

# Annual report and accounts 2017

Bovis Homes Group PLC



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



Heyford Park, Upper Heyford

## Strategic report

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

## Our governance

Detailed discussion of our governance framework and remuneration policy

## Financial statements

Financial statements and notes

## Supplementary information

### Business overview

- 2 2017 highlights
- 4 Chairman's statement
- 6 What we do
- 7 Reasons to invest
- 8 Housing market overview

### Our business and strategy

- 12 Chief Executive's report
- 16 Our business model
- 18 Strategic priorities
- 28 Risk management
- 30 Principal risks and uncertainties

### Corporate social responsibility

- 36 Our CSR priorities

### Our financial performance

- 56 Financial review
- 58 Directors and officers
- 60 Corporate governance report
- 78 Remuneration report
- 98 Audit Committee report
- 102 Nomination Committee report
- 104 Directors' report
- 108 Auditors' report
- 115 Group income statement
- 115 Group statement of comprehensive income
- 116 Balance sheets - Group and Company
- 117 Statement of changes in equity - Group and Company
- 118 Statements of cash flows - Group and Company
- 119 Notes to the financial statements
- 147 Five year record
- 148 2017 AGM Notice
- 152 Explanatory notes to the AGM Notice
- 156 Shareholder information
- 157 Principal offices

## 4

### Chairman's statement

Ian Tyler discusses how the Group is well placed for the future



## 12

### Chief Executive's report

Greg Fitzgerald provides an overview of the year and discusses the plans ahead



## 56

### Financial review

Earl Sibley reports on the financial performance for the year



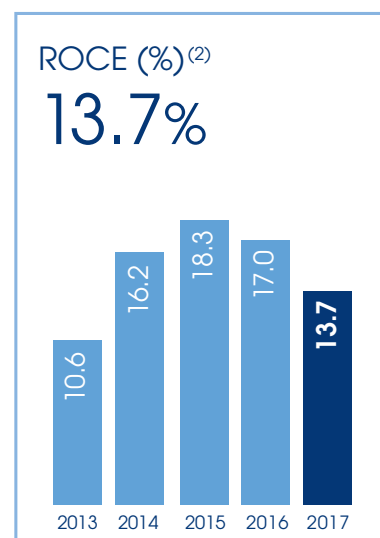
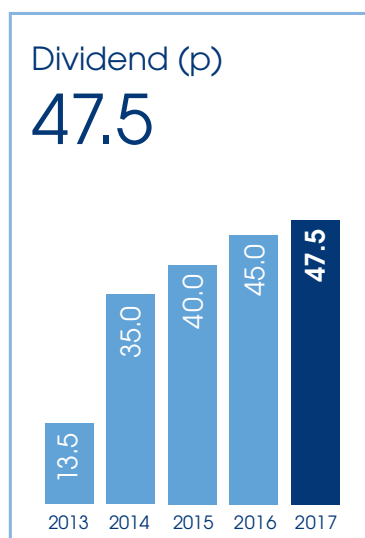
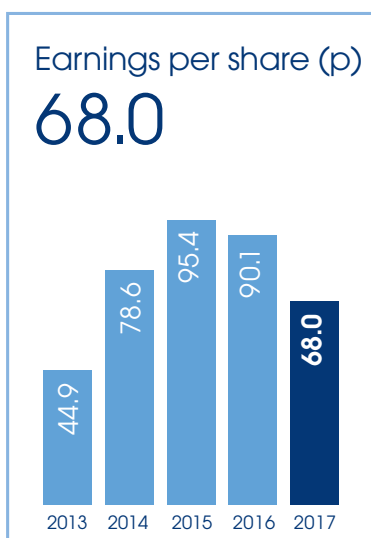
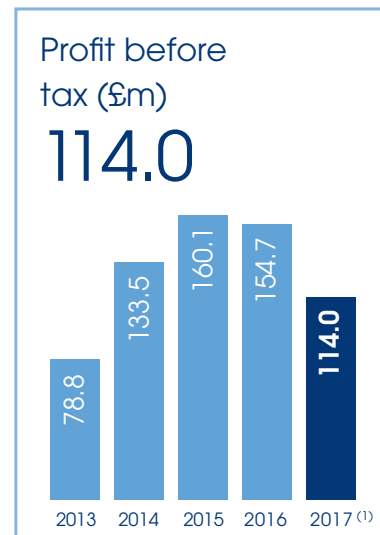
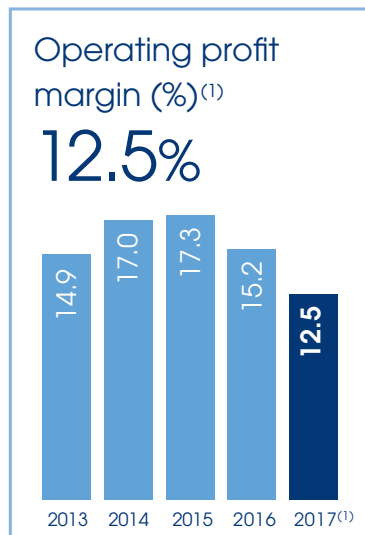
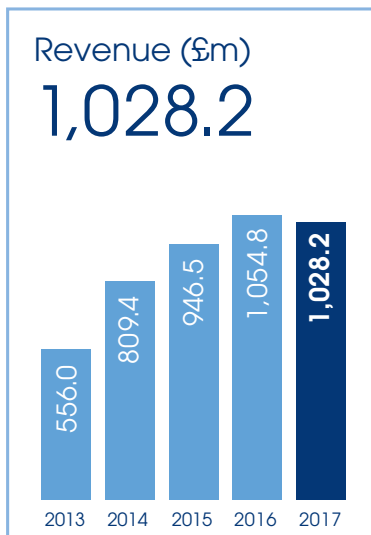
# Bovis Homes Group PLC highlights

## Financial highlights

Revenues  
**2%** Down

Dividends  
**6%** Up

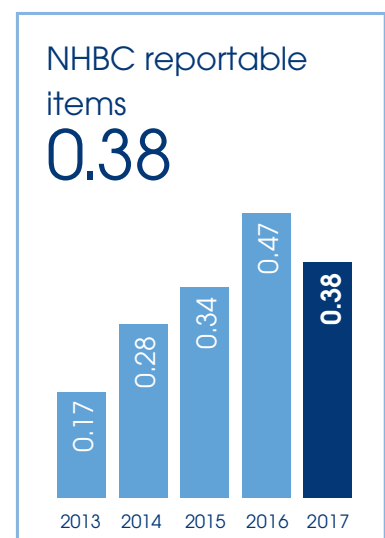
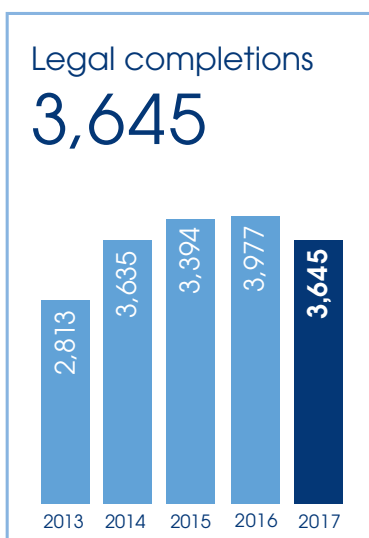
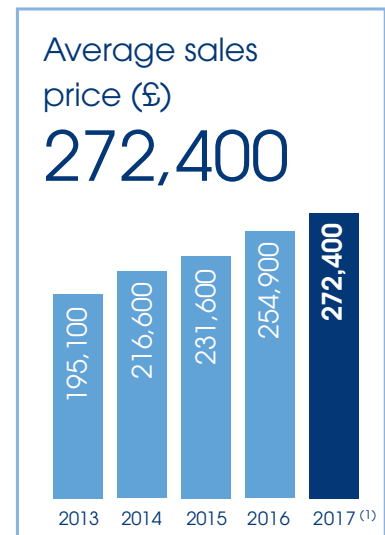
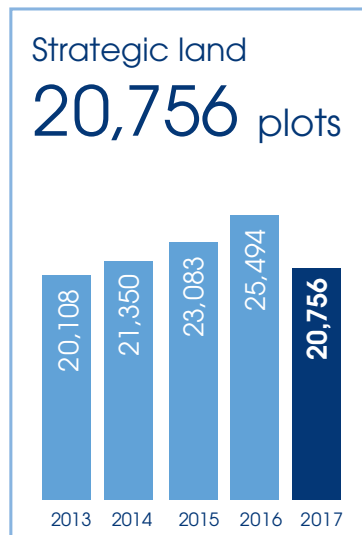
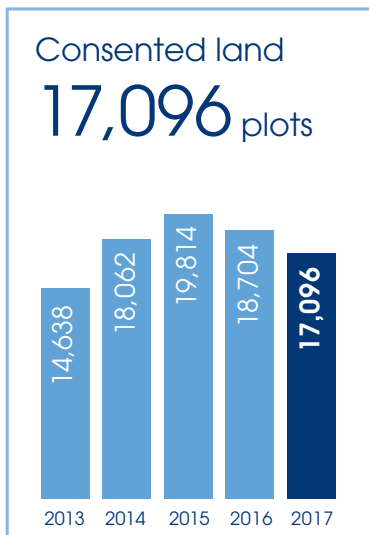
ROCE  
**19%** Down



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

(2) For calculation of ROCE, please see table on page 146.

## Operational highlights



Notes: (3) Based on responses from 1 October 2017 to date. Star rating awarded according to the proportion responding 'yes' to the question 'would you recommend your builder to a friend?': 4 star rating 80% - 89.9%.

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



## I am pleased to report that the Group starts the new year in a much stronger operational position.

2017 commenced with a difficult period for the business managing a high level of customer issues. After 18 years' service David Ritchie stepped down as Chief Executive in January and we announced our intention to slow production during the year to enable the business to reset. In early March the Board acknowledged that it had received written proposals from Redrow plc and Galliford Try plc outlining their rationalisation for a potential merger. Having reviewed each approach in detail the Board concluded that neither reflected the underlying value of the business and both were rejected.

We were delighted to welcome Greg Fitzgerald as Group Chief Executive in April 2017. The Group is benefitting from Greg's extensive housebuilding experience, operational focus and hands on approach to management.

### Customers

Returning our customers back to the centre of everything we do and delivering a significantly improved level of customer satisfaction was our number one priority for 2017. There has been a step change in our approach to customer experience and I am very pleased to report that since the start of the HBF year (1 October 2017), the Group is trending at a 4 star HBF Customer Satisfaction score. Delivering our customers quality new homes and a high level of customer service that meets their expectations throughout their entire journey with Bovis Homes, remains one of our core strategic priorities.

### People

People, remain a key priority and we are continuing to invest more in training and development than ever before. We have established the Bovis Homes Training Centre and developed a range of training opportunities for all our employees and subcontractors.

Acknowledging the skills shortage in our industry, we are pleased to have signed the HBF's Home Building Skills Pledge, committing us to working with others in the industry to recruit and train more people to the highest industry-agreed standards. We also remain very committed to our Bovis Homes Apprenticeship Scheme and welcomed 20 new recruits in the year.

In what has been a very challenging period, the extraordinary passion and commitment shown by our employees, which I have witnessed first hand, has been outstanding. On behalf of the Board, I would like to thank all of them for their dedication, hard work and enthusiasm in delivering quality houses to our customers and driving operational change. I would also like to extend my thanks to our subcontractors and suppliers who are such an important and valued component of our business.

### The housing market

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

### Ordinary dividends and capital return plan

The Board intends to continue the strategy set out in 2017 of maintaining an efficient balance sheet and delivering sustainable dividends to shareholders. In setting the level of dividends the Board considers a

range of factors including the extent to which the dividend is covered by underlying earnings and free cash flow, the prevailing strength of the balance sheet and general economic circumstances, with particular regard to the cyclicality of the industry.

The Board is pleased to recommend a final ordinary dividend of 32.5p (FY16: 30.0p) per share bringing the total ordinary dividend for FY17 to 47.5p (FY16: 45.0p) per share, representing a 6% increase. Reflecting the Board's confidence in the outlook for the business, it intends to increase the ordinary dividend for FY18 by a further 20% to 57 pence per share.

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

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

### The Board

I would like to thank my Board colleagues for another year of support and positive challenge. We are pleased to have been joined in November by Mike Stansfield who brings strong housebuilding industry experience spanning three decades. Mike is also a member of the Nomination Committee, the Remuneration Committee and the Audit Committee. As previously announced Alastair Lyons will step down from the Board at our AGM in May. Alastair has been on the Board since October 2008 as Deputy Chairman and Senior Independent Director, and as Chairman of the Remuneration Committee since May 2014. My colleagues and I would like to acknowledge the valuable contribution Alastair has made to the Group during this time. Ralph Findlay, non-executive director, will take the position of Senior Independent Director on Alastair's retirement at the 2018 AGM and it is proposed that Nigel Keen, non-executive Director, will take the Chair of the Remuneration Committee.

## The future

We have set out our clear medium term targets to be achieved by 2020 which will return Bovis Homes Group to being a leading UK housebuilder and deliver significantly improved returns to shareholders. I continue to spend a lot of my time with Bovis Homes in the regional offices and on site with the leadership team. The team are driving change through the business and allowing the positive culture that evolved during 2017 to flourish which gives me confidence in the Group's ability to deliver quality housing and service to our customers and improved returns to our shareholders.

In the year ahead we expect to deliver a controlled increase in completions volume, maintain our high level of customer service, complete our balance sheet optimisation and drive forward our profitability and return on capital employed.

Ian Tyler  
Chairman

# Building on strong foundations

Delivering improvements across the business



Williams Gate, Bovey Tracey

## What we do

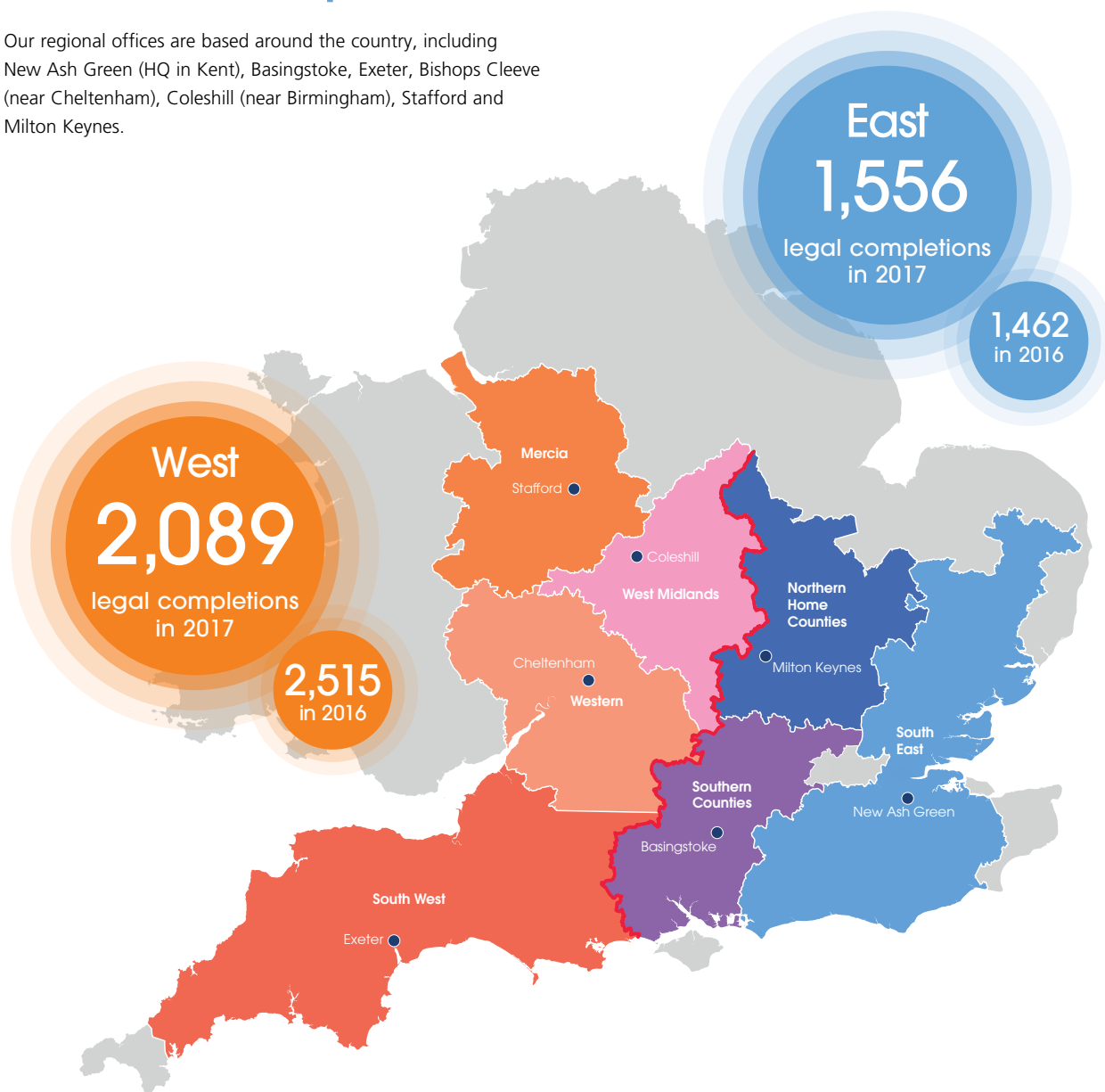
Bovis Homes is a UK builder of high quality, traditional homes. With seven regional operations and c.1,200 employees at locations across England, we create new, sustainable communities, with a strategic focus on the south of the country.

Our product range encompasses two-bed starter properties through to large six-bed family homes, with the design and construction blending tradition with innovation, creating quality dwellings and developments with contemporary living standards.

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

## Where we operate

Our regional offices are based around the country, including New Ash Green (HQ in Kent), Basingstoke, Exeter, Bishops Cleeve (near Cheltenham), Coleshill (near Birmingham), Stafford and Milton Keynes.





# Reasons to invest

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

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

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

## Building homes people want to live in

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

## Operating in areas with strong market dynamics

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

## High quality owned land bank

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

## Excellent strategic land supply

- Significant, deliverable strategic land pipeline
- Strong track record of strategic land conversion

## Significant improvement in financial returns

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

## Capital returns

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

## The housing market trends our new strategy responds to

### Demand continues to outstrip supply

There continues to be a high demand for housing as the industry has struggled to expand quickly enough over recent years whilst maintaining the required level of quality. This is due to several issues, including within our planning system and supply chain that are touched on later, and has resulted in the UK facing a severe housing shortage. However, this demand for housing means that the outlook for the industry remains positive, with output continuing to increase and prices expected to remain stable.

### Constraints on labour resource

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

---

***“Most observers expect interest rates to remain low, mortgage availability to remain strong and lenders to provide reasonable period fixed rate deals to their customers”***

---

### Supportive government policy

The Government continues to be supportive of the industry recognising the importance of continuing to build new homes to meet the current housing shortage. The Help to Buy equity loan scheme has helped thousands of buyers purchase a new-build home and it has encouraged housebuilders including Bovis Homes to focus on homes under £600,000. A further £10 billion of funding has just been announced to keep the scheme in place until at least 2021.

### Delays caused by detailed planning challenges

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

### Good land availability

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

### Implications of brexit

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

### Low interest rates and good mortgage availability

Despite the recent increase in interest rates they remain low by historical standards. This coupled with competitive pricing within the industry mean low mortgage rates that continue to boost the industry. Most observers expect interest rates to remain low, mortgage availability to remain strong and lenders to provide reasonable period fixed rate deals to their customers. However, there is always the risk that the mortgage market could become restricted by government policy or that economic circumstances lead to rising interest rates.

### Responding to government regulations and standards

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

Secondly, the perceived fall in the quality of new homes being produced is being looked at with several options open to the Government including the possibility of a new Ombudsman. Given our renewed focus on delivering a great quality home to our customers we welcome this review and will work with whatever measures are put in place.

Finally the recent review into build out rates by the Government may lead to proposals to impact the speed of production on some sites. Whilst we support this aim the key challenges to deliver this are certainty of demand in specific locations and the availability of labour.



# Housing market

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





# Creating sustainable communities

Committed to delivering high quality homes



Shorelands, Bude



## 2017 in review

**The Group has followed a clear strategic direction and has made significant progress towards implementing its operational priorities. I am pleased with the outcome for 2017 with the business delivering against all of its operational and financial targets for the year.**

We reduced our rate of production to allow us to reset the business, improve our production processes, and consistently deliver high quality new homes to our customers. As planned, we delivered 3,645 (FY16: 3,977) in the year in a controlled and disciplined manner.

In re-setting the business, we have driven sales from our older, lower margin sites and significantly reduced our levels of both stock and part exchange properties.

There has been a step change in the way we operate. There is a far greater operational and commercial focus across all aspects of the business, driven by a hands on management approach and facilitated by our new regional structure. Our sites are set up in the right way from the start with a well managed progressive build programme.

We completed a comprehensive review of our consented and strategic land bank, identified sites for disposal outside of our core operating areas, and took a land write down of £3.3m through normal operating costs in the year.

As expected, the Group's profitability in the year was also impacted by a high level of build costs within our cost base coming into the year, increased investment across the business, in particular, in process change and customer service, an overweight

operating structure for the reduced level of completions, and our drive for sales from older sites and stock properties.

There is significant opportunity to optimise our balance sheet and we made excellent progress in the year, resulting in a strong year end cash position. We are well positioned to make further progress in FY18 with a particular focus on releasing investment across our larger sites.

The business starts the new financial year in a much stronger position as a result of all of these initiatives and is ready to drive towards our medium term financial targets of 23.5% gross margin and 25% return on capital employed.

We are pleased to have welcomed Mike Stansfield to the Board of Directors in November 2017. Mike has a strong housebuilding and customer experience background spanning three decades. Mike has also become a member of the Nomination Committee, the Remuneration Committee and the Audit Committee.

I have been very impressed by the resilience and dedication of all of the Group's employees over the past 12 months and would like to thank them for their hard work. I am excited about the year ahead and on making further good progress to returning Bovis Homes to being a leading UK housebuilder.

## Operational update

### Transformed our customer service

Transforming our customer service was the number one priority for 2017 and we have made very significant progress in the year. The Group's HBF Customer Satisfaction score is trending well above 80% since the start of the new HBF year (1 October 2017), equivalent to a 4 star housebuilder. Our controlled and disciplined period ends in June and December, reflect the step change in the way we are now operating and the mind-set across the business. We have invested in our customer service function in terms of people and training, and appointed our Customer Experience Director who has been leading the review of every aspect of our customers' experience with Bovis Homes.

## Restructuring successfully completed

As part of our strategic reorganisation, during the year we implemented initiatives to simplify and streamline our operating structure, to reduce costs and make us more agile. This has been completed within the £4m restructuring cost taken in FY17. We are now on track to deliver against our target of overheads as a maximum of 5% of revenue in FY18.

We have re-organised our operational structure concluding that the business is best served by seven rather than eight operating regions. We merged our Eastern and Southern regions creating a South East region and a larger Southern Counties region. With a much greater hands on approach to management, the proximity of our developments to each of our regional offices is a key criterion for our development land acquisition.

As part of the re-organisation we re-located our Southern Counties regional office to Basingstoke, our Northern Home Counties business to a new permanent office in Milton Keynes, and are soon to re-locate our South East regional office to Kings Hill near Maidstone, all to best serve these geographies. The business is now well balanced in terms of geographic spread of completions with an even distribution of plots in our land bank.

We reviewed the efficiency of our in-house functions to ensure the best value approach and have transitioned to an outsourced or partially outsourced model for a number of business areas including legal, planning, design and engineering.

## High quality motivated people

People satisfaction is a key strategic priority for the Group and we are committed to investing in the development and training of our workforce including our subcontractors. We have benefitted from a full year of input from our Learning and Development team and firmly established our Bovis Homes Training Centre.

In the year we have seen really good progress in the development of a much more 'hands on leadership' with a far greater operational focus. We continue to invest in the training and development of our seven regional managing directors and our site teams are now well supported by both our regional teams and the Executive Leadership team. Following my initial visit to all of our developments in my first few months with the business, I have re-visited

most developments on at least one occasion, and along with the Executive Leadership team, will continue to be very active across all areas of the business.

The quality of our site managers is critical and we are focused on ensuring we have the very best site managers across all our developments. We have introduced an attractive new remuneration package and greater level of training and development specifically targeted at this group. We have also revised the sales commission structure for our sales advisors to ensure that they are better aligned with delivering margin progression across the Group. Investment in the training and development of our commercial teams is a key focus for FY18.

### High quality build

We have focused on improving our build procedures and on driving efficiency and high standards through 'getting it right first time'. We have appointed five new regional construction directors and invested in our site teams with a resulting reduction in the site manager headcount turn.

The slowed rate of production in FY17 has allowed us to ensure all of our developments are set up correctly from the start, with the construction directors now controlling that process. The Group is committed to delivering a high standard of health and safety for all our employees, subcontractors and on-site visitors. In the year we brought our health and safety inspections in-house which will support a more proactive culture and approach.

### Progress with commercial

We have invested in a new commercial system which will be implemented across the business in Q2 FY18 and will drive a significant improvement in the way our commercial teams operate. It will standardise processes driving best practice across the Group, support more accurate forecasting of our cost base, increase visibility and deliver overall improved efficiency.

### Land

The fundamentals of our land bank are very strong; building traditional family housing in prime locations predominantly on greenfield sites. We have a southern location bias with no exposure to London. We use a high proportion of standard housing and are introducing an element of bespoke housing where appropriate to maximise the value of each development.

Given our medium term targets of 4,000 completions per annum and a 3.5 to 4.0 year owned land bank, we slowed our rate of land acquisition in the year. This has allowed us to be more selective with our land acquisition and with the land market remaining attractive, the land acquired in FY17 is expected to deliver a gross margin in excess of 26%.

We have had significant success in progressing the planning status of our valuable strategic land assets including gaining consent in the year for our developments at Bishop's Stortford, Witney, Petersfield, Drake's Broughton and Didcot. We expect to deliver c.10,000 plots from our strategic land bank over the next 5 years, with the returns exceeding our minimum hurdle rates. We will continue to pursue new strategic land opportunities that are within our core operating area.

We have great forward visibility on our land bank with 100% of our FY18 land having detailed planning consent, and 93% of our land for FY19 and 70% for FY20, already secured.

### Affordable housing

Affordable housing is a very important part of our business and represents a significant opportunity for the Group. We are establishing strong relationships with the registered providers, working closely with them to understand their priorities and ensure support for their initiatives, and strengthening Bovis Homes' reputation in this area. We are exchanging contracts on our affordable delivery earlier, reducing our risk and effectively managing our working capital. In FY17 we exchanged on 43 affordable contracts with 82% of the affordable content for FY18 now contracted on. In the year we also entered into an agreement with Hampshire's largest Housing Association, Vivid, to deliver them c.75 new homes, both private and affordable, at our development in Boorley Green.

## Margin initiatives

Driving Group profitability is key for FY18 and beyond, and we have launched four major group wide margin initiatives:

### 1. Price optimisation

We are focused on driving our prices across all our products and developments. This reflects our priority of controlled volume growth, high levels of customer satisfaction and increased profitability. In particular, our sales advisors have a new sales commission structure which is aligned to optimising price.

### 2. Specification review

We have made amendments to our build specification which have improved the quality of our production with a lower cost base. This specification review is ongoing both in terms of the fabric of our build, and a review of the scope of fixtures that are delivered as standard in our homes. As a result, we see further opportunities to optimise both pricing and reduce our costs through these changes.

### 3. Cost contingency release

In FY17 we increased the cost contingency across all our developments to 4% on the basis of what was required and in light of the operational challenges we were addressing. We have made significant improvements to our operations and with further progress expected in FY18, we are targeting to release a proportion of this cost contingency.

### 4. New housing range

We are eagerly awaiting the launch of our new housing range in April 2018, with completions coming through from FY19. We have undertaken a complete review of the sales and construction specifications and developed an industry leading housing range designed to meet the needs of today's customer. The range is for both our private and affordable homes and will not only deliver added value to our customers, it will optimise prices and drive a reduction in production costs across the Group.

## Delivering our medium term targets

The Group has set out its medium term targets to be achieved by FY20 which will return Bovis Homes to being a leading UK housebuilder and deliver significantly improved returns to our shareholders. The management incentive schemes are closely aligned to the Group's medium term targets.

### 4 star HBF customer satisfaction rating

- Top quartile of the UK housebuilders for customer satisfaction

#### Progress in FY17:

- Significant improvement in customer satisfaction with HBF score (1 Oct 17 onwards) trending at well above 80%, equivalent to a 4 star housebuilder
- Investment in customer service function including people and training
- Complete review of the Bovis Homes customer journey led by Customer Experience Director

### 4,000 completions p.a.

- Optimal business size for the Group's operational structure and land bank

#### Progress in FY17:

- Regional restructuring successfully completed
- On track to deliver increase in completions in-line with market expectations for FY18 in a controlled and disciplined manner

### 3.5 to 4.0 year owned land bank

- Manage land investment through the cycle, minimising risk

#### Progress in FY17:

- Complete review of consented and strategic land banks
- Slowed rate of consented land acquisition in FY17
- Progress made with divestment of sites outside of our core operating areas and progressing with the potential to reduce our investment on larger sites

### 23.5% gross margin

- Deliver embedded margin within our land bank

#### Progress in FY17:

- Operational issues addressed
- Focus on 'getting it right first time'
- New land acquired in FY17 at gross margin in excess of 26%
- Four new major margin initiatives launched

### 5% administrative expense as a % of revenue

- Minimise fixed costs, maximise economies of scale

#### Progress in FY17:

- Restructuring completed including outsourcing of certain functions
- Direct selling and marketing, planning, design, engineering and legal costs now included in cost of sales
- Investment in information systems to deliver benefits from FY18
- On track to deliver a maximum 5% overhead in FY18

### Min £180m net cash from balance sheet optimisation

- Reduction in net assets

#### Progress in FY17:

- £30.5m land disposals
- £28.9m reduction in part exchange properties, £10.0m reduction in stock properties
- Shared equity disposal with a total of £28.8m cash proceeds

### 25% return on capital employed

- Increased profitability and balance sheet optimisation

#### Progress in FY17:

- Strong focus on effective balance sheet and cash management
- Increase in FY18 profitability and balance sheet optimisation to drive significant improvement in ROCE in FY18

We have made very good progress against a number of these targets in FY17. With our focus on profitability and completing our balance sheet optimisation, we expect to drive forward the Group's financial performance, including return on capital employed, in FY18.



## Balance sheet optimisation

Optimising the balance sheet represents a significant opportunity for the Group and we made excellent progress in the year towards our target of delivering a minimum of £180m of additional cash flow into the business by December 2018.

On land we expect to realise c.£80 to £100m of cash and in FY17 we made five land sales realising proceeds of £30.5m. Our focus in FY18 will be on our larger sites including Wellingborough and Sherford, where we will look to divest a share of the development, most likely through a partnership arrangement.

Our initiatives on work in progress are expected to generate between c.£40m to £80m of cash. We made good progress in the year with a reduction in our level of part exchange properties of £28.9m and stock properties of £10.0m. Further reductions in work in progress levels across the Group is a key focus for FY18, and will be a significant contributor to the cash delivered this year as well as the drive towards our medium term ROCE target of 25%.

We concluded the disposal of our shared equity portfolio in H2 17, generating total cash receipts of £28.8m. We also completed the disposal of three owned offices with cash proceeds of £8.4m and the sale of our site cabins and fork lift trucks. In total, we expect the disposal of non-returning assets to deliver between c.£50m and £60m of cash.

## Market

The market fundamentals are strong and we continue to see good levels of demand for new homes across all our regions with pricing remaining firm. Despite the recent increase in interest rates they remain at historic low levels with good competition in the mortgage lending market. The Government is committed to increasing the supply of new homes in the UK and their policy on housing and planning, and commitment to Help to Buy, reflect this.

## Ordinary dividend and capital return plan

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

The Board is pleased to recommend a final ordinary dividend of 32.5p (FY16: 30.0p) bringing the total ordinary dividend for FY17 to 47.5p (FY16: 45.0p), representing a 6% increase on the prior year. Based on the current operating plan and reflecting the Board's confidence in the outlook for the business, the Board intends to increase the ordinary dividend for shareholders for FY18 by a further 20% to c.57 pence per share. Thereafter it intends to move progressively towards an ordinary dividend twice covered by earnings in FY20.

In addition, the Board intends that surplus capital will be returned to shareholders via special dividends totalling £180m or c.134 pence per share in the three years to FY20, with the first special dividend payment of £60m or c.45 pence per share expected to be paid towards the end of 2018.

The Group will continue to be strongly cash generative and given the balance sheet position the Board is committed to reviewing capacity for further returns to shareholders over time.

## Outlook

We started the year with a strong forward sales position representing c.40% of the consensus FY18 forecast revenue for the Group. Sales in the first 8 weeks of this year have been good with our average private sales rate per site per week up 14% to 0.5. Pricing has been running slightly ahead of our expectations.

We are confident of delivering growth in completions for the year in line with expectations in a controlled and disciplined manner.

We expect to drive forward the Group's profitability with, in particular, the launch of our four major margin initiatives. Combined with the completion of our balance sheet optimisation in FY18, we should see a significant improvement in the Group's return on capital employed as we progress towards our target of 25% ROCE for FY20.

**Greg Fitzgerald**  
Chief Executive

	FY 2017	FY 2018	FY 2019	FY 2020
Ordinary dividend	47.5p per share	c.57p per share	Trend to 2 x cover	
Special dividend	nil	c. 45p per share	Total c.89 pence per share	

## Driving value across the cycle

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





# Strategic priorities

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



Furlong Rise, Cheltenham

Strategic priorities	Risks involved	Measuring success
----------------------	----------------	-------------------

## People satisfaction

See page 20



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

- People capability and change
- Health, safety and environmental
- Increased regulation

- Unplanned staff turnover
- Employee engagement score

## Customer satisfaction

See page 22



Delivering our customers quality new homes and a high level of customer service that meets their expectations throughout their entire journey with Bovis Homes

- Customer service
- Increased regulation

- HBF customer satisfaction
- NHBC reportable items

## Healthy and safe working environment

See page 24



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

- Materials and subcontract labour
- Health, safety and environmental
- Increased regulation

- RIDDOR
- Accident frequency rate

## Enhanced shareholder returns

See page 26



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

- Economic and sales environment
- Materials and subcontract labour
- Project delivery
- People capability and change
- Increased regulation

- Profitability
- ROCE
- TSR



## People satisfaction

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

### Our approach

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

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

### Progress in 2017

In 2017, we invested in more training than ever before for our employees (3,914 training days (FY16: 2,892)). We have established the Bovis Homes Training Centre and developed a range of training opportunities for all our employees. In the year, we introduced our new development programme for our regional managing directors which has progressed well, we restructured our sales training to include both knowledge and skills elements, and 94% of our employees received customer service training.

There has been a priority focus on ensuring we have the highest quality site managers across all our developments and in the year we have introduced an attractive remuneration package and greater level of training and development for this group.

Our training programmes extend to our subcontractors and 100 of them have qualified as site safety supervisors in the year at no cost to them.

We signed the HBF's Home Building Skills Pledge which commits us to working with others in the industry, including subcontractors, to recruit and train more people to the highest industry-agreed standards.

We remain very committed to our Bovis Homes Apprenticeship Scheme and welcomed 20 new recruits in the year.

In 2017, we launched a new monthly Peakon employee survey which measures employee engagement and has shown an improving level as we have progressed through 2017.

The increase in planned staff turnover in 2017 reflects both a challenging period and a period of restructuring.

### Priorities for 2018

We will continue to invest in the training and development of our people at this higher level. The new Bovis Homes Leadership Framework will deliver training to all of our senior managers, embedding our Bovis Homes Leadership style. Our focus will also remain on ensuring we have the highest quality site managers on all of our developments and our next priority area for 2018 will be our commercial teams.

In 2018 we will also be investing in training to deliver the successful implementation of our new COINS software to be launched across the Group in April.

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

**We are committed to expanding the development opportunities for our specialist contractors and have secured funding from the Home Building Skills Partnership to support this.**

### Key Performance Indicators

Unplanned staff turnover

**31%**

(2016: 20%)

Peakon engagement score

**7.3**

(2016: n/a)



# Investing in our people

Putting the focus on training  
and employee engagement



## Customer satisfaction

Delivering our customers quality new homes and a high level of customer service that meets their expectations throughout their entire journey with Bovis Homes

### Our approach

**We have put the customer back at the core of everything we do with a firm commitment across all our regions to deliver high quality homes.**

We have enhanced the resource across our customer service function to improve both our project management capability and our day to day operational capacity. We are working much more closely with our customers creating a more personalised and involved customer journey, where we strive to best meet our customers' evolving needs. Customer satisfaction is a key performance indicator for all levels of management.

### Progress in 2017

Transforming our customer service has been a number one priority since the start of 2017 and we have made good progress. We have invested in our customer service function in terms of people and training to ensure we are delivering our customers the high and consistent level of service they expect when buying a new home.

In the year, we provided customer service training to 94% of our staff and appointed our Customer Experience Director.

We also formed the Homebuyers Panel composed of our customers, who provide advice and challenge as we review all aspects of our customer service.

We have seen a significant improvement in our customer satisfaction scores and are on track to achieve our target of being a 4 star housebuilder.

### Priorities for 2018

In 2018 we will see the launch of our new housing range which will deliver 26 attractive new house types. We have developed this new range with input from our customers.

We will continue to improve the capability of our customer service team through training and development.

