by reduced mortgage availability. Positively, the number of mortgages being approved for home purchase has grown during 2009 although it still remains difficult for first time buyers to access the market given the large shift in deposit requirements, and the absolute level of mortgages approved for home purchase still remains below historical levels.

Overall, therefore, the Group expects that the pricing environment in 2010, whilst potentially volatile month by month, will be relatively stable taking the year as a whole.

Given this expected stable pricing environment and an improvement in mortgage volumes, the Group is confident that its key strategies for 2010 will ensure that it is well positioned for profitable growth as the market slowly recovers. Acquiring residential land to grow its output capacity, whilst ensuring that working capital investments are made in a controlled manner, will create a strong platform for future value creation.

**Malcolm Harris**  
Chairman

Report of the directors  
Business review









The strategy for 2010 is clear:  
investment in land to generate  
strong future returns

**David Ritchie** | Chief Executive

## The marketplace and Group performance

Bovis Homes Group PLC's (Bovis Homes) business remains designing, building and selling homes for both private and public sector customers, operating in England and Wales. The key steps in the value delivery chain for the Group remain the sourcing of land, achievement of an appropriate planning consent, physical construction of property and its subsequent sale.

### Marketplace demand during 2009

A decision to purchase a property is influenced by a number of factors. These may include affordability, confidence in the direction of future house prices and the ability to fund a purchase using a mortgage.

With house prices falling over 2008 and into the first half of 2009 allied with base interest rates falling by early March 2009 to historical lows at 0.5%, affordability for housing at present is better than average when compared to long term trends.

Perhaps surprisingly, given this general improvement in affordability during 2009, the volume of housing transactions occurring in the market remained very low by historical standards. Importantly, the majority of housing transactions are financed through a mortgage. Whilst monthly mortgage approvals for home purchase rose to 60,518 by November 2009, this level was 42% lower than the number of monthly mortgage approvals for home purchase on average over the 10 year period ending September 2007, just prior to the banking crisis.

Furthermore, HMRC data for residential property transactions over £40,000 suggests that transactions in 2009 were 8% lower than the 2008 equivalent and 52% lower than the 2007 equivalent.

The most concerning development in the mortgage market since the start of the housing market downturn has been the increase in size of the deposit required to access mortgage funding either at all or at a reasonable cost. This is particularly concerning in as much as it adversely impacts the ability of first time buyers to transact, as they generally hold limited cash or equity required for a deposit. A property market without new entrants will necessarily be limited in its ability to grow at a reasonable pace.

Furthermore, with minimum densities for larger scale new build development being imposed through Government planning policies, which drive development of smaller homes, housebuilders are less able to mitigate this risk.

### Marketplace supply in 2009

The year as a whole appears to have seen pricing across the housing market being stable to marginally positive. Data collated by the Royal Institute of Chartered Surveyors suggests that the supply of second hand stock in the market has been lower than the demand for that property, with the house sales to stock ratio improving through 2009. This has led to a supply and demand imbalance and thus prices have begun to rise.

The scale of this pricing movement varies widely between differing indices. The Nationwide suggests that the annual change for all properties to December 2009 has been +5.9%, whereas the Halifax suggests a lower total, at +1.1% on an annual basis. Hometrack price survey data indicates an annual 1.9% decline. This latter survey data includes cash buyers as opposed to the two lender indices which do not.

Whilst this trend appears positive, some caution should be applied. Firstly, data published by the Nationwide suggests the annual price movement for new build properties was flat over year: a substantial discount to its overall market growth metric. Secondly, the data published by a number of commentators demonstrate that sales price growth varies in direct correlation with proximity to London, and unlike the downturn where prices fell nationally, pricing recovery appears to be regional in nature.

Over 2009 the number of new build properties being built has fallen, with the Government recording the construction of 90,900 homes in England in the first three quarters of 2009, as compared to 111,200 in the first three quarters of 2008. On an annualised basis, this equates to 121,200 units. As compared to the equivalent period in 2007, this is a fall of 31%. This compares to the Government's latest estimates of household formation numbers, released in March 2009. This suggests that English households are expected to grow to 27.8 million by 2031, with annual growth in household formation of 252,000. This is over twice the level of current build volumes.

# Report of the directors

## Business review

Whilst household formation estimates are necessarily speculative, there clearly exists a substantial gap between the formation of new households and the supply of new homes to the market which gives the Group confidence in the longer term supply and demand imbalance in the United Kingdom being maintained looking forward.

### Competition

The Group continues to view the main competitor for Bovis Homes as the second hand market. In a normal year, the Group would expect over 90% of residential transactions to be second hand, with pricing in the new build sector being set by reference to that market. This normal pattern was distorted somewhat in late 2008 and early 2009 by the actions of new build participants driving for volume through aggressive price discounting where the Group operated in close proximity. This appears to have largely ceased in later 2009 as stock levels have been decreased across the sector, with more normal pricing patterns re-emerging.

### Group performance in 2009

With 1,803 legal completions achieved during 2009, the Group's performance was similar to its performance in the previous year (2008: 1,817 legal completions). This comparison masks the success achieved by the Group in increasing its volume of private homes in 2009 by 25%, with 1,527 legal completions in 2009 versus 1,223 units in 2008.

Given the lower private home forward sales position at the start of 2009 as compared to the start of 2008, this improvement in private legal completions arose from an 82% increase in the number of private homes reserved in 2009, with 1,801 private home reservations as compared to 989 private home reservations in 2008. Offsetting this was a fall in the volume of social homes legally completed, from 594 units (33% of total volume) in 2008 to 276 units in 2009 (15% of total volume). The Group expects that the social housing mix will rise in 2010 as new sites are started.

As a result of this reduction in social housing in the mix, the Group's average sales price increased by 3% in 2009 compared to 2008. The average sales price of legal completions in 2009 was £154,600, up from £150,800 in 2008. The average sales price of the Group's private legal completions in 2009 was £165,500, a 9% decline on the average sales price seen in 2008 (£181,000) and a 20% decline on the average sales price in 2007 (£206,200).

The average sales price of the Group's social legal completions was £94,600, a 7% increase on the equivalent in 2008 (£88,500).

Given an increase in the average size of the Group's private homes from 972 square feet in 2008 to 993 square feet in 2009, the underlying sales price per square foot fell by 11%. Overall, the average size of the Group's legally completed homes increased from 909 square feet in 2008 to 958 square feet in 2009, showing the effect of the reduction in social mix, given the smaller average size of social legal completions at 762 square feet per unit.

### Strategy and objectives

Following a review in 2009, the Group has expanded its strategic objectives as follows:

- The Group seeks to achieve profit margins in the upper quartile of the sector whilst achieving a strong return on capital employed (ROCE) over the cycle
- The Group seeks to ensure long-term growth in profits and in earnings per share
- The Group seeks to deliver a flow of land to maintain a landbank sufficient to support the activities of the Group
- The Group seeks to achieve a high standard of performance for health, safety and environmental matters
- The Group seeks to deliver upper quartile customer service as compared to its peer group

With house prices for new build homes continuing to be subdued and with a relatively fixed cost base in the short term, it is understandable that the Group has not immediately returned to growth in profits and returns during 2009. However the Board regards the progress made by the Group during 2009 in reducing its cost base and improving its balance sheet strength as being both important and satisfactory in terms of the achievement of the actions needed to re-establish profit and returns growth over the mid term.

In the event that house prices remain stable to marginally positive, and given the manner in which inventory provision releases will tend to suppress profit margins as house prices rise, the ability of the Group to deliver against its financial strategic objectives will be assisted by a number of actions: firstly, that existing 'lower margin' land can be successfully developed so as to recoup the cash tied up in this investment; secondly, that the Group continues to manage its balance sheet such that it has adequate financial resources to acquire new 'higher margin' land and finally that the Group acquires sufficient new land to both increase the number of sales outlets and generate a return to the profit margins targeted by land acquisition investment hurdle rates.

The Group has demonstrated good progress in these activities, with an increase in private legal completions in 2009 by 25% and with housing production restarted as higher than normal levels of unsold finished goods stocks were successfully reduced during the year. With a strong balance sheet at 31 December 2009, the Group has demonstrated its ability to drive cash out of work in progress thus enabling debt reduction and cash accumulation. The Group also recommenced its land acquisition process and made good progress with four consented sites acquired in the final quarter of 2009 and terms agreed in principle on 15 further sites at the year end, which will be progressed in 2010. To further strengthen its balance sheet position, the Group raised new equity from its shareholders in September 2009 and refinanced its banking facility agreement at the end of 2009, giving it the funds and the flexibility required to grow its outlet capacity in the mid term.

The table on page 28 outlines the actual performance of the Group in terms of its key financial objectives and performance against the Group's non-financial objectives will be covered in more detail throughout the operating performance review.

### **Operating performance**

Whilst the Group has limited both the levels of housing production and investments in land at materially lower levels than in previous years, this has not lessened the commitment of the Group to operate its business in a manner that ensures that its operations are well managed, appropriately monitored and operated in a safe and environmentally sustainable manner.

Looking back, during the first half of the year the Group conserved cash with a very low level of expenditure on construction work in progress and on land acquisitions, and with some sites mothballed until stock levels were reduced. As the market backdrop stabilised, and the Group made good progress on growing reservation rates, bringing down stock levels and reducing debt, the Group was able to commit to greater production volumes in the second half year. Following this successful period of balance sheet restructuring, the Group has also restarted the acquisition of consented land in the market place. This sequence of activity followed the Group's intent to position itself well with a strong cash position to support future investment. The following brief review highlights the key operational performance during this period of change together with objective data assessing progress achieved over the year.

Further details of the Group's efforts and achievements during 2009 in regards to Corporate Social Responsibility will be published in a separate report, available from the Company's website ([www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc)).

### **Employees**

Following two major restructuring events during 2008, the Group started 2009 with 462 direct employees, including employees serving their notice period, and closed the year with 487 employees, an increase which has arisen following the recruitment of additional construction staff and land buyers to support the Group's current growth aspirations.

Notwithstanding the reduced levels of production activities across the business during 2009, the Group continued to maintain a high level of organisational focus in ensuring the health and safety of its employees, subcontractors and other site visitors. The Group operates its health and safety regime through comprehensive staff training, clear and accountable management processes and through regular and transparent reporting of the performance of the Group in all aspects of health and safety.

This is overseen in two parallel ways: firstly, through the operational line and, secondly, via the nominated regional director responsible for safety directly through to a Group-wide oversight committee run by the Group Director of Health & Safety and chaired by a senior Group manager.

Report of the directors  
Business review



In this way, the operational line continues to take day to day accountability for this area, whilst the Group also maintains appropriate simultaneous oversight of these activities. As an indication of the importance placed by the Group in these areas, Health & Safety is always the first report on the agenda of Board meetings.

The Group also seeks to ensure that all of its employees and subcontractors who operate at or visit sites carry a CSCS card: indicating its commitment to a fully trained workforce. This requirement extends throughout the organisation to the executive Group directors and the Company Secretary who all carry CSCS cards. The Group was 99% compliant in 2009 in this area.

In absolute terms, the performance of the Group is laid out on the table on page 28. Very positively, reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) have fallen sharply, to 4 (2008: 27). Minor injuries have also fallen by 55%, from 144 accidents in 2008 to 64 accidents in 2009.

The Group maintains external monitoring services from the NHBC to ensure an independent assessment of the performance of the Group in health and safety matters. The outcome from their reporting also confirms a very positive trend for the Group. The weighted average result for NHBC priority A scores has been reduced to 0.01 in 2009 from 0.11 in 2008 and the weighted average result for priority B scores has fallen to 0.32 in 2009 from 1.49 in 2008.

Given the reduced levels of construction in 2009, it is to be expected that absolute health and safety scores have fallen. Positively, the Group's reportable accident incidence rate, which takes account of the number of employees and subcontractors working for the Group, has also reduced sharply from 1,024 in 2008 to 173 in 2009. This rate is also now well below industry benchmarks as evidenced by the HSE Construction accident incidence rate of 782 for 2008/9 being the most recent year published.

Whilst these demonstrate that health and safety performance is relatively strong versus external benchmarks and improving versus internal scoring, the Group cannot be complacent. With activity likely to increase on site in 2010 versus 2009, this will remain an area of focus for regional and Group management.

### Customers

The Group continues to use its customer charter to set the expectations it has in relation to the quality of the product it delivers and the manner in which the sales transaction is serviced. Despite the obvious risks to a customer care process during a period of sharp focus on cost control and the restructuring of the Sales function across the Group, it is pleasing to see the key internal scoring metrics of 'recommend a friend' and 'purchase another Bovis home' not just remaining high in absolute terms, but also delivering good year over year improvement as the data laid out on page 29 shows. The focus of the Group's customer communication has remained web based during 2009, with the Group using the power of the internet to directly market its products to consumers, utilising internally generated mailing lists as well as via intermediaries such as 'smart new homes.com' or 'right move.com'. Over 70% of customer enquiries now originate via the web.

The major change in the way that the Group sells its products in 2009 has been the adoption of the 'hub' structure to enable more cost effective selling of its products. The principle of this structure is that the Group manages a cluster of sales outlets using a team of sales managers operating from a single sales outlet location, with customers making appointments to view at their preferred site. The purpose of the change was to improve methods of servicing customer needs at a lower sales overhead cost per transaction, with additional operational benefits such as the fact that sales hubs are capable of being manned more efficiently on a seven day opening basis and also into the evening whereas to maintain this in a traditional manned outlets way would be expensive. This selling process also exploits advances in telephony communications as well as being consistent with the increasing prevalence of email communication from customers. In parallel with this change in selling processes, the Group has upgraded its prospect management system, improving on-site technology whilst integrating the Group's prospects database with brochure fulfilment.

The Group continues to provide a range of tailored incentives to act as motivators for potential customers. By far the most popular have been the Group's equity mortgage products: initially, the Group's own 'Jumpstart' scheme but latterly also the Government backed 'Home Buy Direct' scheme.

# Report of the directors

## Business review

The attraction of these schemes are that they offer those first time buyers who do not possess sufficient equity to put down a large deposit but who are otherwise credit-worthy, the opportunity to transact. The use of 'Home exchange' on the other hand has reduced substantially over the year as a result of lower activity in the second hand market and reluctance on the part of homeowners to accept the lower value of their home as a result of the downturn.

### Shareholders

The value chain for Bovis Homes over the long term business cycle remains the sourcing of land, achievement of an appropriate planning consent, physical construction of property and its subsequent sale.

In the shorter term the mortgage market dislocation starting in late 2007 led the Group to take a number of measures to protect long term shareholder value including reduction of its overhead base, a sharp reduction in house production levels, the sale of excess levels of finished good stock, and a cutback in land expenditure.

The benefits of these actions were seen in 2009, the result of which was a strengthening of the Group's balance sheet position by the end of 2009.

Overhead levels were reduced by 34% on the prior year and by circa 45% compared to the overhead base of the Group at the start of 2008. As the Group increases its volume of house building and land acquisition, it is anticipated that overheads will rise as essential land buying and technical resources are added to the business to support growth.

The Group constructed 911 units worth of production during 2009, with only 221 units built in the first half, and a further 690 units in the second half as the market backdrop generally improved. This has enabled the Group to free up considerable cash from working capital, as nearly 900 more units were legally completed than were built. As planned, the level of work in progress held at year end has fallen sharply, from 1,878 units worth of production at the end of 2008 to 986 units worth of production at the end of 2009. Within this work in progress, the number of unsold finished stock units has also been reduced sharply.

Looking ahead, the Group now expects that levels of production will broadly match the levels of legal completions, such that there is not likely to be further substantial release of cash from work in progress, but equally, the Group will be vigilant to ensure that it does not invest unnecessary levels of capital in this area.

With a 25% increase in the volume of private units legally completed during the year, and an 82% increase in the number of private unit reservations achieved in the year, the Group has been successful in increasing sales rates. Together with its success in controlling work in progress, this has been a strong contributory factor to a very strong period of cash flow generation in 2009.

Given the caution shown by the Group in the consented land market since 2006, and the uncertainty engendered by market conditions more recently, sales outlet numbers have fallen over 2009, with 85 sales outlets on average during the year.

The Group has commented that this average is likely to fall in 2010 to around 70 outlets. The challenge ahead for the Group is to use its balance sheet strength to acquire residential land and thus grow its sales outlet count: either through consented land purchase or via conversion of the existing strategic land the Group controls. To this end, four new consented sites were acquired in the final quarter of 2009, with terms agreed in principle on a further 15 sites by 31 December 2009.

The Group held a consented land bank of 12,042 plots at 31 December 2009, over six and a half years supply at current levels of activity, although it has reduced over the year from 13,545 plots at 31 December 2008, demonstrating the impact of the Group's aforementioned caution in land acquisition. The consented land bank reduced by virtue of the 1,803 legal completions during 2009 whilst there were 300 net plots added after adjusting for the effect of replanning. The average consented land plot cost at the start of 2009 was £35,000. This has increased over the year, following a net inventory provision release over 2009, to £35,200 at 31 December 2009.



The strategic land bank at 31 December 2009 amounted to 16,363 potential plots as compared to 18,972 potential plots at 31 December 2008. Given the relatively low levels of additions into the strategic land bank during the year, and the transfer of only one site into the consented land bank, the major factor in this movement has been the removal of a large option-controlled site from the potential plot numbers as views on the delivery of an acceptable residential planning consent in that location have been revised. The remaining un-amortised option costs relating to this site were written off during the year.

#### **Environment and sustainability**

The Group continues to regard sustainable development as critical to the long term creation of value for its shareholders.

Given the continuing focus on climate change, the role of the housebuilding industry is important in terms of both the mitigation of the impact of its near term building developments on the local environment, and in playing its part in the evolution of building techniques and advances which reduce the carbon arising from new housebuilding developments.

Ensuring that its developments take place in a manner which mitigates the impact of its operations on its local environment, balancing the needs of local communities for new housing with the requirement to avoid environmental damage, the Group works with a range of external stakeholders to agree and carry out development in a mutually acceptable manner.

Looking forward, the Group is focusing on ways to ensure that its products conform to good environmental standards, including both EcoHomes standards and emerging standards under the Code for Sustainable Homes. Reflecting the existing contribution that the Group makes to the communities and environments in which it operates, the Group is proud to say that it is a member of the FTSE4Good index.

The Group's Corporate Social Responsibility report outlines this area in more detail, and is available on the Group's website ([www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc))

#### **Main trends and factors looking forward**

The stabilisation of house prices in the new build market and improving consumer sentiment in later 2009, alongside increasing numbers of mortgages being approved, has improved the market backdrop at the start of 2010 relative to the position at the same point in 2009.

Allied to this, the Group has been able to demonstrate robust and successful balance sheet management: enabling it to plan and take actions designed to grow profits, margins and returns in the mid term.

However, the economy is benefiting from an unprecedented level of monetary support at present, and risks surrounding the timing of the cessation of this together with the evident policy challenges for the Government arising from historically high peace time levels of budget deficits may suggest tougher times ahead.

The Group entered 2010 with a stronger forward sales position than in the prior year, reflecting its focus on delivering early sales activity to support volume aspirations for 2010 as a whole. Given the already mentioned lower number of sales outlets available to the Group in 2010 and the prevailing market conditions, the Group has made a solid start to 2010 in terms of reservations. For the first nine weeks of 2010, the Group has achieved an average private sales rate of 0.42 net reservations per site per week. This compares with an average private sales rate per site per week throughout 2009 of 0.41 and an average in the first nine weeks of 0.39. As at 5 March 2010, reflecting the strong opening position, the Group held 969 net sales for legal completion in 2010, as compared to 772 net sales at the same point in 2009. Within the current year total, private sales amount to 701 units (2009: 515 units) and social sales amount to 268 units (2009: 257 units).

The Group is strongly placed with the financial capability to acquire consented land which will enable it to grow its output capacity as measured by sales outlet numbers, without relying on a resurgence in the housing market, thus increasing both revenue and profit in the mid term. In 2009 the Group's strategy was clear: control of working capital and cash generation. The strategy for 2010 is equally clear: investment in new land to generate strong future returns.

**David Ritchie**  
Chief Executive

Report of the directors  
Business review





Report of the directors

## Business review



The Group made a pre tax profit for the year as a whole with substantial net cash in hand at the end of the year

**Neil Cooper** | Group Finance Director

## Financial performance during the year

### Revenue

The Group delivered £278.8 million of housing revenue in 2009, 1.8% ahead of the prior year (2008: £274.0 million). There was no income from land sales in 2009 (2008: £4.9 million). Together with £2.7 million of other income (2008: £3.4 million) the Group's total revenue for 2009 was £281.5 million which was broadly in line with total revenue in 2008 at £282.3 million.

### Pre-exceptional operating profit

The Group delivered a pre-exceptional operating profit for the year ended 31 December 2009 of £17.4 million at an operating margin of 6.2%, as compared to £21.3 million in the previous year, at an operating margin of 7.5%.

Pre-exceptional gross margins fell by circa six percentage points, from 22.4% in 2008 to 16.1% in 2009, largely driven by a reduction in private home profit margins as the average sales price on private legal completions fell by 9% in 2009 as compared to 2008. Largely offsetting this, the Group's pre-exceptional overhead ratio to revenue improved by circa five percentage points to 9.9% from 14.9% in 2008.

With no land sales in 2009, net option costs in 2009 were £1.5 million, as compared to £1.3 million of land sales profit less option costs in 2008.

### Exceptional and non-recurring costs

The Group discloses items as exceptional when the Board deems them material by size or nature, non-recurring and of such significance that they require separate disclosure.

Periodically, the Group reviews its inventory carrying values on a site by site basis, taking into account local management and the Board's estimates of current achievable pricing in local markets. Where this gives rise to a situation where the then current carrying costs of the asset plus estimated costs to complete are higher than the estimated net realisable value, a provision is recognised for the difference. Where a subsequent review indicates a net realisable value in excess of the carrying cost plus estimated costs to complete, any remaining un-utilised provision is required to be released.

