



**Annual report and accounts 2010**

Bovis Homes Group PLC

[www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk)

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## Financial highlights

£298.6m

Revenue

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(2009: £281.5m)

17.9%

Gross margin

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(2009: 16.1%\*)

£18.5m

Pre tax profit

---

(2009: £7.5m\*)

7.2%

Operating margin

---

(2009: 6.2%\*)

10.6p

Earnings per share

---

(2009: 4.4p\*)

3.0p

Dividends per share

---

(2009: nil)

£51.7m

Net cash

---

(2009: £112.3m)

13,766

Plots in consented land bank

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\*Before exceptional items

# Bovis Homes

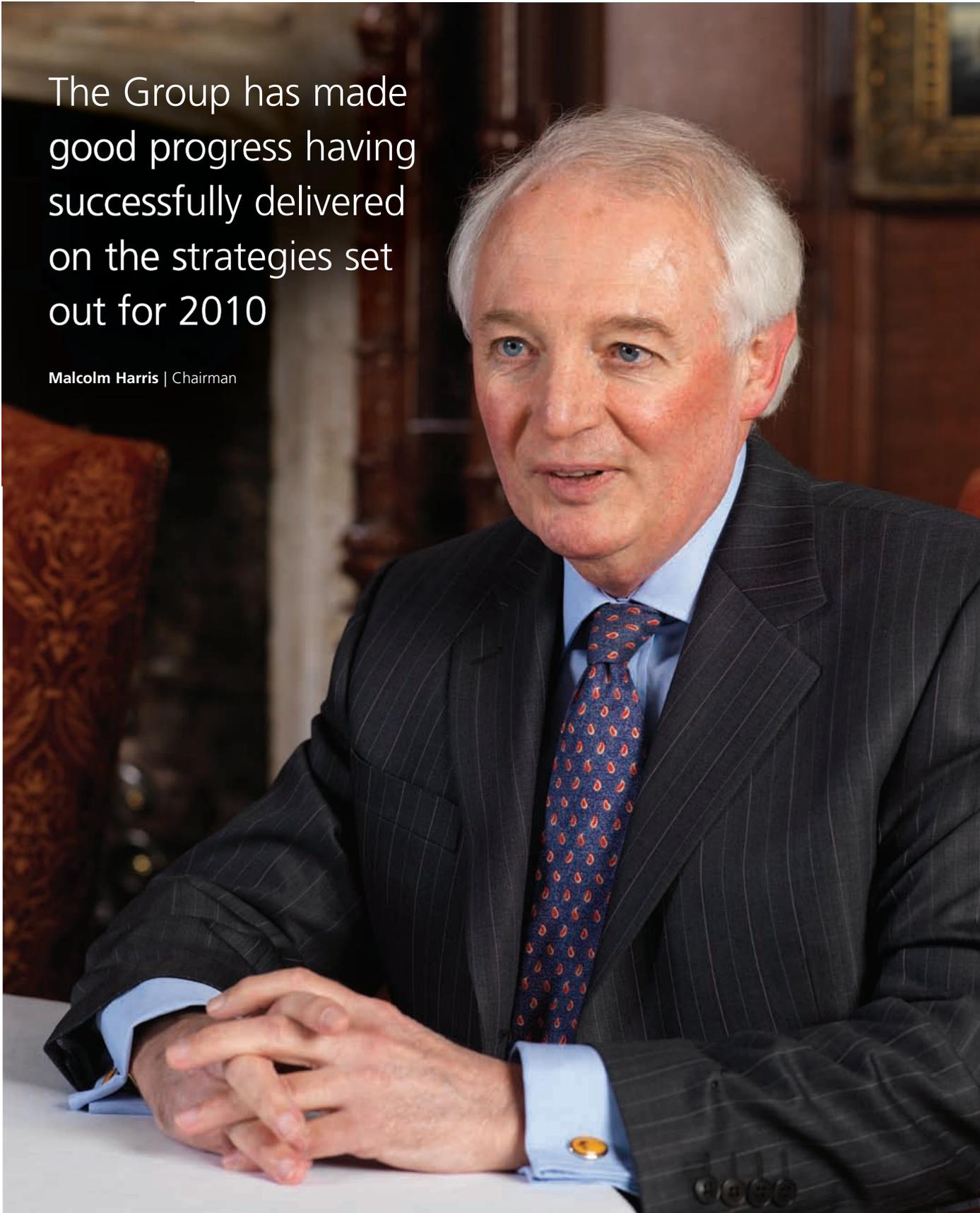
Bovis Homes is a builder of high quality traditional homes in England and Wales. The Group's business involves the design, build and sales of new homes for both private and public sector customers. The Group employs circa 500 staff directly and around a further 2,000 sub-contractors work on its sites on a daily basis. In 2010 the Group legally completed 1,901 homes from a mixture of greenfield and brownfield sites.

<p><b>Bovis Homes land bank</b></p> <p>Critical within the Group's value chain delivery is the sourcing of land and the achievement of an appropriate planning consent.</p> <p>The Group acquires land with residential planning consent or controls strategic land without residential planning consent, which it then promotes through the planning process to gain residential consent.</p>	<p><b>Consented land bank at year end</b></p> <p><b>13,766</b> plots</p>	<p><b>Land bank sourced from strategic land</b></p> <p><b>52%</b> at December 2010 7,159 plots</p>
<p><b>Bovis Homes activity</b></p> <p>Bovis Homes offers high quality homes, designed with an 'all inclusive' specification. Homes range from those for first time buyers through to family homes, plus social homes.</p> <p>The Group anticipates its activity will increase in 2011.</p>	<p><b>New active sales outlet openings expected in 2011</b></p> <p><b>33</b></p>	<p><b>Expected average active sales outlets in 2011</b></p> <p><b>76</b></p>
<p><b>Bovis Homes customers and communities</b></p> <p>Bovis Homes prides itself on the service that it provides to its customers, focusing on ensuring that the customers are satisfied with their new homes. Bovis Homes works with local communities in which it operates providing community benefits through local facilities, amenities and local infrastructure improvements.</p>	<p><b>Recommend to a friend</b></p> <p><b>91%</b></p>	<p><b>Purchase another Bovis Home</b></p> <p><b>92%</b></p>

## Chairman's statement

The Group has made good progress having successfully delivered on the strategies set out for 2010

Malcolm Harris | Chairman



Malcolm Harris

## Chairman's statement

Bovis Homes is pleased to report on a successful year in 2010 with strong improvement in profits and earnings and with significant progress in the acquisition of high quality consented land. Importantly, the Group operated successfully and grew its business without reliance on improving general market conditions. The Group's performance during 2010 was particularly positive given the continuation of challenging conditions within the UK housing market, with the constrained level of high loan to value mortgage finance available to new build customers, many of whom have limited deposit funding.

The Group legally completed a greater number of home sales during the year and, in respect of private homes, increased the average sales price achieved, reduced the average construction cost and hence improved the average profit generated per private home by 13%. These achievements have contributed to the strong increase in pre tax profits.

The Group's strategy is to increase investment in quality residential land in order to grow sales outlets and thus volume, revenues and margins. The Group has been successful with land investment in 2010 with the addition of c3,700 high quality consented plots to the land bank. These additions have enhanced the gross profit potential in the land bank. The Group is well positioned for profitable growth into the future.

### Results

For the year ended 31 December 2010, the Group generated £298.6 million of revenue from the legal completion of 1,901 homes, as compared to revenues of £281.5 million in 2009 from 1,803 legal completions.

The Group delivered a pre-tax profit of £18.5 million in 2010 (2009: £7.5 million pre exceptional charges and £4.8 million post exceptional charges) with basic earnings per share at 10.6p (2009: 4.4p per share pre exceptional charges and 2.8p per share post exceptional charges). There were no exceptional items for 2010 (2009 exceptional charge: £2.7 million).

The Group achieved an operating margin of 7.2% in 2010, ahead of the prior year's 6.2% pre exceptional items. Pricing improvements combined with build cost savings led to an increase in gross margin. This was partially offset by an increase in the ratio of overheads to revenue year on year.

The Group's net assets increased from £692.6 million at the start of 2010 to £710.8 million at 31 December 2010, equating to a net asset value of £5.33 per share. As at 31 December 2010, the Group had net cash of £52 million. The Group generated operating cash inflows of £93 million before land expenditure of £137 million, leaving the Group well positioned to continue its value enhancing investments in high quality land.

### Dividend

In the light of the sustained improvement in the performance of the Group and the Board's confidence in the Group's growth strategy, the Board has proposed a full year dividend of 3.0p per share. This is equivalent to an interim dividend of 1.0p per share and a final dividend of 2.0p per share, had both an interim and a final dividend been declared in 2010. In future years the Board expects to grow dividends progressively, as earnings per share increase.

### The Board

During 2010, Neil Cooper, the Group Finance Director, left the Group in order to take up the position of Group Finance Director at William Hill PLC. The Board would like to thank Neil for his significant contribution to the Board and to the robust performance achieved by the Group through an extremely challenging period. The Board would also like to thank Lesley MacDonagh, who stepped down as a non executive director at the last AGM, for her contribution to the success of the Group since 2003.

On 23 August 2010 Jonathan Hill joined as Group Finance Director and became a member of the Board on that date. Jonathan joined Bovis Homes from TUI Travel Group and brings considerable experience and expertise to his new role.

### **Employees**

After a challenging but rewarding year, the Group would like to thank all of its employees for their hard work and commitment during 2010, a year during which the Group made good progress in improving the profitability of the business and undertook significant investment in land to enable the business to grow in the future. The Group would also like to thank its suppliers and sub-contractors for their efforts and hard work during the year.

### **Market conditions and prospects**

The housing market continued to suffer in 2010 from a lack of mortgage availability at the level of loan to value ratios required by first time buyers, which has constrained demand for new build homes, many of which are small and affordable, targeted at the first time buyer market. Monthly mortgage approval levels appear to have stabilised during 2010, but at levels representative of less than half of a normal market. In tackling the issue of the lack of availability of high loan to value mortgages, the Group has launched Perfect 10, a 90% loan to value mortgage product with Barclays Bank, exclusive to the Group. The Group will continue to find innovative ways to enable its customers to access appropriate mortgage finance.

After having made some positive progress in H1 2010, the Group's sales prices stabilised during H2 2010. Although the market remains challenging and customer confidence and commitment levels remain subdued, the Group currently believes that the pricing environment will be stable for 2011 as a whole. A limited supply of homes for sale will not satisfy demand from purchasers. However, buyers are likely to remain constrained by mortgage availability and continue to struggle to raise finance. It is anticipated that sales prices will be more robust in the south of England compared to the north of England, which will assist the Group given its southern bias of sites.

Based on the continuation of current market conditions, the Group is confident in its ability to grow in 2011 and increase profits, supported by the contribution from new sites. Additionally, the Group has the financial capability to continue its consented land acquisition strategy, enabling it to grow further its output capacity. Finally the Group will selectively sell consented land on some of the Group's larger sites thus contributing to the funding of new land acquisitions. Together these actions will create strong foundations for the Group to create value for our shareholders into the future.

### **Malcolm Harris**

Chairman

Copeland Park, Tuffley, Gloucestershire





David Ritchie

## Chief Executive's operating review



The strategy for 2011 is clear: open the recently acquired sites, acquire more land and improve efficiency of capital employed

David Ritchie | Chief Executive

### The Market

During 2010 house prices for the market as a whole were relatively flat with gains in pricing in the first half offset by falls in the second half. The regional picture shows the south east outperforming the other regions in England and Wales.

In terms of demand, a customer's decision to purchase a property is influenced by a range of factors, including the ability to fund a home purchase using a mortgage, affordability, confidence in the direction of future house prices and confidence over future employment prospects.

The pricing stability in 2010 occurred against a backdrop of continuing low mortgage approvals. The Bank of England reported that home purchase loans totalled 572,000 in 2010, a decrease of 3% from 2009 and 54% lower than in 2007. The Bank of England reported that the level of monthly mortgage approvals for home purchases was relatively stable throughout 2010 and was running at c48,000 per month on average for the year as a whole with a peak of 50,000 in April and a low of 43,000 in November. This indicates the mortgage market has found a short term equilibrium which is significantly below historical levels of approvals.

Mortgage approval levels are fundamentally affected by the level of customer deposit required by the lending institution. The effects of the capital adequacy rules relating to mortgages contained within Basel II, aligned to more conservative credit scoring procedures by banks, has led to many purchasers being unable to access mortgage finance. This is particularly an issue for first time buyers, who tend to have lower funds available for a deposit. According to the CML, 194,600 loans were made to first time buyers during 2010, a reduction of 46% from the 360,000 loans advanced in 2007, the year the banking crisis struck. The average deposit for first time buyers is now around 25% compared to 10% prior to the banking crisis. Without these new buyers entering the housing market, overall market activity will remain subdued.

Affordability has improved significantly over the period of the housing market downturn. As house prices have fallen by an average of 20%, earnings have remained stable, and mortgage rates have reduced with the lower base interest rate at 0.5%; according to CLG, affordability as measured by repayments as a percentage of income, has improved by 23% since 2007.

The confidence and thus commitment level of consumers was hit during 2010 in the build up to, and after, the coalition government announced its Comprehensive Spending Review. The expected effects of tax increases and reducing public sector employment lowered consumers' future expectations in terms of their personal financial circumstances. This effect was particularly noticeable in the second half of the year.

In terms of the overall market supply of homes, according to RICS housing market data, new vendor instructions increased for most of the year, until falling away in the last few months of the year. This increase in supply coincided with reduced levels of demand. However, given the historically low levels of interest rates, and thus mortgage payment levels, and the consequential low level of repossessions (36,300 in 2010 equating to 0.3% of all mortgages, compared to 47,800 in 2009), there were limited forced sellers in the market and thus house price falls in the market were limited in the second half of the year.

In terms of new build supply the number of new home completions in England was reported by the Government for 2010 at 102,570. This was a decrease of 13% compared to 2009. However new build housing starts increased by 32% to 103,140 in 2010.

The Government's estimates of household formation numbers, released in March 2009, suggested that English households were 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.

The scale of the pricing movement is relatively consistent between differing indices. The Nationwide reported that the annual change for all properties in the year to 31 December 2010 was an increase of 0.4%, whereas the Halifax reported a reduction for the year of 1.6%, which is in line with the Hometrack price survey data, which indicated an annual 1.6% decline. This latter survey data includes cash buyers as opposed to the two lender indices which do not.

The Group expects that house prices in 2011 will remain stable. Over the medium term, increasing levels of demand from new household formation, combined with low levels of additional supply from new housing stock will act as a support to house prices. Any improvements to the availability of mortgage finance, particularly to first time buyers, is likely to further boost demand, thus supporting prices.

David Ritchie

# Chief Executive's operating review

Sir William's Green, Red Lodge, Suffolk



### 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 around 90% of residential transactions to be second hand, with pricing in the new build sector being set by reference to that market. The de-stocking by the housebuilders in 2008 and 2009 led to new build contributing a greater proportion of residential transactions. This was partially due to the fact that housebuilders had been providing finance by way of shared equity products to home buyers, which had enabled certain buyers to acquire homes with lower levels of equity in the new build market compared to the second hand market. Given the ongoing low level of transactions, the greater contribution from new build homes is expected to have continued in 2010.

### Operational priorities for 2010

During 2010 the Group had four key operational priorities:

- Growing revenue and increasing the operating margin
- Investing in new land to generate strong future returns
- Delivering strong health, safety and environmental standards
- Improving the customer service experience for Bovis Homes customers

### Growing revenue and operating margin

During 2010 the Group delivered on its priority by generating higher revenues, driven by improved volumes, increased average sales prices, and a stronger gross margin. Taken together with overhead cost control, the Group delivered an enhanced operating margin.

With 1,901 legal completions achieved during 2010, the Group's volume performance was 5% ahead of the previous year (2009: 1,803 legal completions). The volume of private homes in 2010 increased by 4%, with 1,592 legal completions in 2010 versus 1,527 units in 2009. The volume of social homes legally completed increased to 309 units from 276 units (16% of total volume, compared to 15% in 2009).

The Group achieved 1,334 private reservations during 2010 at a rate of 0.39 net reservations per site per week. This compared to 1,586 private reservations in 2009 (excluding the 215 homes sold to the joint venture) at a rate of 0.36 net reservations per

outlet per week. The average active sales outlets reduced from 85 in 2009 to 66 in 2010, as a result of the Group's caution in respect of land investment during the pre downturn peak of the market and through the housing market recession.