**We are very focused on delivering a 4 star customer satisfaction rating reflecting the step change in customer service across the Group.**

We will focus further on the quality of our homes to reduce further the level of NHBC reportable items we receive.

### Key Performance Indicators

HBF customer satisfaction<sup>(1)</sup>



(2016: ★★★)

NHBC reportable items

0.38

(2016: 0.47)

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





# Delivering for our customers

Listening and engaging to  
improve quality and service



## Healthy and safe working environment

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

### Our approach

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

We have in place, comprehensive health and safety training, clear and accountable management processes and thorough, regular and transparent reporting of performance.

We are investing in our site managers and site teams to ensure our sites are well set up from the start to deliver their production schedule. We are working in partnership with our subcontractors and promoting best practice across the organisation.

### Progress in 2017

In 2017 we developed a much more 'hands on approach' across all aspects of our business resulting in far more frequent visits to our developments by our Regional and Executive management teams. The restructuring of our regions and the re-location of two of our regional offices has assisted this, and the proximity of our developments to the regional office is a key criteria for land acquisition and development. We have invested in our site managers and site teams, re-enforcing the importance of their role on site and across the business.

Our aim of reducing the NHBC risk score across the business was achieved and our accident frequency rates for RIDDORs and minor injuries were both decreased. Our Warwick Gates development was commended in the 2017 NHBC Health and Safety Awards.

Our commitment to our subcontractors was demonstrated by the provision of safety training for them, resulting in 100 site supervision qualifications in the year.

### Priorities for 2018

Our health and safety inspections and support is now all delivered in-house rather than through the NHBC. It is structured to reward good work and sharing best practice, as well as highlighting areas that need improvement. The in-house model also helps to drive a more pro-active approach to health and safety and not just a compliance role, and is the preferred option of most of the larger UK housebuilders.

**We are developing a new health and safety management system which will be rolled out this year. It will simplify processes and as a result be more time efficient for site managers.**

### Key Performance Indicators

RIDDOR

**21**  
(2016: 32)

Accident frequency rate  
(RIDDOR incidence)

**410**  
(2016: 620)



# Keeping our sites safe

Committed to protecting  
the public and our people



## Enhanced shareholder returns

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

### Our approach

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

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

### Progress in 2017

2017 has been a year of re-setting the business and addressing operational issues. Group profitability has been adversely impacted by a number of factors including driving sales from our older, lower margin sites, investment in process change and customer service initiatives, increased build costs within our cost base brought in to the year and an overweight operating structure for the reduced volume. We have made good progress in addressing all of these issues and the Group delivered against all its operational and financial targets for FY17 with in particular, excellent progress with our balance sheet optimisation.

### Priorities for 2018

The Group is committed to building upon the operational progress made in 2017 and is confident of delivering a significant improvement in financial performance and profitability, making good progress towards achieving our 2020 medium term targets.

Reflecting the strong outlook, the Board anticipates increasing the Ordinary dividend by 20% in FY18 and making its first Special dividend payment towards the end of 2018.

### Key Performance Indicators

#### Profit before tax

£114.0m

(2016: £154.7m)

#### Total shareholder return

57%

(2016: 18%)

#### Return on capital employed (pre exceptional)

13.7%

(2016: 17.0%)

For calculation of ROCE, see table on page 146

The personal touch  
Create a style of your own



# Focus on better returns

Driving improvements for our shareholders

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

## The assessment context

The Board has considered the longer term viability of the Group, reviewing this over a 5 year period based on the strategy as outlined on pages 16 to 27 to the current performance of the Group and its principal risks. The average life cycle of our housing developments falls within a 5-year time period and this aligns with the timeframe focused on for the annual strategic review exercise conducted within the business and reviewed by the Board. It is also in line with the financing arrangement extended by the Group in 2017.

The Group's new strategy was communicated in detail during 2017 with a renewed focus on improving operational performance. The Board has considered the Group's risk appetite and believes this to be towards the lower end of the risk scale for the housebuilding sector. The Board have highlighted the following elements of the strategy as key considerations in reaching this view, all of which have an impact on the Group's key investment decisions:

- Focused on a Southern biased geography
- Targeted at edge of town and large village greenfield locations
- Delivering a high proportion of standard Portfolio designed housing
- Traditional two storey family housing is the core product offering with only limited low rise apartments in the mix
- The Group's strategy is to drive cash into the business leading to expected low levels of debt

## The assessment process and assumptions

A Risk Governance Committee operates with representation from all parts of our business to identify and monitor the threats identified from within the Group. This is coupled with a robust assessment carried out by the Board to formally agree and assess the principal risks facing the Group, including those that would threaten the execution of its strategy, future performance and liquidity. Management and mitigation of these principal risks, as set out on page 30 to 33, have been taken into consideration when considering the future viability of the Group.

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

The Group's financial plan has been reviewed in the context of its operational performance during 2017 and stress tested against scenarios to assess the future viability of the Group.

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

In testing our economic downturn scenarios there have been sensitivities applied to the assumptions on sales rates, pricing and costs and interest rates. The sensitivities along with the impact of the expected mitigating actions that would be taken by the Group, were overlaid on the Group's 5 year Strategic Plan.

The key mitigating actions we expect the business to take in a downturn include restricting investment in land, reducing the level of production and work in progress held and optimising our overhead base to ensure it aligns with the scale of operations through the cycle.

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

## Viability statement

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

## Going concern

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

The Group entered into its current banking arrangement on 3 December 2015 and it was extended for one year in both December 2016 and January 2018. This arrangement provides a committed revolving credit facility with a limit of £250 million maturing in December 2022. The Group regards its current banking arrangement as adequate for its needs in terms of flexibility and liquidity. As at 31 December 2017, the Group had nil drawings under the facility and had net cash of £145 million.

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



Keble Fields, Fairford

# Principal risks and uncertainties

		Description	Potential Impact	Link to strategic priorities	Annual change
Market risk	Economic and sales environment	Deterioration of the health of the UK economy, brought about by higher interest rates and increasing unemployment, leading to decreased affordability, reducing demand for housing and falling house prices.	Adversely affects consumer confidence and demand for new homes, with consequential impact on revenues, profits and potentially asset carrying values.  Increased restrictions on mortgages granted could reduce demand for homes and therefore revenues and profits. Furthermore, changes to the Help to Buy initiative could impact potential sales to first time buyers.		
		<p>Increasing production across the industry may lead to shortages of both materials and subcontract labour.</p> <p>Following recent exchange rate fluctuations material prices have increased and could rise further.</p>	The Group's ability to build is constrained and may impact profitability if costs rise.		
Operational risk	Materials and subcontract labour				
	Project delivery	Inability to convert strategic land assets to support required housing development.  A failure to achieve our operational targets in terms of forecasted life of site costs or the execution of our build programme.	Unable to deliver sufficient shareholder returns from current developments or a failure to achieve our anticipated completions.		



## What's changed over the last year?

- Stamp duty land tax will be abolished for first-time purchases up to £300,000.
- Bank of England interest rate rise of 0.25% during November 2017 with more forecast in 2018.
- Ongoing negotiations between the UK and EU have so far failed to address the uncertainty regarding a final Brexit deal.
- Help to Buy scheme has been criticised in the media as a component of rising house prices and excessive profits within the homebuilding sector.

## How we are mitigating the risks?

- Close monitoring of lead indicators in the housing market, notably visitors to sales outlets, sales rates and price achieved.
- Maintaining a rigorous approach to land acquisition, with spend focused in the south of England, where the economy is expected to remain more robust.
- A focus on cash generation to further strengthen our financial resilience.
- Investment in our portfolio of homes to further their appeal and suitability to a wider range of potential customers.














- Supply issues led to further wage rises for skilled tradesmen.
- EU net migration has reduced compared to previous years.
- Fully established offices in the heart of each regional operating area.

- Maintain clear visibility of future production requirements and its impact on suppliers and subcontractors.
- Maintain close relationships with key suppliers and subcontractors to gain visibility of future supply against need.
- Centralised processes to monitor life of site costs across all our active sites, providing early warning and trend analysis.
- Revised remuneration package for our employed site managers to retain a quality workforce.

- Government's housing White Paper published February 2017 reviewing the consent and planning processes.
- A reduction in our growth targets to enable a steady state build process.
- Change in leadership driving 'hands on' operational management.

- Monthly build and cost forecasting processes with regular group oversight of regional performances.
- Close monitoring of build performance and delivery against plan through regular onsite visits from the leadership community.
- A decision to reduce future land holding from 5 to 3.5 years over the medium term.
- Investment has been prioritised to deliver new system capability to improve build and spend control and forecasting.

# Principal risks and uncertainties

		Description	Potential Impact	Link to strategic priorities	Annual change
Operational risk	Customer service	Product quality and service standards that do not meet our customers' expectations.	The reputation of the Bovis Homes brand is diminished with an adverse effect on sales volumes and returns.		
	People capability and change	An inability to attract, develop or retain good people.	The loss of key staff or the failure to attract, develop and retain suitable talent may inhibit the Group's ability to achieve its strategy.	 	
	Health, safety and environmental	Unsafe practices in our construction activities causing injury or death to our stakeholders and damage to communities.	A loss of trust in the ability of Bovis Homes to build homes safely and in an environmentally responsible way, affecting the reputation and financial health of the business.	 	
	Increased regulation	<p>Inability to adhere to an increasingly stringent regulatory planning and technical requirements affecting the housing market.</p> <p>There is a specific risk in 2018 due to a new regulatory framework relating to the management of customer and employee information.</p>	<p>Increased costs and significant delays in production leading to reduced legal completions.</p> <p>Reduced number of active sales outlets due to delays in planning process leads to lower build and sales activity.</p> <p>Business disruption, expense and potential fines from a failure to manage customer and employee data in accordance with legislation.</p>	   	

What's changed over the last year?	How we are mitigating the risks?
<ul style="list-style-type: none"> <li>Increased media scrutiny of customer issues relating to home build quality across the sector.</li> <li>All Party Parliamentary Group for Excellence in the Built Environment has called for the establishment of an ombudsman.</li> <li>Customer satisfaction put back to being the centre of everything the business does.</li> </ul>	<ul style="list-style-type: none"> <li>All homes built are subject to NHBC building control inspections.</li> <li>All staff are trained in the provision of the Group's customer service process.</li> <li>Bovis Homes build a range of high specification homes which are currently being reinvigorated for launch in 2018.</li> <li>Quality inspections completed by build staff, sales staff and regional directors.</li> <li>Introduction of a Customer Home Buyer panel to gather insights which are being used to improve our customer offering and service.</li> </ul>
<ul style="list-style-type: none"> <li>Consolidation of our regional businesses.</li> <li>Employers with more than 250 staff will be required by law to publish statistics relating to gender within their company.</li> <li>Uncertainty of subcontractor supply due to EU nationals' perception of final Brexit terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>A reward system that motivates achievement of performance targets.</li> <li>Development programmes tailored to our employees.</li> <li>Assistant site manager and apprenticeship schemes.</li> <li>Succession planning reviewed regularly to ensure pipeline for our leaders within the business.</li> </ul>
<ul style="list-style-type: none"> <li>Investment made in additional health and safety advisors to increase performance across the business.</li> <li>Reinforced as a key priority at every level within the business.</li> </ul>	<ul style="list-style-type: none"> <li>A consultative committee reviews performance and regulatory requirements for health, safety and environmental matters.</li> <li>Monitoring health, safety and environmental performance against a standard of excellence.</li> <li>A requirement for regular training for all staff and site based personnel.</li> <li>Effective communication processes in place to proactively manage and monitor issues.</li> </ul>
<ul style="list-style-type: none"> <li>Consumer Code for New Home Builders launched November 2017.</li> <li>General Data Protection Regulation becomes effective on May 2018.</li> </ul>	<ul style="list-style-type: none"> <li>Self-assessment process to check that controls and external standards are being adhered to across the business.</li> <li>Participation in industry forums and events discussing potential regulatory changes and impacts.</li> <li>Establishment of a Steering Group to monitor implementation of General Data Protection Regulation requirements.</li> </ul>



# Taking a 'hands on' approach

Driving greater operational  
and commercial success

Water's Edge, Fremington

# Our corporate social responsibility (CSR) priorities

## Introduction

This report provides an update on our performance during the year and further information, including relevant policies, can be found on our website, [bovishomesgroup.co.uk](http://bovishomesgroup.co.uk).

### Highlights









The majority of our staff have completed customer service training with a view to returning our customer satisfaction rating to a 4 Star level. We have also held our

first Homebuyers' Panel, chaired by our Customer Experience Director.

The Group continued its commitment to the nation through its own Armed Forces Covenant. Bovis Homes is proud to be a supporter of the Armed Forces Covenant and is committed to ensuring that our nation's Forces personnel (past and present), and their families, are treated with respect and fairness. In recognition of this commitment, Bovis Homes recently received the Silver Award of the Defence Employer Recognition Scheme. We continue to expand our support in a number of ways, most notably this year by offering work

attachments to serving armed forces personnel, and supporting service charities such as SSAFA and Help for Heroes. Further details, including our commitments, can be found on our website.

Our focus on engaging with our subcontractors has begun to show dividends, with daily activity briefings now being operated across substantially all of our sites. It is pleasing to note that our health and safety performance has improved with a reduction in the Annual Injury Incidence Rate (AIIR) to 410 (2016: 620). This compares to the HSE Construction AIIR of 397.

		2017 performance	See page 38
<b>1</b> 	People		
	Improve our customer satisfaction rating	●	
	Improve customer service training	●	
	Formation of homebuyers' panel	●	
	Embed our core values across the Group and new joiners	●	
	Continue to develop our apprenticeship programme	●	
Review ways to improve employee engagement	●		
<b>2</b> 	Health and safety		See page 42
	Reduce annual injury incidence rate	●	
	Improving leadership behaviours	●	
	Enhancing quality of workforce engagement	●	
Increasing awareness of occupational health risk	●		
<b>3</b> 	Environment		See page 46
	Refine our waste reduction strategy	●	
	Reduce active waste per home	●	
	Reduce active waste sent to landfill	●	
	Set target for active waste per plot	●	
Reduce our GHG emissions against our chosen intensity measures	●		
<b>4</b> 	Community		See page 50
	Continue to develop our strategic offering to assist with affordable housing	●	
Continue to build on our relationships and support our subcontractors and suppliers	●		

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

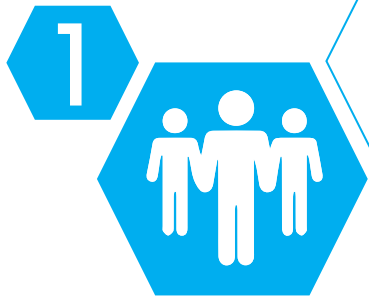


# Focusing on our CSR priorities



Supporting sustainability, our people and communities

# Our corporate social responsibility (CSR) priorities



## People

KPIs	2017	2016
Staff turnover	31%	20%
Training days	3,914	2,892
Apprentices	20	29
Customer satisfaction rating*	2 star	3 star

\*Based on HBF star rating announced in March of that year relating to the prior period of 1 October to 30 September.

### Customers

During 2017, our focus has been on customer service, with the handover of high quality homes to customers a priority.

We have seen a significant improvement in customer satisfaction trend during the year and made good progress in addressing all of our legacy customer issues.

The vast majority of our staff completed customer service training. New staff complete the training shortly after joining the Group.

We recruited a Customer Experience Director who led the inaugural Homebuyers' Panel meeting during the year. A further Homebuyers' Panel meeting was held in early 2018.

The Group's HBF customer satisfaction rating was 2 star (2016: 3 Star). Since the start of the HBF year (1 October 2017), the Group is trending at a 4 star HBF customer satisfaction score.

The Homebuyers' Panel is now established with meetings having taken place in September 2017 and January 2018. The group consists of a cross section of customers who are at various stages of their journey with us. They continue to provide valuable insight, feedback and ideas on what we can do to continue to improve the experience that we deliver for our customers.

Representatives from our Commercial and Technical teams attend the meetings to ensure that this first-hand feedback can be incorporated into homes at the build stage.

### Employees

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

Bovis Homes passionately believes in equality and diversity for all. To that end, we have an Equal Opportunity policy which is rigorously enforced and promoted. In addition, Bovis Homes has never been the subject of litigation alleging discrimination. It is also Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) where requirements may be adequately covered by these persons and to comply with any current legislation with regard to disabled persons. The Group's policies are supported by the Group's Dignity at Work policy which prohibits bullying, harassment or victimisation.

The total employee turnover rate increased to 44% (2016: 27%) which reflects the number of redundancies made during the year as part of the reshaping of the business. Unplanned staff turnover was 31% (2016: 20%). A higher than usual number of resignations was also seen during the period of the restructure. In addition, there continues to be demand for skilled workers in the home building industry. We have implemented a number of initiatives in order to attract and retain staff, including the introduction of a new benefits portal "mybenefitstoolbox"

which allows the majority of our employees to see and amend their benefits from any internet-enabled device.

During the year we also updated our staff communications strategy with the roll-out of a new People Forum, a monthly employee engagement survey and the launch of a refreshed intranet service, Dug. The People Forum supplements each regional business' Employee Liaison meetings and comprises of employee representatives from each of our regional businesses. It provides an opportunity for employees to raise and discuss their concerns and bring ideas for fostering greater employee engagement to a Group-wide forum. The new online employee engagement survey provides a monthly snapshot of staff satisfaction and a way for employees to provide anonymous comments or suggestions to managers and the HR team. Despite the significant changes that affected the Group in 2017, the online surveys indicate a healthy level of engagement.

The Bovis Homes Annual Awards celebrate the talent and dedication of our people across the country. The awards recognise those individuals and teams that particularly represent the Group's values of Integrity, Caring and Quality. We remain committed to our valuable apprentice scheme with the intake during 2017 lower as we went through a major restructuring within the Group.





# Putting the focus on people

Supporting our staff to deliver quality for customers



# Our corporate social responsibility (CSR) priorities

As well as the Company induction that all new starters attend, the Group has updated its appraisal process to ensure that its values of Integrity, Caring and Quality are considered and discussed by employees and their line managers.

Whilst Bovis Homes does not formally recognise a Trade Union, it is supportive of its employees' rights to freedom of association including the right to form and join trade unions. Employees often bring Trade Union members as representatives to formal meetings and we value their input. We also elected employee representatives and substitutes in 2017 and use this group in relation to a remit of collective consultation.

Bovis Homes supports the Minimum Wage and ensures that all employees are paid in excess of it. The Group has not been found to have failed to pay the Minimum Wage and remains an ardent supporter of it and its aims.

Bovis Homes complies with the principles of the Construction Industry Joint Council (CIJC) Handbooks even though it does not formally recognise the same.

The Group believes that it has a key role to play in ensuring that employees have an appropriate work life balance. To that end, we are committed to working towards ensuring that no employees work excessive hours. In addition, we seek to minimise weekend and late night working to an absolute minimum and then only when it is essential. When it does occur, Bovis Homes seeks to redress the balance by giving people time off in lieu. Moreover, the Group has introduced a process of buying and selling holiday. Bovis Homes also encourages flexible working which allows employees to leave work early on a Friday.

As part of the commitments we have made for our Armed Forces Covenant, we have also been exploring further ways to support employees that are active reservists.

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

The Group continues to operate both a defined benefit pension scheme and a defined contribution pension scheme. It also operates an auto-enrolment pension scheme. The Group has a Share Incentive Plan, Save As You Earn share option scheme and a Long Term Incentive Plan to motivate employees and encourage strong involvement with the Group.

Staff are kept informed of the Group's performance and matters of concern or interest to employees via the Dug intranet service, a news magazine and emails that are sent to all staff. Consultations are held at staff meetings and personal briefings are provided by elected employee representatives. Each regional business meets regularly with employee representatives to discuss matters that may impact staff. The Executive Leadership Team provide presentations to staff at all regional offices at key points in the year.

As at 31 December 2017, the Group directly employed 1,203 people (2016: 1,253). In common with the construction industry, the majority of our site-based population is employed by our subcontractors. During the year, our average workforce population was 5,121 (2016: 5,161).

## Director and employee profile

The following table shows the gender split within the Group as at 31 December 2017. In common with the construction industry, the majority of the workforce is male at 64.5% (2016: 64%). While a lower proportion of senior management and directors are female, the Group encourages and supports diversity, including gender. As at 31 December 2017, there were nine senior managers (all male) who were directors of Group subsidiaries.

### Analysis by role and gender

Role	Female	Male	Total
Non-executive directors	1	5	6
Executive directors	0	2	2
Senior managers	1	13	14
Managers	71	146	217
Site and sales staff	126	360	486
Support staff	224	202	426
Apprentices	5	47	52
<b>Total</b>	<b>428</b>	<b>775</b>	<b>1,203</b>

### Analysis by age

Age	No. of employees	%
<21 years	53	4.4
21 – 30 years	204	17.0
31 – 40 years	273	22.7
41 – 50 years	301	25.0
51 – 60 years	288	23.9
>60 years	84	7.0
<b>Total</b>	<b>1,203</b>	<b>100</b>

## Training

We have continued our investment in training during the year, spending £1.2m (2016: £756,000) on employee training in support of the Group's policy to train and develop employees to ensure that they are equipped to undertake the functions and tasks for which they are employed, and to provide the opportunity for career development equally and without discrimination.

All new starters attend the centralised company induction on their first day with the company, delivered at the Bovis Homes Training Centre, which opened in July 2017. They receive a welcome personally from a member of the ELT followed by subject matter experts providing key information on subjects such as our values, HR, H&S, learning and development and IT. This is a major step forward in generating a team ethos from day one and is complemented by regional and functional induction at the normal place of work from day two.

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

Employees continue to receive regular training covering topics such as health, safety and environmental matters, IT, management, sales and customer care. A total of 3,914 training days were delivered during the year via our Group Learning & Development team (2016: 2,892), equivalent to 3.1 days per employee (2016: 2.3).

Additional training is also arranged by our regional businesses where they identify specific needs.

Our Apprenticeship scheme has continued to develop with 20 new apprentices joining the Group during the year (2016: 29).

We signed the Home Building Skills Pledge – an initiative to collaborate with others tackling the industry skills gap by supporting the Home Building Skills Partnership and working to its shared goals. We have embarked upon a training offering to contractors as part of this initiative by delivering SSSTS qualifications at minimal cost to our specialist contractors.

## Human rights

The Group has not adopted a formal human rights policy but will continue to monitor whether this is an appropriate development for the organisation. At this time it is considered that the Group has a collective number of policies in place that support basic human rights as outlined in the Universal Declaration of Human Rights for all individuals with which we interact and a separate human rights policy is not necessary.

The Group recognises the importance of this area and has adopted policies that support the underlying principles. In particular, we have appropriate policies in place regarding employment matters (including freedom of association and diversity), health and safety, anti-slavery and human trafficking, anti-bribery and corruption and whistleblowing that are there to protect fundamental rights.

## Anti-corruption and anti-bribery

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

All subcontractors are made aware of our policies relating to anti-bribery and corruption and encouraged to adopt their own policies. Employees, subcontractors and others are encouraged to use our whistleblowing service to report any suspicion of bribery or corruption. In 2017 10 whistleblowing reports were made which included matters relating to bribery and corruption.

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

## Priorities for 2018

- Maintain current customer satisfaction trend with a target of 4 star for the 2018 HBF Customer Satisfaction Survey.
- Improve employee retention through improved rewards and benefits offering, leadership training and employee wellbeing initiatives, together with a revised recruitment strategy to attract talented individuals.



## Health and safety

KPIs	2017	2016
Annual injury incidence rate (AIIR)	410	620
RIDDORs	21	36

### Our health and safety (“H&S”) Steering Group began an extensive review of our H&S processes with a new inspection regime pilot commenced during the year.

A new internal inspection regime was introduced during Autumn 2017 featuring an overall H&S performance KPI which has been set for all sites and also provides a Gold – Green – Amber – Red – Black dashboard indicator that is updated by the regions daily. This approach replaces the former NHBC monitoring method used to generate performance KPIs. It has been well received by site teams and is not only seen as a fairer and more accurate measure but also focusses on recognising good practice. In turn this has increased the level of engagement with both site management teams and contractors and is consistent with our strategy to bring about behavioural change. Since this was introduced a continuous level of improvement has been observed over a 5 month period.

The review has seen active engagement from our site managers which ensures that operational feedback is included as part of the review. Other initial changes include the recruitment of additional safety advisers to work with our regional businesses in making Bovis Homes a safe place to work.

In early 2017, we incorporated our directors’ tours as part of a wider site review process and this has now been successfully embedded into the business.

The changes implemented have begun to be evidenced through a significant reduction in our annual injury incidence rate to 410 in 2017 (2016: 620).

We have continued to actively promote worker engagement at site level through daily activity briefings (“DABs”). These provide an opportunity for site management to communicate with subcontractors and those on site on tasks scheduled to occur that day and particular risks that may arise as a result. They also provide a forum for subcontractors to provide feedback and for near-misses to be discussed and improvements implemented.

Health and safety remains a number one priority, with this topic being one of the first to be covered at our new starter induction.

The Group’s senior leaders also completed Leading Safely training from the Institution of Occupational Safety and Health and a Leading Safety Differently workshop. This is part of our drive to promote the integration of health and safety, and develop the right behaviours, at all levels of the business.

We also took the step of providing defibrillators and relevant training to all of our sites. The defibrillators are not just for use on site and can be used by those in the vicinity if required.

The Bovis Homes Safety Awards recognise excellent performance in health and safety at our sites. The judging took place in November 2017 with nine sites winning Regional Excellence Awards. Four sites were Highly Commended and went through to compete for the Group Excellence Award, with a further three sites Commended.

The superb examples of health and safety identified during the judging for the awards has been shared with the regional build directors for implementation across the business.

Alongside the Bovis Homes Safety Awards, the Group competed with other house builders in the National House Building Council’s Pride in the Job Awards, where four of our site managers were selected from more than 16,000 site managers working across the country to receive Quality Awards. Our team at Loachbrook Meadow, led by Oliver Cookson, went on to win the next level of award, the Seal of Excellence and as regional winner in the large builder category was shortlisted for the Pride in the Job Supreme Award.

### Priorities for 2018

- Update our standard operating procedures to support a safety first culture.
- Revise our site induction process to ensure it remains engaging, including a trial of an electronic induction process.



# Committed to health and safety

Comprehensive health and safety training for all employees

# Our corporate social responsibility (CSR) priorities



## NHBC Seal of Excellence/Pride in the Job

### Oliver Cookson celebrated a huge success at a major house-building industry awards ceremony.

He was named the best site manager in the North West region in the National House Building Council's (NHBC) Pride in the Job large builder category.

The accolade, presented at the Hilton Manchester Deansgate Hotel, recognises Oliver's expertise in guiding the team at Bovis Homes' Loachbrook Meadow location on the outskirts of Congleton.

Oliver, who lives in Middlewich, said: *"I'm absolutely thrilled to have won the award - it's going to take some time to sink in - but I wouldn't have achieved anything without the fantastic team that I've got on site."*

*"But for their hard work, I wouldn't have been getting up on stage to collect this award. I think we all bring the best out in each other and they respect me and I respect them - it's a two-way street."*

*"We've got great team at Loachbrook Meadow, who work conscientiously, want to do the job well, and build homes that we can all be proud of."*

Oliver went forward to the Supreme Awards Gala - the national final - at the Park Plaza Westminster Bridge Hotel in London, along with the winners from the other 10 UK regions.

Oliver reached the regional stages of the competition after being selected from more than 16,000 UK site managers for an NHBC Pride in the Job 'Quality' award for excellence in on-site management earlier in the year.

He received a coveted 'Seal of Excellence' award at the Manchester event, before then going forward to land the major regional prize.

Joanne Morrison, Managing Director of the Bovis Homes Mercia region, said: *"We're extremely proud of the high-quality homes that Oliver and his team are building at Loachbrook Meadow."*

The award recognises the great communication and teamwork on site

as well as Oliver's professionalism and dedication to the job.

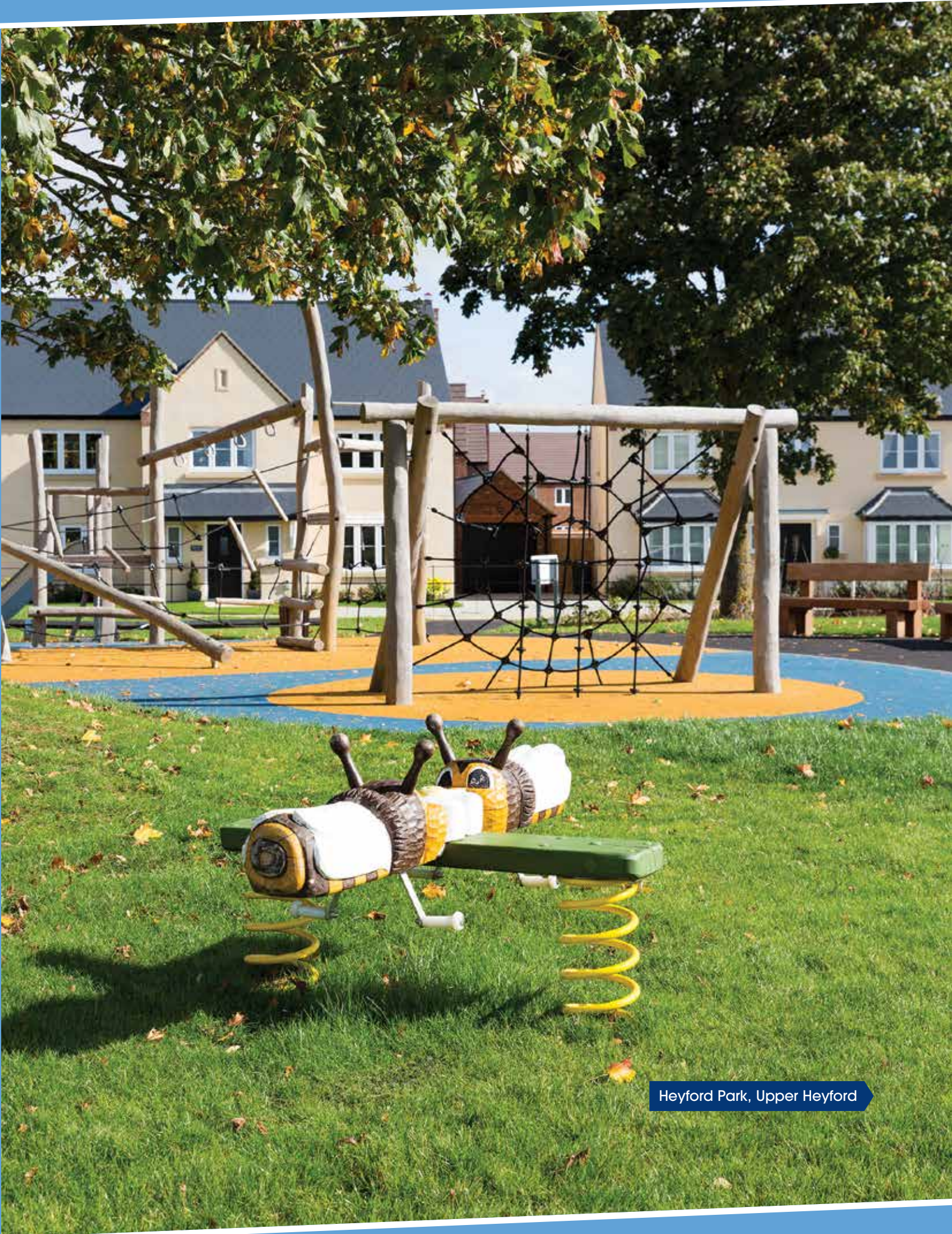
*"We're thrilled that he has won the regional award."*

Now in its 37th year, Pride in the Job celebrates the exceptional contribution site managers make in creating homes of outstanding quality.

The 'large builder' category is for site managers employed by a company that builds more than 1,000 new homes with NHBC warranty cover per year.

Darrell White, managing director of the West Division of Bovis Homes, added: *"This is a tremendous performance by Oliver and his team at Mercia's Loachbrook Meadow, and a testament to his absolute focus on health and safety, his communication skills, and his passion for delivering quality homes for customers."*





Heyford Park, Upper Heyford



## Environment

KPIs	2017	2016
<b>Recycling</b>	<b>94%</b>	93%
<b>Waste per plot</b>	<b>5.72</b>	6.10
<b>GHG emissions</b>	<b>2.01</b>	1.61

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

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

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

During 2017 we launched a new waste strategy in partnership with Reconomy with the aim of reducing the overall amount of waste sent to landfill and improving our recycling volumes.

This partnership has led to increased accuracy in the recording of waste and its final treatment. We also changed the size of plasterboard sheeting specified for our homes in order to reduce offcut wastage.

We have set a target to reduce waste by 15% for the 12 months from August 2017, the date our partnership with Reconomy was fully implemented.

Total waste per plot was 5.72 tonnes (2016: 6.10) based on completed plots and work in progress. We are targeting waste per plot of 5 tonnes for 2018.

The Group continued to divert almost all of its waste from landfill to other uses at 94%. Our recycling rate for site waste is outlined below:

Tonnes	2017	2016*
<b>Total waste diverted from landfill</b>	<b>21,167</b>	21,337
Comprising: Timber	<b>1,985</b>	
Plaster	<b>1,522</b>	
Hazardous	<b>1</b>	
Other	<b>17,659</b>	
<b>Total waste to landfill</b>	<b>1,375</b>	1,606
Comprising: Timber	<b>0</b>	
Plaster	<b>0</b>	
Hazardous	<b>2</b>	
Other	<b>1,373</b>	
<b>Total waste</b>	<b>22,542</b>	22,943
<b>Number of plots</b>	<b>3,645</b>	3,997

\*Only consolidated data available.

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





# Looking after the environment

Aiming to take a sustainable  
approach

# Our corporate social responsibility (CSR) priorities



## Case study A joined up approach to waste management

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



By moving away from the use of general waste skips and implementing a focused, group-wide policy of effective waste segregation at source, the partnership achieved significant success in 2017. In the Mercia region alone, which was the first to fully implement Reconomy's waste management strategy, waste costs per plot fell from a high of £824 in August 2017, to £468 by year end.

These results have been attributed to the phased and considered rollout of the waste strategy across all Bovis Homes developments, thereby allowing for a consistent and joined-up approach.

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

Tony Filson,  
Reconomy

### Greenhouse gas emissions

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

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

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

We have revised our company car policy to limit CO<sub>2</sub> emissions on all new vehicles to 120 g/km. We also renewed our forklift truck fleet and specified machines no more than 2 years old, to ensure improved efficiency.

### Performance and methodology

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

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

GHG emissions have been calculated using emission factors from UK Government's GHG Conversion Factors for Company Reporting 2017. Scope 1 emissions arise from the consumption of gas at our facilities, diesel on construction sites and UK business mileage in fleet cars. Emissions from air conditioning in offices have been excluded as not being material. Scope 2 emissions represent purchased electricity. Scope 3 emissions represent business mileage completed in private vehicles.

Greenhouse gas (GHG) emissions data for the period 1 January 2017 to 31 December 2017 (with prior year comparatives)

Emissions from:	2017	2016	2015	Unit
Combustion of fuel at our facilities and construction sites as well as fleet vehicle use (Scope 1 emissions)	5,638	4,780	4,168	*
Purchased electricity (Scope 2 emissions)	1,522	1,627	1,324	*
Total GHG emissions (Scope 1 and Scope 2)	7,160	6,406	5,492	*
Scope 3 emissions (private vehicle mileage)	786	677	424	*
<b>Company's chosen intensity measurements:</b>				
(i) Total GHG emissions per legally completed unit <sup>(1)</sup>	2.17	1.77	1.49	**
(ii) Total GHG emissions per 1,000 sq ft legally completed	2.01	1.69	1.46	†

\*Tonnes of CO<sub>2</sub>e. \*\* Tonnes of CO<sub>2</sub>e per legally completed unit. † Tonnes of CO<sub>2</sub>e per 1,000 sq ft legally completed. (1) re stated to include scope 3 emissions.

There has been increase in GHG emissions against our chosen intensity measures as a result of an increase in fleet vehicle use and more accurate fuel usage by forklift trucks via a telematics system.

### Priorities for 2017

- Reduce our GHG emissions against our chosen intensity measures.
- Reduce waste to 5 tonnes per plot.

## Open space, ecology and sustainable water management

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

All of our sites are subject to extensive pre-construction assessments. Our ecology assessments include an evaluation of the suitability of habitats for protected species and proposals to mitigate the impact of our developments more generally. Mitigating measures can include translocating species and creating wildlife corridors. An archaeological assessment will also be undertaken to determine

whether a site is likely to contain archaeological remains and any mitigating actions that may be required.

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

All sites are reviewed at acquisition stage to determine the likely ground conditions and the type of surface water measures

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

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



**OSBORNE**

National house builder Bovis Homes and Osborne teamed up with their supply chain partners and the local community to build a playpark for a primary school in Hemel Hempstead.

Two Waters Primary School is close to the site of Bovis Homes' new 325-home redevelopment of the Manor Estate in Apsley where Osborne's expert engineers have built a bridge over the busy railway line.

Volunteers from Bovis Homes, Osborne and the local council got together to deliver the play park for the local children.

The opening of the Two Waters Primary play area took place in April 2017, with many attending, including local dignitaries, parents, teaching staff and of course the children. The official ribbon was jointly cut by Jon Millar at Osborne, Reception Teacher Bethany Ward and Mayor of Dacorum Robert McClean.