The Group has reviewed the carrying value of its assets and liabilities as at 31 December 2009. Following this year end review, the Group has released £11.6 million of provisions held against the carrying costs of inventory. This release increases the land cost base going forward which is expected to impact 2010 cost of sales by approximately £5 million. Of the Group's £11.6 million provision release in the second half, there was a gross release of £14.0 million offset by an additional further provision of £2.4 million.

Taking into account the £11.6 million year end inventory provision release, and the £8.9 million inventory provision charged in the first half of 2009, the net inventory provision release for the year as a whole was £2.7 million.

Offsetting this, the Group has written off the £4.2 million remaining un-amortised element of the one-off fee paid to its banking syndicate in relation to the facility agreement entered into December 2008 following the agreement of a new deal, approved in December 2009 and entered into during January 2010.

The Group has also taken a £1.0 million provision relating to a potential onerous land contract and a £0.2 million impairment on the carrying value of its available for sale asset portfolio.

In total, the Group has taken £2.7 million of exceptional items before tax in 2009 (2008: £93.1 million)

### Pre tax profit and earnings per share

The Group achieved pre-exceptional profit before tax of £7.5 million, with pre-exceptional operating profit of £17.4 million and net financing charges of £9.9 million. This compares to £21.3 million of pre-exceptional operating profit and £6.9 million of net financing charges in 2008 which generated £14.4 million of pre-exceptional profit before tax in that year.

After accounting for £2.7 million of exceptional charges (2008: exceptional charges of £93.1 million) the Group made a pre tax profit of £4.8 million for the year as a whole (2008: £78.7 million pre tax loss).

# Report of the directors

## Business review

Pre-exceptional basic earnings per share for the year was 4.4p and basic earnings per share after exceptional charges was 2.8p. This is as compared to pre-exceptional basic earnings per share of 9.2p and basic loss per share after exceptional charges of 49.1p in 2008.

### Financing

Pre-exceptional net financing charges were £9.9 million in 2009 (2008: £6.9 million). Net bank charges for 2009 were £8.6 million, which included the amortisation of arrangement fees (£4.3 million) and commitment fee charges (£3.2 million). This compares to £5.6 million of net charges in 2008.

On average during 2009, the Group had £9 million of net debt, as compared to an average net debt of £97 million in 2008, the improvement arising from strong working capital and other expenditure control as well as from the positive impact of the Group's equity placing in September 2009. The Group was net cash positive from August 2009. The Group incurred a £1.7 million finance charge (2008: charge of £2.5 million), 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 of the consideration payable.

The Group benefited from a £0.2 million net pension financing credit during 2009. This credit arose as a result of the expected return on scheme assets being in excess of the interest on the scheme obligations. The equivalent credit in 2008 was £1.1 million. The Group also benefited from a finance credit of £0.5 million arising from the unwinding of the discount on its available-for-sale financial assets during 2009 (2008: £0.1 million). There were also £0.3 million of other financing charges during the year.

The Group charged £4.2 million of exceptional financing cost charges arising in the year relating to the write-off of unamortised one-off bank facility arrangement fees.

### Taxation

The Group has recognised a tax charge of £1.3 million on pre tax profits of £4.8 million at an effective rate of 27.1% (2008: tax credit of £19.7 million at an effective rate of 25.1%). Of this, a £2.0 million charge has arisen on pre-exceptional pre tax profits of £7.5 million, and a £0.7 million tax credit has arisen on pre tax exceptional items of £2.7 million. The Group continues to recognise a current tax asset, of £0.8 million, in its closing balance sheet as at 31 December 2009 (2008: £23.6 million).

### Dividends

As previously announced, the Board did not recommend payment of a final dividend for 2008, having regard to trading conditions and did not pay an interim dividend in 2009. No cash payments have therefore been made in 2009 relating to dividends. The Board does not propose payment of a final dividend for 2009.

### Net assets

At 31 December 2009, the Group's net assets were £692.6 million, £60.3 million higher than the opening net asset position at 31 December 2008. The main driver of this change has been the equity placing carried out by the Group which increased net assets by £59.0 million. Retained earnings increased by £1.2 million including retained profit for the year of £3.5 million and the reserves adjustment for the Group's pension deficit which increased from £6.8 million to £8.9 million.

Net assets per share as at 31 December 2009 was £5.20 as compared to £5.23 at 31 December 2008.

### Pensions

Following a roll-forward of the valuation of the Group's pension scheme, with latest estimates provided by the Group's actuarial advisors, the Group's pension scheme had a deficit of £8.9 million at 31 December 2009, an increase of £2.1 million on the opening deficit of £6.8 million at 31 December 2008. Whilst scheme assets grew strongly over the year, from £58.7 million to £67.6 million, the scheme liabilities increased to a greater extent, from £65.5 million to £76.5 million, impacted by a fall in bond yields.

As well as benefiting from a generally stronger stock market in 2009, scheme assets benefited from a £1.9 million special cash contribution made by the Group into the scheme in December 2009.

#### **Cash flow**

The Group started the year with £108.4 million of net debt before issue costs. At 31 December 2009, the Group held £112.3 million of net cash. Having commenced the year with a number of strategies designed to strengthen its balance sheet through maximisation of cash flow generation, the circa £221 million of cash inflow achieved by the Group in the year demonstrates good success in this area.

There were a number of factors enabling the Group to deliver this strong cash inflow: firstly and most significantly, successful working capital management enabled the Group to reduce work in progress by £105 million. Secondly, the Group received £22 million of tax rebates following its post exceptional loss in 2008. Finally, the Group raised £59 million of new equity capital during the year as a result of its placing in September 2009.

#### **Net cash in hand**

As at 31 December 2009, the Group held £114.6 million of cash in hand, offset by a £2 million loan received as part of the Government's Kickstart programme aimed at supporting national housebuilders and encouraging increased levels of production and a £0.3 million interest rate swap fair value adjustment: in total £112.3 million (2008: £100.1 million net debt after issue costs). As the Group had substantial cash in hand at the year end, there was no year end gearing.

At the end of the year, the Group had in place a £220 million committed syndicated banking facility, which was due to step down to £180 million in February 2010 and to £160 million in September 2010 and which was due to mature in March 2011. Well ahead of this maturity, the Group chose to refinance this facility, taking advantage of improved credit conditions in the banking marketplace.

As at 31 December 2009, the Group had received credit approval for a new facility which it entered into in January 2010, at which point its existing facility was cancelled. The new facility is a £150 million committed syndicated facility with a longer term, maturing in September 2013, with more flexible borrowing terms and a cheaper cost.

#### **Financial risk and liquidity**

The Group largely sees three categories of financial risk: interest rate risk, credit risk and liquidity risk. Currency risk is not a consideration as the Group trades exclusively in England and Wales.

In regards to interest rate risk, the Group from time to time will enter into hedge instruments to ensure that the Group's exposure to excessive fluctuations in floating rate borrowings is adequately hedged. With the commencement of a new banking arrangement in late 2008, the Group entered into a £50 million zero cost cap and floor collar hedge arrangement in February 2009, ensuring that variable rates on up to £50 million of the Group's floating rate debt are held within a pre-determined range. This prevents the Group from suffering material adverse floating rate increases beyond an agreed level ('the cap') in return for which the Group accepts a minimum payment cost ('the floor').

With unprecedentedly low LIBOR rates together with the risk premium on LIBOR rates falling away as liquidity has returned to the market, the variable cost of borrowings is below the floor and therefore ongoing costs are being incurred. As the Group has no debt at present, these hedge instruments are regarded as ineffective and thus all costs are being taken directly through income. At present, this cost is estimated at £0.3 million per annum until expiry in March 2011 which reflects the fair value of the interest rate swap.

In regard to credit risk, this is largely mitigated by the nature of the Group's business, its sales being generally made on completion of a legal contract at which point monies are received in return for transfer of title.

Report of the directors  
Business review







# Report of the directors

## Business review

During 2009, the Group saw an increase in the number of sales being made together with the provision of a shared equity investment by the Group as a key part of the Group's sales incentive packages: either via the Government 'HomeBuy Direct' scheme or via the Group's own 'Jumpstart' scheme. This has led to an increase in the value of the Group's long term receivable Available for Sale Financial Asset balance which at 31 December 2009 was £21.3 million versus £6.0 million at 31 December 2008. Whilst this represents an overall increase in credit risk, each individual credit exposure is small given the high number of counterparties. On average, individual shared equity exposure amounts to £26,000.

During 2009 and into early 2010, the Group successfully re-financed its banking arrangements, putting in place a £150 million syndicated facility which is committed to September 2013. The Group regards this facility as adequate in terms of both flexibility and liquidity to cover its medium term cash flow needs.

### Financial reporting

There have been no changes to the Group's accounting policies during 2009.

### Principal risks and uncertainties

Management of risk is key to protecting value. The Group approaches this via a review of the dimensions of risk that it faces in its business operations, identifying for each risk the answers to two questions: firstly, what is the impact of the risk occurring, and secondly, what is the likelihood of this risk occurring. The mitigation plans and processes identified by management are taken into account as part of this assessment. Blending these responses together enables the Group to identify those risks most likely to pose a threat. The review of risk includes assessment of those risks which may be remote in likelihood but high in impact.

Each year, the Board formally reviews risk, examining risk in a changing business landscape and considering the management assessment of this risk. In doing so, the Board is able to ensure that its risk register is up to date and reflects any relevant changes in the Group's operating environment and that it has satisfied itself as to the mitigation factors available to the Group.

As in previous years, the risks that the Group face generally fall into a number of categories: these include commercial risks, social risks, environmental risks and ethical risks. With regard to commercial risk, the stabilisation of the marketplace during 2009 has greatly reduced the risks affecting the Group in 2008 around working capital adequacy, risks further reduced following an effective year of cash flow generation.

Accordingly, the main commercial risks identified by the Group now largely relate to three areas:

- Market driven risks such as the risks to revenue created by a worsening economic environment
- Legislative risk such as the risk of planning or legislative changes driving costs ahead of sales prices and thus impacting shareholder returns
- Risks around land purchasing, as the key and most volatile input cost that the Group incurs

In regards to market risk, uncertainties clearly remain as to the direction and pace of future house price movements. This is particularly so against a backdrop of unprecedented macro economic support at present which is unlikely to persist into the mid term, allied to worsening public finances. Given this relative uncertainty in regards to the pricing environment, the associated commercial risks of lower house prices looking forward still persist: for example in terms of the affordability both of planning gain packages and of the affordability of cost changes driven by primary legislation particularly in terms of sustainability and the Code for Sustainable Homes.

The state of public finances may also pose a threat to the contribution from Government in funding the revenue earned from social housing obligated to be delivered as part of a planning gain package under a s106 agreement.

In regards to legislative risk, there are particular uncertainties at present given the general election due to take place in the first half of 2010. The Conservative Party, currently leading in the polls, has indicated that it regards the volume output of new homes over the recent past as inadequate. Accordingly, it is currently outlining draft policies that will greatly change the existing planning framework. Whilst the Group supports the intent behind this, it remains concerned that the plans as outlined increase uncertainty around land supply and have the potential to disrupt and/or reduce land supply in the mid term, with the impact likely to be felt first in the strategic land market.

Business risks are not just limited to those of a commercial nature. The Group remains intent on continuing to manage risks across all risk dimensions. The principal social, environmental and ethical risks and uncertainties remain the following:

- Existing land contamination is not identified pre-acquisition
- Wildlife habitats are not identified resulting in planning difficulties
- Sustainable development requirements are not addressed, leading to planning delays and the loss of potential efficiencies
- Failure to design for social inclusion, and for use of appropriate materials
- Environmental pollution occurs on a construction site and is not swiftly controlled
- Health and safety standards are breached, leading to injury
- A significant environmental, health and safety, social or ethical event impacts on the Group's reputation or brand

In all the areas that the Group regards as potential risks, the Group has reviewed the likelihood and impact of a problem occurring and has identified suitable controls and processes to manage, monitor and mitigate these risks.

As the Group moves out of a highly challenging trading environment into a more stable marketplace, the nature of the risks that it is focused on are evolving towards those risks associated with growth, such as the need to acquire land successfully. This said, it is important to recognise that whilst conditions may have improved, profound uncertainties remain in regards to the UK economy which do suggest that appropriate levels of caution should be maintained.

**Neil Cooper**  
Group Finance Director

Report of the directors  
Business review





# Report of the directors

## Business review

### Market sector analysis

Year ended 31 December	2009			2008		
	%	Units	Average sales price £	%	Units	Average sales price £
One and two bedroom	35	624	113,000	28	506	125,100
Three bedroom	28	509	177,900	27	485	190,200
Four bedroom	11	198	221,800	6	122	255,100
Five or more bedroom	6	111	297,600	4	78	340,300
Retirement Living	5	85	172,600	2	32	262,500
Social housing	9	170	98,400	28	508	89,200
Partnership housing (3rd party owned land units)	6	106	88,600	5	86	84,700
Group	100	1,803	154,600	100	1,817	150,800

### Product mix analysis

Year ended 31 December	2009			2008		
	%	Units	Average sales price £	%	Units	Average sales price £
Traditional	22	387	168,700	24	440	148,300
Room-in-roof	11	204	244,700	7	128	299,100
Three storey	23	414	180,000	21	379	202,500
Apartments	24	437	110,800	13	244	134,100
Retirement Living	5	85	172,600	2	32	262,500
Social housing	9	170	98,400	28	508	89,200
Partnership housing (3rd party owned land units)	6	106	88,600	5	86	84,700
Group	100	1,803	154,600	100	1,817	150,800

### Unit completions and average sales price

Year ended 31 December	2009		2008	
	Units	Average sales price £	Units	Average sales price £
South East	626	178,100	757	151,600
South West	535	124,400	494	141,400
Central	642	156,900	566	158,000
Group	1,803	154,600	1,817	150,800

### Objectives

Year ended 31 December	2009	2008
	%	%
Return on capital employed <sup>(1)</sup>	2	3
Operating margin <sup>(2)</sup>	6.2	7.5
Year over year basic earnings per share growth <sup>(3)</sup>	(52)	(87)
Year over year pre-tax profit growth <sup>(3)</sup>	(48)	(88)

(1) Return on capital employed is calculated as pre-exceptional profit before interest and tax over the average of opening and closing shareholders funds plus borrowings

(2) Operating margin has been calculated as pre-exceptional operating profit over turnover

(3) Before deduction of exceptional items

### Staff

Year ended 31 December	2009	2008
Number of training hours completed	3,619	13,914
Number of staff enjoying training intervention	373	783
Percentage of employees trained	80%	97%

### Health and safety

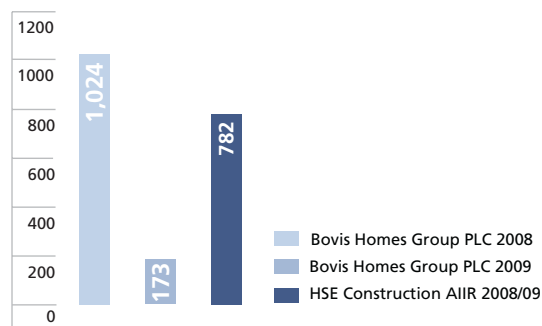
Year ended 31 December	2009	2008
RIDDOR reportables <sup>(1)</sup>	4	27
Minor injuries	64	144
NHBC Priority A scores <sup>(2)</sup>	0.01	0.11
NHBC Priority B scores <sup>(3)</sup>	0.32	1.49

(1) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

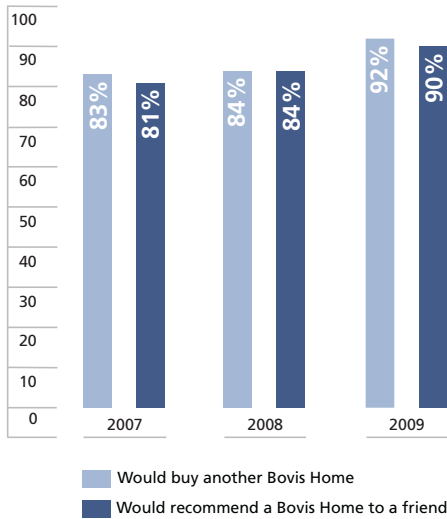
(2) Priority A: immediate risk of injury to persons in the vicinity and/or statutory breach/possible enforcement action

(3) Priority B: risk of injury but persons segregated from risk and/or failure to follow a safe system of work or failure to monitor/control operations

### Annual injury incidence rate (AIIR)



### Customer satisfaction



### Consented land bank

Total plots as at 31 December	2009	2008
	Plots	Plots
South East	3,109	3,556
South West	4,400	4,789
Central	4,413	4,974
Group (exc. 3rd party owned land plots)	11,922	13,319
Third party owned land plots		
South West	120	226
Group consented land bank	12,042	13,545
Years' supply based upon legal completions in the year (consented land bank)	6.7	7.5

### Strategic land bank

Total potential plots as at 31 December	2009	2008
	Plots	Plots
South East	4,839	7,764
South West	2,785	2,635
Central	8,739	8,573
Group strategic land bank	16,363	18,972
Years' supply based upon legal completions in the year	9.1	10.4

### Sustainability

Year ended 31 December	2009	2008
Number of homes built with EcoHomes rating	550	634
Legal completions on brown land	49%	41%
Efficient use of land (1)	17,816	19,837

(1) Square footage of living space per developable acre

### Analysis of margin

Year ended 31 December	Total housing		Group	
	2009	2008	2009	2008
	%	%	%	%
Revenue	100.0	100.0	100.0	100.0
Land costs	(21.6)	(18.3)	(21.5)	(18.1)
Construction costs	(62.4)	(60.0)	(62.4)	(59.5)
Gross profit	16.0	21.7	16.1	22.4
Administrative expenses (including sales and marketing costs)			(9.9)	(14.9)
Operating profit			6.2	7.5

Note: 2008 and 2009 on pre-exceptional basis

### Analysis of net assets

Year ended 31 December	2009	2008
	£m	£m
Net assets at 1 January	632.3	723.7
Profit for the year	3.5	(59.0)
Dividends	-	(27.0)
Share capital issued	59.1	0.5
Net actuarial loss on defined benefits pension scheme	(3.0)	(6.4)
Current tax recognised directly in equity	-	0.5
Adjustment to reserves for share-based payments	0.7	-
Net assets at 31 December	692.6	632.3

### Analysis of pension scheme deficit

Year ended 31 December	2009	2008
	£m	£m
Pension deficit/(surplus) at 1 January	6.8	(1.0)
Contributions into the pension scheme	(2.8)	(1.4)
Expense to the income statement	0.7	0.4
Actuarial loss on defined benefits pension scheme	4.2	8.8
Pension deficit at 31 December	8.9	6.8

Report of the directors  
Business review







## Directors and officers



**1. Malcolm Robert Harris (61)**  
*Non-executive Chairman*

Appointed non-executive Chairman in 2008 Malcolm had previously been Chief Executive since 1996 and was first appointed to the Board of Bovis Homes in 1978. He is a non-executive director of the House Builders Federation (HBF) and the National House Building Council (NHBC).

**2. Alastair David Lyons CBE (56)**  
*Non-executive Deputy Chairman*

Appointed non-executive Deputy Chairman and Senior Independent Director in 2008, Alastair is non-executive Chairman of the Admiral Group plc and Serco Group plc. Alastair is also non-executive Chairman of Legal Marketing Services Limited and Cardsave Limited. Previously Chief Executive of the National Provident Institution and the National and Provincial Building Society, he was also managing director of the insurance division of Abbey National plc and director of corporate projects at National Westminster Bank plc.

**3. Colin Peter Holmes (44)**  
*Non-executive Director*

Appointed an independent non-executive Director in 2006. Colin is the Commercial Director for Fresh Foods at Tesco and a member of the Executive Committee of Tesco PLC. He joined Tesco in 1988 and has wide knowledge of the retail sector and a range of experience within Tesco itself. His previous roles include CEO of Tesco Express, Superstores Operations Director and UK Finance Director.

**4. Lesley Anne MacDonagh (57)**  
*Non-executive Director*

Appointed an independent non-executive director in 2003, Lesley is a non-executive director of BDO. She was previously Managing Partner of Lovells, the international law firm for 10 years, 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, the Law Society Council Member for the City of London and a non-executive director of Segro plc.

**5. John Anthony Warren (56)**  
*Non-executive Director*

Appointed an independent non-executive director in 2006, John is also a non-executive director of 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 at Arla Foods UK plc, BPP Holdings plc, RAC plc and Rexam plc.

**6. David James Ritchie (40)**  
*BA (Hons) ACA, Chief Executive*

Appointed Chief Executive in 2008, David was Group Managing Director from 2007 to 2008 and Group Finance Director from 2002 to 2006. He joined Bovis Homes in 1998 as the Group's Financial Controller and was previously employed by KPMG involved in advising clients on acquisitions, disposals and flotations as well as audits.

**7. Neil Cooper (42) BSc (Hons)**  
*FCMA, Group Finance Director*

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

**8. Martin Trevor Digby Palmer (51)**  
*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.

# 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 2009.

## 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 this directors' report, which commences on page 6 and 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, including key social, environmental and ethical risks, is also provided in the business review on pages 24 to 25. 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 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. These are set out in the business review.

## Results and dividends

The Group made a profit after taxation of £3.5 million (2008: £59.0 million loss after tax). No interim dividend was paid relating to 2009 (2008: 5.0p). The Board does not propose payment of a final dividend (2008: nil).

## Directors

Details of the directors are shown on page 32.

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 42 to 50.