The Group continues to provide a range of tailored incentives to assist potential customers in buying their new home, in particular, the Group introduced its 'Perfect 10' product during 2010, a 90% loan to value product in conjunction with the Barclays Bank, exclusive to Bovis Homes. The Group's own shared equity mortgage product, 'Jumpstart', has been successful and the Group has also used to a limited extent the Government backed 'Home Buy Direct' scheme. These two schemes offer those buyers who do not possess sufficient equity for the required deposit but who are otherwise credit-worthy, the opportunity to transact. The Group has continued to offer Home Exchange thus allowing the customer to part exchange their existing second hand home at an agreed value in part payment for one of the Group's new homes. This remains an important incentive for customers who are looking to move up the housing ladder.

The Group's average sales price in 2010 increased by 3.9% to £160,700 (2009: £154,600). This was primarily due to the average sales price of the Group's private legal completions increasing to £172,300 in 2010 from £165,500 in 2009. Excluding 215 units sold into the joint venture, which were typically small units in lower price locations, and which were sold at a modest discount to market value, the private average sales price increased by 9.1% to £180,600. Of this increase, the Group considers around 3% to reflect market price movements with the balance delivered through the improving mix of products in terms of size, type and location.

The average size of the Group's private homes grew by 1.0% to 1,004 square feet in 2010 from 993 square feet in 2009 and the sales price per square foot increased by 3.1%. The Group's social homes also increased in average size to 792 square feet in 2010 from 762 square feet in 2009. Overall, the average size of the Group's legally completed homes increased by 1.3% to 970 square feet in 2010 from 958 square feet in 2009 and the sales price per square foot increased by 2.7%.

David Ritchie

## Chief Executive's operating review

The Group has achieved its target of substantially matching production with legal completion volumes in 2010. As at 31 December 2010, the Group held housing work in progress equivalent to 1,093 homes (2009: 986 homes). This will facilitate the early legal completion of homes reserved in the first half of 2011 and will support the overall growth aspirations of the Group for the year.

In 2010, the Group focused on reducing build costs through making subcontract labour savings. These efforts yielded c20% reductions in such costs on new contract lettings largely associated with new sites and new build phases of existing sites. Therefore, the benefits of such savings were not felt by the Group significantly in 2010, with only initial benefits being delivered to the Group in H2 2010. The Group negotiates national agreements with many of its material suppliers to harness its buying power. With a backdrop of inflationary input costs for material suppliers, the Group was successful in holding its material costs static on average for another year during 2010.

The effects of the sales price increases and the cost savings delivered an improved gross margin of 17.9% in 2010 from 16.1% (pre exceptional gains) in 2009. The margin increase would have been greater, but for the negative impact of a higher cost of land after the Group's 2009 year end land write back. The negative impact of this change in land cost base lowered the achieved gross margin by over one percentage point. With sales prices expected to remain stable during 2011, the positive effect of the build cost savings first felt in the second half of 2010 will continue and contribute to improved gross margin throughout 2011. Subject to current market conditions continuing, this provides confidence that the gross margin achieved in the second half of 2010 of c19% can at least be sustained in 2011.

The Group retained tight control over underlying overheads in 2010, which increased year on year by 3%, notwithstanding that the Group invested in increased resources to support the growing activity levels.

Overall the revenues of the Group grew by 6% and the operating margin increased from 6.2% in 2009 to 7.2% in 2010.

### Investing in land

The Group has been successful with land investment in 2010 with the addition of c3,700 high quality consented plots to the land bank at a cost of £203 million. Approximately 80% of these plots are located in the south of England. These plots have an estimated future revenue of £711 million and an estimated future gross profit potential of £181 million based on current sales prices and current build costs, delivering an estimated future gross margin of over 25%. Of the plots added to the consented land bank, 822 plots were delivered through conversion of strategic land.

The Group held a consented land bank of 13,766 plots at 31 December 2010, an increase of 1,724 plots from 12,042 plots held at 31 December 2009. Of the 13,766 plots, 69% are located in the south of England, where the housing market continues to show greater robustness. At the year end, the consented land bank included 3,931 consented plots which have been acquired since the nadir of house prices in the current downturn. The Group estimates that the gross profit potential on the plots within the consented land bank at the 2010 year end, based on current sales prices and current build costs, has increased to £461 million with a gross margin of 20.0%, compared to the position at 30 June 2010, when the gross profit potential was £412 million with a gross margin of 19.2%. The increase of £49 million demonstrates the contribution to the Group's future profits from its land acquisitions.

The average consented land plot cost at the start of 2010 was £35,200. This has increased over the year to £41,000 at 31 December 2010 as a result of a lower number of written down plots held in the land bank at the end of the year (26% of land versus 36% at the start of the year) and the addition of new prime southern traditional housing sites where the average plot cost is higher.

As at 31 December 2010, the Group had agreed terms for the acquisition of an additional c2,500 plots. Of these, 875 plots have been acquired since the year end at a cost of £57 million and with a gross profit potential of £51 million, based on current sales prices and current build costs, delivering a gross margin of over 25%.

The strategic land bank at 31 December 2010 amounted to 17,325 potential plots as compared to 16,363 potential plots at 31 December 2009. The Group added c1,800 potential plots to the strategic land bank during 2010, thus enabling the strategic land bank to grow in size notwithstanding the successful conversion of over 800 plots into the consented land bank. The Group has for a long time recognised the potential of strategic land investment and, as visibility over the effects of the changes to the planning environment improves, the Group intends to increase its investment in strategic land.

#### **Delivering strong health, safety and environmental standards**

The Group is committed to delivering strong health and safety standards for its employees, subcontractors and other site visitors and maintains a high level of organisational focus on 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, firstly, through the operational line, which takes day to day accountability for this area and, secondly, via a Group-wide oversight committee with nominated regional directors responsible for safety, run by the Group Director of Health and Safety and chaired by a senior Group manager, thereby maintaining appropriate oversight of these activities. 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.

Notwithstanding the significant increase in the Group's build activity during 2010, the Group's NHBC risk score for the year was 0.66, which compares favourably to the industry peer group average. Additionally, the incident rate decreased to 31, a 21% reduction from 2009.

During the last 12 months the Group has focused efforts on working at heights, PPE and slips, trips and falls in order to raise awareness in these areas, as the Group strives to make the work environment safer. Whilst the Group's health and safety performance is relatively strong versus external benchmarks, the Group cannot be complacent. Health and safety will remain a key area of focus for regional and Group management.

The Group continues to regard sustainable development as critical to the long term creation of value for its shareholders. The housebuilding industry has an important role to play both in mitigating the impact of its building activities on the local environment and in the evolution of building techniques and advances, which reduce the carbon usage from new build developments.

Ensuring that its developments take place in a manner which mitigates the impact of its operations on its local environment, thereby 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 to EcoHomes standards and to 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.

Further details of the Group's efforts and achievements during 2010 in regards to Corporate Social Responsibility will be published in a separate report, available from the Company's website ([www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk)).

#### **Improving the customer service experience for Bovis Homes customers**

The Group continues to invest in delivering its customer charter, which sets the expectations in relation to the quality of the product it delivers and the manner in which the sales transaction is serviced. The Group has been recognised independently by the achievement of a four star builder rating by the Home Builder Federation. Additionally the Group is pleased to see the key internal scoring metrics of 'recommend a friend', 'purchase another Bovis home' and 'overall quality of the new home' continuing to generate strong satisfaction scores during 2010.

The focus of the Group's customer communication has remained web based during 2010, 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' or 'right move'. Over 70% of customer enquires now originate via the web.

David Ritchie

## Chief Executive's operating review



The sales hub structure has proven successful. Given the prevalence of the web as the primary enquiry origination point for our customers, the Group has been able to provide its customers with the convenience of appointments to view homes at their preferred site. Whilst providing customers with improved convenience, the Group has reduced its cost of sales per transaction and increased its rate of successful sales conversion. Additionally sales hubs are capable of being manned more efficiently on a seven day opening basis and also into the evening cost effectively. This selling process is supported by the Group's bespoke prospect management system, which delivers on-site technology whilst integrating the Group's prospects database with brochure fulfilment.

#### **Outlook**

The Group entered 2011 with a forward sales order position of 420 homes for 2011 delivery. The forward sales position at the start of 2010 was 643 homes, including the non-recurring sale of 215 homes, sold to the joint venture. Excluding this from the comparative, the 2011 forward sales position was consistent with the prior year, notwithstanding the lower number of active outlets: 66 on average during 2010 versus 85 on average during 2009.

The Group has made an encouraging start to trading in the first nine weeks of 2011. Sales enquiries and site visitors in the period to 4 March 2011 have increased by 24% and 28% respectively, compared to the same period in 2010 from a similar number of sales outlets. From these enhanced visitor levels, the Group achieved an average private sales rate of 0.45 net reservations per site per week, compared with an average in the first nine weeks of 2010 of 0.41 and an average of 0.36 during H2 2010. The Group has achieved 268 net private reservations in the first nine weeks of 2011 against 242 net private reservations in the comparative period in 2010, an increase of 11%. Pricing has been stable, consistent with levels achieved in the second half of 2010. As at 4 March 2011, the Group held 715 net sales for legal completion in 2011, as compared to 969 net sales at the same point in 2010. Within the current year total, private sales amount to 469 units (2010: 701 units) and social sales amount to 246 units (2010: 268 units).

As a result of the investment in land in 2010, the Group expects to launch 33 new sales outlets during 2011, 23 of which are expected to open in the first half of the year. Taking into account 21 sales outlets which are expected to close through the year, it is anticipated that the Group will trade from an average of 76 sales outlets in 2011 versus 66 sales outlets in 2009, an increase of 15%.

Given the focus on acquiring land in the south of England, it is anticipated that two thirds of the active sales outlets at the end of the 2011 will be southern located versus just over half of the active sales outlets at the start of the year. As new sales outlets are opened by the Group, absolute weekly reservation levels are anticipated to increase and the sales rates on new predominantly southern sites are expected to be stronger than the Group's recent weekly average sales rate. This will contribute to improvements in both volumes and profit margins.

The Group is strongly placed with the financial capability to continue its consented land acquisition strategy, enabling it to grow its output capacity. In 2010 the Group's strategic priority was clear: invest in new land to generate strong outlet growth. The strategic priorities for 2011 are equally clear: open the recently acquired sites quickly, acquire more land, and drive improved efficiency within the Group's capital employed. This will be assisted by selectively selling consented land on some of the Group's larger sites, thus contributing to the funding of new land acquisitions. The resulting improved spread of land assets will lead to the increase in active sales outlets, which will deliver increased volumes, without relying on improving conditions in the housing market, thus increasing revenue, profit and returns in the mid term.

The Board is confident about the Group's prospects for 2011, assuming the continuation of current market conditions, and continues to believe that the growth strategy will materially improve shareholder returns.

**David Ritchie**  
Chief Executive

David Ritchie

# Chief Executive's operating review

Abbey Place, Minster, Kent



**Strategy and objectives**

Following a review in 2010, the Group has refined its strategic objectives as follows:

Objective	Target
<p><b>Build operating margin:</b></p> <ul style="list-style-type: none"> <li>• Invest in new sites at stronger profit margins</li> <li>• Make additional build cost savings</li> <li>• Improve efficiency of overheads</li> </ul>	<ul style="list-style-type: none"> <li>• Operating margin in the upper quartile of sector peer group</li> </ul>
<p><b>Increase potential gross profit within the land bank:</b></p> <ul style="list-style-type: none"> <li>• Acquire and open new sites</li> <li>• Replan and renegotiate existing assets</li> <li>• Pull through of strategic land</li> </ul>	<ul style="list-style-type: none"> <li>• Annual growth in profits and earnings per share</li> </ul>
<p><b>Improve efficiency of capital employed:</b></p> <ul style="list-style-type: none"> <li>• Manage land bank and diversify land holdings with a greater number of sites</li> <li>• Control work in progress</li> </ul>	<ul style="list-style-type: none"> <li>• ROCE in the upper quartile of sector peer group</li> </ul>
<p><b>Deliver strong customer satisfaction</b></p>	<ul style="list-style-type: none"> <li>• Maintain four star builder status</li> </ul>
<p><b>Deliver strong health and safety and environmental standards</b></p>	<ul style="list-style-type: none"> <li>• NHBC Risk Score and Incidence Rate in the upper quartile of sector peer group</li> </ul>

The table on pages 30 and 31 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.

The sales hub at Coopers Edge, Brockworth, Gloucestershire





Jonathan Hill

## Financial performance during the year



The Group made an improved profit for the year as a whole with substantial net cash at the end of the year

Jonathan Hill | Group Finance Director

**Revenue**

During 2010, the Group generated total revenue of £298.6 million, compared to total revenue in 2009 of £281.5 million. Housing revenue in 2010 was £305.6 million, 9.6% ahead of the prior year (2009: £278.8 million). Of this revenue, £12.9 million has not been recognised in the financial statements in 2010. This is due to the fact that the Group holds a 50% equity stake in a private rental joint venture into which the Group has sold a portfolio of 215 new homes. This revenue and associated profit will be recognised as and when the joint venture investment is disposed or the homes in the joint venture are sold. As a result the Group's reported housing revenue for 2010 was £292.7 million (2009: £278.8m). Other income was £5.9 million (2009: £2.7 million). The Group chose not to sell any consented residential development land in either 2009 or 2010.

**Operating profit**

The Group delivered an operating profit for the year ended 31 December 2010 of £21.6 million at an operating margin of 7.2%, as compared to £17.4 million, before exceptional items, in the previous year, at an operating margin of 6.2%. There were no exceptional items in the current year.

Gross margin increased to 17.9% in 2010 from 16.1% (pre exceptional gains) in 2009. Stronger average sales prices combined with the initial benefit of construction cost savings in the second half of 2010 contributed strongly to the gross margin, more than offsetting the negative impact of a higher cost of land after the 2009 year end land write back. The negative impact of this change in land cost lowered the achieved gross margin by over one percentage point. The Group has delivered a materially improved gross margin in H2 2010 of 18.9%, compared to 16.3% in H1 2010.

As anticipated, overheads increased in 2010 by 14%. Underlying overheads increased year on year by 3%, with the remainder of the increase arising from the increase in staff bonus charge, reflecting the strong performance of the Group. As a result, the overheads to revenue ratio increased to 10.6% in 2010 from 9.9% in 2009. Pre the effect of staff bonus, the overheads to revenue ratio was 9.3%, compared to 9.6% in 2009.

**Exceptional and non-recurring costs**

There were no exceptional items for 2010 (2009 exceptional charge: £2.7 million).

The Group has reviewed the carrying value of its inventory items at the reporting date, 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 sales prices taking into account current market conditions, and after deduction of an appropriate amount for sales and marketing costs. This has given rise to no movement in the carrying value of inventory as at 31 December 2010 (2009: £2.7 million credit).

There were no exceptional items relating to financing charges in 2010 (2009 exceptional charge: £4.2 million). There were no other exceptional items in 2010 (2009 exceptional charge: £1.2 million).

**Pre tax profit and earnings per share**

The Group achieved profit before tax of £18.5 million, comprising operating profit of £21.6 million, net financing charges of £3.2 million and a profit from the joint venture of £0.1 million. This compares to £17.4 million of pre-exceptional operating profit and £9.9 million of net financing charges in 2009 which generated £7.5 million of pre-exceptional profit before tax in that year. After accounting for exceptional charges, the Group achieved a pre tax profit of £4.8 million in 2009.

Basic earnings per share for the year was 10.6p compared to pre exceptional basic earnings per share of 4.4p and basic earnings per share after exceptional charges of 2.8p in 2009.

**Financing**

The Group incurred net financing charges of £3.2 million in 2010 (2009: £9.9 million pre exceptional charges). This reduction in finance costs arose, firstly, from the strong average net cash position of the Group throughout 2010 (the Group had an average of £78 million of net cash during 2010, as compared to an average net debt of £9 million in 2009), and, secondly, from the significantly more cost effective bank facilities agreed in January 2010. Net bank charges for 2010 were £2.2 million (2009: £8.6 million), which included the amortisation of arrangement fees (£0.6 million) and commitment fee charges (£2.0 million).

## Financial performance during the year

The Group incurred a £2.7 million finance charge (2009: charge of £1.7 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 (2009: £0.2 million) net pension financing credit during 2010. This credit arose as a result of the expected return on scheme assets being in excess of the interest on the scheme obligations. The Group also benefited from a finance credit of £1.2 million (2009: £0.6 million) arising from the unwinding of the discount on its available-for-sale financial assets during 2010. There were also £0.3 million of other financing credits during the year (2009: £0.4 million of other charges).