Jon Millar, Osborne Project Manager for the site said: "I am really pleased that collaboration with Bovis Homes and

Case study

### Playtime is now a reality for Hemel Hempstead pupils

*Hertfordshire Council, along with many talented Osborne people has made this playpark into a reality for the children."*

Chris O'Connor, Regional Technical Director at Bovis Homes said: "We're delighted to be part of this work and it is the result of a truly collaborative project between Osborne, our supply chain partners, the local community and ourselves. We look forward to seeing the children take full advantage of these new facilities as we continue our work bringing new homes to the community."



## Community

KPIs	2017	2016
Affordable housing completions	1,072	1,074
Planning obligations spend	£26.4m	n/a

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

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

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

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

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

#### Affordable housing

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

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

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

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

Of our 3,645 homes (2016: 3,977) completed in 2017, 1,072 were sold to RPs, representing 29% of the homes we sold (2016: 1,074 and 27%).

#### Armed forces covenant

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

In the last 12 months, Bovis Homes has taken part in a variety of events aimed at equipping Forces personnel for civilian life, such as a Life Skills fair at Tidworth Garrison, and has supported a number of

other initiatives including fundraising for the SSAFA Big Brew Up event and sponsoring the RAF Police Rugby team.

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

Many military homebuyers like the Ferrier family at Sherford (right) have already taken advantage of the unique forces purchase assistance scheme, which has now been available for almost a year and is open to serving forces personnel, both regular and reservists. It allows service personnel to combine buyer assistance schemes with a package of offers from the Company, in order to purchase their own Bovis Home as simply and affordably as possible.

#### Supply chain

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

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



# Creating communities

Supporting our customers on their new home adventure

# Our corporate social responsibility (CSR) priorities

We collaborate with our supply chain on the development of skills for the industry, with our apprenticeship programme incorporating secondments to learn key construction skills.

We offer work experience placements to those attending school and college.

We work with our suppliers to provide innovative designs and products as well as providing training on topics such as health and safety and site supervisor safety. During the year our contractors were able to participate in a site supervisor safety training scheme course accredited by the Construction Industry Training Board ("CITB").

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

## Community and infrastructure improvements

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

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

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

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

## Charity

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

In order to support our staff, during 2017 we introduced a payroll giving initiative to enable employees to contribute to their chosen charities directly from their salary.

## Priorities for 2018

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



### Case study

## Bovis Homes announces plans to present local communities with life-saving defibrillators

Life-saving equipment will be donated to towns and villages by Bovis Homes, as part of our ongoing commitment to health and safety, and to the communities in which we work.

We have announced that the portable, easy-to-use defibrillators currently installed at our locations will be offered to local communities after the developments have been completed.

Bovis Homes will have employees based at developments who have received training in the use of the defibrillators.

Roger Morton, Head of Talent at Bovis Homes, explained: "Every second counts when someone suffers a sudden cardiac arrest and, without immediate help, between 90 and 95 per cent of cases prove fatal.



"But research suggests that survival rates improve significantly if a defibrillator is used within five minutes of a cardiac arrest - from 6 per cent to 74 per cent.

"Defibrillators are available for use at all our locations during the lifetime of our build and sales presence."

Bovis Homes Site Manager Dave White (above) has personal experience of how defibrillators, which deliver a controlled

electric shock to the heart aimed at restoring its natural rhythm, save lives.

One of his closest friends suffered a cardiac arrest while playing football, but a team of paramedics were playing on an adjoining pitch and one of the players had a defibrillator in his car.

Dave said: "My friend wouldn't be here today but for a defibrillator, so it's vitally important that everyone has easy access to them."



## Case study

## Bovis Homes donated £300 to the playgroup

# Green-fingered playgroup ready for the winter thanks to Bovis Homes

Come rain or shine, children at a Moreton-in-Marsh playgroup will now be able to tend to their allotment thanks to a donation from Bovis Homes.

The children's allotment now has a new shed to house its tools and gardening equipment, after Bovis Homes donated £300 to the community group.

*"We were only too happy to provide some help for the Moreton-in-Marsh playgroup," says Stephanie Spry, Regional Marketing Manager.*

*"It's a fantastic community resource, and the allotment gives children a chance to get outside and learn more about where food comes from and how plants grow.*

*"We're delighted to have been given the opportunity to contribute to their gardening efforts and we hope their new shed helps them to have a bumper harvest!"*

Jo Creek, Deputy Playgroup Manager, said: *"The shed has made a huge difference to the group, as it is a bit of a walk from the nursery to the allotment.*

*It's great to have all the tools there waiting for the children when they arrive.*

*"The kids love using the allotment and learning where vegetables come from and we use the produce as healthy snacks!"*

Three-year-old Molly, who attends the playgroup, said: *"My favourite thing about the allotment is the runner beans!"*

### Strategic report approval

The strategic report outlined on pages 2 to 57, incorporates the financial highlights, the Chairman's statement, the strategic review, the Chief Executive's report, the financial review, the risks and uncertainties review and corporate social responsibility review.

By Order of the Board  
Earl Sibley, Finance Director

1 March 2018



Winchester Park, Winchester





# Focused on getting it right

Committed to being the  
best we can be



## Trading performance

**In line with our planned slow down in production and initiatives implemented to re-set the business during the year, the Group delivered 3,645 legal completions, a decrease of 8% on the previous year (2016: 3,977).**

The completions included 1,072 affordable homes representing 29% of our completions (2016: 27%). This generated total revenue of £1,028.2m, a decrease of 3% on the previous year (2016: £1,054.8m).

Housing revenue was £992.9m, only 3% behind the prior year (2016: £1,022.8m) with our average sales price increasing by 7% to £272,400 (2016: £254,900). Other revenue was £3.3m (2016: £6.2m) and land sales revenue, associated with five land sales, was £32.0m in 2017, compared to three land sales achieved in 2016 with a total revenue of £25.8m.

As part of our strategic review the Group has reviewed how all development related activities are delivered to the business. This has resulted in certain services being outsourced to ensure best value is delivered to our developments throughout the housing cycle. In line with this review all project specific sales costs which were previously included in the Group's administrative expenses have been reclassified within cost of sales.

Certain other technical, legal and build related project costs, previously included in the Group's administrative expenses, have been capitalised into work in progress and

will be released through cost of sales as we legally complete homes. This is a change in accounting policy and the Group's income statement has been restated for this change. See note 2 'Result for the year' for further details

Total gross profit was £184.6m (gross margin: 18.0%), compared with £209.0m (gross margin: 19.8%) in 2016. Housing gross margin was 18.3% in 2017, below the 19.6% achieved in 2016 but broadly in line with the housing gross margin delivered in H2 2016 (18.4%) with profitability impacted by a high level of build costs within our cost base coming into the year, actions taken to reduce stock and part exchange holdings, land write downs on out of area developments and an increased level of investment across the business in the period to address legacy issues.

During 2017, our construction costs increased by 9% per square foot, reflecting higher value site locations and the inflationary impact of labour and materials of around 4%, as we delivered production in a more controlled manner.

The profit on land sales in 2017 was £2.4m (2016: £7.7m) as we continue the strategy of managing our capital base through the disposal of parcels of land on several of our larger sites although these disposals will not impact our delivery in the next 2 to 3 years.

The Group delivered a pre-exceptional operating profit for the year ended 31 December 2017 of £128.0m (2016: £160.0m) at an operating profit margin of 12.5% (2016: 15.2%).

Overheads increased by 16% in 2017 to £56.6m (2016: £49.0m). This level of administrative costs reflects the heavy structure existing in the business at the beginning of the year which was planned to deliver growth as well as additional investment to reset the business and deliver operational improvements for future periods.

During the year the business has been restructured reducing from eight operating regions to seven as well as outsourcing certain activities, the benefit of which will be seen in future periods.

The Group incurred one-off costs of £10.3m in the period made up of the additional £3.5m customer care provision taken at the half year (2016: £7.0m) as well

as £6.8m of exceptional costs, split between £4.0m relating to the strategic restructuring of the business and advisory fees of £2.8m related to bid approaches in the first half.

Profit before tax reduced to £114.0m, comprising operating profit of £128.0m, exceptional costs of £6.8m, net financing charges of £7.2m with no profit from joint ventures in the year. This compares to £154.7m of profit before tax in 2016, which comprised £160.0m of operating profit, £5.6m of net financing charges and a profit from joint ventures of £0.3m.

## Financing and taxation

Net financing charges during 2017 were £7.2m (2016: £5.6m). Net bank charges were £3.0m (2016: £3.3m), because of modestly lower net debt during 2017 than 2016 offset by a higher level of commitment fees and issue costs amortised in 2017. We incurred a £5.1m finance charge (2016: £5.0m charge), reflecting the imputed interest on land bought on deferred terms. The Group had a reduced finance credit of £1.1m (2016: £2.4m) arising from the unwinding of the discount on its available for sale financial assets during 2017 as the portfolio was sold during the year. There were also other expenses of £0.2m (2016: income of £0.3m).

The Group has recognised a tax charge of £22.7m at an effective tax rate of 19.9% (2016: tax charge of £33.9m at an effective rate of 21.9%). The reduced tax rate is driven by the reduced level of corporation tax to 19%. The Group has a current tax liability of £16.9m in its balance sheet as at 31 December 2017 (2016: £13.9m).

## Earnings per share and dividends

Basic earnings per share for the year were 68.0p compared to 90.1p in 2016. This has resulted in a return on equity of 10% (2016: 13%).

As previously communicated the Board will propose a 2017 final dividend of 32.5p per share. This dividend will be paid on 25 May 2018 to holders of ordinary shares on the register at the close of business on 3 April 2018. The dividend reinvestment plan gives shareholders the opportunity to reinvest their dividends in ordinary shares. Combined with the interim dividend paid of 15.0p, the dividend for the full year totals 47.5p and compares to a total of 45.0p for 2016, an increase of 6%.

## Net assets and cash flow

As at 31 December 2017 net assets of £1,056.6m were £40.6m higher than at the start of the year. Net assets per share as at 31 December 2017 were 787p (2016: 757p).

Inventories decreased during the year by £127.2m to £1,322.0m. The value of residential land, the key component of inventories, decreased by £107.2m, as we reduced our land investment in line with our medium term strategy. Other movements in inventories included an increase in work in progress of £8.9m driven by a higher infrastructure investment across several of our key sites including Wellingborough, offset by a reduction in the underlying level of ongoing production and a decrease in part exchange properties of £28.9m.

Trade and other receivables decreased by £13.2m, including a reduced level of land sales debtors. Trade and other payables totalled £478.2m (2016: £582.8m). Land creditors decreased to £246.7m (2016: £343.3m) with reduced land investment during the year and the settlement of existing creditors. Trade and other creditors decreased to £231.5m (2016: £239.5m), driven by a reduction in build activity resulting in lower amounts outstanding to our supply chain. Deferred income decreased in the year to £16.5m (2016: £20.4m) while payments on account in relation to affordable housing increased to £41.4m (2016: £13.8m) reflecting the increased level of cash received on these contracts during the year.

As at 31 December 2017 the Group's net cash balance was £144.9m. Having started the year with net cash of £38.6m, the Group generated an operating cash inflow before land expenditure of £350.6m (2016: £307.5m), driven by the increased affordable housing cash received and a significant reduction in our Help to Buy debtor at the end of the year to £1.5m (2016: £13.0m). In addition to this, further cash was generated through the sale of several of our fixed assets including offices for £8.4m (£1.6m profit) and other assets including cabins and forklifts for £5.7m (£2.5m profit), while the disposal of the shared equity portfolio generated net proceeds of £28.8m.

As previously highlighted net cash payments for land investment were reduced at £188.9m (2016: £205.6m). Non-trading cash outflow, excluding the fixed asset and shared equity disposals, reduced to £55.4m (2016: £93.3m) with greater dividends offset by lower corporation tax payments.

## Cash flow

	2017 £m	2016 £m
Net cash at 1 January	38.6	30.0
Profit in the year	91.3	120.8
Dividends and taxes paid	(79.5)	(88.6)
Decrease in property, plant and equipment	9.3	2.1
Decrease in net land	10.6	13.5
Decrease/(Increase) in part exchange properties	28.9	(19.1)
Disposal of available for sale financial assets	27.8	7.5
Other	18.1	(27.6)
<b>Net cash at 31 December</b>	<b>144.9</b>	<b>38.6</b>

We have a committed revolving credit facility of £250m in place which was extended for one year during early 2018 and now expires in December 2022.

## Land bank

	2017	2016
Consented plots added	2,550	3,047
Sites added	11	27
Sites owned at period end	117	133
Plots in consented land bank at period end	17,096	18,704
<b>Average consented land plot ASP</b>	<b>£293,000</b>	<b>£271,000</b>
<b>Average consented land plot cost</b>	<b>£53,300</b>	<b>£52,400</b>

The Group's consented land bank of 17,096 plots as at 31 December 2017 represents 4.7 years of supply based on the 2017 completions volume. The reduction in plots year on year reflects our strategy to deliver c.4,000 completions per annum from 2019 onwards and maintain an optimal land bank at 3.5 to 4.0 times. The 3,645 plots that legally completed in the year were in part replaced by a combination of site acquisitions and conversions from our strategic land pipeline. Based on our appraisal at the time of acquisition, the new additions are expected to deliver a future gross margin over 26% and a ROCE in excess of 25%.

The average selling price of all units within the consented land bank increased over the year to £293,000, 8% higher than the £271,000 at 31 December 2016. The estimated embedded gross margin in the consented land bank as at 31 December 2017, based on prevailing sales prices and build costs is 23.2%.

Strategic land continues to be an important source of supply and during the year 1,850 plots have been converted from the strategic land pipeline into the consented land bank.

**Earl Sibley**  
Finance Director

# Directors and officers



1 Ian Tyler



2 Alastair Lyons



3 Ralph Findlay



4 Chris Browne



5 Nigel Keen



6 Mike Stansfield



7 Greg Fitzgerald



8 Earl Sibley



9 Martin Palmer



10 James Watson



11 Darrell White



12 Keith Carnegie



## 1 Ian Tyler (57)

Non-executive Chairman

**Committee membership:** Nomination Committee

**Date appointed:** 29 November 2013

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

**Skills:** Board leadership and debate, construction health and safety matters, familiarity with dealing with international shareholders, business growth and value creation.

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

## 2 Alastair Lyons CBE (64)

Independent, Non-executive Deputy Chairman and Senior Independent Director

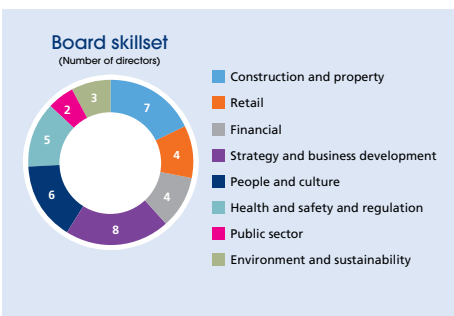
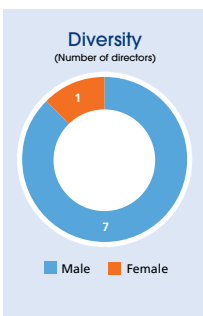
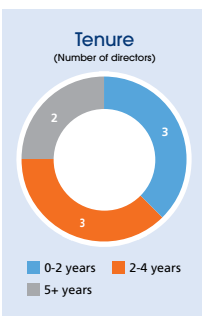
**Committee membership:** Chairman of the Remuneration Committee, member of the Nomination and Audit Committees

**Date appointed:** 01 October 2008

**Experience:** Alastair has been non-executive chairman of Welsh Water since July 2016. He was non-executive chairman of Admiral Group plc from June 2000 until April 2017. Previously in his executive career, 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 with a particular focus on mortgage lending and insurance industries. He was awarded the CBE in 2001 for services to social security having served as a non-executive director of the Department for Work and Pensions and the Department of Social Security.

**Skills:** Broad commercial and detailed mortgage lending and insurance industry experience.

**External directorships:** *Non-listed:* Non-executive chairman of Welsh Water.



• Company secretary

### 3 Ralph Findlay (57)

Independent, Non-executive Director

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

**Date appointed:** 07 April 2015

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

**Skills:** Commercial, financial and general management experience in a consumer facing industry. Land acquisition and business growth experience

**External directorships:** *Listed:* Chief Executive of Marston's PLC. *Non-listed:* Pro-Chancellor and Chair of Council of Keele University

### 4 Chris Browne OBE (57)

Independent, Non-executive Director

**Committee membership:** Nomination, Remuneration and Audit Committees

**Date appointed:** 01 September 2014

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

**Skills:** Commercial and general management experience in a consumer facing and highly regulated industry, plus leadership and operational skills.

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

### 5 Nigel Keen (56)

Independent, Non-executive Director

**Committee membership:** Nomination, Remuneration and Audit Committees

**Date appointed:** 15 November 2016

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

**Skills:** Property, construction and customer experience in a consumer facing industry. Property strategy, land acquisition and development.

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

### 6 Mike Stansfield (61)

Non-executive Director

**Committee membership:** Nomination, Remuneration and Audit Committees

**Date appointed:** 28 November 2017

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

**Skills:** House building and residential construction industry, strategy and business development.

**External directorships:** *Non-listed:* Non-executive chairman of Braidwater Limited and Campion Homes Limited.

### 7 Greg Fitzgerald (53)

Chief Executive

**Committee membership:** None

**Date appointed:** 18 April 2017

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

**Skills:** Leadership and strategic focus in house building and construction industry, business growth and value creation.

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

### 8 Earl Sibley (45)

BA (Hons) ACA, Group Finance Director

**Committee membership:** None

**Date appointed:** 16 April 2015

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

**Skills:** Leadership, strategic focus, financial and accounting expertise.

**External directorships:** None

### 9 Martin Palmer (59)

FCIS, Group Company Secretary

**Committee membership:** Secretary to the Board and Board committees

**Date appointed:** 01 December 2001

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

**Skills:** Governance, regulation and compliance

**External directorships:** None

### 10 James Watson (45)

Division Managing Director – East Division

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

### 11 Darrell White (46)

Division Managing Director – West Division

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

### 12 Keith Carnegie (48)

Executive Director – Bovis Homes Limited

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



**Ian Tyler**  
Chairman

Our new Chief Executive, Greg Fitzgerald, has brought clarity to our strategic thinking and direction and, with his extensive housebuilding experience, provided a driven “hands on” operational focus, regularly visiting development sites. Reducing the rate of production and investing in the business for the future has had the expected impact on profitability and returns in 2017, but has placed us in a much stronger position, with improved production processes and greater operational and commercial focus, to deliver for all our stakeholders in 2018.

The Board faced into the Group’s operational difficulties right from the start of 2017 and, having set focused operational priorities to deliver significant and urgent improvement, was objective and performed effectively during a period of corporate activity in considering two potential merger proposals and arriving at the best outcome for shareholders. A strategic and structural review followed, completed by the new Chief Executive, and the outcome was announced in September 2017 to positive response. During this time, the demands on the Board were maintained at a high level and its performance was underpinned by our determined approach to governance and the quality of the advice and support it received. Although 2017 was a testing period, the leadership from the Board and the willingness of our staff to bring about change has allowed us to emerge well positioned to deliver on our medium term targets. These targets will re-establish the Group as a leading UK housebuilder and deliver improving shareholder returns in a sustainable business that delivers quality homes to satisfied customers.

2017 was a year of challenge and change for the Group. We responded well to the elevated level of customer complaints and concerns arising from the difficult end to 2016 and have since achieved significant improvement in the delivery of the service our customers expect.

Our people, subcontractors and suppliers have worked tirelessly to bring about the operational change essential to the future success of the Group, as the business resets in line with the operational priorities established early in the year.

The Board has ultimate responsibility for the success of the Company and my task focuses on ensuring that it provides strong strategic leadership, monitors the delivery of strategic priorities and objectives and rises to challenges along the way, whilst having an eye on the principal risks. In doing so, the Board must uphold the highest standards of integrity and promote effective relationships, communication, openness and accountability in the boardroom, throughout the business and externally with stakeholders. Rebuilding trust is seen as vitally important and high standards of corporate governance help to underpin this process. The Board believes that the right culture and values play a pivotal role in delivering long term success and require continuous focus, while the right standards and behaviours enable the Board to function effectively in supporting and overseeing senior management as they drive and reinforce the Group’s culture and values. Initiatives were already underway in this area and have moved forward in 2017, including an improved induction process for all new staff, leadership sessions, and a concerted push from the Chief Executive to publicise whistleblowing, designed to promote transparency and accountability. I am making personal visits to the regions and holding one to one meetings with the Division and regional MDs. The Board has toured regional offices and sites, and non-executive directors will have a programme of site and office visits, all of which will provide valuable feedback to the Board, including regarding culture.

The Board completed an external independent performance evaluation towards the end of 2017, which followed the internal evaluation at the start of

2017, and was coupled with a review of events leading up to the operational difficulties of 2016. This has allowed the Board to form a view of performance over an extended period. Actions were already underway in a number of areas and, whilst many aspects of the Board’s performance have moved forward, the in-depth independent evaluation allowed the actions to be refined and supplemented. More structured succession planning and the development of a formal competency framework is one such example. In addition, although the Board is working well and has since added a non-executive director with strong housebuilding experience, it was important for us to reflect on its role in events leading up to end of 2016 and to ensure that any legacy issues are being adequately addressed. As a result, we are continuing to focus on the quality of information received by the Board to ensure it provides clear visibility of performance and are maintaining our focus on culture, as described above. Following discussion of this wider view of performance, an action plan for 2018 has been agreed by the Board and progress will be assessed mid-way through the year. Further information is provided on pages 70 to 71.

The main activities of the Board during 2017 are provided in detail in the report and, in addition to regular activities, included four visits to the regions, the consideration of merger proposals, recruitment of a new Chief Executive, an in-depth review of strategy at the annual strategy day, and receiving reviews and presentations on a range of topics from senior management and the NHBC.



Glassthorpe Grange, Flore

Two new regional offices were opened towards the end of 2017, one of which was visited in January this year. In total, five regional office visits and one training centre visit will be made by the Board during 2018.

Our corporate governance practices remain aligned with the latest version of the UK Corporate Governance Code. The Board reviewed its diversity policy in 2017 and will do so again in 2018 in light of the expected new Code requirements. The non-executive directors continued to be effective in providing broad and constructive challenge in Board meetings and in testing proposals put forward by the executive directors. I was delighted to welcome Mike Stansfield as a non-executive director in November 2017, bringing as he does a strong housebuilding background spanning three decades and skills and experience which strengthen the Board going forward.

I would like to thank my colleagues on the Board for their collective support and strong individual contributions during a testing, but productive and ultimately successful year in 2017. Alastair Lyons will retire from the Board at the 2018 AGM, having served as Deputy Chairman and Senior Independent Director for nine years since the date of his first election and as Chairman of the Remuneration Committee for four years. I and my colleagues would like to thank him for the very great contribution he has made during this time and wish him well for the future.

We value dialogue with all our shareholders, institutional and retail, and have had ongoing engagement with our major shareholders during 2017. Our 2018 AGM will be held on 23 May 2018 and you will find the Notice at the end of this Annual Report.

This report has been approved by the Board and I can confirm that your Company was compliant with the provisions of the UK Corporate Governance Code during 2017.

Ian Tyler  
Chairman



Whitehouse Park, Milton Keynes





# Corporate governance report

## Introduction

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

The Board is pleased to report that the Company has, throughout 2017, complied with and applied the provisions of the UK Corporate Governance Code.

# Corporate governance report

## The leadership structure

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

It sets and reaffirms the Group's culture, provides leadership and direction and determines strategy and strategic objectives. The implementation of strategy is monitored and business plans, budgets and forecasts are reviewed and challenged, applying independent judgement. The monitoring of overall performance and progress with operations against business plans, using KPIs and coupled with site and regional office visits, allows the Board to test the collective capabilities of the Group and its ability to deliver quality homes, on time and on budget to satisfied customers.

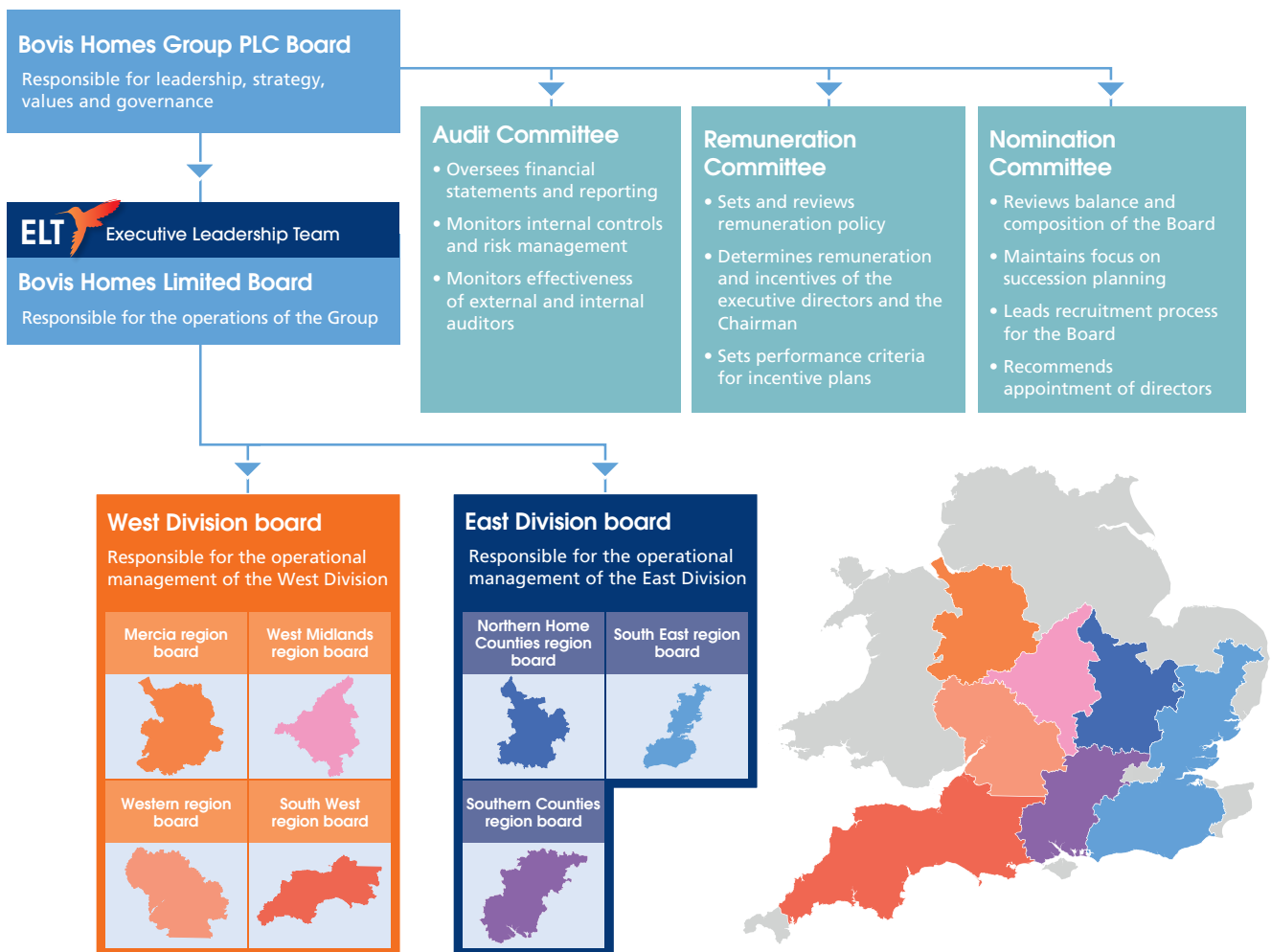
These activities are carried out within an approved risk appetite and with regular monitoring of internal controls and risk management. The Board has a schedule of matters reserved for its decision, which is reviewed and approved on an annual basis. A copy is available on the Company's website ([www.bovishomesgroup.co.uk/investors/corporate-governance](http://www.bovishomesgroup.co.uk/investors/corporate-governance)).

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

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

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

Group functions provide support to the Board, the executive directors, the ELT, the Divisions and the regions. In total, the leadership team comprises approximately 85 members of staff. The leadership and governance structure in the second half of 2017 and for 2018 is shown below.



## The importance of culture

The Board keeps a focus on culture and uses meetings coupled with regional visits to tour regional offices and sites, talking to staff at all levels to get a true sense of the prevailing culture and underlying behaviours and attitudes.

These visits also provide opportunity for the non-executives to engage in a way that models and reinforces the Group's values of Integrity, Caring and Quality, supporting the message from executive management. Together with KPIs and other data, this engagement allows the Board to periodically assess whether culture is as expected and reflects that set by the Board and to influence where necessary. The Group's vision, mission statement and values are messaged to all staff through a range of communications, including inductions, presentations, informal discussions and branding materials, together with expectations regarding supporting behaviours, including openness and transparency.

## The Board

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

Mike Stansfield was appointed an independent non-executive director on 28 November 2017, increasing their number to five, and brings a strong housebuilding industry background to the Board. The provision of a comprehensive and tailored induction is ongoing for Mike and includes site visits, visits to the regional offices, meetings with senior management, and briefings on specific topics.

David Ritchie stepped down as Chief Executive on 9 January 2017 and, with the number of executive directors reduced to one, Earl Sibley, Group Finance Director, was appointed Interim Chief Executive, a position he held from 9 January to 18 April 2017. Greg Fitzgerald was appointed CEO on 18 April 2017 and Earl Sibley returned to his role as Group Finance Director, restoring the number of executive directors to two.

Biographical details for the directors are provided on pages 58 to 59. Their dates of appointment, length of service to the end of 2017 and attendance at Board meetings are shown below.

The Board held nine meetings in accordance with its scheduled calendar and, as a result of the level of activity during the year, held nine additional meetings, the majority of which were telephone conference calls.

The Board has a broad range of expertise and experience and a strong blend of skills, which has allowed it to perform effectively during a challenging year for the business. The non-executive Chairman brings a strong track record of commercial experience in construction and infrastructure related industries, which benefit the Group in the delivery of its strategy and oversight of its business plans and performance. Alastair Lyons has a broad base of business experience, with a particular focus on mortgage lending and insurance industries and including chairing listed companies. Chris Browne brings a strong commercial and operational background from a consumer facing industry and Ralph Findlay adds strong commercial, financial and general management expertise, again from a consumer facing industry. Nigel Keen brings an in-depth construction and property background and experience of running property strategy and portfolios, once again from a consumer facing industry, and Mike Stansfield adds a strong housebuilding industry background, spanning three decades.

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

Directors' names and functions are listed on pages 58 to 59



Notice of the 2018 Annual General Meeting pages 150 to 155



Name	Date of appointment	Current role	Tenure in current role	Attendance at scheduled meetings	Attendance at additional meetings
Ian Tyler	29/11/13	Chairman	4 years	9/9	9/9
Alastair Lyons	01/10/08	Deputy Chairman	9.25 years	9/9	9/9
Chris Browne	01/09/14	Non-executive	3.3 years	9/9	7/9
Ralph Findlay	07/04/15	Non-executive	2.75 years	9/9	9/9
Nigel Keen	15/11/16	Non-executive	1.1 years	9/9	7/9
Mike Stansfield	28/11/17	Non-executive	1 month	1/1	-
Greg Fitzgerald	18/04/17	Chief Executive	0.75 years	6/6	3/3
Earl Sibley	16/04/15	Group Finance Director (Interim Chief Executive from 09/01/17 to 18/04/17)	2.75 years	9/9	9/9

# Corporate governance report

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

All the directors will be offering themselves for re-election at the forthcoming AGM, in accordance with the Code, with the exception of Alastair Lyons who will retire from the Board at the AGM, having completed nine years as a non-executive director since the date of his first election. The Board strongly supports all the individual director's re-elections, taking account of the balance of skills and expertise and the performance of the Board as a whole. Ralph Findlay will be appointed Senior Independent Director with effect from the conclusion of the AGM.

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

The Board has a diversity policy which has been in place since September 2011 and strongly supports the principle of boardroom diversity, acknowledging that gender is but one element of many. The Board seeks a mix of talented people with a range of experience, skills, vision and independence, recognising the importance of a blend of abilities, views and backgrounds to enable it, as the objective of the policy, to function effectively. There are no particular considerations, applicable to the Board or senior management, concerning aspects such

as age, gender, or educational and professional backgrounds, beyond the requirement for qualified professional staff to hold certain positions.

The policy is implemented by circulation through the Group and publication on the Group's website and the Group also has a long standing equal opportunities policy. The Board has one female non-executive director and three female members of senior management report in to the level below the Board. The Board intends to review its diversity policy during 2018, in light of the expected new Code requirements. Gender metrics are contained in the corporate social responsibility report on page 40.

All the directors have service agreements or contracts and the details are set out in the current remuneration policy, available at [www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk).



## The Board's site visit to the Group's Barming development

In October 2017, the Board visited South East region's Orchard Fields, Barming development in Maidstone.

Opened in March 2016 and located close to the M20, the site offers two, three, four and five bedroom homes in an edge of town setting, convenient for local living and commuting to Ashford, Canterbury and London.

Viewing of the sales office was coupled with discussion with regional management and site and sales staff on the local

market, production, sales rates and customer satisfaction, followed by a tour and inspection of the show homes.

A tour of the construction site was then conducted by the site team, which provided the opportunity for discussion and feedback on progress with the build programme, specific issues experienced in development, training and support to site teams, welfare, and health and safety performance.

Returning to the sales office, discussion summarising the site's overall performance and objectives for 2017 and 2018 concluded the visit.

## Board meetings and main activities

There were nine scheduled meetings and nine additional meetings during 2017.

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

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

The Board receives a comprehensive electronic meeting pack a week in advance of each meeting plus other information required to enable it to discharge its duties. Meetings are conducted in an atmosphere of open and free flowing discussion and debate, with a questioning approach which enables the non-executive directors to challenge and test the strategy, progress made with implementation, and proposals put forward by the executive directors. Members of the ELT and the Group Financial Controller attended a number of meetings in 2017, increasing the range of views and the input available to the non-executive directors.

## The main activities at Board meetings in 2017 were as follows:

- the Interim Chief Executive presented proposals and regular updates on operational priorities for 2017 and the way forward in resetting the business, including reports on customer service issues, the actions taken and progress made. The Interim Chief Executive also presented the 2017 Budget for approval and continued to provide a regular finance report, with support from the Group Financial Controller, before reverting to the position of Group Finance Director. The finance report includes, at various times, rolling forecasts, Group KPIs, budgets, results, projections, leading market indicators, analyst consensus data and an analysis of share price valuation and movements.
- the Board held several meetings and conference calls to discuss the relative merits of the merger proposals received from Redrow plc and Galliford Try Plc versus the Group's operational and financial plans and, having considered the feedback from engagement with shareholders, decided that both proposals should be rejected.
- the Board reviewed progress with the appointment of a new Chief Executive and appointed Greg Fitzgerald with effect from 18 April 2017.
- the new Chief Executive presented an initial report on his thoughts and findings and subsequently provided reports and updates spanning the Group's activities, including progress with implementation of the strategy, customer satisfaction, health and safety, HR matters, investor feedback, trading performance, land acquisitions / sales, affordable housing, and progress with key projects.
- an operating review pack containing standardised processes and controls for the regional operations was presented by the Division MDs.
- the Board received regular reports covering health and safety and discussed performance against KPIs, areas for improvement and monitored actions taken, including the effectiveness of engagement with site teams and subcontractors. A presentation on a new behavioural health and safety system was also received and discussed.
- the Board reviewed IT strategy, receiving a presentation from the Head of IT, which included the security strategy and input to key projects.
- a summary of Quality Construction Reviews completed by the NHBC was reviewed and a presentation was given by the NHBC, followed by a question and answer session.
- the 2016 results and the 2017 interim results were reviewed and approved, including release to the London Stock Exchange.
- the Budget for 2018 was the subject of debate, challenge and detailed consideration.
- actions arising from the 2016 Board performance evaluation were monitored and the provider for the 2017 external independent evaluation was identified and the evaluation process commenced.
- succession planning reviews were presented by the Head of HR for the ELT and for the leadership team below the ELT.
- progress with the recruitment of a new non-executive director was monitored, appointing Mike Stansfield with effect from 28 November 2017.
- the Board completed a broker review, appointing Deutsche Bank AG London as joint broker.

The Board also reviewed dividend policy, principal risks and mitigation, regulatory announcements, major shareholdings, litigation, the share dealing code, the process for the longer-term viability statement, and plans for the 2017 strategy day.

# Corporate governance report

Five of nine scheduled meetings were held in London and four were held in the regions, providing opportunity to interact with local management teams and tour regional offices and sites, meeting staff at all levels. Three regional management teams provided presentations to the Board in open discussion and question and answer sessions, which followed site visits to view construction activities, show homes and sales offices. All sessions concluded with an evening meeting with regional management and members of the ELT.

---

***“The regional management teams presented to the Board in open discussion and question and answer sessions”***

---

---

***“The Board considers stakeholders in its deliberations”***

---

The Board considers stakeholders in its deliberations and takes into account the views of and feedback from shareholders, employees, subcontractors, suppliers, and customers. Comprehensive discussions took place with shareholders during the first half of 2017 and feedback has continued to be taken following the publication of the strategic review update published with the Group’s half-year results.

Indirectly through the executive team, the views of employees are received on specific topics via employee liaison groups and reports from the HR function and are taken into account in decisions affecting operations and employment conditions. Subcontractors attend adjudication and project meetings and recent feedback has been taken on the product range, ease of build and means of improving engagement and communication. They also have ongoing involvement regarding health and safety. Suppliers attend regular meetings and provide input to product and specification. Feedback on these areas arises from updates received by the Board and the impact on stakeholders is considered as part of proposals put to the Board.