In accordance with the Articles of Association, two directors, Mr Colin Peter Holmes and Mr David James Ritchie will retire at the Annual General Meeting, to be held on Thursday 6 May 2010, and being eligible, offer themselves for re-appointment. Mrs Lesley McDonagh will retire as a director at the Annual General Meeting and, not seeking reappointment, will cease to hold office at the end of the meeting. Mr Neil Cooper, as previously announced, will leave the Company on 6 May 2010.

## Powers of the directors

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

## Share capital

At the date of this report the Company's issued share capital comprised a single class of share capital which is divided into ordinary shares of 50 pence. As at 5 March 2010, 133,157,378 ordinary shares of 50 pence each have been issued, are fully paid up and are quoted on the London Stock Exchange.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Group Company Secretary. In particular, subject to applicable statutes, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine, or (if there is no such resolution or so far as it does not make specific provision) as the Board may determine. Shareholders are entitled to attend, speak and vote at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives. On a show of hands at a general meeting of the Company every shareholder present in person or by proxy and entitled to vote has one vote and on a poll every shareholder present in person or by proxy and entitled to vote has one vote for every ordinary share held. Further details regarding voting, including the deadlines for voting, at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting at the back of this annual report and accounts. No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other shareholder rights if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 and has failed to supply the Company with the requisite information within the prescribed period.

Shareholders may receive a dividend and on a liquidation may share in the assets of the Company. None of the ordinary shares of the Company, including those held by the Company's share schemes, carry any special rights with regard to control of the Company. Employees participating in the Bovis Homes Group Share Incentive Plan may direct the trustee to exercise voting rights on their behalf at any general meeting.

The instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve. The Board may refuse to register any instrument of transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees. Transfers of uncertificated shares must be carried out using the relevant system and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of the relevant system and with UK legislation. There are no other limitations on the holding of ordinary shares in the Company and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

# Report of the directors continued

## Substantial shareholdings

At 5 March 2010, the following interests of 3% or more in the Company's issued share capital had been notified to the Company:

Ordinary shares of 50p each	% direct holding	% indirect holding	% financial instruments	Total number of shares held	% of voting rights of the issued share capital
Schroders	0.00	10.92	0.00	14,544,173	10.92
BlackRock Investment Management	0.00	7.80	2.30	13,452,580	10.10
Prudential	9.98	0.00	0.00	13,294,339	9.98
Sanderson Asset Management	7.12	0.00	0.00	9,484,000	7.12
Standard Life Investments	4.06	1.05	0.00	6,806,830	5.11
Threadneedle Asset Management	0.05	4.66	0.00	6,274,955	4.71
Legal & General Group	3.65	0.00	0.00	4,864,491	3.65

## Directors' indemnities

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

## 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, by consultations at staff meetings and through elected employee representatives.

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, a Share Option Plan, an Executive Share Option Scheme (expired) and a Long Term Incentive Plan to motivate employees and encourage strong involvement with the Group. See note 22 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 Executive Committee co-ordinates developments in this area and an established process of risk identification and management is embedded in all activities, regardless of whether risk is classed as strategic, operational, financial, or compliance-related, legal, environmental, social or connected 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.

The Board addresses risk in its own decision making and takes regular account of the significance of sustainability, environmental, social and ethical matters through consideration 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.

Further details of risks and policies and procedures for their management are included in the Group's Corporate Social Responsibility report dated 5 March 2010, which includes key targets and performance data. A copy of the report is available on the Group's website [www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc) and on request to the Group Company Secretary.

## Donations

The Group made charitable donations in the year amounting to £5,250 (2008: £1,350). 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 46 days (2008: 30 days). The calculation excludes land purchase creditors.

The aggregate amount owed to trade creditors by the Company was £nil throughout 2008 and 2009.

## Report of the directors continued

### Significant agreements

The Group is a party to a syndicated facility agreement with its relationship banking group relating to the provision of a £150 million revolving loan facility. In the event of a change of control, provisions in the agreement would allow lenders to withdraw the facility. At 31 December 2009, the Group had no borrowing positions under this arrangement's predecessor in force at that date.

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

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

### Annual General Meeting

Notice of the 2010 Annual General Meeting to be held on Thursday 6 May 2010 is set out on pages 80 to 82. Members wishing to vote should return forms 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](http://www.computershare.com).

This year the Board is asking shareholders to approve the adoption of new Articles of Association which incorporate a number of amendments to the existing Articles of Association. The changes are primarily to reflect the implementation of the remaining provisions of the Companies Act 2006 which the Company has not already incorporated into its existing Articles of Association, the implementation of the Companies (Shareholders' Rights) Regulations 2009 and certain amendments to the Uncertificated Securities Regulations 2001. An explanation of the main changes between the proposed and the existing Articles of Association are summarised in the explanatory notes to the Notice of the Annual General Meeting at the back of this annual report and accounts.

The current Long Term Incentive Plan established in 2000 will expire at the 2010 Annual General Meeting and the March 2010 awards will be the last to be made under that Plan. The Board has always considered the Plan to be a key motivator of senior management performance for delivering long term shareholder value and shareholder approval will accordingly be sought at the forthcoming Annual General Meeting to a new Long Term Incentive Plan which is broadly similar to the current Plan and will use the same performance measures, subject to any appropriate review, whilst taking account of developments in best practice. Following consultation, major shareholders were supportive of the new Plan, which will be used to grant awards from the 2010 Annual General Meeting onwards.

The Board wishes to continue to be able to offer shareholders the opportunity to elect to receive new ordinary shares in the Company instead of cash dividends if they so wish. The current scrip dividend authority will expire around the time of the Annual General Meeting and the Board is therefore seeking a new authority which would run until May 2015.

In addition, it is proposed that a general meeting that is not an Annual General Meeting can be called on not less than 14 clear days' notice. This resolution is required as a result of the implementation of the Shareholder Rights Directive, which increased the notice period for general meetings of the Company to 21 days unless shareholders have approved the calling of meetings on 14 days' notice. Ability to call a general meeting on 14 days' notice would only be utilised in limited circumstances and where it was to the advantage of shareholders as a whole.

At a meeting on 5 March 2010, 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 so purchased would be cancelled.

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

### Auditors

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

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

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

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and, in accordance with the provisions of the Companies Act 2006, resolutions concerning their re-appointment and remuneration will be placed before the Annual General Meeting.

## Report on corporate governance

The Company continues its commitment to high standards of corporate governance and recognises that appropriate boardroom behaviours are an essential component of best practice. 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 39 of this Annual Report and Accounts.

This report sets out how the framework is applied and the Company's compliance with the 2008 Combined Code issued by the Financial Reporting Council (available at [www.frc.org.uk](http://www.frc.org.uk)). The Combined Code is supplemented by a publication entitled "Internal Control: Revised Guidance for Directors on the Combined Code" (the Revised Turnbull Guidance) to enable listed companies to comply with Listing Rule 9.8.6 (5) and (6).

The Company has throughout 2009 applied the provisions of Section 1 of the Combined Code and complied therewith, as detailed below.

Information on share capital is provided on page 33.

## Report of the directors continued

### Report on corporate governance continued

#### The Board

The Board comprises Mr Malcolm Harris, non-executive Chairman; Mr Alastair Lyons, non-executive Deputy Chairman and Senior Independent Director; two executive directors, Mr David Ritchie, Chief Executive, and Mr Neil Cooper, Group Finance Director; and three further independent non-executive directors, Mr John Warren, Mrs Lesley MacDonagh and Mr Colin Holmes. Mrs Lesley MacDonagh, who has served as an independent non-executive director since 2003, will retire at the forthcoming Annual General Meeting. As previously announced, Mr Neil Cooper will leave the Company on 6 May 2010. The recruitment of a new Group Finance Director is well advanced.

There is a clear division of responsibilities between the non-executive Chairman and the Chief Executive, set out in writing and agreed by the Board and the responsibilities of the non-executive Deputy Chairman have been treated similarly. 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 and for developing strategic operating plans that reflect the objectives and priorities established by the Board. The Deputy Chairman's role is to support the Chairman in ensuring that the Board is effective, to deputise as necessary, to support the building and maintaining of constructive relations on the Board and to act as the Senior Independent Director. The responsibilities of the Senior Independent Director 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 has determined that non-executive directors Mr Alastair Lyons, 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.

The Board met nine times during 2009 and all the directors attended all meetings. 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.

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 technical 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. Mr Colin Peter Holmes and Mr David James Ritchie will stand for re-election at the forthcoming Annual General Meeting. The Board strongly supports and recommends the re-election of Mr Colin Peter Holmes and Mr David James Ritchie to shareholders. A brief summary of their biographical details is set out on page 32.

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.

## Report of the directors continued

### Report on corporate governance continued

Following amendment of the Articles of Association, the Board has authorised potential conflicts of interest in accordance with Article 114 in respect of Mr Malcolm Harris and his positions as a non-executive director of the National House Building Council and the House Builders Federation, Mr David Ritchie and his position as Chairman of the corporate trustee of the Company's defined benefit pension scheme and Mr Alistair Lyons and his position as Chairman of Legal Marketing Services Limited. The Board has procedures in place for ensuring that powers of authorisation of conflicts are operated effectively and it confirms compliance with those procedures.

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 2009, the Board completed a formal internal annual performance evaluation, using a discussion and interview process designed to produce an objective assessment, which covered areas of board composition, board objectives, content and quality of discussion and focus of board meetings, risk capture, outcomes, board support and corporate governance. The results were collated by the Chairman and discussed by the Board. It was concluded that the Board was effective, having met all 2009 objectives, focuses on the main issues facing the business and adds value to both shareholders and management. Outputs included the further regular development of strategy and alternatives, supported by business environment and risk management discussions, and positive focused reviews of key areas impacting the business.

Individual director performance evaluations were undertaken by the Chairman using a discussion 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 during 2009 which confirmed that the process of transition from Chief Executive to non-executive Chairman had been undertaken successfully and that Board effectiveness was benefiting from the retention of the Chairman's in depth knowledge of the sector and his continued participation in industry thinking. It was concluded that the Chairman created an appropriate environment for Board debate with effective management of the Board's agenda.

#### **Board committees**

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

During 2009, membership of the three Committees comprised four independent directors, plus the Chairman and Chief Executive in the case of the Nomination Committee. The Audit Committee is chaired by Mr John Warren and the Remuneration Committee is chaired by Mr Colin Holmes. The Nomination Committee is chaired by Mr Malcolm Harris. 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 42 to 50; the activities of the Audit Committee are set out in the Report of the Audit Committee on pages 40 and 41; and the activities of the Nomination Committee are set out in the Report of the Nomination Committee on page 41.

The Board completed a performance evaluation of its committees during 2009, and concluded that the committees were working and contributing effectively and continued to achieve 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 and appoint proxies, including by way of an electronic voting facility. The Notice of meeting is provided 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 entitled to participate with questions relevant to the business of the meeting 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 and Group Finance Director, particularly in the period post announcement of final and half-yearly results. Feedback received during the year under review was positive and helpful and the presentations made to financial analysts in respect of half-yearly and final results are made available on the Group's website [www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc). The Annual Report and Accounts, Preliminary Results, Half-yearly financial report, AGM voting, Corporate Social Responsibility report and other information are also available on the website.

The Chairman and the Deputy Chairman (also the Senior Independent Director) are accessible to shareholders and maintain sufficient contact with major shareholders to understand their concerns. The Chairman has recently written to major shareholders advising of his availability should they wish to meet or hold discussions with him.

#### **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 2009 in accordance with the Revised Turnbull Guidance.

A key part of the system of internal control is the maintenance of a risk analysis. The risk analysis was kept under review during 2009 and in this way the Board is able to ensure that it properly identifies and grades the risks specific to the activities and operating environment of the business and reviews the response to operational, financial, compliance and other risks and reconsiders 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.

## Report of the directors continued

### Report on corporate governance continued

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;
- regular Group Executive 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.

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

Firstly, there is a well understood management structure which allows for clear accountability and an appropriately granular level of financial control. This structure is underpinned by documented authority levels for business events laid out in the Group management paper. The process of financial reporting is further supported by process documents for both internal management reporting and external Group reporting which stipulates amongst other things reporting timetables and contents of key management reports.

The Group maintains computer systems that record financial transactions and whose effectiveness is reviewed by the Group's Internal Audit function on a regular basis. Any findings arising from these exercises are reported to the Audit Committee of the Board.

Control over cash expenditure which lies at the heart of any financial reporting process is key. The Group maintains tight control in this area through a centralised Group payment function, regularly maintained authorisation documents and segregation of authorisation accountability.

The Group maintains a regular weekly and monthly financial reporting cycle, allowing management to assess the financial progress of the Group, and this is further supported by a formal budget and forecast process which ensures that there is a robust and relatively recent financial forecast in place at all times against which to assess performance. Together with this financial reporting, the Group requires its regional management teams to report key business issues as part of a monthly regional reporting pack on a standardised basis.

Finally, there is a process of accounts preparation which ensures that there is an audit trail between the output from the Group's financial reporting system and the Group's financial statements as they are prepared for reporting.

#### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. These enquiries consist of the production and review of detailed financial forecasts covering the period January 2010 – June 2011. These forecasts take into account current market trends with reasonable judgements and estimates applied to arrive at future cashflow estimates. As part of this review, the Group has analysed its forecast covenant compliance over this period, arriving at an assessment of the headroom evident between the forecast covenant test outcomes and the outcomes necessary to achieve covenant compliance. As at 31 December 2009, the Group had received credit approval on the terms of a new banking facility which it subsequently entered into on 27 January 2010, and its forecast covenant compliance assessment was performed taking into account the specific requirements of this new facility. This facility provides a committed revolving credit facility with a limit of £150 million maturing in September 2013. As at 31 December, the Group had no drawings under its revolving credit facility, and held net cash in hand of £112 million. The Group regards the combination of existing cash in hand and this new facility as adequate in terms of flexibility and liquidity for its needs. More details on the Group's approach to financial risk management more widely are laid out in note 23. For these reasons, the Group continues to adopt the going concern basis in preparing its accounts.

By Order of the Board

**M T D Palmer**

Company Secretary

5 March 2010

Bovis Homes Group PLC  
Registered number 306718



# 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 35 to 38. The Board represents the interests of shareholders and other stakeholders through directing the business of the Group successfully; setting strategy and short, medium and long term objectives. The Board is responsible for ensuring that, through effective monitoring, senior management organised in an established regional management structure operate in accordance with the Group's policies and procedures, implement and execute the determined business strategies and achieve set 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 Deputy Chairman (also the Senior Independent Director), three further independent non-executive directors and two 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. The role of the Deputy Chairman has also been set out in writing and approved by the Board.

### 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 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 and meets as required. External advice appropriate to the size and position of the Company is sought when required. 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, half-yearly financial report, preliminary statement, interim management statements 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 therein 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 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 2009 the Audit Committee comprised Mr John Warren as Chairman, Mrs Lesley MacDonagh, Mr Colin Holmes and Mr Alastair Lyons, all of whom are independent non-executive directors. The Audit Committee met three times during the year and all members then current attended each meeting. The Chairman of the Company attended three meetings by invitation, the Chief Executive attended three meetings and the Group Finance Director attended 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 John Warren as a former Group Finance Director satisfies the requirement for recent and relevant financial experience.

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.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc) 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:

- Review of the Preliminary results, the Annual Report and Accounts, the Half-yearly results and the Half-yearly financial report, all published under IFRS, 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 2008 final audit, the 2009 interim review and the audit planning and strategy for the 2009 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.
- 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. When a request for approval is 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 61.

### Performance evaluation

During 2009, the Committee commenced an internal performance evaluation, using a discussion and interview 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 are provided where appropriate to ensure that the Committee remains informed of all material developments in best practice and regulation concerning its remit.

John Warren  
Chairman of the Audit Committee

5 March 2010

## 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 2009, the Nomination Committee comprised Mr Malcolm Harris as Chairman, Mrs Lesley MacDonagh, Mr John Warren, Mr Colin Holmes, Mr Alastair Lyons and Mr David Ritchie. The Nomination Committee met three times during the year and all members 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.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc) and on request to the Group Company Secretary.

### Overview of activities

During 2009 the Nomination Committee made recommendations to the Board concerning directors to retire by rotation and seek reappointment at the 2009 Annual General Meeting. The recruitment process for a new Group Finance Director was commenced, to be conducted and concluded on merit, against objective criteria, using the services of an appropriate external search consultant. In addition, general succession planning arrangements were kept under review during 2009.

Malcolm Harris  
Chairman of the Nomination Committee

5 March 2010

# Report on directors' remuneration

## Introduction

This report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 6 May 2010 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 2006. This report is therefore presented in two sections: unaudited information and audited information.

## Section 1: 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 during 2009 were Mr Colin Holmes as Chairman, Mr John Warren, Mrs Lesley MacDonagh and Mr Alastair Lyons. Meetings of the Remuneration Committee are held as and when appropriate and at least annually. During 2009, the Remuneration Committee met on six occasions and all members attended each meeting.

### Advisers to the Remuneration Committee

The Remuneration Committee, from time to time, calls upon Mr Malcolm Harris (Chairman) and also Mr David Ritchie (Chief Executive) to assist in discussions and deliberations of the Remuneration Committee on remuneration matters not pertaining to their own remuneration or terms and conditions of employment. The Remuneration Committee has, on occasion, appointed the services of external advisers to advise on remuneration. During 2009, the Remuneration Committee carried out a remuneration adviser review and in August 2009 appointed Deloitte LLP as adviser to the Committee on an ongoing basis. The Hay Group acted until that date. Deloitte LLP has no other connection with the Company and provides reports and advice and attend Committee meetings as required. ExcellerateHRO Share Plan Services (formerly 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 circa thirty five members of senior management.
- Within that framework/policy, determine the total individual remuneration package of the Chairman, Chief Executive, each executive director and other designated senior executives, including, where appropriate, bonuses and share awards, having regard to the pay and conditions of employees throughout the Company.
- 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 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 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc) 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 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Regulation 11 and Schedule 8) and the Combined Code and its provisions on directors' remuneration, including Schedule A.

The Remuneration Committee sets and implements 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 and complexity. 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 throughout the Company.

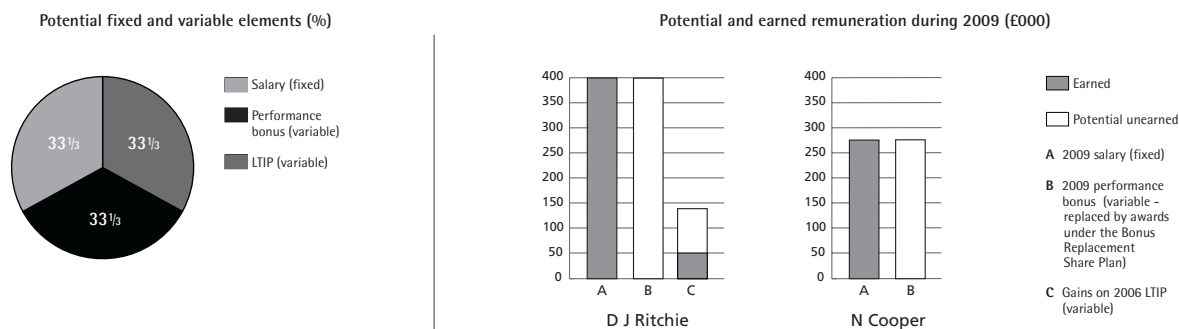
The remuneration policy was reviewed by the Remuneration Committee during 2009.

# Report on directors' remuneration continued

## 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 assurance, and participation in employee share schemes and the Bovis Homes Group Long Term Incentive Plan.

The Remuneration Committee aims to balance appropriately fixed remuneration with 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. The potential remuneration package, dependent on performance, reflects one-third fixed and two-thirds variable elements. Whilst the Remuneration Committee aims to achieve this balance, it recognises that the payout in any year will vary from this. The chart below to the left shows this graphically.



For remuneration earned during 2009 the fixed element, being salary, and variable elements, which includes bonus and gains on the exercise of LTIP awards granted in 2006, are shown, by director, in the two charts immediately above and to the right. The opportunity to earn cash bonus awards in 2009 was replaced by awards under the Bonus Replacement Share Plan and therefore no cash bonus awards were made. As Mr Neil Cooper commenced with the Company on 2 January 2007 he had no entitlement to exercise awards under the LTIP during 2009.

### Salary

Executive director salaries are reviewed annually to take effect from 1 January, taking into account the total remuneration package at the time of the review and having regard to the pay and conditions of employees throughout the Company. No salary increases were awarded to the executive directors in either of the 2009 and 2010 reviews.

### 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. Neither of the executive directors currently has any such appointments.

### Annual performance bonus

Until 2008, executive directors were able to earn a performance cash bonus up to a maximum of 100% of basic annual salary prevailing at the date of the Remuneration Committee meeting to determine bonuses assessed. These bonuses were paid from a bonus pool generated from increases in profits over the previous year.

No bonuses were paid to executive directors in 2008 or 2009 in respect of the 2007 or 2008 financial years.

As a result of trading conditions within the UK housing market and the Group's focus during 2009 on cash flow generation, the Remuneration Committee considered it inappropriate to continue the existing cash bonus scheme during 2009 and, following shareholder approval, entitlement to be considered for cash bonus in 2009 was forfeited by the executive directors, and replaced by awards in a Bonus Replacement Share Plan.

With a return to corporate objectives more typical for a UK housebuilder and with a greater level of visibility over housing market conditions towards the end of 2009, expected to continue through 2010, the Remuneration Committee has decided to revert to a conventional annual bonus scheme designed as a long term arrangement with flexibility to adapt to a range of market conditions. A mix of performance measures will be used, with the proportion applying to each measure being determined by the Remuneration Committee at the start of each year. The approach is designed to result in a balanced remuneration package, aligned with business strategy. A consultation with major shareholders took place on the revised annual bonus arrangements which had a supportive outcome, and comments received from shareholders have been reflected in the design of the bonus arrangements.