### **Taxation**

The Group has recognised a tax charge of £4.5 million on pre tax profits of £18.5 million at an effective tax rate of 24.1% (2009: tax charge of £1.3 million at an effective rate of 27.1%). The effective rate is below that expected owing to the benefit of land remediation allowances and the finalisation of prior years' tax submissions. The Group has recognised a current tax liability of £1.5 million in its closing balance sheet as at 31 December 2010 (2009: current tax asset of £0.8 million).

### **Dividends**

The Board has proposed a full year dividend of 3.0p per share. This is equivalent to an interim dividend of 1.0p per share and a final dividend of 2.0p per share, had both an interim and a final dividend been declared in 2010. No dividends were proposed by the Board in respect of 2009.

### **Net assets**

At 31 December 2010, the Group's net assets were £710.8 million, £18.2 million higher than the opening net asset position at 31 December 2009. The main drivers of this change have been the profit for the period of £14.0 million and the reduction in the deficit on the Group's pension scheme, leading to an increase in reserves of £3.0 million.

Net assets per share as at 31 December 2010 was £5.33 as compared to £5.20 at 31 December 2009.

### **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 £2.9 million at 31 December 2010, a decrease of £6.0 million on the opening deficit of £8.9 million at 31 December 2009. Scheme assets grew strongly over the year to £73.5 million from £67.6 million and scheme liabilities decreased to £76.4 million from £76.5 million, reduced by the use of CPI rather than RPI, where relevant, (£4.6 million), offset by a fall in bond yields and improved mortality assumptions. As well as benefiting from a generally stronger stock market in 2010, scheme assets benefited from a £1.5 million special cash contribution made by the Group into the scheme in December 2010.

### **Cash flow**

The Group started the year with £112.3 million of net cash and at 31 December 2010, held £51.7 million of net cash. The net cash outflow of £60.6 million was the result of an operating cash inflow pre land expenditure of £93 million, net cash payments in 2010 for land investment of £137 million and a non-trading cash outflow of £17 million.

### **Net cash**

Having started the year with a net cash balance of £112.3 million, as at 31 December 2010 the Group held £51.7 million of net cash, with £67.0 million of cash in hand, offset by £15.2 million of loans received primarily as part of the Government's Kickstart programme and a £0.1 million interest rate derivative fair value adjustment.

At the end of the year, the Group had in place a £150 million committed syndicated facility, maturing in September 2013, with flexible borrowing terms at a low 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 the UK.

With regard 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. At the time of the expiry of this hedge, the Group will assess its future expected debt profile and, having quantified its interest rate risk, will make a decision on any future hedging. The Group does not have a defined policy for interest rate hedging.

Credit risk is largely mitigated by the fact that the Group's sales are generally made on completion of a legal contract at which point monies are received in return for transfer of title. During 2010, the Group continued to make a number of sales 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 'Home Buy Direct' scheme or via the Group's own 'Jumpstart' scheme.

This has led to an increase in the size of the Group's long term receivable. Available for Sale Financial Asset balance which at 31 December 2010 was £31.1 million versus £21.3 million at 31 December 2009. Whilst this does represent an increase in credit risk in total, each individual credit exposure is small given the high number of counterparties. On average, individual shared equity exposure totals £24,000 (2009: £26,000).

In early 2010, the Group successfully re-refinanced 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 2010.

**Jonathan Hill**  
Finance Director

Fairfield Park, Stotfold, Bedfordshire





Principal risks and uncertainties



The Group’s financial and operational performance is subject to a number of risks. The Board recognise that the management of these risks is extremely important for the long-term success of the Group. The identification, quantification and mitigation of these risks are assessed on a regular basis by the Board. The key risks facing the Group are as follows:

Risk	Impact	Mitigation
<b>General Economic Conditions</b>	Demand for housing is impacted by changes in employment, interest rates and customer confidence. A deterioration in the economy could decrease customer demand for new homes and the pricing achievable, with consequential impacts on revenues, profits and potentially asset carrying values.	<ul style="list-style-type: none"> <li>• The Group retains a cautious debt position with a conservatively structured balance sheet.</li> <li>• The Group manages its level of work in progress to match sales levels.</li> <li>• The Group is focussing its land acquisition effort primarily in the south of England, where the economy should remain more robust.</li> </ul>
<b>Mortgage Availability</b>	The availability of mortgage finance is fundamental to customer demand. Further restriction on mortgages granted, potentially driven by increased deposits demanded by banks or more stringent credit vetting procedures, could reduce demand for homes and therefore revenues and profits.	<ul style="list-style-type: none"> <li>• The Group manages its level of work in progress to match sales levels.</li> <li>• The Group is investing in land with more traditional homes, which are less focussed on the first time buyer.</li> <li>• The Group provides relevant customers with purchase assistance schemes, which are targeted at those buyers with the greatest difficulty in accessing mortgages due to deposit requirements.</li> <li>• The Group continues to innovate to find additional ways to assist customers to purchase a home.</li> </ul>
<b>Code for Sustainable Homes (“CSH”) Requirements</b>	The introduction of higher levels of CSH may increase substantially production costs without an offsetting ability to increase sales prices. Assuming councils maintain their social gain packages, land vendors may see insufficient value remaining in their land and therefore the supply of land at traditional margins may erode, thus impeding the growth of sites and therefore volumes going forward.	<ul style="list-style-type: none"> <li>• The Group is investing assertively in consented land which is subject to existing regulation standards.</li> <li>• The Group continues to investigate new building techniques and advances, which can reduce the carbon usage from new build developments in increasingly cost effective ways.</li> </ul>
<b>Regulation and Legislation</b>	The Group is subject to large quantities of changing rules and regulations in relation to planning, legislation and health and safety. Complying with the obligations can create costs to the Group or may create delays in building activity. Additionally the quantity and range of obligations create risks for the Group in remaining aware and fully conversant with all of the new developments.	<ul style="list-style-type: none"> <li>• The Group maintains a land bank to mitigate against significant impacts from delayed build activity.</li> <li>• The Group operates comprehensive processes to ensure compliance with know regulatory and legal requirements.</li> <li>• The Group carefully monitors changes in legislation and regulation to ensure that changes effecting the business are incorporated within the Group’s processes.</li> </ul>
<b>Access to Land</b>	The Group fails to invest effectively in land with a residential planning consent to maintain and grow its consented land bank, thus either limiting expansion or possibly compromising existing activity.	<ul style="list-style-type: none"> <li>• The Group operates a rigorous formal process for land acquisitions and defines hurdle return rates which must be achieved.</li> <li>• Management regularly review the pipeline of new land purchases.</li> </ul>

As the activities of the Group evolve, the nature of the risks that it is focused on evolve. For instance, as the Group has acquired land successfully, the operational risk shifts to the progression of these sites into the build and sales phase, with the challenges of gaining detailed planning and of operationally gearing up the Group to increase build and sales activity. 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.





# Key performance indicators

## Market sector analysis

Year ended 31 December	2010			2009		
	%	Units	Average sales price £	%	Units	Average sales price £
One and two bedroom	31	588	113,300	35	624	113,000
Three bedroom	31	595	182,000	28	509	177,900
Four bedroom	12	228	224,000	11	198	211,800
Five or more bedroom	7	136	291,500	6	111	297,600
Retirement Living	2	45	198,300	5	85	172,600
Social housing	15	276	101,600	9	170	98,400
Partnership housing (3rd party owned land units)	2	33	92,600	6	106	88,600
<b>Group</b>	<b>100</b>	<b>1,901</b>	<b>160,700</b>	<b>100</b>	<b>1,803</b>	<b>154,600</b>

## Product mix analysis

Year ended 31 December	2010			2009		
	%	Units	Average sales price £	%	Units	Average sales price £
Traditional	21	395	189,800	22	387	168,700
Room-in-roof	11	222	248,800	11	204	244,700
Three storey	25	478	182,200	23	414	180,000
Apartments	24	452	106,900	24	437	110,800
Retirement Living	2	45	198,300	5	85	172,600
Social housing	15	276	101,600	9	170	98,400
Partnership housing (3rd party owned land units)	2	33	92,600	6	106	88,600
<b>Group</b>	<b>100</b>	<b>1,901</b>	<b>160,700</b>	<b>100</b>	<b>1,803</b>	<b>154,600</b>

## Unit completions and average sales price

Year ended 31 December	2010		2009	
	Units	Average sales price £	Units	Average sales price £
South East	673	183,200	626	178,100
South West	472	146,500	535	124,400
Central	756	149,600	642	156,900
<b>Group</b>	<b>1,901</b>	<b>160,700</b>	<b>1,803</b>	<b>154,600</b>

## Financial

Year ended 31 December	2010	2009
	%	%
Return on capital employed <sup>(1)</sup>	3	2
Operating margin <sup>(2)</sup>	7.2	6.2
Year over year basic earnings per share growth <sup>(3)</sup>	141	(52)
Year over year pre-tax profit growth <sup>(3)</sup>	147	(48)

(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 revenue

(3) Before deduction of exceptional items

## Staff training

Year ended 31 December	2010	2009
Number of training hours completed	5,411	3,619
Number of staff enjoying training intervention	458	373
Percentage of employees trained	88%	80%

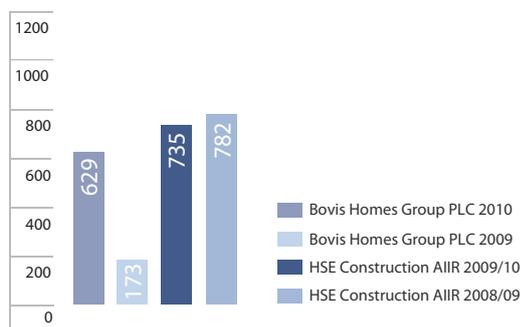
## Health and safety

Year ended 31 December	2010	2009
RIDDOR reportables <sup>(1)</sup>	17	4
Minor injuries	80	64
NHBC risk incidence <sup>(2)</sup>	31.0	39.1

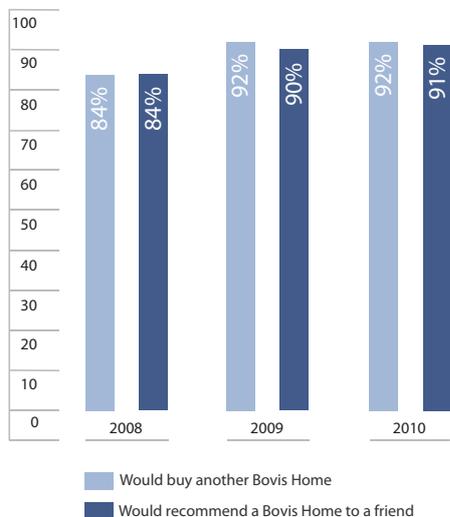
(1) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

(2) NHBC risk incidence is calculated as the absolute risk score divided by the average annual population multiplied by 100,000

## Annual injury incidence rate (AIIR)



### Customer satisfaction



### Consented land bank

Total plots as at 31 December	2010	2009
	Plots	Plots
South East	3,671	3,109
South West	5,063	4,400
Central	4,944	4,413
Group (exc. 3rd party owned land plots)	13,678	11,922
Third party owned land plots		
South West	88	120
Group consented land bank	13,766	12,042
Years' supply based upon legal completions in the year (consented land bank)	7.2	6.7

### Strategic land bank

Total potential plots as at 31 December	2010	2009
	Plots	Plots
South East	4,829	4,839
South West	3,192	2,785
Central	9,304	8,739
Group strategic land bank	17,325	16,363
Years' supply based upon legal completions in the year	9.1	9.1

### Sustainability

Year ended 31 December	2010	2009
Number of homes built with EcoHomes rating	451	550
Number of homes built to Level 3 CSH	125	-
Legal completions on brown land	56%	49%
Efficient use of land (1)	17,900	17,816

(1) Square footage of living space per developable acre

### Analysis of margin

Year ended 31 December	Group	
	2010	2009
	%	%
Revenue	100.0	100.0
Land costs	(23.4)	(21.5)
Construction costs	(58.7)	(62.4)
Gross profit	17.9	16.1
Administrative expenses (including sales and marketing costs)	(10.6)	(9.9)
Operating profit	7.3	6.2

Note: 2009 on pre-exceptional basis

### Analysis of net assets

Year ended 31 December	2010	2009
	£m	£m
Net assets at 1 January	692.6	632.3
Profit for the year	14.0	3.5
Dividends	-	-
Share capital issued	0.3	59.1
Net actuarial movement on defined benefits pension scheme	3.0	(3.0)
Adjustment to reserves for share-based payments	0.9	0.7
Net assets at 31 December	710.8	692.6

### Analysis of pension scheme deficit

Year ended 31 December	2010	2009
	£m	£m
Pension deficit at 1 January	8.9	6.8
Contributions into the pension scheme	(2.2)	(2.8)
Expense to the income statement	0.5	0.7
Actuarial (gain)/loss on defined benefits pension scheme	(4.3)	4.2
Pension deficit at 31 December	2.9	8.9



**1. Malcolm Harris (62)**  
*Non-executive Chairman*

Appointed non-executive Chairman in 2008, Malcolm was previously Chief Executive from 1996 to 2008 and was first appointed to the Board of Bovis Homes in 1978. He is a non-executive director of the Home Builders Federation (HBF) and was previously a director of the National House Building Council (NHBC). Malcolm has in depth sector and industry knowledge and is a regular contributor to industry thinking.

**2. Alastair Lyons CBE (57)**  
*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. He is also Senior Independent Director of the Phoenix Group and a non-executive director of the Towergate Insurance Group. Previously, Alastair was Chief Executive of the National Provident Institution and the National and Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc and Director of Corporate Projects at National Westminster Bank plc. He has a broad base of business experience, including financial services, the insurance industry and private equity.

**3. Colin Holmes (45)**  
*Non-executive Director*

Appointed an independent non-executive director in 2006 and Chairman of the Remuneration Committee in 2008, Colin is a Chartered Management Accountant and has over 20 years of financial, commercial and operational experience gained through a number of executive positions within Tesco PLC. Until July 2010 he was Tesco's Commercial Director for fresh foods and a member of the Group Executive Committee of Tesco PLC. Colin is a non-executive director of Admiral Group plc, where he is also a member of both the audit and remuneration committees.

**4. John Warren (57)**  
*Non-executive Director*

Appointed an independent non-executive director in 2006, John is Chairman of Uniq plc and a non-executive director of Rank Group plc and Spectris plc. He was previously group finance director of WH Smith PLC and United Biscuits plc and a non-executive director of Arla Foods UK plc, BPP Holdings plc, RAC plc and Rexam plc. John has detailed financial and accounting expertise and previous experience in chairing audit committees.

**5. David Ritchie (41)**  
*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 Group Financial Controller and was previously employed by KPMG. David has significant experience and knowledge of the sector, including land acquisition, planning, construction, marketing and customer service.

**6. Jonathan Hill (42)**  
*BSc (Hons) ACA, Group Finance Director*

Joined Bovis Homes in August 2010 as Group Finance Director. Previously, he was employed by TUI Travel plc in both group finance and divisional roles and held positions with Centrica plc, BT Group plc and Price Waterhouse.

**7. Martin Palmer (52)**  
*FCIS, Group Company Secretary*

Joined Bovis Homes in 2001 and was previously Group Company Secretary of London Forfeiting Company PLC from 1997 to 2001 and 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 2010.

## 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 26 to 27. 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 £14.0 million (2009: £3.5 million). No interim dividend was paid relating to 2010 (2009: Nil). The Board has advised a return to dividends in 2011 and proposes to pay, subject to shareholder approval at the 2011 Annual General Meeting, a full year dividend of 3.0p (2009: nil) net per share in respect of the 2010 financial year on 27 May 2011 to shareholders on the register at the close of business on 1 April 2011. On this basis, the total dividend for 2010 will be 3.0p (2009: nil). It is intended that a scrip dividend alternative will be offered to allow shareholders to elect to receive the whole or part of their dividend in new ordinary shares.

## Directors

Details of the directors are shown on page 32. Lesley MacDonagh retired at the Annual General Meeting held on 6 May 2010 and Neil Cooper, the former Group Finance Director, left the Company on the same date.

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 UK Corporate Governance Code, all the directors will retire at the Annual General Meeting, to be held on Wednesday 11 May 2011, and being eligible, offer themselves for re-appointment. Jonathan Stanley Hill, appointed on 23 August 2010, offers himself for re-appointment in accordance with the Articles of Association.

## 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 11 March 2011, 133,218,325 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 11 March 2011, 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	-	11.93	-	15,889,268	11.93
BlackRock Investment Management	-	7.41	2.61	13,344,378	10.02
Prudential	8.16	-	-	10,871,704	8.16
Sanderson Asset Management	8.08	-	-	10,764,565	8.08
Lloyds Banking Group	0.41	4.75	-	6,868,903	5.16
FMR LLC	-	4.83	-	6,444,500	4.83
Standard Life Investments	3.50	1.31	-	6,405,231	4.81
Norges Bank	4.07	-	-	5,428,017	4.07

## 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), a 2009 Bonus Replacement Share Plan 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 share 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 11 March 2011, which includes key targets and performance data. A copy of the report is available on the Group's website [www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk) and on request to the Group Company Secretary.