Customer feedback received detailed consideration during 2017 and was carefully monitored, including individual meetings, feedback from sites, and the HBF customer satisfaction survey score, to ensure that customer issues were being properly resolved to an appropriate standard.

The annual strategy day held in July provided the Board with the opportunity for an in-depth review of the strategy for the Group and received a presentation from brokers on the external environment, considered the political backdrop, and reviewed the risk appetite and factors leading up to the Group’s operational difficulties, which peaked at the end of 2016. Progress with the Group’s strategic and structural review was discussed and development of the strategy was progressed. Structure based on operational factors was also reviewed, requiring a reduction from eight regions to seven, and capital investment, affordable housing, people and balance sheet optimisation were discussed.

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



The Avenue, Moreton-in-Marsh



**Ensuring an effective Board**

The Board carried out an internal formal evaluation of its 2016 performance at the beginning of 2017 using Independent Audit’s “Thinking Board” software.

The overall result reflected the challenges that the business faced in 2016 and, whilst the underlying direction, culture and management of the Board were strong, the evaluation identified material areas for focus in 2017, which were set out in the 2016 Annual Report. During 2017, therefore, the Board focused on the following aspects of its performance:

**Culture**

The Board placed greater emphasis on understanding the relationship between central, divisional and regional management, the impact on development of an accountable and customer centred culture across the business, and on identifying measures of the extent to which changes to culture and practice were becoming embedded. Regional visits, discussion with staff at all levels, KPIs and other data were used for this purpose, concluding that a customer centred culture was developing, but that there was more to do in some areas.

**Succession planning**

Succession planning and the talent pipeline were reviewed by the Board and progress was made, allowing more direct focus on the identification of the necessary skills and characteristics and the development of individuals to deliver the Group’s strategy. The Head of HR presented succession planning reviews to the Board and it was agreed that the exercise will be repeated in mid-2018 and again at the end of 2018 to ensure that a rigorous approach evolves.

**Risk management**

Greater focus was given to the impact and visibility of customer service and quality failures on the Group’s wider reputation. Customer service and quality issues were discussed at each Board meeting in 2017 and non-financial KPIs were used to monitor progress. The new Head of Internal Audit & Risk completed several reviews which included the monitoring of build programme delivery and customer service controls and reported to the Audit Committee.

**Strategy and execution**

Material weaknesses in the Group’s production planning capability led to customer service issues arising and the Board instigated a full review, both of the Group’s production planning process and the Group’s approach to customer service. These reviews resulted in the implementation of standard operating processes, controls and review mechanisms in the regions.

**Reward structure**

Measures of performance adopted for variable reward were found to have focused too heavily on financial performance and a new directors’ remuneration policy was approved at the 2017 AGM and included for non-financial variable reward metrics.

# Corporate governance report

Towards the end of 2017, the Board completed its third external independent performance evaluation. This was conducted by Independent Board Evaluation (“IBE”), who have no other connection with the Company. The interview based methodology and approach allowed the Board to review its 2017 performance in considerable depth.

The process comprised:

- (i) a briefing with the Chairman, Chief Executive and Company Secretary to establish the background and set tone;
- (ii) a confidential and consistent interview process with Board members, the Company Secretary, the remainder of the ELT, six members of senior management below the ELT, the engagement partner at PwC, the external auditor, and the partner at Deloitte responsible for advice to the Remuneration Committee, and;

(iii) Board and Committee meeting attendance by IBE to observe the dynamics and culture of the boardroom, which took place in December 2017.

Feedback was also collected on the Chairman, for reporting to the SID, and on the individual directors for feedback to the Chairman. The feedback for the committees was presented to each Committee Chair. The output for the Board was discussed with the Chairman and the Chief Executive and was presented to the Board by IBE at a meeting held in January 2018.

Overall, board members considered that the Board had established an open and transparent relationship with the new CEO during 2017, which was working well. Board members have clarity on the challenges facing the Board, what needs to be done, and the degree of change that it needs to drive in the organisation. The Board operates what is described as a strong collegiate culture

and is highly supportive of the approach the CEO is taking as he resets the business. Over the coming year, Board members are aware of the need (i) to ensure that sufficient challenge is presented to the executive directors; (ii) to ensure that they are close enough to the business and senior management to drill down if there are nascent problems; (iii) to focus on succession planning amongst the executive and for the Board; and (iv) to determine the medium to long term strategy. Board members felt that good progress had been made during 2017 in several areas, such as risk management, Board focus and Board culture, whilst there were areas of performance that could be improved for the future. IBE made a number of recommendations and the Chairman formulated an action plan, which was discussed and approved by the Board, based on the key recommendations and areas of focus for the Board to take forward in 2018, set out below.

## 2018 action plan

<b>Strategy</b>	<b>Induction</b>
Following a clear exposition by the CEO of the re-set strategy, the Board will participate in a strategy day in July 2018 to review the three to five year horizon. Whilst relevant to all aspects of the Board’s operation, the outcome of these discussions will be fed into the Nomination Committee in so far as they affect board composition, board skills training, and succession planning in the executive.	The current programme will be optimised for future joiners, reflecting the needs of their particular skill sets and backgrounds.
<b>Board composition</b>	<b>Decision making</b>
A formal competency matrix is to be developed to assess the Board’s current strengths and weaknesses, and to reflect the skills and characteristics required once the longer term strategy has been determined. With the retirement of the Deputy Chairman and SID at the AGM, the Board is seeking a candidate with strong PLC experience who will enhance the diversity of the current Board.	The Chairman and the Company Secretary are to review the delegation of authority to ensure that there is absolute clarity on the areas where the board is to be consulted or informed and the issues that are within the remit of management. Clearer signposting of decision making areas in the Board papers will follow.
<b>Individual performance evaluation</b>	<b>Board meetings</b>
In tandem with the competency matrix, a more formal annual process will be instigated by the Chairman to review individual director performance and to identify development goals for each director, to be reviewed by the Nomination Committee.	The Chairman and the Company Secretary are to review whether sufficient time is allocated to the topics under consideration and are to consider revising the schedule and timetable for Board and committee meetings, with consequent adjustments to agenda management. The best way of establishing a feedback loop on the effectiveness of Board meetings with the non-executive directors will also be considered.
<b>Succession planning</b>	<b>Board papers</b>
Progress has been made during the sessions noted above, but further work is required in a structured approach, particularly regarding longer term planning around the Chief Executive and his senior team.	Improvements to the format and content of the Board pack were identified. This will include further work on KPIs to provide a clearer “at a glance” view of critical areas including customer, production, quality, HR and cultural indicators. The Board will also be furnished with more external data and input, including regular presentations from NHBC.



It is intended that IBE attend a meeting in July 2018 to discuss progress with the action plan with the Board and assess whether any additional actions are needed during 2018.

During the interview process, IBE also facilitated discussion on the events leading up to the operational difficulties which peaked in December 2016 and resulted in the Group putting a clear set of operational priorities in place in early 2017. The discussion presented Board members with an opportunity to reflect with the benefit of hindsight and to draw out lessons learned that might still be relevant to the resetting of the business under the new CEO.

The feedback from participants presented a consistent view that the problems experienced in the business were cumulative and that there were a number of contributory factors. These included reflections on the risks of the strategy for growth, the embedded culture of the Group, and the depth of succession planning. The feedback indicated that during 2015 and 2016, the Board had identified a number of the issues and was taking steps to remedy them, but for a number of reasons, did not have a wide enough view of operations, was not able to read the true position of the business from the information presented to it, and did not have sufficient access to an independent assessment of quality and customer service. Many of the actions to address these shortcomings form part of the areas of focus for the Board to take forward in 2018, set out on page 70. In addition, the Board took immediate steps in early 2017 to:

- Recruit a non-executive director with a deep operational pedigree in the housebuilding industry, resulting in the appointment of Mike Stansfield to the Board.
- Engage with the NHBC on the Group's performance in delivering construction quality and customer service, receiving a presentation during a Board meeting in December 2017 and establishing a programme of regular interaction and annual presentations.
- Continue its focus on organisational culture and ensuring it has strong relationships with senior management below the CEO with more frequent interaction. This includes a programme of formal and informal regional office and site visits by all Board members and a programme of one to one meetings between the Chairman and Division and regional MDs.

The performance evaluation of the Chairman was led by the Senior Independent Director, with input from all other members of the Board. It was again considered that the Board had been effective under the Chairman's leadership with well-planned meetings, appropriate agendas based on a good understanding of the Company's business model and strategy, and broad effective contribution by directors. Board meetings continue to be held in a conducive environment with a strong focus on the important issues and open debate and constructive challenge.

The Chairman provided strong and effective leadership of the Board during a difficult period for the Company, when operational shortcomings caused it to fall short of expectations; there was a change of Chief Executive; and the Company received two unsolicited approaches to merge with other housebuilders. Throughout these challenges he acted decisively and always with the best interests of shareholders in mind.

During the year he has spent significant time both on sites and with the Company's executives and relevant external advisers. He has developed a good working relationship with Greg Fitzgerald, the new Chief Executive, supporting him as

he developed his understanding of the Company and then his future strategy for the business, which was announced last September after appropriate challenge by the Board, led by the Chairman.

Throughout the challenges and changes faced by the Company he maintained constructive dialogue with the Company's principal institutional investors, providing insightful feedback to the Board's assessment of the most effective direction for the Company to take.

As Chairman of the Nomination Committee, the Chairman has sought to increase the Board's effectiveness through succession planning, adding during 2017 a non-executive director with a housebuilding background, having towards the end of 2016 also recruited a non-executive director with property experience.

## Board committees

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

Membership, roles and activities are set out in separate reports. The Audit Committee report is on pages 98 to 101, the Nomination Committee report is on pages 102 and 103, and the Remuneration Committee report is on pages 78 to 97. Each Committee reports to and has terms of reference approved by the Board and the minutes of Committee meetings are circulated to the Board for review.

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

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

## Governance through the business

The Board aims to meet governance best practice in light of the Group's business model, organisation structure, processes and internal controls.

The Group currently complies with and applies the provisions of the UK Corporate Governance Code and will review the new edition of the Code during 2018 to determine the actions it should take to meet the revised requirements.

Further details of the Group's current approach to governance best practice are set out below.

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

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

### The Chairman is primarily responsible for:

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

### The Chief Executive is responsible for:

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



Tadpole Cross, Swindon

The Deputy Chairman supports the Chairman in ensuring that the Board is effective and constructive relations are maintained, in addition to acting as the Senior Independent Director, in which capacity he leads the annual performance evaluation of the Chairman and provides an additional point of contact for shareholders.

The control framework is subject to Board review. The Group has a defined set of authorities, procedures and controls across the range of its activities, which have been mapped and documented and are available to all staff via the Group's intranet, including the authorities and decision making delegated by the Board to management in respect of the operational control of the Group. These are regularly and formally assessed both by Internal and external audit, in addition to being subject to a quarterly self-assessment process established in 2017. The Group's leadership structure provides the framework for governance control, reporting and risk management and is set out on page 64.

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

Training is made available to directors at induction and as required to develop and maintain knowledge and the Chairman is responsible for ensuring that directors continually update and refresh their knowledge and skills appropriate to their role on the Board and Board Committees. Directors are also required to maintain their awareness of the culture and operations of the Group. During 2017, the directors received training on the legal and regulatory framework for UK Takeovers and a general corporate governance update, including the FRC's proposals for a revised Corporate Governance Code, and other regulatory developments.

The Company has an insurance policy in place which insures directors against certain liabilities, including legal costs.

Information on share capital is provided on pages 105 and 106.



Nine Acres, Bishopstoke

### Shareholder engagement

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

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

During the early part of 2017, the Chairman held a series of meetings and calls with shareholders relating to the merger proposals received from Galliford Try Plc and Redrow plc to provide information, explore their views and take conclusions regarding the relative merits of the proposals versus the Group's future operational and financial plans. These meetings were extremely useful in guiding engagement on the proposals to a conclusion, including the recruitment of Greg Fitzgerald as the new Chief Executive.

An increased level of shareholder engagement has since been maintained, including with the strategic update which took place in September 2017 and subsequent announcements, enabling the Board to monitor shareholder sentiment.

The Board reviews feedback from investor relations meetings, visits and presentations, including commentary on the matters discussed. The feedback received during 2017 was extremely helpful to the Board and assisted with the focus of the strategic review and the direction of the Group.

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

All shareholders are invited to attend the Company's AGM, which this year will be held on 23 May 2018. The full Board, including all Committee Chairmen, attend and value this meeting as a means of communicating with private investors, encouraging their participation.

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

---

***"An increased level of shareholder engagement took place in 2017"***

---

## Risk management and internal control

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

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

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

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

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

The Board also reviewed the minutes of Audit Committee meetings and the minutes of Risk Governance Committee meetings.



Recommendations for improvements to internal controls were made during the year and corrective action was taken, but they did not represent significant control failings or weaknesses.

A period of ambitious growth led to considerable operational pressures and challenges being experienced, resulting in operational difficulties, which peaked in December 2016. Weaknesses in the application of operational and customer service controls manifested themselves as control failures under these pressures, with the outcome that, whilst the controls are fit for purpose, they were not fully effective in maintaining operational control in respect of quality and customer service.

In early 2017, the Board reviewed the events leading up to the 2016 year-end and the causation of the control failures and reasserted the importance of leadership and the right behaviours and of controls being properly applied by the business. It also put a clear set of operational priorities in place, including a focus on customer service, a review of customer service procedures and a review of the build process.

The Audit Committee reviewed build programme delivery and customer service controls via regional reviews, together with the measures taken to strengthen their effectiveness and reduce operational pressures. During the year, it monitored the outcome of the reviews put in place by the Board, which resulted in a significant improvement in the control environment.

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

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

---

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

---

### Control framework

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

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

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

- there is a well understood management structure which allows for clear accountability and an appropriately granular level of financial control.
- the structure is underpinned by documented authority levels for business transactions.
- the process is further supported by process documents for both internal management reporting and external reporting which stipulates, amongst other things, reporting timetables and the contents of key management reports.
- during the last quarter best practice processes and procedures were mapped for all core and support activities.
- during the last quarter of 2017 a quarterly self-assessment for all director level employees was put in place to confirm adherence to mandatory controls and non-conformities are reported to the ELT for discussion and remediation.

The Company maintains computer systems that record financial transactions and whose effectiveness is reviewed by the co-sourced Internal Audit function on a regular basis. Any findings arising from these exercises are reported to the Audit Committee and action is taken, as appropriate.

Control over cash expenditure is a key component. The Company maintains tight control in this area through a centralised and regional payment function, regularly maintained authorisation documents and segregation of authorisation accountability.

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

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

Directors' names and biographies are listed on pages 58 to 59	→
Notice of the 2018 Annual General Meeting pages 150 to 155	→



Mildenhall, Sherborne



# Keeping customers happy

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

Heyford Park, Upper Heyford

# Directors' remuneration report



## Alastair Lyons

Chairman of the  
Remuneration Committee

### Remuneration in context

Following the difficulties the Company experienced towards the end of 2016 management's focus in 2017 was on operational priorities to ensure effective delivery as a quality housebuilder with a particular focus on customer service. This has been reflected in a significant improvement in our more recent customer satisfaction scores. As planned, we intentionally slowed the rate of production to reset the business and address operational issues. Against this backdrop, while the number of legal completions was reduced, the Group delivered a disciplined performance in line with management expectations, meeting all of its operational and financial targets.

At the start of the year, we launched a programme of actions to transform our production processes and customer service. Whilst the business is already benefitting from these initiatives, the significant investment required was expected to adversely impact the Group's operating margin in the short term. Accordingly, basic earnings per share ("EPS") reduced by 24.5% to 68.0p and Return on Capital Employed ("ROCE") finished at 13.7%. At the same time, the Group delivered a strong forward sales position to support growth in 2018.

Going forward, the Board considers it vital that our remuneration arrangements are aligned to the execution of our strategy, which was announced in September 2017 following a review by our new Group Chief Executive.

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2017.

It provides details on how directors were paid in 2017 and the link between remuneration and the Company's performance. It also outlines how we intend to implement the remuneration policy in 2018. It is subject to an advisory shareholder vote at the 2018 AGM.

On pages 95 to 97 is annexed the remuneration policy table which was approved by shareholders at the 2017 AGM.

The remuneration policy in its entirety can be found on the Company's website.

At the core of this strategy is a material improvement in the Group's Return on Capital Employed, the level of which is widely recognised to be positively correlated with the relative valuation investors place on companies operating in the housebuilding sector. This is planned to be achieved by an improvement in our operating margins and a reduction in capital employed, in particular by a programme of balance sheet optimisation, which in turn will create the potential to return capital to shareholders in the form of special dividends. During 2017 we made excellent progress with this balance sheet restructuring, resulting in a £145m net cash balance at year end.

The Board is committed to building upon the progress made in 2017 and has designed our remuneration framework to continue to underpin achievement of our strategic objectives in 2018.

### Remuneration in 2017

The performance in 2017 resulted in 58.6% of maximum bonus being awarded to the Group Finance Director, Earl Sibley, against the stretching financial and operational targets detailed later in the Report. Reflecting on the period during which he was Interim Chief Executive, the Committee considered that he had surpassed expectations of what could be achieved against the very difficult backdrop of the Group having significantly fallen short of market expectations for 2016 and also being in receipt of two unsolicited approaches.

It, therefore, determined to use its discretion to award him an additional bonus of 15% of salary, increasing the overall bonus award to 73.6% of maximum bonus. Further explanation of the annual bonus performance assessment can be found on pages 83 to 84.

At the General Meeting on 2 May 2017 shareholders approved a separate bonus for Greg Fitzgerald, the new Group Chief Executive, for 2017, in lieu of his participation in the annual bonus scheme. Payment of this is based on the Committee's assessment of his leadership of the strategic and structural review during the year and will be made entirely in shares, to be released on the third anniversary of his appointment (18 April 2020), subject to his continued employment until 18 April 2019. After careful consideration, the Committee determined that the bonus would be awarded in full reflecting Greg's strong strategic leadership since his appointment.

No bonus was payable to the former Group Chief Executive, David Ritchie, in respect of 2017.

As a result of the EPS, ROCE and TSR performance conditions not being met, the LTIP awards granted in 2015 will lapse in full. Absolute cumulative EPS reached 253.5p in 2017 against a stretching target range of 320p to 400p. ROCE reached 13.7% in 2017 against a target range of 19.4% to 23.3%. The Group's TSR over the last three years was 57%, against the comparator group median TSR of 95%.



## Board changes

On 9 January 2017 David Ritchie stepped down as Group Chief Executive. Full details of his contractual payments on cessation were disclosed to shareholders in the 2016 Directors' Remuneration Report.

Greg Fitzgerald joined the Group on 18 April 2017. His remuneration arrangements, including the granting of share awards which were separately approved by shareholders at the General Meeting on 2 May 2017, are detailed on pages 83, 85 and 86.

## Remuneration Policy implementation in 2018

Following the appointment of Earl Sibley in April 2015 the Committee communicated its intention to bring Earl's salary to an appropriate market rate through a series of phased increases over the subsequent three years subject to his pace of development and his contribution to the Group. April 2018 marks the third anniversary of his appointment and the Committee considers that the strength of his performance, including a period as Interim Chief Executive, to have been such as to warrant his moving to a full market rate. As a consequence, his salary was increased from £300,000 to £325,000 (8.3%) with effect from 1 January 2018.

Greg Fitzgerald's salary was increased from £650,000 to £666,250 (2.5%) in line with the general increase for the wider employee population.

Following the regular annual review, the Committee determined that, having focussed particularly in 2017 on operational delivery and customer satisfaction, the annual bonus measures for 2018 should be adjusted to align more with our medium term targets, whilst at the same time maintaining focus on strong operational delivery and high levels of customer satisfaction. The Committee has, therefore, rebalanced financial and non-financial metrics from 50%:50% to 60%:40%, introducing operating margin and legal completion profile measures into the 2018 bonus. ROCE and build programme delivery measures, as well as the element relating to individual performance objectives, have been removed.

To maintain focus on customer service, a Home Builders Federation customer satisfaction survey score of at least 70% must be achieved before any of the bonus measures can pay out. Full details of the metrics and weightings are provided on pages 91 and 92.

The performance measures for the LTIP remain unchanged for the 2018 awards, but have been rebalanced to 25% weighting for each of customer satisfaction, TSR, ROCE and EPS. The TSR maximum performance target is intended to reflect upper quartile performance against an index of the UK's leading housebuilders. Having reassessed what now fairly reflects such upper quartile performance, the maximum has been amended from the annualised median of the index, plus 10%, to the annualised median of the index, plus 7.5%.

## Exceptional LTIP Award

When discussing the proposed programme of balance sheet optimisation the Board recognised that to achieve this required a change in corporate mindset, from a predominant focus on profit to an understanding that the level of capital employed was an equally important measure of success. The Board also saw the potential to achieve a rapid step-change in capital employed allowing the return of capital to shareholders in the form of special dividends and the potential to further enhance shareholder value through an improved return on capital employed.

Given that the Board saw a current opportunity to release significant amounts of cash from the Company's balance sheet the Committee, therefore, introduced the Project 200 Incentive Plan in September 2017 and made awards to senior management below the Board. These awards are in shares, have as a threshold cash generation by the end of 2018 at a level in excess of the guidance given to the City, and only vest if the resulting lower levels of capital employed are maintained through the subsequent two balance sheet dates, to support the embedding of the change in mindset.

The Committee recognised that it would require specific AGM approval to enable Earl Sibley to participate in the Plan on a one-off basis. Following extensive consultation and having considered the views of shareholders, the Committee decided that rather than seeking such approval instead it would make an exceptional award under the LTIP to incentivise Earl's vital contribution as a leader, educating and reinforcing the change of mindset, and taking charge of many of the specific cash initiatives that form part of the programme of balance sheet optimisation linked to the Group's strategy of achieving a material improvement in the Group's Return on Capital Employed. The exceptional element of this award will entirely be measured against the same cash generation metrics and ROCE as adopted within the Project 200 Incentive Plan.

## Conclusion

I hope you find that this report clearly explains the remuneration approach adopted by Bovis Homes and that it enables you to appreciate how it aligns to our strategic priorities.

The Committee takes an active interest in shareholder views, as evidenced by the consultation we have undertaken regarding the proposals outlined above. I look forward to your voting support at the 2018 AGM and will be available to take any questions you may have.



**Alastair Lyons**

Chairman of the Remuneration Committee

# Remuneration report

## Introduction

This annual remuneration report explains how the remuneration policy has been implemented in the year ended 31 December 2017 and how it will be implemented for 2018. Details of remuneration in 2017 are set out first, followed by the approach for 2018.

## At a glance summary

Component and where to find	David Ritchie - CEO (resigned 09 January 2017)	Greg Fitzgerald – CEO (appointed 18 April 2017)	Earl Sibley - GFD
<i>Single figure totals for 2017 (page 82)</i>	£28k	£1,376k	£661k
<i>Annual bonus payments for 2017 (pages 83 to 84)</i>	n/a	2017 Bonus award: 100% of total award vested, to be released in April 2020 subject to continued employment until April 2019.	73.6% of maximum
<i>LTIP awards vesting in respect of 2017 (page 85)</i>	Lapsed in full	n/a	Lapsed in full
<i>LTIP awards granted in 2017 (page 85)</i>	n/a	200% of basic salary	125% of basic salary
<i>Salaries for 2018 (page 90)</i>	n/a	£666,250 (+2.5%)	£325,000 (+8.3%)
<i>Shareholding as % of salary (page 88) Guideline: 100% of salary (CEO 200%)</i>	n/a	506%	16.6%
<i>Changes to the remuneration policy for 2018</i>		None	
<i>Annual bonus for 2018 (pages 91 and 92)</i>	n/a	Bonus opportunity remains at 100% of basic salary.  The balance of financial and non-financial metrics has been adjusted and operating margin and legal completion profile measures have been introduced to sit alongside the profit before tax and customer satisfaction measures to ensure focus on strong operational delivery.	
Profit before tax: 40% weighting Operating margin: 20% weighting Legal completion profile: 20% weighting Customer satisfaction: 20% weighting			
<i>LTIP awards for 2018 (page 92)</i>	n/a	200% of basic salary	125% of basic salary 75% of basic salary on an exceptional basis linked to cash target (December 2018) and capital employed (2019 and 2020).
TSR: 25% weighting ROCE: 25% weighting EPS: 25% weighting Customer satisfaction: 25% weighting			

## The link between remuneration and strategy

As set out in the Strategic Report, the Group has a clear set of strategic priorities designed to drive the business towards medium term targets and to enhance shareholder value. These priorities include people satisfaction, customer satisfaction, a healthy and safe working environment, and enhanced shareholder returns through increased profitability, ROCE and total shareholder return. Our medium term targets, to be achieved by 2020, include "4 Star" customer satisfaction (measured by the Home Builders Federation survey score), 4,000 completions per annum, a 23% gross margin, administration expenses of no more than 5% of revenue, a three and a half to four year land bank, delivery of a minimum of £180 million net cash from balance sheet restructuring, and delivery of circa 25% ROCE via a focus on profitability and balance sheet optimisation. Underlining its commitment to increasing the efficiency of the balance sheet, the Group has announced its intention to return surplus capital to shareholders in the form of special dividends totalling £180 million in the three years to 2020.

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

Annual bonus arrangements link to the Group's near term strategic priorities and, for 2018, the Committee selected operating margin and legal completion profile measures to sit alongside the profit before tax and customer satisfaction performance measures. Margin improvement is critical to achievement of circa 25% ROCE by 2020 and the legal completion measure will help support a more controlled phasing of completions and assist in managing capital employed.

The LTIP takes a longer term perspective and 2017 awards saw the introduction of the HBF customer satisfaction survey score as a performance measure, in addition to the financial and share price performance measures of relative total shareholder return, earnings per share and ROCE. The 2018 awards will use the same performance measures, with customer satisfaction reducing from one third to one quarter of the award and the usual financial and share price based metrics being used for the balance.

Balance sheet optimisation and reduction in capital employed, creating the potential to return capital to shareholders, is incentivised across all levels of senior management via the Project 200 Incentive Plan. The CEO and GFD do not participate in the Plan, although the same measures and targets will be used to determine how much of the GFD's exceptional 2018 LTIP award (of 75% of basic salary) will vest.

## Key remuneration decisions during 2017

During 2017, the Committee agreed severance terms for the former CEO and agreed remuneration arrangements for the Interim CEO and, subsequently, for the new CEO, including the granting to him of share awards following their approval at a General Meeting. It set targets for the 2017 annual bonus (shown on page 84) and approved 2016 bonus payments. It also set targets for and approved LTIP awards made in 2017 and approved the level of vesting for the 2014 LTIP awards. Malus and clawback provisions for incentive awards were strengthened and a two year post vesting holding period for LTIP awards was introduced, both from 2017 onwards. The Committee also established the Project 200 Incentive Plan and granted awards to senior management, excluding the executive directors. A consultation with shareholders took place in early 2018 as to the participation of the Group Finance Director in the Project 200 Incentive Plan. Having listened to the views of shareholders and considered the outcome of the consultation, the Committee decided that it would not be appropriate to submit the Plan for shareholder approval and would instead grant an exceptional award under the LTIP to the GFD at 200% of basic salary, with the intention that the GFD be motivated to support the delivery of the balance sheet optimisation programme via the additional element above 125% of basic salary being measured against the Project 200 Incentive Plan cash generation and capital employed metrics.

The Committee also completed the 2018 remuneration review, which included consideration of the link between executive remuneration and pay and employment conditions throughout the Group (including the general proposals for staff for 2018).

# Remuneration report

## Implementation of remuneration policy for the year ended 31 December 2017

### Single figure of executive directors' remuneration (audited)

The following table reports a single figure for total remuneration for each executive director who served during the 2017 financial year.

	David Ritchie (resigned 09 January 2017)		Greg Fitzgerald (appointed CEO 18 April 2017)	Earl Sibley (appointed GFD 16 April 2015)	
	2017 £000	2016 £000	2017 £000	2017 £000	2016 £000
Base salary	13	550	455	(1) 339	275
Benefits (2)	-	18	1	13	18
Annual bonus	-	55	(7) 829	(8) 258	37
Long Term Incentives (3)	-	(6) 278	n/a	-	n/a
<b>Sub-total</b>	<b>13</b>	<b>901</b>	<b>1,285</b>	<b>610</b>	<b>330</b>
Pension (4)	13	76	-	51	41
Other – pension salary supplement (5)	2	75	91	-	-
<b>Total remuneration</b>	<b>28</b>	<b>1,052</b>	<b>1,376</b>	<b>661</b>	<b>371</b>

Notes:

- (1) Earl Sibley was appointed Interim Chief Executive from 9 January to 18 April 2017 and received a temporary salary uplift to a rate of £450,000 per annum whilst in this role.
- (2) Taxable benefits include medical insurance and loan account balancing payment relating to membership of the Bovis Homes Regulated Car Scheme, plus income tax and national insurance due on this payment
- (3) The 2014 LTIP measured over the three year period to 31 December 2016 vested to the extent of 35.9% on 25 February and 19 August 2017. The 2015 LTIP measured over the three year period to 31 December 2017 will lapse in full.
- (4) The single value for David Ritchie has been calculated as 20 times the increase in accrued pension during the year (net of inflation), less the director's own contributions. The single figure for Earl Sibley has been calculated as the employer's cash contribution. Greg Fitzgerald was not a member of a pension scheme during the year.
- (5) David Ritchie received a non-bonusable and non-pensionable pension salary supplement. Greg Fitzgerald receives a non-bonusable and non-pensionable pension salary supplement.
- (6) This is the actual value delivered under the 2014 LTIP calculated using the share price on the vesting date (775.5 pence on 25 February 2017 and 1,002 pence on 19 August 2017) and includes 4,518 notional dividend shares. Last year's report included an estimate in respect of the vesting value of the 2014 LTIP (based on the average share price over the last quarter of 2016 of 814.66 pence) as the award had not vested at the date of the report.
- (7) The bonus arrangement for Greg Fitzgerald was approved by shareholders (for 2017 only) at the General Meeting held on 2 May 2017. It has been determined by the Committee's assessment of his leadership of the review of strategy and will be paid entirely in shares, to be released in April 2020 and subject to continued employment until April 2019. The value is calculated using the share price on the vesting date (1,079.0 pence on 23 February 2018).
- (8) The bonus for Earl Sibley as Group Finance Director was assessed on the reported performance with profit before tax and ROCE performance adjusted for the total exceptional items of £6.8 million (relating to bid defence costs of £2.8 million and restructuring costs of £4 million) in order to ensure consistency with the basis on which the original targets were set. The total outturn for this element of bonus against the performance targets was 58.6%, applied to a pro-rated salary of £350,000 for the full year. As explained on page 84 in recognition of his exceptional contribution as Interim CEO, the Committee determined to exercise its discretion to award him an additional bonus of 15% of his pro-rated salary. £36.4k of the total bonus will be delivered in shares, deferred for two years.

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

The following table shows the remuneration for the non-executive directors who served during the 2017 financial year.

Non-executive directors	Salary / fees £000	
	2017	2016
Ian Tyler	170	170
Alastair Lyons	79	74
Chris Browne	49	46
Ralph Findlay	58	54
Nigel Keen (appointed 15/11/16)	49	6
Mike Stansfield (appointed 28/11/17)	4	-
<b>Total</b>	<b>409</b>	<b>350</b>

### Annual bonus payment in respect of 2017

At the General Meeting held on 2 May 2017, shareholders approved, for 2017 only, an annual bonus of up to 100% of base salary for Greg Fitzgerald payable in shares on the third anniversary of his date of appointment ("2017 Bonus"). The 2017 Bonus is in lieu of his participation in the 2017 annual bonus and was to be determined by the Committee's assessment of his leadership of the review of strategy and structure, ensuring his focus on the priorities for shareholders, in the period from his appointment to 31 December 2017, (see page 86 for further information, including how the number of shares was calculated). The Committee considered Greg's achievement since taking the role of CEO in April 2017 to have been exceptional. In less than nine months he had achieved a full operational turnaround of the business with the development of our housing sites now well planned and efficiently managed to hand over quality product that delights our customers. There has been a root and branch review of the overhead structure of the business with some functions now outsourced. The appropriateness of all aspects of the balance sheet has been examined with the land bank reduced commensurate with a revised forward build strategy, stock and work-in-progress managed much more efficiently, and non-contributing assets earmarked for disposal, and in many cases, sold by the end of the year. The business' regional operating structure has been reassessed, along with its management, whilst site management, and the terms we offer, has been reviewed with the aim of our attracting and retaining the best in the industry. As evidence of his achievement the Company delivered the operating and financial outturn that had been projected for 2017 with strong internal discipline and the business well positioned to show further improvement in 2018. As a consequence the Committee determined that Greg's 2017 Bonus should vest in full with effect from 31 December 2017. The shares will be released on 18 April 2020, subject to his continued employment until 18 April 2019.

The maximum opportunity for the Group Finance Director for the year ended 31 December 2017 was 100% of salary, unchanged from previous years. Provisions that enable the recovery of sums paid (clawback) were strengthened for 2017 onwards, as set out in the policy table.

A breakdown of the performance against the measurement criteria is shown below. Focussing on the need for the Group to reset the business during the year and drive operational priorities, the Committee adjusted the balance of financial and non-financial metrics from 70%:30% for 2016 to 50%:50% for 2017. The Committee then agreed that an operational gateway would apply to the Home Builders Federation ("HBF") survey score customer satisfaction measure, so that at least 70% customer satisfaction was achieved before either of the financial measures could pay out. The HBF survey year runs from October to September and, following the operational difficulties at the end of 2016, the Committee decided that measurement for the 2017 bonus should run from February to September 2017 to provide an appropriate window and level of incentive to drive improvement. A quantifiable measure was also introduced for build programme delivery, to place operational focus on controlled delivery of quality homes in accordance with build programme targets. In addition, the Committee agreed that, should above target performance be achieved for the financial measures, payment would be in the form of shares for the above target element, with a two year holding period.

All targets were set at the beginning of April 2017 following the fundamental review of the Group's operational processes and controls.

# Remuneration report

Measure	Weighting (as a % of maximum)	Threshold	On target	Stretch	Outcome and award achieved (% of maximum)
<b>Financial measures (50%)</b>					
<b>Profit before tax</b> (before exceptional items of £6.8m)	20%	0% of maximum £120.0m	50% of maximum £125.0m	100% of maximum £131.25m	£120.8m (1.6%)
<b>ROCE</b>	30%	0% of maximum 12.2%	50% of maximum 12.8%	100% of maximum 14.1%	13.7% (25.4%)
<b>Non-financial measures (50%)</b>					
<b>Customer satisfaction (HBF survey score)</b> (for legal completions between 1 February and 30 September 2017 and to reach at least 70% before either financial measure can pay out)	20%	On target is threshold 75%	50% of maximum 85%	100% of maximum 85%	76.3% (2.6%)
<b>Build programme delivery</b> (achievement of monthly and cumulative build programme for foundations and roofs between March and December 2017)	20%	Target foundations: 2,594 Target roofs: 3,261			Foundations: 3,254 Roofs: 3,491 (20.0%)
<b>Individual performance</b>	10%	Assessed against the achievement of defined individual objectives			(9.0%)
<b>Total bonus for Group FD (% salary)</b>					<b>58.6%</b>

Earl Sibley was set the following personal objectives for 2017, designed to support the re-setting of the business and driving operational improvements through cost efficiencies, more effective build processes and improvements in quality:

- In the Interim CEO role, to steer the Group through uncertain times
- To develop a clear strategy for the Group, working with the CEO
- To review and ensure consistency of reporting across the Group
- To drive operational changes to deliver balance sheet efficiency from working capital implementing a defined list of projects
- To support Group-wide cost reduction initiatives across both construction costs and overheads, with a target overhead of 5%

As regards Earl's achievement against his personal objectives as Group Finance Director the Committee considered that Earl had performed very strongly making a considerable contribution to the rapid and effective turnaround in the Group's performance. Alongside Greg Fitzgerald he had been instrumental in developing the turnaround strategy launched in September 2017 which had been well received recognising its relevance and clarity. Consistency of reporting had much improved across the group whilst Earl had played a leading role in reducing capital employed both as a principal leader educating and reinforcing the change of mindset, but also himself taking charge of many of the specific cash initiatives. The Group is now well placed to achieve its targeted overhead of 5% with Earl again leading on many of the Group-wide cost reduction initiatives. Without Earl's contribution the Committee felt that the Group would not have achieved the progress it had during the year and awarded him 90% of the award designated to these objectives.

For Earl's contribution as interim CEO for the three months or so between David Ritchie's resignation and Greg Fitzgerald's appointment the Committee considered that he had surpassed expectations of what could be achieved against a very difficult backdrop of the Group having fallen significantly short of market expectations for 2016 and also being in receipt of two unsolicited approaches. With enormous energy and strong leadership he took personal charge of resolving the issues the business had created for its customers in the run up to the end of 2016, at the same time focussing management on reassessing all aspects of its operations, in particular its build quality and customer service, to develop a programme of work that would address past deficiencies and reset the business to deliver quality houses efficiently and cost-effectively. Earl's achievement as interim CEO created the platform on which Greg Fitzgerald then built so successfully once he joined the business. The Committee considered that recognising this achievement as just one of five personal objectives gave insufficient credit to what he had contributed to the business and, therefore, determined to use its discretion to award him an additional bonus of 15% of salary in this regard.

Executive director	Maximum bonus % of salary	Target bonus % of salary	Actual bonus % of salary <sup>(1)</sup>	Total 2017 bonus £000
Earl Sibley	100	50	73.6	258

(1) Pro-rata salary for the year of £350,000.