The executive directors continue to have a bonus cap equal to 100% of basic annual salary prevailing at the date of the Remuneration Committee meeting to determine bonus earned. These maximum bonus caps provide an appropriate level of short term incentive which is aligned with performance bonus arrangements of other house building companies and listed companies of similar size and complexity.

Any bonus will normally be paid in cash. However, before paying cash bonuses the Remuneration Committee will review the proposed position regarding dividends. If no dividend is proposed, the Remuneration Committee may choose to exercise its discretion to pay all, or part, of the bonus in ordinary shares, with the right to receive the shares normally deferred for two years.

The overall principles applying to the mix of performance measures are:

- at least 70% of the bonus will be based on financial measures, with the balance being based on non-financial measures;
- the financial criteria are likely to include one or more of profit before tax, return on capital employed and cash flow
- the non-financial measures are likely to include one or both of health and safety and customer service

## Report on directors' remuneration continued

The Remuneration Committee has decided that the performance measures for the 2010 performance bonus opportunity will be based 80% on financial measures and 20% on non-financial measures. The financial measures are profit before tax, cash flow and management of land acquisition. The non-financial measures are health and safety and customer service. Suitably stretching 2010 targets have been set by the Remuneration Committee for each performance measure, based on appropriate internal and external metrics, including analysts' forecasts for the Company and the sector.

All office based employees receive separate consideration for bonus based on the achievement of bonus performance criteria and personal performance to be paid from profits generated during the year. Site employees are incentivised through direct site bonus schemes based on measurable site performance. Sales staff are incentivised through separate commission arrangements.

### **Pension**

Mr David Ritchie is a senior executive member of the Bovis Homes Pension Scheme. This is a part 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 Ritchie is subject to the statutory earnings cap for service until 5 April 2006 and, following the introduction of the lifetime allowance pension rules on 6 April 2006, 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.

Mr Neil Cooper was a member of the Bovis Homes Group Personal Pension Plan during 2009, a contracted-in defined contribution arrangement, to which the Company contributes 7% of basic annual salary per annum. Normal retirement age for joiners after 1 October 2006 is age 65.

### **Share schemes**

The Company operates the Bovis Homes Group Long Term Incentive Plan for executive directors and senior management. The granting of awards under the 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 also 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. The current Long Term Incentive Plan was adopted in 2000 and will expire at the 2010 Annual General Meeting. Accordingly, approval will be sought at the forthcoming Annual General Meeting to a new Long Term Incentive Plan.

### **Bovis Homes Group Long Term Incentive Plan 2000**

The current Long Term Incentive Plan for executive directors and senior executives was approved by shareholders at the 2000 Annual General Meeting. Under the rules of the plan a participant may receive in respect of any financial year a maximum award of shares with a market value, when the award is 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 plan to exercise the awards.

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 TSR measure assesses performance relative to the median over the three year performance period, as derived from the TSR performance of the comparator companies. Measuring performance against the median provides a robust approach and one less prone to distortions and as being viable for smaller comparator groups. Vesting is as follows:

<b>TSR performance</b>	<b>% of total award which can be realised</b>
Maximum TSR performance	50% of the shares in the award
Threshold TSR performance	15% of the shares in the award

Threshold TSR performance is set at the median growth in TSR of the comparator group and for 2007, 2008 and 2009 awards, maximum TSR performance is set at median plus 15% growth in TSR. Where TSR performance falls between the threshold and the maximum TSR performance, the percentage of shares which can be realised will be calculated on a straight line sliding scale. Where TSR falls below median, none of the shares in the award judged by reference to TSR can be realised.

The group of comparator companies is comprised as follows:

### **Comparator companies**

Barratt Developments PLC	The Berkeley Group plc	Taylor Wimpey plc
Bellway p.l.c.	Persimmon plc	Redrow Group plc

The Remuneration Committee has also determined that the performance of companies acquired during the three year performance period will from the date of acquisition be notionally reinvested in the company which has the median TSR performance from the date of acquisition to the end of the performance period (excluding other acquired companies), maintaining the number of comparator companies and the vesting schedule based on ranking for these awards.

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:

<b>EPS growth</b>	<b>% of total award which can be realised</b>
Maximum EPS growth	50% of the shares in the award
Threshold EPS growth	20% of the shares in the award

## Report on directors' remuneration continued

For 2007 and 2008 awards, the minimum and maximum EPS growth targets are 4% and 10% per annum 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. Following a consultation with major shareholders, the Remuneration Committee set absolute levels of EPS to be achieved during the performance period for awards granted in 2009 of 20p and 50p per share as the minimum and maximum EPS growth targets to be measured in the third year of the performance period. Again following consultation, awards granted to executive directors in 2009 were reduced to 80% of basic salary.

The 2010 awards are the last to be made under the current Long Term Incentive Plan and the Remuneration Committee has considered the performance measures to apply having regard to the size and complexity of the Company and having consulted with major shareholders. Following an analysis of total compensation arrangements the Remuneration Committee is satisfied that a maximum award of 100% of salary is an appropriate level of award for the executive directors and this has received the support of major shareholders. 2010 awards granted to the executive directors did not exceed 100% of basic salary.

In carrying out an evaluation of the minimum and maximum absolute EPS growth targets that should apply, the Remuneration Committee formed the view that the targets set for the 2009 awards, based on data providing limited visibility in difficult market conditions and predicated on anticipation of a faster recovery in the housing market than has transpired, rest some way above a reasonable range for a stretching yet realistically achievable performance measure. As a result, the Remuneration Committee has considered the EPS growth targets for the 2010 awards afresh, with reference to data providing greater visibility over the three year performance period, including internal forecasts and analysts' forecasts, and has also reviewed the proportion of awards that should vest at threshold EPS growth. A connected area of concern is the inherent difficulty in setting three year point-to-point EPS growth targets in the current environment and the Remuneration Committee has therefore considered use of a cumulative three year EPS growth target for the 2010 awards. Again major shareholders were consulted to ascertain their views on this point and support was expressed. Accordingly, the Remuneration Committee has set absolute minimum and maximum EPS growth targets of 35p and 50p per share for the 2010 awards, to be measured on a cumulative basis over the three year performance period, with threshold EPS growth vesting 15% of the shares in an award, as opposed to 20% used for all previous awards.

The Remuneration Committee has also considered the TSR performance targets for the 2010 awards and reviewed historic TSR performance in the housebuilders comparator group and wider practice amongst FTSE 350 companies. This resulted in threshold TSR performance for the 2010 awards being set at the median, as for previous awards, and maximum TSR performance being set at median plus 10% growth in TSR of the comparator group, deemed to be equivalent to achieving at least upper quartile performance based on historic TSR performance. Again, the views of major shareholders were sought on this matter and support was received.

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 of grant. 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.

### ***Bovis Homes Group Long Term Incentive Plan 2010***

The current Long Term Incentive Plan will expire at the 2010 Annual General Meeting and the March 2010 awards will be the last to be made under that Plan. Shareholder approval will accordingly be sought at the forthcoming Annual General Meeting to a new Long Term Incentive Plan which is broadly similar to the current Plan and will use the same performance measures, subject to any appropriate review, whilst taking account of developments in best practice. Following consultation, major shareholders have indicated that they are supportive of the new Plan, which will be used to grant future awards.

### ***Bovis Homes Group PLC 2009 Bonus Replacement Share Plan***

The Bovis Homes Group PLC Bonus Replacement Share Plan was approved at the 2009 Annual General Meeting and is designed to encourage and reward participants for delivering business recovery that results in the creation of shareholder value. The Plan has been operated in 2009 only as an alternative to entitlement for consideration for cash bonus. The executive directors and directors of the Group's operating subsidiary, Bovis Homes Limited, agreed to forfeit their entire entitlement to be considered for cash bonus in 2009. Other senior managers agreed to forfeit 70% of their entitlement to be considered for cash bonus. In all cases, the value of the award in the Bonus Replacement Share Plan is less than or equal to the value of the cash bonus entitlement forfeited. The Remuneration Committee retains discretion over the vesting of awards, should the performance condition be met, to ensure that the contribution from management is properly reflected, and that vesting is not influenced by favourable stock market movement. In addition to the overall circumstances in which the performance condition is achieved, the Remuneration Committee would have regard to such metrics as net assets per share, profitability and dividend affordability. Awards were granted on 7 May 2009 and will be capable of exercise, should the performance condition be met, for a period of six months following 7 May 2012.

The performance condition is linked to an average share price target to be measured at the end of the performance period. The average market value of a share achieved over the three months immediately preceding the end of the performance period will determine the number of shares which will vest. Vesting will be calculated in accordance with the following table and is subject to the discretion of the Remuneration Committee, as mentioned above:

Average share price achieved	Percentage of shares in award that vest
£7.00	100%
£6.00	50%
£5.50	25%
Less than £5.50	nil

The number of shares that will vest will be calculated on a straight-line basis for average share prices achieved between £5.50 and £7.00. Operated in 2009 only, the Plan will terminate on the conclusion of the 2010 Annual General Meeting, with outstanding awards remaining in existence.

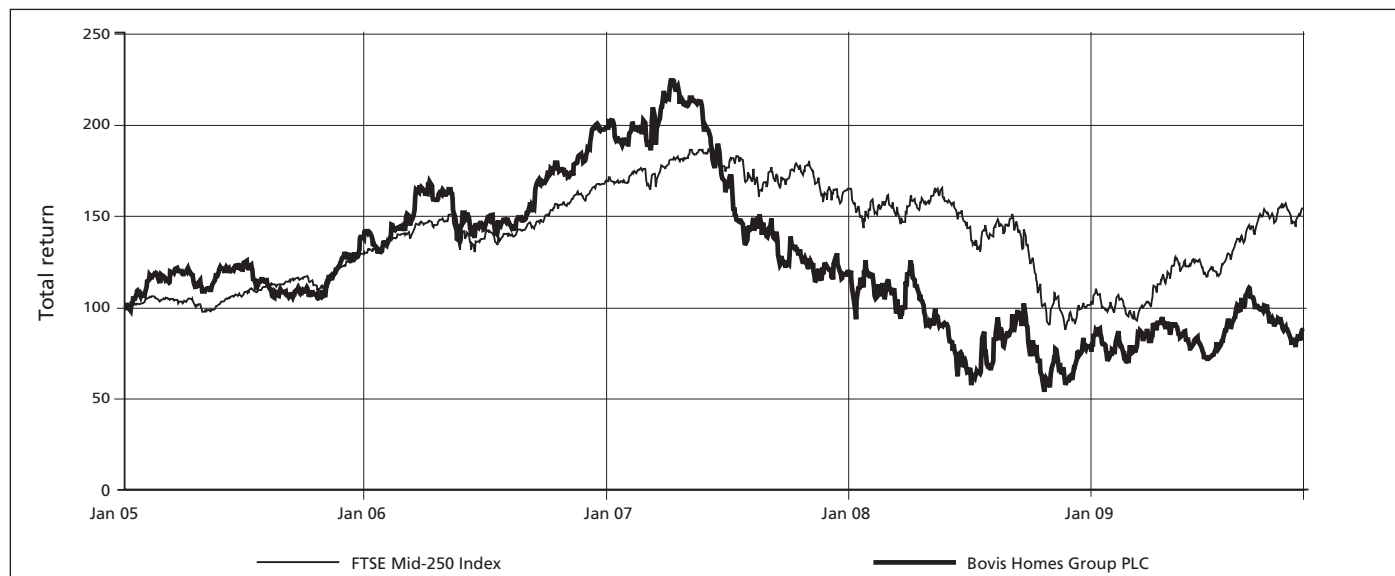
### ***Bovis Homes Group PLC Executive Share Option Scheme***

The Bovis Homes Group PLC Executive Share Option Scheme was established in 1997 and expired in 2007, with the granting of options being suspended in 2004. Options granted to one executive director are still current. The performance criteria require that any share option held under the 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 over three consecutive years. 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.

## Report on directors' remuneration continued

### Performance graph

As required by The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 of which Bovis Homes Group PLC is a constituent.



### 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.

In addition to their salaries, the executive directors are entitled to participate in the Bovis Homes' employee share schemes and the Long Term Incentive Plan, and to be considered for an annual performance bonus, dependent on the achievement of targets set down annually by the Remuneration Committee. For 2009 they received awards under the 2009 Bonus Replacement Share Plan having agreed to forfeit their entitlement to be considered for a performance bonus in 2009. 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 plan 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 £000
<b>Non-executive directors</b>		
M R Harris	3 July 2008	125
A D Lyons	1 October 2008	60
C P Holmes	1 July 2008	45
L A MacDonagh	1 July 2008	40
J A Warren	1 October 2008	47

There are no specific provisions for compensation on early termination.



## Report on directors' remuneration continued

### 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 2009					At 31 December 2008				
	Number of ordinary shares held	Number of shares under Executive Share Options	2009 Bonus Replacement Share Plan	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	2009 Bonus Replacement Share Plan	Number of shares under the Long Term Incentive Plan	Number of shares under Save As You Earn Options
<b>Executive directors</b>										
D J Ritchie	63,391	34,867	95,057	184,792	2,672	56,584	34,867	-	139,742	2,672
N Cooper	1,592	-	65,351	124,654	2,085	1,245	-	-	73,582	2,085
<b>Non-executive directors</b>										
M R Harris	369,223	-	-	151,040	-	355,076	104,602	-	206,594	-
A D Lyons	15,000	-	-	-	-	15,000	-	-	-	-
L A MacDonagh	1,000	-	-	-	-	1,000	-	-	-	-
J A Warren	2,500	-	-	-	-	2,500	-	-	-	-
C P Holmes	20,000	-	-	-	-	20,000	-	-	-	-

Changes in the number of ordinary shares held arose from the exercise of Long Term Incentive Plan awards, and investment during the year in partnership shares through the HMRC approved Bovis Homes Group Share Incentive Plan. There were no changes in the holdings of ordinary shares of any of the directors between 31 December 2009 and 5 March 2010, other than the normal monthly investment in partnership shares through the Bovis Homes Group Share Incentive Plan.

The directors' interests in share options and awards under the Long Term Incentive Plan are detailed on pages 49 to 50. There were no changes in the holdings of share options and awards under the 2009 Bonus Replacement Share Plan and the Long Term Incentive Plan between 31 December 2009 and 5 March 2010. LTIP awards granted to Mr Malcolm Harris whilst an executive director continue in force until the third anniversary of the award date and, should either of the two measures of performance be met, the number of shares which can be realised will be reduced according to the proportion of the three year performance period following cessation of employment, measured in complete months, relative to the three year performance period. Executive share options in existence for Mr Malcolm Harris as at his date of retirement lapsed on 3 July 2009, twelve months later.

### 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

## Section 2: Audited information

### Directors' remuneration

Year ended 31 December	Salary/ fees 2009 £000	Performance bonus 2009 £000	Benefits in kind 2009 £000	Total 2009 £000	Total 2008 £000
<b>Executive directors</b>					
M R Harris (retired 2 July 2008)	-	-	-	-	267
D J Ritchie	400	-	1	401	358
N Cooper	275	-	1	276	238
<b>Non-executive directors</b>					
T D Melville-Ross (retired 2 July 2008)	-	-	-	-	48
M R Harris (appointed non-executive Chairman 3 July 2008)	125	-	-	125	62
A D Lyons (appointed 1 October 2008)	60	-	-	60	15
L A MacDonagh	40	-	-	40	38
J A Warren	47	-	-	47	47
C P Holmes	45	-	-	45	43
Directors' remuneration	992	-	2	994	1,116
Pension charge				82	138
				<b>1,076</b>	<b>1,254</b>

Executive director salaries were last increased by the Remuneration Committee on 1 July 2008 ahead of the retirement of Mr Malcolm Harris, the promotion of Mr David Ritchie and the reduction in executive directors from three to two. Appropriate external independent advice was received as part of this review.

Subsequent to the 1 July 2008 review, the Company's annual salary review date was changed to 1 January each year. Salaries were reviewed to take effect from 1 January 2009 and a standard 'no rise' principle was adopted, with the result that there was no proposal requiring consideration by the Remuneration Committee in respect of the executive directors. Salaries were last reviewed to take effect from 1 January 2010 and again no increase was recommended for the executive directors.

	Salary on 1 Jan 2009 £000	Salary on 31 Dec 2008 £000	Percentage change %
<b>Executive directors</b>			
D J Ritchie	400	400	-
N Cooper	275	275	-

The Company last reviewed the level of fees paid to its non-executive directors in 2008, supported both by appropriate external independent advice and a benchmarking exercise assessing the fees payable to non-executive directors in similar companies, comparable both in terms of sector and in terms of size.

The gains for directors on the exercise of Long Term Incentive Plan awards are shown on page 50.

## Report on directors' remuneration continued

### Directors' pension accruals under the UKLA Listing Rules

	Age at 31 December 2009	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 December 2009 £ p.a.	Accumulated total accrued pension at 31 December 2008 £ p.a.	Increase in accrued pension during the year (net of inflation) £	Transfer value of increase (less Director contributions) £
Executive directors							
D J Ritchie	40	65,476	15,174	40,859	34,226	4,921	31,064

Note 1: The accumulated total accrued pension as at 31 December 2008 has been adjusted for inflation in arriving at the increase in the accrued pension at 31 December 2009. The increase in accrued pension during the year excludes any increase due to inflation.

Note 2: The transfer value has been calculated using the amended transfer basis introduced in October 2008 following a review by the trustee of all pension scheme member benefits. There have been no changes to, or discretion applied to, transfer values arising from special individual arrangements. The values are shown net of directors' contributions.

Note 3: Mr Ritchie's pensionable earnings are restricted to an earnings cap (2009/10: £116,650) for pension accruals up to 5 April 2006. Pension benefits accrued after this date are not subject to an earnings cap, but are subject to a cap on annual increases in pensionable earnings of 2.5%.

### Directors' pension accruals under The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 December 2009 £ p.a.	Increase in accrued pension during the year £	Transfer value of accrued pension at 31 December 2009 £	Transfer value of accrued pension at 31 December 2008 £	Increase in transfer value (less Director contributions) £
Executive directors							
D J Ritchie	65,476	15,714	40,859	6,633	417,993	282,813	119,466

Note 1: The transfer value has been calculated using the amended transfer basis introduced in October 2008 following a review. The values are shown net of directors' contributions.

Note 2: Mr Ritchie's pensionable earnings are restricted to an earnings cap (2009/10: £116,650) for pension accruals up to 5 April 2006. Pension benefits accrued after this date are not subject to an earnings cap, but are subject to a cap on annual increases in pensionable earnings of 2.5%.

### Directors' interests in share options

	Date of grant	Scheme	At 1 January 2009	Lapsed in year	Exercised in year	At 31 December 2009	Exercise price per share	Option exercise period
Directors								
M R Harris	18 March 2003	Exec	104,602	(104,602)	-	-	358.3p	3/06-3/13
D J Ritchie	18 March 2003	Exec	34,867	-	-	34,867	358.3p	3/06-3/13
	11 April 2005	SAYE	2,672	-	-	2,672	618.3p	6/10-12/10
N Cooper	8 April 2008	SAYE	2,085	-	-	2,085	460.4p	6/11-12/11

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 10% 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.

## Report on directors' remuneration continued

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.

In respect of the executive director serving at 31 December 2009 holding Executive Share Options, no share options were held under an HMRC approved scheme.

### Directors' interests in 2009 Bonus Replacement Share Plan shares

	Date of grant	At 1 January 2009	Granted/ (lapsed) in year	Exercised in year	At 31 December 2009	Exercise price per share	Option exercise period
Executive directors							
D J Ritchie	7 May 2009	-	95,057	-	95,057	-	5/12-11/12
N Cooper	7 May 2009	-	65,351	-	65,351	-	5/12-11/12

### 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 EPS	Percentage of award subject to each performance criteria TSR	LTP awards vesting and exercised in 2009	Value of shares at vesting date £000	Gain on exercise £000	Shares retained on exercise
Director											
M R Harris	14.3.06	14.3.09	55,554	-	475	50%	50%	17,938	78	83	14,147
	14.3.07	14.3.10	48,402	48,402	500	50%	50%	-	-	-	-
	11.3.08	11.3.11	102,683	102,638	525	50%	50%	-	-	-	-
D J Ritchie	14.3.06	14.3.09	29,238	-	250	50%	50%	10,964	47	50	6,459
	14.3.07	14.3.10	29,040	29,040	300	50%	50%	-	-	-	-
	11.3.08	11.3.11	61,582	61,582	315	50%	50%	-	-	-	-
	27.8.08	27.8.11	19,882	19,882	85	50%	50%	-	-	-	-
	10.3.09	10.3.12	-	74,288	320	50%	50%	-	-	-	-
N Cooper	14.3.07	14.3.10	16,940	16,940	175	50%	50%	-	-	-	-
	11.3.08	11.3.11	39,100	39,100	200	50%	50%	-	-	-	-
	27.8.08	27.8.11	17,542	17,542	75	50%	50%	-	-	-	-
	10.3.09	10.3.12	-	51,072	220	50%	50%	-	-	-	-

During the year awards of 125,360 shares were granted to executive directors at up to 80% of basic salary, exercisable in 2012. The awards granted to executive directors were as follows:

	Grant date	Grant price	Number of shares awarded
Director			
D J Ritchie	10 March 2009	430.75p	74,288
N Cooper	10 March 2009	430.75p	51,072

The charge for the year under the requirements of IFRS 2: "Share based payments" in respect of executive directors was £339,000 (2008: £89,000).

Awards granted to Mr Malcolm Harris whilst an executive director continue in force until the third anniversary of the award date and, should either of the two measures of performance be met, the number of shares which can be realised will be reduced according to the proportion of the three year performance period following cessation of employment, measured in complete months, relative to the three year performance period.