## Donations

The Group made charitable donations in the year amounting to £7,830 (2009: £5,250). 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.

The Group's 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 50 days (2009: 46 days). The calculation excludes land purchase creditors.

The aggregate amount owed to trade creditors by the Company was £nil throughout 2009 and 2010.

## 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 2010, the Group had no borrowing positions under this arrangement.

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 2011 Annual General Meeting to be held on Wednesday 11 May 2011 is set out on pages 83 to 85. 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).

In accordance with the UK Corporate Governance Code, all the directors will stand for re-election at the Annual General Meeting.

As in prior years, 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 11 March 2011, 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 ought to have taken as a director to make himself 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.

The Company welcomes the new UK Corporate Governance Code, which applies to accounting periods beginning on or after 29 June 2010, and will report on its compliance with the new Code in the 2011 Annual Report and Accounts.

This report sets out 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)) and how its corporate governance framework is applied. 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 2010 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.

### The Board

The Board comprises Malcolm Harris, non-executive Chairman; Alastair Lyons, non-executive Deputy Chairman and Senior Independent Director; two executive directors, David Ritchie, Chief Executive, and Jonathan Hill, Group Finance Director; and two further independent non-executive directors, John Warren and Colin Holmes. Lesley MacDonagh retired at the Annual General Meeting held on 6 May 2010, having served since 2003, and Neil Cooper left the Company on the same date. Jonathan Hill was appointed on 23 August 2010 following a recommendation from the Nomination Committee and an evaluation of the knowledge, skills and experience that the appointment would bring to the Company and the Board. A comprehensive, tailored and formal induction to the Company was provided shortly after appointment and major shareholders had the opportunity to meet the newly appointed Group Finance Director.

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.

# Report of the directors continued

## Report on corporate governance continued

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 Alastair Lyons, John Warren and 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 ten times during 2010 and all the directors, then current, attended all meetings, with the exception of Alastair Lyons, who missed one meeting by prior arrangement, and Lesley MacDonagh who missed two meetings by prior arrangement. The Board receives timely, clear and comprehensive board papers a week in advance of each meeting and other information appropriate to enable it to discharge its duties. Meetings are conducted in a way which allows open discussion and enables the non-executive directors to challenge and test the strategy, policy and proposals put forward by the executive directors. The Chairman and the non-executive directors also met during the year under review without the executive directors present.

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

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

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

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, as part of the Board performance evaluation, that directors continually update and refresh their knowledge and skills and familiarity with the Company 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 under the Articles of Association. 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. In accordance with the UK Corporate Governance Code, applicable to accounting periods commencing on or after 29 June 2010, all the directors will stand for re-election at the forthcoming Annual General Meeting. The Board strongly supports and recommends the re-election of the directors 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.

The Board has authorised potential conflicts of interest in accordance with Article 110 of the Articles of Association in respect of Malcolm Harris and his position as a non-executive director of the House Builders Federation, David Ritchie and his position as Chairman of the corporate trustee of the Company's defined benefit pension scheme and Alastair Lyons and his positions as Chairman of Legal Marketing Services Limited and a non-executive director of Phoenix Group Holdings. 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.

# Report of the directors continued

## Report on corporate governance continued

### Board performance evaluation

During 2010, 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 2010 objectives, focuses on the main issues facing the business and adds value to both shareholders and management. Outputs include 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 with input from regional management. Actions have been documented and included in the Board's schedule for 2011. The Board intends to complete a formal external performance evaluation during 2011.

Individual director performance evaluations were undertaken by the Chairman using a discussion and interview process which covered each director's commitment, contribution, understanding of the Company, decision making, and interpersonal skills, with the link being made to training and development. All directors were considered to be 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 2010 which confirmed that the Chairman provided strong leadership to the Board and created an appropriate environment for Board debate with effective management of the Board's agenda. It was also confirmed that the Board continued to benefit from having retained the Chairman's in depth knowledge of the sector gained during his executive career with the Company, his continued participation in industry thinking, and his interaction with principal shareholders on matters of corporate governance.

### Board committees

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

During 2010, membership of the three Committees comprised four independent directors, until the retirement of Lesley MacDonagh from the Board on 6 May 2010 and since that date has comprised three independent directors plus the Chairman and Chief Executive in the case of the Nomination Committee. The Audit Committee is chaired by John Warren and the Remuneration Committee is chaired by Colin Holmes. The Nomination Committee is chaired by 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 2010, 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.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk). 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, Deputy Chairman and the other non-executive directors attended an investor presentation and analysts' briefing held in November 2010 and major shareholders attending had the opportunity to put their views and hold discussions with them. 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 2010 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 2010 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.

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 efficacy 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.

# Report of the directors continued

## Report on corporate governance continued

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 2011 - June 2012. These forecasts take into account current market trends with reasonable judgements and estimates applied to arrive at future cash flow estimates. As part of this review, the Group has analysed its forecast covenant compliance over this period linked to its banking facility, arriving at an assessment of the headroom evident between the forecast covenant test outcomes and the outcomes necessary to achieve covenant compliance. The Group entered into a new banking facility on 27 January 2010. 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 of £52 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

11 March 2011

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), two 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. Under the Articles of Association, 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 2010 the Audit Committee comprised John Warren as Chairman, Colin Holmes and Alastair Lyons, all of whom are independent non-executive directors with Lesley MacDonagh serving until 6 May 2010. 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 then current Group Finance Director attended two meetings. The external auditors, KPMG Audit Plc, attended three meetings and the Head of Internal Audit attended three 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 John Warren as a former Group Finance Director satisfies the requirement for recent and relevant financial experience.

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

## Terms of reference

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

## Overview of activities

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

- 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 2009 final audit, the 2010 interim review and the audit planning and strategy for the 2010 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 2010, 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

11 March 2011

## 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 2010, the Nomination Committee comprised Malcolm Harris as Chairman, John Warren, Colin Holmes, Alastair Lyons and David Ritchie, with Lesley MacDonagh serving until 6 May 2010. The Nomination Committee met twice during the year and all members attended with the exception of John Warren, who missed one meeting by prior arrangement.

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

### Terms of reference

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

### Overview of activities

During 2010 the Nomination Committee made recommendations to the Board concerning directors to retire by rotation and seek reappointment at the 2010 Annual General Meeting. The recruitment process for a new Group Finance Director was concluded and was conducted 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 2010.

**Malcolm Harris**

Chairman of the Nomination Committee

11 March 2011

# 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 11 May 2011 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 2010 were Colin Holmes as Chairman, John Warren, Alastair Lyons and, until 6 May 2010, Lesley MacDonagh. Meetings of the Remuneration Committee are held as and when appropriate and at least three times per annum. During 2010, the Remuneration Committee met on six occasions and all members, then current, attended each meeting with the exception of John Warren, Alastair Lyons and Lesley MacDonagh who each missed one meeting by prior arrangement.

### Advisers to the Remuneration Committee

The Remuneration Committee, from time to time, calls upon Malcolm Harris (Chairman) and also 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. Since August 2009 Deloitte LLP has been ongoing adviser to the Committee and attends Committee meetings as required. Deloitte LLP has also provided VAT advice to the Company during 2010. ACS HR Solutions Share Plan Services (formerly ExcellerateHRO Share Plan Services) act as Trustee of the Bovis Homes Group Long Term Incentive Plan. The Group Company Secretary, 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 and maintain awareness of wider market movements and implement remuneration packages appropriate to the Company.
- 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.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk) and on request to the Group Company Secretary.

### Remuneration policy

The Remuneration Committee determines the Company's policy for the remuneration of executive directors, having regard to the 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.

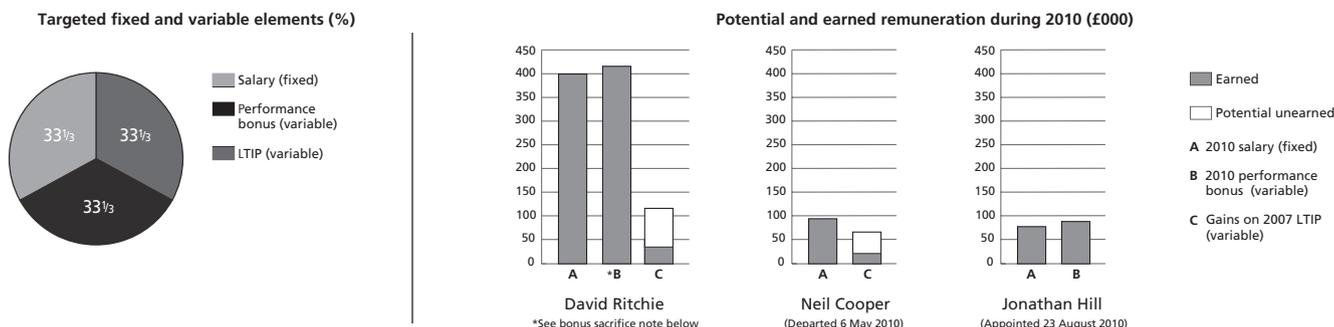
The remuneration policy was reviewed by the Remuneration Committee during 2010.

# 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 being subject to performance conditions, a significant part is variable and is not guaranteed. The potential remuneration package is structured so that one-third is fixed and two-thirds is variable. 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 2010 the fixed element, being salary, and variable elements, which includes bonus and gains on the exercise of LTIP awards granted in 2007, are shown, by director, in the charts immediately above and to the right. As Jonathan Hill commenced with the Company on 23 August 2010 he had no entitlement to exercise awards under the LTIP during 2010. Neil Cooper left the Company on 6 May 2010 and received no additional compensation on departure.

## 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. At the end of 2010, the Remuneration Committee undertook a review of David Ritchie's salary, which had not been increased since July 2008, having regard to the significant contribution made to the Group's performance since his appointment in July 2008. This process was supported by an external benchmarked review, to gain an understanding of remuneration levels in companies of similar size and complexity, and independent advice. As a result the Committee decided to increase his salary by 3.75% to £415,000 from 1 January 2011. The salary of Jonathan Hill was set at £240,000 on appointment on 23 August 2010 and will next be reviewed on 1 January 2012.

## Annual performance bonus

Following a consultation with major shareholders, the Remuneration Committee established a new annual bonus scheme commencing for the 2010 financial year. Under this scheme the executive directors have a bonus cap equal to 100% of basic annual salary prevailing at the date of the Remuneration Committee meeting to determine bonus earned. The plan was designed as a long term arrangement with flexibility to adapt to a range of market conditions. A mix of performance measures are used, with the proportion applying to each measure and the associated targets 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. The 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 reviews 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

The assessment of bonus achievement in respect of the 2010 financial year considered delivery against performance measures set by the Remuneration Committee comprising 80% financial performance measures (profit before tax, cash flow and management of land acquisition) and 20% non-financial performance measures (health and safety and customer service). The targets set for each performance measure contained threshold, on target and stretch elements and all stretch targets were achieved. The outcome was approved by the Remuneration Committee and bonuses were awarded to the executive directors for the 2010 financial year equal to 100% of current basic annual salary (pro-rated for service), to be paid in 2011. The level of bonus awarded to the executive directors was considered appropriate as a result of the high level of performance during a challenging year, which saw a significant increase in pre tax profits to £18.5 million and earnings per share to 10.6p, operating margin progression, good progress with land acquisition and a strong cash flow performance, providing the basis for a return to dividend in 2011.

In advance of the bonus decision being considered, David Ritchie had requested that £193,000 of any bonus awarded to him be sacrificed in exchange for an equivalent employer contribution to a qualifying personal pension arrangement. After careful consideration, this request was agreed by the Remuneration Committee and the bonus was subsequently awarded, with the result that David Ritchie will receive £222,000 as a cash bonus before tax and a contribution of £193,000 will be made by his employer to the qualifying personal pension arrangement.

## Report on directors' remuneration continued

The Remuneration Committee has spent time ensuring that performance measures and targets for the 2011 financial year are based around the key deliverables of the business. The performance measures will be based 90% on financial measures and 10% on non-financial measures. The 2011 targets have been set by the Remuneration Committee taking into account appropriate internal and external metrics, including analysts' forecasts for the Company and the sector.

All office based employees receive separate consideration for a bonus based on the achievement of bonus performance targets 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**

David Ritchie is a senior executive member of the Bovis Homes Pension Scheme. This is a contributory funded, defined benefit scheme approved by HMRC. Pensionable earnings were equal to basic pay prior to 6 April 2006. From 6 April 2006, increases in pensionable earnings are restricted each year to the lesser of the percentage increase in basic pay and 2.5%. David 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. There are no special early retirement, unreduced pension or early termination provisions for executive directors.

At the end of 2010, the Remuneration Committee reviewed the competitiveness of pension provision and adopted a revised pensions policy which sets a contribution rate allowance of 20% of basic annual salary per annum for David Ritchie from April 2011. A sum is deducted from this allowance for Company contributions to the Bovis Homes Pension Scheme and the balance will be paid as a non-bonusable and non-pensionable salary supplement.

Neil Cooper was a member of the Bovis Homes Group Personal Pension Plan until 6 May 2010 and Jonathan Hill is a current member. The Plan is 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. There are no special early retirement or early termination provisions for executive directors.

### **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.

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

The current Long Term Incentive Plan for executive directors and senior executives was approved by shareholders at the 2010 Annual General Meeting. Under the rules of the plan, in normal circumstances, 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 determined by the Remuneration Committee and awards may usually be exercised at the end of three years. There is no cost to the participants in the plan to exercise the awards and dividend equivalents will normally be paid on vesting shares.

The extent to which awards granted under the plan in 2011 may be exercised is determined by two measures of performance; total shareholder return ('TSR') and earnings per share ('EPS'), 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 is 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

In setting the TSR performance targets for the 2011 awards, the Remuneration Committee has taken account of historic TSR performance in the housebuilders comparator group and wider practice amongst FTSE 350 companies. Threshold TSR performance is set at the median, as for previous awards, and maximum TSR performance is 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. 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

## Report on directors' remuneration continued

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

EPS	% of total award which can be realised
Maximum EPS	50% of the shares in the award
Threshold EPS	15% of the shares in the award

In setting minimum and maximum absolute EPS targets for the 2011 awards, the Remuneration Committee has considered data providing visibility over the three year performance period, including internal forecasts and analysts' forecasts. Use of a cumulative three year EPS target, first used for the 2010 awards, was again considered appropriate, given the ongoing uncertain environment. Accordingly, the Remuneration Committee has set absolute minimum and maximum EPS targets of 55p and 80p per share to be measured on a cumulative basis over the three year performance period. Where EPS falls between the minimum and maximum EPS targets, the number of shares which can be realised will be determined on a straight line sliding scale. Where EPS falls below the minimum, none of the shares in the award judged by reference to EPS can be realised.

2011 awards granted to the executive directors will be over shares with a market value of 100% of basic salary.

Awards were granted under the Bovis Homes Group Long Term Incentive Plan 2000 until March 2010. Awards granted in 2008, 2009 and 2010 may be exercised subject to EPS and TSR performance targets being met, each relating to half of the shares awarded.

For 2008 and 2009 awards, threshold TSR performance is set at median growth in the TSR comparator group and maximum TSR performance is set at median plus 15% growth in TSR. For 2010 awards, threshold TSR performance is again set at median growth in the TSR comparator group and maximum TSR performance is set at median plus 10% growth in TSR.

The threshold and maximum EPS targets for 2008 awards are 4% and 10% per annum above RPI respectively. The Remuneration Committee then set absolute levels of EPS for 2009 awards of 20p and 50p per share as the maximum and threshold EPS targets to be measured in the third year of the performance period. For 2010 awards, absolute levels of EPS were again used, with threshold and maximum EPS targets set at 35p and 50p per share, to be measured on a cumulative basis over the three year performance period. Threshold EPS vesting realises 20% of the shares in an award for 2008 and 2009 awards and 15% of the shares in an award for 2010 awards.

Awards granted to executive directors in 2010 were made at 100% of basic salary.

For the 2008 awards, the threshold EPS target was not met and the Company's TSR performance was between the threshold TSR target and the maximum TSR target. Therefore, total vesting for the 2008 awards was 31.05%.

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 under the Long Term Incentive Plan 2000, 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. Awards may be exercised up until the tenth anniversary of the date of grant under the Long Term Incentive Plan 2010.