## Bovis Homes Group Long Term Incentive Plan

Long term incentive awards are made in the form of performance shares or nil-cost options under the Bovis Homes Group Long Term Incentive Plan which was approved by shareholders at the 2010 Annual General Meeting. Each award is made subject to the achievement of performance criteria as set out below and will ordinarily vest after three years. A two year holding period following vesting was introduced for the 2017 awards onwards, which extends to five years the time between awards being granted and when they can be exercised. Provisions that enable the withholding of payment or the recovery of sums paid (malus and clawback) were also strengthened for 2017 awards onwards. Discretions available to the Committee contained in the LTIP rules are set out in the policy table on page 96 and also in the exit payments policy in the remuneration policy, available on our website.

## Awards vesting in respect of 2017

The LTIP awards made in 2015 were measured over the three year period to 31 December 2017 and will lapse in full. One third of the award was measured against each of EPS performance, TSR performance against an index of the UK's leading housebuilders, and ROCE performance.

The threshold EPS target was 320p and the maximum target was 400p measured on a cumulative three year basis. Absolute cumulative EPS over the three year performance period was 253.5p.

The threshold TSR target was performance equal to the annualised median of the index and the maximum target was performance equal to the annualised median of the index, plus 10%. Actual TSR was 57% which was below the median of the index of 95%.

The threshold ROCE target was 19.4% and the maximum target was 23.3% measured in the third year of the performance period (2017). Actual ROCE in 2017 was 13.7%.

## Awards granted during 2017 (audited)

For the 2017 awards, the Committee decided to introduce customer satisfaction as a performance measure, using the HBF customer satisfaction survey score rating, alongside the financial and share price performance measures. The financial and share price measures comprise two thirds of awards and the customer satisfaction measure, which is independently and objectively assessed, makes up one third.

An award of 111,972 shares was made to Greg Fitzgerald at 200% of basic salary (in accordance with the circular to shareholders dated 7 April 2017) at a grant price of £11.61 on 8 September 2017.

The award is subject to a three year performance period ending on 31 December 2019 and exercisable in 2022, following a two year holding period, as follows:

Executive director	Type of award	Number of shares awarded	Face value of award £000	% of face value that would vest at threshold
Greg Fitzgerald	Performance share award	111,972	1,300	20

An award of 49,342 shares was made to Earl Sibley at 125% of basic salary at a grant price of £7.60<sup>(1)</sup> (the closing middle market share price on 21 February 2017) on 8 September 2017, subject to a three year performance period ending on 31 December 2019 and exercisable in 2022, following a two year holding period, as follows:

Executive director	Type of award	Number of shares awarded	Face value of award £000	% of face value that would vest at threshold
Earl Sibley	Performance share award	49,342	375 <sup>(1)</sup>	20

*(1) The Group's usual practice is to make the main grant of awards for a current year following the announcement of the results for the preceding year. The granting of the 2017 awards was delayed from 21 February 2017, being the day following the announcement of the 2016 results, pending the completion of the strategic and structural review, and the subsequent determination of performance measures and targets by the Committee. As circumstances delayed the granting of awards until 8 September 2017, the Committee determined to use the closing middle market share price on 21 February 2017 for the grant to all employees (including the GFD but excluding the CEO), as would have been the case had the awards been granted in accordance with usual practice. Therefore for the GFD, the face value of the shares on the date of award was £572,860.*

The performance measures for all 2017 awards are Customer Satisfaction (33.3%), TSR (22.2%), EPS (22.2%) and ROCE (22.2%). 6.67% of the total award vests for achieving threshold performance for any of the financial and share price performance measures. The proportion of the total award relating to the customer satisfaction measure lapses in its entirety should the performance target not be achieved.

The performance targets are:

- Customer satisfaction – HBF customer satisfaction rating for the period October 2018 to September 2019 to be at least “4 Star” (80% to 89.9%).
- TSR – threshold performance equal to the annualised median of the index and maximum performance equal to the annualised median of the index, plus 10% (unchanged from the prior year, with the exception of the addition of Countryside Properties PLC to the comparator group).
- EPS – threshold performance at cumulative EPS of 238 pence and maximum performance at cumulative EPS of 280 pence.
- ROCE – threshold performance at 18.4% and maximum performance at 23.4%, both as measured in the third year of the performance period (2019).

The 2017 constituents of the TSR index, which may be subject to change, are as listed below:

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

# Remuneration report

## Greg Fitzgerald - 2017 Bonus and Recruitment Awards (audited)

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

Executive director	Type of award	Number of shares awarded	Face value at date of grant £000	% of face value that would vest at threshold
Greg Fitzgerald	2017 Bonus award	76,786	650	n/a

The 2017 Bonus is determined by the Remuneration Committee's assessment of his leadership of the review of strategy and structure, ensuring his focus on the priorities for shareholders, in the period from his appointment to 31 December 2017. The Committee agreed that the review of strategy and structure had been successfully completed and that the award should vest with effect from 31 December 2017 and be payable on the third anniversary of appointment, being 18 April 2020, subject to G P Fitzgerald remaining in employment on the second anniversary of appointment.

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

The Recruitment Award is subject to a performance condition and will only deliver shares if the Company's total shareholder return over the period from 4 April 2017 to 31 December 2018 is at least equal to the median of the TSR comparator group applicable to awards granted under the LTIP in 2017. TSR was calculated on 4 April 2017 at the start of the performance period and will be averaged over the three month period prior to the end of the performance period. The recruitment award will vest on 31 December 2018 and be payable on the third anniversary of appointment, being 18 April 2020, subject to G P Fitzgerald remaining in employment on the second anniversary of appointment.

## Historical LTIP awards

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

Year of grant	Performance period	Award size (% salary)		Performance criteria				Percentage of award vesting
		(CEO)	(GFD)	Customer satisfaction	TSR	EPS	ROCE	
2014	01/01/2014 – 31/12/2016	150%			33.3%	33.3%	33.3%	35.9%
2015	01/01/2015 – 31/12/2017	150%	*150%		33.3%	33.3%	33.3%	0%
2016	01/01/2016 – 31/12/2018		125%		33.3%	33.3%	33.3%	Ongoing
2017	01/01/2017 – 31/12/2019	200%	**125%	33.3%	22.2%	22.2%	22.2%	Ongoing

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

\*\*As explained on page 85, award size was calculated based on the closing middle market share price on 21 February 2017, which was £7.60 per share.

## Pensions

David Ritchie was a senior executive member of the Bovis Homes Pension Scheme ("BHPS") and ceased to be a director on 9 January 2017. The BHPS is a contributory funded, defined benefit scheme, approved by HMRC. He received a pension allowance of 20% of salary and some or all of this allowance was used in relation to his membership of the BHPS, to the extent that it remained beneficial in light of new pension legislation. The balance was paid as a non-bonusable and non-pensionable salary supplement.

Earl Sibley is a member of the Bovis Homes Group Personal Pension Plan ("GPP") and the Company's contribution is 15% of his base salary.

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

There are no special early retirement or early termination provisions for executive directors, except as noted in the exit payments policy. Any new appointments would include eligibility for membership of the GPP, unless the appointee was already a member of the BHPS.



## Directors' pension accruals (audited)

	Employer contributions to pension scheme during the year £	Director contributions to pension scheme during the year £	Accumulated total accrued pension at 31 Dec 2017 £ p.a.	Increase in accrued pension during the year (net of inflation) £ p.a.	Transfer value of accrued pension at 31 Dec 2017 <sup>(1)</sup> £	Single value at 31 Dec 2017 <sup>(3)</sup> £
Executive director						
David Ritchie (resigned 9 January 2017)	1,181	191	74,669	648	1,310,985	12,778

Notes:

1. The transfer value has been calculated using the transfer basis introduced in July 2015.
2. The accrued pension figures above are the aggregate pension resulting from two periods of service. The first period relates to service up to 5 April 2011 and the second period relates to service from 6 April 2011 to 9 January 2017.
3. The single value has been calculated as 20 times the increase in accrued pension during the year (net of inflation), less the director's own contributions.

## Payments for loss of office

David Ritchie resigned as Chief Executive and as an executive director of the Company with effect from 9 January 2017 and his employment with the Group ended on 28 February 2017. Remuneration arrangements in respect of his departure were determined by the Committee in line with his service contract and the Company's remuneration policy and were disclosed in the 2016 Directors' Remuneration Report.

## Directors' shareholdings and share interests (audited)

### Directors' beneficial share interests

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

	31 Dec 2017				31 Dec 2016			
	Ordinary shares	Share Options	Shares under the LTIP (shares subject to performance conditions)	SAYE options (options subject to continuous employment)	Ordinary shares	Share Options	Shares under the LTIP (shares subject to performance conditions)	SAYE options (options subject to continuous employment)
<b>Executive directors</b>								
Greg Fitzgerald (appointed 18/04/17)	365,694	-	265,544	-	-	-	-	-
Earl Sibley	5,866	-	121,597	4,213	270	-	72,255	4,213
David Ritchie (resigned 9/01/17)	-	-	13,300	-	210,628	-	305,833	3,988
<b>Non-executive directors</b>								
Ian Tyler	2,185	-	-	-	2,090	-	-	-
Alastair Lyons	25,350	-	-	-	25,350	-	-	-
Chris Browne	1,026	-	-	-	1,026	-	-	-
Ralph Findlay	2,687	-	-	-	-	-	-	-
Nigel Keen (appointed 15/11/16)	-	-	-	-	-	-	-	-
Mike Stansfield (appointed 28/11/17)	-	-	-	-	-	-	-	-

There were no changes in the holdings of ordinary shares of any of the directors between 31 December 2017 and 1 March 2018 other than the normal monthly investment in partnership shares through the Bovis Homes Group Share Incentive Plan.

The directors' interests in share options and awards under the Long Term Incentive Plan are detailed on page 88. There were no changes in the holdings of share options and awards under the Long Term Incentive Plan between 31 December 2017 and 1 March 2018.

# Remuneration report

## Shareholding guidelines

Guidelines have been approved for executive directors in respect of ownership of Bovis Homes' shares. The Board expects executive directors to retain 100% of the net value derived from the exercise of Long Term Incentive Plan awards as shares, after settling all costs and income tax due, until such time as executive directors hold shares with an historical cost equal to basic annual salary and, from 2017 onwards, the CEO holds shares with an historical cost equal to twice basic annual salary.

Executive director	Shareholding at 31 Dec 2017	Historical acquisition cost	Salary at 1 Jan 2018	% shareholding achieved	Shareholding guideline
Greg Fitzgerald	365,694	£3,371,274	£666,250	506%	200%
Earl Sibley	5,866	£54,027	£325,000	16.6%	100%

Greg Fitzgerald met the shareholding guidelines during 2017 by acquiring a significant number of shares and now holds shares with a historical cost equal to five times basic annual salary. Earl Sibley also acquired shares and has progressed towards meeting the shareholding guidelines during 2017.

## Directors' interests in Long Term Incentive Plan shares

Executive director	Award date	Vesting date	Interest as at 31 Dec 2016	Interest as at 31 Dec 2017	Value of shares at date of award (£000)	Vesting and exercised in year	Lapsed in year	Expiry date	Market value at vesting (£000)	Gain on exercise (£000)	Shares retained on exercise
Greg Fitzgerald	02/05/17	31/12/17	-	*76,786	650	-	-	18/04/20	-	-	-
	02/05/17	31/12/18	-	*76,786	650	-	-	18/04/20	-	-	-
	08/09/17	08/09/20	-	111,972	1,300	-	-	08/09/27	-	-	-
Earl Sibley	18/08/15	18/08/18	33,215	33,215	375	-	33,215	18/08/25	-	-	-
	24/02/16	24/02/19	39,040	39,040	344	-	-	24/02/26	-	-	-
	08/09/17	08/09/20	-	49,342	**375	-	-	08/09/27	-	-	-
David Ritchie	26/02/13	26/02/16	46,190	-	450	***52,643	-	26/02/23	433	404	27,900
	25/02/14	25/02/17	50,598	-	465	***21,091	32,427	25/02/24	164	204	11,158
	19/08/14	19/08/17	27,256	-	232	***11,386	17,468	19/08/24	114	128	6,023
	24/02/15	24/02/18	88,093	-	825	-	88,093	24/02/25	-	-	-
	24/02/16	24/02/19	93,696	-	825	-	93,696	24/02/26	-	-	-

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

\*\* As explained on page 86 the award was calculated based on the closing middle market share price on 21 February 2017, which was £7.60 per share.

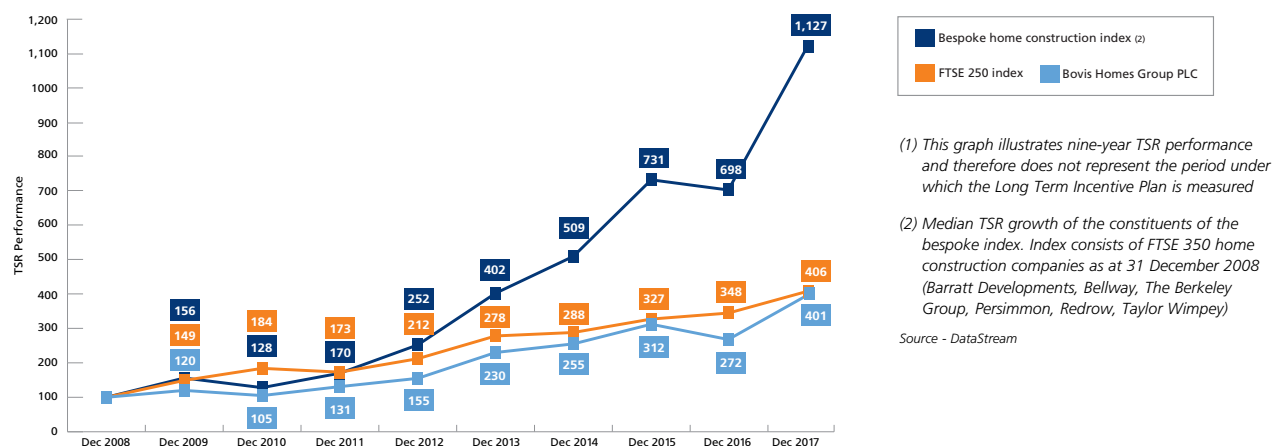
\*\*\* David Ritchie's 2013 and two 2014 award exercises included 6,453, 2,920 and 1,598 dividend equivalent shares respectively.

## Directors' interests in share options

Executive director	Date of grant	Scheme	Interest as at 31 Dec 2016	Granted in year	Lapsed in year	Exercised in year	Interest as at 31 Dec 2017	Exercise price per share	Option exercise period
Earl Sibley	24/03/2016	SAYE	4,213	-	-	-	4,213	712.00	06/21 – 12/21
David Ritchie	02/05/2014	SAYE	1,882	-	1,882	-	-	796.95	06/19 – 12/19
	24/03/2016	SAYE	2,106	-	2,106	-	-	712.00	06/21 – 12/21

The Save As You Earn (SAYE) options were granted at a 10% discount (2014 options) and a 20% discount (2016 options) to the prevailing market price on the date of grant. There was no payment required to secure the grant of any share options. There was no change in the terms and conditions of any outstanding options granted under the SAYE Scheme during the financial year. Share options held in the SAYE Scheme, which are not subject to performance conditions, may under normal circumstances be exercised during the six months after maturity of the savings contract.

### Total Shareholder Return performance graph (1)



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

The middle market price of the Company’s shares at 31 December 2017 was £11.72 (2016: £8.20). During the year ended 31 December 2017 the share price recorded a middle market low of £7.60 and a high of £12.13. As at the date of this report the share price stood at £10.685.

### Total CEO remuneration

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

Note: Columns for 2009 to 2016 relate to David Ritchie and that for 2017 relates to Greg Fitzgerald.

### Change in remuneration of CEO

The table below sets out the percentage change in the remuneration awarded to David Ritchie between 2016 and 2017 compared to the average percentage change for employees as a whole.

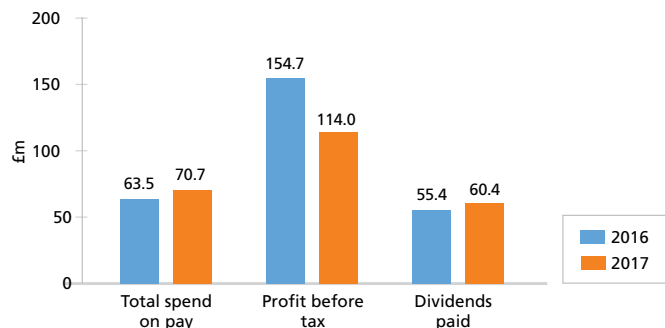
Executive director	Base salary	Benefits	Annual bonus
David Ritchie (resigned 9/01/17)	2.5%	0%	n/a
Employees as a whole	9.04%	0%	*211%

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

# Remuneration report

## Relative importance of spend on pay

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



Notes:

- Total spend on pay in 2016 was £63.5 million and in 2017 was £70.7 million, representing an increase of 11.3%.
- Profit before tax in 2016 was £154.7 million and in 2017 was £114.0 million, representing a reduction of 26.3%.
- Dividends paid to shareholders totalled £55.4 million in 2016 and £60.4 million in 2017, representing an increase of 9.0%.

## Implementation of remuneration policy for the year ending 31 December 2018

Changes in the way that the remuneration policy will be implemented in 2018 versus 2017 are as follows:-

- Base salary increases,
- In the annual bonus, the addition of operating margin and legal completion profile measures, (to sit alongside the profit before tax and customer satisfaction measures), and the removal of ROCE, build delivery and individual performance measures, together with a rebalancing of the weightings.
- For the LTIP, the financial measures will comprise at least three quarters of awards, as opposed to two thirds, and the HBF Customer Satisfaction rating will make up one quarter. The TSR performance target will be adjusted so that maximum performance is more closely aligned with upper quartile performance of sector peers. The award for the Group Finance Director will include an element linked to the Project 200 Incentive Plan performance measures. These consist of a cash target to be achieved by 31 December 2018 and net capital employed targets to be maintained over 2019 and 2020, calculated based on the closing position as at 31 December 2018. The cash target range is currently confidential, although the threshold is £190 million, and the targets will be fully disclosed in our 2019 and 2020 directors' remuneration reports.

## Executive directors' base salaries and benefits

The salaries of the executive directors with effect from 1 January 2018 were as follows

Executive directors	Position	2018 base salary	% increase from 2017
Greg Fitzgerald (appointed 18/04/17)	CEO	£666,250	2.5%
Earl Sibley	GFD	£325,000	8.3%

The salary of Greg Fitzgerald, the Chief Executive, was increased by 2.5%, in line with the wider employee population.

The Committee carefully considered the increase for Earl Sibley, in line with the phased approach set out in the 2015 Remuneration Report, and on which shareholders were previously consulted. In summary, Earl Sibley was appointed in April 2015 on a salary of £250,000 with the expectation that his salary would be increased to an appropriate market rate for a strongly performing experienced individual over the first three years of service, subject to individual performance and increased experience. In view of the ongoing strong performance delivered by Earl Sibley, his pace of development, increased level of experience and his contribution to the Group, including a period as Interim Chief Executive, the Committee decided to progress his salary by 8.3% for 2018, following the increase of 9.1% for 2017 and 10% for 2016. This is the final stage of the phased approach and the Committee considers that it has contributed to his being fully motivated to meet the challenges in continuing to deliver operational improvement and the Group's strategy to the benefit of shareholders.

An allowance of just over 3% of salary roll was provided for general staff increases.

Benefits will continue on the same basis as for 2017.

## Approach to annual bonus

Following the regular annual review, the Committee determined that, having focussed particularly in 2017 on operational delivery and customer satisfaction, the annual bonus scheme for 2018 should be adjusted to align more with our medium term targets, whilst at the same time maintaining focus on strong operational delivery and high levels of customer satisfaction. The Committee has, therefore, adjusted the balance of financial and non-financial metrics from 50%:50% to 60%:40% and has introduced an operating margin measure in place of the ROCE measure and a legal completion profile measure in place of the quantifiable build programme delivery measure. The weightings for the performance measures have also been rebalanced. There is no change to quantum.

Measure	2017 Weighting (as a % of maximum)	2018 Weighting (as a % of maximum)
Profit before tax	20%	40%
ROCE	30%	n/a
Operating margin	n/a	20%
<b>Financial measures</b>	<b>50%</b>	<b>60%</b>
Customer satisfaction (HBF survey score)	20%	20%
Build programme delivery	20%	n/a
Legal completion profile	n/a	20%
Individual performance	10%	n/a
<b>Non-financial measures</b>	<b>50%</b>	<b>40%</b>

Margin improvement is seen as critical to achieving our medium term targets for both ROCE and operating margin and the legal completion profile measure is designed to deliver more controlled phasing of completions across the year, and to drive a progressive build profile across sites and operating efficiency. The profit measure will also link to the controlled phasing of activity across the year, as measured by the legal completion profile measure, so that, should the pay-out for the legal completion measure be below 10%, the profit measure will be subject to an equivalent reduction (e.g. the legal completion profile pays out 8%; the profit measure is reduced by 2%). The operational gateway relating to the Home Builders Federation ("HBF") survey score customer satisfaction measure continues to apply, such that at least 70% customer satisfaction must be achieved before any of the bonus measures can pay out, as opposed to only the financial measures.

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

# Remuneration report

The Committee has decided not to disclose the detail of performance targets in advance as they are considered commercially sensitive, being closely indicative of the Group's strategy, but will disclose them retrospectively in the 2018 annual remuneration report. The 2018 performance measures and weightings are described below.

Measure	Rationale / link to strategy	% weighting
<b>Financial measures (60%)</b>		
Profit before tax	Explicitly ties reward to financial performance. Challenges management to deliver and out-perform profit target, with a link to the controlled phasing of completions.	40%
Operating margin	Aligns the way the business is managed with interests of shareholders in challenging management to increase operating margin and hence profitability.	20%
<b>Non-financial measures (40%)</b>		
Legal completion profile	Improving build operating practices and delivering quality homes in a phased completion profile is key to operational efficiency, customer satisfaction, reputation and future success. Measured by delivery against the legal completion profile agreed as part of the annual business plan.	20%
Customer satisfaction	Quality of service is key to reputation and future success, both in terms of customer demand and achieved selling prices. Measured by the HBF survey score for legal completions between 1 October 2017 and 30 September 2018.	20%
<b>Total opportunity</b>		<b>100%</b>

## Approach for Long Term Incentive Plan awards

The key features of the long term incentive arrangements (as outlined on page 85) are expected to remain the same as those for 2017. The financial measures will comprise at least three quarters of awards, as opposed to two thirds, and the HBF Customer Satisfaction rating, which is independently and objectively assessed, will make up the balance. The TSR performance target will be adjusted so that maximum performance, intended to reflect upper quartile performance against an index of the UK's leading housebuilders, is set at annualised median of the index, plus 7.5%.

Provisions that enable the withholding of payment or the recovery of sums paid (malus and clawback) can apply in certain circumstances as set out in the policy report. Malus can apply prior to the award vesting date and clawback can apply for a two year period thereafter. A two year holding period following vesting extends to five years the time between awards being granted and when they can be exercised.

As noted on page 79, the Project 200 Incentive Plan was implemented for members of the executive management team during 2017. The Plan has been designed to support our programme of balance sheet optimisation and reduction in capital employed which, in turn, will create the potential to return capital to shareholders in the form of special dividends. The CEO does not participate in the Plan. However, the Committee recognised that the Plan would require specific AGM approval to enable Earl Sibley to participate. Following extensive consultation and having considered the views of shareholders, the Committee decided that it would instead make an exceptional award of a further 75% of basic salary under the LTIP to incentivise Earl's vital contribution as a leader in influencing the change of mindset the Plan is designed to achieve and in taking charge of many of the specific cash initiatives that form part of the programme of balance sheet optimisation and the Group's strategy of achieving a material improvement in the Group's Return on Capital Employed. Achievement against this exceptional element will be entirely measured against the same cash generation and capital employed metrics as adopted within the Project 200 incentive Plan. The exceptional award will only vest if at least £190m of additional cash is realised from specific cash initiatives of the Group by the end of 2018. The specific cash target range is currently confidential and will be fully disclosed in the 2019 directors' remuneration report. Additionally, the exceptional award will only vest if the lower levels of capital employed at December 2018 are maintained through the subsequent two balance sheet dates. The capital employed targets will be disclosed in the 2019 and 2020 directors' remuneration reports and will be consistent with the Group's objective of delivering circa 25% Return on Capital Employed by 2020. Although sub-optimal from the Committee's perspective in not aligning Earl with senior management below the Board via participation in the Project 200 Incentive Plan, it considered the granting of an exceptional LTIP award justified given the potential to enhance shareholder value through special dividends and an improved Return on Capital Employed.

## Pensions

Pension arrangements (as outlined on page 86) will continue on the same basis as in 2017. The defined benefit scheme closed to future accrual on 28 February 2018.

## Non-executive directors' remuneration

The fees for the non-executive director positions for 2018 are set out below (unchanged from 2017).

Role	2017	2018
Chairman fee	£170,000	£170,000
Deputy Chairman fee	£70,000	£70,000
Non-executive director base fee	£49,000	£49,000
Additional fees:		
Audit Committee chair	£9,000	£9,000
Remuneration Committee chair	£9,000	£9,000

The fees for the Deputy Chairman and the other non-executive directors were increased to their current levels with effect from 1 January 2017, following a review which took into account competitive positioning, responsibilities, time commitment for the roles and the size and complexity of the Company. The fees for non-executive directors will next be reviewed with effect from 1 January 2019.

## Remuneration of senior management and other below board employees

In addition to responsibility for executive directors, the Committee is also involved in consideration of the remuneration arrangements for the Executive Leadership Team below the Board, in conjunction with the Chief Executive. Alignment is delivered by ensuring that senior management and executive directors participate in the same bonus and incentive schemes as far as possible, with similar performance measures and targets.

## The Remuneration Committee

### Committee membership and meetings

All members of the Committee are independent non-executive directors who have no personal financial interest, other than as shareholders, in the matters to be decided. Biographical details are provided on pages 58 to 59.

Name	Date of appointment	Role	Attendance at meetings
Alastair Lyons (appointed Chairman 16/05/14)	01/10/2008	Chairman	11/11
Chris Browne	01/09/2014	Member	10/11
Ralph Findlay	07/04/2015	Member	11/11
Nigel Keen	15/11/2016	Member	10/11
Mike Stansfield	28/11/2017	Member	1/1

The Committee met eleven times in 2017. In addition to the key activities and decisions mentioned in the introduction to this report, the Committee reviewed the remuneration policy, approved the directors' remuneration report for inclusion in the 2016 Annual Report and reviewed feedback from shareholders and institutions, approved the vesting of 2014 CSOP options, approved the 2017 offer of the SAYE scheme, and reviewed the Committee's terms of reference. An external evaluation of the Committee's performance during 2017 was completed as part of the independent Board evaluation and it was found to be performing effectively and fulfilling its remit, but would benefit from greater support from HR and more frequent advisor attendance at meetings.

The Committee starts its meetings without executive management present when it wishes to do so. During 2017, the Committee asked Ian Tyler (Chairman), Greg Fitzgerald (Chief Executive), and Earl Sibley (Group Finance Director) to attend meetings and assist its discussions. This excluded matters connected to their own remuneration, service agreements or terms and conditions of employment. The Committee takes care to recognise and manage conflicts of interest when receiving views from executive directors or senior management and no director or senior executive is involved in any decisions regarding their own remuneration.

The Group Company Secretary acts as secretary to the Committee.

# Remuneration report

## Advisers to the Committee

Deloitte LLP were appointed advisers to the Committee in August 2009. Deloitte provide independent advice on all aspects of executive remuneration and attend Remuneration Committee meetings when invited by the Chairman of the Committee. The Committee reviews the advice, challenges conclusions and assesses responses from Deloitte to ensure objectivity and independence. Deloitte did not provide any other services to the Company during the period. Deloitte are a founder member of the Remuneration Consultants Group and have signed the voluntary Code of Practice for remuneration consultants. The fees paid to Deloitte for services provided in 2017 were £56,485 (2016: £26,160).

## Shareholder voting at the 2017 AGM and GM

At the AGM held on 2 May 2017, shareholder proxy voting on the directors' remuneration report for the year ended 31 December 2016 and directors' remuneration policy was as follows:

Resolution	For	%	Against	%	Total votes	Withheld <sup>(1)</sup>
Directors' remuneration report 2016	93,649,076	90.13	10,252,847	9.87	103,901,923	4,338
Directors' remuneration policy	95,683,008	97.05	2,911,577	2.95	98,594,585	5,311,610

Greg Fitzgerald's Recruitment Award and 2017 Bonus were approved separately by shareholders at the General Meeting held on 2 May 2017 and shareholder proxy voting was as follows:

Resolution	For	%	Against	%	Total votes	Withheld <sup>(1)</sup>
Recruitment award and 2017 Bonus	90,030,489	86.88	13,589,988	13.12	103,620,477	3,186

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

The Company is committed to ongoing shareholder dialogue and seeks to understand any concerns investors may have. Should there be a significant level of votes against resolutions relating to directors' remuneration, the Company will seek to understand the reasons for this and will set out any actions taken in response.

By order of the Board

**Alastair Lyons**

Chairman of the Remuneration Committee

1 March 2018

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



The full remuneration policy is contained in the 2016 Annual Report and available at [www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk).

### Components of the remuneration framework for executive directors

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

#### Fixed pay

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

# Remuneration report

## Variable pay

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<p><b>Annual bonus</b></p> <p>To incentivise and reward the delivery of near term business targets and objectives.</p>	<p>The annual bonus scheme is a discretionary scheme and is reviewed prior to the start of each financial year to ensure that it appropriately supports the business strategy.</p> <p>Performance measures and stretching targets are set by the Committee.</p> <p>Bonuses are normally paid in cash. In any year in which no dividend is proposed discretion may be exercised to pay part, or all, of the bonus in ordinary shares, deferred for two years.</p> <p>Actual bonus amounts are determined by assessing performance against the agreed targets after the year end. The results are then reviewed to ensure that any bonus paid accurately reflects the underlying performance of the business.</p> <p>Clawback provisions can be applied for a period of two years from the bonus payment date in certain circumstances, including a material misstatement, serious misconduct, a material failure of risk management or serious reputational damage to any Group company.</p>	<p>The annual bonus scheme offers a maximum opportunity of up to 100% of base salary. Achievement of stretching performance targets is required to earn the maximum.</p>	<p>Performance measures are selected to focus executives on strategic priorities, providing alignment with shareholder interests and are reviewed annually.</p> <p>Weightings and targets are reviewed and set at the start of each financial year.</p> <p>Financial metrics will comprise at least 50% of the bonus and are likely to include one or more of:</p> <ul style="list-style-type: none"> <li>• a profit based measure</li> <li>• a cash based measure</li> <li>• a capital return measure</li> </ul> <p>Non-financial metrics, key to business performance, will be used for any balance. These may include measures relating to build quality and customer service.</p> <p>Overall, quantifiable metrics will comprise at least 70% of the bonus.</p> <p>Below threshold performance delivers no bonus and target performance achieves a bonus of 50% of base salary.</p>
<p><b>Long Term Incentive Plan (“LTIP”)</b></p> <p>To incentivise, reward and retain executives over the longer term and align the interests of management and shareholders.</p>	<p>Typically, annual awards are made under the LTIP. Awards can be granted in the form of nil-cost options, forfeitable shares or conditional share awards.</p> <p>Performance is measured over a performance period of not less than three years. LTIP awards do not normally vest until the third anniversary of the date of the grant.</p> <p>Vested awards are then subject to a two year holding period. For nil-cost options this will be a prohibition on exercise until the end of the holding period.</p> <p>Awards may be granted with the benefit of dividend equivalents, so that vested shares are increased by the number of shares equal to dividends paid from the date of grant to the date of exercise.</p> <p>Malus provisions can be applied to awards prior to the vesting date and clawback provisions can be applied for two years thereafter in certain circumstances, including a material misstatement, serious misconduct, a material failure of risk management or serious reputational damage to any Group company.</p>	<p>The maximum annual award, under normal circumstances, is as follows:</p> <ul style="list-style-type: none"> <li>• 150% of base salary for the CEO.</li> <li>• 125% of base salary for the GFD.</li> </ul> <p>In exceptional circumstances an award may be granted under the LTIP rules up to 200% of base salary.</p>	<p>The performance measures applied to LTIP awards are reviewed annually to ensure they remain relevant to strategic priorities and aligned to shareholder interests.</p> <p>Weightings and targets are reviewed and set prior to each award.</p> <p>Performance measures will include long term performance targets, of which financial and / or share price based metrics will comprise at least two thirds of the award. Quantifiable non-financial metrics, key to business performance, will be used for any balance.</p> <p>Any material changes to the performance measures from year to year would be subject to prior consultation with the Company’s major shareholders.</p> <p>Below threshold performance realises 0% of the total award, threshold performance realises 30% and maximum performance realises 100%. The Committee may adjust downwards the number of shares realised in the event that the formulaic outcome does not, in its opinion, reflect the underlying financial performance of the Company.</p>

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

*Notes to the policy table*

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

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

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

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

*(i) before the policy came into effect; or*

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

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

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

# Audit committee report



**Ralph Findlay**  
Committee Chairman

## Overview

During the year, the Committee reviewed the integrity of the Group's financial statements, with focus on significant areas of judgement, and kept operating, financial and accounting practices under review.

The system for internal control, financial reporting and risk management was monitored and its effectiveness reviewed in the context of the Group's operational performance and its operational and strategic priorities. Reporting from management, Internal Audit and the external auditor was openly debated, testing conclusions and audit outcomes and judgements. Focus on the effectiveness of the Group's Internal Audit function continued, with a new Head of Internal Audit & Risk commencing in early 2017 and co-ordinating the co-sourced arrangement put in place in 2016. The overall review of risk management was progressed through the Risk Governance Committee.

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

## Committee membership and meetings

The Committee comprised four independent non-executive directors until 28 November 2017, when the number increased to five. Between them they have the recent and relevant experience required by the UK Corporate Governance Code and as a whole they have competence relevant to the sector in which the Company operates. Biographical details and information on skillsets are provided on pages 58 and 59.

Committee membership is determined by the Board following recommendation from the Nomination Committee and is reviewed as part of the Committee's performance evaluation. Mike Stansfield became a member of the Committee on his appointment as a non-executive director on 28 November 2017.

The Company Chairman and Group Finance Director were present at all meetings in 2017 and the new Chief Executive attended three meetings, all by invitation. The external auditors, PricewaterhouseCoopers LLP, attended three meetings and Grant Thornton UK LLP attended one meeting as co-sourced Internal Audit provider. The newly appointed Head of Internal Audit & Risk and the Executive Director attended two meetings each and the Group Financial Controller attended three meetings.

The Committee met four times in 2017 and detailed papers and information were received sufficiently in advance of meetings to allow proper consideration of matters for discussion. The Committee also met with the external auditors, without executive management present, at the end of three meetings and with the Head of Internal Audit & Risk at the end of two meetings. These discussions continued to focus on opportunities for improvement in the control environment. Ralph Findlay met privately with the audit engagement partner of the external auditors during the year. The Group Company Secretary acts as secretary to the Committee. An overview of the main activities during 2017 is provided below.

---

***"The Committee is satisfied with the progress made in improving the control environment in 2017"***

---

Name	Date of appointment	Role	Attendance at meetings
Ralph Findlay (appointed Chairman 15/05/15)	07/04/2015	Chairman	4/4
Alastair Lyons	01/10/2008	Member	4/4
Chris Browne	01/09/2014	Member	4/4
Nigel Keen	15/11/2016	Member	3/4
Mike Stansfield	28/11/2017	Member	1/1

## Responsibilities and terms of reference

The key responsibilities of the Committee are:

- Monitoring the integrity of the financial statements, the accompanying reports to shareholders and corporate governance statements, including reviewing the findings of the external auditor.
- Reviewing and monitoring the effectiveness of systems for internal control, financial reporting and risk management.
- Overseeing and reviewing the effectiveness of Internal Audit.
- Making recommendations to the Board in relation to the appointment and removal of the external auditor and approving their remuneration and terms of engagement.
- Reviewing and monitoring the external audit process and the independence and objectivity of the auditor, as well as the nature and scope of the external audit and its effectiveness.
- Developing the policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance.

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

## Main activities during the year

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

- Discussed with the external auditors the key accounting considerations and judgements reflected in the Group's results for the year ended 31 December 2016.

- Reviewed the 2016 annual report and accounts, so as to recommend to the Board that, taken as a whole, it was fair, balanced and understandable.
- Assessed the results and effectiveness of the 2016 final audit.
- Reviewed and discussed with the external auditor the key accounting considerations and judgements reflected in the Group's results for the six months ended 30 June 2017.
- Evaluated and agreed the external auditor's audit strategy memorandum in advance of the 2017 year-end audit.
- Received reports from Internal Audit (further detail below).
- Assessed the co-sourced Internal Audit providers' full audit plan for 2017.
- Reviewed and assessed the Group's risk appetite.
- Assessed progress with the overall review of risk management and the work being completed by the Risk Governance Committee, including review of minutes.
- Reviewed the effectiveness of the system of internal control and risk management systems and monitored progress in the delivery of improvement in the control environment.
- Completed an assessment of anti-bribery, fraud risk and anti-fraud measures.
- Monitored progress with the IT security review and further steps to be taken.
- Reviewed management's going concern assessment at each reporting period end, considering detailed financial forecasts, future cash flow projections and the resources available to the Group, including the current banking facility and forecast covenant compliance.
- Reviewed management's viability assessment for the year end reporting period covering strategic planning, principal risks, detailed financial forecasts, resources available to the Group, scenario testing, qualifications and assumptions and the period chosen.