### Share price

The middle market price of the Company's shares at 31 December 2009 was £4.35 (2008: £4.00). During the year ended 31 December 2009 the share price recorded a middle market low of £3.49 and a high of £5.56.

By order of the Board  
Colin Holmes  
Chairman of the Remuneration Committee

5 March 2010

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

The directors are responsible for preparing the annual report 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.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

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 are sufficient to show and explain the Parent Company's transactions and 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 2006. 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.

We confirm that to the best of our knowledge:

- a) the Group and Parent Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; and
- b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties they face.

For and on behalf of the Board

**David Ritchie**  
Chief Executive

**Neil Cooper**  
Finance Director

5 March 2010

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

We have audited the financial statements of Bovis Homes Group PLC for the year ended 31 December 2009 set out on pages 53 to 78. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

## **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Under the Listing Rules we are required to review:**

- the directors' statement, set out on page 38, in relation to going concern; and
- the part of the Corporate Governance Statement set out on page 35, relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**William Meredith** (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
London

5 March 2010

# Group income statement

For the year ended 31 December 2009

	Note	Continuing operations					
		Year ended 31 Dec 2009			Year ended 31 Dec 2008		
		Before exceptional items £000	Exceptional items £000	Total £000	Before exceptional items £000	Exceptional items £000	Total £000
Revenue		281,505	-	281,505	282,326	-	282,326
Cost of sales		(236,339)	1,471	(234,868)	(219,011)	(76,487)	(295,498)
Gross profit/(loss)		45,166	1,471	46,637	63,315	(76,487)	(13,172)
Administrative expenses		(27,769)	-	(27,769)	(42,018)	(16,641)	(58,659)
<b>Operating profit/(loss) before financing costs</b>	5,7	17,397	1,471	18,868	21,297	(93,128)	(71,831)
Financial income	8	2,304	-	2,304	1,389	-	1,389
Financial expenses	8	(12,178)	(4,197)	(16,375)	(8,292)	-	(8,292)
Net financing costs		(9,874)	(4,197)	(14,071)	(6,903)	-	(6,903)
<b>Profit/(loss) before tax</b>		7,523	(2,726)	4,797	14,394	(93,128)	(78,734)
Income tax (expense)/credit	9	(2,070)	763	(1,307)	(3,319)	23,058	19,739
<b>Profit/(loss) for the period attributable to equity holders of the parent</b>		5,453	(1,963)	3,490	11,075	(70,070)	(58,995)
<i>Earnings/(loss) per share</i>							
Basic	21	4.4p	(1.6p)	2.8p	9.2p	(58.3p)	(49.1p)
Diluted	21	4.4p	(1.6p)	2.8p	9.2p	(58.3p)	(49.1p)

# Group statement of comprehensive income

For the year ended 31 December 2009

	2009 £000	2008 £000
Profit/(loss) for the period	3,490	(58,995)
Actuarial losses on defined benefit pension scheme	(4,210)	(8,820)
Deferred tax on actuarial movements on defined benefit pension scheme	1,179	2,470
<b>Total comprehensive income/(expense) for the period attributable to equity holders of the parent</b>	459	(65,345)

## Balance sheets

As at 31 December 2009	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
<b>Assets</b>					
Property, plant and equipment	11	11,574	12,347	-	-
Investments	12	22	22	1,554	850
Deferred tax assets	13	6,446	5,548	-	-
Trade and other receivables	15	2,213	2,418	-	-
Available for sale financial assets	15	21,291	6,030	-	-
<b>Total non-current assets</b>		<b>41,546</b>	<b>26,365</b>	<b>1,554</b>	<b>850</b>
Inventories	14	630,709	780,808	-	-
Trade and other receivables	15	30,771	37,947	373,979	310,813
Cash and cash equivalents	16	114,595	11,634	344	344
Current tax asset	10	831	23,550	-	-
<b>Total current assets</b>		<b>776,906</b>	<b>853,939</b>	<b>374,323</b>	<b>311,157</b>
<b>Total assets</b>		<b>818,452</b>	<b>880,304</b>	<b>375,877</b>	<b>312,007</b>
<b>Equity</b>					
Issued capital	17	66,570	60,497	66,570	60,497
Share premium	17	210,181	157,127	210,181	157,127
Retained earnings	17	415,815	414,654	96,346	89,745
<b>Total equity attributable to equity holders of the parent</b>		<b>692,566</b>	<b>632,278</b>	<b>373,097</b>	<b>307,369</b>
<b>Liabilities</b>					
Bank and other loans	18	2,337	111,730	-	-
Trade and other payables	20	23,077	24,907	459	459
Retirement benefit obligations	22	8,910	6,790	-	-
Provisions	19	1,700	1,623	-	-
<b>Total non-current liabilities</b>		<b>36,024</b>	<b>145,050</b>	<b>459</b>	<b>459</b>
Trade and other payables	20	87,698	101,964	28	28
Provisions	19	2,164	1,012	-	-
Current tax liabilities		-	-	2,293	4,151
<b>Total current liabilities</b>		<b>89,862</b>	<b>102,976</b>	<b>2,321</b>	<b>4,179</b>
<b>Total liabilities</b>		<b>125,886</b>	<b>248,026</b>	<b>2,780</b>	<b>4,638</b>
<b>Total equity and liabilities</b>		<b>818,452</b>	<b>880,304</b>	<b>375,877</b>	<b>312,007</b>

These accounts were approved by the board of directors on 5 March 2010 and were signed on its behalf: D Ritchie and N Cooper, Directors.



## Group statement of changes in equity

For the year ended 31 December 2009	Own shares held £000	Retirement benefit obligations £000	Other retained earnings £000	Total retained earnings £000	Issued capital £000	Share premium £000	Total £000
Balance at 1 January 2008	(2,958)	(8,635)	518,187	506,594	60,415	156,734	723,743
Total comprehensive income and expense	-	(6,350)	(58,995)	(65,345)	-	-	(65,345)
Deferred tax on other employee benefits	-	-	(22)	(22)	-	-	(22)
Current tax on share based payments recognised directly in equity	-	-	498	498	-	-	498
Issue of share capital	-	-	-	-	82	393	475
Own shares disposed	154	-	(154)	-	-	-	-
Share based payments	-	-	(22)	(22)	-	-	(22)
Dividends paid to shareholders	-	-	(27,049)	(27,049)	-	-	(27,049)
<b>Balance at 31 December 2008</b>	<b>(2,804)</b>	<b>(14,985)</b>	<b>432,443</b>	<b>414,654</b>	<b>60,497</b>	<b>157,127</b>	<b>632,278</b>
Balance at 1 January 2009	(2,804)	(14,985)	432,443	414,654	60,497	157,127	632,278
Total comprehensive income and expense	-	(3,031)	3,490	459	-	-	459
Deferred tax on other employee benefits	-	-	(2)	(2)	-	-	(2)
Issue of share capital	-	-	-	-	6,073	53,054	59,127
Own shares disposed	138	-	(138)	-	-	-	-
Share based payments	-	-	704	704	-	-	704
<b>Balance at 31 December 2009</b>	<b>(2,666)</b>	<b>(18,016)</b>	<b>436,497</b>	<b>415,815</b>	<b>66,570</b>	<b>210,181</b>	<b>692,566</b>

### Company statement of changes in equity

For the year ended 31 December 2008	Total retained earnings £000	Attributable to equity holders of the parent Issued capital £000	Share premium £000	Total £000
Balance at 1 January 2008	8,894	60,415	156,734	226,043
Total comprehensive income and expense	107,922	-	-	107,922
Issue of share capital	-	82	393	475
Dividends paid to shareholders	(27,049)	-	-	(27,049)
Share based payments	(22)	-	-	(22)
<b>Balance at 31 December 2008</b>	<b>89,745</b>	<b>60,497</b>	<b>157,127</b>	<b>307,369</b>
Balance at 1 January 2009	89,745	60,497	157,127	307,369
Total comprehensive income and expense	5,897	-	-	5,897
Issue of share capital	-	6,073	53,054	59,127
Share based payments	704	-	-	704
<b>Balance at 31 December 2009</b>	<b>96,346</b>	<b>66,570</b>	<b>210,181</b>	<b>373,097</b>

# Statement of cash flows

For the year ended 31 December 2009	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
<b>Cash flows from operating activities</b>					
Profit/(loss) for the year		3,490	(58,995)	5,897	107,922
Depreciation	5,11	769	1,168	-	-
Impairment of goodwill	6	-	10,036	-	-
Impairment of assets	6	245	2,241	-	-
Financial income	8	(2,304)	(1,389)	(8,190)	(112,073)
Financial expense	8	16,375	8,292	-	-
Loss/(profit) on sale of property, plant and equipment	5	3	(146)	-	-
Equity-settled share-based payment expense/(credit)	7	704	(22)	-	-
Income tax expense/(credit)	9	1,307	(19,739)	2,293	4,151
(Release)/write-down of inventories	6	(2,664)	75,202	-	-
<b>Operating profit before changes in working capital and provisions</b>		<b>17,925</b>	<b>16,648</b>	<b>-</b>	<b>-</b>
(Increase)/decrease in trade and other receivables		(7,555)	8,924	(67,317)	(85,506)
Decrease in inventories		152,762	13,345	-	-
(Decrease)/increase in trade and other payables		(17,173)	(43,444)	-	7
(Decrease)/increase in provisions and employee benefits		(611)	702	-	-
<b>Cash generated from operations</b>		<b>145,348</b>	<b>(3,825)</b>	<b>(67,317)</b>	<b>(85,499)</b>
Interest paid		(6,684)	(8,769)	-	-
Income taxes received/(paid)		21,688	(16,924)	-	-
<b>Net cash from operating activities</b>		<b>160,352</b>	<b>(29,518)</b>	<b>(67,317)</b>	<b>(85,499)</b>
<b>Cash flows from investing activities</b>					
Interest received		1,481	187	8,190	14,824
Dividends received		-	-	-	97,249
Acquisition of property, plant and equipment		(44)	(143)	-	-
Proceeds from sale of plant and equipment		45	214	-	-
<b>Net cash from investing activities</b>		<b>1,482</b>	<b>258</b>	<b>8,190</b>	<b>112,073</b>
<b>Cash flows from financing activities</b>					
Dividends paid	17	-	(27,049)	-	(27,049)
Proceeds from the issue of share capital	17	60,662	475	60,662	475
Costs associated with share placing	17	(1,535)	-	(1,535)	-
(Repayment)/drawdown of borrowings	18	(118,000)	79,000	-	-
Costs associated with refinancing		-	(8,290)	-	-
<b>Net cash from financing activities</b>		<b>(58,873)</b>	<b>44,136</b>	<b>59,127</b>	<b>(26,574)</b>
Net increase in cash and cash equivalents		102,961	14,876	-	-
Cash and cash equivalents at 1 January	16	11,634	(3,242)	344	344
<b>Cash and cash equivalents at 31 December</b>	16	<b>114,595</b>	<b>11,634</b>	<b>344</b>	<b>344</b>

# 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 2009 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 5 March 2010.

## 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 s408 of the Companies Act 2006 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 for derivative financial instruments and available for sale assets.

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 28.

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.

### *Impact of standards and interpretations effective for the first time*

The following new standards, amendments to standards or interpretations are mandatory for the first time for the Company's year ended 31 December 2009. They have had no material impact on the Group's financial statements.

IAS1 (2007) - Presentation of financial statements. This relates to the presentation of financial statements and in particular the presentation of a statement of changes in equity as a primary statement. Previously this statement was disclosed as a note to the accounts.

Amendments to IFRS 7 – Improving Disclosures about Financial Instruments. The amended standard requires additional disclosures in relation to the Group's financial instruments recognised at fair value, as set out in note 23.

IFRS8 - Operating segments. This standard relates to the degree to which financial information is disaggregated in published financial information to aid the reader in a better understanding of the performance of the Group. The Group's operations remain those of a housebuilder operating entirely within England and Wales, and there are no activities of the Group which do not support this operation. Following the introduction of this standard, the Group reviewed its internal financial management information and reporting arising from its internal organisational structure. Following this review, it is confident that its internal organisational structures are sufficiently similar in terms of economic characteristics, products, construction processes, distribution methods and types of customers so as to meet fully the aggregation criteria of the standard. Accordingly, the Board has concluded that there are no separate segments, either business or geographic, to disclose.

IAS23 - (Amended) Borrowing costs. This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset, as part of the cost of that asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. Inventories which are produced in large quantities on a repetitive basis over a short period of time are not qualifying assets. This amendment is not expected to have any material impact on the Group's financial statements as the activities performed by the Group do not generally produce qualifying assets.

## 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

### *Business combinations*

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the Group. The cost of or consideration for an acquisition is measured as the fair value of the assets given and liabilities taken on or assumed in return for the acquisition plus costs directly attributable to the acquisition. On acquisition, identifiable assets and liabilities are measured initially at fair value, with any excess of consideration being recognised as goodwill. Accounting policies of subsidiary undertakings have been changed where necessary to ensure consistency with those adopted by the Group.

## Notes to the financial statements continued

### **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;
- imputed interest on available-for-sale financial assets and on deferred terms land payables;
- pension finance costs or benefits being the net of interest costs on liabilities and expected return on assets linked to the Defined Benefit Scheme; 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.

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

### **Taxation**

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

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

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

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

### **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 where deemed appropriate 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.

### **Goodwill**

Where the fair value of consideration paid for an acquisition exceeds the fair value of the net assets acquired, the excess is recognised as goodwill arising on consolidation and is capitalised as an asset. Once capitalised, this asset is reviewed for impairment on an annual basis with any impairment arising requiring immediate recognition in the income statement.

## Notes to the financial statements continued

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units of the Group at acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then, where appropriate, to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

### **Property, plant and equipment**

Property, plant and equipment are stated at 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. Following the issue of IFRIC11 in 2007, the Parent Company accounts for the share-based payments granted to subsidiary employees as an increase in the cost of its investment in subsidiaries.

### **Trade and other receivables**

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

Receivables on extended terms granted as part of a sales transaction are secured by way of a legal charge on the relevant property, categorised as an available for sale financial asset and are stated at fair value as described in note 15. Gains and losses arising from changes in fair value are recognised directly in equity in retained earnings, with the exceptions of impairment losses, the impact of changes in future cash flows and interest calculated using the 'effective interest rate' method, which are recognised directly in the income statement. Where the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Given its materiality, this item is being disclosed separately on the face of the balance sheet.

### **Inventories**

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

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

## Notes to the financial statements continued

### **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.

### **Share-based payments**

The Group has applied the requirements of IFRS2: "Share-based payments". In accordance with the transitional provisions of IFRS1, IFRS2 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**

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, having taken into account the aggregation testing provisions of IFRS8.

### **Exceptional items**

Items that are both material in size and unusual or infrequent in nature are presented as exceptional items in the income statement. The Directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance. Examples of events that, inter alia, may give rise to the classification of items as exceptional are the restructuring of existing and newly-acquired businesses, gains or losses on the disposal of businesses or individual assets and asset impairments, including currently developable land, work in progress and goodwill.

### **Restructuring costs**

Restructuring costs are recognised in the income statement when the Group has a detailed plan that has been communicated to the affected parties. A liability is accrued for unpaid restructuring costs.

### **Impact of standards and interpretations in issue but not yet effective**

A number of new standard, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these are expected to have an effect on the consolidated financial statements of the Group. Comments on specific new standards or amendments are as follows:

Amendment to IAS39 'Financial instruments'. This standard is amended such that gains or losses on a hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows affect profit or loss. As the Group's current hedged instruments are currently ineffective, movements are currently taken through the income statement so this will have no practical impact. This amendment will apply to the Group from the accounting period commencing 1 January 2010.

Comprehensive revision to IFRS3 'Business combinations'. This revision will have no impact on implementation although it will alter the accounting treatment for future potential acquisitions. This revision will apply to the Group from the accounting period commencing 1 January 2010.

IFRIC 15 'Agreements for the construction of real estate'. IFRIC 15 provides guidance on whether the construction of real estate should be accounted for under IAS11 or IAS18. The Group already accounts for the construction of real estate in accordance with IFRIC 15 and accordingly this interpretation which is effective from 1 January 2010 will have no impact upon the Group.

The Group has not early adopted any standard, amendment or interpretation.

## Notes to the financial statements continued

### 5. Operating profit before financing costs

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

	2009 £000	2008 £000
Depreciation of tangible fixed assets	769	1,168
Net loss/(profit) on disposal of property, plant and equipment	3	(146)
Hire of plant and machinery	275	1,294
Rental income (included in revenue)	(595)	(441)
<b>Auditors' remuneration</b>	<b>2009 £000</b>	<b>2008 £000</b>
Fees payable to the Company's auditor for the audit of the Company's annual accounts	31	32
<i>Non Audit Fees</i>		
The audit of the Company's subsidiaries, pursuant to legislation	106	108
Interim review work	17	17
Tax services	125	54
Other services	67	7
Fees charged to operating profit before financing costs	346	218
<b>Fees charged to balance sheet</b>		
Corporate finance services	-	259
<b>Total fees</b>	<b>346</b>	<b>477</b>

### 6. Exceptional items

#### *Inventory carrying value*

The Group has reviewed the carrying value of its inventory items, comparing the carrying cost of the asset against estimates of net realisable value. Net realisable value has been arrived at using the Board's estimates of achievable selling prices taking into account current market conditions, and after deduction of an appropriate amount for selling costs. This has given rise in the second half to an £11.6 million release of previously taken provision: this release comprised a gross release of £14.0 million and a further provision of £2.4 million. Taken together with the £8.9 million provision taken in the first half, the net inventory provision release for the year as a whole was £2.7 million (2008: £75.2 million provision taken).

#### *Financing charge*

Following the credit approval of a new banking facility in December 2009 followed by the entering into of that agreement during January 2010, the Group has written off the £4.2 million remaining un-amortised element of the one-off and other capitalised transaction fees in relation to the facility agreement entered into in December 2008 (2008: £nil).

#### *Other exceptional items*

The Group has taken a £0.2 million impairment charge relating to available-for-sale assets (2008: £1.2 million) and a £1.0 million provision for a potential onerous land contract (2008: £nil). Other items in 2008 included a £10.0 million goodwill write-off, a £1.0 million fixed asset impairment and a £5.7 million restructuring charge. Total exceptional charges for 2009 are £2.7 million (2008: £93.1 million).

### 7. Directors and employees

Information relating to directors' remuneration, compensation for loss of office, long term incentive plan, share options and pension entitlements appears in the Report on directors' remuneration on pages 42 to 50. 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*

	2009	2008
<b>Average staff numbers</b>	<b>466</b>	<b>805</b>
<b>Personnel expenses</b>	<b>2009 £000</b>	<b>2008 £000</b>
Wages and salaries	17,677	29,462
Compulsory social security contributions	1,867	2,962
Contributions to defined contribution plans	324	547
Increase in expenses related to defined benefit plans	720	400
Equity-settled share-based payments	704	(22)
<b>Personnel expenses</b>	<b>21,292</b>	<b>33,349</b>

## Notes to the financial statements continued

### 8. Net financing costs

#### Recognised in income statement

	2009 £000	2008 £000
Interest income	(1,538)	(217)
Imputed interest on deferred terms land payables	1,675	2,461
Interest expense	10,166	5,831
Net pension finance credit	(250)	(1,050)
Imputed interest on available for sale financial assets	(516)	(122)
Hedge ineffectiveness for derivatives	337	-
Net financing costs before exceptional items	9,874	6,903
Exceptional items - facility fee written off	4,197	-
<b>Total net financing costs</b>	<b>14,071</b>	<b>6,903</b>

### 9. Income tax

#### Recognised in the income statement

	Note	2009 £000	2008 £000
<b>Current tax</b>			
Current year		1,028	(19,565)
Adjustments for prior years		-	(642)
		<b>1,028</b>	<b>(20,207)</b>
<b>Deferred tax</b>			
Origination and reversal of temporary differences	13	392	787
Adjustments for prior year	13	(113)	(319)
<b>Total income tax in income statement</b>		<b>1,307</b>	<b>(19,739)</b>

#### Reconciliation of effective tax rate

	2009 %	2009 £000	2008 %	2008 £000
Profit/(loss) before tax		4,797		(78,734)
Income tax using the domestic corporation tax rate	28.0	1,343	28.5	(22,439)
Non-deductible expenses	13.1	633	(4.5)	3,617
Other	(11.6)	(556)	(0.1)	44
Over provided in prior years	(2.4)	(113)	1.2	(961)
<b>Total tax (credit)/expense</b>	<b>27.1</b>	<b>1,307</b>	<b>25.1</b>	<b>(19,739)</b>

#### Recognised directly in equity

	Note	2009 £000	2008 £000
Relating to share-based payments		-	498
<b>Current tax recognised directly in equity</b>		<b>-</b>	<b>498</b>
Relating to actuarial movements on pension scheme	13	1,179	2,470
Relating to share-based payments	13	(2)	(78)
Relating to property, plant and equipment	13	-	56
<b>Deferred tax recognised directly in equity</b>		<b>1,177</b>	<b>2,448</b>



## Notes to the financial statements continued

### 10 Current tax assets and liabilities

The current asset of £831,000 (2008: £23,550,000) represents the amount of income taxes receivable in respect of current and prior periods.