### ***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 was operated in 2009 only as an alternative to entitlement for consideration for annual cash bonus. 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 terminated on the conclusion of the 2010 Annual General Meeting, with outstanding awards remaining in existence.

# Report on directors' remuneration continued

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

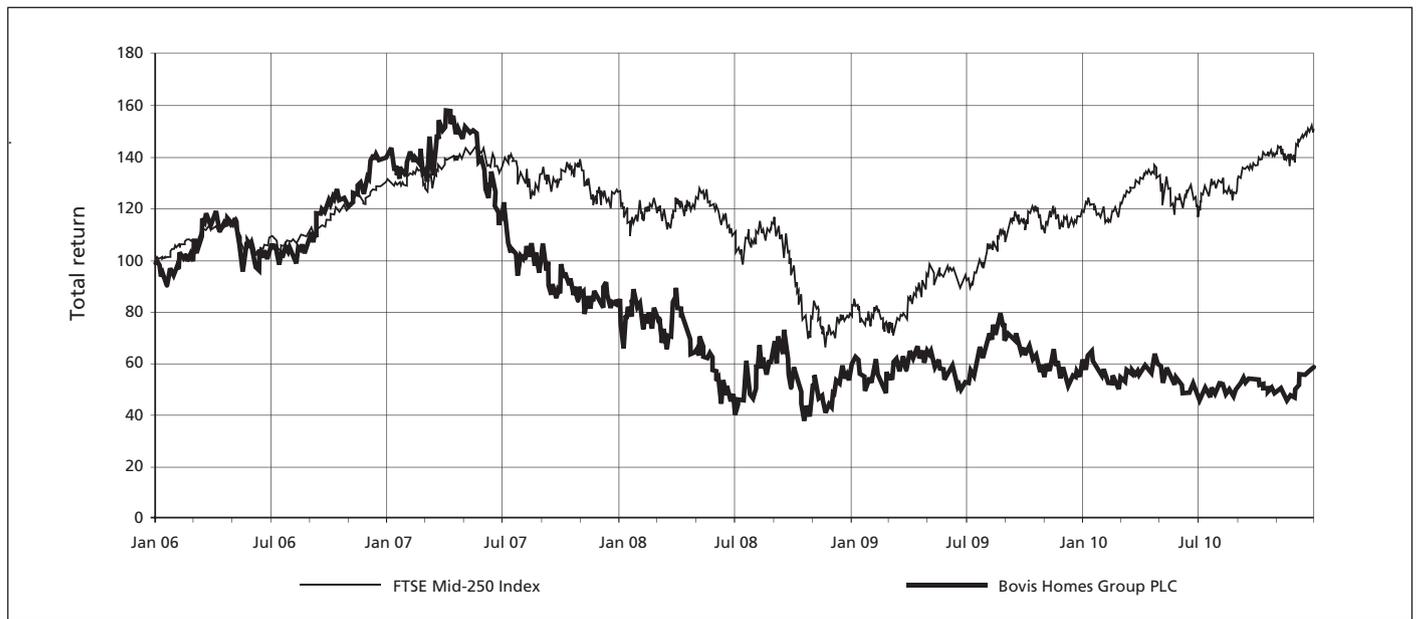
The Bovis Homes Group PLC Executive Share Option Scheme was established in 1997 and expired in 2007, with the granting of options being suspended in 2004. Options granted to one executive director are still current. The performance criteria require that any share option held under the Scheme can only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

## *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.

## **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 eligible 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. 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 re-election requirements under the Articles of Association, 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 have been reviewed as follows:

Non-executive directors	Fees reviewed	Annual fees	Fees reviewed	Annual fees
Malcolm Harris	3 July 2008	125	1 January 2011	130
Alastair Lyons	1 October 2008	60	1 January 2011	60
Colin Holmes	1 July 2008	45	1 January 2011	48
Lesley MacDonagh (retired 6 May 2010)	1 July 2008	40	-	-
John Warren	1 October 2008	47	1 January 2011	48

Fees payable to the Chairman, Malcolm Harris, increased to £130,000; fees payable to John Warren (Chairman of the Audit Committee) increased to £48,000; and fees payable to Colin Holmes (Chairman of the Remuneration Committee) increased to £48,000, all with effect from 1 January 2011. In each case, appropriate external independent advice was received in respect of fee levels.

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 2010 or earlier date of ceasing to be a director					At 31 December 2009 or subsequent date of appointment				
	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>										
David Ritchie	69,046	34,867	95,057	261,572	4,570	63,391	34,867	95,057	184,792	2,672
Neil Cooper	4,781	-	-	-	-	1,592	-	65,351	124,654	2,085
Jonathan Hill	-	-	-	71,005	-	-	-	-	-	-
<b>Non-executive directors</b>										
Malcolm Harris	377,137	-	-	102,638	-	369,223	-	-	151,040	-
Alastair Lyons	25,000	-	-	-	-	15,000	-	-	-	-
Lesley MacDonagh	1,000	-	-	-	-	1,000	-	-	-	-
John Warren	2,500	-	-	-	-	2,500	-	-	-	-
Colin Holmes	50,000	-	-	-	-	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. Other changes in the number of shares held resulted from share purchases by Alastair Lyons and Colin Holmes. There were no changes in the holdings of ordinary shares of any of the directors between 31 December 2010 and 11 March 2011, 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 2010 and 11 March 2011. LTIP awards granted to 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 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 2010	Salary/fees 2010 £000	Performance bonus 2010 £000	Benefits in kind 2010 £000	Total 2010 £000	Total 2009 £000
<b>Executive directors</b>					
David Ritchie	400	*415	1	816	401
Neil Cooper (left 6 May 2010)	96	n/a	-	96	276
Jonathan Hill (appointed 23 August 2010)	78	86	-	164	-
<b>Non-executive directors</b>					
Malcolm Harris	125	-	-	125	125
Alastair Lyons	60	-	-	60	60
Lesley MacDonagh (retired 6 May 2010)	14	-	-	14	40
John Warren	47	-	-	47	47
Colin Holmes	45	-	-	45	45
Directors' remuneration	865	501	1	1,367	994
Pension charge				74	82
				<b>1,441</b>	<b>1,076</b>

\*Note: Prior to consideration of bonus awards, David Ritchie requested and was granted a bonus sacrifice arrangement under which £193,000 of performance bonus was sacrificed in exchange for an equivalent employer contribution to a qualifying personal pension arrangement. For clarity, the pre-sacrifice amount has been shown in the table above.

The Company's annual salary review date is 1 January each year. 2010 was a year of continued pay restraint within the Group. An allowance of 2% of salary roll was provided for general staff, which was applied on a merit basis effective from 1 January 2011. Against this background, the Remuneration Committee undertook a review of David Ritchie's salary, which had not been increased since July 2008, having regard to the significant contribution made to the Group's performance since his appointment in July 2008. As a result the Committee decided to increase his salary by 3.75% to £415,000 from 1 January 2011. The salary of Jonathan Hill was set at £240,000 on appointment on 23 August 2010 and will next be reviewed on 1 January 2012.

Executive directors	Salary on 1 Jan 2011 £000	Percentage change %	Salary on 1 Jan 2010 £000	Salary on 1 Jan 2009 £000
David Ritchie	415	3.75	400	400
Neil Cooper	n/a	n/a	275	275
Jonathan Hill	240	n/a	n/a	n/a

During the year, the Remuneration Committee reviewed fees paid to the Chairman, supported by independent advice. Taking account of the strong leadership provided to the Board and the value of the Chairman's industry and sector knowledge, the fee was increased by 4% to £130,000 from 1 January 2011. Separately, the Board reviewed fees paid to the non-executive directors, again supported by appropriate independent advice. As a result, the fee for the Deputy Chairman and the non-executive director base fee were not increased, but the fees for the Chairman of the Audit Committee and the Chairman of the Remuneration Committee were increased to take account of increased workload and responsibility. John Warren's fee has therefore increased from £47,000 to £48,000 and Colin Holmes' fee has increased from £45,000 to £48,000 both from 1 January 2011. The level of fees paid to the Chairman and the non-executive directors were last reviewed in 2008.

## Report on directors' remuneration continued

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

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

Executive directors	Age at 31 December 2010	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 December 2010 £ p.a.	Accumulated total accrued pension at 31 December 2009 £ p.a.	Increase in accrued pension during the year (net of inflation) £	Transfer value of increase (less Director contributions) £
David Ritchie	41	65,421	15,701	46,842	40,859	5,983	36,571

Note 1: In arriving at the increase in the accrued pension at 31 December 2010, the accumulated total accrued pension as at 31 December 2009 has not been adjusted for inflation, as inflation over the period was actually negative.

Note 2: The transfer value has been calculated using the transfer basis introduced in October 2008. The values are shown net of directors' contributions.

Note 3: David Ritchie's pensionable earnings are restricted to an earnings cap (2010/11: £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

Executive directors	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 December 2010 £ p.a.	Increase in accrued pension during the year £	Transfer value of accrued pension at 31 December 2010 £	Transfer value of accrued pension at 31 December 2009 £	Increase in transfer value (less Director contributions) £
David Ritchie	65,421	15,701	46,842	5,983	502,220	417,993	68,526

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

Note 2: David Ritchie's pensionable earnings are restricted to an earnings cap (2010/11: £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%.

Employers' contributions for Jonathan Hill in respect of membership of the Bovis Homes Group Personal Pension Plan amounted to £1,400 during 2010.

### Directors' interests in share options

Executive directors	Date of grant	Scheme	At 1 January 2010	Lapsed in year	Exercised in year	At 31 December 2010 or earlier date of ceasing to be a director	Exercise price per share	Option exercise period
David Ritchie	18 March 2003	Exec	34,867	-	-	34,867	358.3	3/06-3/13
	11 April 2005	SAYE	2,672	(2,672)	-	-	618.3	6/10-12/10
	07 April 2010	SAYE	-	-	-	4,570	340.2	6/15-12/15
Neil Cooper	08 April 2008	SAYE	2,085	(2,085)	-	-	460.4	6/11-12/11

Options granted to Neil Cooper lapsed on his departure from the Company on 6 May 2010.

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.

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 2010 holding Executive Share Options, no share options were held under an HMRC approved scheme.

## Report on directors' remuneration continued

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

	Date of grant	At 1 January 2010	Lapsed in year	Exercised in year	At 31 December 2010 or earlier date of ceasing to be a director	Exercise price per share	Option exercise period
<b>Executive directors</b>							
David Ritchie	07 May 2009	95,057	-	-	95,057	-	5/12-11/12
Neil Cooper	07 May 2009	65,351	(65,351)	-	-	-	5/12-11/12

Awards granted to Neil Cooper lapsed on his departure from the Company on 6 May 2010.

### Directors' interests in Long Term Incentive Plan shares

Director	Award date	Vesting date	Interest in number of shares at beginning of year	Interest in number of shares at end of year or earlier date of ceasing to be a director	Value of shares at date of award		Percentage of award subject to each performance criteria TSR	LTIP awards vesting and exercised in 2010	Value of shares at vesting date		Gain on exercise	Shares retained on exercise
					£000	EPS			£000	£000		
Malcolm Harris	14.03.07	14.03.10	48,402	-	500	50%	50%	7,853	32	31	7,853	
	11.03.08	11.03.11	102,638	102,638	525	50%	50%	-	-	-	-	
David Ritchie	14.03.07	14.03.10	29,040	-	300	50%	50%	8,928	36	36	5,258	
	11.03.08	11.03.11	61,582	61,582	315	50%	50%	-	-	-	-	
	27.08.08	27.08.11	19,882	19,882	85	50%	50%	-	-	-	-	
	10.03.09	10.03.12	74,288	74,288	320	50%	50%	-	-	-	-	
	09.03.10	09.03.13	-	105,820	400	50%	50%	-	-	-	-	
Neil Cooper	14.03.07	14.03.10	16,940	-	175	50%	50%	5,208	21	21	3,067	
	11.03.08	11.03.11	39,100	-	200	50%	50%	-	-	-	-	
	27.08.08	27.08.11	17,542	-	75	50%	50%	-	-	-	-	
	10.03.09	10.03.12	51,072	-	220	50%	50%	-	-	-	-	
Jonathan Hill	25.08.10	25.08.13	-	71,005	240	50%	50%	-	-	-	-	

Awards granted to Neil Cooper lapsed on his departure from the Company on 6 May 2010. During the year awards of 176,825 shares were granted to executive directors at up to 100% of basic salary, exercisable in 2013. The awards granted to executive directors were as follows:

	Grant date	Grant price	Number of shares awarded
<b>Executive directors</b>			
David Ritchie	9 March 2010	378.00p	105,820
Jonathan Hill	25 August 2010	338.00p	71,005

The credit for the year under the requirements of IFRS 2: "Share based payments" in respect of executive directors was £40,000, due to lapses of share based payments to Neil Cooper (2009: £339,000 charge).

Awards granted to 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 2010 was £4.14 (2009: £4.35). During the year ended 31 December 2010 the share price recorded a middle market low of £3.26 and a high of £4.54.

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

11 March 2011

## 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

**Jonathan Hill**  
Finance Director

11 March 2011

# 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 2010 set out on pages 53 to 81. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

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, and express an opinion on, 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/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **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 2010 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 on page 35 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

11 March 2011

## Group income statement

For the year ended 31 December 2010

	Note	Continuing operations			
		Year ended 31 Dec 2010	Year ended 31 Dec 2009		Total
		Total £000	Before exceptional items £000	Total Exceptional items £000	Total £000
Revenue		298,635	281,505	-	281,505
Cost of sales		(245,218)	(236,339)	1,471	(234,868)
Gross profit		53,417	45,166	1,471	46,637
Administrative expenses		(31,784)	(27,769)	-	(27,769)
<b>Operating profit before financing costs</b>	5,7	<b>21,633</b>	17,397	1,471	18,868
Financial income	8	2,406	2,304	-	2,304
Financial expenses	8	(5,614)	(12,178)	(4,197)	(16,375)
Net financing costs		(3,208)	(9,874)	(4,197)	(14,071)
Share of profit of Joint Venture	12	76	-	-	-
<b>Profit/(loss) before tax</b>		<b>18,501</b>	7,523	(2,726)	4,797
Income tax (expense)/credit	9	(4,463)	(2,070)	763	(1,307)
<b>Profit/(loss) for the period attributable to equity holders of the parent</b>		<b>14,038</b>	5,453	(1,963)	3,490
<i>Earnings/(loss) per share</i>					
Basic	21	10.6p	4.4p	(1.6p)	2.8p
Diluted	21	10.6p	4.4p	(1.6p)	2.8p

## Group statement of comprehensive income

For the year ended 31 December 2010

	2010 £000	2009 £000
Profit for the period	14,038	3,490
Actuarial gains/(losses) on defined benefit pension scheme	4,320	(4,210)
Deferred tax on actuarial movements on defined benefit pension scheme	(1,255)	1,179
<b>Total comprehensive income for the period attributable to equity holders of the parent</b>	<b>17,103</b>	<b>459</b>

# Balance sheets

As at 31 December 2010	Note	Group		Company	
		2010 £000	2009 £000	2010 £000	2009 £000
<b>Assets</b>					
Property, plant and equipment	11	11,307	11,574	-	-
Investments	12	4,847	22	2,399	1,554
Restricted cash	16	138	-	-	-
Deferred tax assets	13	3,899	6,446	-	-
Trade and other receivables	15	12,087	2,213	-	-
Available for sale financial assets	15	31,147	21,291	-	-
<b>Total non-current assets</b>		<b>63,425</b>	<b>41,546</b>	<b>2,399</b>	<b>1,554</b>
Inventories	14	764,360	630,709	-	-
Trade and other receivables	15	37,271	30,771	381,348	373,979
Cash and cash equivalents	16	67,003	114,595	344	344
Current tax asset	10	-	831	-	-
<b>Total current assets</b>		<b>868,634</b>	<b>776,906</b>	<b>381,692</b>	<b>374,323</b>
<b>Total assets</b>		<b>932,059</b>	<b>818,452</b>	<b>384,091</b>	<b>375,877</b>
<b>Equity</b>					
Issued capital	17	66,609	66,570	66,609	66,570
Share premium	17	210,409	210,181	210,409	210,181
Retained earnings	17	433,799	415,815	103,955	96,346
<b>Total equity attributable to equity holders of the parent</b>		<b>710,817</b>	<b>692,566</b>	<b>380,973</b>	<b>373,097</b>
<b>Liabilities</b>					
Bank and other loans	18	15,233	2,337	-	-
Other financial liabilities	20	2,686	-	-	-
Trade and other payables	20	56,004	23,077	459	459
Retirement benefit obligations	22	2,870	8,910	-	-
Provisions	19	1,995	1,700	-	-
<b>Total non-current liabilities</b>		<b>78,788</b>	<b>36,024</b>	<b>459</b>	<b>459</b>
Bank and other loans	18	92	-	-	-
Trade and other payables	20	139,215	87,698	28	28
Provisions	19	1,604	2,164	-	-
Current tax liabilities	10	1,543	-	2,631	2,293
<b>Total current liabilities</b>		<b>142,454</b>	<b>89,862</b>	<b>2,659</b>	<b>2,321</b>
<b>Total liabilities</b>		<b>221,242</b>	<b>125,886</b>	<b>3,118</b>	<b>2,780</b>
<b>Total equity and liabilities</b>		<b>932,059</b>	<b>818,452</b>	<b>384,091</b>	<b>375,877</b>

These accounts were approved by the board of directors on 11 March 2011 and were signed on its behalf: David Ritchie and Jonathan Hill, Directors.