- Reviewed the Company's whistleblowing policy and arrangements.
- Reviewed the Committee's terms of reference.

Reports were received from Internal Audit covering various aspects of the Group's regional operations, controls and processes. Progress with regional reviews was monitored throughout the year and reports considered, with many findings being common across the regions and related to steps being taken to improve the control environment, including a quarterly self-assessment process. Early in 2017, a review was completed on customer payments by Grant Thornton for review by the Committee, with the vast majority being found to relate to compensation arising from build delivery being later than anticipated and completion dates being moved.

In August 2017, the Committee discussed the outputs to date from the 2017 Internal Audit plan with emphasis on a remediation strategy to overcome inconsistencies across the Group in relation to key processes.

In December 2017, the Committee reviewed outputs from the completed Internal Audit plan, with discussion focussing on the improvement of build and cost forecasting processes and controls. In addition, time was spent reviewing the wider change programme taking place within the Group to agree a common approach and ensure improved coordination.

Whistleblowing was also discussed in light of a substantial increase in the number of reported cases and subsequent investigations. The Group operates a confidential reporting service run by an external provider and investigations are completed by independent resource within the Group. Eleven cases were raised during 2017, with the majority in the second half following a concerted awareness campaign that will continue throughout 2018. The Committee remains committed to ensuring that the whistleblowing facility is well publicised throughout the Group and will continue to monitor reporting and investigations to ensure that appropriate action is taken and cases are closed out on timely basis.

# Audit committee report

At its meeting in February 2018, the Committee discussed with the external auditor the key accounting considerations and judgements reflected in the Group's results for the year ended 31 December 2017 and reviewed the 2017 Annual Report and Accounts, to be able to recommend to the Board that, taken as a whole, it was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy. The approach taken was to analyse key areas of progress and challenge during the year, followed by reviewing the 2017 annual report and accounts to ensure that all key areas had been reported upon in a balanced and fair way.

## Significant areas

The key accounting judgements considered by the Committee in relation to the 2017 accounts and discussed with the external auditors, were:

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

The Committee receives a regular report on this provision, updated by management, at relevant Committee meetings. At this year end the report proposed an adjustment of £4.2m, which included a provision of £3.3m for out of operating area sites and had been audited by the external auditors. The written down sites, and adjustments proposed were discussed and justified by management and the land write down provision remaining at the period end (£5.5 million) was reviewed, together with the profit attributable to the reversal of the provision on the sale of written down units during the year, which was not considered to be material.

Following discussion, the Committee was satisfied that the judgements exercised were appropriate and that the provision was appropriately stated at the year end. Details of the movements in the provision are provided in note 3.1 to the accounts on pages 123 to 124.

- Margin recognition - the gross margin from revenue generated on each individual site within the year is based on the latest forecast for the gross margin expected to be generated over the life of that site. The remaining life gross margin is calculated using forecasts for selling prices and all land, build, infrastructure and overhead costs associated with that site. The assessment of house prices and cost to complete is based on the specific details of each site and incorporates certain assumptions and judgements by management. The level of profit recognised in the income statement is monitored throughout the year via the Group's usual budgeting, forecasting and management accounts reporting. The methodology adopted and the Group's performance to date against expectations had been audited by the external auditors.
- Customer care provision - following legal completion, the Group provides a two year warranty that covers any defects which arise during that period. The level of provision per completion is based on actual costs incurred over the preceding twelve months. Judgement is applied in determining whether this level of provision is sufficient, or whether it should be adjusted to reflect the level of outstanding customer rectification works at the balance sheet date.

## External auditors

PricewaterhouseCoopers LLP (PwC) were appointed as external auditor at the 2015 AGM, following the completion of a competitive audit tender process supervised by the Committee. In doing so, the Committee complied with the provisions of the Competition & Markets Authority Order, including the appointment of the auditor to audit and non-audit services. Our 2018 AGM Notice contains a resolution for the re-appointment of PwC as auditors to the Company. In making this recommendation, the Committee took into account, amongst other matters, the independence and objectivity of PwC, the effectiveness of the external audit process and cost. There are no contractual restrictions on the choice of external auditor. The AGM Notice also contains a resolution to give the directors authority to determine the auditor's remuneration, which provides a practical flexibility to the Committee.

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

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

At its meeting in February 2018, the Committee reviewed the effectiveness of the external audit process as part of its consideration of the 2017 final audit. This involved assessing delivery and content against the audit plan for the 2017 year end audit, including determination of audit risks and significant areas of judgement, consideration of the performance and communication of the audit team, and the quality of reporting, observations, recommendations and insight. It also included reviewing comprehensive papers from the external auditors, discussing and challenging their conclusions and audit judgements and assessing responses from the external auditor. Lastly, feedback was taken on the effectiveness and conduct of the audit from those involved, including feedback from the regional businesses on visits to the regions, which was positive.

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

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

The related fee level, both separately and relative to the audit fee is also considered. For an analysis of fees paid to PwC for audit services see note 2.1 on page 122. There were no non-assurance services provided by PwC during the year, beyond a de-minimis technical accounting subscription service.

### Internal Audit

Towards the end of 2016, a tender for co-sourced Internal Audit services was completed, which resulted in the appointment of Grant Thornton to provide the expertise and experience necessary to support the delivery of effective Internal Audit services and to assist in securing improvement in the control environment. In early 2017, a Head of Internal Audit & Risk was appointed to lead the function and coordinate the co-sourced provision through Grant Thornton. Internal Audit & Risk was further strengthened during 2017 with an additional team member joining to ensure an improved balance between the internal resource and co-sourced expertise. The Committee has reviewed the progress being made to enhance the effectiveness of the work of Internal Audit and the profile of the Risk Governance Committee in identifying and mitigating threats to the business. Overall, the Committee is satisfied with the progress made and the plan for future improvements in the control environment and risk management during 2018.

### Performance evaluation

An evaluation of the performance of the Committee was completed as part of the external independent performance evaluation of the Board, completed at the end of 2017. The Committee is considered to be gaining in effectiveness and to be making good progress in driving improvements around audit and risk. The Chairman has brought focus and rigour to the Committee and displays a good balance between the technical skills required and ability to challenge. The agenda is well managed, items are allowed sufficient time for discussion, and Committee members also present the right level of challenge. Areas for improvement have been identified, principally related to moving the level of assurance that the Committee receives and can give to a higher level.

The attendance of functional team leaders and risk owners at Committee meetings, with the Head of Internal Audit & Risk, is also to be considered to allow more direct interaction.

The Committee also undertook an assessment of the effectiveness of the external auditor and the Group's Internal Audit function. Building on effective working relationships and having gained a strong understanding of the Group's business, the Committee considers PwC to have carried out a high quality and thorough audit in the third year since appointment. The Committee was satisfied with the scope of the external audit and, having reviewed all services provided to the Group by PwC, that they demonstrate independence. The Committee believes the external audit to be effective. Regarding Internal Audit, the Head of Internal Audit & Risk, appointed to lead the function and coordinate the co-sourced provision, is considered to have made significant progress, establishing credibility through the business, identifying risk and control weaknesses, producing clear and well-articulated reports for Committee review and supporting an improvement in processes and controls. The Committee has also kept the effectiveness of the co-sourced approach under review during 2017 and intends to continue with it in 2018. Whilst further improvement in the control environment is needed, the Committee is satisfied with the progress made and the plan for 2018.

**Ralph Findlay**  
Chairman of the Audit Committee

1 March 2018

# Nomination Committee report



## Ian Tyler

Committee Chairman

### Overview

During 2017, the Committee continued to place emphasis on the knowledge, skills and experience available to the Board, taking account of future challenges, the nature of the business and its recent past.

The recruitment of a new Chief Executive was a turning point and Board composition has been a key consideration. The search for a non-executive director with in-depth housebuilding experience culminated in Mike Stansfield joining the Board in November 2017. Succession planning was kept under review for the non-executives, with diversity naturally part of this oversight, and a succession planning exercise for executive management was initiated for Board review. The Committee will continue to monitor the balance and composition of the Board as the future direction of the Group unfolds. Information on the Board's skillset is set out on pages 58 to 59, together with biographies.

Following focus on the appointment of a new Chief Executive, the Committee has kept the composition of the Board under review, maintained its concentration on succession planning and made one nomination for appointment to the Board.

### Committee membership and meetings

All members of the Committee are independent non-executive directors, with the exception of the Chairman of the Company. Ian Tyler chaired the Committee during the year and the other members were Alastair Lyons, Chris Browne, Ralph Findlay, Nigel Keen and Mike Stansfield (from 28 November 2017).

Name	Date of appointment	Role	Attendance at meetings
Ian Tyler	29/11/2013	Chairman	6/6
Alastair Lyons	01/10/2008	Member	6/6
Chris Browne	01/09/2014	Member	6/6
Ralph Findlay	07/04/2015	Member	6/6
Nigel Keen	15/11/2016	Member	6/6
Mike Stansfield	28/11/2017	Member	1/1

The Committee met six times in 2017, with the key focus in the first part of the year being on the recruitment of a new Chief Executive and Board composition. Following the Committee's contribution, Greg Fitzgerald was appointed Chief Executive by the Board with effect from 18 April 2017. Planning then began for the retirement of A D Lyons at the 2018 AGM and for the recruitment of a non-executive director with direct experience of housebuilding. The recruitment was progressed and monitored and culminated in a recommendation to the Board that Mike Stansfield, who has a strong housebuilding industry background, be appointed. Planning for non-executive director succession continued and it was recommended that R G Findlay be appointed the Senior Independent Director from the conclusion of the 2018 AGM. The Committee also scoped a detailed succession planning exercise for executive management and the results were presented to and discussed by the Board in December 2017. In addition, the Committee reviewed the diversity policy and approved a new service contract for non-executive director Chris Browne. For all meetings, papers and supporting documentation were circulated in advance, allowing proper consideration of matters for discussion.

The Chief Executive attended three meetings and the Group Finance Director attended four meetings, both by invitation. The Group Company Secretary acts as secretary to the Committee.

### Responsibilities and terms of reference

The key responsibilities of the Committee are:

- Reviewing the structure, size and composition of the Board (including skills, knowledge, experience and diversity) and making recommendations to the Board.
- Considering succession planning for directors and senior executives, taking account of the challenges and opportunities facing the Company and the skills and expertise needed in the future.
- Monitoring the leadership needs of the Company and leading the process for Board appointments, ensuring they are conducted on merit, against objective criteria, including diversity, using the services of an appropriate external search consultant.



- Making recommendations to the Board, including on the re-appointment of non-executive directors, the re-election of directors at the AGM, and membership of the Audit and Remuneration Committees.

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

### Main activities during the year

The main activities during the first part of 2017 were focused on the recruitment of a new Chief Executive and Board composition. Having initiated a search for a candidate with in-depth housebuilding experience, the Committee recommended the appointment of Mike Stansfield as a non-executive director. Mike's appointment took place with effect from 28 November 2017. A formal, comprehensive and tailored induction is being provided for Mike, including visits to the regional offices, site visits, meetings with senior management, and briefings on specific topics. Succession planning then received focus for both the non-executives and executive management.

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

### A summary of the Committee's activities during 2017 follows:

- Providing support to the search for the new Chief Executive.
- Keeping the structure, size and composition of the Board under review, concluding that the Board balance and composition should be supplemented by an additional non-executive director with strong housebuilding experience.
- Running the recruitment process for a new non-executive director, using objective criteria and the external search services of The Zygos Partnership (who have no other connection with the Company), including recommendation of appointment to the Board.
- Considering succession planning for the non-executive directors, with a view to future requirements.
- Scoping a succession planning exercise for executive management for Board review.
- Reviewing the Board's diversity policy.
- Recommending the directors to stand for re-election at the 2017 AGM in accordance with the UK Corporate Governance Code.
- Approving the Nomination Committee report for the 2016 Annual Report.
- Reviewing the Committee's terms of reference.
- Setting a Committee timetable for 2018.

The principle of boardroom diversity is strongly supported and the Committee reviewed the diversity policy, first published in September 2011. The policy sets out that appointments to the Board will always be based on merit, so that the Board has the right individuals in place with a blend of abilities, views and backgrounds. It also explains that diversity is seen as an important consideration as part of the objective criteria used to assess candidates to achieve a balanced board. The decision was taken not to set measurable objectives and the Committee continues to consider boardroom diversity in all its succession planning discussions.

### Performance evaluation

An evaluation of the performance of the Committee was completed as part of the external independent performance evaluation of the Board, completed at the end of 2017. The Committee was found to be effective, within its current scope, but should expand its scope with deeper consideration of board shape and composition relative to strategy and succession planning, including diversity.

**Ian Tyler**

Chairman of the Nomination Committee

1 March 2018

The directors have pleasure in submitting their annual report for the year ended 31 December 2017.

## Other disclosures made in the Annual Report

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

Subject	Pages
Likely future developments in the business	12 to 15
Important events since the year end	146
Going concern statement	28
Directors' interests	87
Employee involvement / employment of disabled persons	38 to 41
Greenhouse gas emissions	48
Corporate governance report	60 to 75
Directors' remuneration	78 to 97
Subsidiaries and associated undertakings	140 to 141

A final dividend of  
**32.5p**  
 (2016: 30.0p)  
 is proposed

## Research and development

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

## Disclosure of information under Listing Rule 9.8.4R

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

## Annual General Meeting

Notice of the 2018 Annual General Meeting to be held on Wednesday, 23 May 2018 is set out on pages 150 to 153. Members wishing to vote should return forms of proxy to the Company's Registrar not less than 48 hours, (excluding non-working days), before the time for holding the meeting.

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

## Directors

Details of the directors are shown on pages 58 to 59.

Mike Stansfield was appointed as an independent non-executive director on 28 November 2017.

In accordance with the UK Corporate Governance Code, all the directors, with the exception of Alastair Lyons, will retire at the 2018 Annual General Meeting and, being eligible, offer themselves for re-appointment. Alastair Lyons will retire from the Board at the Company's 2018 Annual General Meeting on 23 May 2018, having completed nine years as a non-executive director since the date of his first election.

Details of directors' pay, pension rights, service contracts and directors' interests in the ordinary shares of the Company are included in the Directors' Remuneration Report on pages 78 to 97.

## Dividends

An interim dividend of 15.0p (2016: 15.0p) per share was paid on 17 November 2017. The Board proposes to pay, subject to shareholder approval at the 2018 Annual General Meeting, a final dividend of 32.5p (2016: final dividend of 30.0p) per share in respect of the 2017 financial year on 25 May 2018 to shareholders on the register at the close of business on 3 April 2018. On this basis, the total dividend for 2017 will be 47.5p (2015: 45.0p), representing an increase of 5%.

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

Directors' names and functions are listed on pages 58 to 59



Notice of the 2018 Annual General Meeting pages 150 to 155



## Directors' indemnities

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

David Ritchie was a director of Bovis Homes Pension Scheme Trustee Limited (the "Pension Trustee") until 9 January 2017. The Company's subsidiary, Bovis Homes Limited, has granted a qualifying pension scheme indemnity to the directors of the Pension Trustee to the extent permitted by law in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Pension Trustee.

## Powers of the directors

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

## Articles of Association

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

## Share capital

The Company has a premium listing on the London Stock Exchange. As at 1 March 2018, its share capital comprised 134,670,804 fully paid Ordinary Shares of 50 pence each. At the Company's 2017 AGM, the directors were authorised to:

- allot shares in the Company or grant rights to subscribe for, or convert, any security into shares up to an aggregate nominal amount of £22,397,969;
- allot shares up to an aggregate nominal amount of £44,795,939 for the purpose of a rights issue; and
- make market purchases up to 13,452,234 shares in the Company (representing approximately 10% of the Company's issued share capital at the time).

Shareholders will be asked to renew similar authorities at the 2018 AGM.

During the year the Company allotted 142,679 shares in connection with the exercise of options under the Company's employee share plans. The Employee Benefit Trust purchased 275,000 shares during the year.

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

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

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

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

Shareholders may receive a dividend and on a liquidation may share in the assets of the Company. None of the ordinary shares of the Company, including those held by the Company's share schemes, carry any special rights with regard to control of the Company. Employees participating in the Bovis Homes Group Share Incentive Plan may direct the trustee to exercise voting rights on their behalf at any general meeting but are not required to do so.

The instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve. The Board may refuse to register any instrument of transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. Certain employees and officers of the Company must conform to the Company's share dealing rules; these restrict the ability to deal in the Company's shares at certain times and require permission to deal.

The Board may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

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

An interim dividend of

# 15.0p

(2016: 15.0p)

per share was paid on  
**17 November 2017**

## Substantial shareholdings

As at 31 December 2017, the following interests of 3% or more in the Company's issued share capital had been notified to the Company:

Ordinary shares of 50p each	% direct holding	% indirect holding	% financial instruments	Total number of shares held	% of voting rights of the issued share capital
BlackRock, Inc.	-	7.45	0.51	10,726,928	7.96
Standard Life Aberdeen plc group of companies	-	7.19	-	9,680,972	7.19
Prudential plc group of companies	-	5.11	0.48	7,529,026	5.59
Shroders plc	-	4.96	-	6,680,423	4.96
Royal London Asset Management Limited	4.14	-	-	5,567,004	4.14
Legal & General Group Plc	<3	-	-	-	<3
Norges Bank	<3	-	-	-	<3

Between 1 January and 1 March 2018, the following interests of 3% or more in the Company's issued share capital were notified to the Company:

1 March 2018, Ordinary shares of 50p each	% direct holding	% indirect holding	% financial instruments	Total number of shares held	% of voting rights of the issued share capital
Woodford Investment Management Ltd	5.53	-	-	7,459,000	5.53
Prudential plc group of companies	-	4.73	0.20	6,644,963	4.93
Norges Bank	3.05	-	0.17	4,335,572	3.22

Share capital comprised of

# 134,670,804

fully paid Ordinary Shares

# 50p each

**1 March 2018**

Directors Remuneration Report pages 78 to 97



Notice of the 2018 Annual General Meeting pages 150 to 155



### Takeover directive

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

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

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

### Financial risk management

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

### Political donations

No political donations were made during the year ended 31 December 2017 (2016: nil). The Group has a policy of not making donations to political parties or incurring political expenditure.

### Auditors

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

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

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

Following an audit tender process conducted at the end of 2014, PricewaterhouseCoopers LLP were appointed as auditor at the 2015 AGM. In accordance with the provisions of the Companies Act 2006, resolutions concerning the re-appointment of PricewaterhouseCoopers LLP and their remuneration will be placed before the 2018 Annual General Meeting.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the

financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 58 to 59 of the Annual Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By Order of the Board  
**M T D Palmer**  
 Group Company Secretary  
 1 March 2018

Bovis Homes Group PLC  
 Registered number 306718

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

### Report on the financial statements

#### Our opinion

In our opinion, Bovis Homes Group PLC's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the Group and Company balance sheets as at 31 December 2017; the Group income statement and the Group statement of comprehensive income, the Group and Company statements of cash flows, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 2.1 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2017 to 31 December 2017.

#### Our audit approach

##### Context

Bovis Homes Group PLC is a British housebuilder listed on the London Stock Exchange. The Group is wholly UK based, operating in England and Wales. The Group is dependent on macroeconomic factors as well as the conditions of the UK residential property market. The Group may be particularly adversely affected by any factor that reduces sales prices or transaction volumes or presents constraints in the supply chain in the UK residential property market. This was particularly relevant for our work in the areas of margin forecasting and the valuation of inventory.

## Our audit approach - Overview



- Overall Group materiality: £5.7million (2016: £7.7million), based on 5% of profit before tax.
- Overall Company materiality: £4.7million (2016: £4.0million), based on 1% of total assets.

---

• The Group consists of one main trading entity and is structured into seven regions, being Mercia, West Midlands, Western, South West, Northern Home Counties, South East and Southern Counties. The Group financial statements are a consolidation of these seven regional reporting units and the centralised Group functions.

• We undertook work across the seven regions which together account for 100% of the Group revenue.

- 
- Margin forecasting and recognition (Group).
  - Carrying value of inventory (Group).
  - Valuation of warranty and customer care provision (Group).
- 

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements, including but not limited to, the Companies Act 2006 and the Health and Safety at Work etc Act 1974. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Margin forecasting and recognition</b></p> <p>Refer to page 100 of the Audit Committee Report and page 120 of the financial statements.</p> <p>The Group's margin forecasting and recognition model ("CV model") is based on a number of key assumptions including:</p> <ul style="list-style-type: none"> <li>• Build costs (allocated to each plot on an actual costs basis)</li> <li>• Land costs and central site costs, including infrastructure costs (allocated to each plot based on the Group's site wide margin model)</li> <li>• Sales price (based on a fixed expected sales price for the type and size of property)</li> </ul> <p>Periodic surveyor and financial appraisals are performed to determine the costs to date and work in progress, based upon the stage of completion of each unit. The CV model is updated accordingly.</p> <p>If the overall site is loss making then management consider this as part of the land write down provisioning process.</p> <p>There is uncertainty within the above assumptions from potential changes in the market conditions or unforeseen circumstances. This could result in the forecast assumptions being inaccurate and an incorrect margin being recognised.</p> <p>We consider this to be the most significant financial reporting risk for the Group principally due to the high level of management judgement inherent in the accounting for the Group's developments.</p> <p><b>Group</b></p>	<p>At a regional level we tested managements forecasting and monitoring controls, including observation of a selection of the site review meetings attended by representatives from the Build, Commercial and Finance teams.</p> <p>We selected a sample of cost variations and verified that these have had been appropriately approved.</p> <p>We attended CV counts at a sample of sites which provided evidence over existence of inventory as well as the basis for the valuation of costs incurred.</p> <p>We tested significant underlying assumptions within the CV model and compared the costs recognised and stage complete on key sites to the forecasts. We also understood any significant differences between the forecast cost and actual cost incurred and tested a sample of actual costs incurred and forecast costs to third party support.</p> <p>We also tested that the system correctly recalculated the cost apportionment following cost and stage completion amendments made by management.</p> <p>We have tested a sample of forecast sales prices to the actual sales price attained to support the validity of estimated sales prices in the CV model.</p> <p>Based on the procedures performed, we did not identify any sites where we considered the underlying assumptions in the forecast to be inappropriate.</p>
<p><b>Carrying value of inventory</b></p> <p>Refer to page 100 of the Audit Committee Report and page 120 of the financial statements.</p> <p>Inventory is comprised of land held for development, work in progress (WIP), raw materials and completed plots and part exchange properties.</p> <p>Land held for development and raw materials are held at cost. WIP is made up of the cost of the land being built on, direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Completed plots are held at build cost and part exchange properties are held at the market value determined at the time of exchange.</p> <p>Inventories are stated at the lower of cost and net realisable value ("NRV"), NRV being the estimated net selling price less costs to sell and estimated total costs of completion based on management's forecast.</p> <p>Due to the cyclical nature of the housing industry or issues experienced during the build programme, there is a risk that the NRV of the inventory is lower than cost and therefore inventory is held at the incorrect value.</p> <p><b>Group</b></p>	<p>We attended CV counts at a sample of sites which provided evidence over existence of inventory as well as the basis for the valuation of costs incurred.</p> <p>We tested margins for all major sites to identify those with low or eroding margins, for example due to specific issues or under performance. We discussed the identified sites with management, including considering the level of provisions held against these sites and corroborated the explanations with other external evidence to support the carrying value of inventory.</p> <p>We tested the percentage completion of units across a sample of sites and checked that forecasts have been appropriately updated for costs incurred to date and expected costs to completion.</p> <p>We also assessed the historical accuracy of management's forecasting.</p> <p>We considered the level and ageing of completed but unreserved units and part exchange properties and challenged the recoverability of these assets.</p> <p>We checked that appropriate site acquisition approvals had been obtained for significant sites, which include consideration of site profitability.</p> <p>Based on the procedures performed we did not identify any sites where we determined that additional impairments were required in the year, above those already made by management.</p>



Key audit matter	How our audit addressed the key audit matter
<b>Valuation of warranty and customer care provision</b>	
<p>Refer to page 100 of the Audit Committee Report and page 120 of the financial statements.</p> <p>The Group provides private home buyers with a 2 year warranty against issues arising from a failure to build to accepted standards. As a result of this, the Group maintains a warranty and customer care provision to cover the expected costs of rectifying claims. This provision is based on historical experience of such costs incurred across the Group supplemented by known specific items, and may include compensation costs where considered necessary.</p> <p>Whilst some of the claims are known at the reporting date, there may be others which have either not been notified to the Group or have not yet become visible to customers. As a result there is inherent uncertainty with respect to the completeness and valuation of the estimated provision to remediate these issues.</p> <p><b>Group</b></p>	<p>We have tested a sample of specific items included in the provision to correspondence received from customers, and have corroborated the quantification of amounts provided by management back to supporting documentation or explanations, including evidence of settlement post year end, where available.</p> <p>We have tested the calculation of the historical experience rate by testing the underlying actual costs incurred and the calculation apportioning this to properties sold during the 2 year warranty period.</p> <p>We have tested other directly related costs by corroborating these back to supporting documentation.</p> <p>We have tested the completeness of the provision by tracing back a sample of known/identified claims to their inclusion in the provision calculations.</p> <p>Based on the procedures performed we noted no reasonable likely alternative assumptions that would result in a material change to the provision.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group consists of one main trading entity and is structured into seven regions, being Mercia, West Midlands, Western, South West, Northern Home Counties, South East and Southern Counties. The Group financial statements are a consolidation of these seven regional reporting units and the centralised Group functions.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall Group materiality	£5.7 million (2016: £7.7million).	£4.7 million (2016: £4.0 million).
How we determined it	5% of profit before tax	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax provides us with the most appropriate benchmark given the business' listed status and stakeholder focus on profits	We believe that total assets provides us with the most appropriate benchmark given the business' listed status and stakeholder focus on assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.3 million (Group audit) (2016: £0.3 million) and £0.2 million (Company audit) (2016: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

# Auditors' report

## Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 28 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 28 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 107, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 98 to 101 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' Remuneration

In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 107 the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Consistency of other information and compliance with applicable requirements

### Companies Act 2006 reporting

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

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

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 15 May 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2015 to 31 December 2017.

### Christopher Burns

Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

1 March 2018

## Group income statement

For the year ended 31 December	Note	2017 £000	2016 £000 (restated) see note 2
Revenue	2.0	1,028,223	1,054,804
Cost of sales		(843,572)	(845,775)
<b>Gross profit</b>		<b>184,651</b>	<b>209,029</b>
Administrative expenses before exceptional items		(56,619)	(49,059)
Exceptional administrative expenses	2.1	(6,812)	-
<b>Administrative expenses</b>	2.0	<b>(63,431)</b>	<b>(49,059)</b>
Operating profit before exceptional items	2.1	128,032	159,970
Exceptional items	2.1	(6,812)	-
<b>Operating profit</b>		<b>121,220</b>	<b>159,970</b>
Financial income	4.4	1,337	3,035
Financial expenses	4.4	(8,536)	(8,622)
<b>Net financing costs</b>	4.4	<b>(7,199)</b>	<b>(5,587)</b>
Share of (loss)/profit of Joint Ventures	5.5	(20)	331
<b>Profit before tax</b>		<b>114,001</b>	<b>154,714</b>
Income tax expense	5.1	(22,706)	(33,866)
<b>Profit for the year attributable to ordinary shareholders</b>		<b>91,295</b>	<b>120,848</b>
<b>Earnings per share (pence)</b>			
Basic	2.3	68.0p	90.1p
Diluted	2.3	67.8p	90.0p

## Group statement of comprehensive income

For the year ended 31 December	Note	2017 £000	2016 £000
<b>Profit for the year</b>		<b>91,295</b>	<b>120,848</b>
<b>Other comprehensive income /(expense)</b>			
<i>Items that will not be reclassified to the income statement</i>			
Remeasurements on defined benefit pension scheme	5.7	9,286	(14,107)
Deferred tax on remeasurements on defined benefit pension scheme	5.1	(1,630)	2,624
<i>Items reclassified to the income statement</i>			
Available for sale reserve reclassified on disposal		1,696	-
Deferred tax on available for sale reserve movement	5.1	(288)	-
<b>Total comprehensive income for the year attributable to ordinary shareholders</b>		<b>100,359</b>	<b>109,365</b>

## Balance sheets

As at 31 December	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>Assets</b>					
Property, plant and equipment	5.4	2,603	11,870	-	-
Investments	5.5	8,717	8,786	9,849	7,606
Restricted cash		1,414	1,444	-	-
Deferred tax assets	5.2	-	1,955	-	-
Trade and other receivables		832	5,758	-	-
Available for sale financial assets	4.2	-	27,804	-	-
Retirement benefit asset	5.7	2,111	-	-	-
<b>Total non-current assets</b>		<b>15,677</b>	<b>57,617</b>	<b>9,849</b>	<b>7,606</b>
Inventories	3.1	1,321,952	1,449,165	-	-
Trade and other receivables	3.2	76,686	84,992	463,454	415,620
Cash and cash equivalents	4.1	170,062	38,552	344	344
<b>Total current assets</b>		<b>1,568,700</b>	<b>1,572,709</b>	<b>463,798</b>	<b>415,964</b>
<b>Total assets</b>		<b>1,584,377</b>	<b>1,630,326</b>	<b>473,647</b>	<b>423,570</b>
<b>Equity</b>					
Issued capital	4.5	67,330	67,261	67,330	67,261
Share premium	4.5	215,991	215,057	215,991	215,057
Retained earnings		773,255	733,609	187,806	138,693
<b>Total equity attributable to equity holders of the parent</b>		<b>1,056,576</b>	<b>1,015,927</b>	<b>471,127</b>	<b>421,011</b>
<b>Liabilities</b>					
Bank and other loans	4.3	25,209	-	-	-
Deferred tax liability	5.2	570	-	-	-
Trade and other payables	3.3	93,089	162,612	781	781
Net retirement benefit obligations	5.7	-	6,590	-	-
Provisions	5.6	812	812	-	-
<b>Total non-current liabilities</b>		<b>119,680</b>	<b>170,014</b>	<b>781</b>	<b>781</b>
Trade and other payables	3.3	385,079	420,220	-	-
Provisions	5.6	6,187	10,280	-	-
Current tax liabilities	5.2	16,855	13,885	1,739	1,778
<b>Total current liabilities</b>		<b>408,121</b>	<b>444,385</b>	<b>1,739</b>	<b>1,778</b>
<b>Total liabilities</b>		<b>527,801</b>	<b>614,399</b>	<b>2,520</b>	<b>2,559</b>
<b>Total equity and liabilities</b>		<b>1,584,377</b>	<b>1,630,326</b>	<b>473,647</b>	<b>423,570</b>

The Company made a profit for the year of £107,299,000 (2016: £57,107,000).

These financial statements on pages 119 to 146 were approved by the Board of directors on 1 March 2018 and were signed on its behalf: Earl Sibley, Director.

## Group statement of changes in equity

	Own shares held £000	Other retained earnings £000	Total retained earnings £000	Issued capital £000	Share premium £000	Total £000
<b>Balance at 1 January 2016</b>	(2,481)	678,682	676,201	<b>67,190</b>	214,368	957,759
<b>Total comprehensive income</b>	-	109,365	109,365	-	-	109,365
<b>Shared equity movement reclassified to the income statement</b>	-	2,099	2,099	-	-	2,099
Issue of share capital	-	-	-	71	689	760
Own shares disposed	153	(153)	-	-	-	-
Deferred tax on other employee benefits	-	48	48	-	-	48
Share based payments	-	1,308	1,308	-	-	1,308
Dividends paid to shareholders	-	(55,412)	(55,412)	-	-	(55,412)
<b>Total transactions with owners recognised directly in equity</b>	153	(54,209)	(54,056)	71	689	(53,296)
<b>Balance at 31 December 2016</b>	<b>(2,328)</b>	<b>735,937</b>	<b>733,609</b>	<b>67,261</b>	<b>215,057</b>	<b>1,015,927</b>
<b>Balance at 1 January 2017</b>	(2,328)	735,937	733,609	<b>67,261</b>	215,057	1,015,927
<b>Total comprehensive income</b>	-	100,359	100,359	-	-	100,359
Issue of share capital	-	-	-	69	934	1,003
Own shares disposed	1,261	(1,261)	-	-	-	-
Purchase of own shares	(2,575)	-	(2,575)	-	-	(2,575)
Deferred tax on other employee benefits	-	49	49	-	-	49
Share based payments	-	2,243	2,243	-	-	2,243
Dividends paid to shareholders	-	(60,430)	(60,430)	-	-	(60,430)
<b>Total transactions with owners recognised directly in equity</b>	(1,314)	(59,399)	(60,713)	69	934	(59,710)
<b>Balance at 31 December 2017</b>	<b>(3,642)</b>	<b>776,897</b>	<b>773,255</b>	<b>67,330</b>	<b>215,991</b>	<b>1,056,576</b>

## Company statement of changes in equity

	Attributable to equity holders of the parent			
	Total retained earnings £000	Issued capital £000	Share premium £000	Total £000
Balance at 1 January 2016	135,690	67,190	214,368	417,248
Total comprehensive income	57,107	-	-	57,107
Issue of share capital	-	71	689	760
Share based payments	1,308	-	-	1,308
Dividends paid to shareholders	(55,412)	-	-	(55,412)
<b>Balance at 31 December 2016</b>	<b>138,693</b>	<b>67,261</b>	<b>215,057</b>	<b>421,011</b>
Balance at 1 January 2017	138,693	67,261	215,057	421,011
Total comprehensive income	107,300	-	-	107,300
Issue of share capital	-	69	934	1,003
Share based payments	2,243	-	-	2,243
Dividends paid to shareholders	(60,430)	-	-	(60,430)
<b>Balance at 31 December 2017</b>	<b>187,806</b>	<b>67,330</b>	<b>215,991</b>	<b>471,127</b>

# Statements of cash flows

For the year ended 31 December	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>Cash flows from operating activities</b>					
Profit for the year		91,295	120,848	107,299	57,107
Depreciation	2.1	1,514	2,274	-	-
Revaluation of available for sale financial assets		1,355	1,191	-	-
Available for sale reserve reclassified on disposal		1,696	-	-	-
Financial income	4.4	(1,337)	(3,035)	(9,038)	(8,888)
Financial expense	4.4	8,536	8,622	-	-
Profit on sale of property, plant and equipment		(4,117)	(764)	-	-
Equity-settled share-based payment expense	5.3	2,243	1,308	-	-
Income tax expense	5.1	22,706	33,866	1,740	1,778
Share of results of Joint Ventures	5.5	20	(331)	-	-
Decrease/(increase) in trade and other receivables		13,232	5,313	(49,613)	(4,233)
Decrease in available for sale financial assets		27,577	9,941	-	-
Decrease/(increase) in inventories		122,097	(130,647)	-	-
(Decrease)/increase in trade and other payables		(104,664)	42,976	-	-
(Decrease)/increase in provisions and retirement benefit obligations		(3,685)	7,395	-	-
<b>Cash generated from operations</b>		<b>178,468</b>	<b>98,957</b>	<b>50,388</b>	<b>45,764</b>
Interest paid		(3,250)	(4,010)	-	-
Income taxes paid		(19,074)	(33,142)	-	-
<b>Net cash from operating activities</b>		<b>156,144</b>	<b>61,805</b>	<b>50,388</b>	<b>45,764</b>
<b>Cash flows from investing activities</b>					
Interest received		142	45	9,039	8,888
Acquisition of property, plant and equipment	5.4	(1,371)	(1,787)	-	-
Proceeds from sale of property, plant and equipment		13,237	2,389	-	-
Movement of investment in Joint Ventures	5.5	32	625	-	-
Dividends received from Joint Ventures	5.5	119	129	-	-
Reduction in restricted cash		-	7	-	-
<b>Net cash generated from investing activities</b>		<b>12,159</b>	<b>1,408</b>	<b>9,039</b>	<b>8,888</b>
<b>Cash flows from financing activities</b>					
Dividends paid	2.2	(60,430)	(55,412)	(60,430)	(55,412)
Proceeds from the issue of share capital	4.5	1,003	760	1,003	760
Purchase of own shares		(2,575)	-	-	-
Drawdown/(repayment) of bank and other loans	4.3	25,209	(1,999)	-	-
<b>Net cash used in financing activities</b>		<b>(36,793)</b>	<b>(56,651)</b>	<b>(59,427)</b>	<b>(54,652)</b>
Net increase in cash and cash equivalents		131,510	6,562	-	-
Cash and cash equivalents at 1 January	4.1	38,552	31,990	344	344
<b>Cash and cash equivalents at 31 December</b>	4.1	<b>170,062</b>	<b>38,552</b>	<b>344</b>	<b>344</b>



# Notes to the financial statements

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

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

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

## 1.0 Basis of preparation

### 1.1 General information

Bovis Homes Group PLC (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in Joint Ventures.

The financial statements were authorised for issue by the directors on 1 March 2018.

### 1.2 Basis of accounting

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

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

The accounting policies set out below have been applied consistently to all relevant periods presented in these consolidated financial statements, including the restatement as described in note 2.

The accounting policies have been applied consistently to the Company and the Group where relevant.

The financial statements are prepared on the historical cost basis except for derivative financial instruments and available for sale financial assets which are on a fair value basis.

### 1.3 Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the 12 months from date of approval of these financial statements. The Directors reviewed detailed financial and covenant compliance forecasts covering the period to December 2018 and summary financial forecasts for the following two years.