### 11. Property, plant and equipment

Group	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
<b>Cost</b>				
Balance at 1 January 2008	12,618	7,913	2,474	23,005
Additions	-	133	10	143
Disposals	-	(836)	(91)	(927)
<b>Balance at 31 December 2008</b>	<b>12,618</b>	<b>7,210</b>	<b>2,393</b>	<b>22,221</b>
Balance at 1 January 2009	12,618	7,210	2,393	22,221
Additions	-	35	9	44
Disposals	-	(294)	(66)	(360)
<b>Balance at 31 December 2009</b>	<b>12,618</b>	<b>6,951</b>	<b>2,336</b>	<b>21,905</b>
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2008	821	5,711	2,022	8,554
Depreciation charge for the year	201	809	158	1,168
Impairment charge for the year	1,011	-	-	1,011
Disposals	-	(772)	(87)	(859)
<b>Balance at 31 December 2008</b>	<b>2,033</b>	<b>5,748</b>	<b>2,093</b>	<b>9,874</b>
Balance at 1 January 2009	2,033	5,748	2,093	9,874
Depreciation charge for the year	181	490	98	769
Disposals	-	(250)	(62)	(312)
<b>Balance at 31 December 2009</b>	<b>2,214</b>	<b>5,988</b>	<b>2,129</b>	<b>10,331</b>
<b>Carrying amounts</b>				
At 1 January 2008	11,797	2,202	452	14,451
<b>At 31 December 2008</b>	<b>10,585</b>	<b>1,462</b>	<b>300</b>	<b>12,347</b>
At 1 January 2009	10,585	1,462	300	12,347
<b>At 31 December 2009</b>	<b>10,404</b>	<b>963</b>	<b>207</b>	<b>11,574</b>

The directors have undertaken an impairment review on the properties as at 31 December 2009, such review giving rise to £nil impairments during the year (2008: £1,011,000 impairment of freehold land and buildings).

## Notes to the financial statements continued

### 12. Investments

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
<b>Subsidiary undertakings</b>				
Interest in subsidiary undertakings' shares at cost (100% ownership of ordinary shares)	-	-	1,554	850
<b>Associated undertakings - share of net assets</b>				
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	-	-
<b>Other investments</b>				
Listed investments	1	1	-	-
	<b>22</b>	<b>22</b>	<b>1,554</b>	<b>850</b>

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 eight 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	
		2009	2008
Bovis Homes Limited	Great Britain	100%	100%

## Notes to the financial statements continued

### 13. 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	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Property, plant and equipment	321	289	-	-	321	289
Non current trade payables	3,135	3,233	-	-	3,135	3,233
Available for sale financial assets	-	42	(34)	-	(34)	42
Employee benefits - pensions	2,492	1,901	-	-	2,492	1,901
Employee benefits - share-based payments	273	99	-	-	273	99
Provisions	331	354	-	-	331	354
Interest rate derivative	94	-	-	-	94	-
Fair value adjustment	-	-	(166)	(370)	(166)	(370)
<b>Tax assets/(liabilities)</b>	<b>6,646</b>	<b>5,918</b>	<b>(200)</b>	<b>(370)</b>	<b>6,446</b>	<b>5,548</b>

#### Movement in temporary differences during the year

Group	Balance 1 Jan 2009 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2009 £000
	Property, plant and equipment	289	32	-
Non current trade payables	3,233	(98)	-	3,135
Available for sale financial assets	42	(76)	-	(34)
Employee benefits - pensions	1,901	(588)	1,179	2,492
Employee benefits - share-based payments	99	176	(2)	273
Provisions	354	(23)	-	331
Interest rate derivative	-	94	-	94
Fair value adjustment	(370)	204	-	(166)
<b>Movement in temporary differences during 2009</b>	<b>5,548</b>	<b>(279)</b>	<b>1,177</b>	<b>6,446</b>

Group	Balance 1 Jan 2008 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2008 £000
	Property, plant and equipment	203	30	56
Non current trade payables	3,098	135	-	3,233
Available for sale financial assets	-	42	-	42
Employee benefits - pensions	(282)	(287)	2,470	1,901
Employee benefits - share-based payments	364	(187)	(78)	99
Provisions	159	195	-	354
Fair value adjustment	26	(396)	-	(370)
<b>Movement in temporary differences during 2008</b>	<b>3,568</b>	<b>(468)</b>	<b>2,448</b>	<b>5,548</b>

#### 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 2009, £11,197,000 (2008: £11,546,000) 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 or surplus on its defined benefits pension scheme under the requirements of IAS19 (Revised): 'Employee benefits'. This has generated a deficit of £8.9 million (2008: £6.8 million). As at 31 December 2009 a deferred tax asset of £2,492,000 (2008: £1,901,000) was recognised.

A £292,000 tax asset has not been recognised in relation to subsidiary entity tax losses that are unable to be immediately relieved.

## Notes to the financial statements continued

### 14. Inventories

Group	2009 £000	2008 £000
Raw materials and consumables	834	721
Work in progress	169,698	259,922
Part exchange properties	5,955	20,525
Land held for development	454,066	499,484
Development properties	156	156
	<b>630,709</b>	<b>780,808</b>

Inventories to the value of £235,498,000 were recognised as expenses in the year (2008: £217,288,000).

As outlined in note 6, there has been a £2.7 million exceptional release of inventory provisions during 2009 (2008: £75.2 million charge). Following this review, £163.6 million (2008: £268.0 million) of inventories were valued at fair value less costs to sell rather than at historic cost.

The Group charged £21,000 of loss on disposal of part exchange properties to cost of sales during the year (2008: £1,299,000).

The Company has no inventories.

### 15. Trade and other receivables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
<b>Non-current assets</b>				
Other debtors	2,213	2,418	-	-
Available for sale financial assets	21,291	6,030	-	-
	<b>23,504</b>	<b>8,448</b>	<b>-</b>	<b>-</b>
<b>Current assets</b>				
Trade receivables	27,451	33,085	-	-
Amount due from subsidiary undertakings	-	-	373,979	310,813
Other debtors	2,551	2,428	-	-
Prepayments and accrued income	769	2,434	-	-
	<b>30,771</b>	<b>37,947</b>	<b>373,979</b>	<b>310,813</b>
<b>Total trade and other receivables</b>	<b>54,275</b>	<b>46,395</b>	<b>373,979</b>	<b>310,813</b>

The carrying value of trade receivables and other debtors represents the Group's maximum exposure to credit risk. As at 31 December 2009, the Group had £2.0 million of receivables past due. The Group has reviewed the items which comprise this balance, and believes that these amounts will be recovered. As part of this exercise the Group has provided for receivables it regards as doubtful. The total of this provision is £1.0 million (2008: £0.9 million). The carrying value of amounts due from subsidiary undertakings represents the Company's maximum credit risk. The directors consider these amounts to be fully receivable at year end.

#### Ageing of past due but not impaired receivables

	2009 £m	2008 £m
Less than three months	0.2	0.2
Greater than three months	1.8	1.3

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

## Notes to the financial statements continued

### Available for sale financial assets

Available for sale financial assets relate to legal completions where the Group has retained an interest through agreement to defer recovery of a percentage of the market value of the property, together with a legal charge to protect the Group's position. The Group participates in two schemes. 'Jumpstart' schemes are receivable 10 years after recognition with 3% interest charged between years 6 to 10. The 'HomeBuy Direct' scheme is operated together with the Government. Receivables are due 25 years after recognition with interest charged from year 6 onwards at a base value of 1.75% plus annual RPI increments. These assets are held at the present value of expected future cash flows taking into account the estimated market value of the property at the estimated date of recovery.

	2009 £000	2008 £000
Balance at 1 January	6,030	1,085
Additions	14,990	6,053
Impairment taken through the income statement	(245)	(1,230)
Imputed interest	516	122
<b>Balance at 31 December</b>	<b>21,291</b>	<b>6,030</b>

Total impairments taken to date are £1,475,000 (2008 £1,230,000). Further disclosures relating to financial assets are set out in note 23.

### 16. Cash and cash equivalents

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Bank balances	347	327	344	344
Call deposits	114,248	11,307	-	-
Cash and cash equivalents in the balance sheet	114,595	11,634	344	344
Bank overdrafts	-	-	-	-
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>114,595</b>	<b>11,634</b>	<b>344</b>	<b>344</b>

### 17. Capital and reserves

#### Share capital and share premium

	Ordinary shares	
	2009	2008
In issue at 1 January	120,994,753	120,830,148
Issued for cash	12,144,215	164,605
<b>In issue at 31 December – fully paid</b>	<b>133,138,968</b>	<b>120,994,753</b>

At 31 December 2008, the authorised share capital comprised 150,000,000 ordinary shares. The requirement to have an authorised share capital was removed at the 2009 Annual General Meeting. 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.

#### Issue of equity

The Group issued 12,100,000 new shares on 8 September 2009 following a placing exercise. The nominal value of shares issued was £6,050,000. The share premium associated with this placing was £52,915,000 after taking into account £1,535,000 of placing fees.

#### Reserve for own shares held

The cost of the Company's shares held in the ESOP trust by the Group is recorded as a reserve in equity. During the year ended 31 December 2009, there were no share purchases. 31,690 shares awarded under the Group's long term incentive plan vested during 2009, and accordingly the balance of the own shares held reserve fell by £138,168 during the year. The Group has suspended all rights on shares held by the Group in the Company.

#### Dividends

The following dividends were paid by the Group in 2008. There have been no dividend payments in 2009.

	2009 £000	2008 £000
November 2008: 5.0p per qualifying ordinary share	-	6,018
May 2008: 17.5p per qualifying ordinary share	-	21,031
	-	27,049

No scrip dividends were issued during 2009 (2008: £nil).

The Board has proposed that no final dividend payment be paid. No dividend has been provided for and there are no income tax consequences.

## Notes to the financial statements continued

### 18. Interest-bearing loans and borrowings

	2009 £000	2008 £000
<i>Non-current liabilities</i>		
Unsecured bank loans	-	120,000
Issue costs	-	(8,270)
Other loans	2,000	-
Derivative financial instruments	337	-
	<u>2,337</u>	<u>111,730</u>
<b>Interest-bearing loans and borrowings</b>	<b>2,337</b>	<b>111,730</b>

#### Interest rate profile of interest-bearing financial instruments

	Rate	Facility maturity	Carrying value 2009	Carrying value 2008
Overdraft	LIBOR +250 bps	on demand	-	-
Bank loans	LIBOR +350 bps	2011	-	120,000
Other loans	208 bps	2011	2,000	-

#### Details of facilities

The Group's existing facility as at 31 December 2009 was a syndicated revolving credit facility with £220 million committed funds. As at 31 December the Group had received credit approval for a replacement facility which was entered into in January 2010, with this existing facility being cancelled at that point.

#### Derivative financial instruments

	2009 £000	2008 £000
Change in fair value	337	-

The Group's derivative financial instrument represents the fair value change in respect of interest rate derivatives not deemed effective and thus whose movement has been recognised in the income statement. The underlying instrument is a £50 million zero-cost 'cap and floor' collar swap in place until March 2011.

### 19. Provisions

Group	Site remedial works £000	Other £000	Total £000
Balance at 1 January 2009	1,151	1,484	2,635
Provisions made during the year	50	1,432	1,482
Provisions released during the year	(89)	-	(89)
Provisions used during the year	-	(164)	(164)
<b>Balance at 31 December 2009</b>	<b>1,112</b>	<b>2,752</b>	<b>3,864</b>
Non-current	1,062	638	1,700
Current	50	2,114	2,164

Provisions relate to known claims, remedial works on site and a provision in respect of the lease on an office building in Cheltenham, previously occupied by the Group, liability for which has returned to the Group following the entering into of administration of the existing tenant. 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. There was also an exceptional provision taken during 2009 relating to land contract deemed potentially onerous in nature.

## Notes to the financial statements continued

### 20. Trade and other payables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
<b>Non current liabilities</b>				
Other trade creditors	22,618	24,448	-	-
Other creditors	459	459	459	459
	<b>23,077</b>	<b>24,907</b>	<b>459</b>	<b>459</b>
<b>Current liabilities</b>				
Trade creditors secured by bond or guarantee	3	1,573	-	-
Other trade creditors	79,784	90,409	-	-
Taxation and social security	1,043	856	-	-
Other creditors	1,132	1,788	28	28
Accruals and deferred income	5,736	7,338	-	-
	<b>87,698</b>	<b>101,964</b>	<b>28</b>	<b>28</b>
<b>Total trade and other payables</b>	<b>110,775</b>	<b>126,871</b>	<b>487</b>	<b>487</b>

The Group's non-current liabilities largely relate to land purchased on extended payment terms. An ageing of land creditor repayments is provided in note 24.

### 21. Earnings per share

#### Basic earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of £3,490,000 (2008: loss of £58,995,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 124,179,686 (2008: 120,268,986), calculated as follows:

#### Profit/(loss) attributable to ordinary shareholders

	2009 £000	2008 £000
Profit/(loss) for the period attributable to ordinary shareholders	3,490	(58,995)

#### Weighted average number of ordinary shares

	2009	2008
Issued ordinary shares at 1 January	120,994,753	120,830,148
Effect of own shares held	(621,297)	(650,969)
Effect of shares issued in year	3,806,230	89,807
<b>Weighted average number of ordinary shares at 31 December</b>	<b>124,179,686</b>	<b>120,268,986</b>

Basic earnings per ordinary share before exceptional items for the year ended 31 December 2009 is calculated on the pre-exceptional profit after tax of £5,453,000 for 2009 (2008: £11,075,000). Basic loss per share on exceptional items for the year ended 31 December 2009 is calculated on the exceptional loss after tax of £1,963,000 for 2009 (2008: £70,070,000). In both cases this is expressed on a per share basis using the weighted average share information disclosed above.

#### Diluted earnings per share

Under normal circumstances, 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.

However, as a loss per share cannot be reduced through dilution, this dilution adjustment has been applied to the calculation of diluted earnings per share before exceptional items and diluted earnings per share for 2009 but not to the calculation of diluted loss per share in 2008 or diluted loss on exceptional items per share.

The calculation of diluted earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of £3,490,000 (2008: loss of £58,995,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 124,203,192 (2008: 120,268,986).

The calculation of diluted loss on exceptional items per share at 31 December 2009 was based on the exceptional loss attributable to ordinary shareholders of £1,963,000 (2008: £70,070,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 124,179,686 (2008: 120,268,986).

## Notes to the financial statements continued

### Weighted average number of ordinary shares (diluted)

	2009	2008
Weighted average number of ordinary shares at 31 December	124,179,686	120,268,986
Effect of share options in issue which have a dilutive effect	23,506	45,465
<b>Weighted average number of ordinary shares (diluted) at 31 December</b>	<b>124,203,192</b>	<b>120,314,451</b>

### Diluted earnings before exceptional items

Diluted earnings per ordinary share before exceptional items for the year ended 31 December 2009 is calculated on the pre-exceptional profit after tax of £5,453,000 for 2009 (2008: £11,075,000). This is expressed on a per share basis using the weighted average share information disclosed above.

In a manner consistent with IAS33, the Group has reviewed the impact of its equity placing in September 2009 on its prior year earnings per share disclosures. As the impact is immaterial no prior year restatement was carried out.

## 22. Employee benefits

### Retirement benefit obligations

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

	2009 £000	2008 £000
Present value of funded obligations	76,510	65,510
Fair value of plan scheme assets	(67,600)	(58,720)
<b>Recognised liability for defined benefit obligations</b>	<b>8,910</b>	<b>6,790</b>

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

	2009 £000	2008 £000
Net liability/(asset) for defined benefit obligations at 1 January	6,790	(1,010)
Contributions received	(2,810)	(1,420)
Expense recognised in the income statement	720	400
Loss recognised in equity	4,210	8,820
<b>Net liability for defined benefit obligations at 31 December</b>	<b>8,910</b>	<b>6,790</b>

The cumulative loss recognised in equity to date is £5.4 million.

### Change in defined benefit obligation over the year

	2009 £000	2008 £000
Defined benefit obligation at beginning of year	65,510	70,810
Interest cost	3,980	4,040
Current service cost	970	1,500
Actual member contributions	220	320
Actual benefit payments by the scheme	(3,610)	(2,560)
Curtailments	-	(50)
Loss/(gain) on change of assumptions	9,180	(7,250)
Experience loss/(gain)	260	(1,300)
<b>Defined benefit obligation at end of year</b>	<b>76,510</b>	<b>65,510</b>

### Change in scheme assets over the year

	2009 £000	2008 £000
Fair value of scheme assets at beginning of year	58,720	71,820
Actual benefit payments by the scheme	(3,610)	(2,560)
Actual Group contributions	2,810	1,420
Actual member contributions	220	320
Expected return on plan assets	4,230	5,090
Actuarial gain/(loss)	5,230	(17,370)
<b>Fair value of scheme assets at end of year</b>	<b>67,600</b>	<b>58,720</b>

The actual return on scheme assets in 2009 was a gain of £9.5 million (2008: £12.3 million loss).



## Notes to the financial statements continued

### History of experience gains and losses

For the year ended 31 December	2009	2008	2007	2006	2005
<b>Experience gain/(loss) on scheme assets</b>					
Amount (£000)	5,230	(17,370)	990	2,290	6,340
Percentage of scheme assets at year end (%)	7.7	29.6	1.38	3.50	12.06
<b>Experience loss/(gain) on scheme liabilities</b>					
Amount (£000)	260	(1,300)	(500)	(2,950)	410
Percentage of scheme liabilities at year end (%)	0.34	1.98	0.70	4.20	0.55

### Scheme assets and expected rate of return

	At 31 December 2009		At 31 December 2008	
	Expected rate of return % pa	Market value £000	Expected rate of return % pa	Market value £000
Equities	7.9	37,390	8.3	37,040
Bonds (fixed interest)	5.7	22,260	6.2	14,230
Bonds (index linked)	4.3	6,140	4.2	7,530
Other	4.5	1,810	4.0	(80)
<b>Total</b>	<b>6.8</b>	<b>67,600</b>	<b>7.3</b>	<b>58,720</b>

To develop the overall expected rate of return on the scheme's assets, the Group considered the current market redemption yields on index-linked Government bonds, the overall redemption yield on corporate AA fixed interest bonds and the median expected rate of return on equities and cash as provided by the Group's actuarial advisors where these are to be used for asset liability modelling, all as at the reporting date. These have then been weighted in proportion to the underlying actual current asset allocation to derive an overall expected rate of return.

### Expense recognised in the income statement

	2009 £000	2008 £000
Current service costs	970	1,500
Gain on curtailment	-	(50)
Interest on obligation	3,980	4,040
Expected return on plan assets	(4,230)	(5,090)
<b>Expense recognised in the income statement</b>	<b>720</b>	<b>400</b>

This is recognised in the following line items in the income statement:

	2009 £000	2008 £000
Cost of sales	75	135
Administrative expenses	895	1,315
Financial income	(250)	(1,050)
<b>Expense recognised in the income statement</b>	<b>720</b>	<b>400</b>

### Assumptions

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

	2009 %	2008 %	2007 %
Discount rate at 31 December	5.7	6.2	5.8
Expected return on plan assets at 31 December	6.8	7.3	7.1
Future salary increases	2.5	2.5	2.5
Inflation	3.6	3.2	3.5
Future pension increases	3.6	3.2	3.5

## Notes to the financial statements continued

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	76,510	65,510	70,810	70,090	74,950
Fair value of scheme assets	67,600	58,720	71,820	64,950	52,580
(Deficit)/surplus in the scheme	(8,910)	(6,790)	1,010	(5,140)	(22,370)

Following the triennial revaluation of the scheme as at 30 June 2007, the year-end position reflects the roll-forward of this valuation. As part of this valuation exercise, the mortality assumptions for the scheme are now based on the 92-series tables with an uplift for future improvements in mortality in line with the medium cohort. These tables imply the following remaining life expectancy at age 65.

Remaining years of life at 65	Current age 40	Current age 65
Men	23	22
Women	26	25

The Group estimates that the contribution in 2010 by the Group to the scheme will be in the region of £0.8 million (2009: £1.0 million estimate).

### 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 and the scheme expired in 2007.

Under the Executive Share Option Scheme, options were granted on a discretionary basis relative to executives' seniority within the Group. The options can be exercised where 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 three historical grants of executive share options prior to 7 November 2002 where there remain exercisable share options unexercised at 31 December 2009. In accordance with the provisions of IFRS1, the recognition and measurement principles in IFRS2 have not been applied to these grants.

The Bovis Homes Group PLC 2007 Save as You Earn Share Option Scheme was established in 2007 and replaced the scheme 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 a 10% discount to the market price of the shares at the date of grant.

### Save as You Earn Share Option Scheme

	2009	2008
Options granted during the period	148,611	261,661
Date of grant	7 April 2009	8 April 2008
Fair value at measurement date (Black-Scholes methodology)	£1.67 / £1.79	£1.89 / £1.80
Share price	£4.40	£5.64
Exercise price	£3.87	£4.60
Expected volatility	51.1% / 42.5%	41.3% / 37.6%
Option life (contract length)	3 / 5.5 yrs	3 / 5.5 yrs
Expected dividend	1.14%	3.00%
Risk free interest rate	2.11% / 2.70%	4.05% / 4.19%

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. One grant of awards under this plan was made during 2009. Details of the vesting conditions of these awards are laid out in the Report on directors' remuneration which can be found on pages 42 to 50.

## Notes to the financial statements continued

### Long Term Incentive Plan

	2009	2008	2008
Options granted during the period	255,910	118,263	228,514
Date of grant	10 March 2009	27 Aug 2008	11 March 2008
Fair value at measurement date (Monte Carlo methodology)	£1.90	£1.59	£1.41
Share price	£4.31	£4.28	£5.12
Exercise price	-	-	-
Expected volatility	50.7%	43.6%	38.3%
Option life	3 yrs	3 yrs	3 yrs
Expected dividend	1.14%	2.00%	3.00%
Risk free interest rate	1.81%	4.50%	3.87%

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.

The Group introduced a Share Option Plan in 2007 designed to provide middle management with effective incentivisation. Executive directors of the Company do not participate. This plan was approved by shareholders at the 2007 Annual General Meeting. No awards under this plan were made during 2009.