## Group statement of changes in equity

For the year ended 31 December 2010	Own shares held	Retirement benefit obligations	Other retained earnings	Total retained earnings	Issued capital	Share premium	Total
	£000	£000	£000	£000	£000	£000	£000
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>
Balance at 1 January 2010	(2,666)	(18,016)	436,497	415,815	66,570	210,181	692,566
Total comprehensive income and expense	-	3,065	14,038	17,103	-	-	17,103
Deferred tax on other employee benefits	-	-	36	36	-	-	36
Issue of share capital	-	-	-	-	39	228	267
Own shares disposed	113	-	(113)	-	-	-	-
Share based payments	331	-	514	845	-	-	845
Deferred tax on share based payments	-	-	(160)	(160)	-	-	(160)
Current tax on share based payments	-	-	160	160	-	-	160
<b>Balance at 31 December 2010</b>	<b>(2,222)</b>	<b>(14,951)</b>	<b>450,972</b>	<b>433,799</b>	<b>66,609</b>	<b>210,409</b>	<b>710,817</b>

### Company statement of changes in equity

For the year ended 31 December 2010	Attributable to equity holders of the parent			Total
	Total retained earnings	Issued capital	Share Premium	
	£000	£000	£000	£000
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>
Balance at 1 January 2010	96,346	66,570	210,181	373,097
Total comprehensive income and expense	6,764	-	-	6,764
Issue of share capital	-	39	228	267
Share based payments	845	-	-	845
<b>Balance at 31 December 2010</b>	<b>103,955</b>	<b>66,609</b>	<b>210,409</b>	<b>380,973</b>

# Statement of cash flows

As at 31 December 2010	Note	Group		Company	
		2010 £000	2009 £000	2010 £000	2009 £000
<b>Cash flows from operating activities</b>					
Profit for the year		14,038	3,490	6,764	5,897
Depreciation		636	769	-	-
Adjustment for sale of assets to Joint Venture	12	963	-	-	-
Impairment of available for sale assets	6	713	245	-	-
Financial income	8	(2,406)	(2,304)	(9,395)	(8,190)
Financial expense	8	5,614	16,375	-	-
Loss on sale of property, plant and equipment	5	8	3	-	-
Equity-settled share-based payment expense	7	845	704	-	-
Income tax expense	9	4,463	1,307	2,631	2,293
Share of results of Joint Venture	12	(76)	-	-	-
Release of inventory provisions	6	-	(2,664)	-	-
Increase in trade and other receivables		(23,951)	(7,555)	(9,662)	(67,317)
(Increase)/decrease in inventories		(133,650)	152,762	-	-
Increase/(decrease) in trade and other payables		84,335	(17,173)	-	-
Decrease in provisions and employee benefits		(1,731)	(611)	-	-
<b>Cash generated from operations</b>		<b>(50,199)</b>	<b>145,348</b>	<b>(9,662)</b>	<b>(67,317)</b>
Interest paid		(3,028)	(6,684)	-	-
Income taxes (paid)/received		(762)	21,688	-	-
<b>Net cash from operating activities</b>		<b>(53,989)</b>	<b>160,352</b>	<b>(9,662)</b>	<b>(67,317)</b>
<b>Cash flows from investing activities</b>					
Interest received		660	1,481	9,395	8,190
Acquisition of property, plant and equipment		(402)	(44)	-	-
Proceeds from sale of plant and equipment		24	45	-	-
Investment in Joint Venture		(4,228)	-	-	-
Movements in loans with Joint Venture		(1,451)	-	-	-
Investment in restricted cash		(138)	-	-	-
<b>Net cash from investing activities</b>		<b>(5,535)</b>	<b>1,482</b>	<b>9,395</b>	<b>8,190</b>
<b>Cash flows from financing activities</b>					
Proceeds from the issue of share capital	17	267	60,662	267	60,662
Costs associated with share placing	17	-	(1,535)	-	(1,535)
Drawdown/(repayment) of borrowings	18	13,706	(118,000)	-	-
Costs associated with refinancing		(2,041)	-	-	-
<b>Net cash from financing activities</b>		<b>11,932</b>	<b>(58,873)</b>	<b>267</b>	<b>59,127</b>
Net (decrease)/increase in cash and cash equivalents		(47,592)	102,961	-	-
Cash and cash equivalents at 1 January	16	114,595	11,634	344	344
<b>Cash and cash equivalents at 31 December</b>	<b>16</b>	<b>67,003</b>	<b>114,595</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 2010 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 11 March 2011.

## 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 relevant 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 2010. They have had no material impact on the Group's financial statements.

IAS39 'Financial instruments' (Amendment). 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 has had no practical impact.

IFRS 2 'Share-based payment' (Amendment). The definition of vesting conditions in IFRS 2 has been amended to clarify that vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, i.e. acceleration of the charge, rather than be treated as a reversal. The Board has concluded that there is no significant effect on the Group's financial statements.

IFRIC15 'Agreements for the construction of real estate'. IFRIC15 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 IFRIC15 and accordingly this interpretation has had no impact upon the Group.

The other standards and interpretations that are applicable for the first time in the Group's financial statements for the year ended 31 December 2010, have no effect on these financial statements.

## 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.

Joint ventures are those entities in which the Group has joint control over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commenced until joint control ceases.

# Notes to the financial statements continued

## 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. 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.

### *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, fair valued interest free loans 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.

## Notes to the financial statements continued

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 other comprehensive income.

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

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

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

Property, plant and equipment are stated at cost 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 IFRIC 11 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.

## Notes to the financial statements continued

### **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.

### **Joint ventures**

Entities which are jointly controlled with another party or parties ("joint ventures") are accounted for using the equity method of accounting. The results attributable to the Group's holding in joint ventures are shown separately in the consolidated income statement. The amount included in the consolidated balance sheet is the Group's share of the net assets of the joint ventures plus net loans receivable.

### **Government grants**

Government grants are recognised in the income statement so as to match with the related costs that they are intended to compensate. Government grants are included within deferred income. The benefit on loans with an interest rate below market is calculated as the difference between interest at a market rate and the below market interest. The benefit is treated as a Government grant. The benefit on loans with an interest rate below market is calculated as the difference between interest at a market rate and the below market interest, and the benefit is treated as a Government grant.

### **Kickstart**

During the year, the Group has been granted assistance for the development of a number of sites under the Homes and Communities Agency ('HCA') Kickstart scheme. Where receipts under the Kickstart scheme relate to grants they are accounted for in accordance with the policy for government grants stated above.

In addition the Group has received cash upon specific sites under the Kickstart equity scheme which may be repayable in future periods, as the sites to which it relates are developed, along with the share of the profits or losses attributable to the HCA arising from the sites. This grant element is included within deferred income to the extent that it is currently estimated that future economic benefit will be derived and will be released to the income statement in line with sales from the relevant site. If part or all the equity schemes are expected to be repaid these are shown in other creditors.

### **Trade payables**

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

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

### **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 except when the share-based payment is cancelled where the charge will be accelerated.

### **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.

## Notes to the financial statements continued

### *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 standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, 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:

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. This interpretation outlines when refunds or reductions in future contributions can be treated as available under IAS 19 "Employee Benefits" and how a minimum funding requirement affects future contributions or may give rise to a liability. This is effective from the period beginning 1 January 2011.

IFRS 7 'Financial Instruments: Disclosure' (Amendment). The amendment provides clarification of the standard and requires additional disclosures in relation to financial instruments. This is effective for the period beginning 1 January 2011.

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

## **5. Operating profit before financing costs**

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

	2010 £000	2009 £000
Depreciation of tangible fixed assets	636	769
Net loss on disposal of property, plant and equipment	8	3
Hire of plant and machinery	1,083	275
Rental income (included in revenue)	(645)	(595)
Government grants recognised within cost of sales	(400)	-

### *Auditors' remuneration*

	2010 £000	2009 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	32	31
<i>Non Audit Fees</i>		
The audit of the Company's subsidiaries, pursuant to legislation	118	106
Interim review work	17	17
Tax services	112	125
Other services	25	67
<b>Fees charged to operating profit before financing costs</b>	<b>304</b>	<b>346</b>

## **6. Exceptional items**

### *Inventory carrying value*

The Group has reviewed the carrying value of its inventory items at the reporting date, 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 to no exceptional items relating to the carrying value of inventory as at 31 December 2010 (2009: £2.7 million exceptional release).

### *Financing charge*

There were no items in 2010 (2009: £4.2 million).

### *Other exceptional items*

There were no items in 2010 (2009: £1.2 million).

Total exceptional items for 2010 are £nil (2009: £2.7 million).

## Notes to the financial statements continued

### 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

	2010 £000	2009 £000
Average staff numbers	523	466

#### Personnel expenses

	2010 £000	2009 £000
Wages and salaries	22,869	17,677
Compulsory social security contributions	2,483	1,867
Contributions to defined contribution plans	346	324
Increase in expenses related to defined benefit plans	790	720
Equity-settled share-based payments	845	704
<b>Personnel expenses</b>	<b>27,333</b>	<b>21,292</b>

### 8. Net financing costs

#### Recognised in income statement

	2010 £000	2009 £000
Interest income	(970)	(1,538)
Imputed interest on deferred terms land payables	2,698	1,675
Interest expense	3,135	10,166
Imputed interest on interest free loan	26	-
Net pension finance credit	(250)	(250)
Imputed interest on available for sale financial assets	(1,186)	(516)
Hedge ineffectiveness for derivatives	(245)	337
Net financing costs before exceptional items	3,208	9,874
Exceptional items - facility fee written off	-	4,197
<b>Total net financing costs</b>	<b>3,208</b>	<b>14,071</b>

## Notes to the financial statements continued

### 9. Income tax

#### Recognised in the income statement

	Note	2010 £000	2009 £000
<b>Current tax</b>			
Current year		3,798	1,028
Adjustments for prior years		(503)	-
		<b>3,295</b>	<b>1,028</b>
<b>Deferred tax</b>			
Origination and reversal of temporary differences	13	1,160	392
Adjustments for prior year	13	8	(113)
<b>Total income tax in income statement</b>		<b>4,463</b>	<b>1,307</b>

#### Reconciliation of effective tax rate

	2010 %	2010 £000	2009 %	2009 £000
Profit before tax		18,501		4,797
Income tax using the domestic corporation tax rate	28	5,180	28	1,343
Non-deductible expenses	1	210	13	633
Other	(3)	(530)	(12)	(556)
Change in tax rate	1	98	-	-
Over provided in prior years	(3)	(495)	(2)	(113)
<b>Total tax expense</b>	<b>24</b>	<b>4,463</b>	<b>27</b>	<b>1,307</b>

#### Recognised directly in equity

	Note	2010 £000	2009 £000
Relating to share-based payments		160	-
<b>Current tax recognised directly in equity</b>		<b>160</b>	<b>-</b>
Relating to actuarial movements on pension scheme	13	(1,255)	1,179
Relating to other employee benefits	13	36	(2)
Relating to share-based payments	13	(160)	-
<b>Deferred tax recognised directly in equity</b>		<b>(1,379)</b>	<b>1,177</b>

### 10. Current tax assets and liabilities

The current liability of £1,543,000 (2009: current tax asset £831,000) represents the amount of income taxes payable in respect of current and prior periods.

## Notes to the financial statements continued

### 11. Property, plant and equipment

Group	Land and buildings £000	Plant and equipment £000	Fixtures and fitting £000	Total £000
<b>Cost</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>
Balance at 1 January 2010	12,618	6,951	2,336	21,905
Additions	-	363	39	402
Disposals	-	(148)	(29)	(177)
<b>Balance at 31 December 2010</b>	<b>12,618</b>	<b>7,166</b>	<b>2,346</b>	<b>22,130</b>
<b>Depreciation</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>
Balance at 1 January 2010	2,214	5,988	2,129	10,331
Depreciation charge for the year	182	388	66	636
Disposals	-	(123)	(21)	(144)
<b>Balance at 31 December 2010</b>	<b>2,396</b>	<b>6,253</b>	<b>2,174</b>	<b>10,823</b>
<b>Carrying amounts</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>
At 1 January 2010	10,404	963	207	11,574
<b>At 31 December 2010</b>	<b>10,222</b>	<b>913</b>	<b>172</b>	<b>11,307</b>

## Notes to the financial statements continued

### 12. Investments

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Subsidiary undertakings</b>				
Interest in subsidiary undertakings' shares at cost (100% ownership of ordinary shares)	-	-	2,399	1,554
<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	-	-
	<u>21</u>	<u>21</u>	<u>-</u>	<u>-</u>
<b>Investments accounted for using the equity method</b>				
Interest in Joint Venture - equity	3,341	-	-	-
- loan	1,484	-	-	-
	<u>4,825</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other investments</b>				
Listed investments	1	1	-	-
	<u>4,847</u>	<u>22</u>	<u>2,399</u>	<u>1,554</u>

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 nine subsidiaries, of which there are two principal subsidiary undertakings. 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	
		2010 %	2009 %
Bovis Homes Limited	United Kingdom	100	100
Bovis Homes Insurance PCC Limited	Guernsey	100	-

At 31 December 2010 the Group had an interest in the following Joint Venture which has been equity accounted to 31 December and is registered and operates in England and Wales.

	Country of incorporation	Ownership interest in entity	
		2010 %	2009 %
Bovis Peer LLP	United Kingdom	50	-

The movement on the investment in the Joint Venture during the year is as follows:

	2010 £000	2009 £000
At the start of the year	-	-
Acquisition of interests in Joint Venture	4,228	-
Net increase in loans	1,484	-
Retained profit for the period	76	-
Elimination of profit on transfer of inventory to Joint Venture	(963)	-
<b>At the end of the year</b>	<b>4,825</b>	<b>-</b>

## Notes to the financial statements continued

The Group's share of the Joint Venture's net assets, income and expenses is made up as follows:

	2010 £000	2009 £000
Non-current assets	13,736	-
Current assets	676	-
Current liabilities	(469)	-
Non-current liabilities	(9,639)	-
<b>Share of net assets of Joint Venture</b>	<b>4,304</b>	<b>-</b>
Revenue	449	-
Costs	(147)	-
Operating profit	302	-
Interest	(226)	-
<b>Share of post tax profit of Joint Venture</b>	<b>76</b>	<b>-</b>

The Joint Venture has no significant contingent liabilities to which the Group is exposed and nor has the Group any significant contingent liabilities in relation to its interest in the Joint Venture.

### 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	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Property, plant and equipment	253	321	-	-	253	321
Non-current trade payables	2,869	3,135	-	-	2,869	3,135
Available for sale financial assets	-	-	(160)	(34)	(160)	(34)
Employee benefits - pensions	776	2,492	-	-	776	2,492
Employee benefits - share-based payments	268	273	-	-	268	273
Provisions	333	331	-	-	333	331
Interest rate derivative	25	94	-	-	25	94
Fair value adjustment	-	-	-	(166)	-	(166)
Inventories	-	-	(725)	-	(725)	-
Adjustment on sale to Joint Venture	260	-	-	-	260	-
<b>Tax assets/(liabilities)</b>	<b>4,784</b>	<b>6,646</b>	<b>(885)</b>	<b>(200)</b>	<b>3,899</b>	<b>6,446</b>

#### Movement in temporary differences during the year

Group	Balance 1 Jan 2010 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2010 £000
Property, plant and equipment	321	(68)	-	253
Non-current trade payables	3,135	(266)	-	2,869
Available for sale financial assets	(34)	(126)	-	(160)
Employee benefits - pensions	2,492	(461)	(1,255)	776
Employee benefits - share-based payments	273	119	(124)	268
Provisions	331	2	-	333
Interest rate derivative	94	(69)	-	25
Fair value adjustment	(166)	166	-	-
Inventories	-	(725)	-	(725)
Adjustment on sale to Joint Venture	-	260	-	260
<b>Movement in temporary differences during 2010</b>	<b>6,446</b>	<b>(1,168)</b>	<b>(1,379)</b>	<b>3,899</b>

## Notes to the financial statements continued

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	-	321
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>

The deferred tax assets and liabilities held by the Group at the start of the year that are expected to be realised after 31 March 2011 have been revalued at a tax rate of 27%, being the corporation tax rate that was substantively enacted at the balance sheet date, with effect from 1 April 2011.