Having started the year with net cash of £38.6 million, the Group generated a strong operating cash flow during 2017, increasing the net cash position to £144.9 million. As at 31 December 2017, the Group held cash and cash equivalents of £170.1 million and had borrowings of £25.2 million. On 3 December 2015, the Group entered into a new £250.0 million committed revolving credit facility that was extended for a further year both during 2016 and early in 2018. This facility now expires in December 2022 and was fully available for drawdown at 31 December 2017.

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

### 1.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

The consolidated financial statements include the Group's share of the comprehensive income and expense of its joint ventures on an equity accounted basis, from the date that joint control commenced. The Group does not have any joint operations as the current time.

## Notes to the financial statements continued

### 1.5 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with adopted IFRSs requires management to make 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 below.

#### Key sources of judgement and estimation uncertainty for the Group

##### Land held for development and housing work in progress

The Group holds inventories which are stated at the lower of cost and net realisable value. To assess the net realisable value of land held for development and housing work in progress, the Group completes a financial appraisal of the likely revenue which will be generated when these inventories are combined as residential properties for sale and sold. Where the financial appraisal demonstrates that the revenue will exceed the costs of the inventories and other associated costs of constructing the residential properties, the inventories are stated at cost. Where the assessed revenue is lower, the extent to which there is a shortfall is written off through the income statement leaving the inventories stated at a realisable value. To the extent that the revenues which can be generated change, or the final cost to complete for the site varies from estimates, the net realisable value of the inventories may be different. A review taking into account estimated achievable net revenues, actual inventory and costs to complete as at 31 December 2017 has been carried out, which has identified no material net movement in the carrying value of the provision. These estimates were made by local management having regard to actual sales prices, together with competitor and marketplace evidence, and were further reviewed by Group management. Should there be a future significant decline in UK house pricing, then further write-downs of land and work in progress may be necessary. Further detail on the carrying value of inventories is laid out in note 3.1.

##### Defined benefit pension scheme

The Group has an active defined benefit pension scheme, which is subject to estimation uncertainty. Note 5.7 outlines the way in which this Scheme is recognised in the Group's Financial Statements, the associated risks and sensitivity analysis showing the impact of a change in key variables on the defined benefit obligation.

##### Customer care provision

Following legal completion, the Group provides a two year warranty that covers any defects which arise during that period. The level of provision per completion is based on actual costs incurred over the preceding twelve months. Judgement is applied in determining whether this level of provision is sufficient, or whether it should be adjusted to reflect the level of outstanding customer rectification works at the balance sheet date. Note 5.6 provides further detail of this provision.

##### Margin recognition

The gross margin from revenue generated on each of the Group's individual sites within the year is recognised based on the latest forecast for the gross margin expected to be generated over the remaining life of that site. The remaining life gross margin is calculated using forecasts for selling prices and all land, build, infrastructure and overhead costs associated with that site. There is inherent uncertainty and sensitivity to external forces (predominantly house prices and labour costs) in these forecasts, which are reviewed regularly throughout the year by management and are addressed on pages 30 to 33.

The Company has no sources of estimation uncertainty.

### 1.6 Segment reporting

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

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017:

Amendments to IAS 7 'Statement of Cash Flows - Changes in liabilities arising from financing activities' and Amendment to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' have both come into effect with no significant impact on the Group.

## Notes to the financial statements continued

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements:

- IFRS9 'Financial instruments' replaces IAS39 'Financial Instruments: Recognition and Measurement' and is effective from 1 January 2018. As the Group disposed of its shared equity assets during 2017 and does not presently hold any complex financial instruments, it is expected that the new standard will not have a material impact on the Group's reported results.
- IFRS 15, 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and IAS 11 'Construction contracts', setting out new revenue recognition criteria particularly with regard to performance obligations which may have some impact on the timing of revenue recognised by the Group on certain contracts. The standard will be effective for the period beginning 1 January 2018 and remains subject to industry interpretations and consensus. However, based on the Group's assessment of the standard it is not thought to have an impact on private housing sales, which make up the majority of the Group's revenue and profit. Land sales, which by their nature vary from year to year, are not expected to be impacted, but will continue to be reviewed as they occur in future to ensure that the treatment is consistent with the new standard. Housing association sales are not expected to be impacted significantly, as the new standard allows for recognition over time, which is the Group's current practice. However, the nature of the individual contracts will need to be assessed as they are entered into, and could give rise to a difference in timing of revenue recognition compared to IAS11. If the standard were to be applied to the Group's 2017 financial statements, it would not have a material impact on the revenue reported by the Group.
- IFRS16 'Leases' replaces IAS17 'Leases' and is effective from 1 January 2019. The new standard requires all assets held by the Group under lease agreements of greater than 12 months in duration to be recognised as assets within the Balance Sheet, unless they are considered to be of low value. Similarly, the present value of future payments to be made under those lease agreements must be recognised as a liability. As the Group is increasingly entering into lease agreements as part of its strategy to reduce capital employed in its operations, it is expected that the implementation of the standard will increase both the assets and liabilities of the Group but will not have a material impact on its net assets.
- Amendment to IFRS 2 'Share-based payments', effective from 1 January 2018, which is not expected to have a significant impact on the Group's financial statements.
- Amendment to IFRS 4 'Insurance Contracts' regarding the implementation of IFRS 9 'Financial Instruments', effective from 1 January 2018, which is not expected to have a significant impact on the Group's financial statements.
- Amendment to IAS 40 'Investment Property', effective from 1 January 2018, which is not expected to have a significant impact on the Group's financial statements.
- Annual Improvements 2014-2016, effective from 1 January 2018, which is not expected to have a significant impact on the Group's financial statements.
- Amendment to IAS 28 'Investments in Associates and Joint Ventures', effective from 1 January 2019, which is not expected to have a significant impact on the Group's financial statements.
- IFRIC 23 Uncertainty over income tax treatments, effective 1 January 2019, which is not expected to have a significant impact on the Group's financial statements.

### 2.0 Result for the year

#### Revenue

Revenue comprises the fair value of consideration received or receivable, net of value-added tax, rebates and discounts. 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.

Revenue is recognised once the value of the transaction can be reliably measured and the significant risks and rewards of ownership have been transferred. Revenue is recognised on house sales at legal completion. Revenue is recognised on land sales and commercial property sales from the point of unconditional exchange of contracts. For affordable housing, revenue and costs are recognised by reference to the stage of completion of contract activity at the balance sheet date and profit is recognised from the point at which the outcome of the contract is reasonably certain. When it is probable that the total costs on a construction contract will exceed total contract revenue, the expected loss is recognised as an expense in the Income Statement immediately.

Where land is sold with material development obligations, the recognition of revenue and profit is deferred until the work is complete.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Revenue by type	2017 £000	2016 £000
Private housing	860,616	885,505
Affordable housing	132,308	137,316
Land sales	32,036	25,830
Other	3,263	6,153
<b>Total</b>	<b>1,028,223</b>	<b>1,054,804</b>

For contracts in progress at the balance sheet date, contract costs incurred plus recognised profit minus recognised losses to date amounted to £425,147,000 (2016: £314,571,000).

## Notes to the financial statements continued

### Restatement - costs reclassified from administrative expenses to cost of sales

Following the Group's structural and strategic review the accounting treatment of all project specific costs related to sales, legal, technical and build activities have been reviewed. Where these have previously been included in the Group's administrative expenses we now consider it more appropriate to treat them as follows. All sales costs will be reclassified within cost of sales (impact on twelve months ended 31 December 2017: £20.7m; impact on year ended 31 December 2016: £19.2m). All other project related costs identified above will be capitalised into work in progress and released to the Income Statement as we legally complete homes (impact on twelve months ended 31 December 2017: £7.9m; impact on year ended 31 December 2016: £7.5m). We believe this approach provides reliable and more relevant information. We consider this a change in accounting policy and have restated prior year comparatives in the Group's Income Statement in line with IAS8. The Balance Sheet as at 31 December 2016 and the opening reserves at 1 January 2016 have not been restated as the impact is not considered material.

### 2.1 Operating profit

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

	2017 £000	2016 £000
Depreciation of tangible fixed assets (see note 5.4)	1,514	2,274
Hire of plant and machinery	8,445	7,096
Personnel expenses (see note 5.3)	70,739	63,472
Rental income (included in revenue)	(408)	(735)
Government grants recognised within cost of sales (see note 4.3)	(31)	(21)

### Exceptional administrative expenses

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

	2017 £000	2016 £000
Advisory fees resulting from the bid approaches from Redrow plc and Galliford Try plc	2,800	-
Costs relating to the strategic restructuring of the business	4,012	-
<b>Exceptional administrative expenses</b>	<b>6,812</b>	<b>-</b>

During the year, the Group has implemented various fundamental restructuring activities, consistent with the strategic and structural review completed by the Chief Executive and announced in September 2017 (see page 12). These costs include redundancies and onerous lease costs arising from merging certain business units, reducing from eight operating regions to seven and office relocations.

The exceptional administrative expenses have reduced the Group's income tax expense for the year by £772,000 (2016: £nil).

### Auditors' remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	30	25
The audit of the Company's subsidiaries, pursuant to legislation	145	155
Non-Audit Fees		
Interim review work	25	18
Other assurance related services	4	4
<b>Fees charged to operating profit before financing costs</b>	<b>204</b>	<b>202</b>

### 2.2 Dividends

The following dividends were paid by the Group:

	2017 £000	2016 £000
Prior year final dividend per share of 30.0p (2016: 26.3p)	40,300	35,273
Current year interim dividend per share of 15.0p (2016: 15.0p)	20,130	20,139
	<b>60,430</b>	<b>55,412</b>

## Notes to the financial statements continued

The Board decided to propose a final dividend of 32.5p per share in respect of 2017. The dividend has not been provided for and there are no income tax consequences.

	2017 £000	2016 £000
32.5p per qualifying ordinary share (2016: 30.0p)	43,639	40,254

### 2.3 Earnings per share

#### Profit attributable to ordinary shareholders

	2017 £000	2016 £000
Profit for the year attributable to equity holders of the parent	91,295	120,848

#### Weighted average number of ordinary shares

	2017	2016
Weighted average number of ordinary shares at 31 December	134,246,134	134,178,673

#### Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2017 was based on the profit for the year attributable to ordinary shareholders of £91,295,000 (2016: £120,848,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2017 of 134,566,722 (2016: 134,322,449).

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

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

	2017	2016
Weighted average number of ordinary shares at 31 December	134,246,134	134,178,673
Effect of share options in issue which have a dilutive effect	320,588	143,776
<b>Weighted average number of ordinary shares (diluted) at 31 December</b>	<b>134,566,722</b>	<b>134,322,449</b>

### 3.0 Land bank and other operating assets and liabilities

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

#### 3.1 Inventories

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

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

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

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

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

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

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

## Notes to the financial statements continued

Group	2017 £000	2016 £000
Raw materials and consumables	5,997	7,092
Work in progress	382,893	372,859
Part exchange properties	19,692	48,593
Land held for development (net of provision)	913,370	1,020,621
<b>Inventories</b>	<b>1,321,952</b>	<b>1,449,165</b>

Inventories to the value of £836.2 million were recognised as expenses in the year (2016 restated: £839.7 million - see note 2). Part exchange properties of £176.9 million (2016: £109.4 million) were disposed of during the year for proceeds of £173.6 million (2016: £109.6 million).

Movement on inventory provision	2017 £000	2016 £000
Balance at 1 January	3,021	6,718
Land sales - Utilised on specific sites sold in the year	(1,639)	(4,133)
- Unutilised on specific sites sold in the year and so released to the income statement	-	(19)
	(1,639)	(4,152)
New provisions recognised on sites still held	861	455
New provisions recognised on sites identified for disposal outside of core operating area	3,300	-
<b>Balance at 31 December</b>	<b>5,543</b>	<b>3,021</b>

£8.9 million (2016: £2.0 million) of inventories were valued at net realisable value rather than at historic cost.

### 3.2 Trade and other receivables

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

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

#### Current assets

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables	15,130	19,436	-	-
Amounts recoverable on contracts	45,191	31,574	-	-
Amounts due from subsidiary undertakings	-	-	463,454	415,620
Other debtors	1,939	22,127	-	-
Prepayments and accrued income	14,426	11,855	-	-
<b>Current assets</b>	<b>76,686</b>	<b>84,992</b>	<b>463,454</b>	<b>415,620</b>

The total provision for doubtful receivables is £1.2 million (2016: £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.

Receivables which are past due but not impaired are not material.

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

### 3.3 Trade and other payables

#### Trade payables

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

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

## Notes to the financial statements continued

### Government grants

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>Non-current liabilities</b>				
Trade payables	92,630	162,153	-	-
Other creditors	459	459	781	781
	<b>93,089</b>	<b>162,612</b>	<b>781</b>	<b>781</b>
<b>Current liabilities</b>				
Trade payables	307,434	364,522	-	-
Payments on account	41,352	13,813	-	-
Taxation and social security	1,903	1,672	-	-
Other creditors	1,649	2,077	-	-
Accruals	16,251	17,782	-	-
Deferred income	16,490	20,354	-	-
	<b>385,079</b>	<b>420,220</b>	<b>-</b>	<b>-</b>
<b>Total trade and other payables</b>	<b>478,168</b>	<b>582,832</b>	<b>781</b>	<b>781</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 4.7.

### 4.0 Financing

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

#### 4.1 Cash and cash equivalents

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Bank balances	363	363	344	344
Call deposits	169,699	38,189	-	-
<b>Cash and cash equivalents in the balance sheet and cash flows</b>	<b>170,062</b>	<b>38,552</b>	<b>344</b>	<b>344</b>

#### 4.2 Available for sale financial assets

##### Available for sale financial assets - shared equity

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. Gains and losses arising from changes in fair value are recognised in the Group statement of comprehensive income, with the exceptions of impairment losses, the impact of changes in fair value 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 was disclosed separately on the face of the balance sheet.

## Notes to the financial statements continued

	2017 £000	2016 £000
Non-current asset - available for sale assets	-	27,804

Available for sale financial assets related 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 three schemes.

'Jumpstart' schemes are receivable 10 years after recognition with 3% interest charged between years 6 to 10. The 'HomeBuy Direct' and 'FirstBuy' schemes are 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 fair value being the present value of expected future cash flows taking into account the estimated market value of the property at the estimated date of recovery.

### Key assumptions for shared equity

	2017	2016
Discount rate, incorporating default rate	-	9.0%
Average house price inflation per annum for the next three years	-	3.0%

	2017 £000	2016 £000
Balance at 1 January	27,804	35,303
Redemptions	(5,300)	(9,941)
Disposals	(22,270)	-
Revaluation taken through the income statement	(1,355)	-
Imputed interest	1,121	2,442
<b>Balance at 31 December</b>	<b>-</b>	<b>27,804</b>

During the year ended 31 December 2017, the Group disposed of or redeemed assets with a fair value of £27.6m, at a profit of £1.2m. Included within these figures is the disposal of assets with a fair value of £22.3m to PMM Group on 31 October 2017 for £21.5m, net of transaction costs, generating a loss on disposal of £0.8m.

### 4.3 Bank and other loans

#### Bank borrowings

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

#### Government grants

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



## Notes to the financial statements continued

### Interest rate profile of bank and other loans

	Rate	Facility maturity	Carrying value 2017 £000	Carrying value 2016 £000
Revolving credit facility	LIBOR +120-225 bps	2021	-	-
HCA Loan	EC Base Rate +220bps	2027	25,209	-

### Details of facilities

On 3 December 2015 the Group entered into a £250 million committed revolving credit facility and this was extended for a further one year both during 2016 and early in 2018, and therefore now expires in December 2022. The facility syndicate comprises six banks. The facility includes a covenant package, featuring three covenants covering the Group's gearing ratio, consolidated tangible net worth and interest cover. These covenants are tested semi-annually as per the previous facility agreement. The overall financing cost of the new arrangement is marginally better than the previous facility.

On 11 April 2017 the Group entered into a loan facility agreement with the Homes and Communities Agency in relation to its development at Stanton Cross, Wellingborough. The facility has a total aggregate of £35 million which the Group can draw down over a period until 31 March 2019 in order to support the funding of its infrastructure investment on the development. The Group will then use an agreed proportion of its proceeds from the development to repay the loan once the aggregate proceeds exceed a threshold level. The Group's latest estimates indicate that repayments of the loan will begin in 2021 and that the majority of the repayments will be made in periods beyond 5 years from 31 December 2017.

### 4.4 Net financing costs

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

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

### Net financing costs recognised in the income statement

	Note	2017 £000	2016 £000
Interest income		(216)	(321)
Net pension finance credit	5.7	-	(272)
Imputed interest on available for sale assets		(1,121)	(2,442)
<b>Finance income</b>		<b>(1,337)</b>	<b>(3,035)</b>
Imputed interest on deferred terms land payables		5,118	4,967
Net pension finance charge	5.7	177	-
Interest expense		3,241	3,655
<b>Finance expenses</b>		<b>8,536</b>	<b>8,622</b>
<b>Net financing costs</b>		<b>7,199</b>	<b>5,587</b>

# Notes to the financial statements continued

## 4.5 Capital and reserves

### Equity instruments

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

### Own shares held by ESOP trust

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

### Share capital

#### Ordinary shares

	2017 Number of shares	2017 Issued capital £000s	2017 Share premium £000s	2016 Number of shares	2016 Issued capital £000	2016 Share premium £000s
In issue at 1 January	134,522,340	67,261	215,057	134,379,661	67,190	214,368
Issued for cash	138,410	69	934	142,679	71	689
<b>In issue at 31 December – fully paid</b>	<b>134,660,750</b>	<b>67,330</b>	<b>215,991</b>	<b>134,522,340</b>	<b>67,261</b>	<b>215,057</b>

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

#### Reserve for own shares held

The cost of the Company's shares held in the ESOP trust by the Group is recorded as a reserve in equity. During the year ended 31 December 2017, the Group purchased 275,000 shares at a total cost of £2,575,000. There were 133,020 (2016: 16,089) shares awarded under the Group's long-term incentive plan that vested during 2017 and accordingly the balance of the own shares held reserve reduced by £1,261,000 (2016: £153,000). At 31 December 2017, the Group held 387,750 of its own shares (2016: 245,770), with a value on reserve of £3,643,000 (2016: £2,329,000). The Group has suspended all rights on shares held by the Group in the Company.

## 4.6 Financial risk management

### Group

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

The Group's capital comprises its shareholders' equity, added together with its net borrowings, or less its net cash, stated before issue costs. A five year record of its capital employed is displayed on page 131.

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

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

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

### Company

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

#### a. Interest rate risk

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

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

## 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 4.3.

### Sensitivity analysis

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

For the year ended 31 December 2017, a general increase of one percentage point in interest rates applying for the full year would not have a material impact on the financial statements.

### b. Credit risk

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of legal completion of its sales. 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 £4.8 million (2016: £9.6 million). The amount is secured against consented land. The Group retains these outstanding balances as trade and other receivables. The carrying value of trade and other receivables equates to the Group's exposure to credit risk. This is set out in note 3.2.

The Group's trade and other receivables and available for sale assets are secured against the following:

	2017 £000	2016 £000
Consented land	7,027	17,282
Second charge against property	832	28,762
Unsecured	69,659	72,510
	<b>77,518</b>	<b>118,554</b>

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

### Company

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

### c. Liquidity risk

The Group's banking arrangements outlined in note 4.3 are considered to be adequate in terms of flexibility and liquidity for its medium term cash flow needs, thus mitigating its liquidity risk. The Group's approach to assessment of liquidity risk is outlined in the going concern sub-section in the risk management section on page 28.

### 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 2017	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
<b>Non-derivative financial assets</b>			
Restricted cash	-	1,414	1,414
Trade and other receivables	832	76,686	77,518
Cash and cash equivalents	-	170,062	170,062
<b>Non-derivative financial liabilities</b>			
Bank and other loans	-	(25,209)	(25,209)
Trade and other payables	-	(478,168)	(478,168)
	<b>832</b>	<b>(255,215)</b>	<b>(254,383)</b>

## Notes to the financial statements continued

31 December 2016	Linked to UK housing market £000	Not linked to UK housing market £000	Total £000
<b>Non-derivative financial assets</b>			
Restricted cash	-	1,444	1,444
Trade and other receivables	-	90,750	90,750
Available for sale financial assets	27,804	-	27,804
Cash and cash equivalents	-	38,552	38,552
<b>Non-derivative financial liabilities</b>			
Trade and other payables	-	(582,832)	(582,832)
	<b>27,804</b>	<b>(452,086)</b>	<b>(424,282)</b>

### 4.7 Financial instruments

#### Fair values

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

#### Estimation of fair values

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

#### Land purchased on extended payment terms

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

Land creditor (estimated ageing)	Balance at 31 Dec £000	Total contracted cash payment £000	Due within 1 year £000	Between 1-2 years £000	Between 2-3 years £000	Between 3-4 years £000	Between 4-5 years £000	Due beyond 5 years £000
2017	246,742	252,183	168,297	44,377	11,248	8,321	4,390	15,550
2016	343,309	350,041	196,511	120,954	15,135	3,612	1,979	11,850

#### Bank and other loans

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

#### Trade and other receivables / payables

Other than land creditors, 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.

The following table provides an analysis of financial assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset/liability that are not based on observable market data (unobservable inputs).

## Notes to the financial statements continued

31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Group £000
<b>Assets</b>				
Available for sale financial assets	-	-	-	-
<b>Liabilities</b>				
	-	-	-	-

31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Group £000
<b>Assets</b>				
Available for sale financial assets	-	-	27,804	27,804
<b>Liabilities</b>				
	-	-	27,804	27,804

The Group's only level 3 financial instruments relate to available for sale financial assets - shared equity. A reconciliation between the brought forward and carried forward values is shown in note 4.2.

### 5.0 Other disclosures

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

#### 5.1 Income tax expense

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

#### Recognised in the income statement

	Note	2017 £000	2016 £000
<b>Current tax</b>			
Current year		23,976	32,429
Adjustments for prior years		(1,926)	(2,293)
		22,050	30,136
<b>Deferred tax</b>			
Origination and reversal of temporary differences	5.2	(2,299)	(1,126)
Adjustments for prior year	5.2	2,955	4,856
<b>Total income tax in income statement</b>		<b>22,706</b>	<b>33,866</b>

#### Reconciliation of effective tax rate

	2017 %	2017 £000	2016 %	2016 £000
<b>Profit before tax</b>		<b>114,001</b>		<b>154,714</b>
Income tax using the domestic corporation tax rate	19.25	21,945	20.0	30,943
Non-deductible expenses and disposal of ineligible assets	(0.3)	(388)	0.5	856
Other	(0.0)	7	(0.2)	(354)
Change in tax rate	0.1	113	(0.1)	(142)
Adjustments to the tax charge in respect to the prior year	0.9	1,029	1.7	2,563
<b>Total tax expense</b>	<b>19.9</b>	<b>22,706</b>	<b>21.9</b>	<b>33,866</b>

## Notes to the financial statements continued

In the year ended 31 December 2016, Bovis Homes Limited recognised a provision for customer care house maintenance which was prudently treated as a general provision in the Company's draft corporation tax computation. When the Company's final corporation tax computation was prepared the provision was reviewed and treated as a specific provision as the provision was FRS 101 compliant and was based on an analysis by site of the expected house maintenance expenditure required. During the year Bovis Homes Limited agreed with HM Revenue & Customs to close an enquiry into the Company's corporation tax returns. This resulted in additional corporation tax payable in the years ended 31 December 2015, 2016 and 2017 and ending 31 December 2018. Consequently the tax charge in the income statement includes prior year adjustments to reflect the release of the deferred tax asset in respect of the customer care provision and the creation of a deferred tax liability in respect of tax charges that have crystallised in the current period and will crystallise in the year ending 31 December 2018 as a result of the closure of HM Revenue & Customs enquiry.

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

	Note	2017 £000	2016 £000
Relating to actuarial movements on pension scheme (Group statement of comprehensive income)	5.2	(1,630)	2,624
Relating to share-based payments (Group statement of changes in equity)	5.2	49	(8)
Relating to available for sale financial assets (Group statement of comprehensive income)	5.2	(288)	-
Relating to available for sale financial assets (Group statement of changes in equity)	5.2	-	909
<b>Deferred tax recognised directly in Group statement of changes in equity or the Group statement of comprehensive income</b>		<b>(1,869)</b>	<b>3,525</b>

### 5.2 Tax assets and liabilities

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

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

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

### Current tax assets and liabilities

The current liability of £16,855,000 (2016: £13,885,000) represents the remaining balance of income taxes payable in respect of current and prior years.

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Property, plant and equipment	-	-	(113)	(273)	(113)	(273)
Non-current trade payables	-	-	(24)	(27)	(24)	(27)
Available for sale financial assets	-	-	(625)	(714)	(625)	(714)
Employee benefits - pensions	-	1,120	(359)	-	(359)	1,120
Employee benefits - share-based payments	737	132	-	-	737	132
Provisions	330	1,407	-	-	330	1,407
Inventories	-	-	(888)	(62)	(888)	(62)
Adjustment on sale to Joint Venture	372	372	-	-	372	372
<b>Tax assets/(liabilities)</b>	<b>1,439</b>	<b>3,031</b>	<b>(2,009)</b>	<b>(1,076)</b>	<b>(570)</b>	<b>1,955</b>

## Notes to the financial statements continued

### Movement in temporary differences during the year

Group	Balance 1 Jan 2017 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2017 £000
Property, plant and equipment	(273)	160	-	(113)
Trade payables	(27)	3	-	(24)
Available for sale financial assets	(714)	377	(288)	(625)
Employee benefits - pensions	1,120	151	(1,630)	(359)
Employee benefits - share-based payments	132	556	49	737
Provisions	1,407	(1,077)	-	330
Inventories	(62)	(826)	-	(888)
Adjustment on sale to Joint Venture	372	-	-	372
<b>Movement in temporary differences</b>	<b>1,955</b>	<b>(656)</b>	<b>(1,869)</b>	<b>(570)</b>

Group	Balance 1 Jan 2016 £000	Recognised in income £000	Recognised in equity £000	Balance 31 Dec 2016 £000
Property, plant and equipment	(258)	(15)	-	(273)
Trade payables	2,152	(2,179)	-	(27)
Available for sale financial assets	970	(2,593)	909	(714)
Employee benefits - pensions	(1,423)	(81)	2,624	1,120
Employee benefits - share-based payments	480	(340)	(8)	132
Provisions	18	1,389	-	1,407
Inventories	(216)	154	-	(62)
Adjustment on sale to Joint Venture	437	(65)	-	372
<b>Movement in temporary differences</b>	<b>2,160</b>	<b>(3,730)</b>	<b>3,525</b>	<b>1,955</b>

### Factors affecting future tax charge

UK corporation tax rate reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

### Employee benefits

The Group recognises the deficit or surplus on its defined benefits pension scheme under the requirements of IAS19 (Revised): 'Employee benefits'. This has generated a surplus of £2.1 million (2016: deficit of £6.6 million). As at 31 December 2017, a deferred tax liability of £359,000 (2016 tax asset: £1,120,000) was recognised.

## Notes to the financial statements continued

### 5.3 Directors and employees

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

#### Average staff numbers - Group

	2017	2016
Average staff numbers	1,297	1,186

The Company had no employees during 2017 (2016: nil)

A breakdown of staff numbers split by type of role is included on page 40.

#### Personnel expenses - Group

	2017 £000	2016 £000
Wages and salaries	59,405	54,013
Compulsory social security contributions	6,556	5,926
Contributions to defined contribution plans	1,250	1,103
Increase in expenses related to defined benefit plans	1,285	1,122
Equity-settled share-based payments	2,243	1,308
<b>Personnel expenses</b>	<b>70,739</b>	<b>63,472</b>

The Company had no personnel expenses during 2017 (2016: nil)

#### Share-based payments

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

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

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

Long Term Incentive Plan	2017		2016	
	Average exercise price in £ per share option	Share options £000	Average exercise price in £ per share option	Share options £000
At 1 January	-	737	-	665
Granted	-	918	-	322
Lapsed	-	(145)	-	(236)
Exercised	-	(133)	-	(14)
<b>At 31 December</b>	<b>-</b>	<b>1,377</b>	<b>-</b>	<b>737</b>



## Notes to the financial statements continued

Executive and other share options	2017		2016	
	Average exercise price in £ per share option	Share options £000	Average exercise price in £ per share option	Share options £000
At 1 January	8.59	275	8.02	417
Granted	-	-	-	-
Lapsed	8.53	(53)	8.85	(62)
Exercised	7.30	(69)	5.42	(80)
<b>At 31 December</b>	<b>9.20</b>	<b>153</b>	<b>8.59</b>	<b>275</b>

Save As You Earn	2017		2016	
	Average exercise price in £ per share option	Share options £000's	Average exercise price in £ per share option	Share options £000's
At 1 January	7.27	357	6.97	302
Granted	6.12	397	7.12	166
Lapsed	6.73	(189)	7.45	(49)
Exercised	7.22	(69)	5.23	(62)
<b>At 31 December</b>	<b>6.56</b>	<b>496</b>	<b>7.27</b>	<b>357</b>

Out of the 2,026,000 outstanding options (2016: 1,369,000), 164,000 options (2016: 177,000) were exercisable.

Options exercised in 2017 resulted in 271,000 shares (2016: 156,000) being issued at a weighted average share price of £3.71 each (2016: £4.84 each).

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

#### Long Term Incentive Plan

Grant vest	Expiry date	Exercise price in £ per share option	2017 Share options £000	2016 Share options £000
2011-14	15/03/2021	-	14	14
2012-15	28/02/2022	-	16	16
2013-16	26/02/2023	-	23	83
2013-16	20/08/2023	-	8	16
2014-17	25/02/2024	-	19	165
2014-17	19/08/2024	-	2	33
2016-18	24/02/2025	-	136	142
2016-18	18/08/2025	-	33	33
2016-18	16/09/2025	-	0	7
2017-19	23/02/2026	-	180	200
2016-19	16/08/2026	-	28	28
2017-18	02/05/2027	-	154	-
2017-21	08/09/2027	-	764	-
		-	<b>1,377</b>	<b>737</b>

## Notes to the financial statements continued

### Executive and other share options

Grant vest	Expiry date	Exercise price in £ per share option	2017 Share options £000	2016 Share options £000
2010-13	25/08/2017	3.38	-	10
2011-14	01/09/2018	3.79	9	14
2012-15	22/08/2019	5.02	11	26
2013-16	21/08/2020	7.73	16	42
2014-17	20/08/2021	8.53	46	89
2016-18	19/08/2022	11.29	71	94
		-	153	275

### Save As You Earn

Grant vest	Expiry date	Exercise price in £ per share option	2017 Share options £000	2016 Share options £000
2012-17	29/09/2017	4.57	-	13
2013-18	23/09/2018	5.88	17	20
2014-17	02/11/2017	7.97	-	50
2014-19	02/11/2019	7.97	4	11
2016-18	24/09/2018	7.66	63	83
2016-20	24/09/2020	7.66	20	28
2017-19	24/09/2019	7.12	71	116
2016-21	24/09/2021	7.12	15	36
2017-20	24/09/2020	6.12	245	-
2017-22	24/09/2022	6.12	61	-
			496	357

The weighted average fair value of the options granted during the period determined using the Black Scholes model was £9.12 per option (2016: £4.85). The significant inputs into the model were a weighted average share price of £11.61 (2016: £8.21) at the grant date, the exercise price shown in the table above, volatility of 37.12% (2016: 36.38%), an expected option life of 5 years (2016: 7 years) and an annual risk-free rate of 0.21% (2016: 0.11%). The volatility is measured at the standard deviation of continuously compounded share returns, based on statistical analysis of daily share prices over the last 3 years.

### Share based payments expense in the income statement

	2017 £000	2016 £000
Long Term Incentive Plan	765	957
Executive and other share options	941	116
Save As You Earn share options	537	235
<b>Total expense recognised as personnel expenses</b>	<b>2,243</b>	<b>1,308</b>

## Notes to the financial statements continued

Information relating to directors' remuneration, compensation for loss of office, long term incentive plan, share options and pension entitlements appears in the directors' remuneration report on pages 68 to 80. The directors are considered to be the only key management personnel. A summary of key management remuneration is as follows:

	2017 £000	2016 £000
Wages and salaries	928	1,383
Compulsory social security contributions	130	185
Contributions to defined contribution plans	52	90
<b>Key management remuneration</b>	<b>1,110</b>	<b>1,658</b>

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

### Long Term Incentive Plan

A long term incentive plan for executive directors and senior executives was approved by shareholders at the 2010 Annual General Meeting. Two grants of awards under this plan were made in 2017. Details of the vesting conditions of these awards are laid out in the directors' remuneration report which can be found on pages 68 to 80.

### Project 200 Incentive plan

The Project 200 incentive plan was implemented for members of the executive management team during 2017, and is designed to support the Group's programme of balance sheet optimisation and reduction in capital reduction in order to facilitate the potential return of capital to shareholders through special dividends. Details of the performance targets and other conditions are contained in the Remuneration Committee report on page 92, and the scheme will be submitted to shareholders for approval at the 2018 AGM so as to enable the Group Finance Director to participate.

### Share options

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.

### Save As You Earn share options

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

## Notes to the financial statements continued

### 5.4 Property, plant and equipment

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

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

#### Cost

Year ended 31 December 2017	Freehold buildings £000	Furniture, fittings and equipment £000	Plant, machinery and vehicles £000	Total £000
Opening balance	9,802	3,871	12,629	26,302
Additions	-	514	857	1,371
Disposals	(7,769)	(760)	(13,207)	(21,736)
<b>Closing</b>	<b>2,033</b>	<b>3,625</b>	<b>279</b>	<b>5,937</b>

#### Accumulated depreciation

Opening	2,057	3,060	9,315	14,432
Charge for the year	132	367	1,015	1,514
Disposals	(1,796)	(750)	(10,066)	(12,612)
<b>Closing</b>	<b>393</b>	<b>2,677</b>	<b>264</b>	<b>3,334</b>

#### Cost

Year ended 31 December 2016	Freehold buildings £000	Furniture, fittings and equipment £000	Plant, machinery and vehicles £000	Total £000
Opening balance	11,676	3,282	13,492	28,450
Additions	-	602	1,185	1,787
Disposals	(1,874)	(13)	(2,048)	(3,935)
<b>Closing</b>	<b>9,802</b>	<b>3,871</b>	<b>12,629</b>	<b>26,302</b>

#### Accumulated depreciation

Opening	2,258	2,475	9,735	14,468
Charge for the year	193	595	1,486	2,274
Disposals	(394)	(10)	(1,906)	(2,310)
<b>Closing</b>	<b>2,057</b>	<b>3,060</b>	<b>9,315</b>	<b>14,432</b>

#### Net book value at 31 December

2017	1,640	948	15	2,603
2016	7,745	811	3,314	11,870

## Notes to the financial statements continued

During the year ended 31 December 2017, the Group disposed of a number of its plant, property and equipment assets as part of its strategy to reduce capital employed in its operations, including:

- Office buildings at Coleshill (net book value £1,240,000; profit £90,000), Bishops Cleeve (book value £1,380,000; profit £1,830,000) and Eden Point (book value £3,350,000; loss £330,000).
- Site accommodation assets with a net book value of £1,950,000 at a profit of £1,450,000.
- Forklifts and other site machinery with a net book value of £1,190,000 at a profit of £1,060,000.

The total of future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	Property £000	Plant, machinery and vehicles £000	Total £000
Within one year	1,102	4,955	6,057
Between one and five years	3,910	10,276	14,186
Over five years	4,851	-	4,851
	<b>9,863</b>	<b>15,231</b>	<b>25,094</b>

### 5.5 Investments

#### Fixed asset investments

Investments in subsidiaries are carried at cost less impairment. The Parent Company accounts for the share based payments granted to subsidiary employees as an increase in the cost of its investment in subsidiaries.

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>Subsidiary undertakings</b>				
Interest in subsidiary undertakings' shares at cost (100% ownership of ordinary shares)	-	-	<b>9,849</b>	7,606
<b>Investments accounted for using the equity method</b>				
Interest in Joint Ventures - equity	<b>4,981</b>	5,259	-	-
- loan	<b>3,714</b>	3,505	-	-
	<b>8,695</b>	8,764	<b>9,849</b>	7,606
Other investments	22	22	-	-
	<b>8,717</b>	8,786	<b>9,849</b>	7,606

## Notes to the financial statements continued

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 thirty one subsidiaries, which are listed below.