### Share Option Plan

	2009	2008
Options granted during the period	-	111,000
Date of grant	-	27 Aug 2008
Fair value at measurement date (Black-Scholes methodology)	-	£1.60
Share price	-	£4.28
Exercise price	-	£4.28
Expected volatility	-	43.6%
Option life (contract length)	-	3 yrs
Expected dividend	-	2.00%
Risk free interest rate	-	4.50%

The Group introduced the Bonus Replacement Share Plan in 2009 following approval by shareholders at the 2009 Annual General Meeting. Options were granted as follows:

### Bonus Replacement Share Plan

	2009
Options granted during the period	552,213
Date of grant	7 May 2009
Fair value at measurement date (Monte Carlo methodology)	£2.76
Share price	£4.21
Exercise price	-
Expected volatility	49.8%
Option life (contract length)	3 yrs
Expected dividend	1.11%
Risk free interest rate	2.15%

## Notes to the financial statements continued

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

### Executive Share Option Scheme

	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
Date of grant					
16 March 2000	495,167	3 years service / 2% cumulative increase in earnings per share above RPI over three consecutive years.	295.5p	507	3/03 - 3/10
19 March 2001	384,709		384.5p	12,420	3/04 - 3/11
19 March 2002	690,919		407.5p	15,192	3/05 - 3/12
18 March 2003	879,481		358.5p	304,178	3/06 - 3/13

### Share Option Plan

	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
Date of grant					
11 September 2007	58,000	3 years service / 4% cumulative increase in earnings per share above RPI over three consecutive years.	736.0p	55,500	9/07 - 8/10
27 August 2008	111,000		427.5p	108,000	9/08 - 8/11

### Bonus Replacement Share Plan

	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
Date of grant					
7 May 2009	552,213	3 years service / average share price for 3 months prior to May 2012 must exceed £5.50.	-	552,213	5/09 - 5/12

### Save As You Earn Share Option Scheme

	Options issued	Vesting conditions	Exercise price	Options outstanding
Date of grant				
9 April 2003	342,628	3, 5 and 7 years service depending on type of Save As You Earn contract.	286.5p	23,786
7 April 2004	121,900		480.6p	292
11 April 2005	92,383		618.3p	12,697
10 April 2006	68,935		769.5p	8,312
11 April 2007	77,543		929.7p	14,646
8 April 2008	261,661		460.4p	105,687
7 April 2009	148,611		387.7p	145,071

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

	Weighted average exercise price 2009	Number of options 000's 2009	Weighted average exercise price 2008	Number of options 000's 2008
Outstanding at the beginning of the period	442.5p	975	443.3p	1,005
Forfeited during the period	461.9p	(273)	564.7p	(238)
Exercised during the period	363.5p	(44)	288.6p	(165)
Granted during the period	82.2p	701	450.5p	373
Outstanding at the end of the period	255.3p	1,359	442.5p	975
<b>Exercisable at the end of the period</b>	<b>395.3p</b>	<b>28</b>	<b>372.1p</b>	<b>46</b>

The weighted average share price at the date of exercise of share options exercised during the period was 439.5p (2008: 412.8p).

The options outstanding at 31 December 2009 have an exercise price in the range of zero to 929.7p and a weighted average contractual life of 2.5 years.

### Share-based payments expense in the income statement

	2009 £000	2008 £000
Long Term Incentive Plan	373	(63)
Executive and other share options	348	13
Save As You Earn share options	(17)	28
<b>Total expense recognised as personnel expenses</b>	<b>704</b>	<b>(22)</b>

## Notes to the financial statements continued

### 23. Financial risk management

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

The Group's capital comprises its shareholders' equity, added together with its net borrowings stated before issue costs. A five year record of its capital employed is displayed on page 79 together with a return on capital employed, which indicates that the Group has historically delivered both absolute growth in capital and a return on capital employed of over 20%, although not in the recent past following the market decline.

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

Following the sharp market movements in 2008, the Group saw a fall in its capital employed in 2008, as inventory provisions have reduced the asset base of the Group, leading to a reduction in retained earnings and thus shareholders equity. This was partially reversed in 2009 following a successful equity placing.

An important part of capital management for the Group is its financial instruments, which comprise cash, bank and other loans and overdrafts. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also utilises financial assets and liabilities such as trade payables or receivables that arise directly from operations.

The use of these carries risk: interest rate risk, credit risk and liquidity risk. Given that the Group trades exclusively in the UK, there is no material currency risk. The valuation of the Group's available for sale financial assets is also impacted by housing market price fluctuations, giving rise to market price risk.

#### a. Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business and interest rate swaps are used where appropriate to hedge exposure to fluctuations in interest rates. The Group has no exposure to currency risk as all its financial assets and liabilities are denominated in sterling.

Throughout the year, the Group's policy has been that no trading in financial instruments shall be undertaken.

#### *Hedging*

The Group mitigates its exposure to changes in interest rates on a core level of borrowings where appropriate through procuring interest rate swaps, denominated in sterling. The decision whether to enter into a swap, and the timing of procurement of swaps depends on a number of key variables, on which management form judgements. These matters include management's view of likely cashflows and indebtedness, interest rate movements and other macro-economic factors looking ahead. These assumptions are reviewed with the Group Finance Director on a periodic basis prior to any decision being made. Decisions made by management in this area are discussed with the Board to ensure transparency of decision making. At 31 December 2009, the Group held £50 million of interest rate 'cap and floor' collar swaps which are deemed ineffective. All costs are being taken directly through income. At present this cost is estimated at £0.3 million per annum until expiry in March 2011 which reflects the fair value of the interest rate swap. The fair value measurement of the Group's derivative financial instruments include inputs which are based on observable market data.

#### *Effective interest rates and repricing analysis*

The interest rate profile of the Group's interest bearing financial instrument is set out in note 18.

#### *Sensitivity analysis*

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

For the year ended 31 December 2009, it is estimated that a general increase of one percentage point in interest rates applying for the full year would increase the Group's profit before tax by approximately £200,000 (year ended 31 December 2008: increase of loss by £970,000).

#### b. Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales. There are certain categories of revenue where this is not the case: for instance, housing association revenues or land sales. The largest single amount outstanding at the year end was £3.8 million (2008: £11.3 million). The Group retains these outstanding balances as trade receivables. The Group also carries credit risk in regards to available for sale financial assets which it classifies as other receivables. Whilst material in total, the individual risk is low given the high number of counterparties. Average exposure per transaction is £26,000, and a second charge is retained to protect the Group's interests. The carrying value of trade and other receivables equates to the Group's exposure to credit risk. This is set out in note 15.

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

#### c. Liquidity risk

The Group's banking arrangements outlined in note 18 are considered to be adequate in terms of flexibility and liquidity for its medium term cash flow needs, thus mitigating its liquidity risk. The Group's approach to assessment of liquidity risk is outlined in the section on the report on corporate governance relating to Going Concern which can be found on page 38.

## Notes to the financial statements continued

### d. Housing market price risk

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

The Group's financial assets and liabilities that are directly linked to the UK housing market are as follows:

31 December 2009	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
<b>Derivative financial liabilities</b>			
Trade and other receivables	-	32,984	32,984
Available for sale financial assets	21,291	-	21,291
Cash and cash equivalents	-	114,595	114,595
<b>Non-derivative financial liabilities</b>			
Bank and other loans	-	(2,000)	(2,000)
Trade and other payables	-	(110,775)	(110,775)
Derivative	-	(337)	(337)
	<b>21,291</b>	<b>34,467</b>	<b>55,758</b>
<b>31 December 2008</b>			
<b>Derivative financial liabilities</b>			
Trade and other receivables	-	40,365	40,365
Available for sale financial assets	6,030	-	6,030
Cash and cash equivalents	-	11,634	11,634
<b>Non-derivative financial liabilities</b>			
Bank and other loans	-	(111,730)	(111,730)
Trade and other payables	-	(126,871)	(126,871)
Derivative	-	-	-
	<b>6,030</b>	<b>(186,602)</b>	<b>(180,572)</b>

The value of the Group's available for sale financial assets is directly linked to the UK housing market. At 31 December 2009 these were carried at a fair value of £21,291,000 (2008:£6,030,000). The fair value measurement of the Group's available for sale financial assets include management assumptions of future house price inflation, and therefore the fair value measurement includes inputs which are necessarily not based on observable market data.

### Sensitivity analysis

Available for sale financial assets	Income statement impact £000	Balance sheet net asset impact £000
Impact of 1% increase in average future HPI	1,630	1,630
Impact of 1% decrease in average future HPI	(1,458)	(1,458)

The Company has no financial assets and liabilities that are directly linked to the UK housing market.

## 24. Financial instruments

### Fair values

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

### Estimation of fair values

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

#### Land purchased on extended payment terms

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

## Notes to the financial statements continued

Land creditor (estimated ageing)	Balance at 31 December £000	Total contracted cash payment £000	Due within 1 year £000	Between 1-2 years £000	Between 2-3 years £000	Between 3-4 years £000	Between 4-5 years £000	Between 5-6 years £000
2009	34,283	37,768	13,193	12,057	8,952	2,697	739	130
2008	37,457	42,003	14,856	9,369	9,150	6,929	864	835

### Available for sale financial assets

The Group determines the fair value of its available for sale financial assets through estimation of the present value of expected future cash flows. Cash flows are assessed taking into account expectations of the timing of redemption, future house price movement and the risks of default. An instrument-specific market-assessed interest rate is used to determine present value via discounted cash flow modelling.

### 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 and available for sale financial assets, 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 an instrument-specific market-assessed interest rate to determine the fair value of financial instruments.

## 25. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Group	2009 £000	2008 £000
Less than one year	148	155
Between one and five years	287	435
More than five years	-	-
<b>Operating leases</b>	<b>435</b>	<b>590</b>

With regard to the operating leases held by the Group as lessor, the Group recognised £595,000 of rental income in the income statement in 2009 (2008: £441,000). £103,000 related to the temporary rental of surplus office space by the Group (2008: £262,000). The remainder primarily related to the ground rents collected on the freehold of leasehold apartments sold by the Group prior to the freehold disposal.

## 26. Capital commitments

The Group is committed to incur capital expenditure of £nil (2008: £nil). This relates to plant and equipment.

## 27. 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 a syndicated loan facility agreement. There were no amounts outstanding under this agreement at 31 December 2009 (31 December 2008: £120 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.

## 28. 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, or the final cost to complete the site varies from estimates, the net realisable value of the inventories may be different. A review taking into account estimated achievable net revenues, actual inventory and costs to complete as at 5 March 2010 has been carried out, which has identified the requirement for the release of a carrying value provision of £2.7 million for the year as a whole. These estimates were made by local management having regard to actual selling prices, together with competitor and marketplace evidence, and were further reviewed by Group management. Should there be a future significant decline in UK house pricing, then further write-downs of land and work in progress may be necessary. Further details on the carrying value of inventory is laid out in note 14.

## Notes to the financial statements continued

### *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 achievable values of the part exchange properties may vary. Part exchange property values at the end of the financial year were based on up to date valuations and were based on realistic market expectations.

### *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. A 5% movement up or down in the value of the gross scheme liability would impact the Group's pension deficit by £3.8 million. A 5% movement up or down in the value of the gross scheme assets would impact the Group's pension deficit by £3.4 million.

### *Available for sale financial assets*

The estimation of the fair value of available for sale financial assets requires judgement and estimation as to the quantum, timing and value of repayment of the Group's receivable, as well as to the choice of instrument-specific market-assessed interest rate used to determine a discount rate. Note 23 contains a sensitivity analysis showing the impact of a change in the major judgement factor applied in the valuation of these instruments.

## **29. Related party transactions**

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

Transactions between the Group, Company and key management personnel in the year ending 31 December 2009 were limited to those relating to remuneration, which are disclosed in the Report on director's remuneration which can be found on pages 42 to 50.

Mr Malcolm Harris, a Group Director, is a non-executive Director of the National House Building Council (NHBC), and the Home Builders Federation (HBF). The Group trades in the normal course of business, on an arms-length basis, with the NHBC for provision of a number of building-related services, most materially for provision of warranties on new homes sold and for performance bonding on infrastructure obligations, The Group pays subscription fees and fees for research as required to the HBF.

Total net payments were as follows:

	2009 £000	2008 £000
NHBC	724	1,258
HBF	78	92

There have been no related party transactions in the current financial year which have materially affected the financial performance or position of the Group, and which have not been disclosed.



## Five year record

Years ended 31 December	2009 IFRS £m	2008 IFRS £m	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m
<b>Revenue and profit</b>					
Revenue	281.5	282.3	555.7	597.3	521.2
Operating profit/(loss) before financing costs	18.9	(71.8)	124.4	141.3	125.1
Net financing costs	(14.1)	(6.9)	(0.8)	(5.8)	(9.0)
Profit/(loss) before tax	4.8	(78.7)	123.6	135.5	116.1
Tax	(1.3)	19.7	(36.7)	(40.5)	(34.6)
<b>Profit/(loss) after tax</b>	<b>3.5</b>	<b>(59.0)</b>	<b>86.9</b>	<b>95.0</b>	<b>81.5</b>
<b>Balance sheet</b>					
Equity shareholders' funds	692.6	632.3	723.7	677.8	598.1
Add borrowings stated before issue costs	2.3	120.0	44.6	40.2	62.2
<b>Capital employed</b>	<b>694.9</b>	<b>752.3</b>	<b>768.3</b>	<b>718.0</b>	<b>660.3</b>
<b>Returns</b>					
Operating margin (note 1)	6%	8%	22%	24%	24%
Return on shareholders' funds (note 2)	1%	2%	12%	14%	14%
Return on capital employed (note 3)	2%	3%	17%	21%	20%
<b>Homes (including units sold on third party owned land)</b>					
Number of unit completions	1,803	1,817	2,930	3,123	2,702
Average sales price (£'000)	154.6	150.8	179.5	183.7	175.5
<b>Ordinary shares</b>					
Earnings per share (p) (note 4)	4.4	9.2	72.4	79.8	69.0
<b>Dividends per share</b>					
Paid (p)	-	22.5	37.5	26.7	21.9
Interim paid and final proposed (p)	-	5.0	35.0	30.0	25.0

Note 1: Operating margin has been calculated as operating profit over turnover, stated before exceptional charges.

Note 2: Return on shareholders' funds has been calculated as pre-exceptional profit after interest and tax over closing shareholders' funds.

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

Note 4: Earnings per share is calculated on a pre-exceptional basis.

# Notice of meeting

## **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

# Notice of meeting

NOTICE IS HEREBY GIVEN that the 2010 Annual General Meeting of Bovis Homes Group PLC will be held at The Spa Hotel, Mount Ephraim, Royal Tunbridge Wells, Kent TN4 8XJ on Thursday 6 May 2010 at 11.00am for the following purposes:

### *Ordinary resolutions*

- 1 To receive the audited accounts of the Company for the year ended 31 December 2009 and the reports of the directors and auditors.
- 2 To approve the report on directors' remuneration for the year ended 31 December 2009.
- 3 To re-appoint Colin Peter Holmes as a director of the Company, who retires by rotation.
- 4 To re-appoint David James Ritchie as a director of the Company, who retires by rotation.
- 5 To re-appoint KPMG Audit Plc as auditors of the Company.
- 6 To authorise the directors to determine the remuneration of the auditors.
- 7 That the directors be generally and unconditionally authorised to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company pursuant to section 551 of the Companies Act 2006 ("the 2006 Act"):
  - (A) up to an aggregate nominal amount of £22,170,703; and
  - (B) comprising equity securities (as defined in the 2006 Act) up to an aggregate nominal amount of £44,341,406 (including within such limit any shares issued or rights granted under paragraph (A) above) in connection with an offer by way of a rights issue to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply (unless previously renewed, varied or revoked by the Company in a general meeting) until the conclusion of the Annual General Meeting of the Company in 2011 or fifteen months from the date of this resolution, whichever is the earlier, but in each case so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after the authority ends and the directors may allot shares and grant rights under any such offer or agreement as if the authority had not ended, and so that all existing authorities given to the directors pursuant to section 80 of the Companies Act 1985 ("the 1985 Act") be revoked by this resolution, without prejudice to the continuing authority of the directors to allot shares, or grant rights to subscribe for or convert any security into shares, pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made.

- 8 That the Bovis Homes Group PLC Long Term Incentive Plan 2010 ("the LTIP"), the main features of which are summarised in item 8 in the explanatory notes to this Notice and the rules of which are produced to the Meeting marked "A" and initialled for the purpose of identification by the Chairman, 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.
- 9 That the directors be and are hereby authorised to exercise the power conferred upon them by Articles 144.1 and 144.2 of the Articles of Association of the Company as from time to time varied so that, to the extent and in the manner determined by the directors, the holders of ordinary shares in the Company be permitted to elect to receive new ordinary shares in the Company, credited as fully paid, instead of all or any part of any future dividends (including interim dividends) paid by the directors or declared by the Company in general meetings (as the case may be) during the period commencing on 6 May 2010 and ending on 5 May 2015 to the extent that the directors decide, at their discretion, to offer a scrip dividend alternative in respect of such dividends.

### *Special resolutions*

- 10 That with effect from the end of the Annual General Meeting, the Articles of Association produced to the Meeting marked "B" and initialled for the purpose of identification by the Chairman be adopted as the Articles of Association of the Company ("the New Articles") in substitution for, and to the exclusion of, the Company's existing Articles of Association.
- 11 That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.
- 12 That if resolution 7 is passed, and in place of all existing powers, the directors be generally empowered pursuant to section 570 of the 2006 Act to allot equity securities (as defined in the 2006 Act) for cash, under the authority given by that resolution, as if section 561(1) of the 2006 Act did not apply to the allotment, such power:
  - (a) to expire (unless previously renewed, varied or revoked by the Company in a general meeting) at the conclusion of the Annual General Meeting of the Company in 2011 or fifteen months from the date of this resolution, whichever is the earlier, but during this period the directors may make an offer or agreement which would or might require equity securities to be allotted after the power ends and the directors may allot equity securities under any such offer or agreement as if the power had not ended;

## Notice of meeting continued

- (b) to be limited to the allotment of equity securities in connection with an offer of equity securities (but in the case of the authority granted under resolution 7(B) by way of a rights issue only) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and
- (c) to be limited, in the case of the authority granted under resolution 7(A), to the allotment of equity securities for cash otherwise than pursuant to paragraph (b) up to an aggregate nominal amount of £3,328,934.
- 13 That the Company be and is hereby granted general and unconditional authority, for the purposes of section 701 of the 2006 Act, to make market purchases (within the meaning of section 693(4) of the 2006 Act) of the ordinary shares of 50 pence each in its capital PROVIDED THAT:
- (i) this authority shall be limited so that the number of ordinary shares of 50 pence each which may be acquired pursuant to this authority does not exceed an aggregate of 13,315,737 ordinary shares and shall expire at the conclusion of the next Annual General Meeting of the Company in 2011 (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 of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) 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  
1 April 2010

### Notes:

- (i) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 360 B(2) of the 2006 Act, the Company gives notice that only holders of ordinary shares entered on the register of members no later than 6.00pm on 4 May 2010 (or, in the event of any adjournment, on the date which is 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting and a member may vote in respect of the number of ordinary shares registered in the member's name at that time. Changes to entries on the register after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (ii) A registered member of the Company may appoint one or more proxies in respect of some or all of their ordinary shares to exercise the member's rights to attend, speak and vote at a meeting of the Company instead of the member. A registered member appointing multiple proxies must ensure that each proxy is appointed to exercise rights attaching to different shares and must specify on the form of proxy the number of shares in relation to which that proxy is appointed. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Members or their duly appointed proxies are requested to bring proof of identity with them to the meeting in order to confirm their identity for security reasons. Members attending the meeting have the right to have questions answered relevant to the business of the meeting.
- (iii) The form of proxy must be executed by or on behalf of the member making the appointment. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. A corporation may execute the form(s) of proxy either under its common seal or under the hand of a duly authorised officer, attorney or other authorised person. A member may appoint more than one proxy to attend and vote on the same occasion.
- (iv) A proxy need not be a member of the Company.
- (v) Participants of the Bovis Homes Group Share Incentive Plan may instruct the trustee to vote on their behalf on a poll.
- (vi) The proxy form and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be received at the office of the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or received via the Computershare website, ([www-uk.computershare.com](http://www-uk.computershare.com)) (full details of the procedures are given in the notes to the proxy form enclosed with the report and accounts and on the website) not less than 48 hours before the time for holding the meeting. Completion of the proxy form, other such instrument or any CREST proxy instruction (as described in paragraph (vii) below) will not preclude a member from attending the Annual General Meeting and voting in person instead of his proxy or proxies. 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 on the Company website ([www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc)) and through a Regulatory Information Service. 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.

## Notice of meeting continued

- (vii) To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours 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 time stamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (viii) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
- (ix) Any person to whom this notice is sent who is a person nominated under section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may have a right, under an agreement between him and the member by whom he was nominated, to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in paragraph (ii) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.
- (x) As at 12 March 2010 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 133,157,378 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 March 2010 are 133,157,378.
- (xi) Members meeting the relevant threshold requirements may require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting that the members propose to raise at the Annual General Meeting, pursuant to requests under section 527 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.
- (xii) Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so using the following means: (1) by writing to the Company Secretary at the registered office address; or (2) by writing to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of meeting or in any related documents (including the Chairman's Statement, the Annual Report 2009 and the proxy form) to communicate with the Company for any purposes other than those expressly stated.
- (xiii) A copy of this Notice and other information required to be published in accordance with section 311A of the 2006 Act in advance of the Annual General Meeting can be found at [www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc).
- (xiv) 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 10.30am until the conclusion of the meeting:
- (a) copies of the directors' service contracts;
  - (b) copies of the terms and conditions of appointment for each non-executive director;
  - (c) the register of directors' interests;
  - (d) a copy of the Company's New Articles showing the changes to the Company's existing Articles of Association; and
  - (e) the rules of the Bovis Homes Group PLC Long Term Incentive Plan 2010.
- (xv) Data protection statement: your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's Registrar) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

# Explanatory notes to the notice of meeting

## **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 2009. The report of the directors, the accounts and the report of the Company's auditors on the accounts and on those parts of the directors' remuneration report that are capable of being audited are contained within the annual report and accounts.