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

### *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 2010, £10,626,000 (2009: £11,197,000) 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 £2.9 million (2009: £8.9 million). As at 31 December 2010 a deferred tax asset of £776,000 (2009: £2,492,000) was recognised.

## 14. Inventories

Group	2010 £000	2009 £000
Raw materials and consumables	1,447	834
Work in progress	169,416	169,698
Part exchange properties	11,391	5,955
Land held for development	581,950	454,066
Development properties	156	156
	<b>764,360</b>	<b>630,709</b>

Inventories to the value of £255,021,000 were recognised as expenses in the year (2009: £235,498,000).

During 2010, a £3.8 million reversal of write downs was recognised as a reduction in the amount of inventories recognised as expenses in respect of units sold during the year.

The assessment of carrying value of inventory at the year end has resulted in no net release of inventory provision as at 31 December 2010 (2009: £2.7 million credit). There was a gross increase of £5.4 million in the provision and an off setting decrease of £5.4 million. Following this review, £121.1 million (2009: £163.6 million) of inventories were valued at fair value less costs to sell rather than at historic cost.

The Group charged £132,000 of profit on disposal of part exchange properties to cost of sales during the year (2009: £21,000 loss).

The Company has no inventories.

## Notes to the financial statements continued

### 15. Trade and other receivables

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Non-current assets</b>				
Other debtors	12,087	2,213	-	-
Available for sale financial assets	31,147	21,291	-	-
	<b>43,234</b>	<b>23,504</b>	-	-
<b>Current assets</b>				
Trade receivables	28,731	27,451	-	-
Amount due from subsidiary undertakings	-	-	381,348	373,979
Other debtors	5,330	2,551	-	-
Prepayments and accrued income	3,210	769	-	-
	<b>37,271</b>	<b>30,771</b>	<b>381,348</b>	<b>373,979</b>
Total trade and other receivables	<b>80,505</b>	<b>54,275</b>	<b>381,348</b>	<b>373,979</b>

The carrying value of trade receivables and other debtors represents the Group's maximum exposure to credit risk. As at 31 December 2010, the Group had £2.6 million of receivables past due (2009: £2.0 million). 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 (2009: £1.0 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

	2010 £m	2009 £m
Less than three months	0.7	0.2
Greater than three months	1.9	1.8

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

#### 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.

	2010 £m	2009 £m
Balance at 1 January	21,291	6,030
Additions	9,383	14,990
Impairment taken through the income statement	(713)	(245)
Imputed interest	1,186	516
<b>Balance at 31 December</b>	<b>31,147</b>	<b>21,291</b>

Total impairments taken to date are £2,188,000 (2009 £1,475,000). Further disclosures relating to financial assets are set out in note 23.

## Notes to the financial statements continued

### 16. Cash and cash equivalents

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank balances	522	347	344	344
Call deposits	66,481	114,248	-	-
Cash and cash equivalents in the balance sheet	67,003	114,595	344	344
Bank overdrafts	-	-	-	-
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>67,003</b>	<b>114,595</b>	<b>344</b>	<b>344</b>
<i>Non-current asset</i>				
	2010 £000	2009 £000	2010 £000	2009 £000
Restricted cash	138	-	-	-

Restricted cash comprises cash deposits which have restrictions governing their use and are classified as a non-current asset based on the estimated remaining length of the restriction.

### 17. Capital and reserves

#### Share capital and share premium

	Ordinary shares	
	2010	2009
In issue at 1 January	133,138,968	120,994,753
Issued for cash	181,131	12,144,215
<b>In issue at 31 December – fully paid</b>	<b>133,320,099</b>	<b>133,138,968</b>

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.

#### 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 2010, there were no share purchases. 25,664 shares awarded under the Group's long term incentive plan vested during 2010 and 76,110 awarded under the deferred bonus plan, and accordingly the balance of the own shares held reserve fell by £443,735 during the year. The Group has suspended all rights on shares held by the Group in the Company.

#### Dividends

There were no dividends paid in the current or prior year by the Group.

The Board decided to propose a final dividend of 3.0p per share in respect of 2010. The dividend has not been provided for and there are no income tax consequences.

	2010 £000	2009 £000
3.0p per qualifying ordinary share (2009: nil)	3,981	-

### 18. Bank and other loans

	2010 £000	2009 £000
<i>Current liabilities</i>		
Interest rate derivative financial instruments	92	-
<i>Non-current liabilities</i>		
Other loans	15,233	2,000
Interest rate derivative financial instruments	-	337
<b>Non-current liabilities</b>	<b>15,233</b>	<b>2,337</b>
<b>Bank and other loans</b>	<b>15,325</b>	<b>2,337</b>

## Notes to the financial statements continued

### Interest rate profile of bank and other loans

	Rate	Facility maturity	Carrying value 2010	Carrying value 2009
Overdraft	LIBOR +175 bps	on demand	-	-
Bank loans	LIBOR +200 bps	2013	-	-
Other loans	LIBOR +158 bps	2014	10,305	2,000
Interest free loan at fair value	LIBOR +158 bps	2016	4,928	-

The interest free loan was obtained to facilitate large infrastructure investment at one of the Group's sites in the South West. The amount available depends on the underlying investment undertaken with repayments of this facility reflecting expectations of cash inflow generation from sales at that site, the maximum facility available is £6 million. The nominal amount at 31 December was £5,400,000. This has been fair valued using an effective interest rate of LIBOR plus 158bps, creating an accounting movement of £498,000, which decreases the loan position. Interest will effectively be charged on this fair valued position over the life of the facility so at relevant repayment dates the value in the accounts for the loan is reflective of the cash amounts to be repaid. The imputed interest charged in the period was £26,000, which increases the loan value. The long stop repayment date for this facility is 5 January 2016.

### Details of facilities

The Group's facility as at 31 December 2010 was a syndicated revolving credit facility with £150 million committed funds. The facility expires in September 2013.

### Interest rate derivative financial instruments

	2010 £000	2009 £000
Opening fair value	337	-
Change in fair value	(245)	337
Closing fair value	92	337

The Group's interest rate 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 2010	1,112	2,752	3,864
Provisions made during the year	-	563	563
Provisions released during the year	-	-	-
Provisions used during the year	(311)	(517)	(828)
<b>Balance at 31 December 2010</b>	<b>801</b>	<b>2,798</b>	<b>3,599</b>
Non-current	776	1,219	1,995
Current	25	1,579	1,604

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.

## Notes to the financial statements continued

### 20. Trade and other payables

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Non-current liabilities</b>				
Other financial liabilities	2,686	-	-	-
Other trade creditors	55,545	22,618	-	-
Other creditors	459	459	459	459
	<b>58,690</b>	<b>23,077</b>	<b>459</b>	<b>459</b>
<b>Current liabilities</b>				
Trade creditors secured by bond or guarantee	-	3	-	-
Other trade creditors	118,624	79,784	-	-
Taxation and social security	761	1,043	-	-
Other creditors	1,922	1,132	28	28
Accruals and deferred income	17,908	5,736	-	-
	<b>139,215</b>	<b>87,698</b>	<b>28</b>	<b>28</b>
<b>Total trade and other payables</b>	<b>197,905</b>	<b>110,775</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. The Group's other financial liabilities represent the fair value of a liability, based on the performance of the Lloyds Bank House Price Index from October 2010 to March 2014. Note 23 highlights the sensitivity of this value to changes in the index. Deferred income includes £3.9 million of Government grants. This will be released to the income statement as the Group legally completes units on the related sites.

### 21. Earnings per share

#### Basic earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of £14,038,000 (2009: £3,490,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 132,664,656 (2009: 124,179,686), calculated as follows:

#### Profit attributable to ordinary shareholders

	2010 £000	2009 £000
Profit for the period attributable to ordinary shareholders	14,038	3,490

#### Weighted average number of ordinary shares

	2010	2009
Issued ordinary shares at 1 January	133,138,968	120,994,753
Effect of own shares held	(528,808)	(621,297)
Effect of shares issued in year	54,496	3,806,230
<b>Weighted average number of ordinary shares at 31 December</b>	<b>132,664,656</b>	<b>124,179,686</b>

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

#### Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of £14,038,000 (2009: £3,490,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 132,685,679 (2009: 124,203,192).

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 not been applied to the calculation of diluted loss per share arising from exceptional items in 2009. This dilution adjustment has been applied to the calculation of diluted earnings per share before exceptional items and diluted earnings per share after exceptional items for 2009. 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 and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 124,179,686.

## Notes to the financial statements continued

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

	2010	2009
Weighted average number of ordinary shares at 31 December	132,664,656	124,179,686
Effect of share options in issue which have a dilutive effect	21,023	23,506
<b>Weighted average number of ordinary shares (diluted) at 31 December</b>	<b>132,685,679</b>	<b>124,203,192</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 and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 124,203,192.

## 22. Employee benefits

### Retirement benefit obligations

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

	2010 £000	2009 £000
Present value of funded obligations	76,390	76,510
Fair value of plan scheme assets	(73,520)	(67,600)
<b>Recognised liability for defined benefit obligations</b>	<b>2,870</b>	<b>8,910</b>

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

	2010 £000	2009 £000
Net liability for defined benefit obligations at 1 January	8,910	6,790
Contributions received	(2,260)	(2,810)
Expense recognised in the income statement	540	720
(Gain)/loss recognised in equity	(4,320)	4,210
<b>Net liability for defined benefit obligations at 31 December</b>	<b>2,870</b>	<b>8,910</b>

The cumulative loss recognised in equity to date is £1.03 million.

### Change in defined benefit obligation over the year

	2010 £000	2009 £000
Defined benefit obligation at beginning of year	76,510	65,510
Interest cost	4,290	3,980
Current service cost	790	970
Actual member contributions	180	220
Actual benefit payments by the scheme	(3,460)	(3,610)
(Gain)/loss on change of assumptions	(2,130)	9,180
Experience loss	210	260
<b>Defined benefit obligation at end of year</b>	<b>76,390</b>	<b>76,510</b>

### Change in scheme assets over the year

	2010 £000	2009 £000
Fair value of scheme assets at beginning of year	67,600	58,720
Actual benefit payments by the scheme	(3,460)	(3,610)
Actual Group contributions	2,260	2,810
Actual member contributions	180	220
Expected return on plan assets	4,540	4,230
Actuarial gain	2,400	5,230
<b>Fair value of scheme assets at end of year</b>	<b>73,520</b>	<b>67,600</b>

## Notes to the financial statements continued

The actual return on scheme assets in 2010 was a gain of £6.9 million (2009: £9.5 million gain).

### History of experience gains and losses

For the year ended 31 December	2010	2009	2008	2007	2006
<b>Experience gain/(loss) on scheme assets</b>					
Amount (£000)	2,400	5,230	(17,370)	990	2,290
Percentage of scheme assets at year end (%)	3.3	7.7	29.6	1.38	3.50
<b>Experience loss/(gain) on scheme liabilities</b>					
Amount (£000)	210	260	(1,300)	(500)	(2,950)
Percentage of scheme liabilities at year end (%)	0.26	0.34	1.98	0.70	4.20

### Scheme assets and expected rate of return

	As at 31 December 2010		As at 31 December 2009	
	Expected rate of return % pa	Market value £000	Expected rate of return % pa	Market value £000
Equities	7.5	40,580	7.9	37,390
Bonds (fixed interest)	5.4	25,060	5.7	22,260
Bonds (index linked)	4.0	6,260	4.3	6,140
Other	3.5	1,620	4.5	1,810
<b>Total</b>	<b>6.3</b>	<b>73,520</b>	<b>6.8</b>	<b>67,600</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

	2010 £000	2009 £000
Current service costs	790	970
Gain on curtailment	-	-
Interest on obligation	4,290	3,980
Expected return on plan assets	(4,540)	(4,230)
<b>Expense recognised in the income statement</b>	<b>540</b>	<b>720</b>

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

	2010 £000	2009 £000
Cost of sales	70	75
Administrative expenses	720	895
Financial income	(250)	(250)
<b>Expense recognised in the income statement</b>	<b>540</b>	<b>720</b>

## Notes to the financial statements continued

### Assumptions

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

Group	2010 £000	2009 £000	2008 £000
Discount rate at 31 December	5.4	5.7	6.2
Expected return on plan assets at 31 December	6.3	6.8	7.3
Future salary increases	2.5	2.5	2.5
Inflation - RPI	3.6	3.6	3.2
- CPI	2.8	n/a	n/a
Future pension increases	2.8	3.6	3.2

On 8 July 2010, the Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI') as the inflation measure for determining the minimum pension increase to be applied to the statutory index-linked features of retirement benefits. This has resulted in the pension deficit decreasing by £4.6 million.

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of defined benefit obligations	76,390	76,510	65,510	70,810	70,090
Fair value of scheme assets	73,520	67,600	58,720	71,820	64,950
(Deficit)/surplus in the scheme	(2,870)	(8,910)	(6,790)	1,010	(5,140)

The most recent formal actuarial valuation was carried out as at 30 June 2007. The results have been updated to 31 December 2010 by a qualified independent actuary. As part of this valuation exercise, the mortality assumptions for the scheme are now based on the SAPS base tables with an uplift for future improvements in mortality in line with the medium cohort with a minimum improvement of 1.25%. These tables imply the following remaining life expectancy at age 65.

Remaining years of life at 65	Current age at 45	Current age at 65
Men	23.6	21.3
Women	26.3	24.0

The last actuarial valuation of the Scheme was performed by the Actuary for the Scheme Trustees as at 30 June 2007. The Company are currently paying contributions that are based on the 2007 valuation. The Group estimates that the contribution in 2011 by the Group to the scheme will be in the region of £0.8 million (2010: £0.8 million estimate). The valuation due as at 30 June 2010 is likely to be finalised during the accounting year ended 31 December 2011 and the contributions may therefore change.

### 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 2010. 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.

## Notes to the financial statements continued

### Save as You Earn Share Option Scheme

	2010	2009
Options granted during the period	182,564	148,611
Date of grant	7 April 2010	7 April 2009
Fair value at measurement date (Black-Scholes methodology)	£1.82 / £2.01	£1.67 / £1.79
Share price	£4.16	£4.40
Exercise price	£3.40	£3.87
Expected volatility	52.9% / 43.9%	51.1% / 42.5%
Option life (contract length)	3 / 5.5 yrs	3 / 5.5 yrs
Expected dividend	-	1.14%
Risk free interest rate	1.92% / 2.84%	2.11% / 2.70%

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. Two grants of awards under this plan were made in 2010 and one grant of awards 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.

### Long Term Incentive Plan

	2010	2010	2009
Options granted during the period	71,005	258,825	255,910
Date of grant	25 Aug 2010	9 Mar 2010	10 Mar 2009
Fair value at measurement date (Monte Carlo methodology)	£2.35	£1.87	£1.90
Share price	£3.44	£3.78	£4.31
Exercise price	-	-	-
Expected volatility	52.9%	53.1%	50.7%
Option life	3 yrs	3 yrs	3 yrs
Expected dividend	-	-	1.14%
Risk free interest rate	1.07%	1.89%	1.81%

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.