	Registered office	Country of incorporation	Ownership interest in ordinary shares	
			2017 %	2016 %
Bovis Homes (Quest) Company Limited	1	United Kingdom	100	100
Bovis Homes Limited	1	United Kingdom	100	100
Bovis Country Homes Limited	1	United Kingdom	100	100
Bovis Homes (Broadbridge Heath) Limited	1	United Kingdom	100	100
Bovis Homes (New Ash Green) Limited	1	United Kingdom	100	100
Bovis Homes BVC Limited	1	United Kingdom	100	100
Bovis Homes Cornwall Limited	1	United Kingdom	100	100
Bovis Homes Developments Limited	1	United Kingdom	100	100
Bovis Homes Devon Limited	1	United Kingdom	100	100
Bovis Homes Eastern Limited	1	United Kingdom	100	100
Bovis Homes Freeholds Limited	1	United Kingdom	100	100
Bovis Homes Insulation Limited	1	United Kingdom	100	100
Bovis Homes Midlands And Northern Limited	1	United Kingdom	100	100
Bovis Homes Pension Scheme Trustee Limited	1	United Kingdom	100	100
Bovis Homes Projects Limited	1	United Kingdom	100	100
Bovis Homes Scotland Limited	2	United Kingdom	100	100
Bovis Homes South East Limited	1	United Kingdom	100	100
Bovis Homes Southern Limited	1	United Kingdom	100	100
Bovis Homes Wessex Limited	1	United Kingdom	100	100
Elite Homes Group Limited	1	United Kingdom	100	100
Elite Homes (North West) Limited	1	United Kingdom	100	100
Gigg Lane Limited	1	United Kingdom	100	100
Elite Homes (Yorkshire) Limited	1	United Kingdom	100	100
H.Newbury & Son (Builders) Limited	1	United Kingdom	100	100
Kilbride Tavistock Limited	1	United Kingdom	100	100
Nether Hall Park Open Space Management Company Limited	1	United Kingdom	100	100
Orchard Homes (Pitt Manor) Limited	1	United Kingdom	100	100
Oxford Land Limited	1	United Kingdom	67	67
Page Johnson Properties Limited	1	United Kingdom	100	100
R.T.Warren (Builders, St.Albans) Limited	1	United Kingdom	100	100
Unitpage Limited	1	United Kingdom	100	100

At 31 December 2017 the Group had an interest in the following Joint Ventures which have been equity accounted to 31 December and are registered and operate in England and Wales.

	Registered office	Country of incorporation	Ownership interest in ordinary shares	
			2017 %	2016 %
Bovis Peer LLP	1	United Kingdom	50	50
IIH Oak Investors LLP	4	United Kingdom	26	26
Bishops Park Limited	1	United Kingdom	50	50
Rissington Management Company Limited	3	United Kingdom	50	50

Significant holdings in undertakings other than subsidiary undertakings

Berkshire Land Limited	1	United Kingdom	33	33
Bishop's Stortford North Consortium Limited	5	United Kingdom	25	20
C.C.B.(Stevenage) limited	6	United Kingdom	33	33
Haydon Development Company Limited	7	United Kingdom	39	39
Oxfordshire Land Limited	8	United Kingdom	25	25

## Notes to the financial statements continued

### Registered office

1. The Manor House, North Ash Road, New Ash Green, Longfield, Kent, DA3 8HQ
2. C/o Gilliespie MacAndrew LLP, 5 Atholl Crescent, Edinburgh, Scotland, EH3 8EJ, United Kingdom
3. Cowley Business Park, Cowley, Uxbridge, Middlesex, UB8 2AL
4. New Zealand House 15th Floor, 80 Haymarket, London, United Kingdom, SW1Y 4TE
5. St Bride's House, 10 Salisbury Square, London EC4Y 8EH
6. Croudace House, Tupwood Lane, Caterham, Surrey, CR3 6XQ
7. 6 Drakes Meadow, Penny Lane, Swindon, Wiltshire, SN3 3LL
8. Persimmon House, Fulford, York, YO19 4FE

The movement on the investment in the material Joint Venture (Bovis Peer LLP) during the year is as follows:

	2017 £000	2016 £000
At the start of the year	4,670	4,555
Share of results	-	244
Dividend received	(119)	(129)
<b>At the end of the year</b>	<b>4,551</b>	<b>4,670</b>

Summarised financial information relating to the material Joint Venture is as follows:

	2017 £000	2016 £000
Non-current assets	31,248	32,190
Current assets	1,178	747
- Cash and cash equivalents included in current assets	1,082	607
Current liabilities	(20,375)	(135)
- Current financial liabilities included in current liabilities	(20,236)	-
Non-current liabilities	-	(20,920)
- Non-current financial liabilities included in current liabilities	-	(20,920)
<b>Net assets of Joint Venture</b>	<b>12,051</b>	<b>11,882</b>
<b>Group share of net assets recognised in the Group balance sheet at 31 December</b>	<b>6,025</b>	<b>5,941</b>
Revenue	1,767	1,750
<b>Costs</b>	<b>(1,071)</b>	<b>(560)</b>
Operating profit	696	1,190
Revaluation of properties	-	-
Interest expense	(697)	(703)
Interest income	1	1
Profit before taxation	-	488
Income tax expense	-	-
<b>Profit for the year</b>	<b>-</b>	<b>488</b>
<b>Group share of profit for the year recognised in the Group income statement</b>	<b>-</b>	<b>244</b>
Group share of IIH Oak Investors LLP (loss)/profit for the year recognised in the Group income statement	(20)	87
<b>Share of (loss)/profit of Joint Ventures</b>	<b>(20)</b>	<b>331</b>

The material Joint Venture has no significant contingent liabilities to which the Group is exposed and the Group has no significant contingent liabilities in relation to its interest in the material Joint Venture.

## Notes to the financial statements continued

### Transactions with Bovis Peer LLP and IIH Oak Investors LLP

Bovis Homes Limited is contracted to provide property and letting management services to Bovis Peer LLP. Fees charged in the period, inclusive of VAT, were £169,000 (2016: £157,000). None of these fees are outstanding at 31 December 2017 (2016: nil).

In 2014, Bovis Homes Limited entered into a Joint Venture arrangement with IIH Oak Investors LLP to hold 190 homes under a private rental scheme. As at 31 December 2017, loans of £3,714,314 (2016: £3,505,000) are outstanding with IIH Oak Investors at an interest rate of 6%. Interest charges made in respect of loans were £214,000 (2016: £220,000)

### 5.6 Provisions

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

	Customer care costs (see note 1.5) £000	Restructuring costs (see note 2.1) £000	Bad debt £000	Other £000	Total £000
As at 1 January 2017	8,206	-	774	2,112	11,092
Additional provisions made	3,500	2,074	897	1,603	8,074
Amounts used	(10,321)	-	(508)	(1,338)	(12,167)
<b>As at 31 December 2017</b>	<b>1,385</b>	<b>2,074</b>	<b>1,163</b>	<b>2,377</b>	<b>6,999</b>

Of the total provisions detailed above, £5,544,000 are expected to be utilised within the next year (2016: £10,280,000).

### 5.7 Employee benefits

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

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

#### Pension cost note

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

There are three categories of pension scheme members:

- Active members: currently employed by the Company
- Deferred members: former employees of the Company
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings (allowing for future salary increases for active members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to various caps). The valuation method is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2017 was 18 years.



## Notes to the financial statements continued

### Risks

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

- **Asset volatility:** the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the Scheme invests significantly in equities and other growth assets. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- **Inflation risk:** a significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit. However, the caps in place limit the potential impact of higher inflation.

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

- **Diversification:** investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- **Investment strategy:** the Trustees are required to review their investment strategy on a regular basis.
- **Pensionable Salary cap:** Pensionable Salary increases are capped at 2.5% pa. Therefore, the impact on the Scheme of the Company granting salary increases above 2.5% is limited.

### Retirement benefit obligations

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

	2017 £000	2016 £000
Present value of funded obligations	124,244	125,594
Fair value of plan scheme assets	(126,355)	(119,004)
<b>Recognised (asset)/liability for defined benefit obligations</b>	<b>(2,111)</b>	<b>6,590</b>

### Movements in the net (asset)/liability for defined benefit obligations recognised in the balance sheet

	2017 £000	2016 £000
Net liability/(asset) for defined benefit obligations at 1 January	6,590	(7,117)
Contributions received	(876)	(1,250)
Expense recognised in the income statement	1,462	850
(Gain)/loss recognised in equity	(9,287)	14,107
<b>Net (asset)/liability for defined benefit obligations at 31 December</b>	<b>(2,111)</b>	<b>6,590</b>

The cumulative loss recognised in equity to date is £12.5 million (2016: £21.8 million).

### Change in defined benefit obligation over the year

	2017 £000	2016 £000
Defined benefit obligation at beginning of year	125,594	102,160
Net interest cost	3,228	3,837
Current service cost	982	828
Actual member contributions	114	133
Actual benefit payments by the scheme	(4,016)	(3,375)
(Gain)/loss on change of assumptions:		
Actuarial (gains): experience differing from that assumed	(1)	(1,520)
Actuarial (gains): changes in demographic assumptions	(2,609)	(1,463)
Actuarial (gains): changes in financial assumptions	952	24,994
<b>Defined benefit obligation at end of year</b>	<b>124,244</b>	<b>125,594</b>

## Notes to the financial statements continued

### Change in scheme assets over the year

	2017 £000	2016 £000
Fair value of scheme assets at beginning of year	119,004	109,277
Interest income	3,051	4,109
Actual benefit payments by the scheme	(4,016)	(3,375)
Actual Group contributions	876	1,250
Actual member contributions	114	133
Gain on assets	7,629	7,904
Administration costs	(303)	(294)
<b>Fair value of scheme assets at end of year</b>	<b>126,355</b>	<b>119,004</b>

### The major categories of scheme assets are as follows:

	2017 £000	2016 £000
<b>Return seeking</b>		
Equities	77,698	69,603
<b>Other</b>		
Property	10,724	11,409
Cash	233	23,682
Liability driven instruments	37,700	14,310
<b>Total market value of assets</b>	<b>126,355</b>	<b>119,004</b>

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

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

### Sensitivity analysis

Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+0.5%pa / -0.5%pa	-8% / +9%
RPI and CPI inflation	+0.5%pa / -0.5%pa	+4% / -3%
Future salary increases	+0.5%pa / -0.5%pa	0%
<b>Assumed life expectancy</b>	<b>+1 year</b>	<b>+3%</b>

## Notes to the financial statements continued

### Limitations of the sensitivity analysis

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

Pensionable Salary increases are capped at 2.5% pa, as currently assumed, therefore changing the underlying assumption for future salary increases by +0.5% has no impact on the liabilities.

### Expense recognised in the income statement

	2017 £000	2016 £000
Current service cost	982	828
Administration expenses	303	294
Net interest expense / (credit)	177	(272)
<b>Expense recognised in the income statement</b>	<b>1,462</b>	<b>850</b>

### Assumptions

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

Group	2017 %	2016 %	2015 %
Discount rate at 31 December	2.4	2.6	3.8
Future salary increases	2.5	2.5	2.5
Inflation - RPI	3.2	3.4	3.1
- CPI	2.2	2.4	2.1
Future pension increases	2.5	2.5	2.5

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of defined benefit obligations	124,244	125,594	102,160	104,020	91,456
Fair value of scheme assets	126,355	119,004	109,277	103,352	94,693
<b>Surplus/(deficit) in the scheme</b>	<b>2,111</b>	<b>(6,590)</b>	<b>7,117</b>	<b>(668)</b>	<b>3,237</b>

The most recent formal actuarial valuation was carried out as at 30 June 2016. The results have been updated to 31 December 2017 for accounting purposes by a qualified independent actuary. As part of this valuation exercise, the mortality assumptions for the scheme are now based on the SAPS 2 "all" tables and Core CMI\_2016 projections with a long-term rate of improvement of 1.5% pa. These tables imply the following remaining life expectancy at age 63.

Remaining years of life at 63	Current age at 43	Current age at 63
Men	25.9	24.1
Women	27.9	26.0

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

To eliminate the shortfall at 31 December 2017, the Trustee and the Company have agreed that three contributions of £5.5m will be paid into the Scheme by the Company by 28 February 2018, 31 January 2019 and 31 January 2020. Alongside the latest valuation and the recovery plan the Company has also agreed the principles of a longer-term plan to de-risk the pension scheme assets and liabilities position.

## Notes to the financial statements continued

### 5.8 Related party transactions

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

Transactions between the Group, Company and key management personnel in the year ended 31 December 2017 were limited to those relating to remuneration, which are disclosed in the director's remuneration report (which can be found on pages 68 to 80 and in note 5.3). At a General Meeting held on 2 May 2017, remuneration arrangements for Mr Greg Fitzgerald were approved comprising a Recruitment Award and the 2017 Bonus. Full details are contained in the circular sent to shareholders dated 7 April 2017.

Mr Greg Fitzgerald, appointed Group Chief Executive on 18 April 2017, is non-executive Chairman of Ardent Hire Solutions ("Ardent"). The Group hires forklift trucks from Ardent and has also undertaken a sale of forklift trucks to Ardent as part of its capital optimisation initiatives. The total net value of transactions with Ardent were as follows:

	2017 £000	2016 £000
Rental expenses paid to Ardent	1,413	926
Income received from Ardent for the sale of forklift trucks	2,287	833

The balance of rental expenses payable to Ardent at 31 December 2017 was £160,000 (2016: £103,000) and no income was receivable (2016: £nil). There have been no other related party transactions in the financial year which have materially affected the financial performance or position of the Group, and which have not been disclosed.

Transactions between the Group, Company and Joint Ventures are in note 5.5.

### 5.9 Reconciliation of Return on Capital Employed performance measure

	2017 £000	2016 £000
<b>Operating profit before exceptional items</b>	<b>128,032</b>	<b>159,970</b>
Opening total equity	1,015,927	957,759
Deduct: investment in joint ventures	8,786	8,987
Deduct: net cash	38,552	29,991
<b>Opening capital employed</b>	<b>968,589</b>	<b>918,781</b>
Closing net equity including joint ventures	1,056,576	1,015,927
Deduct: investment in joint ventures	8,717	8,786
Deduct: net cash	144,853	38,552
<b>Closing capital employed</b>	<b>903,006</b>	<b>968,589</b>
<b>Average capital employed (note1)</b>	<b>935,798</b>	<b>943,685</b>
<b>ROCE excluding joint ventures</b>	<b>13.7%</b>	<b>17.0%</b>

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

### 5.10 Post balance sheet events

On 27 February 2018, the latest triennial pension valuation as at 30 June 2016 and the associated recovery plan was agreed with the scheme's Trustees (see note 5.7 for further details).

## Five year record - unaudited

Years ended 31 December	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
<b>Revenue and profit</b>					
Revenue	1,028.2	1,054.8	946.5	809.4	556.0
Operating profit before financing costs	121.2	160.0	163.5	137.6	82.8
Net financing costs	(7.2)	(5.6)	(5.2)	(4.4)	(4.3)
Share of result of Joint Ventures	0.0	0.3	1.8	0.3	0.3
<b>Profit before tax</b>	<b>114.0</b>	<b>154.7</b>	<b>160.1</b>	<b>133.5</b>	<b>78.8</b>
Tax	(22.7)	(33.9)	(32.1)	(28.3)	(18.7)
<b>Profit after tax</b>	<b>91.3</b>	<b>120.8</b>	<b>128.0</b>	<b>105.2</b>	<b>60.1</b>
<b>Balance sheet</b>					
Equity shareholders' funds	1,056.6	1,015.9	957.8	879.1	810.3
Net (cash)/debt	(144.9)	(38.6)	(30.0)	(5.2)	18.0
<b>Capital employed</b>	<b>911.7</b>	<b>977.3</b>	<b>927.8</b>	<b>873.9</b>	<b>828.3</b>
<b>Returns</b>					
Operating margin (note 1)	12%	15%	17%	17%	15%
Return on shareholders' funds (note 2)	9%	13%	15%	13%	8%
Return on capital employed (note 3)	13%	17%	18%	16%	11%
<b>Homes (including units sold on third party owned land)</b>					
Number of unit completions	3,645	3,977	3,934	3,635	2,813
Average sales price (£'000)	272.4	254.9	231.6	216.6	195.1
<b>Ordinary shares</b>					
Earnings per share (p) (note 4)	68.0	90.1	95.4	78.6	44.9
<b>Dividends per share</b>					
Paid (p)	45.0	41.3	36.7	21.5	10.0
Interim paid and final proposed (p)	47.5	45.0	40.0	35.0	13.5

Note 1: Operating margin has been calculated as operating profit over turnover.

Note 2: Return on shareholders' funds has been calculated as profit after interest and tax over opening shareholders' funds.

Note 3: Return on capital employed has been calculated as operating profit over the average of opening and closing shareholders' funds plus net debt or less net cash, excluding investment in Joint Ventures.

Note 4: Earnings per share is calculated on post exceptional basis (see note 2.3 on page 123).

# Medium term targets

Returning the Group to being a leading UK housebuilder by 2020





Sherford, Devon

# 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 2018 Annual General Meeting of Bovis Homes Group PLC (the "Company") will be held at The Spa Hotel, Mount Ephraim, Royal Tunbridge Wells, Kent TN4 8XJ on Wednesday, 23 May 2018 at 2.00 pm for the following purposes:

## **Ordinary resolutions**

### **Reports and accounts**

- 1 To receive the audited accounts of the Company for the year ended 31 December 2017 and the reports of the directors and auditors.

### **Remuneration report**

- 2 To approve the directors' remuneration report in the form set out in the Company's annual report and accounts for the year ended 31 December 2017 in accordance with section 439 of the Companies Act 2006.

### **Dividend**

- 3 To declare the final dividend recommended by the directors.

### **Directors**

- 4 To re-appoint Ian Paul Tyler as a director of the Company.
- 5 To re-appoint Margaret Christine Browne as a director of the Company.
- 6 To re-appoint Ralph Graham Findlay as a director of the Company.
- 7 To re-appoint Nigel Keen as a director of the Company.
- 8 To re-appoint Michael John Stansfield as a director of the Company.
- 9 To re-appoint Gregory Paul Fitzgerald as a director of the Company.
- 10 To re-appoint Earl Sibley as a director of the Company.

### **Auditors**

- 11 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company.
- 12 To authorise the directors to determine the remuneration of the auditors.

### **Authority to allot shares**

- 13 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 £22,423,521; and
  - (b) comprising equity securities (as defined in the 2006 Act) up to an aggregate nominal amount of £44,847,042 (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 2019 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.



# Notice of meeting continued

## Special resolutions

### Notice of general meetings

14 That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

### Authority to disapply pre-emption rights

15 That if resolution 13 is passed, and in place of all existing powers, the directors be generally empowered pursuant to section 570 and 573 of the Companies Act 2006 (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 of the 2006 Act did not apply to any such allotment or sale, such power:

- (a) to expire (unless previously renewed, varied or revoked by the Company in a general meeting) at the conclusion of the Annual General Meeting of the Company in 2019 or fifteen months from the date of this resolution, whichever is the earlier, but, in each case during this period the directors may make an offer or agreement which would or might require equity securities to be allotted after the power ends and the directors may allot equity securities under any such offer or agreement as if the power had not ended;
- (b) to be limited to the allotment of equity securities in connection with an offer of equity securities (but in the case of the authority granted under resolution 13(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 13(a), to the allotment of equity securities for cash otherwise than pursuant to paragraph (b) up to an aggregate nominal amount of £3,366,895.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the 2006 Act as if in the first paragraph of this resolution the words 'under the authority given by that resolution' were omitted.

### Authority to purchase own shares

16 That the Company be and is hereby granted general and unconditional authority, for the purposes of section 701 of the Companies Act 2006 (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 13,467,580 ordinary shares and shall expire at the conclusion of the next Annual General Meeting of the Company in 2019 (except in relation to the purchase of ordinary shares the contract for which was concluded before such time and which is executed wholly or partly after such time);
- (ii) the maximum (exclusive of expenses) price which may be paid for each ordinary share shall be the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS) (Commission Delegated Regulation (EU) 2016/1052); and
- (iii) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 50 pence.

**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**  
Group Company Secretary  
23 March 2018

## Notice of meeting continued

### Notes:

- (i) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 360B(2) of the 2006 Act, the Company gives notice that only holders of ordinary shares entered on the register of members no later than 8.00pm on 21 May 2018 (or, in the event of any adjournment, 8pm on the day which is two days before the adjourned meeting) will be entitled to attend and vote at the meeting and a member may vote in respect of the number of ordinary shares registered in the member's name at that time. Changes to entries on the register after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (ii) A registered member of the Company may appoint one or more proxies in respect of some or all of their ordinary shares to exercise that member's rights to attend, speak and vote at 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 proxy form the number of shares in relation to which that proxy is appointed. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Members or their duly appointed proxies are requested to bring proof of identity with them to the meeting in order to confirm their identity for security reasons. A shareholder attending the meeting has the right to ask questions relating to the business being dealt with at the meeting in accordance with section 319A of the 2006 Act. In certain circumstances prescribed by the same section, the Company need not answer a question.
- (iii) The proxy form must be executed by or on behalf of the member making the appointment. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. A corporation may execute the form(s) of proxy either under its common seal or under the hand of a duly authorised officer, attorney or other authorised person. A member may appoint more than one proxy to attend and vote on the same occasion.
- (iv) A proxy need not be a member of the Company.
- (v) Participants of the Bovis Homes Group Share Incentive Plan may instruct the trustee to vote on their behalf on a poll.
- (vi) The proxy form and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be received at the office of the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or received via the Computershare website, ([www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy)) (full details of the procedures are given in the notes to the proxy form enclosed with the report and accounts and on the website) not less than 48 hours (excluding non-working days) before the time for holding the meeting. Completion of the proxy form, other such instrument or any CREST proxy instruction (as described in paragraph (vii) below) will not preclude a member from attending the Annual General Meeting and voting in person instead of through his proxy or proxies. Voting on all substantive resolutions will be by a poll. When announcing the results of the poll voting, the Company will disclose the total number of votes in favour and against and the number of abstentions on the Company website ([www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk)) and through a Regulatory Information Service. If a member returns both paper and electronic proxy instructions, those received last by the Registrar before the latest time for receipt of proxies will take precedence. Members are advised to read the website terms and conditions of use carefully.
- (vii) To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours (excluding non-working days) before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (viii) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
- (ix) Any person to whom this Notice is sent who is a person nominated under section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may have a right, under an agreement between him and the member by whom he was nominated, to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in paragraph (ii) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.
- (x) As at 23 March 2018 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 134,675,804 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 March 2018 are 134,675,804.

## Notice of meeting *continued*

- (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) Under sections 338 and 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company: (a) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business unless (i) (in the case of a resolution only) it would, if passed, be ineffective, (ii) it is defamatory of any person, or (iii) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 9 April 2018, being the date six clear weeks before the meeting, and (in the case of a matter to be included on the business only) must be accompanied by a statement setting out the grounds for the request.
- (xiii) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- (xiv) Except as provided above, members who wish to communicate with the Company in relation to the Annual General Meeting should do so using the following means: (1) by writing to the Company Secretary at the registered office address; or (2) by writing to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of meeting or in any related documents (including the Chairman's Statement, the Annual Report 2017 and the proxy form) to communicate with the Company for any purposes other than those expressly stated.
- (xv) A copy of this Notice and other information required to be published in accordance with section 311A of the 2006 Act in advance of the Annual General Meeting can be found at [www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk).
- (xvi) The following documents will be available for inspection at the Company's registered office, during normal business hours, on any weekday (excluding public holidays) from the date of this Notice until the date of the Annual General Meeting and on that date they will be available for inspection at the place of the meeting from 1.30pm until the conclusion of the meeting:
  - (a) copies of the directors' service contracts;
  - (b) copies of the terms and conditions of appointment for each non-executive director; and
  - (c) the register of directors' interests.
- (xvii) The results of the voting at the Annual General Meeting will be announced through a Regulatory Information Service and will appear on the Company's website, [www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk), as soon as reasonably practicable following the conclusion of the Annual General Meeting.
- (xviii) Data protection statement: your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's Registrar) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

## Explanatory notes to the notice of meeting

### Item 1: Reports and accounts

The directors are required to present to shareholders at the Annual General Meeting the report of the directors, the strategic report and the accounts of the Company for the year ended 31 December 2017. The report of the directors, the strategic report, the accounts and the report of the Company's auditors on the accounts and on those parts of the directors' remuneration report that are capable of being audited are contained within the Company's annual report and accounts for the year ended 31 December 2017 (the "2017 Annual Report and Accounts").

### Item 2: Directors' annual remuneration report

Under section 439 of the 2006 Act, the directors are required to present the directors' remuneration report prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), for the approval of shareholders by way of an advisory vote. The directors' remuneration report, the relevant pages of which can be found on pages 78 to 97 of the 2017 Annual Report and Accounts, gives details of the directors' remuneration for the year ended 31 December 2017 and sets out the way in which the Company will implement its policy on directors' remuneration during 2018. The Company's auditors, PricewaterhouseCoopers, have audited those parts of the directors' remuneration report capable of being audited and their report may be found on pages 108 to 114 of the 2017 Annual Report and Accounts.

## Explanatory notes to the notice of meeting continued

The vote on the directors' remuneration report is advisory in nature in that payments made or promised to directors will not have to be repaid, reduced or withheld in the event that this resolution is not passed. However, if the vote on the directors' remuneration report is not passed, the directors' remuneration policy will be presented to shareholders for approval at the next Annual General Meeting.

A copy of the directors' remuneration policy, which was approved at the 2017 Annual General Meeting, is available on the website at [www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk) or in hard copy on request from the Group Company Secretary.

### Item 3: Final dividend

Subject to the declaration of the final dividend at the meeting, the dividend will be paid on 25 May 2018 to shareholders on the register at the close of business on 3 April 2018.

### Items 4 to 10: Re-appointment of directors

The UK Corporate Governance Code ("the Code") requires FTSE 350 companies to put all directors forward for re-appointment by shareholders on an annual basis. The purpose of this requirement is to increase accountability to shareholders. Accordingly, all the directors of the Company will retire at the Annual General Meeting and offer themselves for re-appointment, with the exception of Alastair Lyons who will have completed nine years service with the Company. The Company's Articles of Association require that any director appointed by the Board shall hold office only until the first annual general meeting for which notice is first given after their appointment. Accordingly, Mike Stansfield will 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 Chris Browne, Ralph Findlay, Nigel Keen and Mike Stansfield as non-executive directors, the Chairman has confirmed following the formal performance evaluation conducted during late 2017 that they continue to be effective in and demonstrate commitment to their roles, including commitment of time for Board and committee meetings. Chris Browne provides a strong commercial and operational background in a consumer facing industry. Ralph Findlay adds strong commercial, financial and general management expertise, again from a consumer facing industry. Nigel Keen brings an in-depth construction and property background and experience of managing property strategy and portfolios, once again from a consumer facing industry. Mike Stansfield was newly appointed in November 2017 but brings considerable housing developer experience. Ian Tyler, non-executive Chairman, has considerable construction industry knowledge and international business experience.

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

Biographical details of all the directors can be found on pages 58 to 59 of the 2017 Annual Report and Accounts.

### Items 11 and 12: appointment of auditors and auditors' remuneration

The auditors of a company must be appointed at each general meeting at which accounts are presented. Resolution 11 proposes the re-appointment of the Company's existing auditors, PricewaterhouseCoopers LLP, as the Company's auditors, for a further year. PricewaterhouseCoopers LLP were first appointed at the 2015 AGM. Resolution 12 gives authority to the directors to determine the auditors' remuneration.

### Item 13: 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 £22,423,521 and also gives the Board authority to allot, in addition to these shares, further of the Company's shares up to an aggregate nominal amount of £44,847,042 in connection with a pre-emptive offer to existing members by way of a rights issue (with exclusions to deal with fractional entitlements to shares and overseas shareholders to whom the rights issue cannot be made due to legal and practical problems). This is in accordance with the latest institutional guidelines published by the Investment Association. This authority will expire at the conclusion of the next Annual General Meeting (or, if earlier, 15 months from the date of the resolution). The directors intend to seek renewal of this authority at subsequent Annual General Meetings.

The amount of £22,423,521 represents less than 33.3% of the Company's total ordinary share capital in issue as at 23 March 2018 (being the latest practicable date prior to publication of this Notice). The amount of £44,847,042 represents less than 66.6% of the Company's total ordinary share capital in issue as at 23 March 2018 (being the latest practicable date prior to publication of this Notice). The Company did not hold any shares in treasury as at 23 March 2018.

The Board has no present intention to exercise this authority other than in connection with employee share schemes. It wishes to obtain the necessary authority from shareholders so that allotments can be made (should it be desirable and should suitable market conditions arise) at short notice and without the need to convene a general meeting of the Company which would be both costly and time consuming.

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

## Explanatory notes to the notice of meeting continued

### Item 14: Notice of general meetings

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

### Item 15: Disapplication of pre-emption rights

Resolution 15 seeks authority for the directors to issue equity securities (as defined in the 2006 Act) in the Company for cash as if the pre-emption provisions of section 561 of the 2006 Act did not apply. Other than in connection with a rights issue or any other pre-emptive offers concerning equity securities, the authority contained in this resolution will be limited to the issue of equity securities for cash up to an aggregate nominal value of £3,366,895 which represents approximately 5% of the Company's total ordinary share capital in issue as at 23 March 2018 (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 15 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 16: 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 13,467,580 of its own shares, representing approximately 10% of the Company's total ordinary share capital in issue as at 23 March 2018 (being the latest practicable date prior to publication of this Notice). Before exercising such authority, the directors would ensure that the Company was complying with the current relevant UK Listing Authority rules and Investment Association guidelines. No purchases would be made unless the directors believe that the effect would be to increase the earnings per share of the remaining shareholders and the directors consider the purchases to promote the success of the Company for the benefit of its shareholders as a whole. Any shares so purchased would be cancelled. The directors have no present intention of exercising the authority to purchase the Company's ordinary shares but would like to have the flexibility of considering such purchases in the future.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange. The maximum price (exclusive of expenses) which may be paid for each ordinary share shall be the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS). The minimum price (exclusive of expenses) would be 50 pence, being the nominal value of each ordinary share. The authority will only be valid until the conclusion of the next Annual General Meeting in 2019.

As at 23 March 2018 there were options over 604,529 ordinary shares in the capital of the Company which represent 0.45% of the Company's issued ordinary share capital at that date. If the authority to purchase the Company's ordinary shares was exercised in full, these options would represent 0.50% of the Company's issued ordinary share capital.

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

# Shareholder information

## Registered office

The Manor House, North Ash Road, New Ash Green, Longfield, Kent DA3 8HQ. Registered number 306718 registered in England.

## Financial calendar

Annual report posted	9 April 2018
Annual General Meeting	23 May 2018
Payment of 2017 final dividend	25 May 2018
Announcement of 2018 interim results	6 September 2018
Announcement of 2018 final results	February 2019

## Analysis of shareholdings - at 31 December 2017

	Number of shareholders	%	Number of ordinary shares	%
1 - 5,000	1,773	79.36	1,571,431	1.17
5,001 - 50,000	267	11.95	4,462,148	3.31
50,001 - 250,000	102	4.57	12,724,465	9.45
250,001 - 500,000	47	2.10	16,907,434	12.56
500,001 - 1,000,000	20	0.90	13,645,089	10.13
1,000,001 - and over	25	1.12	85,350,183	63.38
<b>Total</b>	<b>2,234</b>	<b>100.0</b>	<b>134,660,750</b>	<b>100.0</b>

## Share price (middle market) - year to 31 December 2017

At end of year: 1,172p    Lowest: 760p    Highest: 1,213p

## Advisers

Auditors	Principal bankers	Joint stockbrokers	Insurance brokers
PricewaterhouseCoopers LLP	Abbey National	Deutsche Bank AG London	Arthur J Gallagher
Financial advisers	Treasury Services PLC	1 Great Winchester Street	Registrars
Moelis & Company	Barclays Bank PLC	London EC2N 2DB	Computershare Investor
Solicitors	Handelsbanken Capital	Numis Securities Limited	Services PLC
Linklaters LLP	Markets, Svenska	The London Stock	The Pavilions
	Handelsbanken AB	Exchange Building	Bridgwater Road
	HSBC Bank plc	10 Paternoster Square	Bristol BS99 6ZZ
	Lloyds Bank PLC	London EC4M 7LT	
	Royal Bank of Scotland plc		

## Registrar

Shareholder enquiries regarding change of address, dividend payment or lost certificates should be directed to: Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ. Bovis Homes Shareholder Helpline: 0370 889 3236.

## Investor Centre:

### the easy way to manage your shareholdings online:

Many shareholders want to manage their shareholding online and do so using Investor Centre, Computershare's secure website. With Investor Centre you can view shares balances, history and update your details. Visit [www.investorcentre.co.uk](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 1% of the value of each sale or purchase of shares (subject to a minimum of £30). Stamp duty of 0.5% is payable on purchases. Before you trade you will need to register for this service. This can be done by going online at [www.computershare.trade](http://www.computershare.trade).

**Telephone dealing** - The fee for this service will be 1% of the value of the transaction (plus £35). To use this service please call 0370 703 0084 with your SRN to hand. Please note that due to the regulations in the UK, Computershare are required to check that you have read and accepted the terms and conditions before being able to trade, which could delay your first telephone trade. If you wish to trade quickly, we suggest visiting their website and registering online first at [www.computershare.trade](http://www.computershare.trade).

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

## Dividend Reinvestment Plan (DRIP)

The DRIP gives shareholders the opportunity to reinvest their dividends to buy ordinary shares in the Company through a special dealing arrangement. For further information please contact the Bovis Homes Shareholder Helpline: 0370 889 3236.

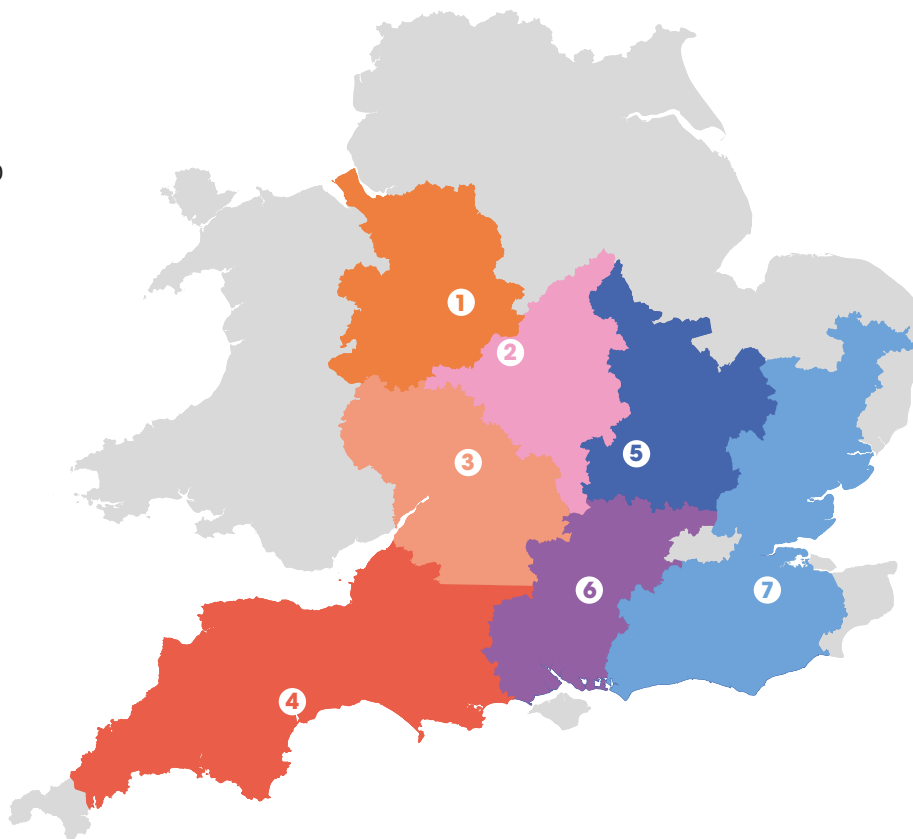
## Electronic communications

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

## Principal offices

### Bovis Homes Group PLC

The Manor House  
North Ash Road  
New Ash Green  
Longfield  
Kent DA3 8HQ  
Tel: (01474) 876200



### West division

- |   |   |  |   |
|---|---|--|---|
| <p><b>1 Mercia region</b><br/>Dunston Hall<br/>Dunston<br/>Stafford<br/>ST18 9AB<br/><br/>Tel: (01785) 788300</p> | <p><b>2 West Midlands region</b><br/>Bromwich Court<br/>Highway Point<br/>Gorsey Lane<br/>Coleshill<br/>Birmingham B46 1JU<br/><br/>Tel: (01675) 437000</p> | <p><b>3 Western region</b><br/>Cleeve Hall<br/>Cheltenham Road<br/>Bishops Cleeve<br/>Cheltenham<br/>Gloucestershire GL52 8GD<br/><br/>Tel: (01242) 662400</p> | <p><b>4 South West region</b><br/>Heron Road<br/>Sowton Industrial Estate<br/>Exeter<br/>EX2 7LL<br/><br/>Tel: (01392) 344700</p> |
|---|---|--|---|

### East division

- |   |  |  |
|---|--|--|
| <p><b>5 Northern Home Counties region</b><br/>St Annes House<br/>Caldecotte Lake<br/>Business Park<br/>Milton Keynes<br/>Buckinghamshire<br/>MK7 8JU<br/><br/>Tel: (01908) 088500</p> | <p><b>6 Southern Counties region</b><br/>Central 40<br/>Lime Tree Way<br/>Chineham Park<br/>Basingstoke<br/>Hampshire<br/>RG24 8GU<br/><br/>Tel: (0845) 812 7777</p> | <p><b>7 South East region</b><br/>The Manor House<br/>North Ash Road<br/>New Ash Green<br/>Longfield<br/>Kent<br/>DA3 8HQ<br/><br/>Tel: (01474) 876200</p> |
|---|--|--|

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

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

Designed and produced by the Bovis Homes Graphic  
Design Department. Printed by Tewkesbury Printing Company  
Limited accredited with ISO 14001 Environmental Certification.  
Printed using bio inks formulated from sustainable raw materials.

Printed on Cocoon 50:50 silk a recycled paper containing 50%  
recycled waste and 50% virgin fibre and manufactured at a mill  
certified with ISO 14001 environmental management standard.  
The pulp used in this product is bleached using an Elemental  
Chlorine Free process (ECF).



MIX  
Paper from  
responsible sources  
FSC® C014177



When you have finished with  
this pack please recycle it.



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