## **Item 2: Directors' remuneration**

Under section 439 of the 2006 Act the directors are required to present the report on directors' remuneration in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations, for the approval of the members.

The Report on directors' remuneration can be found on pages 42 to 50 of the report and accounts.

## **Items 3 and 4: 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. Colin Peter Holmes and David James Ritchie will retire by rotation and offer themselves for re-appointment.

The 2008 Combined Code on Corporate Governance contains provisions dealing with the re-appointment of non-executive directors. In relation to the re-appointment of Colin Peter Holmes as a non-executive director, the Chairman has confirmed following the formal performance evaluation conducted during 2009 that he continues to be effective in and demonstrate commitment to his role, including commitment of time for Board and committee meetings.

Brief details of all the directors are to be found on page 32 of the report and accounts.

## **Items 5 and 6: 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 5 proposes the re-appointment of the Company's existing auditors, KPMG Audit Plc, for a further year. Resolution 6 gives authority to the directors to determine the auditors' remuneration.

## **Item 7: Authority to allot shares**

The authority given to your directors at last year's Annual General Meeting under section 80 of the 1985 Act to allot shares expires on the date of the forthcoming Annual General Meeting. Accordingly, this resolution seeks to grant a new authority under section 551 of the 2006 Act (which has superseded section 80 of the 1985 Act) to authorise the directors to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company up to an aggregate nominal amount of £22,170,703 and also gives the Board authority to allot, in addition to these shares, further of the Company's unissued shares up to an aggregate nominal amount of £44,341,406 in connection with a pre-emptive offer to existing members by way of a rights issue (with exclusions to deal with fractional entitlements to shares and overseas shareholders to whom the rights issue cannot be made due to legal and practical problems). This is in accordance with the latest institutional guidelines published by the Association of British Insurers. This authority will expire at the conclusion of the next Annual General Meeting (or, if earlier, 15 months from the date of the resolution). The directors intend to seek renewal of this authority at subsequent Annual General Meetings.

The amount of £22,170,703 represents less than 33.3% of the Company's total ordinary share capital in issue as at 12 March 2010 (being the latest practicable date prior to publication of this Notice). The amount of £44,341,406 represents less than 66.6% of the Company's total ordinary share capital in issue as at 12 March 2010 (being the latest practicable date prior to publication of this Notice). The Company did not hold any shares in treasury as at 12 March 2010.

The board has no present intention 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 a general meeting of the Company which would be both costly and time consuming.

If the Board takes advantage of the additional authority to issue shares or grant rights to subscribe for, or convert any security into, shares in the Company representing more than 33.3% of the Company's total ordinary share capital in issue or for a rights issue where the monetary proceeds exceed 33.3% of the Company's pre-issue market capitalisation, all members of the Board wishing to remain in office will stand for re-election at the next Annual General Meeting following the decision to make the relevant share issue.

## **Item 8: The Bovis Homes Group PLC Long Term Incentive Plan 2010**

### *Introduction*

The LTIP is a share incentive plan that is designed to encourage and reward participants for delivering long term shareholder value. It replaces the Company's long term incentive plan that was approved by shareholders in 2000 and which will come to an end in May 2010. The new LTIP will therefore be used for the first time later in 2010 or in 2011 when it is expected that awards under the LTIP will be granted to members of the senior management team (including the executive directors). The LTIP will be operated by the Remuneration Committee which will decide whether to grant awards under the LTIP in any year. No awards may be granted under the LTIP more than 10 years after its adoption by shareholders in general meeting.

### *Eligibility and award procedure*

Any employee or executive director of a member of the Group will be eligible to participate in the LTIP at the discretion of the Remuneration Committee.

Participants may be granted awards under which they may acquire ordinary shares in the Company ("Shares") for no payment. Awards may take the form of an option to acquire Shares at a nil exercise price, an allocation of Shares that may be forfeited in certain circumstances, a conditional share award which entitles a participant to acquire or receive Shares for no payment or a phantom award under which a participant may be paid a cash sum having a value equivalent to a notional number of Shares (each an "Award"). Awards may be granted within 42 days after the date of the AGM at which the LTIP is approved by shareholders; the announcement of the Company's results for any period; or the occurrence of any exceptional circumstances which the Remuneration Committee considers justifies the grant of awards. No payment is required for the grant of awards.

## Explanatory notes to the notice of meeting continued

### ***Value of awards***

Award levels will be determined by the Remuneration Committee. The maximum number of Shares over which an Award may be granted to an employee in any financial year may not have a market value at the date of grant (calculated by reference to the middle market quotation of a Share as derived from the Daily Official List of the London Stock Exchange) exceeding 200% of the eligible employee's basic salary. The Remuneration Committee will ordinarily grant awards to a maximum of 100% of basic salary, but wishes to retain the flexibility to grant awards at a higher level should exceptional circumstances arise and would not otherwise propose granting awards above 100% without consulting with major shareholders.

Benefits received under the Plan are not pensionable and may not be transferred or assigned except on a participant's death or with the consent of the Remuneration Committee.

### ***Performance conditions and vesting***

Awards will be subject to performance conditions that will be determined by the Remuneration Committee at the date of grant and which, it is anticipated, will comprise total shareholder return and earnings per share growth and be similar to those in use for the Long Term Incentive Plan 2000. These will be measured over a performance period that will normally not be less than three years. The extent to which the performance conditions are satisfied will determine whether the Award vests and how many (if any) of the Shares under an Award a participant is entitled to acquire or in the case of an allocation of forfeitable shares, to retain. If the performance conditions are not met, an Award will not vest and will lapse.

The Remuneration Committee intends to set performance conditions appropriate to the Company that are demanding and stretching in the light of the prevailing market conditions. Vesting levels will be determined on a sliding scale by reference to the achievement of the performance conditions. The Remuneration Committee may determine that an Award should be subject to multiple conditions or that an Award should be divided and that each part be subject to a different condition. The Remuneration Committee may set different performance conditions for Awards granted in different years. The Remuneration Committee may vary the performance conditions applying to existing Awards if an event occurs which results in the conditions no longer being a fair measure of performance provided that in the opinion of the Remuneration Committee the new conditions are not materially less challenging than the original conditions would have been but for the event in question.

Subject to the satisfaction of the performance conditions the vesting period for Awards will normally be at least three years from the date of grant but the Remuneration Committee may set a longer period. The Remuneration Committee may determine that an Award should be divided and that each part should be subject to a different vesting period. Vested share awards will be released to participants automatically within 30 days of the date the Shares vest. Vested share options will be exercisable up until the tenth anniversary of the date of grant, after which they will lapse. Vested forfeitable Shares will cease to be subject to the risk of forfeiture.

On vesting of an Award a participant will be entitled to additional Shares equal to the value of dividends (net of any tax credit) that would have been paid on the vested Shares in the period from the date of grant to the vesting date assuming that those dividends had been reinvested in Shares at the dividend payment date.

The Remuneration Committee may determine that upon vesting any Shares that are acquired shall be subject to restrictions prohibiting the sale of the Shares (other than to meet immediate tax liabilities) for a period of time.

### ***Cessation of Employment***

Awards will normally only vest if a participant remains in employment with the Group up to the vesting date. If a participant ceases employment by reason of death, injury, disability, ill health, redundancy, retirement as agreed by the Remuneration Committee, or following his or her employing company or business ceasing to be part of the Group or for any other reason at the Remuneration Committee's discretion, he may retain his Award so that it may vest at the normal vesting date to the extent that the performance conditions (as measured at the end of the normal performance period) are satisfied but subject to a time pro rating reduction to reflect the proportion of the vesting period during which the participant has not been in employment. The Remuneration Committee will, however, retain the discretion to allow an unvested Award to vest immediately on leaving, having regard to the achievement of the performance conditions and the period of time that has elapsed between the grant of the award and the date of leaving. In either case the Remuneration Committee may determine that the pro rating reduction shall not apply or should apply to a lesser extent. The Remuneration Committee may take account of such factors as it considers relevant, including the conduct of the participant.

If a participant ceases to be an employee of the Group before the vesting date for any other reason, vested and unvested Awards will automatically lapse or be forfeited on such cessation.

### ***Change of control or other corporate event***

In the event of a change of control of the Company, a scheme of arrangement or a voluntary winding up, unvested Awards will vest to the extent that the performance conditions have been satisfied at the time of the relevant event. The number of Shares that a participant may acquire will be reduced on a time pro rated basis to reflect the early vesting although the Remuneration Committee will retain the discretion to allow a greater number of Shares (not exceeding the total number of Shares under an award) to vest having regard to all relevant factors and circumstances at the time. Alternatively participants may, with the agreement of an acquiring company, release their Awards in consideration of the grant of an equivalent award relating to shares in the acquiring company or another company in the acquiring company's group.

The Remuneration Committee may in its discretion, in appropriate circumstances, determine that Awards may not be exercised by virtue of a change of control but will automatically be exchanged for equivalent awards over shares in an acquiring company.

Awards will not be exercisable without the consent of the Remuneration Committee in the event of any internal reorganisation, the purpose and effect of which is to create a new holding company.

## Explanatory notes to the notice of meeting continued

### *Equity dilution*

Awards may be satisfied by the issue of new Shares, a transfer of treasury shares or the transfer of existing Shares.

To the extent that new Shares are issued to satisfy Awards under the LTIP, the institutional investors' guidelines on dilution of equity in connection with share schemes will apply. The number of Shares which may be issued or become issuable pursuant to options and awards granted in the preceding ten years under all of the Company's share schemes (including the LTIP) is limited to 10% of the issued share capital of the Company from time to time; and the number that may be issued or become issuable pursuant to options and awards granted in the preceding ten years under all of the Company's discretionary share schemes (including the LTIP) is limited to 5% of such issued share capital.

The satisfaction of Awards with treasury shares will be treated as an issue of Shares for the purposes of these limits for so long as institutional shareholder guidelines recommend this. If Awards are to be satisfied by the transfer of existing Shares, the percentage limits stated above will not apply.

### *Adjustment of awards*

The Remuneration Committee may adjust the number of Shares subject to Awards in the event of a variation in the share capital of the Company (for example a rights or capitalisation issue, a sub-division, consolidation or reduction of share capital) or if the Company implements a transaction (such as a demerger or payment of a special dividend) that would affect the value of an Award.

### *Rights attaching to Shares*

A participant will not have any voting or dividend rights in relation to Shares prior to the vesting of a share award or the exercise of an option. Any Shares allotted or transferred when a share award vests or an option is exercised will rank equally with all other ordinary shares in issue (except for rights arising by reference to a record date before their allotment). Application will be made for the Shares to be listed by the UK Listing Authority and traded on the London Stock Exchange.

### *Amendments*

The Remuneration Committee may amend the LTIP provided that the prior approval of shareholders is obtained for any amendments to key features of the LTIP which would be to the advantage of participants or eligible employees. Key features of the LTIP include eligibility, the limits on the number of Shares that may be issued under the LTIP, the basis for determining a participant's entitlement to Shares, the terms on which they can be acquired and the provisions relating to adjustments in the event of a variation in the Company's share capital. Such approval will not be required for any minor alteration which is made to benefit the administration of the LTIP, to take account of new or existing legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the Company or eligible employees or participants. Amendments that would adversely affect participants' subsisting rights may not be made without the consent of participants.

### **Item 9: Scrip dividend alternative**

The directors wish to continue to be able to offer shareholders the opportunity to elect to receive new ordinary shares in the Company instead of cash dividends if they so wish. Accordingly, the approval of shareholders is sought at the Annual General Meeting to authorise the Board to offer scrip dividends as an alternative to cash dividends in respect of future final or interim dividends for a period of up to five years, if on each occasion they decide that it is in the Company's interests to do so.

### **Item 10: Adoption of New Articles**

Resolution 10 proposes the adoption of the New Articles in order to update the Company's existing Articles of Association, primarily to reflect the implementation of the remaining provisions of the 2006 Act which the Company has not already incorporated into its existing Articles of Association, the implementation of the Companies (Shareholders' Rights) Regulations 2009 ("the Shareholders' Rights Regulations") and certain amendments to the Uncertificated Securities Regulations 2001.

Summarised below are the material differences between the existing Articles of Association and the New Articles. Other changes, which are of a minor, technical or clarifying nature, or conform the language of the New Articles with that used in the model articles for public companies, have not been mentioned specifically. The New Articles are available for inspection as explained in the notes to the Notice.

### *Limited liability*

At the 2009 Annual General Meeting, a resolution was passed to remove all provisions of the Memorandum of Association which, by virtue of the 2006 Act, were treated as forming part of the Company's Articles of Association as from 1 October 2009. Among other things, the effect of this resolution was to remove the statement which was in the Company's Memorandum of Association regarding limited liability. The New Articles therefore contain an express statement regarding the limited liability of the shareholders.

### *Redeemable shares*

If a company wished to issue redeemable shares, the 1985 Act required the terms and manner of redemption to be set out in its articles. The 2006 Act enables directors to determine such matters if they are authorised by the articles. The New Articles contain such an authorisation. The Company currently has no plans to issue redeemable shares but if it did so the directors would need members' authority to issue new shares in the usual way.

### *Transfer of shares*

The 2006 Act requires the Company to give reasons for any refusal to register a transfer of shares.

### *Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital*

Under the 1985 Act, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as member authority to undertake the relevant action. The existing Articles of Association include these enabling provisions. Under the 2006 Act a company only requires member authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Amendments have been made to the New Articles to reflect these changes.

## Explanatory notes to the notice of meeting continued

### *Use of seals*

Under the 1985 Act, a company could have an official seal for use abroad only if its articles gave authority. Under the 2006 Act, such authority is no longer required and has been removed from the New Articles.

### *Suspension of registration of share transfers*

The existing Articles of Association permit the directors to suspend the registration of transfers. Under the 2006 Act share transfers must be registered as soon as practicable. The power in the existing Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

### *Vacation of office by directors*

The existing Articles of Association specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

### *Voting by proxies on a show of hands*

The Shareholders' Rights Regulations amended the 2006 Act to clarify the rules that apply when a member's proxy casts votes for different shares in different ways. On a vote on a show of hands, every proxy present who has been duly appointed by one or more members entitled to vote on the resolution has one vote, but the proxy has one vote for and one vote against the resolution if:

- a) the proxy has been duly appointed by more than one member entitled to vote on the resolution, and
- b) the proxy has been instructed by one or more members to vote for the resolution and by other members to vote against it.

The existing Articles of Association have been amended to reflect these changes.

### *Voting by corporate representatives*

The Shareholders' Rights Regulations have amended the 2006 Act in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles contain provisions which reflect these amendments.

### *Chairman's casting vote*

The New Articles do not contain a provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the 2006 Act.

### *Adjournments for lack of quorum*

The Shareholders' Rights Regulations have amended the 2006 Act to require that meetings adjourned for lack of quorum must be held at least ten clear days after the original meeting. The existing Articles of Association have been changed to reflect this requirement by giving the Chairman discretion to set the time and place of a general meeting subject to the provisions of the 2006 Act.

### *Voting record date*

The Shareholders' Rights Regulations have amended the 2006 Act to require a company to determine the right of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, ignoring days which are not working days. The New Articles reflect this requirement.

### *Returned notices*

The New Articles introduce a new provision to the effect that if any documents or information, sent by the Company to a member by post in accordance with the New Articles, have been returned undelivered on at least two consecutive occasions or on one occasion and reasonable enquiries have failed to establish the member's address, the member will only be entitled to receive such further communications upon provision of a new address to the Company.

### *General*

We have taken the opportunity to clarify some other wording of the existing Articles of Association. In some areas we thought it appropriate to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills.

## **Item 11: Notice of general meetings**

This resolution is required as a result of the implementation in August 2009 of the Shareholder Rights Directive. The regulation implementing this Directive increased the notice period for general meetings under the 2006 Act to 21 days. The Company will be able to continue to call general meetings (other than an Annual General Meeting) on 14 clear days' notice as long as shareholders have approved the calling of meetings on 14 days' notice. Resolution 11 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice. It is confirmed that ability to call a general meeting on 14 days' notice would only be utilised in limited circumstances where the shorter notice period was to the advantage of shareholders as a whole.

## **Item 12: Disapplication of pre-emption rights**

Resolution 12 seeks authority for the directors to issue equity securities (as defined in the 2006 Act) in the Company for cash as if the pre-emption provisions of section 561 of the 2006 Act did not apply. Other than in connection with a rights issue or any other pre-emptive offers concerning equity securities, the authority contained in this resolution will be limited to the issue of shares for cash up to an aggregate nominal value of £3,328,934 which represents approximately 5% of the Company's total ordinary share capital in issue as at 12 March 2010 (being the latest practicable date prior to publication of this Notice). In accordance with the Pre-emption Group's Statement of Principles, the directors confirm their intention that no more than 7.5% of the issued share capital (excluding treasury shares) will be issued for cash on a non pre-emptive basis during any rolling three-year period.



This resolution seeks a disapplication of the pre-emption rights on a rights issue so as to allow the directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas members.

There are presently no plans to allot ordinary shares wholly for cash other than in connection with employee share schemes. Shares allotted under an employee share scheme are not subject to statutory pre-emption rights.

The authority sought by resolution 12 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 13: Authority to purchase own shares**

This resolution renews the authority granted at last year's Annual General Meeting to enable the Company to make market purchases of up to 13,315,737 of its own shares, representing approximately 10% of the Company's total ordinary share capital in issue as at 12 March 2010 (being the latest practicable date prior to publication of this Notice). Before exercising such authority, the directors would ensure that the Company was complying with the current relevant UK Listing Authority 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 exercising the authority to purchase the Company's ordinary shares but would like to have the flexibility of considering such purchases in the future.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange. The maximum price (exclusive of expenses) which may be paid for each ordinary share shall be the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS). The minimum price (exclusive of expenses) would be 50 pence, being the nominal value of each ordinary share. The authority will only be valid until the conclusion of the next Annual General Meeting in 2011.

As at 12 March 2010 there were options over 1,272,010 ordinary shares in the capital of the Company which represent 0.96% of the Company's issued ordinary share capital at that date. If the authority to purchase the Company's ordinary shares was exercised in full, these options would represent 1.06% of the Company's issued ordinary share capital.

The directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

# Shareholders' information

## Registered office

The Manor House  
North Ash Road  
New Ash Green  
Longfield  
Kent  
DA3 8HQ

Registered number **306718** registered in England

## Financial calendar

Annual report posted	6 April 2010
Annual General Meeting	6 May 2010
Announcement of 2010 interim results	August 2010
Announcement of 2010 final results	March 2011

## Analysis of shareholdings - at 31 December 2009

Size of shareholding	Number of shareholders	%	Number of ordinary shares	%
1 - 5,000	1,939	81.57	1,918,654	1.44
5,001 - 50,000	251	10.56	3,972,500	2.98
50,001 - 250,000	112	4.71	12,255,741	9.21
250,001 - 500,000	28	1.18	9,565,257	7.18
500,001 - 1,000,000	18	0.76	12,070,626	9.07
1,000,001 - and over	29	1.22	93,356,190	70.12
<b>Total</b>	<b>2,377</b>	<b>100.0</b>	<b>133,138,968</b>	<b>100.0</b>

## Share price (middle market) - year to 31 December 2009

At end of year: 434.7p      Lowest: 349.0p      Highest: 556.0p

## Advisers

<b>Auditors</b> KPMG Audit Plc	<b>Principal bankers</b> Bank of Ireland Barclays Bank PLC HSBC Bank plc Lloyds Banking Group Royal Bank of Scotland plc	<b>Joint stockbrokers</b> RBS Hoare Govett 250 Bishopsgate London EC2M 4AA Deutsche Bank AG London Winchester House 1 Gt Winchester Street London EC2N 2DB	<b>Insurance brokers</b> Heath Lambert Limited  <b>Registrars</b> Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 7NH
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## 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](http://www-uk.computershare.com)).

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

## Electronic communications

Instead of receiving printed documents through the post, shareholders can now receive the annual report and accounts and other shareholder documents electronically, as soon as they are published. Shareholders who would like to sign up for electronic communications should go to [www.computershare.com/investor](http://www.computershare.com/investor) where they can register for Investor Centre and manage their shareholding online.

# Principal offices

## 1 Bovis Homes Group PLC

The Manor House  
North Ash Road  
New Ash Green  
Longfield  
Kent DA3 8HQ  
  
Tel: (01474) 876200  
Fax: (01474) 876201  
DX: 41950 New Ash Green 2

## 2 South East region

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New Ash Green  
Longfield  
Kent DA3 8HQ  
  
Tel: (01474) 876200  
Fax: (01474) 876201  
DX: 41950 New Ash Green 2

## 3 South West region

Cleeve Hall  
Cheltenham Road  
Bishops Cleeve  
Cheltenham  
Gloucestershire GL52 8GD  
  
Tel: (01242) 662400  
Fax: (01242) 662488  
DX: 137901 Bishops Cleeve 2

## 4 Central region

Bromwich Court  
Highway Point  
Gorse Lane  
Coleshill  
Birmingham B46 1JU  
  
Tel: (01675) 437000  
Fax: (01675) 437030  
DX: 728340 Coleshill 2



Bovis Homes Group PLC, The Manor House, North Ash Road, New Ash Green, Longfield, Kent DA3 8HQ.  
[www.bovishomes.co.uk/plc](http://www.bovishomes.co.uk/plc)

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