### Share Option Plan

	2010	2009
Options granted during the period	132,000	-
Date of grant	25 Aug 2010	-
Fair value at measurement date (Black-Scholes methodology)	£1.60	-
Share price	£3.44	-
Exercise price	£3.38	-
Expected volatility	52.87%	-
Option life (contract length)	3 yrs	-
Expected dividend	-	-
Risk free interest rate	1.07%	-

## Notes to the financial statements continued

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

	2010	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%

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

### Executive Share Option Scheme

Date of grant	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
19 March 2001	384,709	3 years service / 4% cumulative increase in earnings per share above RPI over three competitive years	384.5p	12,420	3/04 - 3/11
19 March 2002	690,919		407.5p	11,266	3/05 - 3/12
18 March 2003	879,481		358.5p	183,957	3/06 - 3/13

### Share Option Plan

Date of grant	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
27 August 2008	111,000	3 years service / 4% cumulative increase in earnings per share above RPI over three competitive years	427.5p	108,000	9/08 - 8/11
25 August 2010	132,000		338.0p	132,000	8/13 - 8/20

### Bonus Replacement Share Plan

Date of grant	Options issued	Vesting conditions	Exercise price	Options outstanding	Contractual life
7 May 2009	552,213	3 years service / average share price for 3 months prior to May 2012 must exceed £5.50	-	486,862	5/09 - 5/12

### Save As You Earn Share Option Scheme

Date of grant	Options issued	Vesting conditions	Exercise price	Options outstanding
7 April 2004	121,900	3, 5 and 7 years service depending on type of Save As You Earn contract	480.6p	292
10 April 2006	68,935		769.5p	5,971
11 April 2007	77,543		929.7p	3,440
8 April 2008	261,661		460.4p	77,919
7 April 2009	148,611		387.7p	91,967
7 April 2010	182,564		340.2p	173,546

## Notes to the financial statements continued

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

	Weighted average exercise price 2010	Number of options 000's 2010	Weighted average exercise price 2009	Number of options 000's 2009
Outstanding at the beginning of the period	255.3p	1,359	442.5p	975
Forfeited during the period	399.6p	(307)	461.9p	(273)
Exercised during the period	337.4p	(79)	363.5p	(44)
Granted during the period	339.3p	314	82.2p	701
Outstanding at the end of the period	236.3p	1,287	255.3p	1,359
Exercisable at the end of the period	395.4p	24	395.3p	28

The weighted average share price at the date of exercise of share options exercised during the period was 411.9p (2009: 439.5p).

The options outstanding at 31 December 2010 have an exercise price in the range of zero to 929.7p and a weighted average contractual life of 2.6 years.

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

	2010 £000	2009 £000
Long Term Incentive Plan	117	373
Executive and other share options	474	348
Save As You Earn share options	254	(17)
<b>Total expense recognised as personnel expenses</b>	<b>845</b>	<b>704</b>

## 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 82 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, 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 and a financial liability are 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 cash flows 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 2010, 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 £0.1 million 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.

## Notes to the financial statements continued

### *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 2010, 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 £779,000 (2009: increase profit by £200,000).

### **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 £10.0 million (2009: £3.8 million). The 2010 amount is secured against consented land. The Group retains these outstanding balances as trade and other receivables. The Group also carries credit risk with regard 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 £24,000 (2009: £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.

### **d. Housing market price risk**

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

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

31 December 2010	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
<b><i>Non-derivative financial assets</i></b>			
Restricted cash	-	138	138
Trade and other receivables	-	49,358	49,358
Available for sale financial assets	31,147	-	31,147
Cash and cash equivalents	-	67,003	67,003
<b><i>Non-derivative financial liabilities</i></b>			
Bank and other loans	-	(15,233)	(15,233)
Trade and other payables	-	(195,219)	(195,219)
<b><i>Derivative financial liabilities</i></b>			
Other financial liabilities	(2,686)	-	(2,686)
Derivative	-	(92)	(92)
	<b>28,461</b>	<b>(94,045)</b>	<b>(65,584)</b>

## Notes to the financial statements continued

31 December 2009	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
<b>Non-derivative financial assets</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)
<b>Derivative financial liabilities</b>			
Derivative	-	(337)	(337)
	<b>21,291</b>	<b>34,467</b>	<b>55,758</b>

The value of the Group's available for sale financial assets is directly linked to the UK housing market. At 31 December 2010 these were carried at a fair value of £31,147,000 (2009:£21,291,000). 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.

Other financial liabilities represent an estimated payment dependent on the growth of the Lloyds Bank House Price Index, from October 2010 to March 2014. This was carried at a fair value of £2,686,000 (2009: £ nil).

### 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	2,718	2,718
Impact of 1% decrease in average future HPI	(2,456)	(2,456)
<b>Other financial liabilities</b>		
Impact of 1% increase in average future Lloyds HPI	(369)	(369)
Impact of 1% decrease in average future Lloyds HPI	369	369

## 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.

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
2010	102,635	109,020	54,648	39,847	12,405	773	623	724
2009	34,283	37,768	13,193	12,057	8,952	2,697	739	130

### Other financial liabilities

The Group determines the value dependent on management expectations of growth in the Lloyds Bank House Price Index. The liability is based on a future discounted cash flow for a nominal value tracking the index until March 2014.

### 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.

## Notes to the financial statements continued

### *Bank and other loans*

Fair value is calculated based on discounted expected future principal and interest flows. Interest free loans are fair valued using an effective interest rate method. See note 18 for further details.

### *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, other financial liabilities 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	2010 £000	2009 £000
Less than one year	17	148
Between one and five years	4	287
More than five years	-	-
<b>Operating leases</b>	<b>21</b>	<b>435</b>

With regard to the operating leases held by the Group as lessor, the Group recognised £52,000 of rental income in the income statement in 2010 (2009: £52,000).

## 26. Capital commitments

The Group has made £53,000 of plant and equipment expenditure commitments (2009: £nil).

## 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 2010 (31 December 2009: nil).

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 11 March 2011 has been carried out, which has identified no net movement in the carrying value of the provision. 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.

#### *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.

## Notes to the financial statements continued

### *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 £4.0 million. A 5% movement up or down in the value of the gross scheme assets would impact the Group's pension deficit by £3.7 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 2010 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.

Malcolm Harris, a Group Director, is a non-executive Director of the Home Builders Federation (HBF) and was a non-executive Director of the National House Building Council (NHBC) until 26 June 2010.

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:

	2010 £000	2009 £000
NHBC	1,454	724
HBF	124	78

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.

### *Transactions with Joint Venture*

In the period the Group entered into the following transactions with Bovis Peer LLP. During the financial year, inventory was transferred to Bovis Peer LLP for a cash consideration of £25,859,250. In addition, a loan of £1,450,355 was provided to Bovis Peer LLP on 25 March 2010 at an annual interest rate of LIBOR plus 2.4%.

Bovis Homes Limited are contracted to provide Property and Letting Management services to the Partnership. Fees charged in the period ended 31 December 2010 in respect of these services totalled £99,964 (inclusive of VAT).

## Five year record

Years ended 31 December	2010 IFRS £000	2009 IFRS £000	2008 IFRS £000	2007 IFRS £000	2006 IFRS £000
<b>Revenue and profit</b>					
Revenue	298.6	281.5	282.3	555.7	597.3
Operating profit/(loss) before financing costs	21.6	18.9	(71.8)	124.4	141.3
Net financing costs	(3.2)	(14.1)	(6.9)	(0.8)	(5.8)
Share of result of Joint Venture	0.1	-	-	-	-
Profit/(loss) before tax	18.5	4.8	(78.7)	123.6	135.5
Tax	(4.5)	(1.3)	19.7	(36.7)	(40.5)
<b>Profit/(loss) after tax</b>	<b>14.0</b>	<b>3.5</b>	<b>(59.0)</b>	<b>86.9</b>	<b>95.0</b>
<b>Balance sheet</b>					
Equity shareholders' funds	710.8	692.6	632.3	723.7	677.8
Add borrowings stated before issue costs	15.3	2.3	120.0	44.6	40.2
<b>Capital employed</b>	<b>726.1</b>	<b>694.9</b>	<b>752.3</b>	<b>768.3</b>	<b>718.0</b>
<b>Returns</b>					
Operating margin (note 1)	7%	6%	8%	22%	24%
Return on shareholders' funds (note 2)	2%	1%	2%	12%	14%
Return on capital employed (note 3)	3%	2%	3%	17%	21%
<b>Homes (including units sold on third party owned land)</b>					
Number of unit completions	1,901	1,803	1,817	2,930	3,123
Average sales price (£'000)	160.7	154.6	150.8	179.5	183.7
<b>Ordinary shares</b>					
Earnings per share (p) (note 4)	10.6	4.4	9.2	72.4	79.8
<b>Dividends per share</b>					
Paid (p)	-	-	22.5	37.5	26.7
Interim paid and final proposed (p)	3.0	-	5.0	35.0	30.0

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 2011 Annual General Meeting of Bovis Homes Group PLC will be held at The Spa Hotel, Mount Ephraim, Royal Tunbridge Wells, Kent TN4 8XJ on Wednesday 11 May 2011 at 12.00pm for the following purposes:

### *Ordinary resolutions*

- 1 To receive the audited accounts of the Company for the year ended 31 December 2010 and the reports of the directors and auditors.
- 2 To approve the report on directors' remuneration for the year ended 31 December 2010.
- 3 To declare the full year dividend recommended by the directors.
- 4 To re-appoint Malcolm Robert Harris as a director of the Company.
- 5 To re-appoint Alastair David Lyons as a director of the Company.
- 6 To re-appoint Colin Peter Holmes as a director of the Company.
- 7 To re-appoint John Anthony Warren as a director of the Company.
- 8 To re-appoint David James Ritchie as a director of the Company.
- 9 To re-appoint Jonathan Stanley Hill as a director of the Company, appointed since the last Annual General Meeting.
- 10 To re-appoint KPMG Audit Plc as auditors of the Company.
- 11 To authorise the directors to determine the remuneration of the auditors.
- 12 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 £22,180,851; and
  - (B) comprising equity securities (as defined in the 2006 Act) up to an aggregate nominal amount of £44,361,702 (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 2012 or fifteen months from the date of this resolution, whichever is the earlier, but in each case so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after the authority ends and the directors may allot shares and grant rights under any such offer or agreement as if the authority had not ended.

### *Special resolutions*

- 13 That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.
- 14 That if resolution 12 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 2012 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;
  - (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 12(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 12(A), to the allotment of equity securities for cash otherwise than pursuant to paragraph (b) up to an aggregate nominal amount of £3,330,458.

## Notice of meeting continued

- 15 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 13,321,832 ordinary shares and shall expire at the conclusion of the next Annual General Meeting of the Company in 2012 (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

5 April 2011

### 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 9 May 2011 (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 and vote at the meeting and a member may vote in respect of the number of ordinary shares registered in the member's name at that time. Changes to entries on the register after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (ii) A 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. A shareholder attending the meeting has the right to ask questions relating to the business being dealt with at the meeting in accordance with section 319A of the 2006 Act. In certain circumstances prescribed by the same section, the Company need not answer a question.
- (iii) The 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.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk)) 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.
- (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.

## Notice of meeting continued

- (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 16 March 2011 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 133,218,325 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 16 March 2011 are 133,218,325.
- (xi) Under section 527 of the 2006 Act, members meeting the relevant threshold requirements set out in that section may require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting that the members propose to raise at the Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 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 Annual General Meeting should do so using the following means: (1) by writing to the Company Secretary at the registered office address; or (2) by writing to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of meeting or in any related documents (including the Chairman's Statement, the Annual Report 2010 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.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk).
- (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; and
  - (c) the register of directors' interests.
- (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 2010. 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.

## Item 3: Full year dividend

Subject to the declaration of the full year dividend at the meeting, the dividend will be paid on 27 May 2011 to shareholders on the register at the close of business on 1 April 2011. It is intended that a scrip dividend alternative will also be offered to shareholders.

## Items 4 to 9: Re-appointment of directors

The UK Corporate Governance Code ("the Code") requires FTSE 350 companies to put all directors forward for re-appointment by shareholders on an annual basis. The purpose of this new requirement is to increase accountability to shareholders. Accordingly, all the directors of the Company will retire at the Annual General Meeting and offer themselves for re-appointment. The Company's Articles of Association require that any director appointed by the Board since the last Annual General Meeting shall hold office only until the next Annual General Meeting and, accordingly, Jonathan Stanley Hill will retire and offer himself for re-appointment on this basis.

The Code contains provisions dealing with the re-appointment of non-executive directors. In relation to the re-appointment of Alastair David Lyons, Colin Peter Holmes and John Anthony Warren as non-executive directors, the Chairman has confirmed following the formal performance evaluation conducted during 2010 that they continue to be effective in and demonstrate commitment to their roles, including commitment of time for Board and committee meetings. Alastair Lyons brings a broad range of business knowledge and skills to the Board, which include experience in financial services, the insurance industry and private equity. Colin Holmes has financial, commercial and operational experience over a considerable period in a retail environment, which adds a valuable dimension to the Board capabilities. John Warren provides detailed financial and accounting expertise and has previous experience in chairing audit committees. In respect of the re-appointment of Malcolm Robert Harris, the Senior Independent Director has confirmed following the Chairman's formal performance evaluation in 2010 that he continues to be effective in and demonstrate commitment to his role as Chairman, including commitment of time for Board and Committee meetings. Malcolm Harris has in depth sector and industry knowledge and the Board benefits from his continued participation in industry thinking and engagement with shareholders.

The Board strongly supports and recommends the re-appointment of the directors to shareholders.

Biographical details of all the directors can be found on page 32 of this report and accounts.

## Items 10 and 11: 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 10 proposes the re-appointment of the Company's existing auditors, KPMG Audit Plc, for a further year. Resolution 11 gives authority to the directors to determine the auditors' remuneration.

## Item 12: Authority to allot shares

The authority given to your directors at last year's Annual General Meeting under section 551 of the 2006 Act to allot shares expires on the date of the forthcoming Annual General Meeting. Accordingly, this resolution seeks to grant a new authority under section 551 to authorise the directors to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company up to an aggregate nominal amount of £22,180,851 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 £44,361,702 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 £22,180,851 represents less than 33.3% of the Company's total ordinary share capital in issue as at 16 March 2011 (being the latest practicable date prior to publication of this Notice). The amount of £44,361,702 represents less than 66.6% of the Company's total ordinary share capital in issue as at 16 March 2011 (being the latest practicable date prior to publication of this Notice). The Company did not hold any shares in treasury as at 16 March 2011.

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.

## Explanatory notes to the notice of meeting continued

### Item 13: 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 13 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 and where the shorter notice period was to the advantage of shareholders as a whole.

### Item 14: Disapplication of pre-emption rights

Resolution 14 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 £3,330,458 which represents approximately 5% of the Company's total ordinary share capital in issue as at 16 March 2011 (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 14 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 15: 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 13,321,832 of its own shares, representing approximately 10% of the Company's total ordinary share capital in issue as at 16 March 2011 (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 promote the success of the Company for the benefit of its shareholders as a whole. Any shares so purchased would be cancelled. The directors have no present intention of exercising the authority to purchase the Company's ordinary shares but would like to have the flexibility of considering such purchases in the future.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange. The maximum price (exclusive of expenses) which may be paid for each ordinary share shall be the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS). The minimum price (exclusive of expenses) would be 50 pence, being the nominal value of each ordinary share. The authority will only be valid until the conclusion of the next Annual General Meeting in 2012.

As at 16 March 2011 there were options over 1,283,705 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 1.07% of the Company's issued ordinary share capital.

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

# 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 2011
Annual General Meeting	11 May 2011
Payment of 2010 full year dividend	27 May 2011
Announcement of 2011 interim results	30 August 2011
Announcement of 2011 final results	March 2012

## Analysis of shareholdings - at 31 December 2010

	Number of shareholders	%	Number of ordinary shares	%
1 - 5,000	1,885	82.10	1,865,080	1.40
5,001 - 50,000	248	10.80	4,222,784	3.17
50,001 - 250,000	96	4.18	10,678,486	8.01
250,001 - 500,000	25	1.09	9,242,956	6.94
500,001 - 1,000,000	22	0.96	15,760,059	11.83
1,000,001 - and over	20	0.87	91,448,960	68.65
<b>Total</b>	<b>2,296</b>	<b>100.0</b>	<b>133,218,325</b>	<b>100.0</b>

## Share price (middle market) - year to 31 December 2010

At end of year: 413.9p      Lowest: 326.6p      Highest: 454.1p

## Advisers

<b>Auditors</b> KPMG Audit Plc	<b>Principal bankers</b> Bank of Ireland Barclays Bank PLC HSBC Bank 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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## Registrar

Shareholder enquiries regarding change of address, dividend payment or lost certificates should be directed to: Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ. Bovis Homes Shareholder Helpline: 0870 889 3236.

**Investor Centre: the easy way to manage your shareholdings online:**

Many shareholders want to manage their shareholding online and do so using Investor Centre, Computershare's secure website. With Investor Centre you can view shares balances, history and update your details. Visit [www.investorcentre.co.uk](http://www.investorcentre.co.uk) for more information.

**Internet and telephone share dealing is available via Investor Centre:**

**Internet dealing** - The fee for this service is 0.5% of the value of each sale or purchase of shares (subject to a minimum of £15). Stamp duty of 0.5% is payable on purchases.

**Telephone dealing** - The fee for this service will be 1% of the value of the transaction (subject to a minimum of £25). To use this service please call 0870 703 0084 with your SRN to hand.

**Note: 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 many shareholders now receive their annual report and other shareholder documents electronically, as soon as they are published. Shareholders that would like to sign up for electronic communications should go to [www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms) where they can register.

# Principal offices

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[www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk)

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